SOUTHERN AFRICAN FAITH COMMUNITIES' ENVIRONMENT INSTITUTE

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1 November 2024

RE: MYPD 6 Revenue Application for FY2026 – FY2028: SAFCEI's Comment on Eskom's Submission to NERSA

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1. Introduction

SAFCEI (Southern African Faith Communities' Environment Institute) is a multi-faith organisation committed to supporting faith communities in Southern Africa. Energy-justice and the negative health and socio-economic impacts of energy poverty along with the environmentally sustainable use of resources are some of SAFCEI's key concerns.

NERSA is to be thanked for providing the opportunity for comments on the MYPD6 process. That said, the MYPD process presents a narrow and now outdated response to the energy crisis in South Africa. This outdated methodology makes it difficult to challenge Eskom's unaffordable tariffs in any meaningful or legal way, thereby undermining genuine public participation.

SAFCEI asks that NERSA considers the wider comments and proposals that are made in this submission. Essentially, SAFCEI is calling for a review of electricity pricing methodologies and the electricity supply system with a strong focus on how to ensure energy security for the large numbers of households that suffer from energy poverty. These are the citizens least able to switch to safe private or community-based energy alternatives. (*Despite South Africa's high electrification rate, energy poverty at the household level is widespread, with an estimated 43% of South African households not able to meet their basic energy needs.* (Mohlakoana & Wolpe 2021) (1)

SAFCEI'S comment on the MYPD6 is based on highlighting the policy guidelines and principles that should inform tariff setting. **The Electricity Regulation Act mandates NERSA's responsibilities and requires the achievement of several objectives including: safeguarding the needs of customers; and facilitating universal access to electricity.** Globally, access to electricity is increasingly regarded as a basic human right and an important contributor to socio-economic development. Sadly, in too many cases policies for affordability are not being adequately supported by NERSA and Eskom or they are being overshadowed by conflicting policies, such as Eskom's cost of supply recovery (CoS) policy.

SAFCEI does not have the accounting and engineering skills to undertake a detailed assessment of Eskom's CoS figures. This requirement is in itself a challenge that undermines the ability of the public to comment on the details of Eskom's excessive tariff demands. With due respect for the complexity of NERSA's task in evaluating Eskom's CoS, years of mismanagement by Eskom as well as corruption have resulted in inefficient and inflated CoS. Shouldn't this have been identified by NERSA years ago? Shouldn't a reviewed methodology have been implemented by now?

SAFCEI does make a number of recommendations in the CONCLUSION which we believe are required to help address the Eskom affordability crisis. These recommendations were identified while working with a range of NGOs and NPOs concerned about South Africa's energy future and the increasing number of citizens who can no longer afford Eskom.

2. Executive Summary

SAFCEI objects strongly to Eskom's proposed 36.15 % tariff hike. Given the well above CPI increases for over a decade, we believe that any increase above 10% is unreasonable.

TABLE demonstrating some of the costs that should not be loaded onto the general tariff.

Percentage Removed	Category	Comment	Running Total
Eskom's proposed tariff increase for 2025/26			36.7%
-4%	RCA FY22026	R16.8bn claw back through a process that supports inaccurate sales and costs	32.7%

		forecasting and supports inefficiency. This inefficiency should not be added to the tariff.	
?	DEBT repayments	Consider giving Eskom the billions that goes to LAs for the FBE? This would compensate for some of the legitimate revenue that Eskom should receive for the FBE but doesn't receive from LAs.	
-10% According to pg 16 of [1-MYPD6-Summary_NERSA-Submission_20240807.pdf]	NPA	A discounted tariff offered to some Energy Intensive Users. If government can justify this discount on broader economic grounds, it should be subsidized by the Dept of Trade and Industry etc. Note that the EIUG energy demand has a significant carbon emissions footprint. The NPA subsidy should not be part of the general tariff.	22.7%
-10% OR - 7.9%	RAB Return on Assets? Is this the same as RAB	Many have stated that the RAB is inflated because of huge cost overruns (Medupi & Kusile). This inefficiency should not be added to the tariff.	12.7%? OR 14.8%
-1.6%	CARBON TAX as of 1 January 2026	This should be added to the tariffs of the Energy Intensive Users as they are using energy dense FF to sustain their production. This should not be part of the general tariff.	12%

2.1. What is the role of Eskom and how does this link with the National Development Plan?

The National Development Plan 2030's tagline is *Our Future. Make it Work*. This begs the question of the disconnection between Eskom's increasingly unaffordable electricity prices, and the well-being of low income communities. Expensive electricity is exclusive electricity and is in direct contradiction with our national goals to remove discrimination and barriers to opportunity.

