



SOUTHERN AFRICAN FAITH COMMUNITIES' ENVIRONMENT INSTITUTE

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20 January 2019

Attention:

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National Energy Regulator of South Africa,
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Submission on Eskom's 2018/19 RCA application.

1. Background – who is SAFCEI

The Southern African Faith Communities' Environment Institute (SAFCEI) is an institute of people of many faiths, united in our diversity through our common commitment to earth keeping. 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 call on government to promote an economic system based on wellbeing for people and planet, and not on materialism and the profit of a few. A just transition to renewable energy underpins a shift to an economy based on wellbeing.

2. ESKOM is more than electricity

President Ramaphosa repeated the mantra "ESKOM is too big to fail" on 8 January 2020 at the 108 anniversary speech of the ANC. The sad reality is that ESKOM has already failed citizens with its well above inflation electricity tariffs. It has failed the economy with load shedding and an unreliable electricity supply. It has failed the country as the biggest financial risk to funding for future investments across many sectors.

The higher tariffs that ESKOM is calling for places an unaffordable burden on citizens without any guarantees of a clean, efficient and reliable electricity supply.

No additional funds should be granted to ESKOM without fundamental structural changes which include a faster transition to renewables and a complete clean-up of the looting associated with contracts from maintenance, procurement and coal tenders and so on.

It is important to include that as ESKOM's energy becomes more expensive and unreliable so many customers are moving to own generation. While this private capital investment could provide surplus electricity for the common good, current legislation makes this illegal. This situation needs to change as a priority before we end up with an even greater energy apartheid and the socially disruptive consequences of tension between energy haves and energy have nots.

The too big to fail mantra should be a call to urgently prioritize actions that make ESKOM functional before we lose more investment, more businesses are forced to close with more job losses resulting in more citizens having too little income to pay for their basic electricity (and other) needs.

Yet, instead of positive action there are almost daily media reports of corruption and political power struggles about ESKOM's future. We citizens have been failed by the politicians and executives in ESKOM, DoE and even NERSA who are responsible for reliable and affordable energy services. There have been numerous high-level task teams working on solutions – but little visible action. It is time to prioritise production above politics to create an ESKOM that delivers clean, affordable reliable electricity.

3. The RCA 2018/2019

SAFCEI has provided input over many years into the DoE's policy documents such as the DoE's IRP2010, the updated 2013IRP the draft Integrated Energy Plan (IEP), numerous carbon tax discussion papers, and the draft IRP 2018, and ESKOM's MYPDs and RCAs dating back to 2013.

We are disappointed to read in ESKOM's RCA 2018 /19 application that so many of the problems in previous RCAs of poor sales forecasting and bad management decisions are repeated yet again. ESKOM is applying for a claw back of R27.2bn. If approved this will increase the electricity tariffs in mid-2020 to well over 8.1%. The 8.1% increase is already above inflation but was agreed to by NERSA in the MYPD4. The adjusted tariff MYDP3 increase approved in 2019 was also above inflation at 13.87%.

3.1 ESKOM is not making prudent generation decisions nor providing efficient electricity.

The MYPD RCA methodology allows for adjustments that are based on assessments on the prudence and the efficiency of ESKOM in providing an electricity service.

Eskom has failed to demonstrate that it has exercised good judgement in its operational planning and its capital expenditure. It is failing to adapt to the global energy transition to distributed renewable energy with demand side management, which is cheaper and far less environmentally damaging than its coal based generation. ESKOM is misusing its monopoly status by returning to its economically challenged customers for unaffordable electricity tariff increases to prop up its ailing business model. This is not prudent nor related to efficiencies.

Raising electricity prices to enable Eskom to continue to operate its fleet in an inefficient manner puts a heavy burden on the vulnerable who are struggling to pay for electricity. Eskom's tariff increases stresses businesses, particularly small businesses, in an economy that is not growing. This is not prudent!

3.2 The RCA process is no longer appropriate.

It is SAFCEI's view, that the RCA process is no longer appropriate in the current situation where ESKOM appears to be unable to predict or meet the electricity needs of citizens and the economy. This is largely caused by ESKOM's inability to transition both its structure and its coal dominated generation model to respond to the opportunities

of distributed energy generation as well as the competition from ever cheaper private renewable energy generation. The RCA methodology, rather than being an infrequent request for compensatory revenue is now effectively a call for two electricity tariff increases per year. This puts the applications for electricity tariffs at well above CPI. We believe the RCA is an outdated process which should be de-legislated.

