

**PRESENTATION AT NERSA PUBLIC HEARINGS  
FOR ESKOM'S MYPD3 RCA FOR YEAR 5 & MYPD4  
REVENUE REQUIREMENT APPLICATION**

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04 FEBRUARY 2019**

# WHO IS OUTA?

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**OUTA** is a proudly South African non-profit Civil Action Organization formed to hold those in public office accountable and is funded and supported by ordinary people who are passionate about improving the prosperity of our nation.

## **VALUES**

- ✓ Accountability
- ✓ Transparency
- ✓ Promotion and Protection of public interest
- ✓ Constructive engagement
- ✓ Strategic Partnerships
- ✓ Zero tolerance to corruption and maladministration
- ✓ Active citizenry

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# **ESKOM'S MYPD3 RCA FOR YEAR 5 APPLICATION**

# CONTEXT

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- ❑ Eskom lodged its RCA applications in accordance with section 14.2.1 of the MYPD Methodology. Eskom is claiming that it suffered revenue under-recovery and higher primary energy costs to meet demand, whilst operating in an electricity system during the periods under review.
- ❑ This Regulatory Clearing Account (RCA) application by Eskom is premised on its performance and revenue under-recovery for the year 2017/18 control period within the third multi-year price determination (MYPD3), amounting to R21.62bn.

# OUTA'S CONCERNS (CONT...)

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- ❑ In terms of the MYPD Methodology and complemented by the NERSA decision, Eskom's allowable revenue is aimed at recovering variable costs (mainly primary energy) and fixed costs (operating costs + depreciation + returns) and the process allows Eskom to continue to incur these costs, regardless of whether its sales volume increases or decreases.
  
- ❑ OUTA is of the opinion that Rule 5.4.1 the MYPD methodology relating to qualifying criteria of expenses is **grossly flawed**, as it doesn't curb or minimise expenses, which could be **ill-conceived** or related to **maladministration and/or corruption**. It thus allows for prior year inefficiencies and unduly incurred expenses to be perpetuated into the future.

# OUTA'S CONCERNS (CONT...)

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## ❑ MYPD Methodology shortcomings

- Effectiveness of Prudency Tests
- The change in RAB is determined in terms of rule 6.7.2.3 of the MYPD Methodology as shown below.

✓ *“Eskom will annually report to the Energy Regulator on its capital expenditure programme, providing information on timing and cost variances”.*

- ❖ OUTA: that’s why build programme has exorbitant run-away cost overruns...it is **not closely or regularly checked by NERSA**, it should at least be **quarterly monitored & reported** to ensure **prudency** and **efficient capex execution**).

# REPORTING BEST PRACTICE

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- ❑ MYPD Methodology - Coal will be treated as a single cost centre without differentiating between the various coal sources (for example cost plus contracts, fixed price contracts, short-term contracts and long-term contracts).
- ❑ According to OUTA, the above practice creates a problem of aggregation while different **(grossly inflated)** prices are paid by Eskom to different coal suppliers (mining houses), the impact of this is:
  - ✓ Enabling the hiding of information (serves as a **breeding ground for corruption**)
  - ✓ Prices that could be detrimental to economic development
  - ✓ Failure by Eskom to do necessary capital investment into the coal mines to ensure cheap and sustainable supply of coal to tied power plants.
  - ✓ Create barriers of entry into the industry (**anti-competitive** behaviour could result).

# REPORTING BEST PRACTICE (CONT...)

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- ❑ **Lack of transparency** - for example, the following is not specifically disclosed:
  - a) Value and quantity of fixed assets such as mining equipment & machinery, etc;
  - b) % Ownership of particular mines;
  - c) % Return on investment in those mines;
  - d) Special agreements signed; and
  - e) Pricing arrangements and its impact on primary energy current and future pricing.
- ❑ Reporting – disaggregation will give a better picture – **long term Coal Procurement Strategy should reflect** the above.