Although it is a quasi-state owned utility, Eskom takes no consideration of the impact of its tariff increases on low income communities. The Public Affairs Research Institute (PARI) warns that, "*The current operation of the energy distribution system is actively and significantly contributing to increased poverty and inequality*". (2) This lack of responsibility to provide an affordable tariff increase for low income households is directly evident in Eskom's proposed 36.15% increase for its HOMELITE A20 customers many of whom would be `so-called indigent' households. (3) Eskom is also not considering the affordability of its services to Local Authorities (LAs) which are now also trapped in a spiralling debt crisis. This has direct implications for the ability of LAs to provide essential services to their communities.

While Eskom's revenue for the first quarter rose by 15% compared to the same period last year, its sales volumes were 1 TWh lower. This means its increased revenue came largely from higher electricity tariffs charged to consumers. (4) People who can't afford their own generation systems also can't carry Eskom.

While the majority of South Africans suffer from varying levels of energy poverty, Eskom, with NERSA's approval, grants members of the Energy Intensive User Group *'non-standard' negotiated tariff agreements (NPAs).* These tariffs appear to be funded by higher tariffs from the rest of Eskom's customers. **This directly contradicts the ERA's tariff principles as set out in Section 15, namely that tariffs must avoid undue discrimination between customer categories.** According to GroundWork: "*an additional 10 negotiated pricing agreements (NPAs) were included resulting in a 5.7% price increase for standard tariff customers in FY2026".(5)* Businesslive.co.za reports on 10 October 2024 that: *"Towards the end of last year NERSA approved six-year "negotiated pricing agreements" (NPAs) for several smelting operations owned by the Glencore-Merafe joint venture and Samancor Chrome. The tariff details are not publicly available."* (6) Once again **SAFCEI asks the question: What is the role of Eskom when it provides cheaper electricity to big business at what appears to be a cost to domestic customers?**

2.2. Eskom is simply unaffordable for a significant number of customers

Eskom's demand for a 36.15% increase from 1 April 2025 followed by 11.81% and 9.10% in the following years to recoup its costs sends a clear message that its energy services are unaffordable. For LA the tariff hike is in the order of 43%. LAs simply can't absorb this increase nor pass it onto their customers. **Eskom tariff demands reduce the revenue that LAs need for other essential services, many of which are a constitutional right for citizens.**

An alternative funding model needs to be developed urgently to stop the debt burden on municipalities, households and businesses as well as to ensure the future of Eskom. Not excusing a level of mismanagement in many LAs and government departments, the scale of debt they owe Eskom is indicative of the unaffordability of Eskom electricity. "*Apart from the R82 billion municipal debt to Eskom, R18 billion is attributable to national and provincial departments not paying their municipal bills."* (7)

Eskom's own customers in Soweto have unpayable levels of debt.

CFO Calib Cassim said: "*the debt burden is growing by an average of nearly R2 billion a month and is expected to grow by R20 billion each financial year. If this continues, it will result in debt owed to Eskom reaching R100 billion by March 2025 and R130 billion by March 2026. By the 2028 financial year, Eskom will be owed R200 billion by municipalities.* ***"If the growth of municipal debt is not addressed, the R254 billion debt relief from the government will effectively be null and void****."*

The proposed tariff increases place a huge burden on LA, many of which already have Eskom debt that they can't pay. *The Auditor-General's reports on the state of local government are alarming. A decade ago, 10% of municipalities were in financial distress. Today it is 67%. If we continue as is, more municipalities will stop paying staff and providing services. More companies will close and retrench. Eskom will continue to bleed billions. The state will be forced to cut funding for schools, hospitals, police stations, home affairs, universities among other critical frontline services; to bail out Eskom and countless municipalities. Solly Phetoe, General Secretary of Cosatu. (8)*

Regular bail outs are no longer sustainable. Eskom's financial drain on the national fiscus is robbing other critical social service departments of funds. Once again, it is the economically vulnerable who suffer most with budget cuts. *Bailouts of South Africa's beleaguered state-owned power utility are estimated to cost taxpayers about R500 billion by the 2025/26 fiscal year…. "These bailouts have diverted crucial taxpayer funds that could have been used to address pressing social issues," cautioned Mmusi Maimane, Chairperson of the Standing Committee on Appropriations. "Each bailout represents a failure in financial management that ultimately hurts all South Africans." (9)*

The proposed tariff increase follows years of unsustainable electricity tariff hikes. Eskom has priced itself out of the energy market and it no longer holds public legitimacy. Increased tariffs are likely to speed up Eskom's death spiral as increasing numbers of customers turn to varying levels of own generation; others reduce purchases because they simply can't pay and others opt to steal electricity. Many in the latter group probably don't even consider electricity theft a 'real' crime as they were promised a better future with job opportunities, housing, health care and good education. Instead we have had tariff escalations in excess of 653% between 2007 and 2022,(10). Some estimates are higher. Load shedding is an additional problem, which has damaged the economy and reduced job opportunities. Citizens have started rioting against the proposed increases. **When will Eskom, NERSA and other government agencies responsible for electricity provision finally listen?**

2.3. The MYPD methodology is no longer fit for purpose

For years SAFCEI has argued that the MYPD model itself and Eskom's CoS calculations are no longer fit for determining future tariffs. To date SAFCEI's calls for a review of the electricity pricing system have fallen on deaf ears.