SAFCEI rejects the 2018/19 RCA application and calls on NERSA to act in the public interest by not granting tariff increases on the recent RCA applications.

3.3 Need for energy democracy

We are aware of ESKOM's court challenge to NERSA's decision on the 2018 RCA application. SAFCEI appreciates NERSA's role in attempting to ensure that electricity is affordable. Funding an electricity utility that is unable to provide reliable affordable and clean electricity while also unable to transition into one that can, is not money well spent.

Various task teams have reported on a range of structures for a modern more efficient and transparent ESKOM as an electricity supplier. However, it appears that ESKOM and the transition process have been captured by vested interests and lobby groups and is unable to envision a transition in the best interests of all South Africans. These parties are holding the citizens of the country to ransom as ESKOM demands tariff increases for a deteriorating service which undermines the economy and welfare of all citizens. In addition, thousands of citizens suffer from acute lung damage and death caused by toxic emissions from coal fired generation which consistently defy air pollution standards. Contamination of precious water resources and agricultural land in the shadow of coal powered generation plants also contradicts constitutional rights to an environment which is conducive to good health. We need a Just Energy Transition but right now we don't even have democracy in energy decision-making.

If NERSA's mandate as an independent energy regulator is to call for an efficient and prudent electricity provider AND to ensure that the country has an affordable electricity service, then we need NERSA to support the urgent calls for a restructured ESKOM. This includes permitting local government who are at the frontline of electricity service delivery to contract directly with IPPs for more affordable, reliable and clean electricity.

4 Comments on aspects of ESKOM's RCA

4.1 Electricity consumption has dropped over the past 10 years however ESKOM repeatedly over-estimates demand. High ESKOM tariffs, increased energy efficiency and the decreasing cost of RE is reducing the demand for electricity as consumers reduce their electricity purchases and affluent consumers deflect to private generation. Load shedding and the risk of load shedding incentivises commercial and industrial businesses to install SSEG and reduce their dependency on ESKOM. Added to this is the very slow rate of economic growth with suppressed energy demands. None of these factors are new to the 2018/19 FY, yet ESKOM once again inflated its sales expectations.

NERSA should not accept reduced sales as relevant for RCA compensation.

4.2 High energy generation costs.

Eskom is still not doing enough to reduce its primary energy and operating costs as well as its staff complement.

In the 2018 /19 FY, ESKOM produced less electricity with more staff than ten years ago. While staff must not be treated as commodities, the cost of excess staff increases

operating costs and reduces the access to affordable electricity of all South Africans. (Source: Africacheck.org)

ESKOM and the DoE appears to be resisting the urgent need to replace old coal generation plants with cheaper wind and solar. The delays in signing the REIPP 3 resulted in a slowing of the uptake of RE.

Bad management and corruption associated with auditing and coal contracts and the Medupi and Kusile build programme are hidden costs that are now being exposed. (e.g. <https://www.dailymaverick.co.za/article/2019-12-19-ex-eskom-bosses-tubular-construction-executives-charged-over-r30m-kusile-kickbacks-saga>)

It appears that the supporting information around costs is not sufficiently transparent to identify the hidden costs of bad management and corruption. These costs should however not be passed on to electricity consumers.

ESKOM claimed that it needed to use the expensive peaking plants more often than planned to reduce periods of load shedding and to complement peak demand. In both cases, this is primarily a reflection of poor maintenance. It is also a reflection of inadequate demand side management technologies and behavioural practices. A roll out of solar water geysers with timers would add real value to many poor households as well as valuable jobs instead of burning costly diesel with high GHG implications.

NERSA should not accept increased use of peaking plants as a factor for RCA compensation.

4.3 Increasing unaffordability of ESKOM electricity.

Each tariff increase results in stranded customers, more resistance to pay for electricity and increased deflection to private energy generation. Increasing ESKOM tariffs and decreasing SSEG costs is creating a volatile and unjust situation of unequal access to energy. It does not have to be this way. RE can benefit all but not under the current system of slow uptake of RE by ESKOM and the DoE. Outdated regulation makes it difficult for private SSEG to be part of shared energy generation for the benefit of all.

NERSA should not approve additional income for this RCA process as it will inflate the existing agreed to tariff increase of 8.1% which is already above inflation.

4.4 Increasing unreliability of ESKOM electricity

Load shedding and the risk of load shedding is resulting in extreme hardship for especially small and medium businesses with resulting business failures, retrenchments, increasing unemployment and a downward spiral of the economy. ESKOM in its court case against NERSA claims that if it does not get the RCA revenue it is claiming, it could crash and with it the economy. This is an ugly scare tactic. What is required is a restructuring of ESKOM and legislation that allows local authorities to buy electricity from IPPS.

