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Email to mypd@nersa.org.za
For Attention: Mr Charles Hlebela
NERSA Head of Communications
Email CC to: charles.hlebela@nersa.org.za

MYPD 5 Revenue Application for FY2023 – FY2025

SAFCEI's Comment on ESKOM's Submission to NERSA

1 Introduction

Southern African Faith Communities' Environment Institute (SAFCEI) is a multi-faith organisation committed to supporting faith leaders and their communities in Southern Africa to increase awareness, understanding and action on energy-justice, sustainable living, efficient use of resources and climate change.

SAFCEI has submitted written comments as well as attend hearings over almost a decade to appeal to the National Energy Regulator of South Africa (NERSA) to keep electricity tariffs affordable. Despite this, we are seeing far above inflation tariff increases year on year. The current multiple year (Multi Year Price Determination 5) Revenue Application is the precursor to further, unacceptable future tariff increases. SAFCEI has repeatedly called for a revision of the MYPD methodology on the basis of the current unreliability of ESKOM's generation fleet and ESKOM's huge debt burden, the MYPD is no longer a fit nor fair model on which to base future electricity tariffs.

"Our future – Make it work" is the first line in the National Development Plan. Our current energy crisis is both a supply and affordability crisis, and has at its roots the failure over years of a number of governmental departments to act, including:

- the failure of the Department of Minerals Resources and Energy (DMRE) to timeously promote new Renewable Energy (RE) generation instead of being distracted by unaffordable Karpowership and nuclear options,
- the failure of National Treasury, in collaboration with the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the South African Local Government Association (SALGA), to revise the Free Basic Electricity (FBE) system so all households, which qualify, receive their FBE as well as improving municipal payments to ESKOM,
- the failure of a number of the relevant government agencies to deal with ongoing corruption impacting ESKOM,

- the failure of a solution to ESKOM's crippling debt,
- the failure of law enforcement to deal with rampant electricity theft, and considering the scale of the problem, including the failure to set up a dedicated unit to stop co-ordinated electricity theft which even involves syndicates.
- and, with appreciation for the complexity of the entire electricity supply system and the difficulty of the role of the National Energy Regulator, the failure of NERSA to push for the level of changes needed for a secure and affordable energy supply.

Our country cannot afford electricity price increases as a "false fix" to the above issues. We call for ethical leadership so that South Africa can authentically embark on a Just Energy Transition that creates a sustainable and affordable energy system for all through genuine engagement and participatory decision making processes.

2 Comments on the MYPD 5 Revenue Application for FY2023 – FY2025

2.1 The basis of ESKOM's MYPD 5 Revenue Application for FY2023 – FY2025 is a shift to a cost of supply model with a healthy revenue return for efficient production. In principle this sounds like responsible business practice and equitable. In reality ESKOM's legacy of mismanagement and corruption resulting in a frail fleet that is unable to meet supply demands and suffers frequent energy constraints, and which is burdened with debt thereby reducing its options for new generation, does not translate into efficient production. Expensive electricity is exclusive electricity and SAFCEI cannot support above Consumer Price Index (CPI) increases.

ESKOM goes to great lengths to justify why the current application is based on efficient production. For example, the MYPD includes asset calculations which given the breakdowns of its aging and failing fleet as well as the malfunctions in the new Medupi and Kusile plants, and ongoing issues at the Koeberg nuclear power plant appear to be hugely inflated. In all honesty many of the calculations are so complex that they would require SAFCEI hiring an accountant with experience in the details of complex capital and operating expenditure in order to make detailed comments. SAFCEI's comments will therefore focus on matters of principle which are key to an affordable and reliable electricity supply. The first being that the MYPD should not be calculated as a cost recovery exercise by Eskom's accountants, considering the history of how it became saddled with such high debt.

2.2 It is important to remember that ESKOM is not a private company, as the government is its sole shareholder. As a state-owned entity, Eskom should implement government policy. Therefore, while aiming for efficient production is essential, and cost of supply tariffs to commercial and industrial customers is justifiable, SAFCEI believes that ESKOM, should also align itself with the National Development Plan. This requires affordable energy provision to low income households (LIHHs) and small business, including agribusiness owners in keeping the NDP's aims to "*eliminate poverty and reduce inequality by 2030*", and recognising that affordable energy is essential to achieve these goals.

Looking more closely at the National Development Plan's (NDP) Critical Actions, it is clear that the current MYPD application contradicts the actions of: "1. **A social compact to reduce poverty and inequality**, raise employment and investment. 2. A strategy to address poverty and its impacts by broadening access to employment, **strengthening the social wage**, improving public transport and raising rural incomes. 3. Steps by the state to professionalise the public service, strengthen accountability, improve coordination and **prosecute corruption**". (page 27 of the Executive Summary)

3 Current government and ESKOM tariff strategies do not support the above critical NDP actions. Nor are they consistent with the intention of the MYPD method to: ensure reasonable tariff stability and smoothed changes over time consistent with socio economic objectives of the Government. Key socio economic objectives of the Government expressed in the Electricity Regulation Act are universal access to energy and enabling economic development.