The Revenue Clearing Account (RCA) is adding an R16.8bn revenue clawback for FY2026 and R14bn to the proposed MYPD6. This is particularly painful to customers as it rewards Eskom for poor performance. The unethical RCA provision needs to be removed as a matter of urgency so that poor Eskom forecasting and performance is no longer subsidized by customers. Eskom's sales have been decreasing in part due to the state of the economy but also significantly due to Eskom's unreliable generation and its tariff increases. Eskom is no longer competitive. For Eskom to say that: "*the sales volume is an outcome of the economy of the country"* is a denial of the damage that its expensive unreliable generation has caused. Equally, Eskom's submission that: "*an improvement in the economic conditions in the country is a requirement for a likely improvement in the level of Eskom sales*" once again ignores the impact of its excessive CoS. An improvement in the economy will likely provide more customers with the funds to install own generation so that they can manage their own energy costs into the future. Page 441-MYPD6-Summary_NERSA-Submission_20240807.pdf

The Regulatory Asset Base (RAB) is another painful aspect of the MYPD model and needs to be challenged and reduced. The RAB accounts for an unacceptable proportion of the proposed tariff. SAFCEI understands that the RAB is inflated by the high costs associated with mismanagement and corruption at Eskom and specifically around the build programme of Medupi and Kusile. In the context of the transition to alternative energy sources, many of which are likely to be built by IPPs, the RAB needs to focus on the Transmission grid. Both the RCA and the RAB impose costs on customers that are the result of inefficiency and imprudent management. These should not be allowed as they are in direct contradiction with NERSA's mandate to approve CoS based on efficiency as well as to ensure affordable tariffs.

The issuing of NPAs for industry also needs to be challenged. It appears, as identified in 2.1 above, that some of these NPAs, with NERSA's approval, need to be funded by higher tariffs for the rest of Eskom's customers. This contradicts the policies of affordability as well as discrimination between classes of customers.

2.4. The Health and Environmental Costs of Eskom's generation dominated by dirty coal

Eskom's repeated delays in either closing down its old dirty coal power stations and its failure, to date, to replace the Kusile gas flue ducts designed to absorb polluted emissions places a huge health burden on the surrounding communities. While NERSA may argue that this is unrelated to the tariff increases, the health burden translates into direct medical and disability costs for the people impacted by Eskom's emissions.

3. Recommendations

Given the concerns raised above, SAFCEI believes that Eskom, as an essentially state owned electricity utility, which should be providing reliable and affordable energy, is severely compromised. As more electricity customers deflect to varying levels of own generation, so the number of stranded customers who can't afford Eskom and LA grid electricity will grow. The impact on energy poor communities will be exacerbated by the loss of revenue from customers whose higher electricity tariffs provided funds to cross- subsidize Low Income Households (LIHHs).

The non-payment of service bills, including electricity, has reached epidemic proportions. Non-payment may be partly due to failed expectations of what the state should provide. However, the reality is that an increasing number of electricity customers simply can't pay. Non-payment is a red flag requiring urgent attention. It is not reasonable nor sustainable that those who do pay, also pay for those who won't pay.

3.1. Affordable energy needs to be recognised as a basic human right in the Constitution. This recognition is required to ensure that energy poor communities are protected against excessive electricity tariffs and are not required to pay tariffs based on Eskom's CoS policy.

3.2. The energy transition and shift in the focus to CoS and to unbundle tariffs to reflect the different energy services requires an urgent revision of Electricity Pricing Policies.

3.3. There is an urgent need for the relevant governmental agencies to re-evaluate the existing pro-poor energy policies and strategies. SAFCEI has previously called for NERSA to set up an intergovernmental panel to address energy poverty and an effective energy subsidy. How long do people have to suffer energy poverty before there is effective action?

Strategies should include efficient implementation of the FBE and FBAE models as well as subsidised tariffs in the form of cheaper electricity in the first block of the IBT model. PARI's report *Broken Promises* (2) clearly outlines the failures of the FBE programme showing that energy poor households and communities are not getting the benefit of the FBE policy.

3.4. A year ago PARI put forward a recommendation that the Equity Share of revenue provided to LAs for FBE should be given directly to Eskom as the distributor to most of the so-called 'indigent' households. This amounts to Billions of rands. The FBE funds are not ring fenced and as a result most of the funds do not reach the intended LIHHs, nor does Eskom receive the FBE funding via dysfunctional or indebted LAs. PARI's proposal is on hold while National Treasury reviews the Local Government Framework**. Once again, while people suffer, time-consuming legislative reviews delay effective service delivery.**

3.5. Where does the revenue generated from the VAT on electricity sales go? These funds should be ring fenced and used to increase the FBE allocation, which should be paid to Eskom.