# PRIMARY ENERGY

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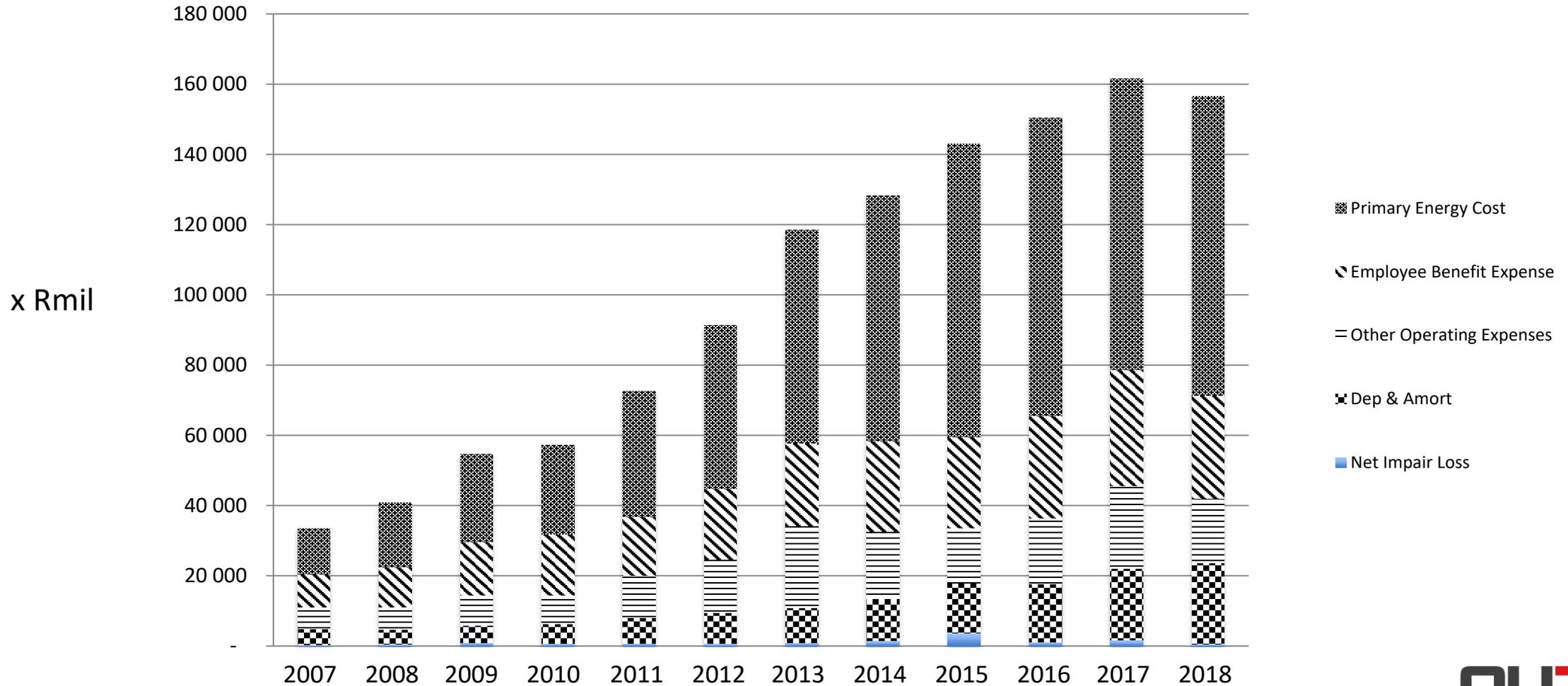
- ❑ During 2016/17FY, Coal purchases – the average price Eskom pays for coal was determined by the volume of coal procured from each type of contract [cost plus, fixed price and short-term/medium-term (ST/MT) and the price of coal from each type of contract, comprising average ST/MT costs of R458/t, Cost plus costs of R388/t and fixed price costs of R262/t (translating into a nominal average of **R369/t**).
- ❑ Primary energy costs escalated from R18bn in 2007 to more than R85 billion in 2018, which is equivalent to a more than **500% increase**. OUTA is of the opinion that this is the breeding ground for corruption as it also includes the **R11.7bn** coal supply contract awarded in 2015 to the Gupta-owned Tegeta Exploration and Resources currently under **business rescue**.

## PRIMARY ENERGY (CONT...)

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□ Eskom's spend on diesel for open cycle gas turbines (OCGTs) has risen from **R4.67m** in January, to **R43.62m** in February and further rose to **R140.67m (68.99%)** in March, it said in response to questions from the *Mail & Guardian*, 28 Mar 2018.

# ESKOM EXCESSIVE INCREASES IN OPERATING EXPENSES



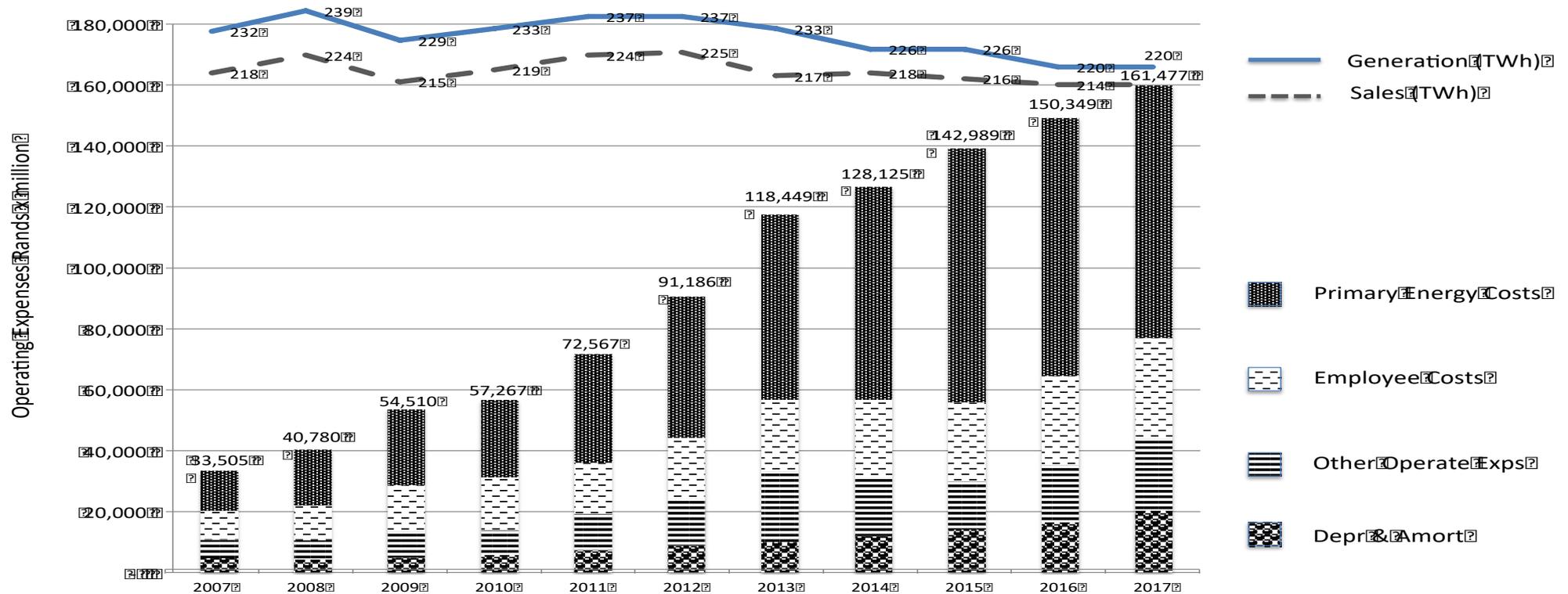
# PLANT PERFORMANCE

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□ Energy availability factor (EAF) has declined substantially falling from 70.97%, in January 2018, to **69.76%** as of 26 March 2018, against Eskom's **target of 78%.**

