NUMSA'S OBJECTION AND REJECTION OF THE ESKOM PROPOSED ELECTRICITY TARIFFS

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NUMSA GENERAL SECRETARY

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INTRODUCTION

1. NUMSA has consistently rejected that a tariff of electricity can be pitch so expensive and so unaffordable despite its negative implication to worsen already terrible levels of deindustrialisation in the country. We were told we must not worry about it because it is going to be a pass-through cost to the very poor communities, destroying and devastating manufacturing and industrialisation.

2. As we speak, the crisis continues to deepen if one just reflects on the debt of municipalities owing Eskom. Ten years ago, it was R2.6bn, it has ballooned to R90bn and this structural crisis cannot be solved by Eskom and NERSA through tariff applications. It calls on the state to dump austerity measures, increase allocations to municipalities, it calls for a state that intervenes in the economy through an expansionary budget by building modern infrastructure to stimulate economic growth and a state that is prepared to beneficiate its minerals, to champion manufacturing and industrialisation at the back of a competitive electricity tariff.

3. If you think I'm here to play, at the time the IPP cost which everyone was so obsessed about, in 2018 alone Eskom was to pay not less than R21bn at the year-end. If this Eskom application of 36% in the first year, 12% for the 2nd year and 9% for the last year is to win the day for the IPP cost, which we stand here to object and reject, by the end of the 3rd year (2028) of the implementation of this application if it were to be approved, the cost of this to Eskom will be R110bn per annum which will be paid by the economy and the public. Which can be broken down as follows:
   a. 2024 – 2025 will be 77 billion rand
   b. 2025 – 2026 will be 67 billion rand
   c. 2026 – 2027 will be 78 billion rand
   d. 2027 – 2028 will be 110 billion rand

4. We continue to have a grip that the failure of DPE to implement the government decision to renegotiated Bid Window 1 and Bid Window 2 exorbitant expensive power purchase contracts which continues to haunt the country. For instance, in Bid Window 1 that was supposed to be renegotiated, Eskom is paying R17bn yet in Bid Window 4 for the same energy Eskom is applying to pay IPPS R5bn for the first year of this application. what is being allowed here is fraudulent activity where the public purse in a robbed broad day light in that in a period of 10 years sticking with the Bid Window 1 contract the country will be robbed R120bn.

5. At the back of NUMSA's campaign we carried in 2018 in rejecting these exorbitant tariff increases that were followed by worse rolling blackouts marshalled and liquidated by Andre De Ruiter who led a process of plunging the country into devastating ruthless rolling black outs. The cost was as follows:

   a. The cost of loadshedding to the economy was at approximately one trillion rand for the loss due to loadshedding in the 2022 calendar year.
   b. In the 2023 calendar year, we have experienced highest intensity of rolling blackouts, with stage 6 experienced for 46 days, the energy lost for 2023 far surpasses 2022.
   c. For the year 2023 up to 26 March 2024 the cost was no less thanR1.4 trillion lost to the economy.

6. The fundamental question is if our country and its people were subjected to this disgrace humiliating uncalled for self-imposed crisis because we wanted to please the world in particular Biden of the USA where the country championed an insulting selfish provocative position backed by the World Bank, IMF and European Bank where the country was marshalled and told we must not touch coal. When the very USA and the whole of the North, their base load is on coal, nuclear and gas.

7. That is why we are asking the fundamental question that having not recovered from the economic legacy and devastation of such a deliberate collapse of Eskom as has been the only institution for decades that carried the country receiving sterling awards for successfully delivery competitive and reliabile energy supply. If now the economy and the country is to be subjected to 57% tariff increase over this period of this application, assuming that NERSA was to grant what Eskom is demanding, how will that position the economy that is already bleeding which is retrenching workers, an economy which is stagnant and not creating jobs.

8. What is extremely frightening to NUMSA with this Eskom tariff application increase to NERSA when we look at the numbers is that in essence Eskom in the first year is demanding **R93bn** mainly composing of the following:

   a. R35bn increase in Primary Energy Cost **(from R93bn to R128bn)**

   b. R27bn increase on Return on Assets (our understanding of what inflates the Return on Assets is that when Eskom borrow money to build power stations they must repay capital with interest – **from R16bn in 2025 from to R43bn in 2026)**

   c. R32bn increase on Operating Costs **(**mainly maintenance and we also know that labour cost is also here from **R61bn to R93bn)**

PRIMARY ENERGY COST COAL COST

How is the PRIMARY ENERGY COST the main driver of the 36% tariff increase which we are here to engage.

1. Under Primary Energy Costs the coal cost is the largest cost item in the primary energy cost and has a direct and negative impact on profitability and liquidity.

2. The coal costs increased by a staggering R25bn from R38bn in FY2014-2015 to R63bn in FY2022-2023.

3. Coal costs are the largest cost drivers for primary energy costs and their yearly average price increase have been above inflation.