3.6. It is clear that the many fiscal demands on the state and the level of debt at Eskom and many LAs, as well as poor administration, is compromising service delivery. In this context a realistic outcome may be for all the government agencies responsible for electricity provision to work to co-create an enabling environment for energy service delivery that involves the communities in choices about their specific needs. While subsidies and infrastructure support from government are required, a shift is needed from complete dependence on government to locally appropriate co-operative strategies within communities and local businesses that promote affordable reliable energy access. Government with LAs need to start pilot programmes to test the most beneficial solutions.

3.7. Affordable electricity requires the involvement of a number of state actors in consultation with provincial and local administrations AND the People of South Africa. Political agendas and vested interests have delayed a critical review of the role of Eskom in ensuring that South Africa's Just Energy Transition doesn't leave out energy poor citizens.

3.8. Along with a review of Eskom's role, the principle of Eskom's CoS reflective tariff model needs to be reviewed. An independent study is required to determine what an optimal CoS should be for different consumer groups. This is something that NERSA is supposed to do in its review of Eskom's MYPD. However, Eskom claims that NERSA's assessment does not recognise its efficient costs. Meanwhile the public does not accept that NERSA's approval of each of Eskom's high tariff increases is a truly independent assessment of the efficient CoS. The aim of an independent review would be to remove the costs of inefficiency from the costing model. Tariffs could then shift to a fair assessment of what it costs to provide an electrical service. This transparency is essential in getting customers to accept the principle of paying for electricity services, even if not all can pay the full optimal CoS. Similar studies need to be undertaken for LAs as well. SAFCEI is aware that NERSA lost a court case this year because it benchmarked tariffs for LAs. However, given that CoS appear to be inflated by inefficiency resulting from mismanagement and/or corruption, some benchmark measure for tariffs is needed to determine an optimal CoS. It is likely that some LAs already have reliable CoS studies, however, Eskom's radical increases undermine the efforts of administratively functional LAs to provide affordable electricity. This situation is indicative of the need for a full system approach to affordable electricity.

In short, for a genuine JET, a full review is required of the legislation that informs the Electricity Pricing Policy as well as the development of new methodologies to replace the MYPD model and to determine a tariff system that is fair and affordable.

3.9. If an independent review of what electricity should cost finds that Eskom's tariffs are a reasonable benchmark, then it is clear that ordinary people can't afford Eskom. In this case the relevant government actors, including **NERSA, National Treasury, DoE&E, COGTA and SALGA need to look at the role of the state in electricity provision and how to provision, especially energy poor communities, with affordable reliable energy.** This may include a mix of community grids, alternative technologies such as solar water heating and rocket cookstoves, improved building insulation etc. These alternatives to mainstream grid tied electricity should be part of the range of opportunities in a JET.

3.10. Finally, there is a growing disconnect between Eskom and electricity users at many levels. The stranding of low income communities and financially challenged municipalities that do not enjoy a strong rates and service income and can't afford to pay electricity prices is well known. However, the relationship of the EIUG with Eskom is less understood. To keep them as customers, they appear to receive preferential NPA tariffs which are not made public. It appears that they are subsidized by other Eskom customers. This needs to be urgently reviewed as it does not appear to be sustainable. As a government subsidy to big business, neither does it appear to be ethical. Once again, the delays by various government departments responsible to change legislation to enable a review of the revenue methodology as well as the tariff structures is creating more problems. Is it perhaps time to look at the role that other government agents should play in energy provision. National Treasury already funds FBE. If it is in national interest to support the Energy Intensive User Group perhaps it should be by the Department of Trade and Industry, or the Department of Mineral and Petroleum Resources and not by Eskom.

4. Additional Comments

4.1. Tariff increases have lost legitimacy with the public. Cries for affordable electricity are being amplified by leaders

Just two decades ago South Africans enjoyed some of the cheapest electricity in the world. Now SA's residential electricity prices are well above the average tariff in 144 countries and more expensive than in most African countries. (Global Petrol Prices 11 July 2024) https://mybroadband.co.za/news/energy/543829-south-africas-electricity-prices-way-above-average-and-more-expensive-than-most-of-africa

SAFCEI has submitted written comments as well as attended public hearings over a number of years to appeal to NERSA to keep electricity tariffs affordable. Despite this, we continue to see excessive tariff increases year on year. SAFCEI's 2022 comment to NERSA on the MYPD5 set out how high electricity prices are in direct conflict with the National Development Policy. At each NERSA MYPD hearing, Eskom officials ask the public, just once more, to tighten their belts, and accept the new tariff proposals to support Eskom's transition into prudent service delivery. These requests no longer carry any legitimacy. South Africans are no longer able to tighten their belts.