# OPERATING COSTS VS GX COSTS

ESKOM Operating Costs vs Generation Output



# WORLD BANK REPORT

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- A World Bank study in 2016 found that South African utilities pay workers more than double the norm in 35 other countries on the continent, with staff costs coming in at an average \$61 000 per employee per year. **Eskom is potentially overstaffed by 66%, the report said.**

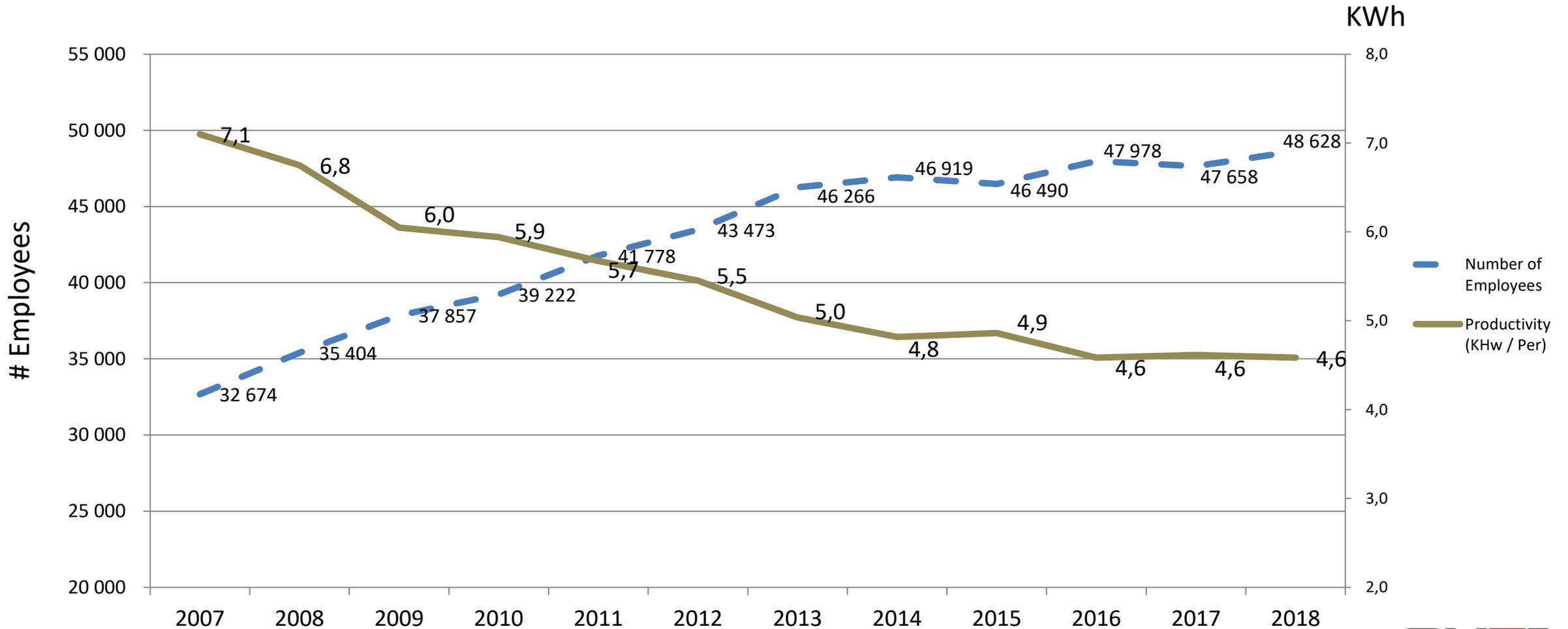
“We have noted the World Bank study,” Eskom said. “The issue of Eskom staffing requirements versus the status quo has solicited views from a number of stakeholders.”

# ESKOM PERSONNEL

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- ❑ Eskom's personnel **productivity** has declined by 35%, from 7,1 to 4,6 GWh per person per annum from 2007 to 2018, as a result of increased staff / headcount from **32,674** to **48,628** over the same period at a net cost of **R29,5bn**, whilst output remained relatively flat over the same period (see graph in the next slide).

# ESKOM'S DECLINING PRODUCTIVITY



# NEW BUILD PROGRAMME

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- ❑ **New Coal Build Project Costs Overruns** at Medupi, Kusile and Ingula have become untenable. Despite Eskom's **2016/15 and 2016/17** RCA reference to the cost overruns of R6,1bn at Medupi and R14,7bn at Kusile and R1,6bn at Ingula these projects were originally budgeted and presented to NERSA as being **R69.1bn, R80,6bn and R8,9bn** respectively. The fact that the capital expenditure of these projects has escalated to around **R195bn, R225bn** (for Medupi and Kusile which are still incomplete), plus **R36bn** for Ingula at completion.
- ❑ **OUTA objects to these excessive and grossly exorbitant cost overruns on these projects,** which have now become a heavy burden and are factored into the ultimate price of electricity.
  - ✓ This is a matter and cost that cannot continue to be passed on to the consumer and shouldn't be credited to Eskom's account.

