SOUTHERN AFRICAN FAITH COMMUNITIES' ENVIRONMENT INSTITUTE

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11 June 2015

Attention:
Mr Donald Nkadimeng and Ms Lehuma Masike
National Energy Regulator of South Africa,
Kulawula House, 526 Madiba Street,
Arcadia, Pretoria

mypd3@nersa.org.za

Invitation for public comments on Eskom's Selective Reopener of MYPD3 application for Open Cycle Gas Turbines (OCGT) and Short Term Power Purchase Programme (STPPP) and impact of increase in Environmental Levy 2015

Background - Who is SAFCEI?

The Southern African Faith Communities' Environment Institute (SAFCEI) aims to promote the care and nurturing of all of God's creation. We are an institute of people of many faiths, united in our diversity through our common commitment to earthkeeping. Our aim is to support the faith communities in fulfilling their environmental & socio-economic responsibility.

SAFCEI upholds the core principles of the Earth Charter, including: respect and care for the community of life, ecological integrity, social and economic justice, democracy, non-violence and peace.

We note the devastating impact of global warming and climate change; and the long term consequences of the use of nuclear energy and fossil fuels, and their impact particularly on poor and vulnerable communities. We are committed to working towards achieving a transition to clean energy.
We believe that faith based communities have a significant role to play in the nurturing and protection of God's creation. We call on governments to place environmental justice at the forefront of their agendas, to promote a value based economic system and take steps to safeguard the future of our children and planet Earth.

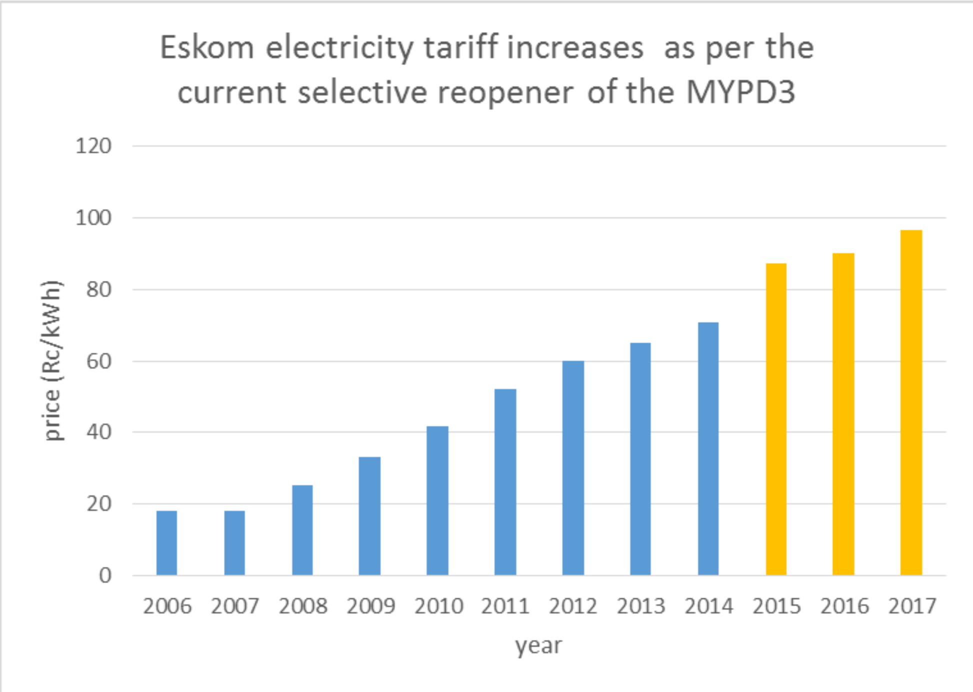
The Southern African Faith Communities' Environment Institute (SAFCEI) provided input into the MYPD3 Eskom Application, the DoE IRP2010 and the updated 2013IRP, the draft Integrated Energy Plan (IEP) first 2010 carbon tax discussion paper, the 2013 carbon tax discussion paper, the Davis Committee on the Carbon Tax, as well as various legislative inputs to various energy related legal amendments.

Submission

SAFCEI believes that NERSA has erred and failed to fulfil its legal mandate.

Over the last 7 years, the cost of electricity has risen significantly (see Figure 1). Appendix 1 details data drawn from NERSA decision on MYPD3 (28 February 2013) and Eskom application for reopener (30 April 2015).

