

FISH HOEK VALLEY RATEPAYERS & RESIDENTS ASSOCIATION

(Incorporating Fish Hoek, Clovelly and Sun Valley)

P.O. Box 22125, Fish Hoek 7974 – Tel: 021 782 1950

E-mail: bdyoungblood@gmail.com

TO: NATIONAL ENERGY REGULATOR OF SOUTH AFRICA (NERSA)

ATTENTION: MR MAJAFELA MODISE / MS KWENA MATLOU

EskomNPAApplication@nersa.org.za

SUBJECT: COMMENTS ON THE ESKOM APPLICATION FOR A TWO-YEAR INCENTIVE PRICING PACKAGE FOR SUBLIME TECHNOLOGIES PROPRIETARY LIMITED (PTY) LTD'S SILICON CARBIDE PRODUCTION FACILITY AT KRIEL IN MPUMALANGA ¹

CLOSING: 5 JUNE 2018 AT CLOSE OF BUSINESS

We, the Fish Hoek Valley Ratepayers and Residents Association (FHVRA), agree that economic growth contracted to -0.7% in the first quarter of 2017, leading the economy into a technical recession. We also agree that a key element of its recovery will be the promotion of industrial activity and job retention. However, we disagree that competitively priced electricity for **just** key industries will play a critical role in South Africa's recovery. We think that a general price reduction by Eskom will be good for all of South Africa.

We appreciate that NERSA invites all stakeholders to comment on this Negotiated Price Agreement (NPA). We support Sublimes' application for an NPA in order to save 108 jobs. However, there is insufficient motivation for the benefits of silicon carbide (SiC) downstream. That is, will this NPA help the downstream companies in the price they pay for SiC? As Sublimes is only operating at 50%, what have the downstream companies been using and paying? Will this NPA allow Sublime to return to 100% capacity?

We agree, "Given the current economic climate, NERSA envi[sag]es that there will be more of th[is] kind of applications." However, we do not consider it fair to approve of single NPAs. NERSA needs to take a holistic view. Wouldn't it make more sense, instead of negotiating several pricing agreements (NPAs), that Eskom reduces the electricity price for everyone, thus encouraging more electricity demand by consumers, including businesses, across SA and even electrical cars? This will result in real economic growth for the entire country. That is, we don't believe that individual NPAs are the way to go.

Lower electricity costs for everyone will mean more disposable income per individual, more discretionary spending power means more consumption is possible, resulting in more retail

¹ <http://www.nersa.org.za/Admin/Document/Editor/file/Notices/Invitations/Consultation%20Paper%20-%20Eskom%20application%20for%20a%20two-year%20incentive%20pricing%20package%20for%20Sublime%20Technologies%20Proprietary%20in%20Kriel%20-%20Mpumalanga.pdf>

sales allowing employers to hire for servicing their customers. Increased sales will result in more demand for products from manufacturers.

Start-up businesses will look at the total cost for producing their products. Lower electricity costs across the board can help businesses with that decision. This will have a broader and longer lasting impact upon job creation and our economy than individual NPAs over short periods of time.

Currently, many of our products are not competitively priced in overseas markets. This is due to a combination of high electricity costs to make the products and its effect on labour rates. The latter is due to the labour market's demand to keep pace with inflation of which the electricity component is a culprit in causing the CPI to rise. Jobs have already been lost due to manufacturers shutting down due to not being able to sell their products.

"The cost of supply over the period of the agreement is necessary and it is not provided." Indeed, does Eskom really know the cost of any electricity it produces? Eskom produces approximately the same amount of electricity today as it did in 2004, but with 50% more staff costing twice what it would had only inflation since 2004 been taken into account, i.e. if Eskom's productivity in 2004 was restored, it could cut prices and pay its own way.

On NERSA's proposed assessment principles, what about adding the comparison with competitive pricing from non-Eskom sources? Why not look at the impact upon the greater economy due to Eskom's high prices?

The following two statements:

"Eskom predicts they will experience a surplus capacity that will peak at about 14 000 MW within the next few years, yet currently their sales have decreased, placing an additional burden on the consumer because it increases the electricity prices."

"This decline in demand, together with the commissioning of Eskom's new generators and the Renewable energy programme, has created an environment where excess capacity is now available on the system."

are systematic that the whole pricing structure and framework need to be reviewed.

"NERSA is aware that there are also other risks to such contracts and wishes to achieve the benefits for South Africa while preventing a negative impact on other customers." The Department of Energy, NERSA and Eskom pricing framework should never have been a cost plus structure as inflating the cost benefits the supplier, especially on thin margins. The whole trick to pricing is to balance supply with demand, but one needs an honest price as a base. There is no better way to get an honest price than to put the supply side out to tender. The lowest tender price (with BBBEE points added) from a bidder able to provide a guaranteed supply during the hours demanded by the distributor should be awarded. That is, Eskom should split the distribution from supply and it should have to respond to tenders for supply as well. There would then be two companies.

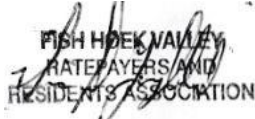
We are still of the opinion that solar thermal power plants, such as Khi Solar One near Upington, are the way to go. They can produce electricity during peak demand when the sun is not currently shining and are not dependent upon wind. This is a renewable and sustainable energy supply.

Who is watching Eskom's financial expenditures? "Eskom will be paying a R16.5 million license application fee to the National Nuclear Regulator to keep alive its long-held ambitions to build a new nuclear power plant at Thyspunt in the Eastern Cape."²

RECOMMENDATIONS

It is recommended, for the reasons set out in this report that:

- the NPA for Sublime Technologies (Pty) Ltd be granted as a short-term measure;
- Eskom lowers its electricity tariffs for all users to increase the demand to match its (over) supply;
- NERSA adds competitive pricing from non-Eskom sources to its assessment principles;
- NERSA adds the impact of lower electricity costs for all South Africans on the economy to its assessment principles;
- NERSA recommends to the Minister of Energy that Eskom be split into two companies: supply and distribution;
- NERSA scraps the cost plus pricing structure and framework in favour of a lowest cost competitive supply model to be run under an Auditor General approved tender process by the distributor part after Eskom is split; and
- Eskom's supply side after the split competes in the above tender.

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| NAME & SURNAME | <i>Brian Youngblood, Chair: Fish Hoek Valley Residents and Ratepayers Association (FHVRRA)</i> |
| CONTACT NUMBERS | 021 782 1950 / Cell: 084 3 99 99 33 |
| E-MAIL ADDRESS | bdyoungblood@gmail.co.za |
| SIGNATURE |  |
| DATE | 25 May 2018 |

² <https://www.businessinsider.co.za/abandoned-thyspunt-nuclear-site-will-cost-eskom-at-least-another-r165m-2018-5>