

OUTA SUBMISSION TO NERSA ON ESKOM'S RCA APPLICATION 2019

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WHO IS OUTA?

OUTA is a proudly South African non-profit civil action organisation formed to hold those in public office accountable and is funded and supported by ordinary people who are passionate about improving the prosperity of our nation.

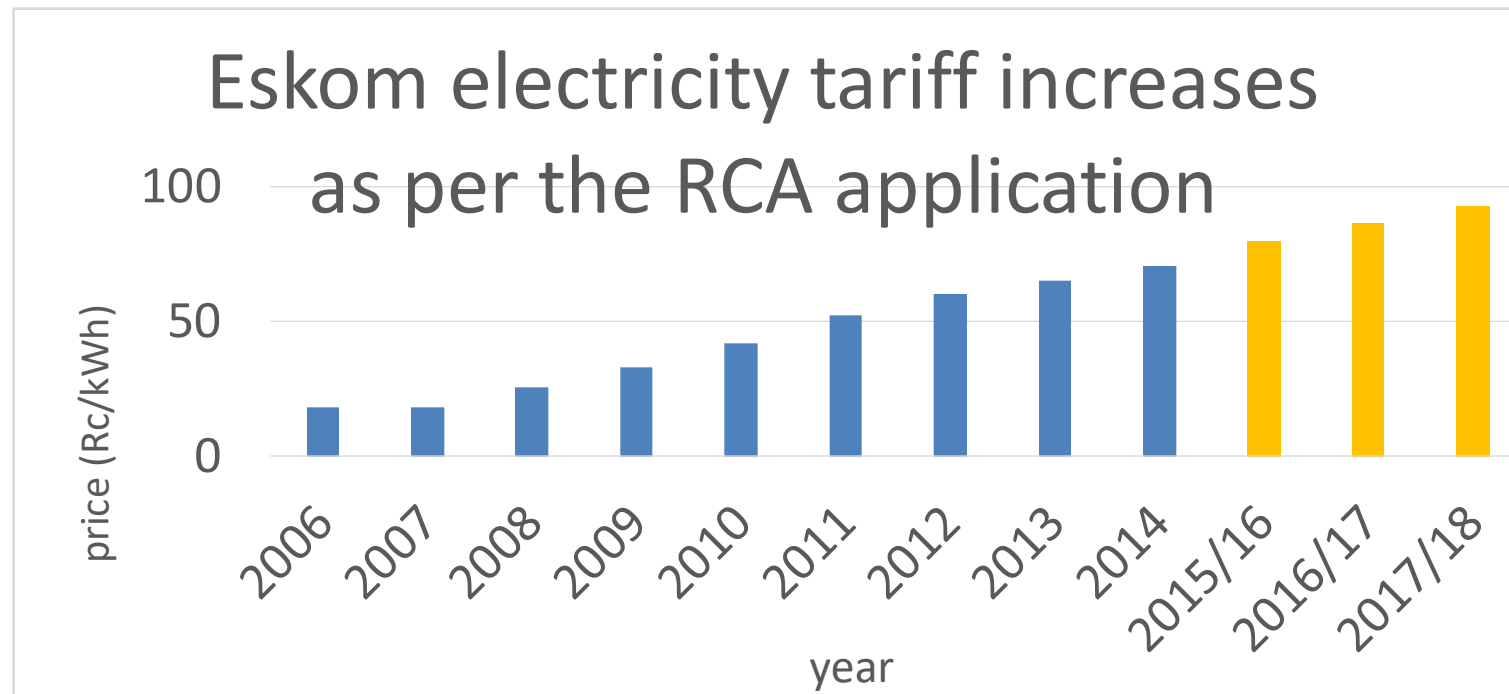
VALUES

- ✓ Accountability
- ✓ Transparency
- ✓ Promotion and protection of public interest
- ✓ Constructive engagement
- ✓ Strategic partnerships
- ✓ Zero tolerance for corruption and maladministration
- ✓ Active citizenry

OUTA'S ROLE IN THE ESI

- ❑ Introduction OUTA envisions South Africa as a prosperous country, with an organised, engaged and empowered civil society that ensures responsible use of tax revenues throughout all levels of government.
- ❑ OUTA is active in the energy sector and has participated in energy-related submissions, for example, on the Integrated Resource Plan, the Carbon Tax Bill, and in the multi-year price determination (MYPD) process of the National Energy Regulator of SA (NERSA) on electricity prices.

