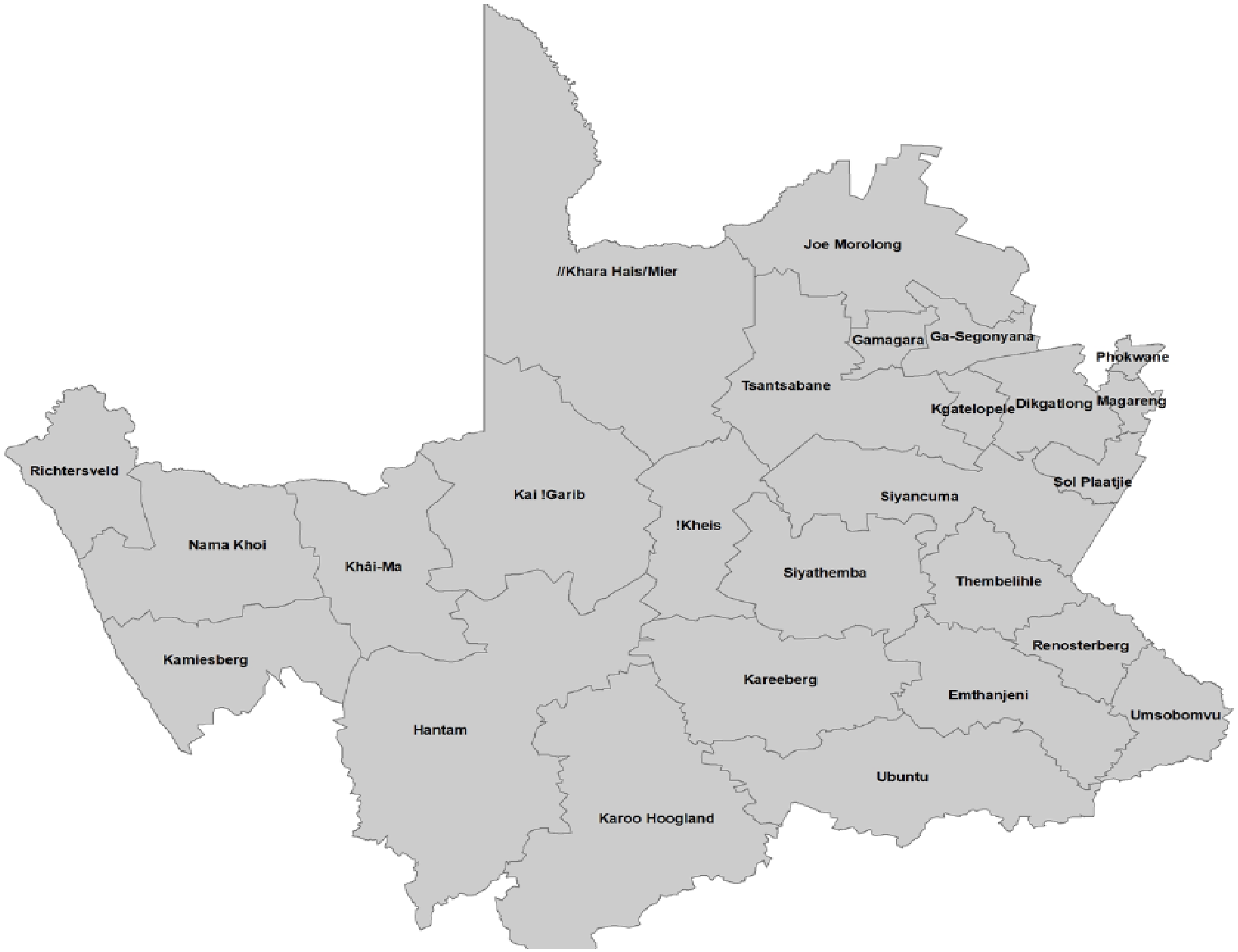
SOUTH AFRICAN LOCAL
GOVERNMENT ASSOCIATION

SALGA

Inspiring service delivery

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

ITUMELENG THATELO



Joe Morolong
//Khara Hais/Mier
Gamagara
Ga-Segonyana
Phokwane
Tsantsabane
Kgatelopele
Dikgatlong
Magareng
Richtersveld
Kai !Garib
Sol Plaatjie
Siyancuma
!Kheis
Nama Khoi
Khâi-Ma
Siyathemba
Thembelihle
Renosterberg
Kamiesberg
Kareeberg
Emthanjeni
Umsobomvu
Hantam
Ubuntu
Karoo Hoogland

PROVINCIAL PERSPECTIVE

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- The Northern Cape is a vast province with a very small population of 1.21 million which is 2.1 % of the country
- The Province has 26 LM and 5 District Municipalities
- According to Stats Sa Quarterly labor force survey 2017 the Province is having unemployment rate of 27.1 %
- NC Municipalities are owing Eskom R 838 Million
- The electricity tariff structure of the municipalities is not sustainable

