Sustainable Energy Briefing 15—SPECIAL EDITION
Eskom Tariff Increases—SECCP Submission

Sustainable Energy Briefing 15 wishes to address the topical question of Eskom's proposed tariff increases. The Sustainable Energy and Climate Change Project (SECCP) believes that the proposed tariff increases are at odds with both economic and environmental justice. The proposed tariff increases will increase poverty and put further strain on limited household resources. It is simply unacceptable, in a climate or rising petroleum and food costs, that South Africa's poorest citizens will be hit with tariff increases for a social service they cannot already afford.

Furthermore, Eskom freely admits in its documentation to the National Energy Regulator of South Africa (NERSA) that one of the main reasons behind the proposed increases is the rising cost of coal. Coal, oil, uranium and natural gases are all finite resources, which will be entering into terminal decline in the short to medium term. Rising demand coupled with decreasing supply means that prices of fossil fuels will increase. Through its new build programme of new coal fired plants, Eskom is locking South Africa into a dependence on coal for the next fifty to sixty years. In much less than sixty years, the price of coal-fired electricity will surpass the cost of electricity from wind and solar resources.

Sustainable Energy Briefing 15 consists of the SECCP's written submission to NERSA, which argues against a price increase until A) the needs of the poor are met, and B) Eskom starts using sustainable, long-term and inclusive financial planning.

The SECCP believes that Parliament and other Government institutions have and should play an important role in examining the proposed tariff increases and the somewhat shaky assumptions behind them.

Introduction

While the price of electricity needs to increase, the proposals put forth by Eskom are either vague or at odds with poverty eradication. Unless Eskom's adequately addresses the issue of indigent users access and affordability of electricity supply and unless Eskom adequately addresses its electricity-generation strategy that is at the heart of its long-term financial ill-health, Eskom's proposals should be rejected by NERSA.

Despite the above, a pro-poor strategy for electricity combined with overall price increases is possible. This submission will outline this, particular in relation to Eskom's proposals (including an inclining block rate), and chart a positive way forward in a global climate of rising energy costs and a local climate of deep poverty and lack of access to electricity.

Alternative Strategy

An alternative, pro-poor strategy to deal with the requested tariff hikes has three key components:

1) A step-block tariff for domestic users with the first block free, second block at cost of supply, and blocks beyond escalating according to usage. Within the step-block tariff it is critical to note that the current free basic allocation is inadequate and should be raised to an equivalent of 100kWh per person per month.

2) Contracts between Eskom and it contestable customers (especially within industrial and mining sectors) be opened for public scrutiny and that tariffs to these customers be increased to meet rising costs and ensuring affordable access to low-income domestic users. Rising energy costs within energy intensive commercial operations (which account for the majority of consumption) would not only increase revenue but would also promote energy efficiency within large-scale users. The failure of voluntary measures (such as the Energy Efficiency Accord) would thus be rectified through market instruments. Eskom's documentation is remarkably silent regarding contestable customers. It is our contention that those customers responsible for the vast majority of demand for electricity should be responsible for the majority of the financing of that demand (i.e. supply). Therefore, the first step in increasing tariffs would be an increase in tariffs to contestable customers. This will require Eskom to disclose the contents of its contracts to its contestable customers.

3) Diversion of some CAPEX resources away from coal & nuclear and towards renewable forms of energy is required for prudential financial planning. Substantial studies indicate that over the long-term that renewable forms of electricity generation will be cheaper in terms of market-based pricing.[1] Even Eskom's own submission bears this out; it is because of rising coal and diesel fuel costs that it needs to raise its tariffs in order to increase revenue. The underlying factors behind these rising costs are due to geological factors that are finite and unyielding; Peak Oil (and the associated Peak Coal) theory indicates that the world has either reached or will very soon reach peak production in petroleum production. Essentially, fossil fuels are in a long-term trend of increasing market value. The price of coal, natural gas and petroleum (and, to an extent, uranium) will not come down. Eskom is running the real risk, through its coal-fired power station build, of locking South Africa into an expensive energy path. This means that future price increases are very likely. NERSA could fulfil its regulatory function by ensuring that Eskom does not take unsound financial decisions that will impact upon society for generations.

Eskom's Proposed Tariff Increases on Indigent Consumers

Even at an 18% increase, Eskom will be placing a burden on consumers who cannot already afford electricity. Despite the Government and Eskom's repeated boasts about electrification, 30% of South Africans are still without electricity. Of the 70% who do have electricity, many poor users suffer from disconnection. David McDonald has calculated that there were two million disconnections by 2002.[2] Furthermore, users of prepaid meters disconnect themselves (due to lack of funds to feed the meter), thus transferring the onus of disconnection from the state to the citizenry. The Free Basic Allocation of 50kWh a month per household is widely regarded to be inadequate; 50kWh doesn't stretch that far between six to eight people.