Figure 1. Electricity price increases from 2006 to 2017



The total tariff increase that has already been allowed for in 2015 is 12.69% and now on top of this a further 9.58% if Eskom is awarded this further increase. This would mean that Eskom-powered households would experience a 22.27% just for this year. This would then be exacerbated in municipal areas where municipalities would not only pass on the 22,27% increase but would also add a further surcharge.

Socio economic impact

In June 2009, SAFCEI stated the following in its submission to NERSA.

> *Eskom has approached NERSA with a request for a 34% tariff increase. In 2008, Eskom proposed a 60% increase and were granted a 27% increase eventually.*
>
> *One year later, Eskom is asking for further increases.*
>
> *In 2008, civil society raised serious concerns about the impact that such increases would have on the poor, and queried the new generation build that Eskom claimed necessitated the huge price increases. We wish to reiterate this concern about the poor. Increased electricity prices are used to justify price increases in goods and services, resulting in an increased burden on the poor and vulnerable.*

According to a Cape Times press report of 27th may, the economy is in a slump, mining is down 33% and manufacturing has shrunk by 22%. One assumes therefore that there is a corresponding slump in the sales of electricity.

However, if Eskom's revenues have slowed due to the economic downturn, this does not seem to be justification for asking the people of South Africa to subsidise Eskom profits. Yet, in reading the Eskom motivation, one might be forgiven for thinking this is the case.

In 2015, the economy is understood to be in a worse state. Unemployment levels are increasing, and delivery protests appear to be increasing as well. The load shedding is also impacting on business revenue which in turn will impact on the price of goods.

In other words, it is SAFCEI's view that our arguments from 2009 remain valid.

Eskom is a state owned monopoly. When it puts its prices up, businesses and households connected to the grid have no choice.

Eskom continues to behave in an arrogant manner. It has not changed its modus operandi but continues to rely on captive electricity consumers to pay its ever increasing costs. The aim of the MYPD3 was to ensure that both business and households had a predictable pattern of change. The electricity price increase trajectory was known and could be planned for.

Why were the circumstances that have now supposedly forced Eskom to approach the regulator for additional electricity prices not foreseen?

What steps have been taken to ensure that Eskom has taken additional "surprises" into consideration and will not be returning in the near future with further increases?

It is our contention that in order to make an informed decision, NERSA needs to:

- conduct its own independent study on price elasticity and its impact on Eskom revenue.
- conduct its own independent analysis on the impact of such electricity tariff increases on inflation and particularly how it will impact on food security for the poor.
- make such studies public and use the results of such investigations to determine Eskom's tariff increases.

With increasing electricity tariffs but fixed salaries, people will not be able to afford to buy electricity and Eskom's electricity sales will reduce. In its 2012 submission to NERSA, EGI SA pointed out that Eskom did seem to understand how rising electricity prices would impact electricity sales, and yet there were contradictions in their application.

"*Interestingly, Eskom states in its MYPD3 application that "Price is more effective at promoting investment into energy-efficiency technologies than incentive schemes or other factors. If price levels provide the correct signals, consumers will respond by limiting electricity use and employing more energy-efficient technologies, reducing demand*." *Does this mean that Eskom accepts that price is a driver of reduced demand? …… And yet, Eskom's MYPD3 application assumes that, contrary to what price elasticity trends have shown, electricity demand will increase by 1.9% compound annual growth a year over the MYPD 3 period*"[1].

[1] EGI-SA submission 20 November 2012

Repeating the same pattern and expecting different results!

Predictably, in December 2014, Eskom failed to sell enough electricity to meet its revenue target. It was then allowed to raise electricity prices further in order to hopefully make enough money to make up the shortfall in revenue. This didn't work in 2009. How was repeating the mistake in 2014 going to fix the problem? Clearly it didn't.

And now Eskom has returned again, with the same story, and wants the people of South Africa to bail it out again.

There is no evidence that Eskom has learnt from its history but it appears to continue to rely on a model of income generation that maintains a captive audience of people and businesses forced to buy from the Eskom monopoly. However, alternatives are coming into the South African energy space… and businesses are opting to reduce their reliance on Eskom, for example using embedded solar PV.