3.1 NDP Critical Action 1: Affordable and reliable electricity is required to grow the economy, to raise employment and investment and reduce poverty and inequality. However, the prevalence of loadshedding, with no immediate end in sight as a result of the reduced level of generating capacity is likely to continue. For customers who can afford load shedding back-ups in the form of PV, inverters with batteries, generators, gas and or wood etc. this means they are paying a premium for energy. People who can't afford alternatives sit in the dark with cold food, unable to work, study or access necessary health care in their homes **High tariffs are now also a critical challenge for the middle income households and businesses.** "We are supposed to be the workforce, the teachers, the shop-owners, the plumbers and carpenters. The Micro-business-owners, working ourselves to death to keep food on the table and our kids in school clothes that fit! What do you think happens if WE can't even survive?and it's getting close to the line!"

3.2 NDP Critical Action 2 "A strategy to address poverty and its impacts ... strengthening the social wage..... ESKOM justifies its shift to cost of supply on the basis that the FBE programme will address the needs of LIHHs. Sadly, the FBE is a largely failed initiative. The National Treasury allocation for FBE is not ring-fenced and is not reaching the intended households. Ironically, the FBE programme, if correctly implemented, could generate a significant revenue return to ESKOM as the overriding number of households that qualify for FBE are ESKOM customers. A report, titled Broken Promises: *Electricity access for low-income households – good policy intentions, bad trade-offs and unintended consequences*, by Dr Tracy Ledger of the Public Affairs Research Institute shows that in the six financial years from 2014/15 to 2019/20, some R38.3-billion disbursed by National Treasury for FBE to indigent households failed to reach the intended recipients, and was instead used by municipalities for other unauthorised purposes. Source: [Commentary: The state of free basic electricity in South Africa \(esi-africa.com\)](#) As the FBE system has not changed, it is likely that much of the FBE revenue is still not reaching ESKOM, nor the intended LIHHs.

SAFCEI conducted research in 2019 (<https://safcei.org/knowledge-base/safcei-energy-affordability-research/>) on the impact of energy poverty on households from three low income communities in Cape Town. Our key findings were as follows:

Most poor households in Cape Town have an electricity connection, however, they are not able to afford enough electricity and run out before month end. Families are supplementing electricity with unsafe polluting energy such as paraffin and candles and live in the real fear of fire tragedies. Lack of access to electricity leads to izinyoka or illegal connections in most informal settlements. High electricity prices have forced communities to sacrifice healthy food. As a result of lack of money for healthy food and poverty in general 27% of children under the age of five are stunted and malnourished. This erodes their physical and cognitive development and undermines their education and economic prospects, driving an intergenerational cycle of poverty. Source: <https://mg.co.za/news/2021-02-18-south-african-children-suffer-the-slow-violence-of-malnutrition/>

SAFCEI has written to NERSA on the issue of the failed FBE system on a number of occasions: e.g. our submission on THE REVIEW OF THE NATIONAL FBE RATE METHODOLOGY FOR THE DETERMINATION OF THE RATE FOR THE COMPENSATION OF ESKOM BY LOCAL AUTHORITIES sent to: Ms Nkhangweleni Sigwadi and Ms Kwena Matlou in December 2020

In our letter to NERSA regarding ESKOM's FY2022/23 application for a 20.5% tariff increase. (12 January 2022) SAFCEI appealed to NERSA to set up a forum to facilitate an inter-governmental solution to the increasing unaffordability of electricity to municipalities and to LIHs.

There is much talk in political circles about introducing a Basic Income Grant. An increase in the current amount of 50kWhs of FBE, ring-fencing the funds to that LIHs benefit and an improved system to ensure that Treasury funding for FBE is paid to ESKOM would have many significant benefits, such as: ESKOM receiving much needed revenue, significantly improving the wellbeing of LIHs as they will have more disposable income for food etc., sending a message to LIHs that as they are benefitting from FBE there is reduced need for dangerous illegal electricity connections, and reduced electricity losses for ESKOM and Municipalities.

3.3 NDP Critical Action 3. Steps by the state to professionalise the public service, strengthen accountability, improve coordination and prosecute corruption. The media is full of reports of ongoing corruption at ESKOM.

['Corruption is still very much a part of Eskom': CEO André de Ruyter \(ewn.co.za\)](#) William Gumede, Associate Professor, School of Governance, University of the Witwatersrand adds his voice to that of ESKOM management who claim that the political system of cadre deployment and tenders for BEE maintenance companies that are incompetent is hampering ESKOM's ability to address its maintenance backlog. *"System failure because of the capture of maintenance funds, dodgy BEE deals and incompetent cadre deployees and capture of energy policy are the reasons why power outages will continue for at least the next five years or longer unless there is genuine political will – which is glaringly absent*

now - from the governing ANC to tackle the corruption, appoint competent non-cadres and let go of ideological driven policies.