ESKOM TARIFF RISING



INCREASING ELECTRICITY PRICES – PRUDENT OR NOT?

- “Sensible and cautious and exercising good judgement”

“Whether a cost is prudently incurred depends on how the decision to incur the cost was made, not the outcome of the decision”



Timeslive 25 October 2019

<https://www.timeslive.co.za/news/south-africa>

[/2019-10-25-seriously-another-pole-stuck-in-middle-of-new-road/](#)

RECAP

- ❑ In Parliament, Prof Daniel Plaatjies from the Financial and Fiscal Commission (FFC) presented a sobering commentary on Eskom:
 - i. “Eskom, in its current form, poses substantial risks to the public finances and economy at large. Eskom is neither financially sustainable, nor capable of meeting the country’s electricity needs.”
 - ii. “The Eskom bailout has the potential to crowd out other infrastructure investments. It is unproductive government spending. The bailout monies will come from somewhere. Obviously there will be reprioritisation or cuts on other expenditure items, which will likely result in service delivery in other areas being negatively affected.”

OUTA'S CONCERNS

- ❑ Deficient regulatory regime/frameworks
 - a) Eskom court cases for review of NERSA determinations
- ❑ Operations costs – growing by **30%** up to R151bn
 - a) Primary energy – **R85bn to R99bn**
 - b) Personnel – **R29.5bn to R33bn**
 - c) Interest payments
- ❑ Auditors' findings – PFMA non-compliance
- ❑ Procurement strategic review
 - a) Middlemen in contracts – supplies, diesel, etc.
- ❑ List of contractual reviews
 - a) Possible savings that could be derived
- ❑ **Eskom made a R20.7bn loss in the 2018/2019 financial year.**

WHAT ESKOM WANTS

- Revenue
- Primary energy
- Other costs
- Service quality incentives
- Nuclear decommissioning

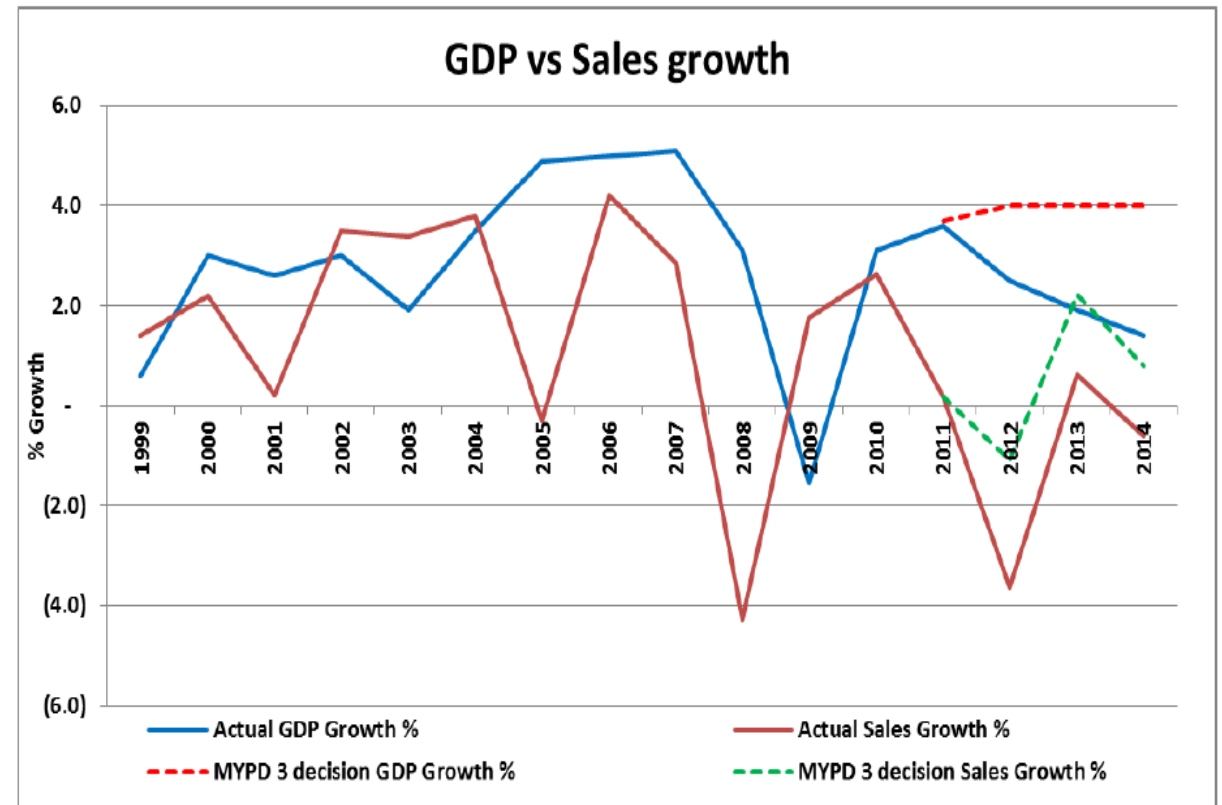
Table 1: Summary of 2019 RCA Application

