MYPD 6 Public Hearing

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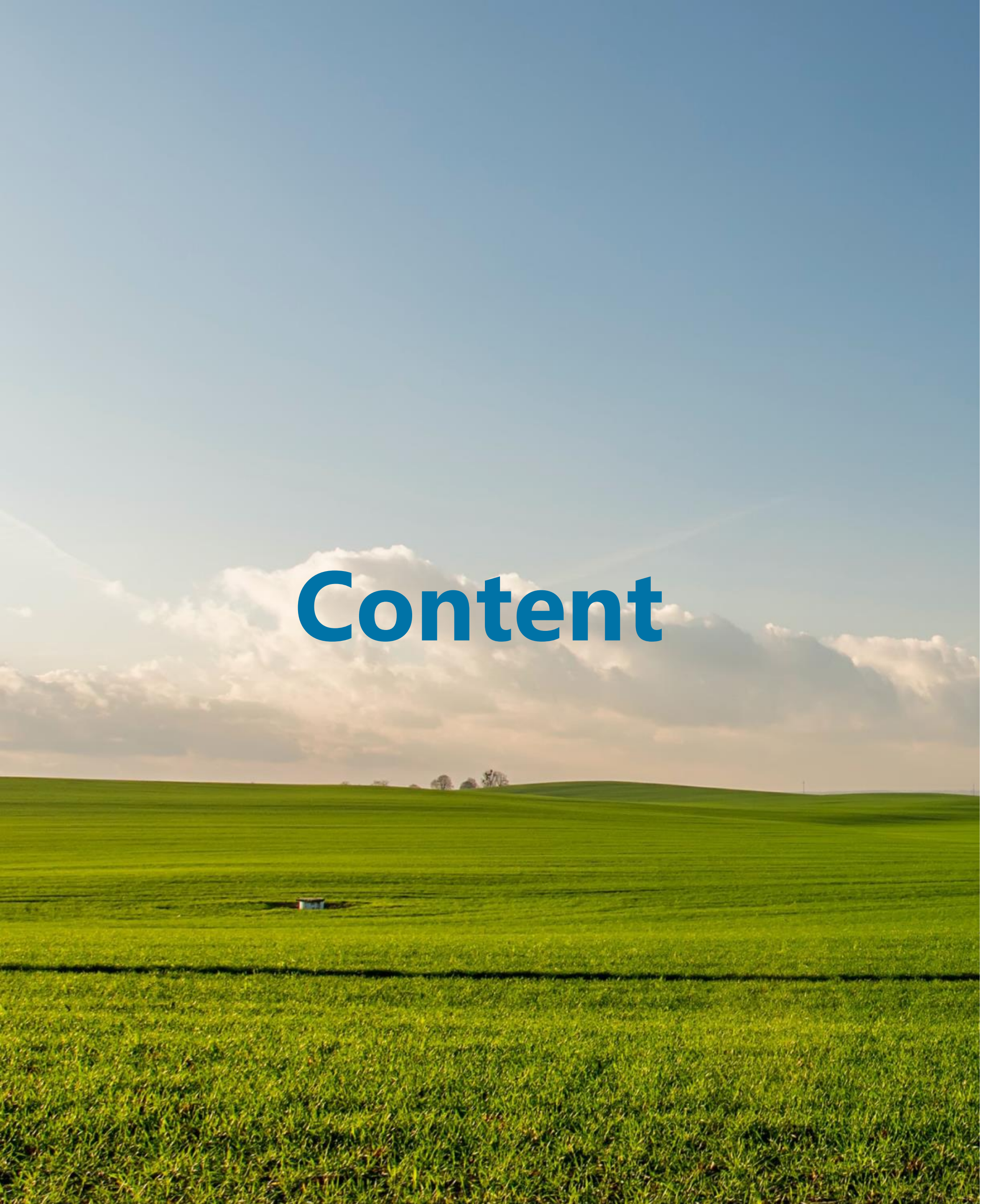
25 November 2026



