

# Swartland Municipality

NERSA Public Hearing  
Eskom MYPD6 Application

Thys Möller, Director Electrical Engineering Services



# Inputs for consideration during Public Hearing

- The MYPD6 Application
- The Drivers behind Eskom's Application
- Average Tariff Increase compared to CPI
- Utility Death Spiral
- Price Elasticity
- Eskom Municipal Debt
- Negotiated Pricing Agreements
- The Impact of State Capture
- Concluding Remarks

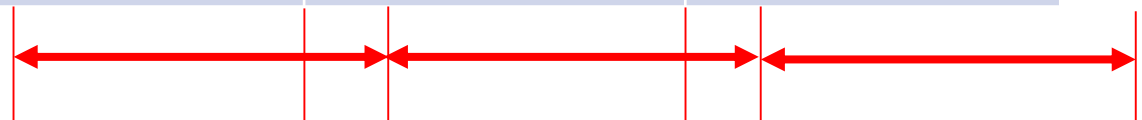


# Eskom MYPD6 Application

(Not exactly stable and predictable)

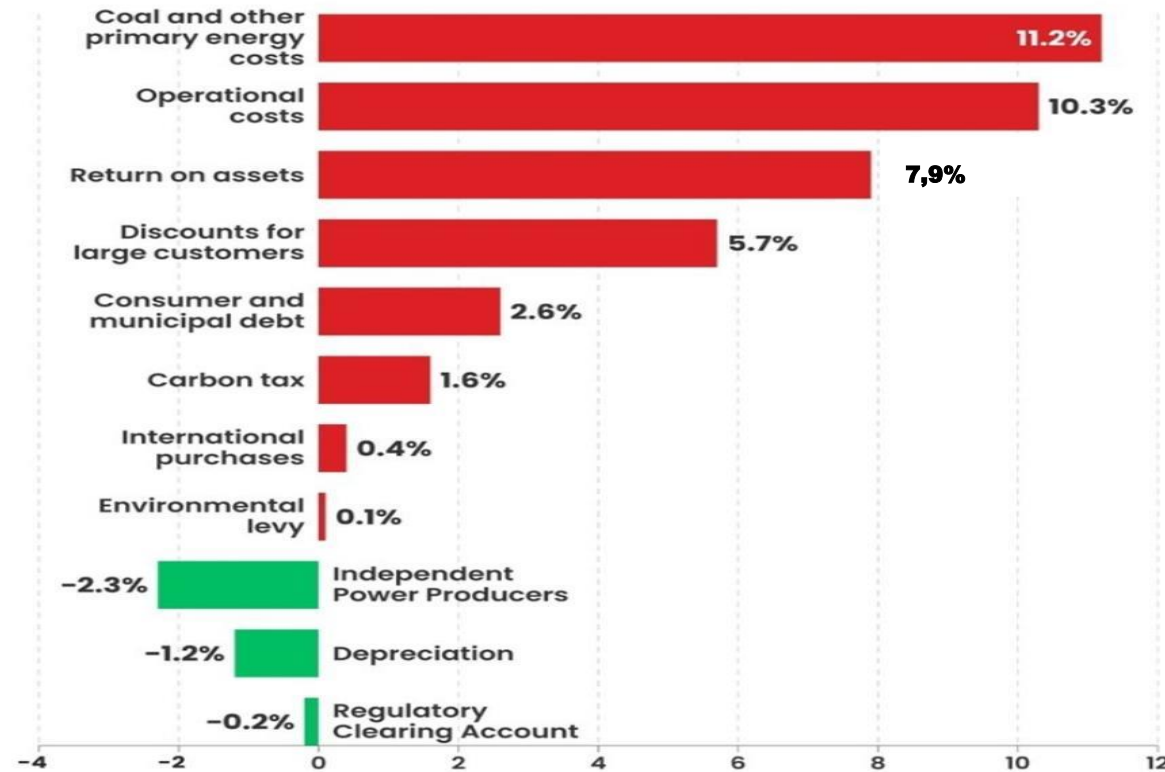
Customer Category	FY 2026	FY 2027	FY 2028
Tariff Increase Application			
Eskom Direct 01 April	36,15%	11,81%	9,10%
Municipal 01 July	43,55%	3,36%	11,07%

Eskom needs to recover the revenue  
During their Financial year (Apr – Mar)  
Municipal Financial Year (Jul – Jun)  
Thus, the difference in Ave Increase %



