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Submission to NERSA on Eskom MYPD6 Revenue Application

Introduction

The Green Connection is an eco-justice organisation that aims to ensure sustainable development and that the voices of those least able to participate in decision-making are amplified. The Green Connection believes in good governance and rejects Eskom's latest tariff applications as not being in the public interest.

In principle, the Green Connection also supports the groundwork submission to NERSA on the Eskom MYPD6 application.

Environmental obligations.

NERSA is bound by the National Environmental Management Act (NEMA) section 2 principles. We insert the following to remind NERSA that in making its decision, we believe such principles must be taken into account.

4(e): Responsibility for the environmental health and safety consequences of a policy, programme, project, product, process, service or activity exists throughout its life cycle.

4(i): The social, economic and environmental impacts of activities, including disadvantages and benefits, must be considered, assessed and evaluated, and decisions must be appropriate in the light of such consideration and assessment.

4(k): Decisions must be taken in an open and transparent manner, and access to information must be provided in accordance with the law.

4(a)(ii) that pollution and degradation of the environment are avoided, or, where they cannot be altogether avoided, are minimised and remedied

Cost reflective tariffs.

Eskom has produced its rationale for higher prices on the basis that it doesn't have enough money to run its operations, that it is always getting into more debt and that as that debt is then helped by national government, either handing out more loans, or taking equity, such then impinges on the national government's ability to borrow and to deliver services.

Eskom continues to assume that they will be able to raise the revenue from the sales of electricity, and on page 138, point to elasticity calculations that conclude that even if

the price of electricity goes up, the demand will not fall for residential customers. Our conversations with households do not support this, and we strongly encourage NERSA to listen to people's lived experiences.

Eskom's main complaint is that NERSA does not allow it to charge enough for its electricity.

StatsSA point to poverty increasing. *As of 2024, around 13.2 million people in South Africa are living in extreme poverty, with the poverty threshold at 2.15 U.S. dollars daily. This means that 139,563 more people were pushed into poverty compared to 2023. Moreover, the headcount was forecast to increase in the coming years. By 2030, over 13.4 million South Africans will live on a maximum of 2.15 U.S. dollars per day.*[1]

Dependence on coal and other fossil fuels

Eskom continues to rely on coal and presents an analysis which points to coal being exported, that coal demand is dropping and that banks don't want to fund more coal. At no point in the Eskom summary submission is the reason for moving away from coal articulated, climate change crisis acknowledged and the necessity of an energy transition away from coal admitted.

Eskom makes the case that a large part of the tariff increase is attributed to the need to plan and fund for the replacement of their fleet – replacement of their assets. However, it is not clear how the value of the asset base is derived. Renewable energy is increasingly cheaper to build and operate than fossil based (IRENA 2021)[2]. If Eskom plans to replace its coal asset base with renewables, then the total amount that is needed will be less than if Eskom is assuming that its replacement fleet will be similar to the costs of Medupi and Kusile.

We believe that NERSA must interrogate this further and only allow an amount that will enable Eskom to transition away from coal.

Given South Africa's climate change commitments, Eskom cannot continue to hide its head in the sand and pretend that climate change does not exist. It is highly unlikely that more coal fired power plants will be built, certainly the Eskom fleet will not continue to be coal. It would therefore not be prudent to allow Eskom an increase in the RAB category for coal generation, as moving to renewables is something that can be predicted and Eskom must know about.

[1] https://www.statista.com/statistics/1263290/number-of-people-living-in-extreme-poverty-in-south-africa/

[2] https://www.irena.org/news/pressreleases/2021/Jun/Majority-of-New-Renewables-Undercut-Cheapest-Fossil-Fuel-on-Cost

The primary energy costs.

This has been pointed out by civil society over many representations to NERSA. We need to compare apples with applies not oranges or any other variety of fruit.

Eskom has a fleet that is more than 90% coal, nuclear and gas.

If we assume that almost all costs not allocated to IPP purchases are to operate the coal fleet, then a back of the envelope calculation shows that Eskom coal is R2.26/GWh while the IPPs are R2.12/GWh. Given that the IPP costs include fossil IPPs and not just renewables, this is an illustrative calculation. However, the principle is that all Eskom costs that are not IPP purchases therefore need to be proportionately assigned to the coal fleet. This includes all the personnel in financé, HR etc at Eskom head office, as well as the generation fleet staff.

