

OUTA

ORGANISATION UNDOING TAX ABUSE



SUBMISSION BY OUTA TO NERSA

**IN RESPONSE TO
APPLICATION BY ESKOM
FOR A REVENUE AND
ELECTRICITY PRICE
INCREASE OF 66% OVER
THE NEXT THREE YEARS.**

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OUTA AND ITS POSITION



OUTA is a proudly South African, non-profit, civil action organisation, comprising of and supported by people who are passionate about improving the prosperity of our nation. We envision a prosperous country, with an organised, engaged and empowered civil society that ensures responsible use of tax revenues.

OUTA has a strong interest in the electricity sector, because the sector, including state-owned entity Eskom, has been mismanaged in the past, with a devastating impact on the economy, resulting in power supply shortages, higher prices, socioeconomic hardship for electricity customers, and substantial bailouts with taxpayers' funds (which should have been available for alternative socio-economic spending).

OUTA broadly opposes Eskom's application for a revenue and average electricity price increase of 66% over the next three years, coming as this does after 15 years of price increases that were significantly above the inflation rate each year.

IMPACTS OF ESKOM'S APPLICATION



The Eskom MYPD6 application displays a cavalier disregard for and an inadequate appreciation of the negative impacts of the proposed price increases, and in particular:

- Impact on the economy, GDP, inflation and employment.
- Impact of safety, security and social unrest.
- Impact on electricity theft and non-payment.
- Impact on municipal electricity distributors.
- Impact on indigent, poor and middle-income households.
- Impact on SMMEs, commerce and business.
- Impact on farmers and the agricultural sector.
- Impact on manufacturing, mining and energy intensive industry.
- Impact on electricity demand and sales volumes in South Africa.
- Impact on future price increases, and the utility death spiral.

LITTLE ATTENTION TO COST EFFICIENCY



Eskom's primary focus in its MYPD6 application is to ensure cost reflectivity by increasing its revenues and electricity tariffs, while demonstrating little serious attention to:

- reducing Eskom's cost structure to ensure cost reflectivity.
- reducing debt and finance costs to ensure cost reflectivity.
- reducing losses to ensure cost reflectivity.
- improving its financial and operational performance and efficiency to ensure cost reflectivity.
- disposing of non-core assets that would reduce debt and associated debt service costs.

For example:

- Primary energy costs of R92.8bn allowed in FY2025 increases by 38% to R128bn in FY2026 in Eskom's MYPD6 application.
- Operating costs of R61.4bn allowed in FY2025 increases by 52% to R93.3bn in FY2026 in Eskom's MYPD6 application.

CUT COSTS FOR COST REFLECTIVITY



The Eskom MYPD6 revenue application does not adequately drill down, identify, set and commit to clear targets for specific cost reductions, and performance and efficiency improvements across the major cost categories, such as:

- **Primary energy costs** – coal and diesel, shift to lower cost, cleaner alternatives.
- **Staffing costs** – review staffing levels and costs.
- **Operation and maintenance costs** – concessioning of operations, partnering for with OEMs.
- **Loss management** – non-payment, electricity and infrastructure theft, vandalism, corruption and fraud.
- **Finance costs** – sale of non-core assets, reduce debt, debt-equity swops, recapitalise the business.
- **Return of assets** – revamp asset valuation methodology for return on assets.
- **Depreciation** – revamp asset valuation for depreciation methodology.

RECOMMENDATIONS



While recognising the requirement for NERSA to allow Eskom to recover its prudently and efficiently incurred operating costs, plus a fair return on assets, through electricity tariffs, OUTA recommends that:

- NERSA should broadly reject Eskom’s application for revenue and price increases of 66% over the next three years.
- NERSA should shift the focus away from Eskom’s application for massive, above inflation, revenue and price increases year after year, and instead focus on and signal the urgent need for improvement of Eskom’s performance, efficiency and associated cost reductions to achieve cost reflectivity.
- NERSA should adjust the balance away Eskom’s focus on its own needs, towards an increased focus on the broader needs of society, the economy and the customer.
- NERSA should adjust the balance to ensure a greater focus on accelerating the unbundling of Eskom, and associated ESI and EDI restructuring and market reform.

RECOMMENDATIONS (CONT.)



- NERSA should adjust the balance away from the self-serving needs of the de facto Eskom and municipal monopolies, to focus on opening the industry to new players on level playing fields and allowing customer choice.
- NERSA should focus on significantly increasing diversity in the power generation sector and increasing wholesale and retail competition in the supply of electrical energy.
- NERSA should focus on significantly opening and increasing third-party access to critical, monopoly, public assets, such as transmission and distribution networks, for the benefit of electricity customers, the public, the economy and society.
- This should include non-discriminatory, third-party access to transmission and distribution networks for traditional wheeling, virtual wheeling, token wheeling and trading of electrical energy.
- Where unavoidable, NERSA should ensure that Eskom and municipal revenues, prices, tariffs and returns should be smoothed and gradually phased in to avoid electricity price shocks to customers and the economy.

RECOMMENDATIONS (CONT.)



- NERSA should require a detailed plan from Eskom to shift more quickly towards cleaner, lower cost, electricity generation options.
- NERSA should commission an up-to-date, independent, socio-economic impact study to give a clearer picture of the real impacts of massive electricity price increases over the next three years.
- NERSA should commission an independent review of Eskom's staffing and staff remuneration levels across the board.
- NERSA should commission an independent study of the cost impacts and set appropriate targets to reduce losses, and that this should be considered in NERSA's electricity price determinations.
- NERSA should commission an independent review of the current methodology used by Eskom to value its regulatory asset base for the determination of an appropriate return on assets.
- NERSA should commission an independent review of the current methodology used by Eskom to determine its regulatory asset depreciation costs.

CALL TO ACTION

The President's emergency plan to end load shedding and the establishment of the National Energy Crisis Committee (NECOM) headed by the Minister of Energy and Electricity has resulted in the achievement of 240+ days without load shedding, and has shown what can be achieved with committed leadership and focus.

It is OUTA's view that a similar dedicated national effort and focus is now required to address issues of energy poverty, energy access, energy affordability, and the price of electricity which is spirally out of control.





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THANK YOU!

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