

Media Statement

For immediate release

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SALGA presents Member's concerns during Public hearings into Eskom's RCA application

Eskom revenue requirements cause uncertainty when it comes to future electricity pricing path in the country - and in turn - this causes some level of instability to the economy. The South African Local Government (SALGA) and its Member Municipalities have assessed the Eskom Regulatory Clearing Accounts (RCA) application for 2014-2017 financial years and have raised a series of concerns to the National Energy Regulator of South Africa (NERSA).

SALGA is participating in NERSA's public hearings which is being conducted nationwide between 16 April and 11 May 2018 on the RCA application. The public hearings provide stakeholders and the public with the opportunity to make presentations on the applications.

The RCA is a regulatory mechanism, which allows Eskom to make up for the over or under recovery of costs as the multi-year tariff adjustments based on forecasts. In the current application, Eskom wishes to recoup R66.6 Billion through the RCA application to NERSA.

SALGA is concerned that municipalities and the communities are often disadvantaged by Eskom tariff increases. This creates some anxiety and uncertainty to the communities and the economy.

Electricity sales in municipalities show a sustained downward trend over the last years and in some cases have dropped significantly. This is also the case with Eskom, however, Municipalities cannot penalize its customers for the low demand or reduction in sales. In addition, the structural and systemic challenges underlying municipal debt to Eskom have also not been resolved. It is a great concern to SALGA and its Member Municipalities to receive yet another application from Eskom to increase tariffs.

SALGA and its Member Municipalities have assessed the Eskom RCA application for 2014-2017 financial years and have raised the following concerns to the Energy Regulator:

- “While SALGA have always supported Eskom’s financial sustainability, prudence on some of the costs within these RCAs remains questionable;
 - The Revenue Variance which due to inaccurate forecasting by Eskom and which is now claimed from the customer (why has Eskom made an inaccurate forecast of its revenue – yet again? Why must customers constantly be punished for Eskom’s inaccurate revenue forecasts?)
 - The Coal and Diesel burn where Eskom used more than what was allowed by NERSA due to some of its internal inefficiencies and not meeting its own targets. (Why is Eskom using more coal and diesel than what they anticipated? What is the real reason? Is poor maintenance of the Eskom’s generation fleet not a contributing factor to Eskom failing to meet its own targets?)
 - There are concerns on Eskom primary energy contracting in particular coal and diesel where prices become above markets (what prices is Eskom paying those who are providing coal and diesel? Are these prices market related?)
 - Independent Power Producer costs that were also accrued due to Eskom not meeting its own targets. (Why did Eskom have to use expensive short-term power in excess of what was allocated by NERSA?)
- SALGA also cautioned NERSA about the liquidation of these RCAs that needs to be carefully considered (maybe to 3-5 years or beyond) – these RCAs CANNOT be a once off price adjustment. The Regulator needs to consider what the country can take currently and in the next few years;
- Over the last 3 years in Eskom’s Multi-year price determination (MYPD3), Eskom has used what is beyond the NERSA allocations in some of its costs and are now faced with 3 RCAs, amounting to R66.6 Billion arising from the 2014/15, 2015/16 and 2016/17 RCAs which it wants to claim back from customers);

- The effectiveness (starting date) of the RCA decisions must take into consideration the municipalities' budget processes including consultation of the citizens;
- There is also another RCA for 2018/19 on its way from Eskom; which adds to uncertainty;
- MYPD 4 is also on its way meaning these RCA s could be implemented parallel to it;
- Possibilities of further future RCAs for MYPD4 and this just raises some uncertainty on the electricity price path in the future.

It is SALGA's view that Eskom needs to thoroughly assess the underlying problems within its business and rather focus on re-engineering its operations to resolve them than to address its financial challenges through several tariff increases. SALGA also calls for NERSA to provide certainty regarding the future price path in its decision making considering the future events that may take place as mentioned above.

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For further media enquiries, please contact:

Sivuyile Mbambato
Media Relations Officer
Mobile: 073 897 8519