

FISH HOEK VALLEY RATEPAYERS & RESIDENTS ASSOCIATION

(Incorporating Fish Hoek, Clovelly and Sun Valley)

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TO: THE NATIONAL ENERGY REGULATOR OF SOUTH AFRICA (NERSA)
mypd@nersa.org.za

SUBJECT: INVITATION FOR PUBLIC COMMENTS ON ESKOM'S THIRD MULTI-YEAR PRICE DETERMINATION (MYPD3) REGULATORY CLEARING ACCOUNT (RCA) YEAR 2 (2014/15), YEAR 3 (2015/16) AND YEAR 4 (2016/17) APPLICATIONS AND INDICATIVE TIMELINES FOR THE DETERMINATION PROCESS

CLOSING DATE: 23 MARCH 2018 AT 16:00

1. DISCUSSION

NERSA is currently considering Eskom's RCA (Regulatory Clearing Account) application for a refund going back to 2014-2017 totalling a massive R66bn. According to the Multi-Year Price Determination Methodology (MYPD Methodology), this translates into a tariff increase of around 30% (28.8%) increase over the current tariff. There is a problem with the model as after the R66bn is recovered, the tariff never reverts to the old level. Recovery will therefore continue in perpetuity. There is no provision to stop overspending and it is merely "recovered". This is not a cost plus contract approved by electricity users. We want low electricity tariffs in order to produce cost competitive goods for export earnings to assist the rand. An increase of this magnitude will surely make some products uncompetitive. Unsold products will result in job losses and plant closures.

Trust is already broken with Eskom. Therefore, we do not believe the assumptions nor figures quoted by Eskom. These years quoted were during the height of the State Capture scandals. Recovery of these misspent funds should more than adequately cover any tariff increases for years to come. We request NERSA to perform its oversight responsibilities and see that a truly independent audit is performed.

There appears to be no planning or budgeting functions conducted at Eskom as tariff increase requests get repeated often. We last objected on 20 September 2017 to Eskom's Revenue Application for 2018 / 19.

In terms of Section 16 of the Electricity Regulation Act of 2006, the setting of prices, charges, tariffs and the regulation of revenues and as stated in Government Gazette #31741 of 19 December 2008, Section 2.1 General Tariff Principles, for customers, the tariff objective is to be **affordable**. Price levels should assume an **efficient** and prudent utility, in other words prices should be based on least cost options and exclude inefficiencies. Tariffs should be **equitable and fair**. Prices should be **predictable** and fair preventing price shocks. Prices should be **transparent** with no hidden costs.

Affordable

Any energy commodity necessity that increases above the consumer price index (CPI) is not affordable. Many of our members are either pensioners or new families with small children. The annual increases in pensions and negotiations of salaries have difficulties pegging to CPI as a minimum, much less an exorbitant increase of 30%.

Efficient

Corruption is not efficient. The Democratic Alliance has laid fraud, racketeering and collusion charges against McKinsey after the US global consultancy firm was implicated in the Eskom corruption scandal. The consultancy stands accused of having subcontracted 30% of its business with Eskom to the Gupta-linked Trillian (R564m) firm whose assets have been seized by the National Prosecuting Authority's (NPA's) Asset Forfeiture Unit, in what critics say essentially amounted to a bribe to secure the contract for McKinsey. Corruption and bribery are prohibited in terms of the Prevention and Combatting of Corrupt Activities Act. In October 2017 McKinsey said they have offered to return the R1.028bn funds.

Equitable and Fair

Other energy costs are not escalating by 30%. Oil and its derivative products have actually decreased recently and in constant US Dollar terms, the price trend has been dropping since 2014.

Predictable

A 30% Eskom's electricity tariff increase is a price shock. Price shocks are normally attributed to a lack of supply, but Eskom has spare capacity. Eskom has connected two 794MW units from the Medupi power station, one 800MW unit from the Kusile power station and all four 332MW units from the Ingula pumped storage scheme to the grid by the end of 2016. Since January 2017, this spare capacity stood at 27.1% of demand. Eskom should lower the prices to increase consumption.

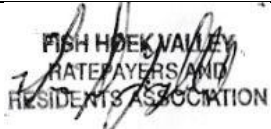
Transparent

Transparent means no hidden costs. Paying bribes and awarding contracts without going through requisite tendering processes cost more. This also results in broken trust. Savings from corruption should be recovered and applied to further reduce the cost of electricity to consumers. Perpetrators should be charged for their criminal activities.

2. RECOMMENDATION

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

- Eskom's RCA (Regulatory Clearing Account) application for a refund going back to 2014-2017 **BE DENIED**;
- NERSA exercise its oversight role ordering a truly independent audit of Eskom's books; and
- Eskom's prices should be lowered due to the spare electricity generation capacity, savings from not paying bribes and recovered funds spent fraudulently.

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