



SOUTH AFRICAN LOCAL
GOVERNMENT ASSOCIATION

SALGA

Inspiring service delivery

**SALGA Position on
Eskom RCA Application
for 2014/15, 15/16 and
16/17**

PRESENTATION OVERVIEW

1. Introduction & Background
2. The Application by Eskom
3. SALGA position
4. Conclusion

Background

- (MYPD3) Regulatory Clearing Account (RCA) applications for year 2 (2014/15), year 3 (2015/16) and year 4 (2016/17) totalling **R66.6 billion**
- The National Energy Regulator of South Africa(NERSA) published the application including the timelines for the decision on 23rd January 2018 calling for public comments
- Municipalities submitted their comments on the application
- Eskom met with SALGA and its members (the municipalities) on 26 March 2018 for the consultation on the applications

The Eskom Application

- 14/15 applied for an RCA balance of R19 185bn in its favor
- 15/16 applied for a RCA balance of R23 633bn in its favor
- 16/ 17 applied for a RCA balance of R23 868bn in its favor
- Total R66.6 billion for the 3 years
- R44,613 billion (2/3 of the RCA) due to revenue variance
- On the version of Eskom, the funding shortfall was not a response to the 5.23% increase for 18/19 but a normal regulatory mechanism being applied
- **Not expecting a once off adjustment for the whole RCA**
- **NERSA to also make a decision about the liquidation of this RCA**

Revenue Variance on all RCAs

- 14/15 Allowed total revenue from sale of electricity of R156 057m but realized total actual revenue of R147 691m from sale of electricity.
- The other revenue and deferred income of R1 280m and R143m respectively are included in the calculation of the variance of R8 366m in Eskom's favor.
- 15/16 Allowed total revenue from sale of electricity of R179 587m but realized total actual of R164 239m from sale of electricity which resulted in a variance of R15 348m in Eskom's favor.
- 16/17 allowed total revenue from sale of electricity of R198 035m but revenue of R177 136m from sale of electricity which resulted in a variance of R20 899m in its favor.

Revenue Variance on all RCAs

- The additional revenue streams are for charging municipalities for “exceeding” their NMD
- NMD charges viewed as additional operational revenue and treated as such in the RCA.
- When sales projections are not being realized, conservative spending must be employed by an efficient utility.
- The customer is actually going to suffer and pay for electricity that was not bought

Primary Energy

Coal

- SALGA concerned about the prudence of coal usage and its prices
- Look at the volumes used vs the demand for that period
- Look at the prices used by Eskom and adjust as per the MYPD methodology

Open Cycle Gas Turbines (OCGTs)

- Used excessively by Eskom while it did not meet its own target, this is due to its own inefficiencies

Other Primary Energy

- In some years used excessively even though demand dropped and was low – doesn't make sense

Use of IPPs in the STPPP and MTPPP

- Should be disallowed as excessive use of third party generation was used due to Eskom own plant availability being below target.
- Allowing Eskom to claim use of third-party generator cost will be tantamount to rewarding operational inefficiencies.

SALGA CONCERNS

- ESKOM Application is asking an unfordable rate of increase (19,9%)
- ESKOM as a business has contributed to the RISK of its financial sustainability through own choices and resultant inefficiencies as highlighted by their own presentation
 - Decision to not maintain infrastructure
 - Decision to not plan for development expansionary demands
 - Leakage in operational revenues - project overruns and technology options
- The current model of regulating on energy tariffs creates has pervasive consequences for Local Government (causes municipalities to have to adopt higher than inflation tariffs (estimated to be no less than 27,5% if the current application is granted as is)
- If the REGULATOR were to grant the requested amount of increases it would have unbearable negative consequences for the Country in that municipalities would be further pressured into deeper debt crisis as they would not be able to immediately recoup such costs from their poverty stricken consumers.
- Financial Sustainability of Eskom as a strategic state asset is our concern too BUT we plead that its realization should not leave our municipalities and their constituent poor citizens in a worse off situation.
- Timing issues: MYPD 4 vs This RCA Application + Timing of effective implementation vs Municipal Budgeting Cycle and process requirements

SALGA POSITION

- NERSA must review the RCA mechanisms in its suite of regulatory measures so that:
 - Introduce prudence in some of the costs allowable (Macro Economic Factors affect Eskom the same as they affect our municipalities and Customers)
 - Regulator does not create conditions that unintentionally reward operational inefficiencies
 - The regulator's decision takes into account the need to conduct comprehensive assessment of our country's affordability and consider a sustainable mechanisms as opposed to this once off adjustment approach
 - Regular process MUST sought to reconcile starting dates of the RCA decisions with MUNICIPAL BUDGETING cycles - taking into consideration the need for municipalities to consult its constituencies
- MYPD 4 on its way - we worry that these RCAs could well be implemented parallel to each other

CONCLUSION

- SALGA understands the need to ensure financial sustainability of Eskom BUT we argue that such must be achieved in a manner that will not make municipalities and our communities worse off
- SALGA requests the REGULATOR to **not** grant the whole 19,9% requested in the application as this would be unaffordable to municipalities and out constituent customers who would have to pass over no less than 27,5% increases. This move will surely worsen the already uncontrollable levels of debt exposure by our municipalities into Eskom
- NERSA to take into account the potential impact of impending MYPD4 to the currently asked RCA decision
- NERSA decision on the effective implementation date of its RCA decision on Eskom Application to be reconciled with MUNICIPAL budgeting cycles to prevent retrospective punishment

Thank You.....

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