# MYPD6 Application

## The drivers behind Eskom's 36.1% increase



> CPI

SOURCE: Eskom  
GRAPHIC: Sharlene Rood

news24  
Trusted News. First

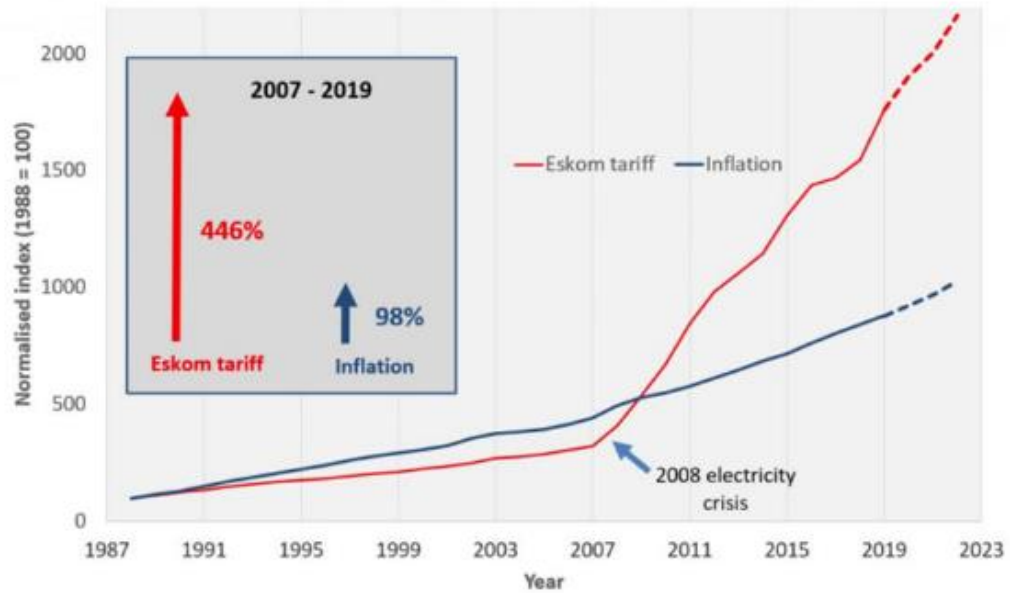


# Average Tariff Increase

**Surely this trend is un-affordable and not sustainable**

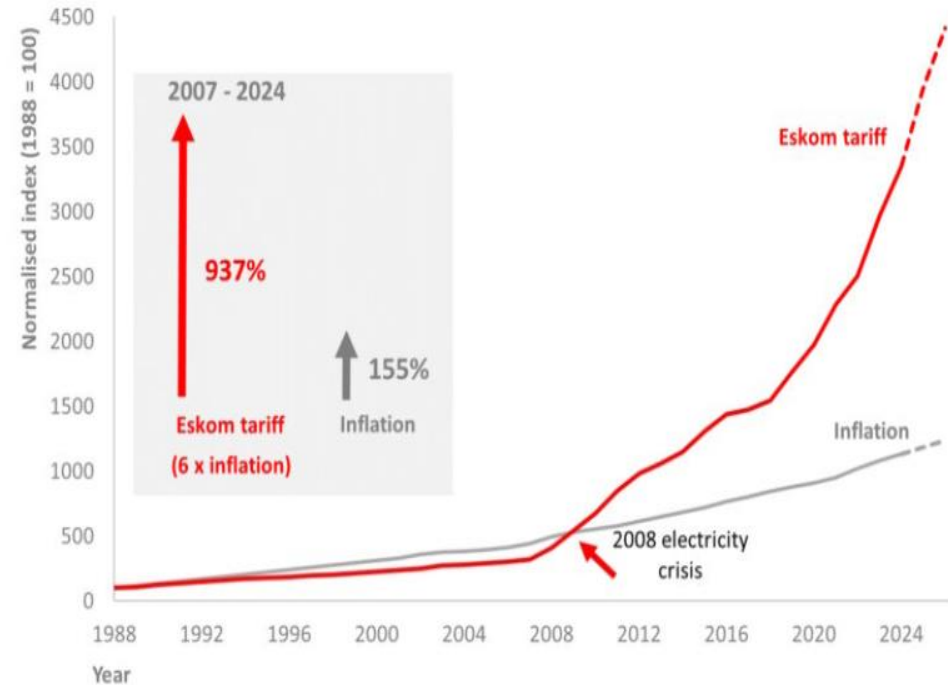
Figure 4: Evolution of average tariff in South Africa

Eskom average tariff vs. inflation (CPI)



Source: Moolman (2021).