4.2. Cries for affordable electricity are being amplified by leaders including:

Minister Ramokgopa of DoE is reported to have said that Government will oppose tariff hikes from Eskom above 20%. https://www.iol.co.za/news/energy/ramokgopa-warns-eskoms-proposed-tariff-hikes-could-erode-household-income-says-no-to-anything-above-20%

On energy poverty, Lungile Mashele, energy economist and a member of the board of the National Transmission Company of SA identifies Eskom's cost of supply model as a significant affordability issue for most of Eskom's residential and small business customers. (https://www.businesslive.co.za/bd/opinion/columnists/2024-08-16-lungile-mashele-user-pays-principle-leaves-everyone-vulnerable-to-energy-poverty/)

In September, the DA's Kevin Mileham, sponsored an urgent Parliamentary debate against Eskom's outrageous 40% electricity tariff hike.

Politicians promise protests 'we last saw in 1976' over electricity tariff hikes (dailymaverick.co.za) Protests was the message in the National Assembly on Thursday, with politicians across the political spectrum uniting in criticism of the proposed increases. "*It is apparent that the board of Eskom don't know that 45% of South Africans live on Sassa grants, and the board of NERSA simply don't care*," said National Coloured Congress (NCC) leader Fadiel Adams.

Steven Mathetsa who teaches and researches sustainable energy systems at the University of the Witwatersrand has this to say: "*If the hike is approved it will worsen the economic difficulties facing South Africa. One of the most unequal countries in the world, South Africa has an extremely high unemployment rate – 33.5% at the last count. Economic growth is also very slow, at a mere 0.6% in 2023. The cost of living is high. Exorbitant increases in electricity costs aggravate these problems.*" *African Energy Leadership Centre*. South Africa's

[36.1% electricity price hike for 2025: why the power utility Eskom's request is unrealistic (theconversation.com)](https://theconversation.com) October 15, 2024

Last month, the Executive Mayor Geordin Hill-Lewis wrote to NERSA, calling on the regulator to reject Eskom's proposed 44% hike*. " It is unthinkable that an increase of such a magnitude is even proposed. The City is already bearing the brunt of Eskom's rising tariffs.* ***Some 75% of the City's income received from electricity sales goes directly to Eskom."*** That does not leave enough to cross-subsidize LIHHs and to maintain distribution infrastructure. City firmly rejects Eskom's proposed 44% electricity tariff increase and will continue to fight it - Cape Business News (cbn.co.za)

Minister Ramakgopa has already identified local distribution networks as the next weak point in the electricity supply system.

https://www.dailymaverick.co.za/article/2024-09-26-why-review-power-tariffs-when-councils-government-and-citizens-fail-to-pay-in-the-first-place/

4.3. Our current energy crisis – and it is both a supply and affordability crisis- has at its roots the failure of a number of governmental departments to act, over the years, including:

- The failure of DMRE to timeously promote new RE generation instead of being distracted by unaffordable Karpowership projects and even more expensive and long term nuclear options.

- The failure of National Treasury in collaboration with CoGTA and SALGA to revise the FBE system so that all so-called 'indigent households' receive FBE as well as improving municipal payments to Eskom.

- The extensive delays in dealing with the corruption impacting Eskom.

- The failure of a solution to Eskom's crippling debt, apart from raising tariffs and government bailouts funded by taxpayers.

- The failure of law enforcement to deal with rampant electricity theft. Considering the scale of the problem, the failure to set up a dedicated unit to stop co-ordinated electricity theft which appears to involve syndicates.

- Finally, with appreciation for the complexity of the entire electricity supply system and the difficulty of NERSA's role, part of the ongoing affordability problem is the failure of NERSA to push for the changes needed for an Energy Pricing Policy that meets the needs of energy security and affordability is part of the ongoing affordability problem.

4.4. Energy provision is in transition across the entire supply chain. Energy pricing policies need to be reviewed without further delay

The electricity supply industry in South Africa is undergoing a fundamental transition, with the emergence of investment of private capital into new generation technologies. This is a global phenomenon, which is accelerated in South Africa due to challenges with Eskom. In response, Eskom is being unbundled into generation, transmission and distribution. Tariff restructuring is required to align with these unbundled services; meaning more costs will be recovered using fixed charges. Pricing reform lies at the heart of the energy transition. Units of electricity sold through the public electricity networks are decreasing. However, the cost of grid- and system-related services are likely to increase to manage intermittent supply associated with wind and solar. Pricing must therefore shift from a focus on units of electricity charges to one that prices all services. *Current policy and proposed legislative amendments are not providing sufficient clarity on the desired end state of the Energy Supply Industry. (10)*

Residences and businesses are joining the energy revolution and investing in private generation. While the introduction of fixed infrastructure levies for such customers who use the grid as a `battery' will help to pay for transmission and distribution, the reduced electricity purchases will no longer provide a cross-subsidy for low income customers. The more Eskom charges for electricity and the more additional charges it adds to the tariff, the bigger the incentive for individuals and businesses to invest in own generation. At the same time, the more Eskom charges, the bigger the incentive to steal or simply not pay for electricity.