Micro grids for electrification of poor households in rural areas are now cheaper than extending the grid, and such an approach will extend into urban areas too as the technologies advance. An alternative electricity generation model that is distributed de-centrally and embedded in local communities, can provide the choice for customers.

Telkom story

The Telkom story is a salutary lesson when companies ignore technology and continue to behave in the manner of a monopoly. With the arrogant attitude that whatever Eskom decides, the people of South African will have to accept….. we compare Eskom to Telkom, and this tells a story of what happens when alternatives come into the picture.

Telkom fixed costs for landlines are such that many households no longer install landlines but rely on mobile phone operators. No doubt because households have done the sums.

Case study:
Telkom Peak – R1.16 per minute
Telkom Off peak R1.03 per minute
Average: R1.12 per minute for the month.
Fixed charges amount to R3.59 per minute for the usage of 126 minutes per month, in effect, in this case, the user pays R4.71 per minute on a landline.
In contrast, the cost per minute for pre-paid cell phones (usually the most expensive cellular option) are all under R2 (according to the Research ICT African policy brief 2012[2]).

According to a 2014 media report, "In South Africa, the continent's strongest economy, mobile phone use has gone from 17 percent of adults in 2000 to 76 percent in 2010. Today, more South Africans – 29 million – use mobile phones than radio (28 million), TV (27 million) or personal computers (6 million). Only 5 million South Africans use landline phones." [3]

[2] http://www.researchictafrica.net/docs/SA_Mobile_Prepaid_policy_brief.pdf
[3] http://www.tribeglobal.net/Newsletter/Technology-trends-The-use-of-mobile-devices-in-Africa

Local Government

The financial viability of local authorities is increasingly coming under the spotlight, particularly the unsustainable reliance on electricity revenues to cross-subsidise other services. Eskom is struggling to get local government to pay their electricity bills. SAFCEI would argue that the Eskom and local municipalities are using electricity revenue in a similar manner. Local government uses it to cross subsidise other services while Government takes Eskom's profits for other government expenditure. In our view, this model is no longer valid and its current failure to generate sufficient revenue should be used as an opportunity to create a different model. SAFCEI recently (30th April 2015) commented to this effect on the City of Cape Town's budget. An extract is provided below for information:

> *Over the last 5 years, the amount that middle income households have paid in terms of services amounts to a 43% increase (Budget pg. 20).*
>
> *For those in the affordable range, the 5 year increase has been a similar 43% while those in the indigent range have seen their service bills rise by 39% (using the examples provided on page 20 of the draft budget).*
>
> *Such a continued increase cannot be sustainable in the long term as salaries do not rise at the same rate.*
>
> *……………………*

Specific comment on Consumptive Tariffs & Charges.

> *It is relevant to consider the CPI and inflation when considering the additional impact on consumers of the rates and tariff increases proposed by the City of Cape Town in its 2015/16 Draft Budget. The CPI in South Africa reached an all-time high of 113.10 Index Points in March of 2015 with food inflation listed as 5.8% and core inflation at 5.7% (http://www.tradingeconomics.com/south-africa/consumer-price-index-cpi).*
>
> ***The services of electricity, water supply, sewage reticulation and refuse are all being increased at well above inflation and the CPI** in a range of 11-14%. In addition, ratepayers have the added burden of a 10.83% increase. This is **not sustainable** for any except the small percent of wealthy citizens.*
>
> *Considering the imposition of a +12% increase approved for ESKOM by NERSA, ……. it is time that the City approached Independent Power Producers so that we are less dependent on Eskom electricity. (**SAFCEI supports these specific comments submitted by Kim Krysnaar).***
>
> *…………………………………*
>
> *Of the projected 2015/16 service bill, the rates amount to 23% while electricity makes up 34%. This appears to be a substantial amount of revenue for the City. However, the City's projected electricity expenditure is R9.4bn which is 29.7% of the total expenditure. The common wisdom is that the City survives through the electricity revenue cross subsidising other services. The total revenue for the City's 2015/16 budget is R 33.5 bn with total expenditure of R31.6bn. (Table 22). Property rates revenue is estimated at R 10 bn.*
>
> *Although the electricity figures are not consistent throughout the budget document, the electricity "profit" amounts to only R 1.6bn which while not a small sum is less than 5% of the overall revenue projections.*
>
> *Cheaper electricity leads to more economically active citizens who can then increase their quality of lives and their economic productivity.*
>
> *….*

Increasing electricity prices drive the use of electricity down, and those that can afford to, will then implement solar water heaters and solar pv installations as these will be a cheaper form of energy provision than buying from the municipality.