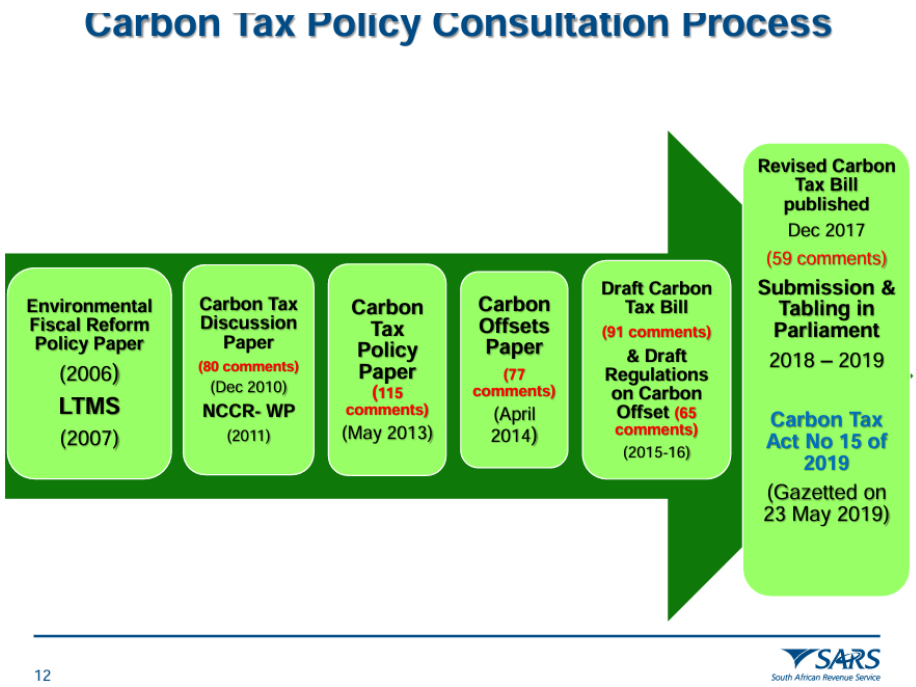
TABLE 1: PROPOSED ALLOWABLE REVENUE APPLICATION FOR MYPD 6 PERIOD

Allowable Revenue (R'millions)	AR	Formula	Decision FY2025	Application FY2026	Application FY2027	Application FY2028	Post Application FY2029	Post Application FY2030
Regulated Asset Base (RAB)	RAB		988 345	1 066 724	1 192 878	1 219 244	1 243 078	1 278 277
WACC %	ROA	X	1.58%	4.00%	5.00%	6.00%	7.47%	9.69%
Returns			15 616	42 669	59 644	73 155	92 908	123 916
Primary energy	PE	+	92 816	128 000	133 061	128 869	129 492	134 119
International purchases	PE	+	9 334	10 262	9 737	13 656	11 853	12 387
IPPs	PE	+	76 970	66 633	77 640	109 820	135 510	140 943
Environmental levy	L&T	+	6 503	6 539	6 279	5 337	4 781	4 767
Carbon tax	L&T	+	-	5 534	21 291	19 895	19 274	20 948
Arrear debt	E	+	-	8 914	9 917	10 752	12 037	13 310
Operating costs	E	+	61 442	93 315	93 834	97 864	100 152	105 100
Depreciation	D	+	73 376	66 931	69 952	77 431	79 685	85 961
MYPD6 Allowable Revenue			**336 057**	**428 798**	**481 355**	**536 778**	**585 691**	**641 450**
Add: Approved RCA/court order for liquidation	RCA		16 109	16 765	14 000	-	-	-
TOTAL MYPD6 Allowable Revenue	R'm		**352 166**	**445 563**	**495 355**	**536 778**	**585 691**	**641 450**

The IPP costs include all of these other staff, logistics, etc costs which IPPs then calculate to get to a price at the gate as it were.

For Example, the environmental levy and carbon tax belong to the coal fleet and should not float as if they are an unknown extraneous cost.