4. It must be noted that despite annual coal costs increasing by confounding billions, this happens while coal burn in volumes (Million tons) has decreased by approximately 12Million tons between 2014 - 2023.

5. The 2019 government decision to support Eskom with equity injection to service their debt required Eskom's urgent intervention on ten areas. One of them was bringing coal cost under control. In contrast, coal costs have ballooned from R48bn in 2019 to R63bn in 2023, that's an increase of R16bn from 2019 to 2023.

6. As if that’s not enough, Eskom still demands an increase of **R21bn** which equates to staggering 30% increase in a single year, 2025-2026. There is absolutely no justification for this steep increase in coal cost as the coal burn volumes in millions tonnes have shown a decrease over the past decade.

7. This then begs a question as to why the coal cost is increasing year on year when the volumes of coal has decreased?

8. Considering Eskom’s precarious financial position with the coal cost increasing at this rate, it seems there’s an institutional resistance to arrest coal cost that continues to spiral up year on year. One of the examples is the Duvha Seriti/South32 coal contract which was handsomely awarded 104% increase in the coal price per tonne which translates to a cost of R8.4bn over four years.

9. NUMSA understands that there has been more than 35 coal supply agreement that were negotiated or re-negotiated and were awarded lucrative contracts which will fall squarely on the shoulders of the working class and the poor.

10. NUMSA calls on NERSA to reject the exorbitant and unreasonable coal cost increase of R21bn which will see the coal cost increasing from **R72bn to R93bn**. NUMSA is of firm view that NERSA must allow only prudent and efficient cost which cannot exceed **R75bn,** which translates to an increase of R3bn for **2025-2026.**

11. Given that Eskom failed to execute the decision of 2019 where it was instructed to negotiate new coal contracts and renegotiated old coal contracts and make sure they are within an acceptable competitive levels and instead Eskom allowed these running costs, in fact judging by the continuous increase of the coal cost every year we can draw the conclusion that instead Eskom allowed these contracts to engage on expensive price per ton.

PRIMARY ENERGY COST – OPEN CYCLE GAS TURBINES

1. NUMSA calls on NERSA to reject Eskom OCGT fuel cost application to maintain the 6% load factor which will translate to R35bn **for this revenue application**. The other point that NUMSA wants to submit given how Eskom has been burning diesel, we think we must be on record and remind everybody including Eskom and NERSA that Eskom diesel turbine as an attitude of mind is to be operated during peak periods as well as emergency periods in terms of the NERSA multi-year price determination methodology.

2. That is why we do not expect NERSA to be liberal with Eskom on what appears to have been a culture that has been allowed to set in, especially from 2016 to 2018 where Eskom spent R668 million on diesel powered gas turbines from 2022 to 2024 the cost has increased to R51bn and we have no other reason to believe that the gas turbines are utilised strictly during peak times or emergencies. Here NUMSA says that it cannot be correct that gas turbines are operated from 4am to 11pm (a total of 23 hours).

3. Therefore, NUMSA calls on NERSA to strictly apply the multi-year price determination methodology clause 12.3 when assessing the prudent and efficient cost for OCGTs as it was the case in 2018-2019.

12.3 Gas Turbine Generation Costs

12.3.1 Gas turbines are provided to operate during peak periods as well as emergency situations. Subject to the conditions set out in this Methodology, gas turbine generation cost will be allowed as a full pass-through cost, but limited to volumes allowed by the Energy Regulator, except where such use was necessary to ensure security of supply due to events outside of management control.

12.3.2 Capacity constraints shall be mitigated by gas turbine generation as a last resort. For avoidance of doubt, gas turbine generation should be employed before implementation of load shedding activities.

4. Below is the breakdown of the diesel powered OGCT costs:

FY2022-2023	Volume (GWh)				Cost (R'm)			
Open Cycle Gas Turbines (GWh)	Decision	Actual	Variance	% Change	Decision	Actual	Variance	% Change
Eskom's OCGT	733	3 018	2 285	412%	R 3 753	R 21 400	R 17 647	570%
IPP's OCGT	526	865	339	164%	R 4 946	R 10 100	R 5 154	204%
					R 8 699	**R 31 500**	**R 22 801**	

5. Our challenge with how these diesel gas turbines have been over utilised is that NERSA would have allowed Eskom to spend strictly not less than R3,8 bn and Eskom unilaterally went and spent R21bn in FY 2022-2023, therefore over spending by R18bn. We are still waiting for NERSA to explain how they are going to allow Eskom to claw back that R18bn over expenditure which is glaring clear that it is outside of the law and to be going against their 2022 NERSA decision to only allow Eskom to spend R3,8bn.