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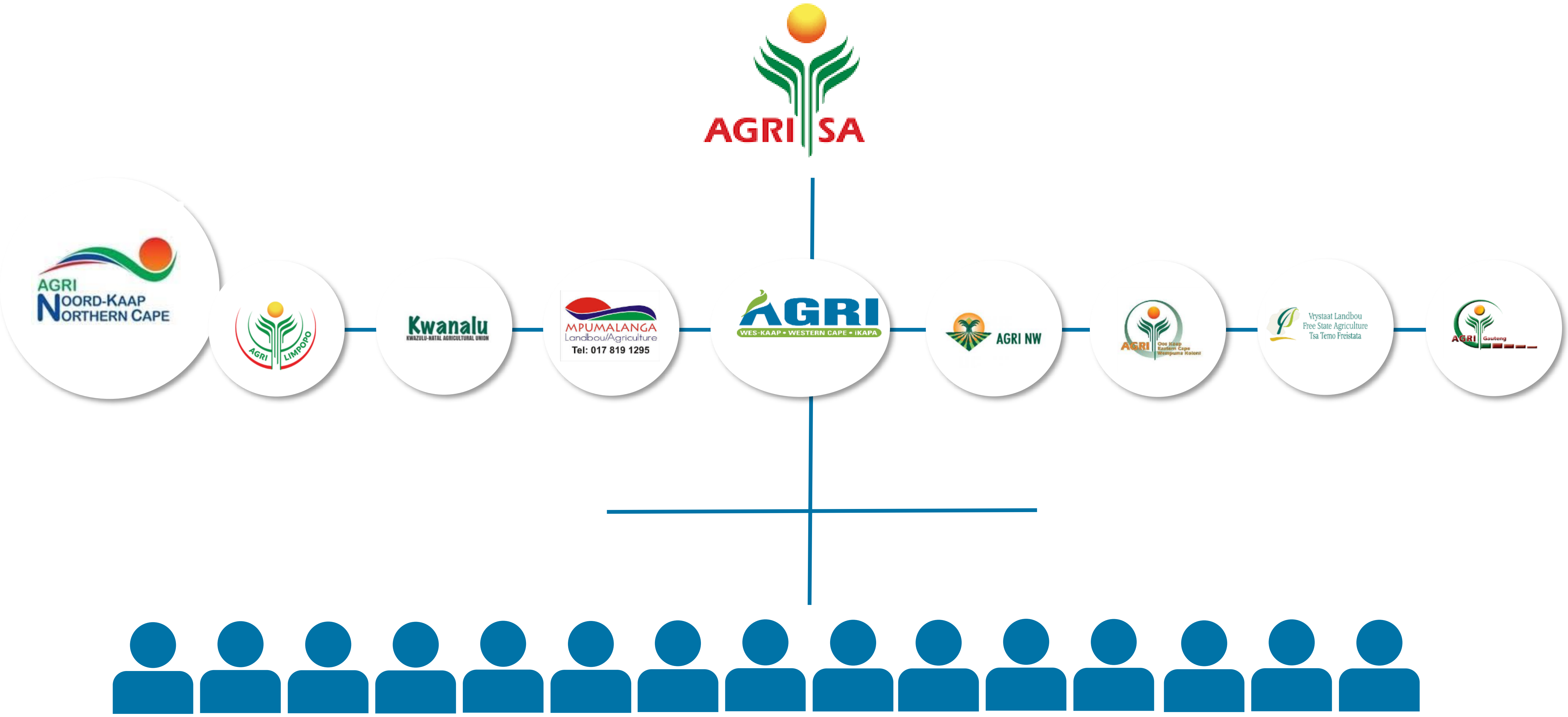
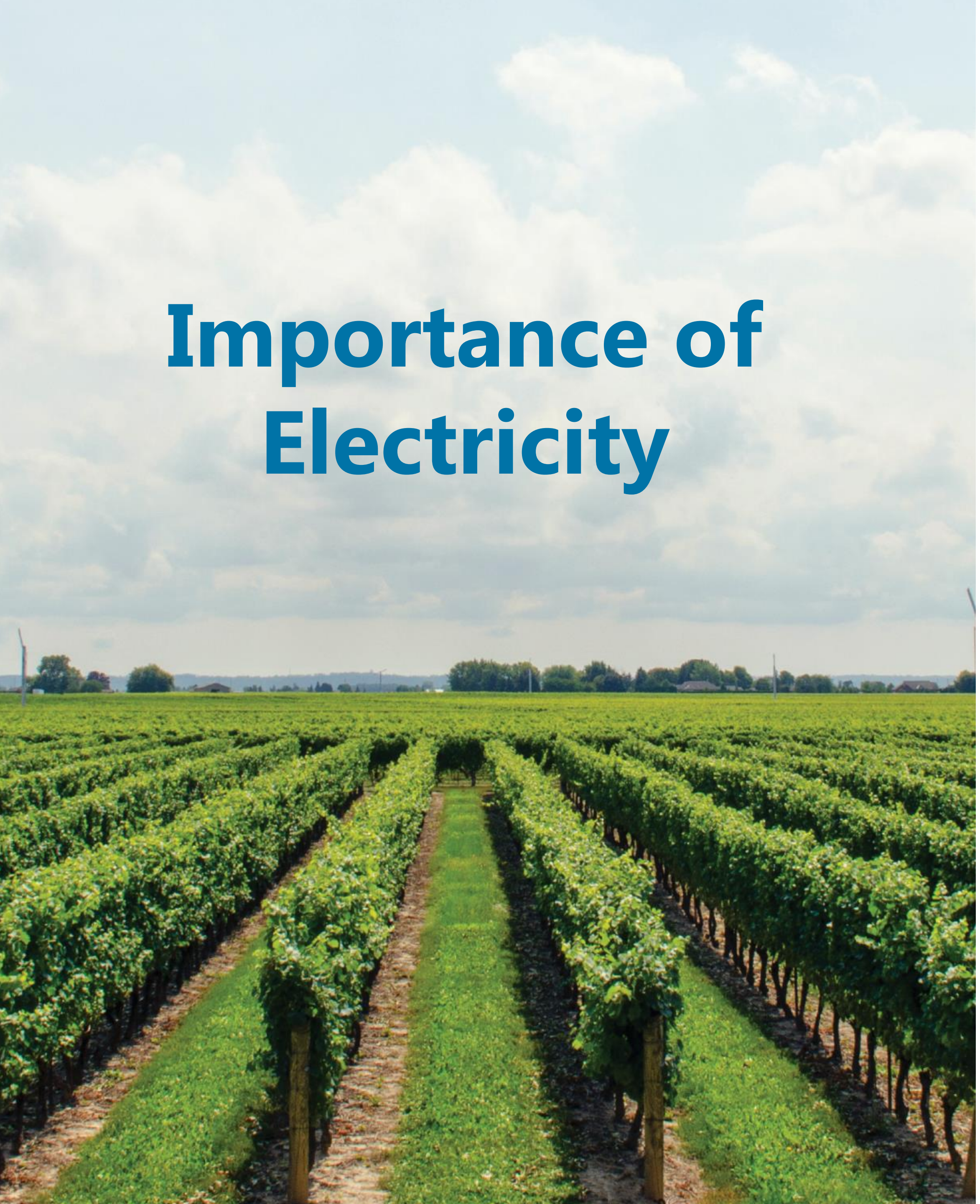
Agri Northern Cape