Figure 4: Carbon Tax Policy Consultation Process – as presented by SARS



On page98 re the carbon tax, Eskom says that Treasury introduced the carbon tax, but seems oblivious to climate change imperative although acknowledging that the carbon tax was a tax on greenhouse gas emissions.

The carbon tax was first mooted as a discussion paper in 2011 and implemented as the Carbon tax act in 2019 (Figure 4 provides the timeline). And for the first few years, the tax was effectively zero to give Eskom time to plan its exit from coal. Eskom does not seem keen to move away from coal and is now bemoaning the imposition of a meaningful tax over the next couple of years. This is not an unknown cost, it could have been predicted as Eskom has known about this for 14 years. Eskom could have at least put a climate change plan together.

NERSA must then consider if these are costs that could have been predicted, and avoided had Eskom invested in renewable energy. It would seem that they are not prudent expenses and should not be borne by hapless customers.

We do not support the media statements of Minister Ramaghopa to reduce the carbon tax part of the tariff as this just pushes the can down the road and makes coal appear cheaper than it is as its external costs are not included. Failing to include the external costs then exacerbates any delay in the transition away from fossil fuels.

Eskom's application with its cost reflective motif might find favour with those concerned directly with the country's debt ratios but in our view, this is smoke and mirrors. There is no point in raising electricity tariffs if your customers cannot afford them, and the

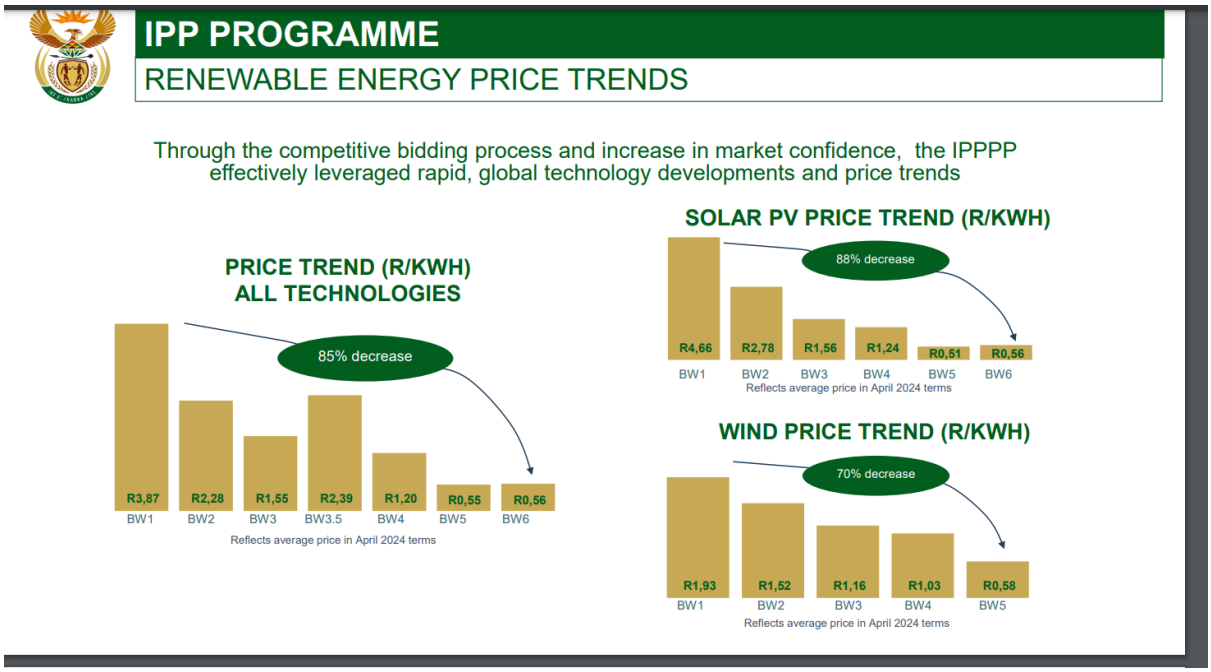
supposed revenue predicted will not be realized. The same story will then play out at the next RCA round and at MYPD7 etc. It is throwing good money after bad.