# REALITY CHECK

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- ❑ Current and former employees implicated in wrong doing – specifics:
  - ✓ How many **criminal charges** were lodged with SAPS?
  - ✓ How much is **recoverable** or is in the process of being recovered?
  - ✓ Contracts reviewed, what **value** can be **recouped**?
  - ✓ How many **contracts** were **cancelled** or in the process of being terminated, quantify including penalties and savings?
  - ✓ Cooperation and collaborations with law enforcement agencies...

# REALITY CHECK (CONT...)

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- ❑ In making its decision, NERSA must take into account the fact and reality that Eskom has been experiencing major **structural challenges** that are embedded in the vertically integrated utility's **current business model** –
  - ✓ Can't be resolved by merely raising tariffs, but requires a **holistic & integrated approach** spear-headed by Government
  - ✓ **Decisiveness** in instituting the **requisite reforms** of the electricity supply industry (ESI).
- ❑ NERSA must apply **“heavy-handed regulation”** or its credibility, effectiveness and accountability is on the line.
- ❑ **“Business as Usual” attitude** @ Eskom
- ❑ **Unreliable assumptions** not reviewed timeously...

# RECOMMENDATIONS

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## **OUTA Recommends:**

- 1) **No revenue claw-back (0% approval)** should be credited in favour Eskom for this 2017/18 RCA application.
- 2) Should there be any **respite/approval** for the liquidation of a portion of the R21bn RCA application, this needs to be **phased over a period of not less than 3 years effective from the 2020/21 to give electricity customers a reprieve.**
- 3) Given the fact that an RCA application is premised on the costs already incurred and NERSA has already granted a favourable **R32.69bn credit** to Eskom for the preceding years –
  - ✓ NERSA should seriously assess the impact of any further RCA credit to the **ultimate price** and associated implications to the affordability principle.

# RECOMMENDATIONS (CONT...)

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- 4) NERSA applies stringent prudency testing of all expenses that Eskom is claiming & **ONLY grants credit** to reasonable and justifiable business costs.
- 5) The **long-term Coal Procurement Strategy** be published -
  - ✓ NERSA must ensure that it plays rigorous regulatory oversight to avoid any future similar **“man-made” crisis** situations
  - ✓ OUTA rejects the practice of Eskom being on a **PERMANENT** emergency coal procurement situation
  - ✓ Like the **Tegeta case**, where a deal was instigated to serve vested interests of certain individuals/ entities at the expense of electricity users and coal supply security.

# RECOMMENDATIONS (CONT...)

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- 6) A condition must be stipulated that the **NERSA determination** as per the MYPD Methodology will be **reviewed at mid-point** of any approved control period in order to:
- ✓ curb the risk of the RCA process being used for ulterior purposes
  - ✓ test and re-assess the validity & impact of the assumptions applied.
- 7) NERSA should guard against Eskom's poor plant performance by -
- ✓ **Refraining from compensating** Eskom's deliberate utilisation of OCGTs with the intention to recoup the money from electricity users via an RCA process.
  - ✓ **Stringently** applying the prudency principles & measures.

# RECOMMENDATIONS (CONT...)

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- 8) NERSA should instruct Eskom to submit its cost reduction scenarios (austerity) and their impact on its business
  - ✓ NERSA must diligently monitor.

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# **MYPD4 REVENUE REQUIREMENT APPLICATION**

# LEGISLATIVE LANDSCAPE

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## **Electricity Pricing Mandate**

- ❑ The Electricity Regulation Act (ERA) (Act no 40 of 2006 as amended and the **Electricity Pricing Policy (EPP)** guide the structuring of tariffs.
- ❑ Section 15 of the ERA requires inter alia that:

### ***The regulation of revenues***

- ✓ “Must allow an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return;
- ✓ Must provide for or prescribe incentives for continued improvement of technical and economic efficiency with which services are to be delivered.”

### ***Charges and tariffs***

- ✓ “Must give end users proper information regarding the costs that their consumption imposes on the licensees’ business;
- ✓ Must avoid undue discrimination between customer categories;
- ✓ May permit the cross-subsidy of tariffs to certain classes of customers”.

# LEGISLATIVE LANDSCAPE (CONT...)

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## **Electricity Pricing Policy (EPP) Principles**

- Investment in the infrastructure to ensure sustainability;
- Accelerated access to electricity by the previously disadvantaged;
- Lowered cost of electricity as input to economic activity; and
- More renewable energy generation in the energy mix, etc.

# CONTEXT

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- ❑ Eskom lodged its fourth Multi-year Price Determination (MYPD 4) Revenue Requirement Application with NERSA during September 2018 for the period **2019/20 to 2021/22** totalling **R219bn, R252bn and R291 for the 2019/20, 2020/21 and 2021/22 respectively.**
- ❑ This is a revenue requirement application covering a **3-year control period** in contrast to the previous third multi-year price determination (MYPD3) cycle which covered **5 years** from 2013/14 to 2017/18 financial years.

# BACKGROUND

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- ❑ The South African Electricity Pricing Policy (EPP) was **approved and published** in December 2008.
- ❑ The first Multi-Year Price Determination (MYPD1) for Eskom was approved by NERSA entailing a price increase of **CPI plus 1%** & subsequently implemented for the control period of 01 April 2006 to 31 March 2009 as follows:
  - ✓ **5.1%**, **5.9%** and **6.2%** for the **2006/07**, **2007/08** and **2008/09** financial years respectively.
- ❑ On 18 July 2007, Eskom applied for a revision of the 2008/09 price increase to **18.7%** due to increased costs in primary energy and capital expenditure.
  - ✓ NERSA approved a **14.2%** price increase.