- Agri NC represent farmers of the Northern Cape.
- Big province small population
- Mega farmers to subsistence farmers
- Irrigation and livestock farmers
- Agriculture are price takers, we cannot ask for a 36% increase in our prices
- Commodity's(cashcrops) such as Corn, Wheat, Lucern, Soyabeans.
- High value crops like Pecan nuts, grapes, Raisins, dates and even Citrus

ORGANISED AGRICULTURE STRUCTURE



Importance of Electricity



Agricultural Electricity Use:

- Agri sector annual expenditure on electricity amounted to R10,4 bn in 2023/24
- 90% of Agri producers are dependent on Eskom as the primary or only source of electricity
- Irrigation, Cold storage, sorting-/ packinghouses, watering of animals, households in rural areas.
- Reliance on electricity throughout the food chain
- Extremely low price-elasticity, indicating a captured market in the short term.

Electricity Demand By Municipalities (Arrear Debt)

- If municipalities were to pay their outstanding debt (± R80 billion), a relatively small tariff increase would be required for 2026. (Estimated 5% increase).

- The Free State and Gauteng are combined responsible for **more than 50% of debt owed to Eskom**. Within these provinces, the two largest municipalities are responsible for about 60% of the total Eskom debt of the province.

- No magic wand or “soft” option to deal with this matter amicable

- Rising price sometime equals rising debts

Negotiated Price Agreements (NPAs)

- For 2026, **further 10 NPAs were included**, resulting in almost **6 percentage points** of the requested tariff increase of 36,15% being attributable to this addition of NPAs.

- Given a backlog in tariff adjustment for 2025, **10 percentage points** attributable to NPAs are included in the current application according to Eskom.

- Data released by the International Energy Agency (IEA) indicate that Eskom's prices for industrial and domestic customers are **amongst the lowest** in the sample.

- If Eskom's **tariffs are competitive** on what basis is NPAs negotiated and agreed to?

- On face value, NPAs seem to place an **unreasonable burden** on electricity prices

Commentary on Eskom's Application:

Eskom's revenue application translates into increases of:

- **FY2026 – 36,15% 3,48 to 4,74**
- FY2027 – 11,81% 4,74 to 5,30
- FY2028 – 9,10% 5,30 to 5,78
- **Increase for MYPD6 = 66,15% in 3 years !!!**

Derived from increased:

- Return on Assets = R27 billion (29%)
- Primary energy = R35 billion (37%)
- Operating costs = R32 billion (35%).

Plus:

- Environmental Levy = R6,5 bn
- Carbon tax = R5,5 bn

Primary Energy costs

- Primary Energy Costs - **Largest contributor** to requested revenue increase.
- Coal remains the **dominant primary energy cost** - almost 70% of total primary energy cost

- Coal **prices** and **availability** are key in determining the costs of generation → Detailed **audits** of coal supply chain & contracts
- Approximately 64% of the SA coal market is dominated by **5 players**. → Contract oversight to avoid anti-competitive pricing practices

- Coal **procurement challenges** include:
  - Eskom supplier base limited.
  - Mines targeting export markets.
  - No new Greenfield investments in mining.
  - Middling coal exported to India and China.

