



SOUTH AFRICAN LOCAL  
GOVERNMENT ASSOCIATION

**SALGA**

*Inspiring service delivery*

**SALGA Position on  
Eskom Revenue Proposal  
2018/19**

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# Background

- SA tariffs are regulated by NERSA) in terms of Electricity Regulation Act of 2006.
- Multi-Year Price Determination (MYPD) governing the Eskom revenue
- The latest 5 year determination (MYPD3) ends on 31 March 2018,
- Eskom required to submit an application to NERSA for the next period.
- NERSA has approved a single year application for 2018/19 financial year.
- The MFMA requires that Eskom must first submit its proposed application to the National Treasury and organized local government before submitting to NERSA.

# The Eskom Application Rejected

- Eskom applying for a 19.9% average increase translating to a 1 July 2018 local-authority tariff increase of **27.29%** to municipalities.
- Application is after the NERSA maintained its decision made in 2013 for the 2017/18, to an average 2.2% price increase.
- Eskom claims that the 2.2% average increase in the 2017/18 resulted in the consumers receiving a decrease in electricity prices
- Eskom claims a situation where costs to produce its electricity have been increasing.
- Reporting that sales volumes have dropped,
- Primary energy costs has increased due to a combination of coal mix changes, use of more IPPs and operating costs growth.
- Eskom's claims that the above has been understated in the MYPD3 decision.

# Lets go back to MYPD3 Decisions

- After Eskom's attempts for 16% increases over 5 years, 8% was approved by NERSA
- 5 years later, after asking for double digits and was allocated half of that, Eskom still stands

	2013/14	2014/15	2015/16	2016/17	2017/18	Total MYPD3
Allowed revenue to STD customers tariff based sales before RCA	135 226	147 481	163 179	180 070	198 954	824 909
Allowed revenue tariff based sales RCA (R'm)			7 085	10 257		
Total allowed revenue tariff based sales after RCA (R'm)	135 226	147 481	170 264	190 327	198 954	
Forecasted sales to tariff customers (GWh)	206 412	208 442	213 545	218 194	223 219	1 069 812
Standard average price after RCA (c/kWh)	65.51	70.75	79.73	87.23	89.13	
Increase in average tariff based tariff increase after RCA (%)	8.0%	8.0%	12.7%	9.4%	2.2%	
Total expected revenue from all customers after RCA(R'm)	143 101	156 057	179 587	198 035	205 214	881 994

# SALGA Position

- **SALGA rejects the 27.29% increase**
- The 27.29% price shock effect on the market is unaffordable and indefensible.
- NERSA MUST NOT , allow Eskom inefficiencies to be passed on to the consumer
- Eskom must stop forecasting higher sales revenue when the reality state otherwise.
- Long term pricing approach must be adopted where prices are gradually increased or amended, allowing for the market and role-players to adjust accordingly.
- There are several possible savings of about R26bn for the Eskom revenue proposal and these are in the SALGA detailed submission made to NERSA
- Some elements of the application must be relooked since it's a one year application e.g. Depreciation, IPP Costs, Environmental Levy, Primary Energy, OPEX etc.

# Conclusion

- **SALGA rejects the Eskom Revenue Proposal for 2018/19**
- Its unaffordable and indefensible
- Several potential savings can be drawn from Eskom application, opportunity to protect the customer by NERSA
- Municipalities and the country as a whole cannot take any double digit increase, not now and not in the next few years until economic growth picks up again, until unemployment rate is reduced, until non-payment challenges are addressed etc.
- We all have to tighten our belts and this includes Eskom and Municipalities
- NERSA will be entrusted with the task to make sure that inefficiencies are not incentivized at the cost of the customer and country as a whole

# Underway at SALGA

- **SALGA Commissioning studies on:**
  - **Impact assessment of MYPD3 Decisions on Municipalities and the country**
  - **Impact assessment of Eskom 2018/19 Revenue Proposal**
  - **Studies on new business models for a modern utility**
- **SALGA Energy Summit (Feb/March 2018)**
  - **“Defining Local Government Future Energy Landscape”**



**Thank You**