# BACKGROUND (CONT...)

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- ❑ On 17 March 2008, Eskom applied for a further revision of the **14.2%** increase to **60.0%**
  - ✓ In June 2008, NERSA granted Eskom a further **13.3%** increase
  - ✓ Resulting in a total average percentage price increase of **27.5%** for the 2008/09 financial year.
- ❑ In May 2009, Eskom applied for an **interim price increase** of **34%** for the 2009/10 financial year as an interim measure whilst finalising the funding model.
- ❑ NERSA approved an average price increase of **31.3%** for implementation on 1 July 2009.
- ❑ On 30 November 2009, Eskom applied for an average price increase of **35%** per annum over the MYPD2 control period.
- ❑ On 02 March 2012, Eskom requested a review of the Year3 (i.e. 2012/13) approved price increase of 25.9% downwards to 16.0%.
  - ✓ On 09 March 2012, NERSA approved that the price increase be adjusted from **25.9%** to **16.0%**.

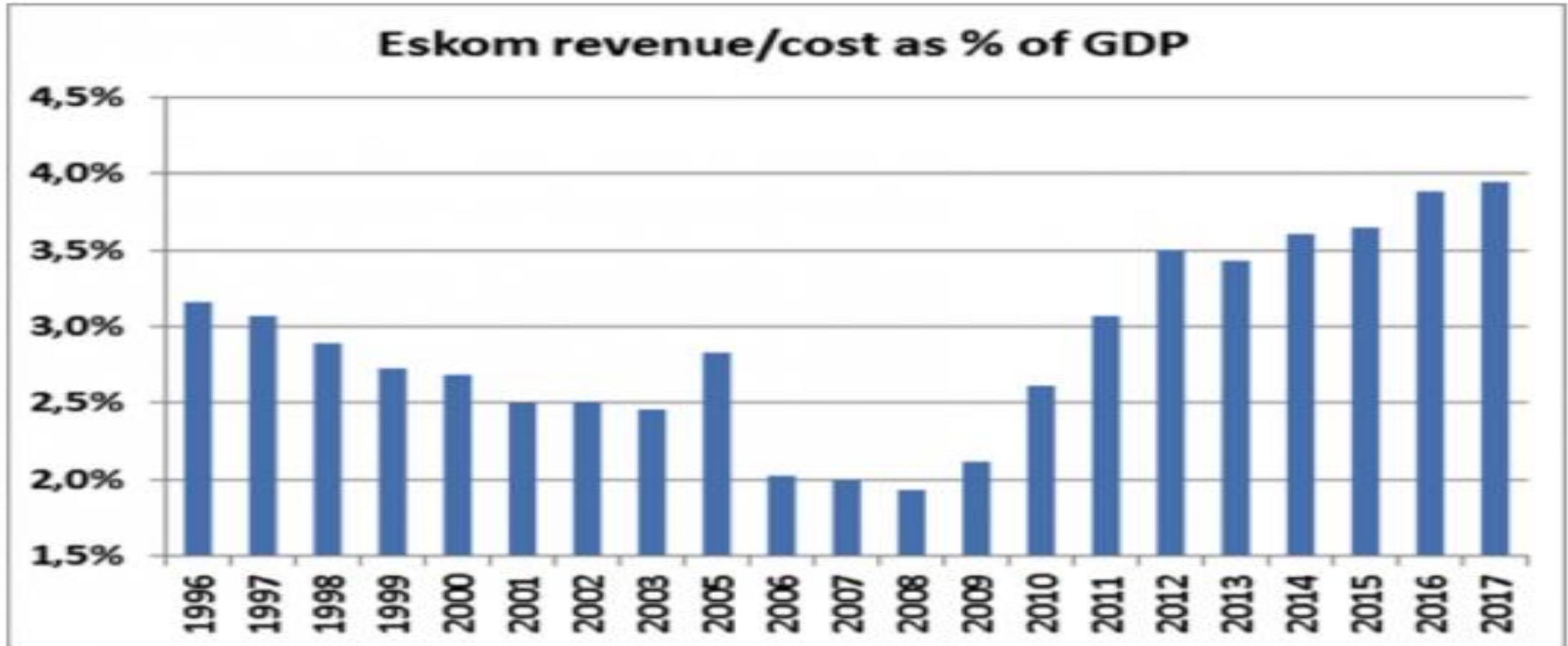
# PRICE PATH

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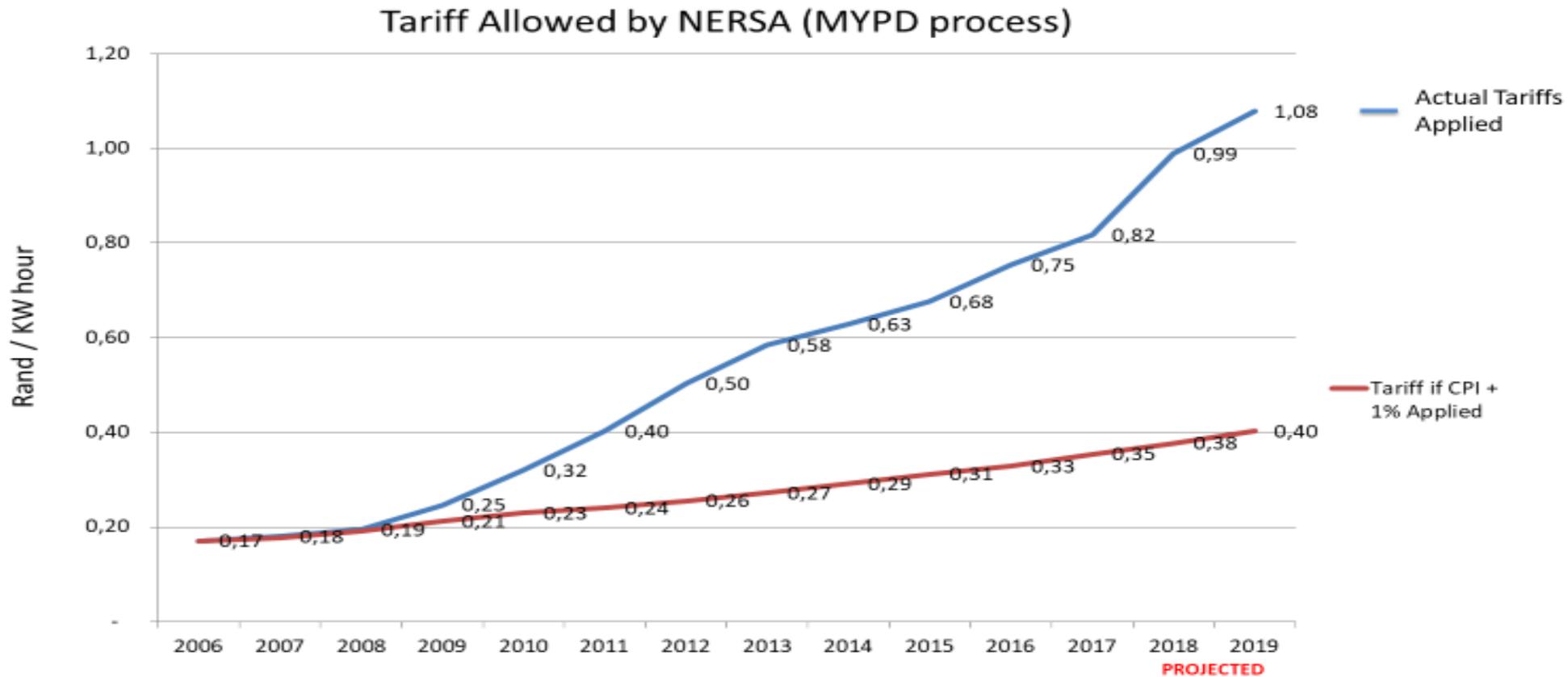
- ❑ While tariff increases, debt continues to increase.
- ❑ Since 2008/9 financial year, the average price of electricity has increased from approximately **20c/kWh** to over **94c/kWh** in the 2018/19 financial year.
- ❑ At **\$US0.62c/kWh** is among the cheapest in the world – does this cover the cost of production and is it commercially sustainable?

# ELECTRICITY PRICE VS GDP

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# TARIFF PATH/TRAJECTORY

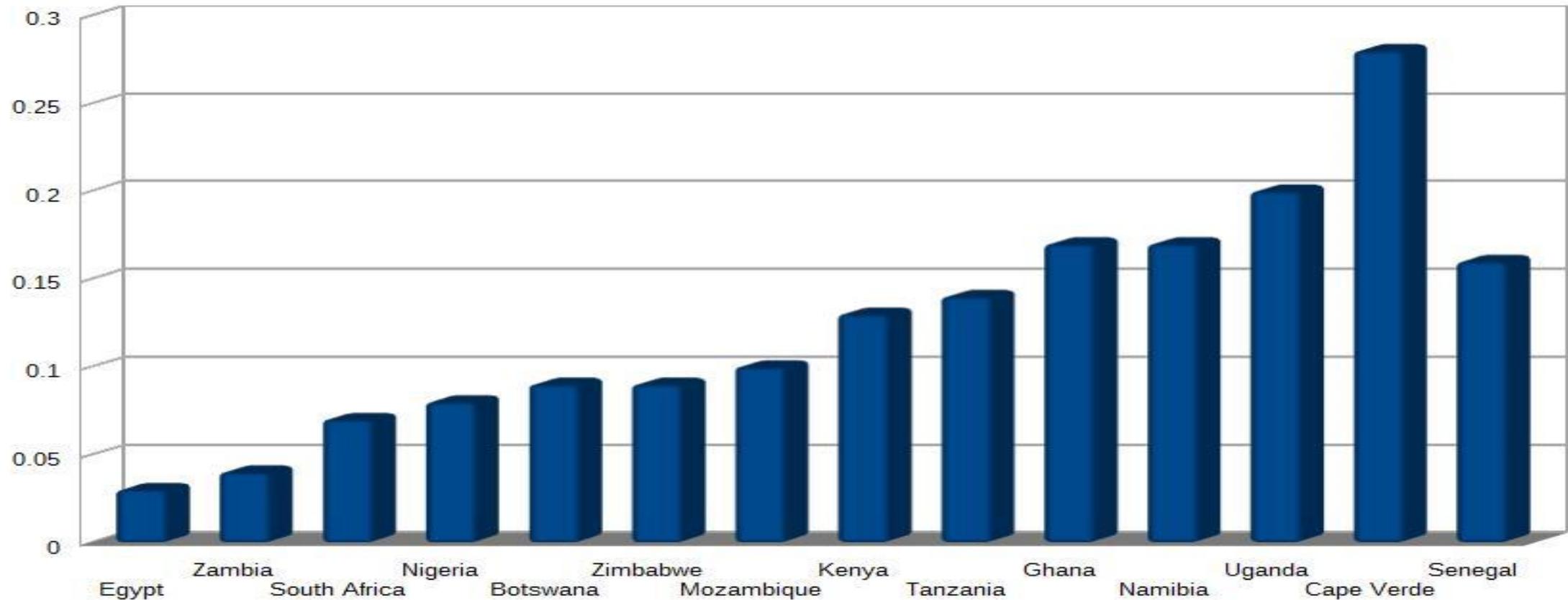


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# SOUTH AFRICA ELECTRICITY PRICE COMPARISON WITH OTHER AFRICAN COUNTRIES

