



NERSA PUBLIC PARTICIPATION

Regarding the consultation paper “Eskom’s sixth multi-year price determination revenue application for 2026 to 2028 financial years” as published by Nersa on 23 September 2024

20 NOVEMBER 2024

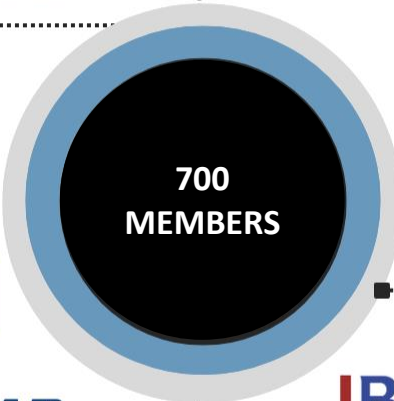
AGENDA

1. The Nelson Mandela Bay Business Chamber
2. The NMBBC rejects the application
3. Comments:
 - The application makes power unaffordable for most users
 - Municipalities: dysfunctional
 - Eskom's Costs: doing less with more
4. Conclusion and Recommendations

PLATINUM PARTNERS



GOLD PARTNERS



PARTNERSHIPS



ACTION PARTNERS



THE APPLICATION COMES AS A COMPLETE SHOCK...

- Most electricity users endured massive electricity price escalations over the last 20 years
- The taxpayer paid substantial bail-outs to Eskom over the last 20 years

Eskom Std Customers vs CPI	Eskom Increase	CPI	Eskom factor increase vs CPI
2005-2025	1041%	157%	6,6 X
2025-2028	66,1%	15,8%	4,2 X

Past Increases vs CPI

The application vs CPI

	Eskom Power	CPI
2005	R100	R100
2025	R1 147	R257
2028	R1 896	R297



We paid R 100 in 2005
We pay R 1147 today
We will pay R1896 in 2027/28

- The Application requests approximately **R310 Billion** through tariffs above CPI
- On top, the taxpayer funds Eskom **R254 Billion** from the 2023 Eskom Debt relief fund

THE APPLICATION MAKES ELECTRICITY UNAFFORDABLE FOR MOST

-Eskom claims electricity pricing in SA is globally competitive

-**We disagree**, as the provided international 2023 tariff comparison is misleading:

- Eskom ignores above inflation increases since 2023 and the effect of the Application

- Most medium sized industry are in munics, where tariffs are much higher (15-20%)

- Eskom proposes special tariffs for smelters because Megaflex tariffs became uncompetitive

-By next year, Eskom direct tariffs to industry will provide **no global competitive advantage**

-By next year, **municipal tariffs to industry will be with the most expensive in the world**

Per the Eskom application page 137, a price elasticity for industry of 0,254 % will reduce industrial electricity usage by at least 15% by 2026

The Application fundamentally compromises South Africa's re-industrialisation

The Electricity Supply Industry keeps

DOING LESS and LESS

with MORE and MORE

A DEAD END STREET FOR SA's ECONOMY...

Eskom

Nersa

Municipalities & Salga

Treasury

IPP's

...

MUNICIPAL FAILURE COMPROMISES ESKOM AND THE CONSUMERS

- Many municipalities are unsustainable and out of control
- Many municipalities are failing the users through poor quality of supply and unlawful tariffs
- Debt to Eskom has escalated to a point where Eskom is compromised
- **Treasuries' municipal debt relief plan forces Eskom to fund the cost of municipal default**
- **In addition, Treasuries' debt relief plan is failing, exposing Eskom even further**
- **Treasury rewards municipal failure**
- Eskom plans for municipal debt to exceed R187 Billion by the end of MYPD6

Municipal default is funded through Eskom and passed on to the electricity consumer

- We see no plan to deal with the root cause of Government Failure

Overdue Debt municipalities	Actual	Projection	Projection	Application		
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
R Billion						
Cumulative closing balance	58,5	74,5	91,3	114,0	145,0	187,1

