



NERSA MYPD 6 hearings – 3 December 2024

SA must have a sustainable power sector



- There are significant problems at Eskom -
 - Extended bouts of load shedding for several years,
 - EAF was around 50%,
 - Medupi being 6 years late and 2 times over-budget,
 - ...
- SAIEE sees itself as a constructive contributor to tackling this complex multifaceted electricity challenge.

***BUT we are where we are
South Africa must have a sustainable power sector***

SA must have a sustainable power sector



- Two paths of action:

1. **Internal** - Eskom to look internally and resolve its inefficiencies.
e.g. implement vgabe recommendations
2. **External** - Appropriate electricity tariffs and tariff structures should be approved by NERSA.

***BUT we are where we are
South Africa must have a sustainable power sector***

Key comments



1. Power sector must be sustainable and electricity tariffs must be **'cost reflective'**.
2. Unfair to try claim that 'cost reflective' tariffs are **anti-poor**.
3. Transition to 'cost reflective' tariffs should **not be phased-in** over time.
It is preferable to implement the change as soon as possible.
4. **Disaggregation** of future Gx, Tx and Dx MYPD applications

1. Cost reflective tariffs

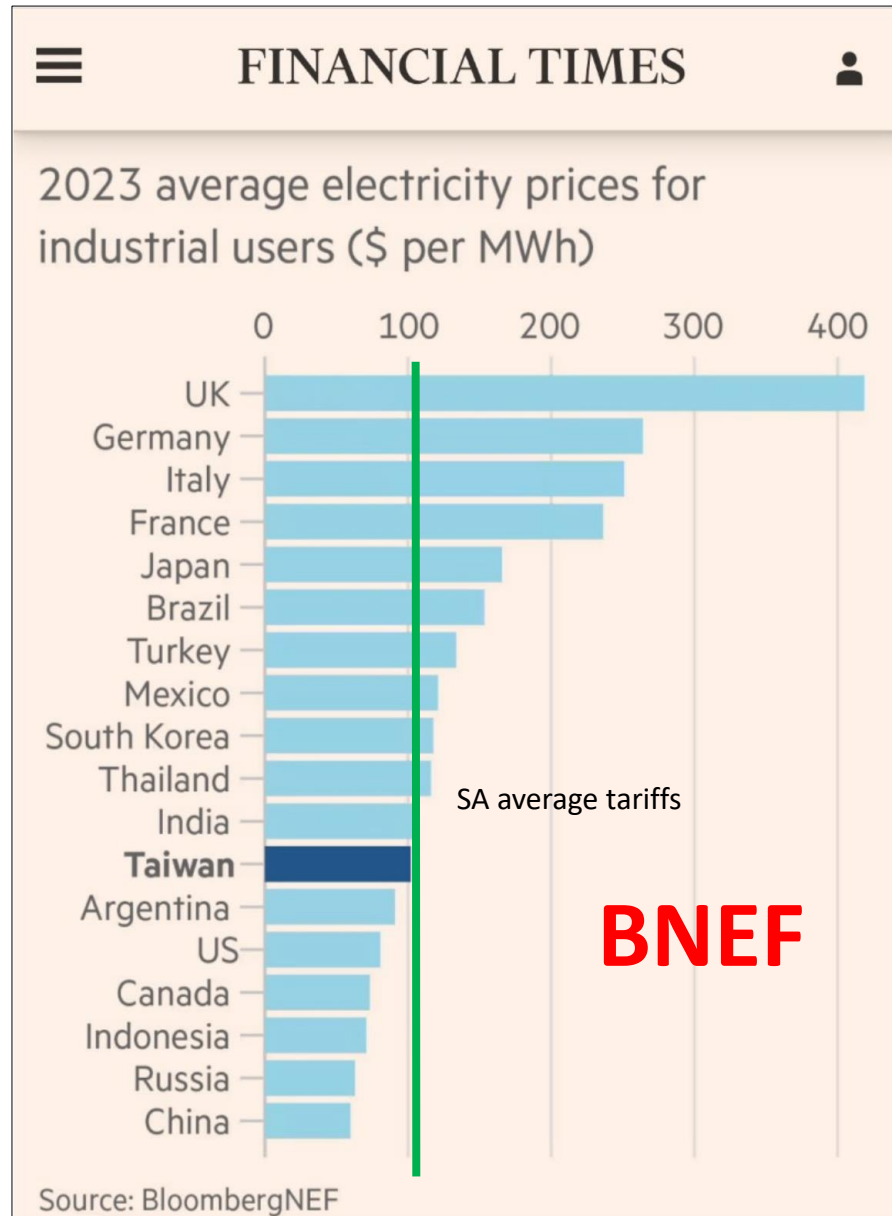


- International benchmarking shows that SA electricity prices in line with other countries (e.g. BNEF, IEA and www.GlobalPetrolPrices.com)
- Electricity prices have increased significantly over the last decade (higher than CPI) however, SA's electricity tariffs started from an unsustainably low base.
In the 1990s SA had excess generating capacity sold some electricity at its **marginal cost** (variable cost only).
This is not sustainable electricity tariffs need to be the **full cost** of electricity (variable cost + fixed cost + capital + return on capital).
- Unsurprisingly, many electricity users are resisting higher electricity prices.

Critical to have a sustainable electricity sector

1. 'Cost reflective' tariffs

How does SA's electricity tariffs compare to other countries ?

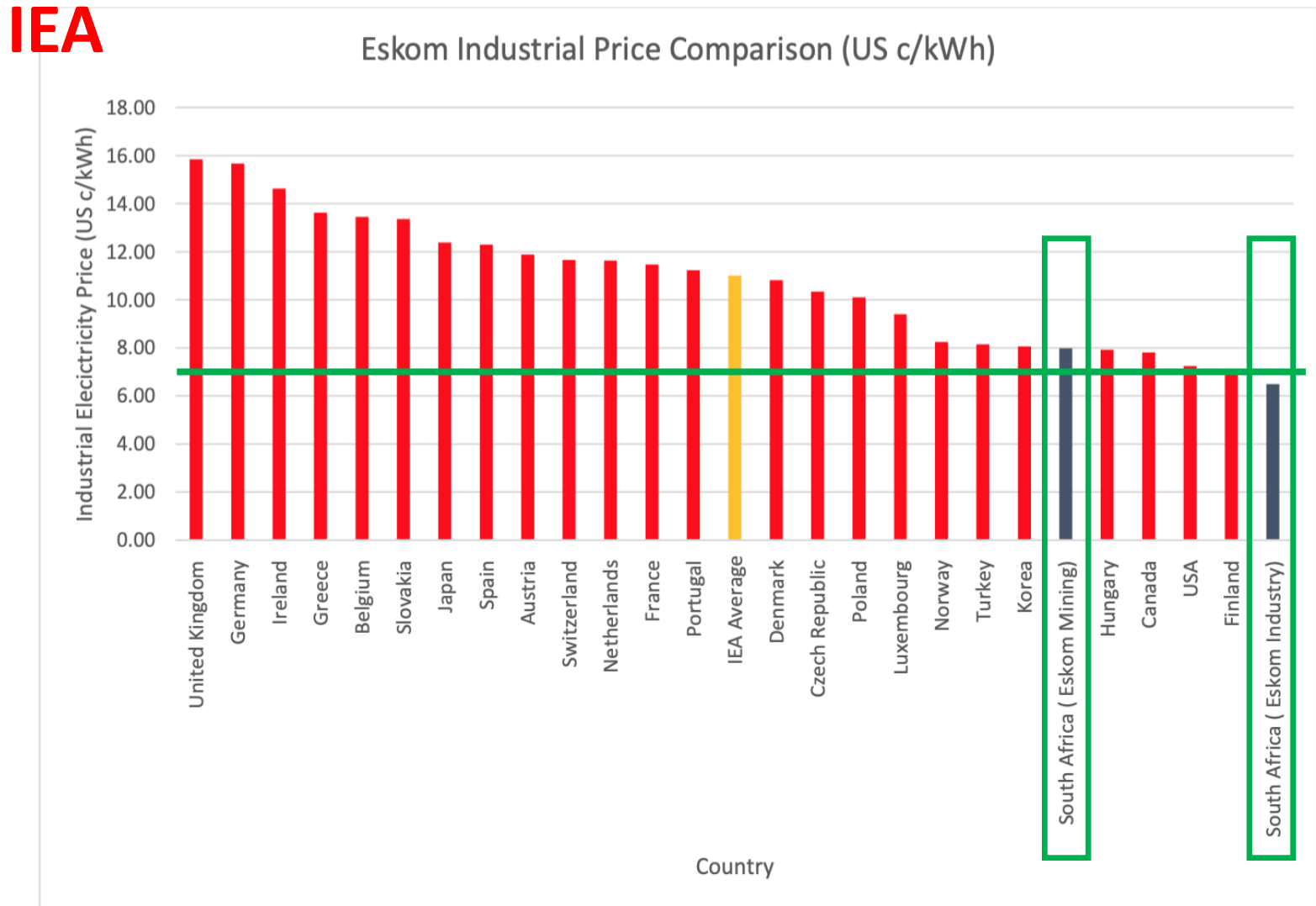


1. 'Cost reflective' tariffs

How does SA's electricity tariffs compare to other countries ?