RCA for FY 2019	Decision FY 2019	Actuals FY 2019	Variance	RCA adjustments	RCA FY 2019
Total Revenue Rm	190 348	179 892	10 456	(5 006)	5 450
Primary Energy , Rm	86 094	99 489	13 395	3 392	16 786
Coal	39 177	49 903	10 726	1 689	12 416
Open Cycle Gas Turbines (OCGTs)	345	3 768	3 423	-	3 423
Other	782	-	(782)	-	(782)
Other primary energy	7 595	9 320	1 725	-	1 725
Independent Power Producers	26 596	24 952	(1 644)	1 369	(275)
International Purchases	3 216	3 740	524	-	524
Environmental levy	8 093	7 805	(288)	-	(288)
Demand Response (DR) – Instantaneous	110	-	(110)	110	-
Demand Response (DR) - Supplementary	162	-	(162)	162	-
Demand Response (DR) – Programme administration	18	-	(18)	62	44
Other costs	104 254	106 871	2 617	2 221	4 838
Depreciation	24 903	26 427	1 524	-	1 524
Return on Assets (ROA)	28 117	28 107	(10)	-	(10)
Research & Development (R&D)	112	90	(22)	-	(22)
Demand Side Management (EEDSM)	-	29	29	(2)	27
Operating costs	51 122	52 218	1 096	2 223	3 319
Service Quality Incentives (SQI)	-	166	166	-	166
FY 2019 RCA Balance Application					27 240
Nuclear decommissioning from RCA FY 2013/14 decision phased in over 10 years					83
Total RCA balance					27 323

STOP REPEATING THE SAME PATTERN AND EXPECTING DIFFERENT RESULTS!

“Price is more effective at promoting investment into energy-efficiency technologies than incentive schemes or other factors. If price levels provide the correct signals, consumers will respond by limiting electricity use and employing more energy-efficient technologies, reducing demand.”

Figure 4: GDP Vs Sales growth



AGRICULTURE

- “Electricity sales during the period under review reflect a challenging macro-economic environment. The extreme drought conditions and depressed commodity prices put a damper on electricity sales in the agricultural and mining sectors respectively” – Eskom
- Agriculture: variance 111GWh higher.
- Due to higher water pumping.