[1] Douglas Banks & Jason Schaffler, 2006. "The Potential Contribution of Renewable Energy in South Africa", Sustainable Energy and Climate Change Project, pg. 77

[2] David A. McDonald. 2002. "The Bell Tolls For Thee: Cost Recovery, Cutoffs, and the Affordability of Municipal Services in South Africa", Municipal Services Project, pg. 3

It is Earthlife Africa Jhb's contention that the proposed increases will cause more disconnection and bite heavily into poor households' budgets. A social ill will only be increased by the proposed tariff structure. In response to rising electricity prices, many poor consumers will turn towards alternative energy sources such as paraffin, coal, and biomass. This will have enormous financial and social consequences: For example, in 2000, there were 46,000 paraffin fires, 50,000 paraffin burns, and at least 4,000 children died from drinking paraffin. The total cost to the economy of paraffin related incidents is R100 billion a year. Our children are being physically scarred for life or are dying because Eskom refuses to supply adequate electricity to its poorest and most marginalized citizens.[3]

Eskom's Profitable Rate of Return

The concept of a profitable rate of return as presented by Eskom is too narrow, and NERSA needs to apply an expanded definition. Eskom is a part of the South African State and its objectives need to match that of the State's. By and large, the principal objective of the State is to improve the living standards of its citizens. Increasing electricity costs for poor users is contrary to that principal objective, and, thus, one part of the State (Eskom) is at odds with other critical parts of the State (Social Welfare and Poverty Eradication). Furthermore, rising tariff costs increase the inflation rate, which pushes up the repro rate, with consequences to consumer spending. This could lead to an economic downturn. Therefore, the proposed increases will not mean a profitable rate of return for the State as a whole, and this perspective is lacking within Eskom documentation.

Eskom's Lack of Accounting for Externalised Costs

Implementation of the White Paper on energy has been hampered by the lack of enabling legislation, e.g. for mandatory provision of information (including by state owned enterprises) and setting efficiency standards. However, some provisions of the 1998 White Paper have simply been ignored, incl. "ensuring that an equitable level of national resources is invested in renewable technologies, given their potential and compared to investments in other energy supply options;" (7.7). Others have been subject to very partial interpretation, such as the provision of Objective 3 – Stimulating economic development: "…energy prices to be as cost-reflective as possible. To this end prices will increasingly include quantifiable externalities." (5.2.3)

While the Department of Minerals & Energy has three times deferred commissioning of an 'Externalities Study', prices in large-scale, long-term electricity supply contracts are being set in terms of a programme of the Department of Trade and Industry, which has not been through a proper policy process and fails to ensure that even currently accounted costs are covered.

In its documentation, Eskom does not refer to externalised costs and, hence, is projecting an incomplete financial picture of its operations (especially those planned under the CAPEX programme). This needs to be rectified before tariffs are increased as the full financial costs are not known.

[3] groundWork. 2007. "Peak Poison – The elite energy crisis and environmental justice", pg. 60. Available at http://www.groundwork.org.za/Peak%20Poison.pdf

Developmental Electricity Pricing Programme

In December 2006, Eskom and the Government signed a raft of deals with the Canadian aluminium smelting corporation Alcan under the Developmental Electricity Pricing Programme (DEPP). The DEPP, which was never sent to Parliament, provides a special tariff for foreign corporations that want to build high electricity usage, industrial plant in South Africa. The DEPP ensures that the DEPP tariff will be cheaper than anywhere else in the world (or, at least, on par with the next cheapest supplier of electricity) and will be low enough to guarantee the corporation a profitable internal rate of return. Contracts signed under the DEPP are subject to confidentiality clauses, meaning that the exact tariff will not be subject to public scrutiny.

What we do know is that the electricity contract to Alcan's proposed aluminium smelter at Coega will be for the next 25 years and is for 1350MW of electricity, enough to power a medium city. The tariff could be as low as 12c/kWh. The indirect financial subsidies (building of transmission lines and externalized costs of generation) to Alcan top over R12 billion.

While the Alcan smelter has been delayed for at least three years, the contracts with Alcan under the DEPP still stand. It is the height of irony that Eskom seeks to increase rates to domestic consumers (only accounting for 17% of electricity consumption), while it sits on industrial contracts with very low tariff prices. The DEPP should be scrapped as part of Eskom applying the principles of justice to its tariff prices, and the Alcan contract terminated as a matter of economic national security.

Eskom Management Bonuses

At a time when there is an energy crisis and rising tariff costs for ordinary South Africans, Eskom should be seeking to cut non-essential costs in order to reduce tariff prices and finance new, renewable build. Cost-cutting measures are not in Eskom's documentation, and Earthlife Africa Jhb is of the firm opinion that this is ill-conceived. The first cost-cutting measure would be Eskom top management bonuses, saving a minimum of R10.3 million this year alone.

Conclusion

To reiterate, the proposed tariff increases are unjust and economically repressive for poor households. The Earthlife Africa Johannesburg strongly opposes low consumers of electricity having to face tariff increases, and has provided positive recommendations to ensure that the basic needs of South Africa's poorest citizens (who make up the majority of the citizenry) are met in a climate of rising energy costs. This can be achieved while ensuring enough revenue from other users to contribute to capacity expansion and maintenance of existing generation, transmission and distribution.