THE NMBM IS NO LONGER CAPABLE TO DISTRIBUTE ELECTRICITY

- Quality of Supply is beyond unacceptable: Unplanned outages are out of control
- 132 KV Power Line collapse in August reflects the advanced degradation of the infrastructure
- Financially unsustainable: current budget shows a R1.3 Billion loss
- Illegal connections and meter tampering will amount to R1 Billion for the 24/25 financial year
- **THE NMBM WILL EVENTUALLY FAIL TO MEET ITS OBLIGATIONS TOWARDS ESKOM**
- NMBM does not comply with various license conditions (Financial, Technical and General)
- There is no plan to deal with the self destruction of NMBM's electricity distribution
- The National Energy Regulator of South Africa does absolutely nothing
- Treasury does nothing

IT IS CHALLENGING TO RETAIN or ATTRACT INVESTMENT IN AN ENVIRONMENT WHICH IS NOT ENABLING

GOVERNMENT MUST ENABLE REAL SOLUTIONS FOR FAILING MUNICIPALITIES

- Municipalities must be dealt with **before** financial default to Eskom
- Municipal debt escalation per the application is simply unacceptable and Eskom can no longer be burdened by municipal failure
- Government must **fix or revoke** failing electricity distribution licensees
- We need urgent positive government intervention in the NMBM
- **We recommend urgent intervention to rescue NMBM's distribution including Eskom, Nersa, Treasury and users**

ESKOM'S REQUESTED ALLOWABLE REVENUE IS UNACCEPTABLE

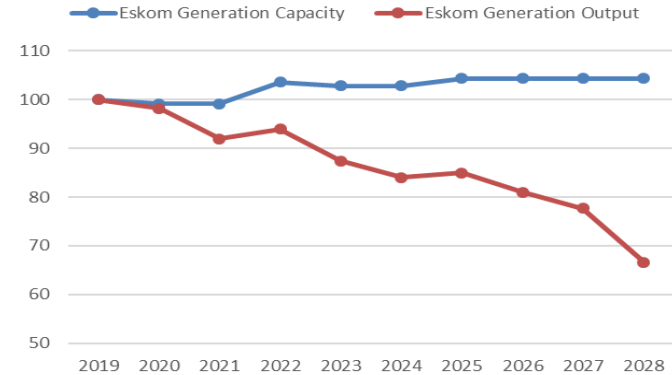
- **Eskom admits costs of past and future inefficiencies are passed on to the consumer**
 - **The failure of Kusile and Medupi:**
 - 9600 MW project was delivered 5 to 10 years late
 - The capital cost for the project is overspent by close to R 200 Billion
 - The project being late caused all load shedding and associated costs such as OCGT and loss of sales

Current debt position is caused by the failure of Kusile +Medupi

- **Legacy costs of IPP Rounds 1-3.5 : R45 Billion for MYPD6 (DMRE)**
- **Eskom's operational assumptions remain below acceptable performance**
 - OCGT usage at 6% is unacceptable : 2017 and 2018 was well below 1%
 - EAF in MYPD6 is only at 64%, 2017 and 2018 was at 78%

ESKOM'S REQUESTED ALLOWABLE REVENUE IS UNACCEPTABLE (2)