Implementing a monthly levy will further reduce electricity sales as those customers, probably businesses and wealthier consumers, will then move off grid entirely.

Implementing a monthly levy simply means that those customers who have no option will pay an additional tax to the municipality without gaining any benefit… they might be able to afford the monthly fee in order to not be cut off but will not be able to buy the same amount of electricity they previously could.

As richer and middle income households move off grid, the total electricity provision costs will then be borne by lower income households, who will then see their monthly electricity bills rise by ever increasing amounts.

Attempting to meet this shortfall by increasing property rates is also limited. People on fixed salaries cannot afford escalating property rates. People will then be forced to move to cheaper areas, which are generally far from the city centre and this then will exacerbate transport costs.

In South Africa, where many households are already feeling the strain of increasing electricity tariffs and the cost of living, it is important that the burden of any electricity tariff increases should not fall on those who are most vulnerable.

Environmental levy.

Currently, the poor and vulnerable pay, through poor health and low quality air, for the environmental costs of Eskom's coal power generators. SAFCEI continues to support the internalisation of environmental externalities into the electricity tariffs.

However, the total electricity capacity available on the grid now includes some of the REI4P generation. Eskom contends that passing on the 2c/kWh environmental levy raises the average cost of electricity by 2c/kWh, but surely the renewably generated proportion of the electricity generation would be exempt from the levy, and the tariff should therefore be adjusted accordingly.

Taxing the poor to pay for nuclear?

According to Eskom's 6 month financial statements from 2014 (see appendix 2), Eskom continued to pay its shareholder, Government, a dividend. In other words, despite claiming it has failed to gain sufficient revenue, Eskom continued to pay profits of R9.2 bn to government. This is another form of tax on the people. The electricity consumers are to bear higher prices in order to bring in more money for government. What is this money to be used for?

The people of South Africa are being taxed on our electricity to fill government coffers.

According to a presentation given to the Portfolio Committee on Energy electricity prices have to rise before we build the nuclear reactors .. in other words, electricity consumers will be forced to pay higher prices up front, so that government can save up money to build them.. nuclear reactors are the most expensive power generators, with significant potential for corruption.

If Eskom had not declared any profit (a reasonable action for a business, given that it has failed to generate enough revenue to cover its operational expenses), then for example, in 6 months to September 2014, R9 bn would have been saved and Eskom would have sufficient revenue to continue with its current operations.

Instead, poor households, and businesses are being asked to pay what is in effect a tax on electricity to put money into government coffers – for what? To hand over to the Russian nuclear industry?

In our view, this places an unacceptable burden on the South African public.

Reasonable Profit?

According to the Electricity Regulation Act (ERA) of 2006, the tariff principles for licensees include:

(a) must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return;

(b) must provide for or prescribe incentives for continued improvement of the technical and economic efficiency with which services are to be provided;

(c) must give end users proper information regarding the costs that their consumption imposes on the licensee's business;

(ERA section 15.1)

It is our contention that the regulator appears to have focused on allowing Eskom a "reasonable margin or return" but has failed to sufficiently interrogate if it is "efficient", or that it has provided any proof of "continued improvement" of either "technical" or "economic" efficiency.

We would also contend that insufficient information has been provided to residential end users regarding the impact of residential peak loads on the OCGT.

Section 4b, (ii) of the ERA (2006, as amended) allows the regulator to "undertake investigations and inquiries into the activities of licensees".

However, over the last 8 years, NERSA has granted massive electricity increases without, it appears, interrogating why Eskom fails to run its business competently. Eskom consistently asks for subsidies from the citizens of the country (for example in the form of exemptions for air pollution laws), and yet Eskom has been unable to maintain its existing fleet, or build its new power stations within deadlines or within budget.

There is a transition to a new model of energy provision underway: one where embedded electricity generation is the norm, where there is greater household energy diversity and where behaviour change in response to technical shifts like time of use tariffs and inclining block tariffs (IBTs) can be used to shift customer behaviour.