6. It is our submission chairperson that it is about time that NERSA must break the camels back of allowing itself to be defied by Eskom in exorbitant expenditure of diesel a trend that kicked-in in 2022. For instance, when NERSA reacted to this trend it became lenient and allowed Eskom to spend R8bn and Eskom went ahead and defied this leniency from NERSA and spent a shocking R23bn in FY2023-2024 as shown in the below table:

FY2023-2024	Volume (GWh)				Cost (R'm)			
Open Cycle Gas Turbines (GWh)	**Decision**	**Actual**	**Variance**	**% Change**	**Decision**	**Actual**	**Variance**	**% Change**
Eskom's OCGT	1 266	3 626	2 360	286%	R 8 403	R 23 400	R 14 997	278%
IPP's OCGT	526	1 876	1 350	357%	R 4 946	R 17 000	R 12 054	344%
					R 13 349	**R 40 400**	**R 27 051**	

7. NUMSA submits that diesel generation is the most expensive form of generation in the fleet and lowest in the merit order and the use of OCGTs as baseload is imprudent as witnessed in the previous two financial years. While NERSA was lenient in applying the methodology strictly in light of the Eskom generation plant performing at crisis levels, however over the past year, the Eskom Generation Recovery Initiatives aimed at improving energy availability factor to levels above 70% has yielded some positive results.

8. As per the weekly status updates, Eskom has maintained that it's on track to attain 70% energy availability factor by March 2025. This will undoubtedly lessen the utilisation of diesel powered OCGTs as more energy will be generated by the Eskom fleet. Additionally, in the weekly system status updates, Eskom would proudly indicated that as the result of improved generation plant performance, the diesel cost have significantly reduced, therefore achieving saving of R15bn on diesel cost year to date.

9. It is NUMSA's submission therefore that we cannot agree with Eskom's justification of addressing the energy gap for delay in renewable energy IPPS. In our view this is a self-created justification for operating the OCGTs at 6% load factor in order to plug the energy gap emanating from delays in bringing renewable energy IPPs, in our view this is not supported by facts and for the following reasons:

a. The IRP2019 envisaged approximately 10 000MW of coal generation capacity from Arnot, Camden, Hendrina, Grootvlei and Kriel to be shutdown by 2030. In response, 20400MW of renewable energy was planned to plug the gap. Early this year, the cabinet took a decision to postpone the coal generation shutdown as encapsulated in IRP2019 to 2030. Therefore, the improved generation plant performance which is set to achieve 70% energy availability factor and demand that has been declining should see sharp drop in Eskom OCGTs utilisation.

b. Eskom's Kusile unit 5 achieved commercial operation in July 2024, contributing an additional 800 MW to the national grid. The final unit at Kusile, unit 6, is scheduled to achieve commercial operation by July 2025, adding a further 800 MW of stable generation capacity to the grid. Medupi unit 4, which has been out of service for an extended period due to a generator explosion, is expected to return to service by the end of March 2025.

c. The Medium Term system adequacy report 2025-2029 states that system is adequate and will remain adequate if the high EAF, higher than 65%, are maintained.

d. It is not like Eskom has run out of options if we must entertain the issue of the energy gap and our argument will be that the board of Eskom in 2018 took a decision to shut down 17 coal units from Komati, Grootvlei and Hendrina. The argument Eskom made was that they cannot afford to spend R3bn to maintain these units and in two years after that in the place of those units they operated diesel turbines which costed Eskom not less than R51bn.

e. These units that were shut down were operating electricity at 40 cents per unit and Eskom replaced them by burning diesel which is costing R7 per unit. If Eskom is honest about the energy gap they should reconnect those 17 disconnected units and do the necessary maintenance which will add 2200MW to the grid. In this way even if the justification for the energy gap can be accepted by NERSA but there are other forms of generating units that can plug this gap at a much lower cost.

f. Since 1st April 2022 to 31st March 2024, Eskom has spent whopping **R27bn** on DoE Peakers, exceeding the NERSA allowed cost by **R17bn**. We call on NERSA to only approve dispatching these peaker stations at 1% load factor because of the high cost of running these plants from diesel. At 1% load factor, these peaker stations should be available for peak periods and during emergencies, providing much needed security of supply. If NERSA heeds our call of 1% loads factor, this will translate to significant reduction DoE Peaker stations cost from R21bn in the application to R9bn including the capacity payment for all three years.

g. **The same reasons to reject the Eskom justification of the gap are the same reasons we are advancing in rejecting the IPP owned gas turbines. Imagine that in two years the total cost of diesel spent on Eskom gas turbines and IPP diesel was R78bn. Anywhere else in the world this money has been deployed to build power stations that can last 50 years to provide reliable energy supply to power communities and the economy with a competitive electricity tariff.**

10. Whilst Eskom is using renewables to justify the need to mitigate the gap and there is no body who can argue the need to move from fossil fuels to renewable energy but it is a concrete reality that confront the country that as things stand there is no prepared infrastructure to carry the new additional generation capacity from the renewable energy.