Temporary Export duties

Operating Costs

Workforce cost

- Specific benchmarking is required to determine if workforce cost is efficient.
- In 2005 Eskom generates 7,4 Gwh/employee, in 2021 only 4,5 Gwh/employee.
- Eskom indicate that:
  - Salaries at lower level of business are above market median;
  - Managerial level are aligned with market
  - The workforce of Eskom has increased although there was a slight decrease in 2024.

Maintenance Cost

NERSA.

- Eskom is in a peculiar position:
  - Over half of power stations older than 40y
  - Those supposed to be decommissioned are brought back into operation
  - No new power stations planned
  - Newest powerstations overran original buildingcosts Medupi, Kusile

- Existing capacity needs to be run harder -> greater need for

Commentary on Eskom's Application:

- Reductions in the major cost drivers necessary to reduce requested income to more moderate levels.
- Other aspects like municipal debt, NPAs and corruption should also be addressed.
- AgriNC acknowledge that tariff increases should at least be sufficient to transition Eskom towards a more cost-reflective electricity tariff (prudently and efficiently incurred).
- Unfortunately, there currently prevails scepticism as to whether prudence and efficiency are adhered to.
- A critical factor in this regard is the prudency of contracts. The MYPD methodology requires the Energy Regulator to review the efficiency of all contracts, before the conclusion of the contracts, to ensure prudency. We wonder if this is consistently done?

Treatment of Regulatory Asset Base

- Depreciated replacement cost assets constitute the bulk of the RAB and will decrease substantially over the particular period.

- Value of assets was determined in **March 2020**

- In 2024, more than R500 billion was added to the opening balance as a valuation adjustment doubling the value of RAB

- NERSA should probably **revisit these figures** with respect to:

  - Seriously inflated new generating facilities
    - *Replacement costs could be much lower.*

  - At least some of the existing infrastructure (plants) is **unlikely to be replaced**, implying that historical costs might be a better basis for valuation.

Sales Forecasting

- According to Eskom, sales since 2006 have declined by an estimated average of 0,5% per year.
- Declines of 1,8% and 1,3% are expected for 2026 and 2027.
- Under these circumstances, one could at least expect that **variable costs** should decrease accordingly.
- If a 36,15% tariff increase materialise, **a response of less demand could** be seen regardless of the relative price inelasticity of electricity demand.
- Alternative energy becomes more viable, more customers leaving the grid.
- Would be detrimental to **Eskom's revenue** (if existing inefficiencies cannot be overcome).

Imprudence/inefficiency of Eskom

- All of us are aware of The Zondo commission findings about Eskom. Review of contracts, better oversight to eradicate fraud, and corruption recovery are necessary

- Remediate actions are the **responsibility of NERSA** and the line departments within the government.

- In terms of the ERA:

*"the Regulator must **enforce performance** and **compliance** and take **appropriate steps** in the case of non-performance".*

Eskom reality in NC

- Transformer down on 30 December 2023 after it was being reported to Eskom 3 months before. Fault repaired 28 February 2024 315ha irrigation.
- Lot of similar faults, recently another customer 14 days without power.
- Although Eskom recruit more staff, service delivery in rural areas poor.
- Cost of electricity for smaller transformers very expensive because of fixed costs. If you divide total cost with units used it amounds to R52,78/kwh.
- Eskom asks consumers to use less electricity, but if you save your unit costs rise.

Conclusion

We take note of MYPD6 but are calling for consideration of the **best interest of**

1. Eskom;
2. South African Economy;
3. Public.

The requested increase will not serve the interest of the South African Economy or the public.

Given the current use of electricity in the agri sector, many producers will be in a worst situation, threatening their existence.

Recommendations

With a view to **reduce the drastic tariff increase** proposed by Eskom, our submission recommends the following…

Recommendations:

1. NERSA to revisit and consider recommendations of the **VGBE report**, commissioned by National Treasury, that was released on 1 March 2024.
2. More stringent measures to **collect outstanding debt** from municipalities.
3. Reducing the requested level for **return on assets (ROA)** to more manageable levels.
4. Temporary **forfeiture** of the **environmental levy** and **carbon tax** by the fiscus.
5. Revisiting **negotiated price agreements**, especially with respect to subsidy levels.
6. Greater involvement of NERSA with the **oversight of Eskom contracts**
7. Speeding up of processes to deal with **fraud and corruption** and to recover funds.
8. Disclosing more information on the **disconnect between NERSA and Eskom** especially with respect to operating costs.
9. Possibility of **export duties** on coal exports be investigated.
10. Consideration of the **economic impact** of an increase of 36,15% in electricity tariffs on the economy (i.e. increase in inflation and interest rates).

Thank you!