“Citing an ageing fleet that requires higher levels of maintenance, Eskom has warned that the power system remains vulnerable and volatile, adding that getting back to stability will take some time. <https://mybroadband.co.za/news/energy/335010-eskom-tells-municipalities-to-prepare-for-stage-8-load-shedding.html>”

In the same article EE Business Intelligence MD Chris Yelland said Eskom’s declining energy availability factor (EAF) is a cause for serious concern. Yelland said the EAF data for 2019 paints a grim picture of ageing, under-maintained, and stressed power plants. “The EAF for the full 2019 calendar year has hit a new record low of 67%.....”

the EAF for week 50 and week 51 of 2019 hit record all-time lows of 59.7% and 58.0% respectively.”

NERSA should not accept higher than predicted maintenance costs as a motivation to support the RCA. It is clear that ESKOM staff are aware of the maintenance risks of their aging coal fired plants.

4.5 Missing money – unpaid bills and corruption.

Corruption and the misappropriation of funds is being investigated. As one example see the reference in 4.2 above to ex-ESKOM bosses getting multi million kick backs in connection with Kusile contracts. There are numerous other charges being investigated around coal supply and other tenders. The monies from these fraudulent dealings needs to be claimed from the people and companies involved and not claimed as a shortfall in the RCA process.

ESKOM is owed billions in unpaid electricity accounts by both its own customers and by municipalities which have defaulted on their payments to ESKOM. In both cases, the non-payment is a combination of an inability of electricity consumers to pay ESKOM's tariffs as well as a payment boycott. President Ramaphosa has appealed to ESKOM customers to pay for their electricity. ESKOM needs to do more to ensure that those who can pay do pay. With regard to households who can not afford electricity, an improved system of identifying those households needs to be undertaken. Those that qualify need to be provided with Free Basic Electricity. They also need to be given information about energy efficiency and supported to implement energy saving – such as the use of LED lights, Wonderbags for cooking, solar water systems, home insulation etc.

NERSA needs to instruct ESKOM to show how it will claim back money stolen through fraudulent dealings with contractors, as well as the legitimate debt of customers boycotting payments, rather than asking for a bail-out from the public through its RCA process.

5 Recommendations:

NERSA should not approve the RCA 2018 /19 application for an additional R27.2 bn as we believe the shortfall is based on a combination of inaccurate demand projections and structural inefficiencies within ESKOM. It is neither fair nor reasonable to expect the citizens of the country to pay above inflation prices for electricity. If approved the RCA will increase the electricity tariffs in 2020 to well over the 8.1% which is above inflation but was agreed to by NERSA in the MYPD4.

NERSA should review the purpose of the RCA system in the current situation and consider de-regulating it as it is now being used to claim two tariff increases per year. The process absorbs a huge amount of time and man power that would be better spent planning a Just Energy Transition.

In addition, there is little indication at present that any RCA revenue will be used to transition ESKOM into an efficient and reliable utility, committed to a rapid shift to clean energy.

Eskom should be directed to reduce its expenditure by replacing old expensive to maintain coal plants with renewables, reduce cost and time overruns in the completion of the existing Medupi and Kusile units and invest in better demand side management rather than default to peaking plants.

NERSA needs to do an independent comparison of the generation costs that significantly impact tariffs. Eskom does not appear to be pursuing the least cost option.

NERSA needs Eskom to present its expenditure in a way that reflects ALL the costs accrued to fossil/nuclear generation. In cases where the environmental tax and staff costs are left off coal powered generation, this presents renewable energy as more expensive.

ESKOM should also be directed to plan and implement a just transition for workers so that staff have confidence that they will not simply be retrenched but will be empowered to work in RE development, demand side management and rehabilitation of powerplants and coal mines. This plan needs to include multi stakeholder consultation and a time frame that prioritizes a significant shift to RE. As a shift to RE helps meet South Africa's carbon commitments, it is likely that funders will be found to support the transition.

NERSA should conduct or oversee research on Eskom restructuring, including the removal of its monopoly status as an electricity supplier. A report should be published for public comment.

NERSA should ensure that Eskom's activities uphold the National Environmental Management Act (NEMA), air and water emission regulations and South Africa's Climate Change commitments.

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.

This technical submission was written by Kim Kruyshaar, an energy consultant on behalf of SAFCEI.

Your sincerely,

Kim Kruyshaar

and

Francesca de Gasparis
Executive Director
SAFCEI