The goverment has also put aside money for FBE at household level, money that is supposed to go back to Eskom via municipalities and households. PARI's study[3] indicates that money for FBE does not reach all the recipients, and that the amount allocated for FBE is not sufficient to enable households to cook, bathe and keep themselves warm in winter.

It would therefore seem that Government should direct that pot of money towards solar water heaters, solar pv, batteries and solar home systems. These would enable poorer households to achieve some form of basic energy security. Those that are connected to the grid but cant afford electricity should also receive alternative energy services. It might also be that independent energy suppliers (a community owned IPP or a municipality owned power station) can provide electricity cheaper than Eskom.

The slide below shows how the cost of renewable electricity has decreased over time.

Figure 1[4]:



Government should be directing its energy and money towards serving the people providing for the people who need energy. It is unclear that pushing money into an

[3] Tracy Ledger, *Broken Promises, Electricity access for low-income households: good policy intentions, bad trade-offs and unintended consequences*, Public Affairs Research Institute, April 2021.

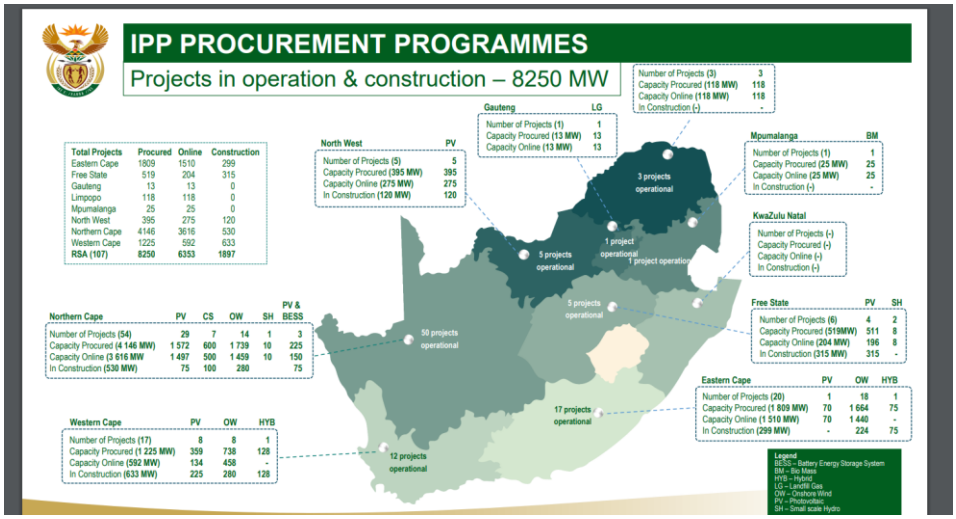
[4] Ministerial Briefing by Minister Ramagopha on 21 October 2024 https://www.gov.za/news/speeches/minister-kgosientsho-ramokgopa-media-briefing-independent-power-producer-programme-21

inefficient Eskom is an efficient way of providing energy to households and businesses that cant afford cost reflective tariffs.

There is also a need to expedite the functioning of the distribution and transmission entities as separate state owned legal institutions not part of Eskom.

We have already seen mines, industry and high income residences start shifting to alternative energy supply. On page 143, Eskom responds to Treasury who is concerned that relying on tariff increases to increase revenue while not increasing sales volumes is a sustainability risk for the Eskom business. In its response, Eskom states that " *an increase in sales would be beneficial*". However, after providing a list of factors that contribute to low sales, Eskom then admits that " *The projections for sales forecasts have included the impact of further roof-top solar PV and the lifting of the licensing threshold. This has thus resulted in a decreasing trajectory for the sales forecast*" . There seems to be no mitigation offered. Eskom has also entered into NPAs with big industry, leaving the rest of the customer base to subsidise these industry players. These NPAs might result in stable sales volumes but will not contribute to Eskom moving to cost reflective tariffs.

Figure 2. Renewable energy projects in operation and construction 2024[5]



NERSA needs to investigate the financial viability of each of the Eskom fleet, as Eskom indicates in its application that unplanned outages and maintenance costs will increase as it extends the life of its power stations. At what point should they be retired as the costs of running them are more expensive than shutting them down and building new power stations. Figure 3 provides a snapshot of Eskom performance, which shows that unplanned shutdowns averaged 10508MW in the week of 18th October 2024.