5. Comments on NERSA's set of Stakeholder Questions

SAFCEI will answer the questions where it believes it has the required competency.

Stakeholder Question 1: *a) Stakeholders are requested to comment on the Eskom application attached as Annexure A.*

It is a regulatory principle that utilities will be provided with an opportunity, **not an assurance,** to recover their costs and earn a return on their capital investments. These costs and investments must be: 'prudent'.

SAFCEI believes that years of mismanagement, poor decision-making and corruption mean that Eskom's costs cannot legitimately be called prudent. By extension, it is unethical to load citizens with these inefficient and wasteful costs via unbridled tariff increases. The RCA is a substantial part of the problem, as it rewards Eskom for inefficiency. The R16.8bn and R14bn that Eskom is calling for in 2026 and 2027 add an additional burden to the already excessive 36.7% for the MYPD6.

SAFCEI understands that a high degree of the mismanagement and corruption is linked to political interference with Eskom operations. Mismanagement and corruption resulting in huge cost overruns and delays around the Medupi and Kusile build are well documented, as is the ongoing resulting debt burden. In addition, political interference in decisions about generation such as the delays in the signing off on the REIPPPs by the DMRE also resulted in additional costs to Eskom as it had to use expensive OCGT more frequently to keep the lights on.

Coupled with the mismanagement referred to above, Eskom is being significantly challenged by the shift of customers to private generation.

Regarding the principle of a return on capital investment, SAFCEI points out that this is an opportunity for a well run utility, **not an assurance**. Eskom's first responsibility should be to serve efficiently, affordably and reliably.

Stakeholder Question 2: *a) Stakeholders are requested to comment on the following:*

i. treatment of coal costs

SAFCEI comments regarding;

A) ii. treatment of operating cost, in particular workforce costs.

SAFCEI does not believe that Eskom's operating costs are efficient. The high use of energy intensive OCGTs, which use expensive imported diesel, is an indication of inefficient operation. The high number of breakdowns at coal fired power stations, which resulted in high stages of load shedding, is another example of inefficient operational management. While the extended break from load shedding is welcomed, Eskom's available energy factor is still below standard. This suggests that operational issues have not been sufficiently addressed. Eskom's reticence to close the oldest, least efficient coal fired stations also suggests that generation is not yet stable enough.

Maintaining a workforce on standby at seldom used power stations is also inefficient. SAFCEI would like to see any 'excess' staff being actively involved in decommissioning and also in new projects under the JET.

A) iii. treatment of regulatory assets base (RAB)

Eskom has been accused of inflating its RAB in the past and again with this MYPD6 application.

In a presentation to parliament, MP Kevin Mileham reported that Eskom's RAB is inflated by R500 Billion. A significant portion of the RAB is the exaggerated cost of Medupi and Kusile due to mismanagement and corruption. This is a significant issue as the RAB makes up the biggest proportion of the tariff increase. Once again, the public are being asked to fund Eskom's inefficiency. **One has to ask how NERSA can allow this to be passed to electricity customers. It is in direct contradiction with NERSA's mandate for affordable tariffs**. Today the DA took Eskom's outrageous electricity tariff hike, to Parliament. (youtube.com)

https://www.news24.com/citypress/business/eskom-accused-of-gaming-the-asset-system-20190122#

"Eskom's reporting of inflated values for its power plants is contrary to prudent financial reporting which is a serious concern." OUTA objects to Eskom's tariff hikes at NERSA hearings | OUTA 14 01 2019

A) iv. sales forecasting.

SAFCEI absolutely disapproves of the process where inaccurate sales forecasting is rewarded by the RCA process. It is a morally bankrupt process given Eskom's unreliable energy supply in the years since load shedding started. Notwithstanding the recent welcome break in loadshedding, Eskom is not yet in a position to make accurate forecasts. Minister Ramagkopa was at pains to say that intermittent load shedding is a possibility into 2025. However, in the MYPD6 pg 45 Eskom states: *The volume forecast does not include any future load shedding; it is a representation of the expected volume requirement in the market.*

Eskom's track record of clawing back `lost revenue' is a further demonstration that it is not in a position to provide a meaningful forecast. Since the RCA rewards Eskom for bad forecasting, where is the incentive for Eskom to meet its forecast commitments? The RCA is a double cost to customers. Firstly, they have to fund their own electricity needs or go without when Eskom generation fails. Then to add insult to injury, customers have to pay higher tariffs via the RCA process to make up for Eskom's undelivered energy.

