PROJECT 90 BY 2030 | Inspire. Mobilise. A low-carbon generation.

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To whom it may concern,

SUBMISSION ON ESKOM REVENUE APPLICATION FOR FY2019/20 - 2021/22

Project 90 by 2030 (Project 90) is an environmental organisation that aims to inspire and mobilise a low carbon generation. We work with individuals, organisations, and decision makers to identify actions that can reduce their impact on the environment. Our specific focus in pushing for low-carbon actions in South Africa is centred on developing environmental leadership in youth, enhancing energy and water security in communities and advocating for a transition to an equitable, low-carbon energy system.[1]

In September 2018, Eskom submitted their revenue application for FY2019/20 - 2021/22 to the National Energy Regulator South Africa (NERSA). NERSA published a call for submissions soon thereafter.

Project 90 by 2030 puts forward the following submission for NERSA's attention. While this submission will look into a number of issues we picked up in Eskom's application, we would also like to use this opportunity to remind Eskom as well as NERSA of their mandate and work with the existing realities in South Africa. These are energy poverty, energy planning that is not completely transparent and players that are still pushing for an energy system that is mostly not sustainable, not affordable and does not encourage a transition to a low carbon economy.

Eskom's mandate given by the South African government is to "provide electricity in an efficient and sustainable manner"[2]. Therefore its mission is to "provide sustainable electricity solutions to grow the economy and improve the quality of life of the people in South Africa and the region."

[1] https://90by2030.org.za/
[2] http://www.eskom.co.za/OurCompany/CompanyInformation/Pages/Business_Vision.aspx

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NERSA's mandate is "to regulate the energy industry in accordance with government laws and policies…" and it should therefore act in line with the National Development Plan 2030 to ensure "sufficient energy to support industry at competitive prices, access for poor households, while reducing carbon emissions per unit of power by about one-third"[3].

1. **What is Eskom doing to cater for the poor and improve the quality of life of the people in South Africa and the region?**

Problem: Over the past 10 years, Eskom has been granted a number of tariff increases by NERSA. The increases have been in excess of 300% over the period 2007 to 2015, which is more than six times the inflation rate for the same period[4]. Furthermore, in 2012 the Department of Energy (DoE) estimated that 47% of South Africans are energy poor as they spend more than 10% of their income on energy needs[5]. Energy-poor households often struggle to access sufficient energy services to meet their basic needs, and furthermore their ability to choose safe and reliable energy alternatives that are not damaging to human health and the environment is limited[6].

We welcome that Eskom points out in their application on pg 35 that "poor households are particularly vulnerable to high increases in electricity tariffs". However, the solution that Eskom suggests puts all responsibility into other institutions' hands. Also on pg 35, "targeted subsidies, with a transparent cross-subsidy structure aligned with a national cross-subsidy framework to be developed for the country," is a clear shift of responsibility of catering for the poor to national and local governments.

On the issue of Inclining Block Tariff (IBT), despite ESKOM's assertion that low-income households have been cushioned from being overly burdened, anecdotal evidence gathered by Project 90 suggests that many low-income households still cannot afford present electricity prices. These households typically purchase electricity on a regular basis, at small denominations, often receiving only enough electricity to either cook supper or to heat bathing water but is insufficient for both for one day.

The IBT is premised on "the more you use, the more you pay" notion, meaning it is primarily based on consumption. This creates a distorted view of the impacts of IBT at a household level, that they are able to afford electricity because it's being purchased so often. Yet, these households are increasingly having periods in a month where they don't have electricity despite having a connection simply because they can't afford to keep the lights on.

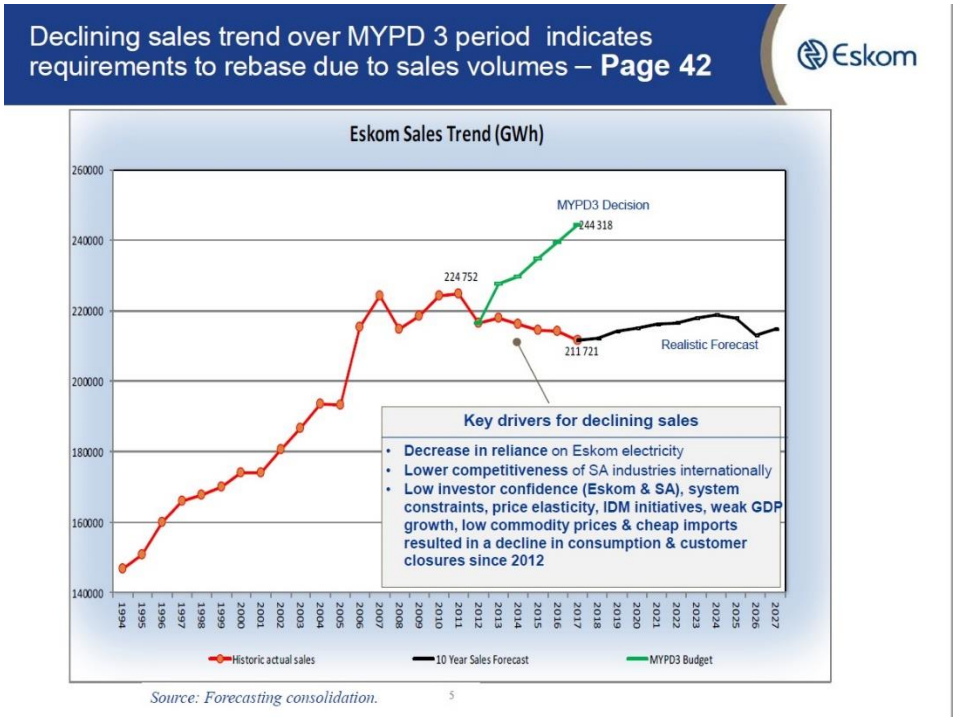
Suggestion: While there is much work to be done on how to alleviate energy poverty, Eskom can contribute by ensuring they operate in a manner that gives the lowest possible prices. Additionally, that the impacts of the Inclining Block Tariff has on low-income households for all authorities (ESKOM & municipalities) be investigated by NERSA.