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Average price of electricity in Africa



# MUNICIPAL TARIFF INCREASES

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- ❑ In accordance to the Electricity Retail Tariff Structural Adjustment (ERTSA) methodology, the 15% average increase will translate to 17.6% local authority tariff as of 01<sup>st</sup> July 2019 increase for municipal customers.
- ❑ This equates to a price increase of 17.6% from 01<sup>st</sup> July 2019, a price increase of 14.2% from 01<sup>st</sup> July 2020 and a price increase of 15% from 01<sup>st</sup> July 2021.
- ❑ OUTA is aware that municipalities will impose more than the 17.6% due to their discretion to add surcharges over and above tariff rates determines by NERSA.

# KEY ASSUMPTIONS

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- ❑ Eskom commissioned the Deloitte to model the impacts associated with three alternative tariff scenarios – average annual increases in the next cycle @ **8%, 13%** and **19%** respectively.
- ❑ Study commenced in **November 2016 and modelling started in January 2017.**
- ❑ **At that point in time,** Eskom had not yet finalised its forthcoming MYPD4 tariff application nor had it decided whether it would submit a tariff application for a single-year or for a multiyear period -
  - ✓ Official estimates of Eskom's required revenue and sales forecasts over the five years were not available, therefore **hypothetical scenarios were created** and **key assumptions** made.

# KEY ASSUMPTIONS (CONT...)

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- ❑ Modelling scenarios assumed that the upper-bound annual average increase of **“19% is what Eskom requires to reach and maintain, a cost-reflective electricity tariff over the 5-year period from 2017 to 2021”**.
- ❑ The scenarios modelled included -
  - ✓ ‘Tariff-only’ option where electricity tariffs increase at an annual rate of 19% over five years
  - ✓ A baseline scenario (BAU) where tariffs increase at an average rate of 8%; and
  - ✓ The revenue shortfall is funded by raising additional government debt.
  - ✓ Further scenarios included a 13% annual tariff increases with a debt-funded shortfall,
  - ✓ An 8% increase with tax-hike funded shortfall; and a credit Downgrade scenario.

# MANAGED TRANSITION TOWARDS COST REFLECTIVE ELECTRICITY TARIFFS

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## Cost reflective tariffs in Africa

- ❑ The inability to recover utility operating costs via current electricity tariffs is a major barrier to investing in new large-scale Gx & Tx projects
- ❑ Energy Ministers attending the 34th Meeting of the Southern African Development Community (SADC) in July 2018, called on its 15 member countries to produce **roadmaps** for transitioning their electricity supply industries towards cost reflective tariffs by **2019**.
- ❑ **Namibia & Tanzania** are the only 2 SADC countries that have successfully achieved cost reflective tariffs, despite an earlier **aspiration** for all member States to meet the objective by **2013**.

# REGULATORY ASSET BASE (MYPD3 REASON FOR DECISION)

- Table below reflects on the RAB as applied for together with NERSA's adjustments and approved RAB for each of the respective years of the MYPD3 control period.

## Summary of Approved Regulatory Asset Base

R'm	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
RAB Applied for	911 686	779 203	852 265	919 662	981 853	1 043 100
RAB Adjustments	(122 095)	(79 594)	(145 874)	(209 712)	(269 073)	(325 587)
RAB Approved	789 591	699 609	706 391	709 950	712 780	717 513

# REGULATORY ASSET BASE

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- ❑ MYPD3 Regulatory Asset Base (RAB) amounted to R717,51bn and was adjusted to R737,22bn as at 31 March 2018 due to cumulative prior year capex variances (R19,71bn).
- ❑ Regulatory Asset Base for 2017/18 is as follows:

	2017/18 (R'm)
RAB Applied for	1 043 100
<b>RAB Adjustment</b>	<b>-325 587</b>
RAB Approved	717 513

- ❑ The reasons for the approval of a lower than applied for RAB are not explicitly outlined. In order to provide interested and affected parties with a better insight into the RAB, OUTA recommends that both NERSA and Eskom must disclose why RAB applied for is not approved and the reasons thereof.