FIGURE 32: ESKOM AVERAGE INDUSTRIAL AND MINING PRICES VS IEA INDUSTRIAL PRICES (MARCH 2023)

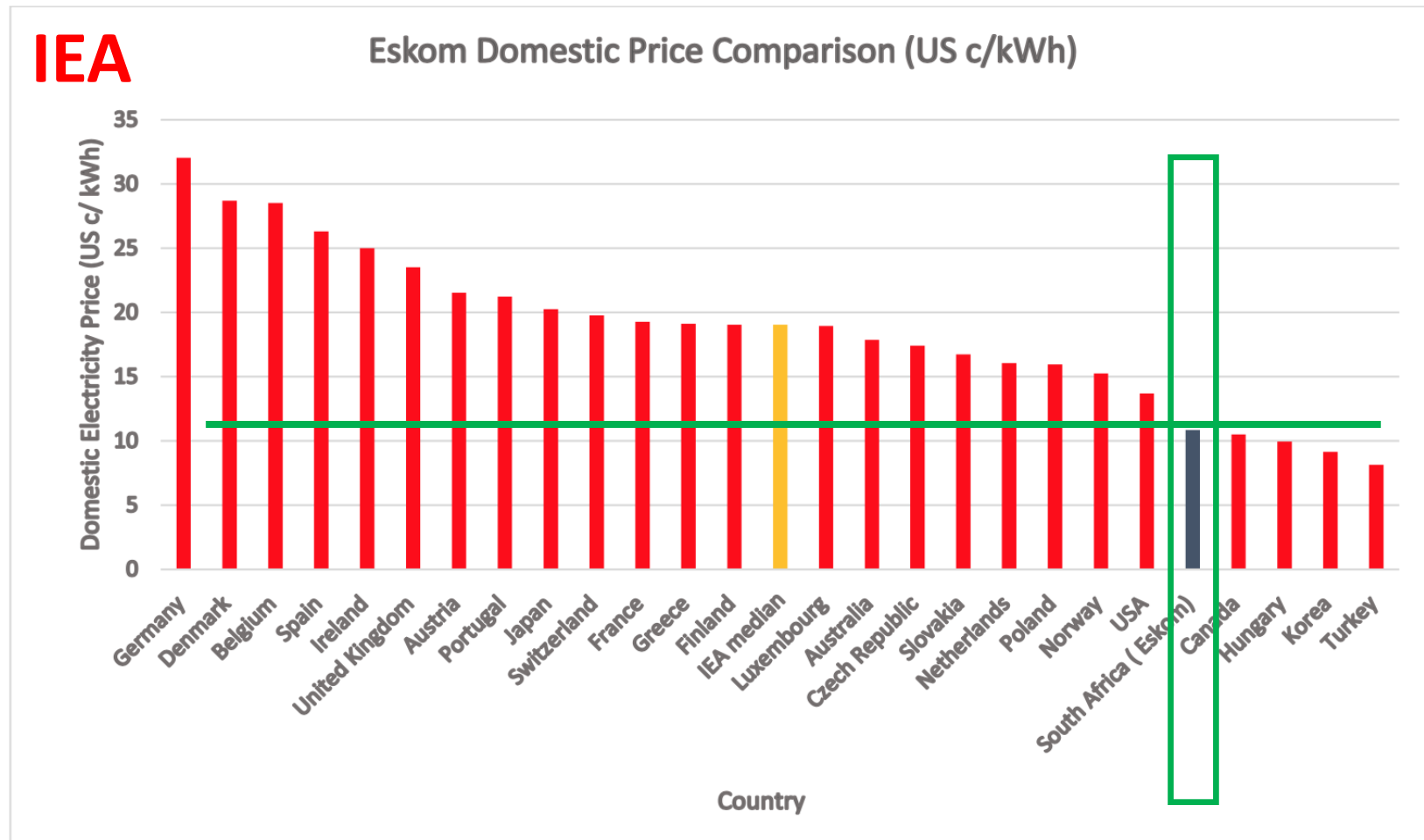


1. 'Cost reflective' tariffs

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