[3] National Development Plan (2011)
[4] http://www.poweroptimal.com/infographic-eskom-tariff-increases-vs-inflation-since-1988-projections-2017/
[5] http://www.energy.gov.za/files/media/Pub/Survey%20of%20Energy%20related%20behaviour%20and%20perception%20in%20SA%20-%20Residential%20Sector%20-%202012.pdf
[6] http://www.cityenergy.org.za/uploads/resource_85.pdf

2. The MYPD methodology rewards and encourages overestimated energy demand forecasts and contributes to the 'utility death spiral'.

Problem: The current methodology includes an 'allowable revenue' against which actual sales are compared after the MYPD period. The inherent problem with this set up is that it encourages Eskom to overestimate demand, as there is a direct link between the demand projection and the allowable revenue.

If we look at Figure below from the Eskom 2018/19 Revenue Application Stakeholder Discussion, we see how inaccurate the MYPD projection (green line) for the period was, and the irony is that the more overestimated the projection, the more Eskom can try claim this back by making the prices higher in the future. An obvious omission in this figure, is that under the list of "Key Drivers for declining sales" should be that the recent electricity prices increases, which have been way above inflation since 2008[7].



Utility death spiral.
Simply put, as utility electricity prices increase, more and more customers find alternate supplies of electricity or simply cannot afford to buy as much. This leads to a decrease in sales.
If the utility then increases prices further (to try regain what is viewed as forgone revenue), then it just pushes sales even further down.

In the context of this MYPD methodology, the fact that it allows for/encourages prices increases in a situation of declining demand, it most likely to exacerbate the utility death spiral situation.

[7] http://www.poweroptimal.com/infographic-eskom-tariff-increases-vs-inflation-since-1988-projections-2017/

Suggestion: As for point 1, the methodology needs to change. Dedicated resources need to be put into doing focused, forward looking research into having a tariff system that will function in a changing energy landscape.

3. Electricity prices increase way over inflation are not going to increase sales and help Eskom's financial situation

Problem: A massive tariff hike like this is very unlikely to help Eskom's financial situation.

The underlying assumption that price increases will somehow help Eskom's balance sheet is flawed. As described above, this proposed 15% increase will contribute to a utility death spiral where Eskom is the utility in question. Price increase will drive energy efficiency, off grid solutions, co-generation and direct purchases for IPPs. This is good for South Africa, but will not help Eskom.

Suggestion: Eskom is in real trouble. Not just financially but in terms of management, corruption and operating in a monopoly fashion when energy production worldwide is moving toward decentralised generators.

Evidently there needs to be a drastic change in Eskom's structure, its role in the electricity sector and plans going forward. This is what research by independent bodies should focus on.

These ever escalating requests for higher prices show that something fundamental must change. Eskom tries to function as a business on one hand, and a provider of a public service on the other, and it struggling with both. Yearly increases like the one in this application are not a viable solution.

4. Other issues

ESKOM will be able to save costs through early decommissioning of coal fired power stations.[8] Many of these CFPS are not able to meet environmental emissions standards and fitting on the necessary technology is far too costly for ESKOM. If we continue to run them as they are, we are doing so at the cost of our health and environment.

5. Conclusion

Quite simply, the 15% increases are unlikely to increase Eskom revenue, and therefore it will not help the utility's financial situation and it certainly will not help South Africa and its citizens.

The MYPD methodology is flawed as it allows for, and encourages over estimated electricity demand forecasts. Furthermore, it provides a way for Eskom to apply for increased prices simply because citizens did not buy as much in a 5 year period, compared to as estimation, which as we noted, is encouraged to be too high.

Government must urgently make plans for a just transition to a more sustainable energy system and NERSA together with Treasury should help develop the financial models

[8] http://meridianeconomics.co.za/wp-content/uploads/2017/11/Eskoms-financial-crisis-and-the-viability-of-coalfired-power-in-SA_ME_20171115.pdf

associated with this transition. An improved energy system would go a long way to reduce the need for these types of tariff applications.