

# **SACCI COMMENTS ON ESKOM'S APPLICATION FOR AN INTERIM TARIFF INCREASE**

## **1. Introductory Remarks**

SACCI recognizes the role that Eskom plays in the economy. Over decades one of South Africa's competitive advantages has been its electricity price that to some extent countered the high cost of transport of goods to markets located far afield. It is for this reason that SACCI believes that Eskom should be empowered to continue to provide this benefit to business.

SACCI also believes that Eskom has to be as efficient as possible and that it needs to be supported by an appropriate funding model that provides a holistic and integrated approach to tariffs, borrowings and equity that gives rise to an optimal balance between funding sources and resulting tariffs.

The low reserve margin is a natural outcome of the lack of investment in new generating capacity coupled with the increasing demand for electricity over the past few decades. It is imperative that Eskom continues to implement its capital expansion programme, and that the necessary funding be acquired. It is thus very important that an appropriate funding model be implemented as soon as possible. It is noted that such a funding model is still being considered, with the result that Eskom has not submitted its application for a Multi Year Price Determination (MYPD) for the period 2009/10 to 2010/11. This raises the question as to whether the application for an "interim" tariff increase relates to a single increase for the year 2009/10 in the absence of the MYPD or whether there will be additional applications during the course of the year. It is noted that it is intended to submit a final application for a full MYPD for the period 2009/10 to 2011/12 once the funding model has been finalized which does not rule out the possibility of a further increase during 2009/10. SACCI is gravely concerned at this possibility, particularly in current difficult economic climate.

SACCI believes that the NERSA model for "smoothing increases over the MPD period" provides a basis for income generation for Eskom. Indeed, SACCI advocates an adjustment to this principle whereby in the current difficult times when a lower increase is initially applied, with incrementally higher increases, at predetermined intervals, as the economy recovers between now and 2012.

## **1. Role of Eskom**

SACCI recognizes the significant role that Eskom has to play in the South African economy. Not the least of its responsibilities is to provide a reliable supply of electricity of an acceptable quality to business. Unless business is sustainable, the national aspirations relating to a prosperous country, with the eradication of poverty and the reduction of unemployment and increased investment will not be possible. Eskom's need to invest in additional electricity generation is therefore non-negotiable.

## **2. Motivation for the Interim Price Increase**

While SACCI has empathy with Eskom for the challenges that it faces in the current global financial crisis, SACCI points out that business is no less affected. In common with Eskom, business is also faced with difficulty in generating profit from operations, increased cost of financing and in the obtaining of credit – yet it is from these very institutions that Eskom wishes to obtain the funding that it needs to implement its expansion programme.

SACCI has always advocated a cost-recovery basis for setting of tariffs. However, the Eskom statement that the proposed increases will not be prejudicial to customers as it would still result in tariffs significantly below the true cost of electricity cannot be supported due to the magnitude of the increase applied for. SACCI finds it difficult to understand how this “interim” solution “takes into account the needs of all customers, Eskom and other stakeholders and will therefore facilitate a successful outcome for all parties”. It is for this reason that SACCI created a platform where engagement could take place between Eskom and SACCI members where Eskom could enlighten business on its perspectives. Regretably, Eskom was not able to participate, leaving our members with unanswered questions and doubts concerning the validity for the increase.

## **3. Basis of Application**

SACCI is concerned at the statement that should NERSA assess the application on the basis of a revenue determination, as would be the case if the MYPD was in place, the increase would be higher than the 34% applied for. This indicates that there is strong possibility that there will be an application for a further increase once the MYPD is adopted and is reinforced by the statement that the final MYPD application will be made once the funding model has been clarified, unless an earlier application is required as a consequence of Eskom’s financial position.

SACCI points out that unscheduled increases in input costs is detrimental to business, and makes it difficult to plan for the future. Cognisance must be taken of the fact that input costs filter through the pricing chain and contribute to inflation.

## **4. NERSA Guidance on Probable Prices**

SACCI supports the NERSA philosophy of “smoothing price increases” and notes that in 2008 NERSA stated that “if the economic climate continues to prevail and Eskom’s capital expenditure remains as currently stated, then tariff increases between 20% - 25% (per annum) are projected over the next three years”. The current application for an increase 34% coupled with the real possibility of an application for a further increase during the current financial is cause for grave concern. The impact of the current economic climate on Eskom notwithstanding, it is difficult to accept that consumers, who are likewise affected, should be required to shoulder such a large financial burden.

## **5. Cost Drivers**

While SACCI notes that electricity sales in a recession are likely to decrease, business faces the same dilemma. The proposed electricity tariff increase will inevitably result in higher unit costs for goods and services. This will have a negative impact on consumer ability to afford them. If South Africa is to mitigate against the global economic situation, this downward spiral has to be arrested.

## **6. Concluding Remarks**

While recognising the need for funding for Eskom's operational and expansion programmes, SACCI appeals for moderation in tariff increases approved by NERSA. In particular, SACCI appeals to NERSA to take the impacts of the current economic downturn on business into account when considering Eskom's application. SACCI believes that the NERSA principle of smoothing the increases over the MYPD should be implemented, with the additional parameter that increases be applied incrementally, and at predetermined intervals that would make it possible for business and other consumers to develop appropriate strategies to accommodate the increased input costs.