MINING

- Mining variance 1622GWh decrease.
- “Measured in terms of energy consumed per unit of value-added, the energy intensity of the industry & mining sector decreased by 29.9% between 2000 and 2011” – DME
- “contribution of the energy intensive mining sector was starting to “dwindle” – Eskom 2013/14

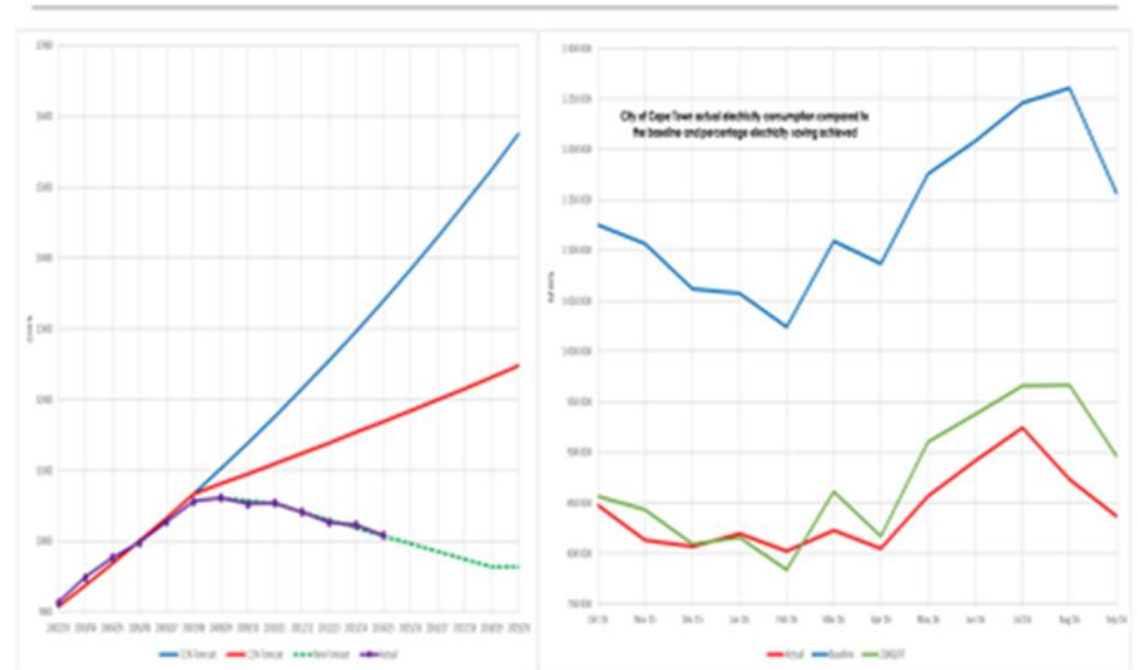
INDUSTRY

- “Decline in industrial sales (5 156 GWh) due to commodity prices and moves to alternative energy sources” – Eskom
- Increase in sales of 567 GWh due to the “offer”
- Feb 2017 – surplus power led to cheap electricity sold to aluminium smelters
- June 2018 – to sustain existing businesses that are at risk of failure and permit others that have closed production capacity in recent years

MUNICIPAL

- Western Cape 301GWh decrease.
- KZN 574GWh decrease.
- Eastern Cape 122GWh decrease.

Electricity demand Cape Town 2006/7 – 2015/16



MUNICIPAL (CONTINUED)

- Western Cape, KZN and Eastern Cape decrease.
- But IPPs had a wheeling arrangement in EC from 2006.
- Why was decrease a surprise?

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News

Electricity trading is alive and growing in South Africa

February 12, 2018 848



Electricity - [https://img.gawkerassets.com/img/187bzwqhpil0jpg/ku-xlarge.jpg]

South Africa's only independent electricity trader PowerX, has just applied to energy regulator Nersa to add six generators and 29 customers to its license.

The decision is still pending, but it seems to be a clear sign that independent electricity trading is a growing feature of the changing power landscape in the country.

