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PUBLIC HEARING

ESKOM'S THIRD MULTI-
YEAR PRICE DETERMINATION REGULATORY CLEARING ACCOUNT YEAR 5 (2017/18)
AND FOURTH MULTI-PRICE DETERMINATION APPLICATIONS

SOLIDARITY'S SUBMISSION

Gallagher Convention Centre

Marius Croucamp | 4 February 2019

Impact On Steel Industry

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Impact On Steel Industry

- Nersa approved electricity tariff determination *mechanism* allows Eskom to reclaim losses in revenue in the following year's tariff application. This is *unfair* to industry as the additional tariffs are *carried* over to the following year.
- Local steel industry is operating on a **marginal basis** and is **cost sensitive**. **Massive job losses** since 1995 with huge amount of plant closures.
- South Africa lost a **major producer** in Highveld steel and many more closed down



Impact On Steel Industry

- The South African steel industry **cannot survive on local demand** only but has to rely on the **export market** for survival.
- Profit **margins** are very low.
- The export market is very **competitive** in terms of **supply and price**.
- The steel industry is **energy intensive** and input cost increases as demanded by Eskom will render it **uncompetitive** resulting in the **loss of the export market**.
- Cost and price increases will also affect the **local market** and it will drive more **imports** which will cause **further harm** to the local industry.



Impact On Steel Industry

- **The unit price of imported steel and steel products unaffected** by Eskom's electricity price increases. The **higher** Eskom's tariffs the **less competitive** the local steel industry becomes.
- Eskom yearly impose additional **winter electricity tariffs** on local steel producers which can be as high as an additional 300%. This is over and above the 15% x 3 tariff increase
- Eskom is demanding tariff increases which in reality will result in a real electricity price increase of **well over 50% over three years**.
- Industry is **unable to pass the cost** on to customers without loss of market to imports



Impact On Steel Industry

- *The proposed electricity price increases will result in*
 1. Plant closures
 2. Massive job losses
 3. Loss of industry to South Africa
 4. Hardship for the communities who depend on the industry for employment and income
 5. Loss of tax income to local authorities
 6. Huge loss of tax income to the state
 7. Probability of labour unrest will increase



Workers Pay The Price

- Workers end up paying for Eskom's price increases
- Employers argue cost increases as motivation
- Resulting in lower on no wage increases and might result in labour unrest
- Marginal companies will go out of business and retrench workers

South Africa Pay The Price



- South Africans will pay the price for Eskom's bad management and other problems
- **Eskom must get its house in order first!**

Coal Supply

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Coal Matters

Recommendations:

- Eskom to **pay less** for **lower grade** coal
 - Nersa as energy regulator to **determine cost of lower grade coal**
- Stock piles to be covered – i.e. **protect** from rain
- Buy from **credible coal producers**

IPP's

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IPP Management

- IPP's to be taken **off the grid** in the event of an **oversupply** of electricity
 - Reduce losses
 - IPP's **buying price** vs. Eskom's selling price
 - Nersa as energy regulator to **determine IPP's price of electricity**
- Note the IPP **employment** expectation not as favorable as predicted

BEE

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BEE Matters

- BEE contracts and **pricing** to be in line with **market price**
 - **Inflated prices**
- BEE contractor = middleman in certain instances and not a **specialist/supplier**
- Equal opportunity employer
 - Principle = **best quality product at lowest price**

PROCUREMENT

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Procurement Matters

Issue:

- Slow turnaround time – **red tape**
- Poor **quality** products
- **Experts** taken out of supply chain

Recommendation:

- **End user** to be **involved** in procurement process
- **End user** to get access to supplier **product specialist**

DEBT

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Municipal Debt

- **Revenue and collection** thereof is the most critical component of any business
- Municipal debt Eskom's **biggest financial burden**
 - Effective **recovery** of municipal debt required
- Direct electricity supply to **non-payment areas on pre-paid basis**

- Loan debt: **re-negotiate debt terms**

CORRUPTION

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Corruption Management

- Fraud and corruption at **stores** (strategic / project / day-to-day)
 - i.e. PPE / transformers / consumables / strategic spares
 - Combination between **theft and unethical conduct** during buying process
 - Lack of **accountability**
- **Lack of decisive and bold action against fraud, corruption and maladministration**
- **Legal action** instead of „golden handshakes”
- Corporate governance issues relating to the issuing of **coal contracts**
- Spike in coal transport due to **road travel**

MANAGEMENT STRUCTURE

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Operational Structure

- Appoint **credible Eskom Board Members** – track record in large complex organizations
- **Operational decisions** to be taken at **operational level**
- **Operational management** to be involved in **strategic operational decisions**

STRATEGIC

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Strategic Considerations

- Negotiate **minimum services agreements (MSA)** with mines and subsidiaries
- **Broad consultation** before strategy implementation
- **Mothballing** of power stations - only when reserve capacity exists
- **Review operational mandates**
 - **i.e. centralization of call-centers**

HUMAN RESOURCES

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HR Management

- Skills Audit
 - **Re-skilling** to address **operational needs**
- Section 189 for top management announced in “cold” e-mail – 7 November 2018
 - **Impacts on staff morale and productivity**
 - **Ripple effect**

Business Model

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Business Model

- Vertically integrated monopoly
 - **Lack of accountability** from line managers
 - Poor generation **plant performance**
- **Ring-fence independent units** with a business focus
 - Generation
 - Transmission
 - Distribution

In Conclusion

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In Conclusion

- Nersa's decision holds the key to South Africa's future and will influence:
 1. Economic growth or economic decline
 2. Job creation or job losses – the workers
 3. Investment in industry or disinvestment in industry
 4. Increased industrialization or a decrease in industrialization
 5. Support competitiveness or harm competitiveness



Thank You



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