Eskom Output vs Generation Capacity

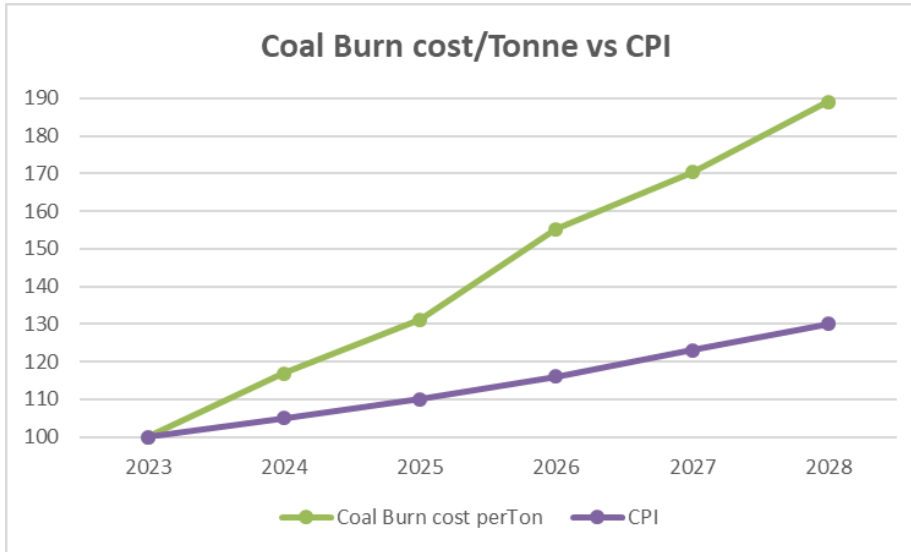


Eskom Generation	Headcount	Spend R Billion	Cost Per Employee R1000	c/KWh Generated
Act 2023	13237	11,8	891	6,2
Est 2024	13731	13,3	970	7,2
Est 2025	13997	13,5	964	7,3
Appl 2026	13691	14,3	1 043	8,1
Appl 2027	13474	14,8	1 103	8,7
Appl 2028	13111	15,2	1 158	10,4

- Eskom maintains far too much (costly) generation capacity over MYPD6 period
- Eskom's application excludes right-sizing:
 - Generation output shrinks 35%
 - Costs keep going up despite shrinking output
 - Cost of personnel: ref table
 - Cost of maintenance
 - Other Opex
 - Capital Investment
 - RAB

ESKOM'S COAL COST ESCALATES OUT OF CONTROL

- Coal burn costs R/ tonne increase by 90% from 2023 to 2028
- CPI is 30% for the same period
- Coal usage reduces by 25% over the period



ESKOM CHARGES UNACCEPTABLE COSTS TO STANDARD USERS

- **NPA subsidy compromises standard users including municipalities**
 - 12 'smelters' are awarded preferential tariffs amounting to **R108 Billion** for the MYPD6 period
 - Nersa's NPA approvals censor disclosure re the rationale for the awarding of these SPA's
 - Standard users including labour intensive industry pay 10% more to subsidise smelters
 - Smelters have low employment per KWh
- **International sales compromise standard users including municipalities**
 - International customers are awarded preferential tariffs amounting to **R22 Billion** for MPYD6
- **Distribution Losses are bloated at 9.5% and exceed Eskom's own standards**
 - Eskom hides losses from low voltage distribution customers and charges these to high voltage connections
- **Double Taxation:** MYPD6 includes R 65 Billion Carbon Tax + Environmental Tax (Treasury)

Distribution loss factors		
Voltage	Urban loss factor	Rural loss factor
< 500V	1.1111	1.1527
≥ 500V & < 66kV	1.0957	1.1412
≥ 66kV & ≤ 132kV	1.0611	
> 132kV/Transmission connected	1.0000	

PROPOSED WAY FORWARD

- Catastrophic local municipalities must be fixed:
 - Municipal Electricity and Energy Department Rescue Plan for NMBM
 - Eskom to lead active partnering with the NMBM supported by Nersa, Treasury and users
- Cost of municipal inefficiency and default cannot be a burden to Eskom
- Nersa to review the application to reflect efficient costs and efficient operations of Eskom per ERA s15
- Nersa to review applied costs escalations and lack of downsizing by Eskom
- Subsidy to smelters must be reviewed as it jeopardises labour intensive medium size industry

THIS IS AN EMERGENCY SITUATION

Our Economy is anchored by manufacturing

The application completely ignores the position of labour intensive manufacturing, specifically in municipal areas

Manufacturing needs reliable and competitive power to operate and create jobs



nelson mandela bay
BUSINESS CHAMBER
Connecting business. Stimulating progress.

Thank you

#Bayofopportunity
#Resurgethebay