PowerX could even be a model for an open electricity market in a post-Eskom era, says PowerX CEO

MUNICIPAL RESIDENTIAL

- Historically, payments by municipalities are strongly correlated to them receiving the equitable share from National Treasury. Previously this funding was sufficient to settle outstanding electricity debt, but this is no longer the case with municipalities facing increased electricity prices and reduced funding.
- Eskom 2014
- SALGA proposes that the end customer has a burden of a higher than inflationary tariff increase to bail out the utility. This is deemed unfair, unaffordable and unjustified (2015)
- The richest households allocate 0.8% of their expenditure to electricity, so the 25% price rise raises their expenditure by 0.2%. By contrast, the poorest households spend 5.4% of expenditure on electricity, so the 25% increase raises their expenditure by 1.35%. (HSRC 2011)

SALES AND REVENUE

Table 11: Sales variances per customer category, GWh

Category	Decision FY 2019	Actuals FY 2019	Variance		Average price in c/kWh	Value of losses in R'm
Municipalities *	88 249	87 264	-986		88,53	-R872,906
Industrial	48 149	48 717	567		73,99	R419,523
Mining	30 594	28 972	-1 622		91,64	-R1 486,401
Traction	2 830	2 831	1		110,17	R1,102
Residential	12 437	11 748	-689		125,73	-R866,280
Commercial	10 585	10 558	-27		117,30	-R31,671
Agricultural	5 685	5 796	111		149,79	R166,267
Internal Sales (at Standard Eskom tariff)	538	459	-79		93,79	-R74,094
IPP sales	--	67	67			
Total Distribution Sales	199 067	196 412	2 655			-R2 744,460