[5] Ministerial Briefing by Minister Ramagopha on 21 October 2024 https://www.gov.za/news/speeches/minister-kgosientsho-ramokgopa-media-briefing-independent-power-producer-programme-21

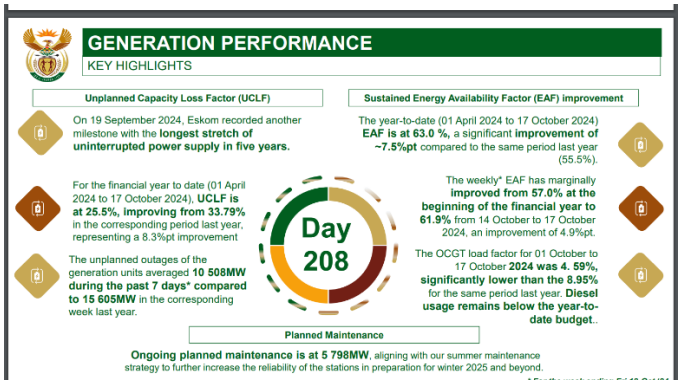


Figure 2 shows that 8250MW of Renewable Energy power plants are either in operation or construction. In addition, there is another 1744MW of battery storage in the pipeline.

On 4th October 2024, Eskom operational fleet (after outages) had a capacity of 30075MW which would seem to indicate that IPPs mostly renewables are making up around 25% of the national electricity capacity.[6]

According to the Groundwork submission to Eskom, *The social costs of Eskom's pollution are extreme and largely imposed on poor people. Some 2,200 premature deaths a year are attributable to its coal burning power stations. Tens of thousands more people are afflicted with asthma and bronchitis. Thousands are, or should be, admitted to hospital. Many more suffer 'restricted activity days' – days when they cannot function normally – and every year about a million working days are lost.*[7] *The combination of MES exemptions and delayed decommissioning will add up to many thousands of deaths over the extended life time of these plants. This toll may be reduced if the coal burn is reduced as indicated in this application – largely reflecting a forecast decline in sales*.

The costs of pollution and the failure of Eskom to put in place its emission abatement technologies with the excuse that they are too expensive should be dismissed. People's health must come before profit. NERSA should not allow any financial claims by those suffering from Eskom pollution and paid by Eskom to be passed on to the electricity consumer. Eskom knew what it needed to do to improve air quality and it did not do it. Such costs it now faces means they could have been avoided and are thefore not prudent.

These questions are part of the Just Energy Transmission discussions but we would emphasise that Eskom needs to compensate its employees with full benefits as that is

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[6] https://www.eskom.co.za/loadshedding-suspension-continues-after-191-days-of-uninterrupted-power-supply-achieving-r11-51-billion-in-diesel-savings-year-on-year/#:~:text=As%20of%20today%2C%20Eskom's%20available,by%20Monday%2C%2007%20October%202024.

[7] Holland, M. 2017. *Health impacts of coal fired power plants in South Africa*. Report to groundWork and Health Care Without Harm.

part of the just part of the energy transition; and climate funds should be called on to do so. It is not a prudent or efficient cost to run power stations beyond their financial life.

NERSA's aim in life is to protect consumers and regulate electricity prices. This does not preclude efficient operations making a reasonable profit as per the NERSA rules but not at people's expense. NERSA needs to demonstrate how it has applied its mind to implementing the NEMA principles in its decision-making.

Conclusion:

The Green Connection does not support the MYPD6 application as it stands. We believe that people cannot afford Eskom's cost reflective tariffs and that the entire electricity pricing system is unsustainable and has collapsed. This is beyond the ambit of NERSA but we believe that NERSA cannot serve the people of South Africa in its decision-making on narrow electricity tariff applications when the entire system is broken. This is akin to shuffling deck chairs on the Titanic.

NERSA needs to apply to the Minister of Electricity and Energy to undertake an urgent review of the electricity system to ensure that it is fit for purpose before looking at the role of Eskom and hence Eskom's tariffs.

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