Eskom's sales have been decreasing in part due to the state of the economy but also significantly due to Eskom's unreliable generation and its tariff increases that mean Eskom is no longer competitive. For Eskom to say that: "*the sales volume is an outcome of the economy of the country*" is a denial of the damage that its expensive unreliable generation has caused. Equally, Eskom's submission that: "*an improvement in the economic conditions in the country is a requirement for a likely improvement in the level of Eskom sales*" once again ignores the impact of its excessive cost to supply. An improvement in the economy will likely provide more customers with the funds to install own generation so that they can manage their own energy costs into the future. It appears that Eskom is losing touch with the realities of its customer base.

Eskom is reporting a shift of customers from the EIUG to some degree of self generation. This should be a worrying trend for Eskom as these customers were the ones who had contracts for stable base load supply. If a significant shift occurs, then the model and tariff structure will be severely impacted. It appears as if part of the motivation to give these EIUG customers preferential NPA tariffs is to keep them as customers. This comes at a cost to the remaining Eskom customers and needs to be urgently reviewed. It does not appear to be sustainable. As a government subsidy to big business, neither does it appear to be ethical. The delays by various government departments to change legislation to enable a review of the revenue methodology as well as the tariff structures is a worry to those who are dependent on Eskom but can't afford its costs.

Where the theft of electricity forms part of the reduced sales, this needs to be dealt with as a criminal offense. Electricity theft has not been treated sufficiently seriously, possibly for political reasons, but now it is out of control. On the other hand, Eskom's high tariffs are forcing more people to steal electricity to meet their basic needs. Not to say that theft is acceptable or sustainable.

B) Stakeholders are requested to comment on the utilisation of Eskom's fleet and how that should be factored into the revenue determination.

The use of old, inefficient and polluting coal fired power stations needs to be discontinued and replaced with appropriate alternative technology. Old coal is a double cost to the communities within the air pollution fallout zone. They pay for the electricity, and they pay through poor health.

C) In terms of the above, how should NERSA exercise its discretion in this regard, and specifically to this application?

Old coal power stations should be removed from the RAB.

Since Eskom is in debt and not able to build new alternative electricity generation, a stronger focus needs to be on supporting functional municipalities, as well as communities and also business collectives to fund and build alternative generation. Where appropriate and depending on the size of the generation, these should feed into the Eskom grid.

Stakeholder Question 3: *a) Stakeholders are requested to comment on the NTCSA's revenue application and whether there is a need for a separate revenue determination. b) Stakeholders are requested to comment on the Generation and Distribution applications, and if these revenues can be determined separately.*

SAFCEI believes that in the interests of transparency and accountability, the revenues for Generation, Transmission and Distribution should be determined separately. It is important that the three business units do not triple the admin charges to customers. As the Transmission infrastructure is to be used by IPPs to wheel electricity, this should provide some additional revenue. It is important that the legislation for wheeling is finalized speedily, so that it does not delay wheeling opportunities. Hopefully this revenue can help pay to upgrade the grid to accommodate increased volumes of variable electricity from solar and wind.

Note that SAFCEI is opposed to the privatization of the national distribution grid. While local community grids may be the property of community co-operatives, the national grid needs to remain a state infrastructure asset.

d) Stakeholders are requested to comment on the imprudence/inefficiency of Eskom and how such imprudence/inefficiency should be addressed.

Eskom is close to a death spiral, which is not in the interests of the citizens. There is good news coming from the new management team at Eskom regarding the stabilization of existing power plants.

Eskom has a long history of inefficiency and imprudence, some of which is the result of political interference. During this time NERSA has not, to SAFCEI's knowledge, identified the major actions leading to inefficiencies. This raises the question of how hard it is for NERSA to oversee efficient and prudent management at Eskom? While the new board and Minister Ramakgopa appear committed to a better run Eskom, perhaps tighter audits by independent sources under NERSA and measures to improve transparency need to be put in place.

To improve ongoing good management at Eskom:

- Remove policies that block the appointment of competent, qualified and experienced generation and transmission managers.

- Use contracting services, when required, from direct suppliers of equipment and who guarantee their equipment and workmanship. No more `middlemen' who add costs and no value.

- Continue to expose and eliminate corruption, with serious consequences for criminals.

- Prioritize replacement of unreliable old coal power stations with new solar and wind.

- Prioritize the upgrade of transmission lines to accept new from wind and solar.

- Prioritize the installation of stored energy to capture days with high generation of wind and solar.

Stakeholder Question 4: Status of the application

a) *Eskom stated that this revenue application does not deal with any potential Eskom tariff structural changes. A separate approval process for restructuring of tariffs will be made to NERSA for implementation from FY2026. Stakeholders are requested to comment on the status of this application being a revenue application and not a tariff application.*

SAFCEI has commented above that the revenue application should not include either the RCA nor the RAB as both of these are based on imprudent and inefficient actions or lack of judicious action by Eskom. Customers are no longer prepared to carry Eskom's burden of inefficiency.