Note: * Includes standard tariff sales to Lesotho

Note: Above-mentioned categories include NPA sales

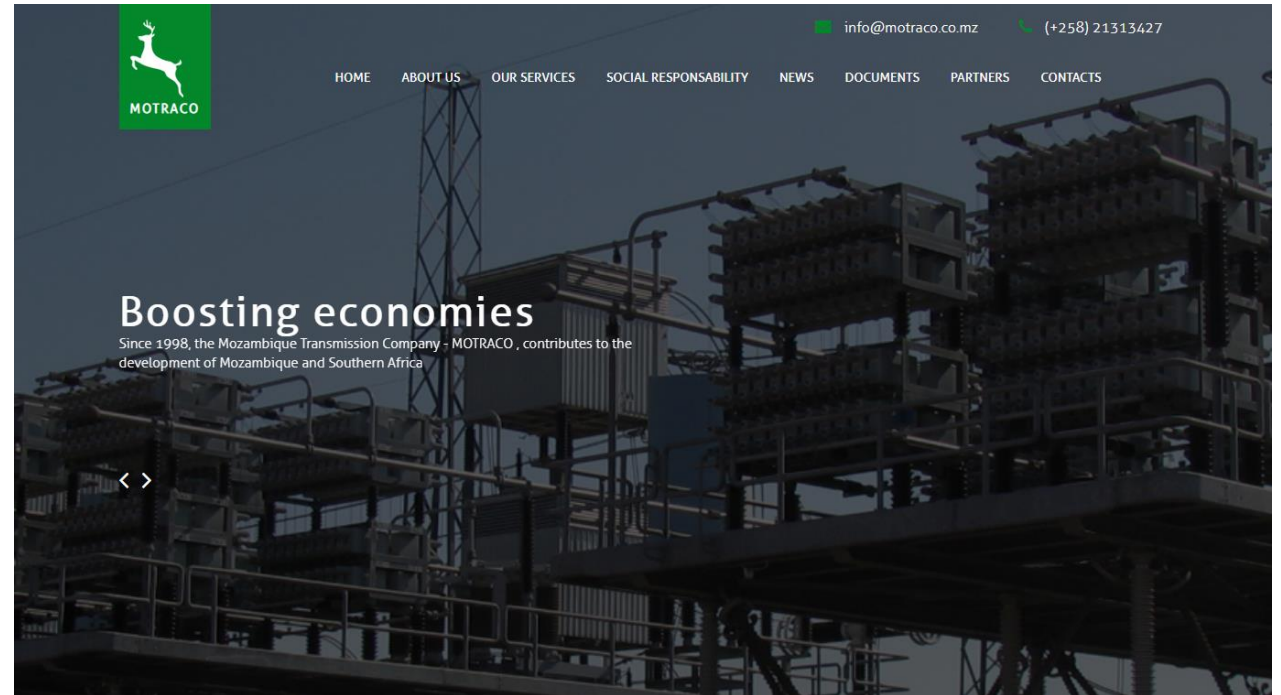
OUTA calculated:
-R2 744m

Eskom claimed:
- R5 450m

INTERNATIONAL?

- 8 utilities:
Average price 111.89c/kWh
- 3 end users:
Average price 46.86 c/kWh
- Eskom operating cost 71.25c/kWh

Loss over seven years (2012/13 to 2018/19) to those three end-users is about R13 340m



Costs of energy

Costs (R'm)	Eskom Generation (their version)	Eskom generation (real)	IPPs
Primary energy	54 896	54 896	21 300
Employees (generation and corporate)		30 616	
Environmental levy		8 061	
Tx and Dx capex		9 286 (95%)	489 (5%)
		10 983 (95%)	578 (5%)
Tx and Dx opex			
CAPEX generation		34 836	
Depreciation		64 651	
Environmental costs R200bn spread over 5 years		40 000	
TOTAL	55 896 (93%)	253 329 (93%)	22 367 (7%)

	Eskom Generation (their version)	Eskom generation (real)	IPPs
GWhs (2019 projected)	219 081	219 081 (95%)	11 451 (5%)
Cost (R'm) per unit (GWh)	0.25	1.15	1.95

COST OF ENERGY

- Additional payments were made due to dumping the IPPs off the grid due to low demand, and the need to keep the coal fired plants going at their lowest level to avoid having to shut them down and then risk having to cold start them again, with the need to then increase diesel at peak times.
- With an increasingly tight capacity situation, compounded by the lower REIPPP output than assumed, the System Operator was required to utilise more diesel generation (from the Eskom fleet as well as the DoE peakers)



