

TO NERSA

For attention Mr Mabunda,

At email: publichearings@nersa.org.za.

SUBMISSION OF COMMENTS ON THE NATIONAL TRANSMISSION COMPANY (SOC) LTD APPLICATION FOR A TRANSMISSION LICENCE, ELECTRICITY TRADING LICENCE, ELECTRICITY IMPORT AND EXPORT LICENCE.

This submission is made by SAFCEI (Southern African Faith Communities' Environment Institute) in response to the publication of an invitation to comment published by NERSA on ?? 2023.

SAFCEI is a multi-faith organisation, committed to supporting faith leaders and their communities in Southern Africa to increase awareness, understanding and action on eco-justice, sustainable living and climate change. One of its focus areas is energy and climate justice. Energy justice would be for people living in South Africa to have accessible, affordable and sustainable energy, and to ensure that people are informed about energy choices and the right to participate in energy decisions that affect them.

1 INTRODUCTION

SAFCEI supports the principle of an independent National Transmission Company (NTC) with the provisos that:

- the NTC is wholly owned by the state,
- that a separate NTC will remove red tape and open opportunities to purchase power from a wider range of electricity producers to help alleviate the current electricity crisis,
- NERSA clarifies the implications for electricity tariffs and informs the public of these prior to granting NTC an operating licence. In the event that the unbundling will have significant cost implications for electricity customers, then the public participation process needs to be extended to provide time to comment,
- that the cost of an unbundled ESKOM does not add to the increasing cost of electricity, but instead results in reduced tariffs through access to cheaper generation options.

In view of the extensive re-organisation of the energy services through the unbundling of ESKOM and the PCC's commitments to a JET, SAFCEI calls for a complete review of the electricity tariff system. Affordable energy for low income households and micro- businesses needs to be prioritised in keeping with both the JET and South Africa's Development State objectives. Such a review is long overdue. Numerous reports detail the crisis of affordability and growing energy poverty amongst low income households and micro- businesses.

(<https://issuu.com/objectif-developpement/docs/implications-of-eskoms-unbundling-on-energy-poverty> and [Broken Promises | New research from the EnergySociety programme - PARI | Public Affairs Research Institute.](#))

2 DETAILED COMMENTS

2.1 SAFCEI supports the principle of an independent National Transmission Company (NTC) which is wholly owned by the state. The national electricity grid is a strategic asset which should not be privatised. While we agree with the Workers Unions that the Transmission and Distribution Companies should not be privatised, we do not believe that unbundling is a precursor to inevitable

privatisation. The documents we have read state clearly that *“Eskom remains a wholly state-owned business and so will its subsidiaries.”* (Source [Eskom: Update on the unbundling process | PMG](#)).

SAFCEI believes that the benefits of an independent National Transmission Company include:

- improved opportunity to fast track and grow much needed Renewable Energy generation by removing the monopoly of having to purchase all electricity from ESKOM.
- to diversify the ‘investors and investment’ in new RE generation. Given ESKOM’s inability to get loans for new generation, as well as the debilitating level of the state capture scale of corruption in the operation and maintenance of ESKOM’s existing fleet, the inclusion of alternative investment opportunities to provide clean, affordable electricity is critical. These opportunities should be inclusive, involving existing and new Independent Power Producers, Local Authorities and commercial organisations in mining, industry and agriculture which have surplus electricity to sell. Possibilities for community owned RE also exist to either sell surplus to the grid or to pay a wheeling tariff to use the grid to sell to their customers. SAFCEI would like clarification of the implications of the following text in the [NTC-Trading-licence-application.pdf \(nersa.org.za\)](#): *The NTC will procure energy, capacity and ancillary services from: 1. the Independent Power Producers (IPPs) as determined by the Minister of Mineral Resources and Energy (under section 34 of the Electricity Regulation Act), including, but not limited to, the Renewable Energy Independent Power Producer Programme, the Peaker Programme and the Risk Mitigation Programme; 2. the IPPs contracted under programmes such as the Standard Offer and Emergency Generation Programmes instituted by Eskom Holdings; and 3. the Eskom Generation power stations as licensed by NERSA.* One of the purposes of a separate NTC should be the flexibility to purchase surplus power from a range of IPPs. We have enough red tape blocking the uptake of RE onto the grid. A power purchase agreement between a producer and the NTC should enable the uptake of new generation. The requirement for a section 34 determination should only be applied to projects over 100MW and this limit should be raised based on the local grid capacity.
- With the lifting of some of the restrictions around private generation as well as permission for local authorities to buy directly from IPPs, an independent NTC is needed so transmission can better match supply with demand.
- An NTC offers an opportunity for improved transparency around cost of supply as well as issues such as the state of the grid.
- Private finance is likely to look more favourably at working with an independent NTC regarding future investment in energy generation. *“There are plenty of equity and debt providers willing to finance this clean energy future, but the constraint now is access to the grid to transport electricity to consumers.” “Investing in the transmission grid would help to stabilise the power supply and meet the growing demand for electricity.”* Anton Eberhard, the director of the Power Futures Lab at the University of Cape Town’s Graduate School of Business (Source: [Nersa to begin unbundling Eskom – The Mail & Guardian \(mg.co.za\)](#))
- Reliable sources from the PCC have indicated that the majority of the 5.8bn US dollars promised to South Africa at the Glasgow COP 26 has been earmarked to upgrade the transmission grid. It is essential that these funds are invested in the NTC for grid extension or upgrades and not lost in the ESKOM parent company.

