

FISH HOEK VALLEY RATEPAYERS & RESIDENTS ASSOCIATION

(Incorporating Fish Hoek, Clovelly and Sun Valley)

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TO: NATIONAL ENERGY REGULATOR OF SOUTH AFRICA (NERSA)
VIA: MS LEHUMA MASIKE OR MS LEHUMA MASIKE mypd@nersa.org.za

**SUBJECT: INVITATION FOR PUBLIC COMMENTS ON ESKOM'S THIRD
MULTI-YEAR PRICE DETERMINATION (MYPD 3) REGULATORY
CLEARING ACCOUNT (RCA) YEAR 5 (2017/18) AND FOURTH
MULTI-YEAR PRICE DETERMINATION (MYPD 4) APPLICATIONS
AND THE TIMELINES FOR THE DETERMINATION PROCESS ¹**

DUE: 30 NOVEMBER 2018 AT 16:00

1. DISCUSSION

Thank you for this opportunity to comment.

We do not believe that Eskom is efficient and view their claimed "prudent" costs with great suspicion. Efficient organisations use the minimum level of staff necessary to run their operations. In 2006 Eskom's headcount was 32,224 when its energy output was 222 Terawatt hours and we don't think it was efficient then. Today's headcount is 47,658, yet Eskom's output is only 220 Terawatt hours.² So, today, Eskom is grossly inefficient, especially when one considers that the average Eskom salary is four times higher than global averages.

The key component here is "Eskom's allowed revenue", which is approved by NERSA. Any assumption of entitlement is greatly over exaggerated. We do not support Eskom (RCA) being allowed to try and recover for its past sins. It is not remorseful for its past (capture ³) and hasn't made sufficient amends going forward. There is not a sustainable plan being presented with real-world sales figures and maintenance of even its current assets is woefully inadequate. We demand a full forensic investigation with criminal charges being laid. The pricing "methodology" may be interpreted by Eskom as "allowing" for recovery in subsequent years, but the methodology is flawed. No one should have ever agreed to a cost plus methodology in the first place as they are never efficient for cost savings. In fact, the more costs that are accrued usually serve the organisation better as salaries are often linked to some aspect of the more costly organisation. One way of inflating costs is to inflate the

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[http://www.nersa.org.za/Admin/Document/Editor/file/Consultations/Electricity/Notices/Advert%20for%20Public%20Comments%20-%20Eskom's%20MYPD3%20Year%205%20RCA%20and%20MYPD4%20App\(1\).pdf](http://www.nersa.org.za/Admin/Document/Editor/file/Consultations/Electricity/Notices/Advert%20for%20Public%20Comments%20-%20Eskom's%20MYPD3%20Year%205%20RCA%20and%20MYPD4%20App(1).pdf)

² <https://mybroadband.co.za/news/energy/281163-eskom-wants-to-increase-electricity-prices-by-15.html/amp>

³ <https://eeco.co.za/eskom-increase-request/>

regulated asset base (RAB) value, which Eskom did in its revaluation by an unnamed “expert”.⁴ This revaluation method should be made public.

Regarding the second application, MYPD 4, we do not support any escalation, especially not one that is three times the current rate of inflation and then compounded over three years. When a factor is part of the consumer price index (CPI), they must realise their impact upon inflation, which represents a hardship for everyone as prices increase during inflation. Those employed feel they must demand more salary and wages while those unemployed and retired have to make due with less as their income does not match the CPI. The proposed 15% increase per year on top of the already granted 4.41%, will drive up CPI, currently hovering around 5%, as it will most likely be one of the major contributors to the general CPI increase.

Overall (RCA and MYPD 4), Eskom is requesting “a price increase of over 90% in the 2019/20 year”.⁵ This is patently unpalatable.

That even the requested increase contained in the MYPD 4 and MYPD 3 RCA together will still fall short of their debt servicing level is another indication of poor financial management.⁶

Eskom has completely broken trust with consumers. Eskom’s debt should be ring-fenced and its assets should be sold to private concerns that know how to manage funds, starting by separating generation from distribution.

We feel that further development of Kusile and Medupi should be subject to critical review. Also, the viability of retrofitting off-gas cleaning to existing power stations should be carefully evaluated against the option of closing these power stations. It is of concern to us that “extensive emission abatement retrofits to ensure compliance with the” Air Quality Act #39 of 2004 are contemplated. Grid electricity consumption is now at the 2007 level resulting in spare generation capacity.⁷

2. RECOMMENDATIONS

Therefore, for the reasons set out in this report, we recommend the following:

- That Eskom’s third Multi-Year Price Determination (MYPD3) Regulatory Clearing Account (RCA) Year 5 (2017/18) application totalling R21 624m and fourth Multi-Year Price Determination (MYPD4) application totalling R219bn, R252bn and R291bn for the 2019/20, 2020/21 and 2021/22 financial years respectively **BE DENIED**;
- That Eskom be investigated for fraud and corruption with criminal charges being laid on the perpetrators;

⁴ <https://eeco.co.za/2018/10/23/eskom-were-entitled-to-a-90-increase/>

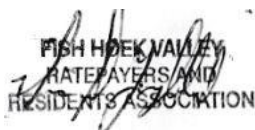
⁵

<http://www.nersa.org.za/Admin/Document/Editor/file/Consultations/Electricity/Notices/Eskom%20Summary%20MYPD4.pdf>

⁶ <https://www.sanews.gov.za/south-africa/consultation-eskom-rca-application-begins>

⁷ <http://www.eskom.co.za/news/Documents/DraftIntegrResourcePlan201827Aug2018.pdf>

- That Eskom must fully divulge its recalculated regulated asset base and “expert” named;
- That a proper financial management team make the Eskom assets available for sale;
- That further development of Kusile and Medupi should be subject to critical review and no new coal plants be started;
- That the viability of retrofitting off-gas cleaning to existing power stations should be carefully evaluated against the option of closing these coal power stations;
- That headcount be reduced immediately;
- That generation be separated from distribution;
- That the cleanest and cheapest new-build mix of Solar Photo-Voltaic, wind and flexible power generators be implemented; and
- That 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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DATE	5 November 2018