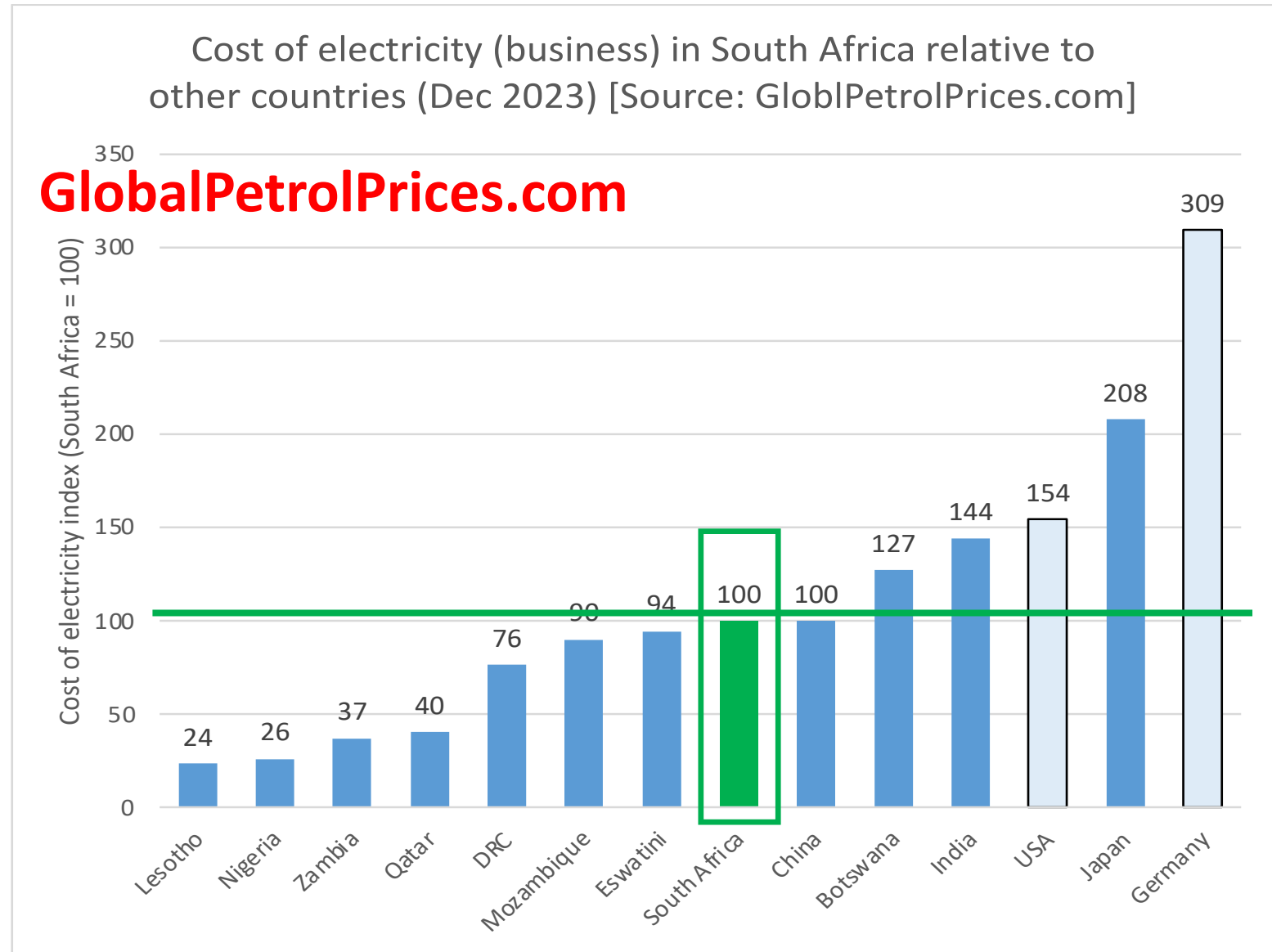


FIGURE 33: ESKOM AVERAGE DOMESTIC PRICES VS IEA DOMESTIC PRICES (MARCH 2023)



1. 'Cost reflective' tariffs

How does SA's electricity tariffs compare to other countries ?

