

Sustainable Energy Briefing 13

DTI's Developmental Electricity Pricing Programme: Who's Benefit?

In late 2006, the first contract was signed between a foreign company and the South African Government under the recently adopted Developmental Electricity Pricing Programme (DEPP). That deal was with the aluminum company Alcan and in regards to its proposed smelter at the Coega IDZ. The details of that deal remain a secret to this day. Why? Because the DEPP is biased towards the interests of foreign multinationals, and promotes a culture of secrecy.

This Sustainable Energy Briefing aims to highlight some of the concerns surrounding the DEPP.

What is the Developmental Electricity Pricing Programme?

According to the DEPP Guidelines (Clause 2.1), the DEPP is:

The DEPP, a programme administered by the Department [of Trade and Industry] under the supervision of the Director General, aims to attract industrial investment projects to the Republic, which would in the absence of DEPP not invest in the Republic, through providing them with electricity tariffs that will...[be] justified in terms of competitive international electricity prices

What does this mean? Essentially, the DTI, through reduced electricity tariffs, seeks to attract foreign industries that are heavy consumers of electricity (over 50MW) to South Africa. In return for investment in South Africa, the DEPP will ensure that electricity tariffs are competitive (according to Eskom in its press release on its latest CAPEX plan our nearest competitor is Australia, which sells electricity at US\$0.053 per kwh and is 30% more expensive than us) and that the industry in question can achieve an profitable internal rate of return; i.e. if electricity is a major overhead (such as in aluminum smelting), it seems that the tariff must be low enough to ensure profit.

This is a significant incentive for heavy industry to invest in South Africa with the aim of hopefully providing much needed jobs. However, all it guarantees is that Eskom will be contractually obliged to provide tariffs for heavy industry at a rate lower (or, at most, on par with the next cheapest supplier of electricity) than anywhere else. It is, in effect, a subsidy for foreign industries, similar to a tax break or import duty waiver.

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The DEPP and Eskom Sales

This begs the question, what is the exact tariff that Eskom can sell to industries that qualify under DEPP? The DEPP Guidelines state (Clause 3.3.3):

The electricity tariff shall at least cover the cost of supply of the electricity, eliminating subsidies to other customers as far as is possible, provided that the electricity tariff shall result in an internationally competitive price for the specific market/segment at the time of contract negotiation.

Therefore, the DTI seems to be committing Eskom to sell electricity at cost; what exactly that cost is, is somewhat vague. Is it valued at the current or old cost of supply, or is it for the future cost of supply calculated on new baseload generation? Why isn't Eskom's forward pricing curve in the public domain?

What don't seem to be factored into the cost of supply under the DEPP are the externalized costs. This is critical as corporations qualifying for the DEPP are to be heavy users and the more power generated, the greater the externalized costs. For example, the environmental group TWIG has calculated that the indirect costs of harm to the environment based on Eskom's CO₂ emissions to supply the proposed Alcan smelter (1350MW) with electricity would be R6.4 billion. These costs are not factored into the DEPP tariffs and, thus, must be borne by society as a whole.

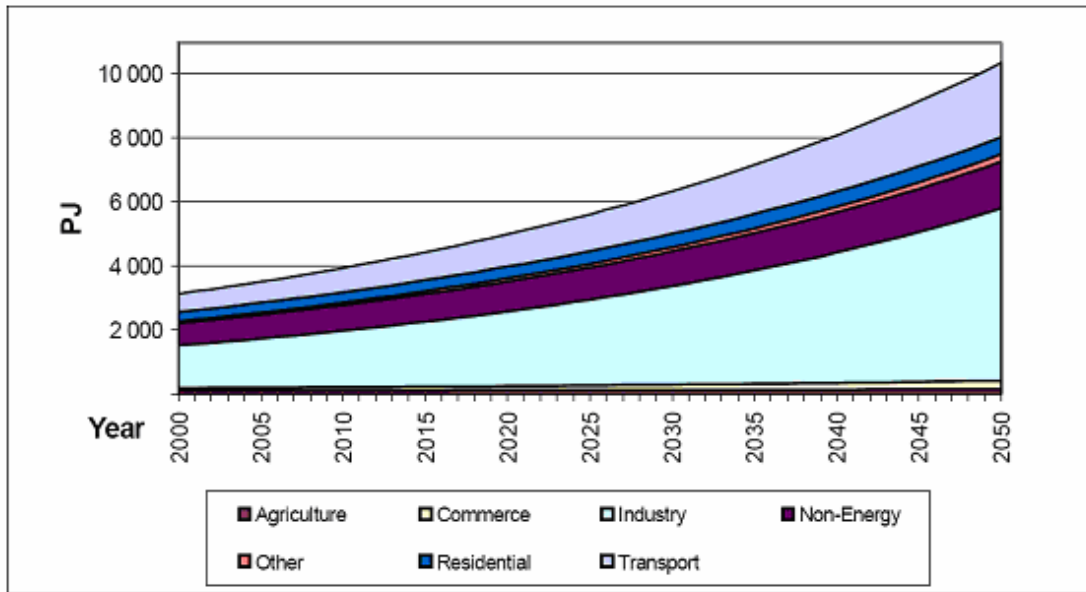
This is important, as supply contracts under the DEPP are long-term contracts and thus bind all of society to honour them since Eskom is a state-owned enterprise. Clause 3.1 of the DEPP Guidelines states:

The approved project will receive a developmental electricity tariff at the rates recommended by Eskom and the Department, as approved by the NERSA, for a minimum period of seven (7) years or longer as recommended by the adjudication committee.

Heavy users of electricity, such as those who qualify under DEPP, are the prime movers of demand within the sector; 29 companies account for 40% of all electricity usage. Given this, shouldn't the heaviest users of a publicly-produced good pay a fair and proportional price for that good, a price that includes the externalized costs and costs concerned with infrastructure expansion?

Figure 1, on the preceding page, uses Department of Minerals & Energy statistics to clearly demonstrate that industry will be at the forefront of increasing energy demand over the next forty years.

Figure 1: Energy Usage by Sector. 2000 to 2050.¹



The DEPP and Eskom's CAPEX

Eskom has announced a major new CAPEX programme, focused on transmission and generation, looking to add 20,000MW of generation by 2017. The cost of the proposed CAPEX programme is R150 billion (up from the previous estimate of R97 billion) with at least 50% of that financed through debt.

Given that Eskom is entering into long-term debt contracts, the prudent question is who will pay for that? And, this question leads directly into the murky area of subsidization, something which the DEPP states will not happen.

If heavy users of electricity are paying tariffs at the current cost of supply (or near to it), it seems obvious that they will not pay towards the repayment of debt or direct cash input to the CAPEX programme. The heaviest users of electricity will not be paying for expansion of generating plant proportionate to the demand they create. Further, heavy users of electricity will stand to benefit through the stable provision of electricity that is supposed to come from the CAPEX plan. Is this not a form of indirect subsidy?

The only way that this issue can be clarified is through the complete disclosure of contracts signed between Eskom and heavy users of electricity, in particular the tariff prices for these users. With that information, the issue of heavy users of electricity

¹ Douglas Banks & Jason Schaffler. 2006. "The potential contribution of renewable energy in South Africa", available at <http://www.earthlife.org.za/topic.asp?TopicID=7&Topic=Research>

contributing towards debt repayment and capital expansion can be resolved, one way or another.

The DEPP and Freedom of Information

Perhaps the most worrying factor about the DEPP is the “built-in” secrecy clause. Eskom is a public enterprise, ultimately owned by the citizenry at large. However, the DEPP guidelines ensure that any contracts signed under the DEPP are to remain secret. This is profoundly anti-democratic. The DEPP states:

All officials, employees or members of the Department, the adjudication committee, NERSA, Eskom and non Eskom distributors shall regard as confidential all technical information, records, particularly any strategic commercial information and all knowledge that pertains to any project that applied for benefits in terms of DEPP, whether such information is recorded on paper or in an electronic manner.

The very next clause in the guidelines bounds individuals with knowledge about the contracts to silence for the rest of their lives:

This clause [quoted directly above] shall be regarded as binding irrespective of whether the employee, official or member is employed by the relevant entities, or ceases employment by the relevant entities.

If the DEPP is a method for promoting growth and development in South Africa, why then the secrecy? Why shouldn't this be in the public domain? This clause gives foreign corporations the right to build electricity-intensive industrial plant in South Africa, get electricity on favourable terms in relation to their expected rates of return, and not to have to tell the country at large what rate they purchased electricity from the South African state. This is troubling, and could very easily lead to misunderstandings about the DEPP. Further, this clause seems to be at odds with the spirit of the Promotion of Access to Information Act, through a pre-emptive strike against the releasing of information.

Conclusion

The DEPP is a flawed programme and many of these flaws have become apparent since its promulgation. The Alcan contract has shown how the confidentiality clauses within the DEPP can be used to obscure contracts that have a direct bearing on South Africa's energy matrix. When examined in regards to Eskom's current CAPEX plan, there are serious concerns about who will pay for it. And, for all intensive purposes, the DEPP looks remarkably like a subsidy for foreign corporations.