

Good afternoon. I am Jen Stern, a member of the Western Cape Religious Society of Friends, better known as Quakers, and I am here to answer a simple – but not easy – question.

### **SHOULD ESKOM BE ALLOWED TO INCREASE TARIFFS BY 20.5%?**

That's a simple question, and the short answer is an emphatic No.

But, while it is a simple question, it is not a simple issue, and it deserves a longer, more considered answer. So let's break that simple question down into three more focussed questions. These are:

- 1) Why does Eskom need to increase tariffs?
- 2) What is Eskom likely to do with the "extra" funds?
- 3) What effect will Eskom's raising tariffs have on our communities?

#### **Question 1. Why does Eskom need to increase tariffs?**

Eskom has failed in every aspect of its mandate. The entity has failed to maintain existing infrastructure, and failed to **effectively** build new infrastructure, despite the expenditure of significant funds. This may be due to corruption and mismanagement, or it may be just through benign ineptitude. In either case, it raises the question of whether Eskom can be trusted to utilise any income effectively. That leads us to question 2.

#### **Question 2. What is Eskom likely to do with the "extra" funds?**

We don't really know. They may use it for extra security to protect against the possibly genuine threat of sabotage. They may use it to pay for more offshore power ships, to shore up their existing coal-fired power stations or – and this is the one that keeps me tossing and turning at night – to refurbish their tired, fraying-at-the-edges, superannuated, 20<sup>th</sup>-century-state-of-the-art nuclear power station.

Considering Eskom's inability to properly maintain even newly built coal-fired power stations, and its self-identified inability to protect itself against sabotage over the last few years, this does not seem like a good idea. And that is without even factoring in our country's track record in protecting critical infrastructure like – for example – protecting military air force bases against unauthorised usage, or protecting the Houses of Parliament against arson attacks by .... uhhmm??????? – I dunno.

#### **Question 3. And this is the big one. What effect will Eskom's raising tariffs have on our communities?**

Well that depends on which community, or which part of which community. South Africa is one of the most unequal societies in the world, with an enormous disparity between rich and poor. And the tariff increases are likely have no – or perhaps a negligible – effect on the wealthy, because they have the resources to minimise the effects of the increases. Wealthy people expect a certain level of comfort, security and service, and if the public sector does not deliver it, they go private.

Many people living in big houses in the well-resourced suburbs have already covered their extensive roofs with solar panels and/or bought diesel generators.

At current electricity prices, the installation of a full solar system will pay for itself in about 10 years depending on various factors. If, however, electricity prices increase, while – remember – the cost of solar panels is decreasing – many people who have sufficient upfront capital will install or extend their solar generating capacity – and they may move completely away from Eskom and the municipalities.

We have seen how the tendency of the wealthy to shore up their lifestyles by investing in private, rather than public, facilities, has already decimated our health system, and our police service. And this is likely to happen to Eskom, too. If the wealthy end of the market moves away from the public utilities *en masse*, and starts generating their own electricity, Eskom will lose more and more customers in the more profitable, high-usage tiers. So it is possible that an increase in tariffs may actually result in a decrease in revenue. Rich people have plenty of options, and they are very likely to exercise those options, and to vote with their wallets.

This is not rocket surgery. Most businesses know that if you put your prices up too much, people won't buy your product. But Eskom has, for so long, had an artificially protected monopoly, that they have become complacent. They have not delivered on their mandate, and have effectively prevented any other entities from doing so. So they have not realised that people – at least some people – have choices, or – if they have realised, they have not fully comprehended the possible implications of those choices.

I would like to repeat, and emphasise, this point. If Eskom increases their prices to a level at which more and more wealthy people choose to go off the grid, the increase in tariffs may result in a decrease in revenue.

And the knock-on effect of that could be devastating.

OK, so that's the wealthy end of our decidedly unequal society. But what about the other end of the scale? The people for whom a 20% increase in electricity will necessitate some very hard budgetary decisions? Particularly as these increases are also likely to increase the cost of other basics such as food. Unlike the wealthy, poorer people do not have the resources to opt for the private sector and for grid-independence, so they will have to just shut up and accept it.

Or will they?

If pushed to the brink, disempowered communities may resort to the only option open to them, which is protest – and that carries a very real risk of severe social disruption.

**BUT ...**

... rather than just being negative, and saying NO, we need to explore other alternatives.

Rather than artificially propping up a failing entity by legislating against competition, and squeezing the poorest citizens for funding, the fate of Eskom should be decided by market forces. If they are unable to produce and distribute electricity at a rate at which consumers are prepared to pay for it, perhaps it is time allow competition. Like, for example, the legions of independent power producers who have been trying to get a foot in the door for the last decade or so.

The production and distribution of electricity should be immediately deregulated and decentralised. It is time to stop paying lip service to the REIPPP programme, and to allow independent power producers to generate as much electricity as they are able, and to sell it to whomever they wish. An almost inevitable consequence of this policy will be an increasing dependency on renewable energy, and a decreasing dependency on coal, diesel and nuclear. And that can only be a good thing. This is not the place, and there is not enough time, to unpack this option, but it's a no-brainer, so perhaps there is no need.

**So, to sum up.** The short answer to the question "Should Eskom be allowed to raise tariffs?" is:

"No!"

It is not reasonable, practical, effective, moral, and perhaps not even possible, for the poor to prop up an inefficient, ineffective and not particularly well run state entity. Raising tariffs is not likely to enable Eskom to operate more efficiently or effectively.

In fact, the only thing we can be sure of is that raising tariffs will increase the gap between rich and poor in our already obscenely unequal society.

I thank you for your time, and for listening.