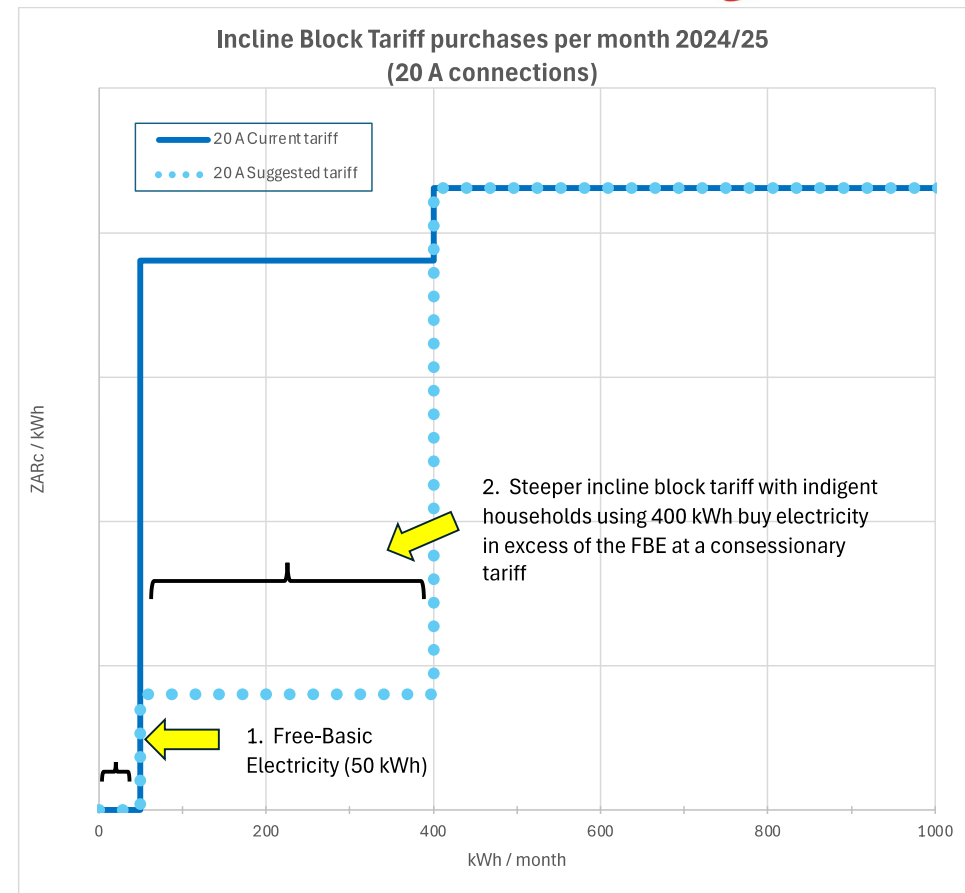


2. Are 'cost reflective' tariffs anti-poor ?

Must not obfuscate higher average tariffs with affordability by the indigent



- SA has the moral and ethical responsibility to assist the indigent.
- Inappropriate to mix 2 separate issues:
 1. 'Cost reflective' tariffs are required to make the electricity sector sustainable, and
 2. Making electricity affordable by the indigent.
- To be addressed in the Eskom's RTP Electricity can be made affordable to the indigent with a stepper IBT (Inclined Block Tariffs) and the consistent application of FBE (Free Basic Electricity).



Unfair to claim that tariff increases are anti-poor

3. Should 'cost reflective' tariff be phased-in?



- SA has had load-shedding for several years, which forced users to reduce their electricity consumption.
- It is inappropriate to claim that industry needs more time to transition to 'cost reflective' tariffs. Are users not trying to buy time and delay increased electricity tariffs?
- Until such time as Eskom has 'cost reflective' tariffs it will continue to make losses and be insolvent.
- There is 'no free-lunch' – if Eskom is not granted a 'cost reflective' tariffs, it will require further financial assistance from National Treasury funded by the taxpayer. South Africa has a choice – do we want to pay for this through 'cost reflective' tariffs or through higher taxes?
- Which one is better for South Africa?
- We believe higher tariffs would be the more appropriate mechanism¹.

'Cost reflective' tariffs are needed as soon as possible

¹ Higher electricity prices will reduce their profitability and unfortunately some business will not be able to afford higher electricity prices. Unfortunately, this would mean some businesses will have to close-down. A sustainable power sector is critical for South Africa.

4. Disaggregation of MYPD tariff applications: Generation, Transmission and Distribution



- Eskom and the NTCSA submitted a single MYPD 6 application.
- This is not appropriate.

We suggest that NERSA should insist on totally separate applications for future MYPDs.