

# FISH HOEK VALLEY RATEPAYERS & RESIDENTS ASSOCIATION

*(Incorporating Fish Hoek, Clovelly and Sun Valley)*

Central Circle, Fish Hoek 7975

Web : <https://www.fishhoekratepayers.com/> Facebook : [www.facebook.com/FHVRRA/](https://www.facebook.com/FHVRRA/)

Heritage Western Cape: Conservation Body

**TO: NATIONAL ENERGY REGULATOR OF SOUTH AFRICA**

**(NERSA): [mypd@nersa.org.za](mailto:mypd@nersa.org.za),**

**CARE OF: MS LEHUMA MASIKE OR MR THILIVHALI NTHAKHENI**

**SUBJECT: COMMENTS ON ESKOM'S 2018/19 REGULATORY CLEARING  
ACCOUNT (RCA) APPLICATION**

**DUE DATE: 20 JANUARY 2020 AT 16:00**

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## 1. DISCUSSION

On 8 August 2019 NERSA received Eskom's RCA application for 2018/19 financial year, requesting total RCA balance of R 27 323 million. NERSA initially allowed Eskom to recover R86 billion in costs from electricity tariffs, but Eskom maintains it was entitled to recover R99.6 billion, which it says was prudently incurred.

**Comment:** This is a problem with cost plus contracts. Inflating the costs benefits their remuneration rates for paying staff due to it being a larger company. That is, this type of contract does not encourage efficient generation and distribution of electricity. It doesn't even encourage good budgeting nor expenditure control and it thinks that all costs will be covered and more ("the plus").

If NERSA awards Eskom the full R27.2 billion and splits it over two years, in 2021/22 and 2022/23, it will push the expected increase in April 2021 from 5.01% to 11.38%. Also, The first applications are expected to be heard early next year. Eskom is arguing that NERSA short-changed it by at least R100 billion and is asking the court to order the claw-back of at least R69 billion. If the first, urgent, application succeeds, it could result in tariffs increasing by 16.6% next year, instead of the 8.1% as things currently stand.

**Comment:** The increase in cost of energy directly increases inflation and indirectly increases it as nearly everything, except road transport currently, is negatively impacted by an increased cost of electricity. Thus, increased prices of goods as a result of the embedded price due to the increased costs for producing the goods (higher electricity costs), are passed onto the consumer. Private consumption expenditure makes up 60% to 63% of SA's economy / GDP. As salaries, wages and retirement returns rarely keep up with inflation, the impact will be lower consumer consumption negatively impacting the economy as workers are losing out due to lower disposable income.

Eskom is challenging five different tariff determinations by NERSA in court, including the original 2018/19 decision, which has resulted in overall uncertainty about the future price path of electricity.

**Comment:** We are definitely paying Eskom too much already if they have funds available to fund litigation against NERSA. This is a bullying tactic and amounts to wasteful and fruitless expenditure as they are not following their mandate to produce electricity. They are not paid to hire lawyers and solicitors.

In the current application Eskom relies largely on lower-than-expected sales volumes and higher-than-expected coal costs in arguing for the claw-back. After stripping out income lost due to lower sales that resulted from load shedding, Eskom is claiming an additional R5.4 billion due to reduced sales.

**Comment:** What other business demands payment for non-delivery? They ask us to lower our consumption, become more efficient, force power disruptions via load shedding and they want us to pay for their shortfall in capability to generate electricity. It boggles the mind, but more probably is also a bullying tactic to try and force higher tariffs. In a true supply and demand dynamic, competitors would be allowed to compete to fill the gap in supply due to the higher demand than Eskom is willing to meet. Then a true price can be found.

Eskom is claiming R16.7 billion additional revenue for primary energy, mostly related to coal. The power utility is highly critical of NERSA's decision to approve R39.1 billion coal burn cost, compared with the R48.6 billion it applied for and the ultimate actual cost of R51.5 billion.

**Comment:** About 80% of Eskom power generation relies on coal. However, coal is not sustainable, is problematic when it is wet, is difficult to transport and stockpile and does not help South Africa meet its signing of the Kyoto Protocol agreement to reduce our greenhouse gas emissions. Note that Eskom heads the Centre for Environmental Rights list with 39% of South Africa's greenhouse gas emissions.

According to Eskom, NERSA did not take into account the current coal purchase agreements Eskom is bound to and based its determination on a theoretical index that also fails to take the dynamics in the coal industry into account. Eskom is further claiming R4.8 billion for variance in "other" costs, consisting largely of depreciation and employee costs. It states that the R24.3 billion Nersa allowed for employee costs provided for only 32 954 staff members. This meant Eskom would have had to reduce staff numbers by 6 323 within one month of the announcement of the decision, which it hasn't done.

**Comment:** Eskom is inefficient. It is still overstaffed.

222 Terawatt / 32,224 personnel in 2006 (0.0068892275) vs last year's 220 / 47,658 = 0.004616224 terawatt per personnel meaning that today's personnel is only 67% as efficient as the 2006 crew.

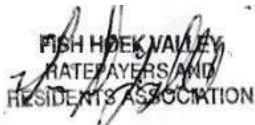
According to Eskom, the reasons NERSA provided for its tariff determination in some instances lack the necessary information to base its RCA application on. It hopes to get further guidance from the court.

**Comment:** Let the market decide the tariff. Mining companies and metropolitans, such as the City of Cape Town, are demanding access to electricity generators other than Eskom or to be allowed to self-generate and self-transport. Eskom already has infrastructure in place to "move" this electricity from independent power suppliers. NERSA with other parties need to finalise the rules. This must include distribution without loss or loss calculated into the purchase price and a fair (competitive, not "cost plus") charge for transporting. If the City's awarded tender contracts for 700MW, Eskom needs to deliver 700MW to the City. No one else may be allowed to use this prepaid electricity. If the rules cannot be decided, then NERSA is just as much a hindrance to our economy as Eskom.

"Eskom is insolvent. Years of corruption, coupled with a failure to invest in adequate capacity and falling revenues have resulted in a debt stock of R420 billion and its revenues cannot meet the combined cost of service in this debt and its operating expenses...At group level, recurrent expenditure (wages and debt service) continues to rise and there is little appetite to reduce these costs. Eskom is unable to meet the energy needs of a growing economy." <sup>1</sup> It is time to get out of denial that Eskom has broken trust and alternatives need to be allowed.

## 2. RECOMMENDATION

For the above reasons: Eskom's application for a tariff increase should **BE DENIED**.

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<b>DATE</b>	18 December 2019

<sup>1</sup> Corospondent, "My laundry list of concerns" by Marie Antelme of Coronation Fund Managers