ESKOM'S FIFTH MULTI YEAR PRICE DETERMINATION (MYPD5) APPLICATION FOR THE 2022/23

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by

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1 BACKGROUND

The following communique responds to NERSA's call for public comment on ESKOM's application to approve electricity prices increases in line with the rates listed in the former's MPD5 proposal for the 2022/23 financial year. This document has been prepared by Brian Kamanzi, Energy Policy Researcher, for the Institute for Economic Justice (IEJ).

The IEJ is a non-profit organisation which provides analysis is designed to equip policy-makers, progressive social forces, and the public with policy options to address the scourge of poverty, under-development, and inequality in South Africa, the region, and the African continent.

2 INTRODUCTION

The economic impact of the measures to curb and control the spread of COVID-19 over the past two years has compounded the deeply rooted structural failures in the South African economy. The South African economy contracted by 1.5% in the third quarter (Q3) of 2021 and is 3.1% smaller than it was pre-COVID-19. The unemployment rate continues to break records with 660 000 people losing jobs in Q3 2021, resulting in an unemployment rate of 34.9%, narrowly defined, and more accurately 46.6% by the expanded definition. It is against this backdrop that this document outlines a need to reject the proposed increases and identifies a set of recommendations which could aid in building a pathway to curb harmful developments in the sector.

The brutally unjust Apartheid system built its industrial base of the availability of cheap Black labour which it used to exploit the countries immense natural resources. The old regime consolidated and accelerated uneven development which remains intact owing to the failures of the post democratic era to date. In the electricity sector, the turn to democracy has heralded expansions in electrification, basic service provision and a variety of social protections and regulations intended to ensure human and environmental wellbeing. As evidenced by the growing prevalence of service delivery protests and campaigns of various forms, energy poverty remains one of the key areas of hardship and sources of discontent in society. The proposed increases in the order of 20% will only stand to widen the immense social cleavages the nation is faced with.

Unaffordable and increasingly unreliable electricity has also been one of the many factors contributing to continued deindustrialisation of the South African economy. This has been marked by the collapse of large portions of its manufacturing base. ESKOM's MYPD5 analysis fails to acknowledge shifts in the economy towards financialisation and short term profiteering and awareness from capital investments in productive industries which directly implicates the electricity industry. The impact of financialisation in the various IPP programmes has received no critical reflection and this must be challenged.

As evidenced by NEDLAC's ESKOM social compact there is a recognition from unions, private sector and government that in order for the economy to course correct reliable affordable electricity must be assured. Any path to achieve this cannot condemn large parts of the country battling to the ends to meet behind.

The remaining sections in this brief comment outline some overall framing concerns in the MYPD5 and close with a list of recommendations to NERSA as a formal comment towards its determination.

3 OVERVIEW OF CONCERNS

A. Challenging the acceleration of Electricity sector liberalisation

As shown in the MYPD5 proposal IPPs account for the largest collective contribution to the proposed increase. It is noted with concern that the main sources of the increase stem from increases in tariffs from existing projects. The alarming rise in electricity prices projected as IPPs are set to become a greater share of South Africa's generation capacity raises concerns on the logic of this pathway to ensure reliable and affordable electricity through the energy transition.

Transparency is a major issue which further prohibits informed engagement by the public on the MYPD5. The public has been asked to comment on the validity of price increases which hinge on tariff agreements which are held under non-disclosure clauses. Generous evergreen contracts awarded to IPPs must be reviewed particularly under the prevailing constraints within the economy. IPP PPA's non-disclosure clauses should be repealed as a matter of public interest and project tariffs should be made available for public scrutiny.

B. Challenging ESKOM's assumptions on sector financing

The central impetus of the MYPD5 proposal hinges on ESKOM's urgent need to cover interest on debt obligations. It is unclear from the proposal whether ESKOM has approached the debtors and made a case for renegotiation of terms. In light of the dire economic situation domestically and internationally (the COVID-19 induced recession is global), there is a case to be made to call for an easing repayment obligations as the economy recovers.

It is also unclear to what extent state bonds and other forms of government backed low cost capital have been explored to reduce the burden of the crisis on users.

ESKOM asserts that the economic consequences of awarding the tariff are lower than the potential impact of providing subsidies from additional government support but offers no evidence for this claim. NERSA should request the analysis used to justify this claim in the MYPD5 be provided for scrutiny and its assumptions duly interrogated.

C. Challenging the impact of price increases to Municipalities

Inequality between and within municipalities in South Africa is another enduring feature of separate development policies. Underfunded municipalities face tremendous difficulties to realise basic service provision and expand basic infrastructure. Inadequate funding levels from the national government have led municipalities across the board to draw increasingly significant portions of their budgets from additional charges on electricity, water and waste management.

As part and parcel of the flawed municipal funding regime, compounding by local corruption, ESKOM is allegedly owed in the order of R35bn with an increase in R7bn between 2019 and 2020. Many of these municipalities are chronically underfunded and have low income constituents with little prospects of recouping large sums via rates collections. Should the increase proposed in MYPD5 be approved the increase will have a disproportionate and devastating impact to under resourced municipalities and low income households across the board.

Furthermore, ESKOM's MYPD5 proposal itself identifies larger municipalities that have unduly benefited from electricity price increases of R46bn over the last 10 years with City of Cape Town and City of Johannesburg accounting for R20bn. Over that same period ESKOM has been battling with underfunded municipalities in court cases, threatening power service cuts and attaching assets to recover outstanding debt. If NERSA is embarking on a longer term process to approve MYPD5 the short term impact of approving increases for FY2022/23, which account for its largest single requested increase, will have a severe short term impact on already strained municipal budgets.

4 CLOSING REMARKS

This document recommends that NERSA reject the proposed increases listed in the MYPD5 for the FY2022/23 and further suggests the following:

1. ESKOM should be compelled to pursue and fully exhaust debt refinancing, debt forgiveness and approach the government for additional low cost funding to meet interest and debt obligations.

2. In alignment with the concerns echoed by trade unions NUM & NUMSA in the ESKOM wage negotiations, prior to any increase ESKOM must renegotiate the standing IPP contracts to reduce the inflated cost burden from private procurement.

3. NERSA should call for an urgent revision and expansion of FBE to buttress working class households from the brunt of the continuous increases on the near term horizon. Since the establishment of the FBE scheme no significant revisions have been made to the allocation. Given the high levels of energy poverty, the waves of increases due to ESKOM's energy transition and the realities of an economic recession expanding FBE is a material necessity. It is also important to note that monitoring of the use of funds for FBE must be improved and the national government should be called to recognise its importance and the negative impacts the flawed municipal funding model is having on access and affordability of electricity.

4. NERSA should reject the principle of cost reflective tariffs and request further economic modelling be conducted to determine a national framework for tariff subsidies.

5. NERSA should request the immediate commissioning of a public report, to be produced by ESKOM, detailing the maintenance history and the future maintenance planning strategy. This should be accompanied by a new determination of realistic Energy Availability Factor (EAF) targets for ESKOM's fleet for the next 5 years. It is clear the current targets are beyond reach. There have been several alarming outbursts from CEO Andre De Ruyter relating to sabotage and legacies of poor maintenance of the existing ESKOM fleet, in order to restore public confidence in the utility these claims (and EAF assumptions used in the MYPD5 proposal) should be justified by sharing plant maintenance records.