RATES AND SERVICES IN ESKOM AREAS NAMAKHOI

Collection Rate in Eskom Towns							
	Total Outstanding Debt 28 Feb 2018	Billed for the month	Received for the month	Monies not received	Outstanding Debt 31 March 2018	Collection Rate for the month	Collection including all outstanding debt
Steinkopf	31 013 510.85	963 538.30	597 596.79	365 941.51	31 379 452.36	62.02	1.87
Komaggas	29 618 639.79	641 141.27	126 939.62	514 201.65	30 132 841.44	19.80	0.42
Total	**60 632 150.64**	**1 604 679.57**	**724 536.41**	**880 143.16**	**61 512 293.80**		
ESKOM towns are divided into two service point							
ESKOM towns outstanding debt are at R61 512 293.80 from the outstanding amount of R126 727 794.50 excluding the current and 30 day outstanding amounts							
This is 48% of all the outstanding debt							
Collection of monies can not be done at these towns, as the municipality cannot cut electricity in these towns							
In rand value the municipality did not receive R880 143 and only collected 1.87% and 0.42% of all outstanding debt for the month of March 2018							

APPROVED TARRIFS BY COUNCIL NAMA KHOI

Financial Year	2014-15	2015-16	2016-17	2017-18	Draft 2018-19
Tariff Approved by Council	7.39	12.2	7.64	1.8	6.84

APPROVED TATIFFS OF SOL PLAATJE LM

Financial Year	2014-2015	2015-2016	2016-17	2017-2018	Draft 2018-19
Tariff Approved by Council	6.72%	12.20%	7.50 %	1.88%	5.95%

APPROVED TATIFFS OF DAWID KRUIPER LM

Financial Year	2014-2015	2015-2016	2016-17	2017-2018	Draft 2018-19
Tariff Approved by Council	7.39%	12.2%	7.4 %	1.88%	6.84%

Background on RCA

- (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, municipalities and other stakeholders on the 11th of April 2018 for the consultation on the applications

The Eskom Application

- 14/15 applied for an RCA balance of R19 185m in its favor
- 15/16 applied for a RCA balance of R23 633m in its favor
- 16/ 17 applied for a RCA balance of R23 868m in its favor
- Total R66.6 billion for the 3 years
- R44,613 billion (2/3 of the RCA) due to revenue variance
- According to Eskom, 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

Key Concerns for SALGA

- Prudency of some of the costs in the RCAs
  - Revenue Variance
  - Coal burn & concerns on Eskom coal contracting
  - IPP Costs etc.
- Liquidation of these RCAs that needs to be carefully considered (3-5 years or beyond) – CANNOT be a once off adjustment, assess & consider what the country can take currently and in the next few years
- Effectiveness of the RCA decisions taking into consideration the municipalities' budget processes including consultation of the citizens
- MYPD 4 on its way meaning these RCAs could be implemented parallel to it
- If MYPD4 Methodology still allows for RCAs, in the future there might be a situation of MYPD 3 RCA, MYPD4 increase as well as its RCAs – How is this going to be dealt with?

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.
- 15/16 Allowed total revenue from sale of electricity of R179 587m but realised 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 2014/15

Coal

- Allowed coal burn of 129.561mt for R36 617m which translates into an average price of R282.60/ton.
- Actual coal burn was 119.179mt for R45 195m
- R7 819m according to the application were provisions only with respect to take of pay contracts for coal supply to Medupi and Kusile power plants.
- The amount of R7 819m should be disregarded for the purpose of the RCA balance.
- The actual total expenditure therefore reduced to R37 376m for the purposes of determining the appropriate RCA balance for coal burn.
- Eskom therefore overspent only R759m on the coal burn of R36 617m allowed for FY1415

Primary Energy 2014/15

Coal

- Allowed129.561Mt coal burn, but due to lower customer demand burned only 119.179Mt which was lower by 10.39Mt or 8.02%
- Allowed average coal price of R282.60/t at a total cost of R36 617m,
- However Paid R313.57/t for actual coal burned of 119.179Mt for a total amount R37 376m.
- Despite burning 8.02% less coal it paid 10.96% more and as a result exceeded the NERSA allowed budget for FY1415.
- In terms of the provisions of the MYPD methodology Eskom is allowed to pass-through the entire coal variance except for the alpha factor, meaning it has to absorb 5% of the actual cost per ton.
- In other words the actual cost of R313.57/t is reduced by the alpha factor to R297.89/t which is 95% of the actual cost per ton
- **Use the alpha adjusted costs to determine the real variance**