Eskom average tariff vs. inflation (CPI)

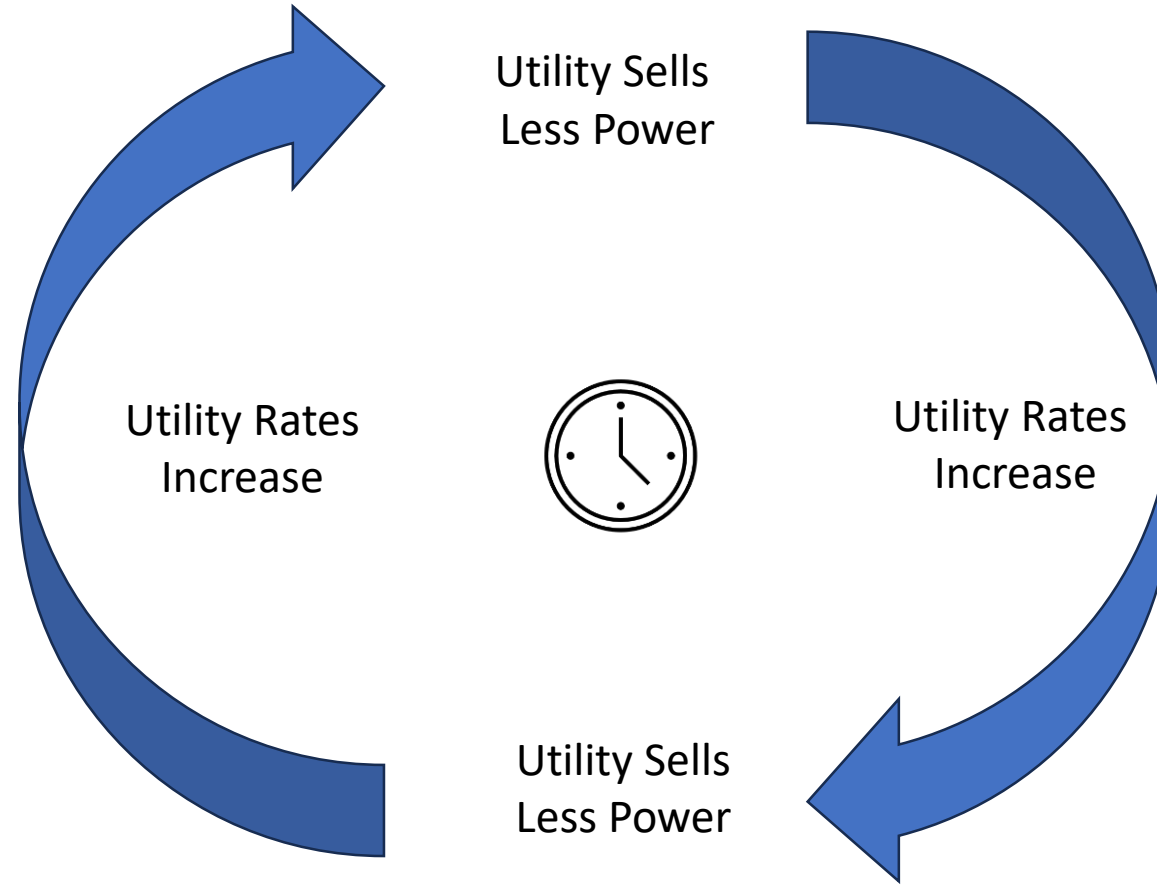


Source: PowerOptimal 10 August 2024



# Utility (Eskom's) Death Spiral

The utility death spiral occurs when the rate of economic growth is too low to compensate for the effects of higher tariffs and the unreliable supply of electricity.