SAFCEI has previously commented that we are fundamentally opposed to Eskom's proposal to change the tariff structures to remove the Inclining Block Tariff system. The IBT system offers LIHHs cheaper electricity and is one of the few mechanisms to make electricity affordable to energy poor communities. Given the failure of the FBE system to provide affordable electricity to most LIHHs, it is essential that a restructured tariff system does not compromise LIHHs any further.

b) *This application is being made when the industry is undergoing transition. The NTCSA will de facto become the Transmission System Operator (TSO) when the ERA amendment is implemented. Is it proper for NERSA to deal with Eskom MYPD6 application submission in the format it is, given these changes?*

With respect, the different political positions and vested interests have delayed the finalisation of the ERA, the review of the Electricity Pricing Policy and the implementation of the TSO. We appreciate that this makes it exceptionally difficult for NERSA to determine affordable tariffs based on an efficient electricity supply system. However, **it is time that NERSA stood up for electricity customers and demanded prioritization of the reform of and integration of the sets of legislation that inform electricity costing methodologies.** The delays mean that each year customers are hit with unethical tariff increases. Equally concerning for the long term is the shift to private energy by customers who can pay. This strands those who can't afford Eskom's increases, leaving them without the historical cross-subsidy.

NERSA needs to set up a forum to review the tariffs as soon as possible. SAFCEI asked NERSA for this in its comments on the MYPD5. The unbundling of tariffs to include service or availability charges in addition to energy charges is a step in improved transparency of costs. However, unless the addition of service/availability charges is carefully investigated and implemented, it could be onerous on households that are already investing in costly private generation. This generation in the form of commercial and domestic rooftop PV has `saved' Eskom on numerous occasions when its system has been constrained. In addition, it is a significant private investment in reducing South Africa's carbon emissions.

c) *How should NERSA determine NTCSA revenues and corresponding tariff?*

This should be informed by a comprehensive review of the electricity use and user characteristics of Eskom and Local Authority customers. It should form part of the review proposed in section b) above.

e) *Eskom's assertion is that NERSA continues to limit Eskom's tariff increases below cost-reflective levels. Please comment on this assertion by Eskom.*

SAFCEI has commented at length above that Eskom's justifications for revenue include grossly expensive inefficiencies over a number of years. The RCA and the RAB accommodations both inflate Eskom tariffs as does Eskom's debt dilemma. As all of these are significantly inflated by mismanagement and corruption, it is NERSA's legally mandated duty not to pass these costs on to customers. We are aware that NERSA has lost court cases while trying to moderate Eskom's tariff increases. This is an additional cost burden on taxpayers and electricity customers.

The preferential tariffs or NPAs that Eskom provides to IEUG adds a burden on other electricity consumers. This needs to be reviewed and the process needs to be transparent.

SAFCEI suggests that an independent study is undertaken to determine what Eskom's efficient CoS should be for the different consumer groups. If it is demonstrated that an efficient CoS is in keeping with Eskom's tariff proposals, then it is clear that citizens can't afford Eskom. In this case the relevant government actors, including NERSA, National Treasury, DE&E, COGTA and SALGA need to look at how to provision (especially low income) communities with affordable reliable energy. This may include a mix of community grids, alternative technologies such as solar water heating and rocket cookstoves, improved building insulation etc. These alternatives to mainstream grid tied electricity should be part of the range of opportunities in a JET.

Stakeholder Question 5: The application methodology

a) Eskom indicated that the only existing methodology for a revenue application during September 2023 was the MYPD methodology, as published during 2016. Stakeholders are requested to comment on the use of MYPD4 methodology in processing MYPD6 application.

b) Eskom indicated that the regulatory framework in which Eskom's regulated revenue and tariffs are set provides that the licensee is to recover its prudent costs of service. Stakeholders are requested to comment on the regulatory framework in which Eskom's regulated revenue and tariffs are set.

SAFCEI can only repeat what we have stated in our answers to Questions 1-4 above. If Eskom and NERSA have to muddle through with the MYPD process for another year, let this be absolutely the last year using a process that is no longer fit for purpose. That said any outcome that involves a tariff increase of over 10% will have significant consequences on the wellbeing of citizens and further increase debt at LA level. The people need a commitment to prioritise a return to the first principles of efficient, reliable, affordable service provision in a transitioning energy economy. This requires NERSA, National Treasury, DE&E, Eskom and relevant government stakeholders working in consultation with the people to develop a new electricity pricing policy and model.

Thank you for the opportunity to comment on the MYPD6 application. We have attempted to present an urgent, honest and considered argument for why Eskom can not be granted its requested 36.15% increase. Anything more than 10% is simply not affordable. Please consider our comments and recommendations earnestly. South Africans all need to contribute to sustainable solutions to our current energy crisis. However, this needs to happen in the context of revised energy supply legislation, methodologies and strategies that leave no one out in the cold and dark.

Best Regards,

Kim Kruyshaar, energy consultant to SAFCEI

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