Primary Energy 2014/15

OCGTs and other Primary Energy

- While it may have been prudent for Eskom to run the OCGTs excessively instead of load shedding, most of the excessive use was due to inefficiencies in Eskom management of its generation fleet during that year (Maintenance issues etc.)
- Allowed R2 710m for OCGT, spent R9 546m and therefore claimed a variance of R6 836m in its favor as part of the RCA balance.
- But, MYPD3 decision allowed a further R1 669m for OCGT utilization.
- OCGT RCA balance should therefore be limited to the additional R1 669m allowed to Eskom. The rest or R5 167m should be disallowed as it was due to operational inefficient management of the generation fleet on which Eskom earns an appreciate return
- Allowed other primary energy cost of R5 535m and spent R6 890m This is despite the fact that demand for electricity dropped over the same period

Primary Energy 2015/16 – 2016/17

- Same principles apply for 2015/16 and 2016/17 just different numbers
- The trend is the same, burned less coal for more
- Use alpha adjusted costs to determine the real variance and if its in Eskom's or customer's favour.
- Also in 2015/16 excessive use of OCGTs of what was further allowed by NERSA due to operational inefficiencies e.g. Maintenance and management of the generation fleet
- Other primary energy excessive use despite the drop of the customer demand in those periods

IPPs and Renewable Energy 2014/15

- Eskom was allowed R595m for other IPPs and co-generation projects other than renewable IPPs.
- Spent R2 102m more than what was allowed.
- The entire amount is claimed as part of the RCA balance.
- Should be disallowed as excessive use of third party generation was used due to Eskom own plant availability being below target.
- The excessive use of the third party generators was therefore due to operational inefficiencies in management of Eskom's generation fleet.

IPPs and Renewable Energy 2015/16

- Spent R3 596m on its MTPPP, Municipal and STPPP programs even though it was not allowed any amount for the particular programs as part of the MYPD3 decision.
- Should be disallowed as the use third party generation was essentially due to Eskom's own plant availability been below target.
- Allowing Eskom to claim use of third-party generator cost will be tantamount to rewarding operational inefficiencies.
- It will not be prudent to allow Eskom for use of any third party generation cost without adjustments to allowed return due to lower actual plant availability when Eskom declared availability in the application phase
- The claimed deemed energy should be disallowed as the failure of Eskom to take delivery of such deemed energy was essentially because of its own operational inefficiencies.

IPPs and Renewable Energy 2015/16

- On Renewable IPPs and the DOE Peaking IPP programs spent less than what was envisaged by the Regulator, it is therefore prudent to return the variance in favor of the customer.

IPPs and Renewable Energy 2016/17

- Spent R3 883m on its MTPPP, Municipal and STPPP programs even though it was not allowed any amount for the particular programs as part of the MYPD3 decision.
- This over expenditure should be disallowed as the use third party generation was essentially due to Eskom's own plant availability been below target.
- Allowing Eskom to claim use of third-party generator cost will be tantamount to rewarding operational inefficiencies.
- It will not be prudent to allow Eskom for use of any third party generation cost without adjustments to allowed return due to lower actual plant availability when Eskom declared availability in the application phase
- The claimed deemed energy should be disallowed as the failure of Eskom to take delivery of such deemed energy was essentially because of its own operational inefficiencies.

IPPs and Renewable Energy 2016/17

- On Renewable IPPs and the DOE Peaking IPP programs spent less than what was envisaged by the Regulator, it is therefore prudent to return the variance in favor of the customer.

Conclusion

- We are all concerned and support the financial sustainability of Eskom however, it must be achieved responsibly
- Trust NERSA to be robust in doing its prudency tests in these RCAs and grant Eskom what is justifiable
- Carefully consider the future impact with MYPD4 on its way
- Liquidation of these RCAs should be carefully crafted not to bring chaos in the industry and economy
- Effectiveness of the NERSA decision on these RCA, a cause for concern for municipalities
- RCA has good intentions but also subject to being misused – maybe reconsider how its applied.

CONCLUSION

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- The municipality is limited by NERSA in terms of allowable increases in municipal electricity tariffs .
- National Treasury limits the municipality to inflation linked tariff increases.
- The majority of the 30% increase will have to be absorbed by the municipality as NERSA indicated that preliminary we must budget for a 6.84% increase.
- The Eskom areas of supply at the municipalities is a great concern to municipalities

CONCLUSION

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- The NC Municipality's electricity tariffs are already constrained by a very small industrial sector where some of the largest power users purchase electricity directly from ESKOM even though these users are within municipal boundaries. This restricts our ability to spread the burden of electricity costs and relieve the domestic sector. Households are already under immense financial pressure.
- An extremely high unemployment rate (higher than the national average) and greater densification within the residential areas (for families to accommodate the unemployed) is placing further strain on the affordability of electricity.
- The incidence of theft of electricity will be aggravated by large increases resulting in bigger losses.
- The higher the tariff increase, the greater the incentive to use less electricity or to employ alternative sources of energy. Based on the economies of scale, the less consumption results in a greater unit price. This affects the financially vulnerable much more as the more affluent are the ones generally in a better position to employ alternative means of energy generation for own use.

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Thank you