# Price Elasticity

- The application suggests that Electricity Sales is inelastic to the price
  - Economic Law of Supply and Demand
    - **Inelastic in a monopoly**
  - Sales declined since 2015/16 to 2022/23 by +/-13%. Is none of this related to price?
  - Is none of the NPAs due to the price of electricity?
- Admittedly, we have seen less Load shedding during the past 7 months (thank you Eskom)
  - With load shedding the lost sales volumes are not fully recovered, especially for high load factor customers and domestic customers
  - Fixed costs (Capacity, Demand, Admin, etc) however remains and thus the Ave c/kWh for energy consumed increases making electricity more unaffordable
- Elasticity should be researched at Individual customer level to get a real understanding of the impact of electricity price increases on consumption levels. At the rate of inflation increases it might be inelastic but with quantum increases of 5 to 6 times higher than inflation the picture will certainly look different.
- The rapid increase in Roof top Solar was driven by load shedding but there is now also focus on the cost of electricity.
  - With higher energy prices even more solar panels will be installed which also goes against Eskom's argument of in-elasticity
  - This will place a bigger challenge on Eskom and Municipalities to recover revenue
  - Another spiral
  - But then again, the Eskom Tariff Restructuring proposal will counter this
    - **Back to a monopolistic inelasticity**



# Eskom Municipal Debt

- Overdue Municipal Debt escalated from +/- R26bn in October 2019 to +/- R90 bn in November 2024
  - 340+% growth in 5 years
  - According to Eskom CFO (Nov 24) growing at R1bn to R1.5bn per month
- Various Reasons are offered for the growth
  - Poor financial Management by Municipalities
    - Including non collection of revenue
  - Non-adherence to Payment Arrangements
  - Eskom Credit control measures not effective and challenged in Court
  - Ineffective Oversight by Provincial and National Government
    - Sec 139 of Constitution not achieving the required results
  - NERSA's lack of effective License conditions monitoring
    - Tribunal Established in 2018/2019 to look at the non-payment of Eskom, but is it being used effectively or at all ?
  - Effectiveness of NT/Eskom Debt Relieve Programme ?
- The reality is that this money is not available. It is not earning interest in a bank account and waiting to be withdrawn to make payment to Eskom
  - Focus on payment of the Current Account
- Increasing tariffs by 43.55% will only lead to an increase in this number due to un-affordability?





# Unaffordable Electricity Prices

## Ingredients for a Death Spiral

- Eskom prices increased by 937% over the past 17 years.
- Municipal Electricity Prices have followed the Eskom increase as it forms the biggest input cost to the Municipal electricity business (85% to 90%)
  - Thus, placing an ever-increasing burden and risk on municipalities
- With and Ave Salary increase of +/- 7% per year and Electricity prices increasing by 36%/43.55% the following is bound to happen:
- Disposable Income now needs to be prioritised
  - Fewer customers can afford to pay for electricity regardless of how energy efficient their operations are
  - More customers will default
  - More illegal connections
  - More Tampering
  - Leading to higher Non-Technical Losses
- There is thus a risk of more Municipalities defaulting on their Eskom Accounts
  - Higher Municipal Debt
  - The Spiral gets bigger



# Negotiated Pricing Agreements

- The Negotiated Pricing Agreements are a result of
  - Specific customer issues/market/world economy and Electricity prices
  - Implemented to "save" the customer and Eskom sales volumes
  - Retaining jobs
  - Economic Impact
- Should the average customer be burdened by the Eskom Negotiated Pricing Agreements?
  - The application indicates 5.7% impact for approved NPA's
  - What about the impact of in-process or previous NPAs?
  - How often are these agreements reviewed?
  - Shouldn't there be other mechanisms to pick-up the difference between these NPAs and the standard tariff?
    - DTI
    - SARS



# The Impact of State Capture

- There is no doubt that State Capture and Corruption had a huge impact on Eskom (Technical and Financial)
- The Impact in the Price Application is however not clear and raises questions about
  - Inflated Asset Value
  - Increased Depreciation
  - Return on Assets
  - Higher Maintenance cost
- Should the Average Customer be burdened with these costs?
- Wasn't there a drive to declare coal a Strategic Resource to ensure sufficient, reliable, quality, affordable coal supplies to Eskom?
  - Has this fallen in the State Capture web as well?



# Concluding Remarks

- The Challenge
  - Cost Reflectivity vs Prudence vs Affordability
- The Reality
  - 36.15% / 43.55% is just not affordable
- Granting the requested tariff increase will place a burden on the municipality with respect to the existing challenge of inequality, poverty and unemployment as the municipality will be forced to pass the cost through to municipal customers
- NERSA is called upon to make the right decision to ensure the sustainability of all utilities and the average electricity consumer



**Thank you**

