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SALGA Response to Eskom MYPD4 Application & Regulatory Clearing Account for year 5 of MYPD3

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Introduction

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- The ESI is experiencing a delinking between economic growth and electricity demand growth.
- Electricity sales show a sustained downward trend over the last years and have dropped significantly.
- Today the sale of electricity is at record low levels for all municipalities, Eskom, the debts to municipalities and theft rising at an exponential rate.
- Peak consumption levels are however not following the same trend, driven by high households' electricity consumption, particularly in the evening peak.
- These intertwined dynamics have major implications for municipalities that are compelled to re-define their role in the electricity value chain and adapt
- The model of bulk purchases from Eskom and selling kilowatt hours to customers is no longer a profitable and sustainable model for local government, especially within the current economic landscape.
- It is for this reason that SALGA supports municipalities like City of Cape Town, Ekurhuleni, eThekwini etc. who are exploring other sources of energy from other players including for their own use

The Eskom Application/s

- Eskom's third Multi-Year Price Determination (MYPD3) Regulatory Clearing Account (RCA) Year 5 (2017/18) application totalling R21 624m
- Fourth Multi-Year Price Determination (MYPD4) application totalling R219bn, R252bn and R291bn for the 2019/20, 2020/21 and 2021/22 financial years respectively

Recent Decisions

- On 14 June 2018, the Energy Regulator approved a total RCA balance of R32.69 billion for the three years as follows:
  - an RCA balance of R12.577 billion for the 2014/15 financial year;
  - an RCA balance of R12.058 billion for the 2015/16 financial year; and
  - an RCA balance of R8.055 billion for the 2016/17 financial year.
- On 2 October 2018, NERSA issued a statement on the liquidation of the above RCA balances.
  - Eskom will recover R7 776m from Standard tariff customers from the 2019/20 financial year until the 2022/23 financial year. Everything else remain the same.

Response to the Regulatory Clearing Account Application

Summary of the RCA Application

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RCA for 2017/18 (Year 5 of MYPD3)	MYPD3 Decision	Actuals 2017/18	Variance to MYPD3	RCA adjustments	RCA 2017/18
Total Revenue R million	**205 213**	**175 041**	**30 172**	**-3 277**	**26 895**
Primary Energy , R million					
Coal	49 914	46 992	-2 922	-15	-2 937
Open Cycle Gas Turbines (OCGTs)	1 724	328	-1 396		-1 396
Other primary energy	6 766	7 576	810	-	810
Independent Power Producers	23 018	19 317	-3 701	1 983	-1 718
International Purchases	470	2 768	2 298		2 298
Environmental levy	9 746	8 061	-1 685		-1 685
Demand Market Participation (DMP)	-	160	160		160
Total primary energy , R million	**91 638**	**85 202**	**-6 436**	**1 968**	**-4 468**
CECA for RCA , R million	**33 667**	**34 592**	**925**	**0**	**925**
EEDSM for RCA , R million	**1 244**	**142**	**-1 102**	**-17**	**-1 118**
Operating costs for RCA , R million	**47 764**	**51 892**	**4 128**	**-4 128**	**-**
SQI for RCA , R million				**390**	**390**
Inflation adjustments , R million				**39**	**39**
ECS (Electricity conservation scheme) adjustment				**-1 122**	**-1 122**
FY2018 RCA application for year					**21 541**
Nuclear decommissioning from RCA 2013/14 decision phased in over 10 years for liquidation					**83**
FY2018 Liquidation claim , R million					**21 624**

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- The application is dominated by the shortfall in sales (over R26bn)
- Too much burden hanging over SA customers with the recent RCAs that will be liquidated parallel to MYPD4
- The concept of the RCA framework is understood and appreciated but in this RCA customers are purely just asked to pay higher tariffs just because Eskom didn't sell enough electricity and could not minimize costs of sales to align to what it achieved. Not fair
- We cannot keep punishing customers for lower demand and less purchases that are inevitable and not their fault.
- Understood that electricity is a fixed cost intensive business but it does mean you cant put austerity measures to minimize costs
- Municipalities are also selling less, most if not all are having negative growth, high electricity theft and non payment levels
- NERSA and Eskom must discuss this RCA and make a decision that is not to the detriment of the customer.
- This RCA is not supported.