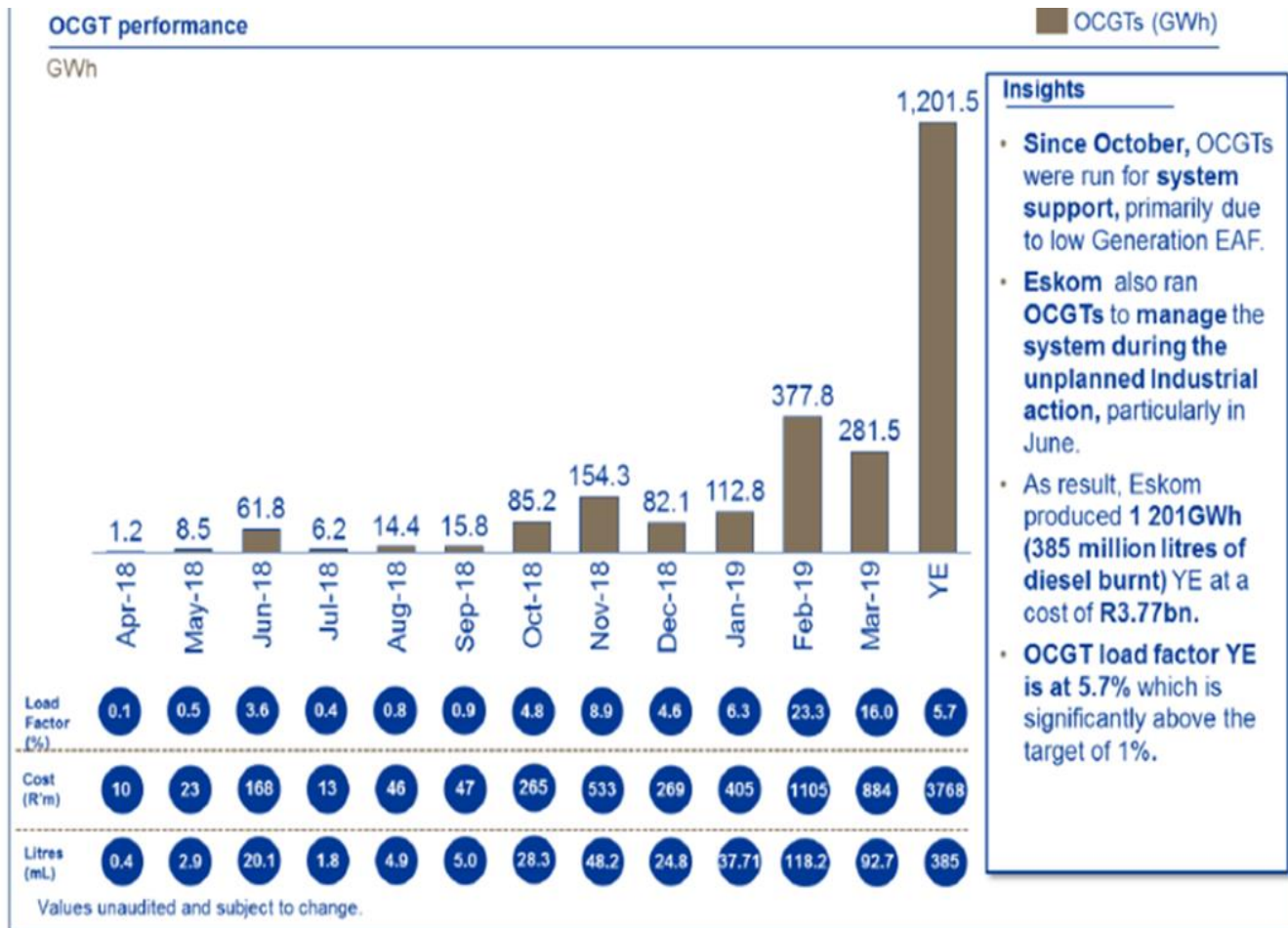
CLIMATE CHANGE

- “As such, the negative impacts of climate change will become a reality to which we must adapt in order to sustain our business. Adaptation risks in South Africa include an increased number and severity of droughts and floods, human settlement and, thus, infrastructure movements, and risks to staff and customers.”
(Eskom 2011)



<https://www.youtube.com/user/News24Video>

MAINTENANCE



- “The decline in plant availability from 2013 meant that even less capacity was available to meet demand and thus required the available plant to run even harder resulting in a ‘vicious circle’...increase in maintenance was the major contributor to the improvement in plant availability in the 2017 and 2018 financial years. This improvement was, unfortunately, short-lived and availability started to decline again from late 2017”

STAFF COSTS

- “The bonus cost is R100m lower than the application due to the non-payment of performance bonus and it includes a once-off cash payment of R10 000 after tax paid to non-managerial staff which amounted to R24m.”
- Reduction in overtime
- Reward for poor performance
- No urgency in rate of fixing power stations?



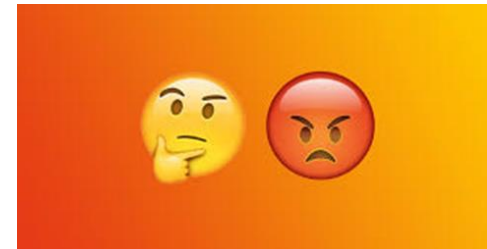
MIND THE GAP

- “Additionally, if contracts are regularly reopened, the purpose of having a contract is undermined and results in negotiating in poor faith which could attract further risk” – Eskom
- R60bn 2015
- R23bn 2016
- R350bn of which R218bn drawn (guaranteed debt)
- RCA? Slush fund?

CONCLUSION

- Only prudent costs
- No more tariff increases
- Governance focus
- Review/scrap RCA
- Improve compliance with MYPD4 methodology
- Regulate an energy transition

Eskom has had eleven CEOs and six Board chairs over the last 10 years



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