"Power outages are likely to continue for the coming decade unless there is the political will from the ANC government to get rid of powerful tenderpreneurs connected to its leadership at Eskom who are incompetent but charge inflated prices. For another, ANC leadership needs to allow the Eskom management to fire incompetent ANC employees in management positions who are also politically connected to the ANC leadership and therefore cannot be gotten rid of. The corruption of energy policy, whereby influential ANC leaders deliberately slow down the introduction of renewable energy, unless ANC cadres get the deals and to protect the coal industry, which is closely linked to the ANC leadership and ANC aligned trade unions, the energy system failure will continue."[2022-07 - SA's entire infrastructure is on the verge of total collapse - Wits University.](#)

The political interference undermining professional management of ESKOM translates into more expensive electricity for all. Expensive electricity is exclusive electricity. Two sets of electricity customers are being lost to the national electricity system. An increasing number of LIHHs are no longer able to access electricity for their basic needs. At the same time, more affluent commercial and domestic consumers are reducing their demand on ESKOM by installing independent generation. The resulting reduction in electricity spend by affluent customers is compromising the collection of revenue needed to cross subsidise tariffs for LIHHs. With the recent reduction in restrictions for large scale RE generation, a number of municipalities are in the process of negotiating to purchase electricity from independent power producers. Given increasing ESKOM costs and its unreliable generation this trend is likely to continue. As more energy users migrate from ESKOM it makes it increasingly difficult to calculate an expected revenue and therefore prepare a realistic MYPD.

The revenue of Local Authorities (LAs) is also significantly impacted as the Municipal Finances Act requires LAs to collect revenue to provide essential services. In the past, this was achieved by LAs making a profit on the sale of electricity to cross- subsidise LIHHs and to maintain the local distribution grid. ESKOM's rapidly increasing electricity prices undermines this.

4 Conclusion:

While ESKOM is being challenged to move to a Just Energy Transition, in reality an energy transition that is just requires a new system between all actors and agencies involved in generation, distribution and consumption including new methods to subsidise electricity and energy alternatives to poor households and small business. An energy transformation is essential for a viable economy and therefore the wellbeing of all. Key issues and actions are:

Revise the Integrated Resource Plan (IRP) so that the country can move forward to build more generation that is reliable and affordable.

Revise the Electricity Regulation Act (ERA) to acknowledge technologies that promote efficiency and a reduction in peak demand. A revised ERA also needs to

promote public – private partnerships and community – private partnerships in energy generation.

Government to look seriously at solutions for ESKOM's debt. ESKOM's debt is crippling customers, including small LAs, with unacceptable tariffs.

Set stricter technical compliance standards for outsourced maintenance and equipment so that incompetent maintenance companies are not appointed based on their BEE score which is causing loss of revenue and maintenance delays.

NERSA to set up a forum to facilitate an inter-governmental solution to the increasing unaffordability of electricity to municipalities and to LIHHs.

Investigate an increase in the FBE allocation, as a social wage, and ring-fence the funds so that the intended recipients benefit, and ESKOM receives the revenue.

CoGTA, SALGA and National Treasury to put accounting measures in place at LA level to address bad debt to ESKOM and to ensure clean and transparent administration.

Improve law enforcement, possibly by setting up a dedicated unit, to stop electricity theft and vandalism.

Educate the public about energy including the benefits of alternatives such as solar geysers and wonderbags etc., the time of use costs and energy efficiency. The future of energy is not just a plug out of coal and a plug in of RE. It requires an informed customer base who understand why to reduce peak demand and how to use alternatives to do this.

What has all this got to do with the MYPD process? Without addressing the underlying cost drivers of ESKOM electricity, the MYPD in its current form, is an inadequate tool to determine ESKOM's Revenue and annual price hikes. The amount of time and energy that goes into the MYPD process by all parties could be better spent addressing some of the system failures identified above.

With appreciation for the opportunity to comment, but also with concern that our comments have been essentially the same for many years, with little sign of core issues that cause the inflated and unfair tariff increases, being addressed. South Africa needs leadership to put a stop to sectoral interests which are closing the window on a future of reliable affordable energy for all. Where is that leadership? The country is in rough water, and we are hitting too many obstacles even though there is clear water ahead - if only we had the political will to steer us there.

SAFCEI calls on NERSA, as the energy regulation authority to step up to the challenge expressed in the NDP as citizens can no longer afford delays and ineffective leadership.

"Our future – Make it work".

With Regards,

Kim Kruyshaar (energy consultant to SAFCEI)