Surely, the notion that Eskom is allowed a reasonable profit, must be based on efficient, effective management. We doubt that the law (as outlined above) can be reasonably interpreted in a manner that would allow ineffective, inefficient management, and the squandering of public monies, yet allow such an entity to continue to make a profit.

One example is provided. It is commonly understood that expensive peaking plants are used to meet morning and evening peaks, largely due to domestic use (cooking and hot water needs). In light of such a demand profile, why has Eskom not implemented time of use (ToU) tariffs for its residential sector, which would result in some flattening of such peaks, and subsequent less use of the costly OCGT plants.

Way Forward:

SAFCEI therefore submits that NERSA exerts its regulatory authority in the interests of the people of South Africa and in the public interest, and that Eskom is refused its tariff increase and that it be ordered to request from its shareholder the "profit" Eskom paid to government last year.

In addition, NERSA should direct Eskom to approach its shareholder in order to investigate alternative electricity service provision models that provide affordable and sustainable electricity services.

We thank NERSA for the opportunity to once again engage in this important task of endeavouring to ensure that clean, affordable electricity becomes a means of economic development for the majority of people in South Africa.

We request an opportunity to present at the public hearings.

SAFCEI, as an NGO, would prefer not to incur the expense of travelling to Pretoria, and we therefore ask that you consider holding of public hearings in other provinces, particularly in Cape Town.

We provide this submission in the spirit of constructive engagement, the cornerstone of strengthening our democracy, and look forward to engaging further with the process.

Liziwe McDaid
Programme Coordinator: Energy and Climate Change
Southern African Faith Communities' Environment Institute

Appendix 1. Electricity price increases from 2006 until present and projected until 2017

Table 2: Trends and patterns: Eskom price history (NERSA, 2012)[5] – multi-year price determination decisions (MYPD)

	2006	**2007**	**2008**	**2008** (revised Dec 2007)	**2008** (revised March 2008)	**2009**	**2010**	**2011**	**2012**	**2012** (revised March 2012)
Average price increase (%)	**5.1**	**5.9**	6.2	14.2	**27.5**	**31.3**	**24.8**	**25.8**	25.9	**8**
Average price (c/kWh)	**17.91**	**18.09**	18.27	22.61	**25.24**	**33.14**	**41.57**	**52.30**	65.85	**60**

Table showing electricity price increases up until March 2012
March 2017

	2013	**2014**	2015 1 April mypd	**2015 actual increase for recovery of allowed revenue**	2015 reopener Eskom request	2016	2017
Average price increase (%)	**8**	**8**	8	**12.69**	9.58	3.24	7.26
Average price (c/kWh)	**65.51**	**70.74**	76.41	**79.73**	87.37	90.20	96.75
Average price (c/kWh) according to MYPD3				**76.41**		82.53	89.13

Appendix 2. Eskom condensed group income statement

Condensed group income statement

for the six months ended 30 September 2014

	Note	Reviewed six months ended 30 September 2014 Rm	Reviewed[1] six months ended 30 September 2013 Rm	Audited year ended 31 March 2014 Rm
Continuing operations				
Revenue	17	81 898	77 722	139 506
Primary energy	18	(38 065)	(31 266)	(69 812)
Net employee benefit expense	19	(13 176)	(12 951)	(25 622)
Depreciation and amortisation expense		(6 672)	(5 912)	(11 937)
Net impairment loss		(855)	(682)	(1 557)
Other operating expenses		(7 841)	(9 077)	(19 177)
Operating profit before net fair value gain and net finance cost		15 289	17 834	11 401
Other income		452	183	962
Net fair value loss on financial instruments, excluding embedded derivatives		(860)	(998)	(620)
Net fair value gain on embedded derivatives		1 621	1 868	2 149
Operating profit before net finance cost		16 502	18 887	13 892
Net finance cost		(3 539)	(1 853)	(4 772)
Finance income		1 157	1 124	2 475
Finance cost		(4 696)	(2 977)	(7 247)
Share of profit of equity-accounted investees, net of tax		33	26	43
Profit before tax		12 996	17 060	9 163
Income tax		(3 675)	(4 846)	(2 137)
Profit for the period from continuing operations		9 321	12 214	7 026
Discontinued operations				
(Loss)/profit for the period from discontinued operations		(34)	27	63
Profit for the period		9 287	12 241	7 089
Attributable to:				
Owner of the company		9 287	12 241	7 089