11. This is how we understand and accept the cabinet decision taken earlier this year to postpone the targeted closure of power stations to 2030 and an honest assessment of the global trend, for instance in the conference that just finished in Baku in Azerbaijan, the developing world has demonstrated that they are not prepared to fund just transition from fossil fuels to renewables in the interest of the developing world.

12. To be blunt they have reneged from the commitment they made in 2016 in the Paris Accord that they will pay for the transition. But not only that, it is a fact that most of these countries in the developed world who has pressurised us to move fast from coal and not to touch coal, their baseloads continues to stand on coal, gas and nuclear. As we speak the empire the USA, its new president fresh out of the box Donald Trump has vowed to build more coal power stations.

13. That is why as a NUMSA in our submission on the 2023 Draft IRP we made a clarion call that it is about time for the country to smell the coffee and be allowed as a sovereign country to decide on the energy mix that suit our economic needs and to power our communities. We call for an IRP that must be anchored on dispatchable sources of energy, which is coal, gas and nuclear. Given the challenges that confront us in the global geo-political chemistry. Including Trump who is threatening to impose global tariffs to the rest of the world including SA, we will be shooting ourselves in the foot if we were to rush to close our coal power stations. Our view is that 2030 needs to be reviewed and a new target must be set beyond 2030, if one looks at the critical strategic importance of realizing an energy reliability of supply of our country to drive manufacturing and industrialisation to create the most needed jobs to smash poverty, unemployment and inequalities.

14. Therefore, the issue for us is not to continue to plunge the country into exorbitant expensive electricity tariffs that will plunge the country into serious levels of deindustrialisation worsening the current crisis of jobloss blood bath. Therefore in the immediate and in the mid-term we see no other strategic importance other than to make sure that both the primary energy cost must be addressed and we must go back to basics in ensuring that Eskom continues to prioritise quality maintenance of power stations and in fact there is a need to continue to build more coal power stations given that coal continues to be a strategic resource which is in abundance in our country to power our economy.

Carbon Tax

1. Just like government has postponed the shutdown of power stations government must postpone and shift this carbon tax as we are not in a position to implement it in today's concrete economic realities. We do not know, but we have heard the Minister of Electricity a few times arguing that he is going to intervene in this Eskom unbearable unacceptable tariff electricity application he must including this carbon tax self-generated crisis in his intervention.

2. The question we want to ask is: whom are we trying to impress and satisfy given that we know this to be the agenda of the global North. The implications of rushing to impose this carbon tax are such that the working class and the poor are going to carry the burden of this carbon tax and its negative implication on the economy. Because if it is implemented as proposed it will definitely make the electricity tariff to be completely unaffordable and we know the spiral reaction to that will be job losses and it will be the very same communities who are facing electricity cut offs as we speak, who are victims of load reductions and they cannot afford to pay for electricity. Are they now expected to prioritise paying carbon tax? If one looks at the numbers it looks like we are all called on to advance the interest of a boogie man who is dictating to us how we must live our lives.

3. Therefore, NUMSA rejects that we are excepted to accept that in the first year the people and the economy are expected to pay R46bn for carbon tax over the three year period of this application from the 1st of April 2025 up until the 31st of March 2028.

CONCLUSION

Faced with this crisis of exorbitant electricity tariffs which NUMSA calls on NERSA to reject and not approve. What is not talked about which is going to worsen this electricity tariff is the breaking up of Eskom into three separate divisions and there is absolutely no economic rational that has been presented to advance such a decision let alone a business case. As things stand it appears to be a feel good decision of government as a shareholder.

Already for such an unscientific mission there a lawyers stationed at Eskom who have been milking Eskom. It is NUMSA's submission that in the interest of the public and the economy and workers of Eskom that this wasteful expenditure of breaking up Eskom into three separate divisions should not be allowed to continue as it will worsen the Eskom electricity tariff.

If truth be told we are in this crisis as a result of governments obsession to implement expensive renewable IPPS, carbon tax, environmental levy and what NUMSA rejects is t implement all of these at all costs and do not see as strategic importance that if they must be implemented they must be implemented at a pace and a cost can afford. Without these costs being mainstreamed to satisfy the North which is not prioritising them as we are prioritising them we would in the 2nd year instead of the 12% tariff increase which covers everything Eskom would have applied for a 6% tariff increase and in the 3rd year instead of 9% tariff increase Eskom would have applied for a 6% tariff increase as well.

It is against such a backdrop that NUMSA is making a clarion call that NERSA must intervene by not granting and allowing Eskom cost increase of **R93bn, R53bn and R55bn** that will push for this exorbitant unaffordable electricity tariff increase to reach a point of not being affordable for our communities and our country’s economy.

Thank you!

Presentation by NUMSA General Secretary, Irvin Jim