Response to MYPD4 Application

Consultation

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- SALGA Received Eskom letter which is dated 27 July 2018 with its MYPD4 application
- In terms of section 42 of the MFMA, SALGA and its members are requested to provide written comments on the proposed application within a period of 40 days
- SALGA went through its own internal consultation process with its members to comment and make a decision on the local government position
- SALGA hosted Eskom and municipalities on 05 September 2018 for a workshop discussing in details the Eskom application and for Eskom to respond to any matters of concern from SALGA and municipalities
- The purpose consultation is not for parties to agree but to clarify any matters arising and agree to disagree in some cases
- Further to this workshop SALGA sent out a document with further questions and issues of clarity. No response to those issues as yet.

Customer Centricity

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- The Revenue Application document states Customer-centricity
- When the tariff is increased by 15% per annum for 3 consecutive years, it is clear that Eskom is out of touch with reality and this is not a customer-centric approach.
- These levels of tariff hikes are making it more affordable for more affluent customers to go off-grid.
- The most vulnerable, the working class and the unemployed poor people of South Africa, don't have much options
- This either results in non-payment as the opportunity to cross-subsidise the more vulnerable in the community is being eroded.
- Other previous users of electricity opt for the use of more dangerous forms of energy, such as paraffin, which has destroyed many townships and devastated many lives in recent fires.
- Commercial customers will also continue their investment in their own energy sources independent of municipal and Eskom supply,
- This will further negatively affect Municipalities and Eskom's sales volumes.

Customer Centricity (2)

- Eskom refers to major structural shifts in the country which would affect their sales volumes, but don’t appear to make provision for this its financial models.
- The document explicitly mentions initiatives to grow sales volumes from customers.
  - These customers include industries and mines, many of whom are in distress, including municipalities, which are also financial sustainability challenges, due to rising unemployment and limited economic growth.
- However, in the table of Operating Costs (page 91) a decline in debt impairment for the period under application is shown.

Sales Volumes/Growth projections

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- In a previous 2018/19 revenue application Eskom clearly showed how the sales volume rebasing was required.
- This is when actual volumes were on a decline since 2012 and projections were still indicating a positive growth.
- Municipalities are all experiencing negative growth and this number is at least 2%, it represents just over 40% of Eskom’s sales volumes and should leave a big enough motivation to project negative growth of sales by Eskom.
- If the prices are to be approved by NERSA with the RCA on top of that, elasticity must also be taken into account, otherwise it has to be argued that Eskom has lost the plot.

Cost Containment

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- The concept of Eskom being in a financial death spiral is acknowledged
- The assertion that South Africa still has very affordable electricity compared to the rest of the world is an old argument that is subject to debate.
- It would be far more beneficial for Eskom to substantiate the real costs of efficient and effective service delivery against the proposed price increases.
- Eskom has brought little to the table to show the cost containment measures it has implemented in order to minimise costs.
- The World Bank review of the staff complement benchmarked against world standards creates the expectation that the reduction in costs will be clearly articulated against the adjustments to staffing levels over time.
- Consideration should be given to new conditions of service that remove some of the old benefits that escalate costs without any value add
- A strong stance should be taken to introduce major austerity measures throughout Eskom that will significantly contribute to reducing overheads over the longer term

Conclusion

- SALGA and municipalities submits that in the current economic climate, the Eskom's proposed tariff is way above inflation and cost of living adjustments.
- It is highly unlikely that customers will be able to afford three years of compounded increases of a minimum of 15% per annum, plus RCA's parallel to this
- Acknowledges the adjustment of municipal tariffs over the period being in the order of 17,60% in 2019; 14,20% in 2020 and 15,20% in 2021.
- It is accepted that the revenue application is a separate process from the RCA process which will greatly impact on these proposed increases.
- There is a need for NERSA to consider "performance-based regulation" for Eskom. This will require NERSA to set performance targets in several aspects of Eskom operations, like targets for cost reductions, capital expenditure on major projects including preventing slippages in project completion etc.

Conclusion

- Appreciates and sympathize with Eskom’s financial challenges but everyone is going through this, there are no holy cows.
- Entrust NERSA to make the right decision as outlined in the ERA, which amongst others are:
  - Affordability
  - Universal Access; and
  - Allow **efficient** utility to recover its costs with reasonable margins etc.

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Thank you

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