2.2 In spite of all the positive aspects of a NTC, SAFCEI has concerns regarding the impact on the cost of supply of electricity and therefore on affordability of future electricity tariffs. We do not know what the impact is likely to be on tariffs. This means that SAFCEI can’t give an unconditional go ahead for the licencing of the NTC. We need NERSA to provide clarity regarding the cost implications for the

public so that the public can make fully informed comment. This needs to happen prior to approving the licence application.

Additional anticipated costs arising from the unbundling include the costs of setting up and running a separate entity, probably with its own board to ensure independence. One of the prime new costs is likely to be the cost of ensuring the stability of the grid frequency arising from an increase in the amount of distributed RE coming on to the grid. This cost will be incurred as a direct result of an increasing supply from RE generation. As such it is a cost to transmission whether or not ESKOM is unbundled. On the positive side, it is anticipated that much of the cost of generating electricity from new RE should be cheaper and therefore should offset increased admin costs. SAFCEI would like NERSA to inform the public how these factors are to be balanced in future tariffs!

2.3 In addition, there are legitimate concerns regarding the privatisation of generation and the amount of profit of IPPs. How will the Systems Operator section of the NTC determine fair pricing in our current energy constrained market? This raises the question of the need for and the feasibility of benchmarks or guidelines to cap revenue or to set revenue standards for profit for electricity generated by IPPs. Profit margins need to be 'reasonable'. Industry resents government interference with the market, but there needs to be a balance. No doubt there are overseas examples to assist. It is an issue that needs to be addressed. The public needs NERSA to explain how this issue of reasonable profit over and above cost of supply for IPPs will be addressed.

Dare we call for / appeal to industry to commitment to a JET? Why not since we all have a responsibility for the wellbeing of the planet.

2.4 The cost of electricity to the end user is critical. Access to energy is directly linked to achieving a JET. As SAFCEI's membership includes many grassroots faith communities struggling with energy poverty, affordability is one of our key concerns. Currently, there is a policy disconnect regarding access to energy in South Africa. On one hand national government policy is that of a supportive developmental state, yet 11.8 million citizens are unemployed and the energy poverty level is over 50%. On the other hand, ESKOM and local authorities are encouraged to charge energy services at cost of supply rates. This makes electricity unaffordable for most low income households and micro businesses. To compound this situation, the mechanisms to provide both Free Basic Energy or Free Basic Alternative Energy and a tariff subsidy for low income households are widely recognised as inadequate. As NERSA should be all too aware, the rising cost of electricity is making the subsidy system for the growing number of energy poor households unsustainable. The methodology around energy tariffs as well as sustainable interventions to address energy poverty is in urgent need of review. SAFCEI appeals to NERSA to engage with National Treasury and SALGA on these issues. **To meet the country's development agenda, it is essential that the operation of NTC also to contributes to a JET.**

2.5 SAFCEI takes note of the commitment by ESKOM that the process of setting up the NTC will not result in staff being retrenched nor have their service conditions compromised. *"Eskom will not engage in any forced retrenchments and intends to avoid any section 189 retrenchments under the Labour Relations Act. The conditions and terms of service of employees will not be impacted."* (Source [Eskom: Update on the unbundling process | PMG](#)).

3 CONCLUSION

The unbundling of the ESKOM monopoly after so many decades is bound to cause staff anxiety and raise issues of concern. The reality is that the energy supply system has changed radically, most especially with the technical and financial ability of the more affluent ESKOM customers to go off-grid or semi- off grid. This is resulting in an increasing energy apartheid. It is of critical importance that all in South Africa have access to clean affordable energy and a well run and well maintained transmission grid is key to access. Some of the direct energy income lost to ESKOM as a result of

private generation can be recouped through wheeling charges to use the grid. It also goes without saying that private RE generation helps to reduce the country's Climate Change impacts, as well as reducing the air pollution and huge water demands of the coal fleet.

In summary, SAFCEI supports the granting of the Transmission Licence, Electricity Trading Licence, Electricity Import And Export Licence to the National Transmission Company (SOC) LTD on condition that:

- The NTC and the transmission grid remains wholly a state asset.
- NERSA clarifies who the NTC may purchase electricity from. That is, will the NTC be licenced to purchase from smaller IPPs and organisations such as mines and industry that have surplus to sell?
- That NERSA explains how the operation of the NTC will impact tariffs prior to approving the licences. This should include clarification on the margins of profit allowed for IPPs. If the costs are likely to be higher, there needs to be a further round of public participation prior to approval.
- Recognition by NERSA and the ESKOM Board that the unbundling of ESKOM and licensing of the NTC needs to support the JET in ensuring affordable access to energy.
- Recognition by NERSA, National Treasury, CoGTA and SALGA that the restructuring of our energy supply system should include a new tariff methodology as well as a sustainable system to provide a basic energy allocation to low income households. The JET recommends 100kWhs of FBE per low income household. Many studies recommend a minimum of 250kWhs of FBE. This points to the urgent need to address energy poverty as part of our energy restructuring.

Thank you for the opportunity to comment. SAFCEI's comments are made with the intention of contributing positively to South Africa's essential energy transition. We acknowledge the complexity of the situation and pray for wise decision-making.