# REGULATORY ASSET BASE (CONT...)

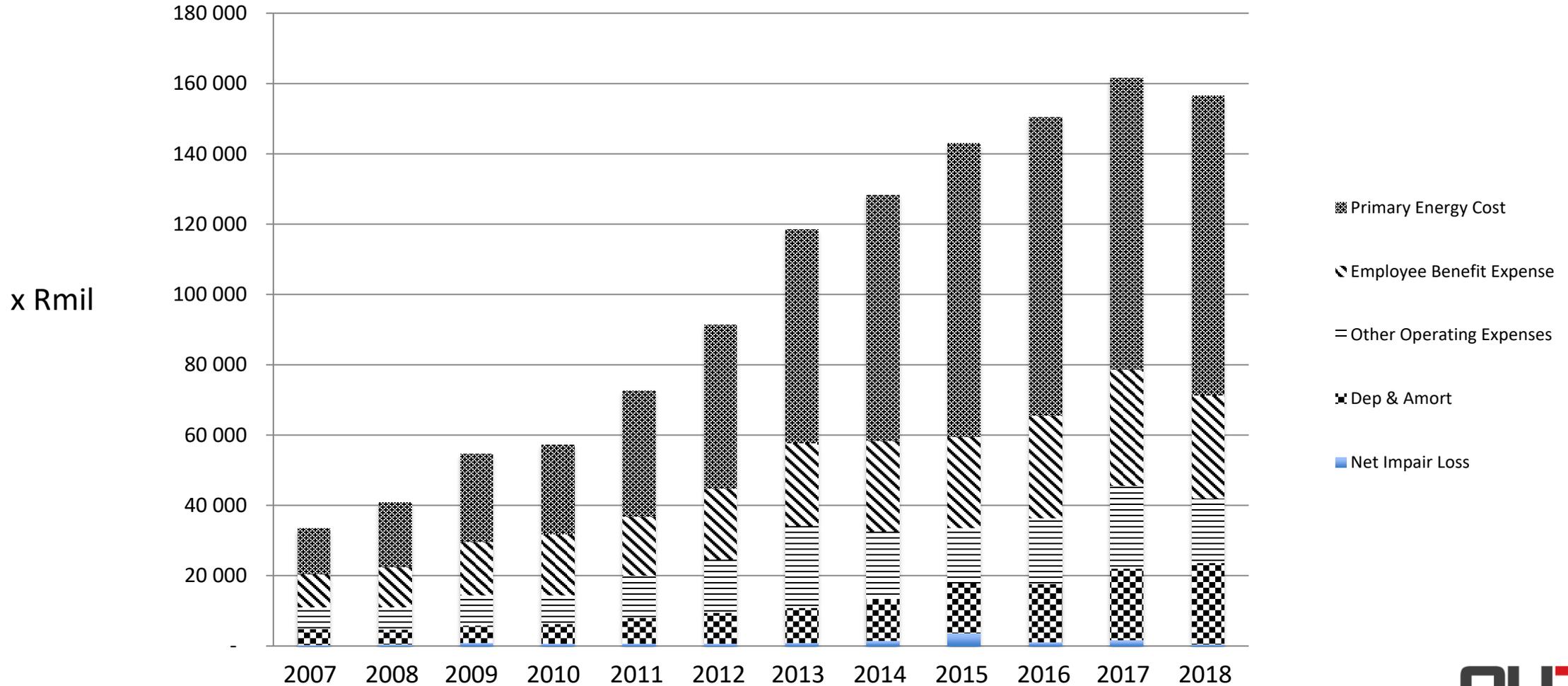
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- ❑ OUTA regards the closing balance plus the new assets to form the opening balance of the RAB, for instance, the RAB applied for 2018/19 was R763 589, implying that the new opening RAB for 2019/20 should be the approved RAB and plus new assets
- ❑ OUTA is deeply concerned that, this simple exercise is not disclosed, but it is reported in complicated manner. For instance, the RAB grew by R46bn from the MYPD3's approved 2017/18 of R717513 to R763 589bn by 2018/19?
- ❑ OUTA is querying, for instance, why did Eskom apply for **R763.589** billion RAB in **2018/19** and what new assets have been created to increase it to **R1.268.310** trillion in 2019/20
  - what **new specific assets** have been **constructed** worth **R504 721bn** in such a short time?

# ESKOM'S CORE COST DRIVERS

Item	2019/20	2020/21	2021/22
Employee benefit costs	R26 877 (48%)	R27 692(47%)	R28 881 (47%)
Maintenance	R16 238 (29%)	R17 086 (29%)	R18 435 (30%)
Other Operating Costs	R12 879 (23%)	R14.141(24%)	R14 133 (23%)
<b>Total</b>	<b>R55.994bn</b>	<b>R58.919bn</b>	<b>R61.449bn</b>

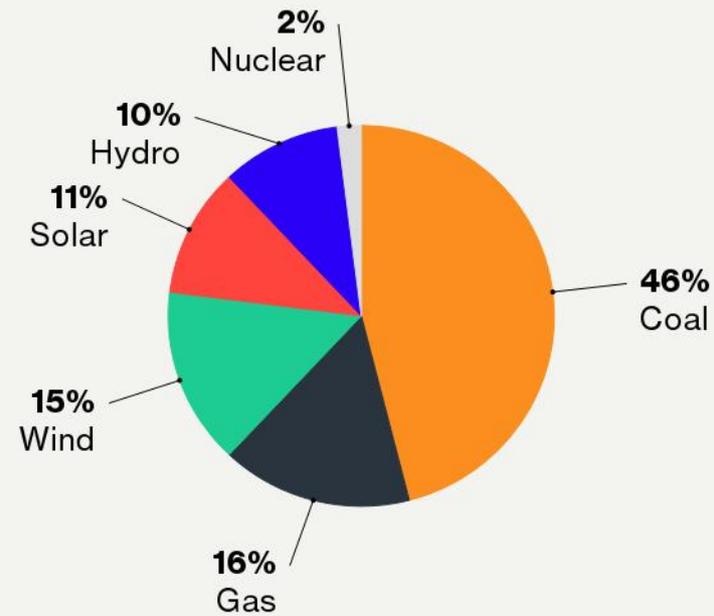
# ESKOM EXCESSIVE INCREASES IN OPERATING EXPENSES



# DRAFT 2018 IRP – FUTURE OUTLOOK

## South Africa's 2030 Energy Plan

On path to reduce coal generation



Source: Dept. of Energy  
Combines categories under hydro and solar

Bloomberg 

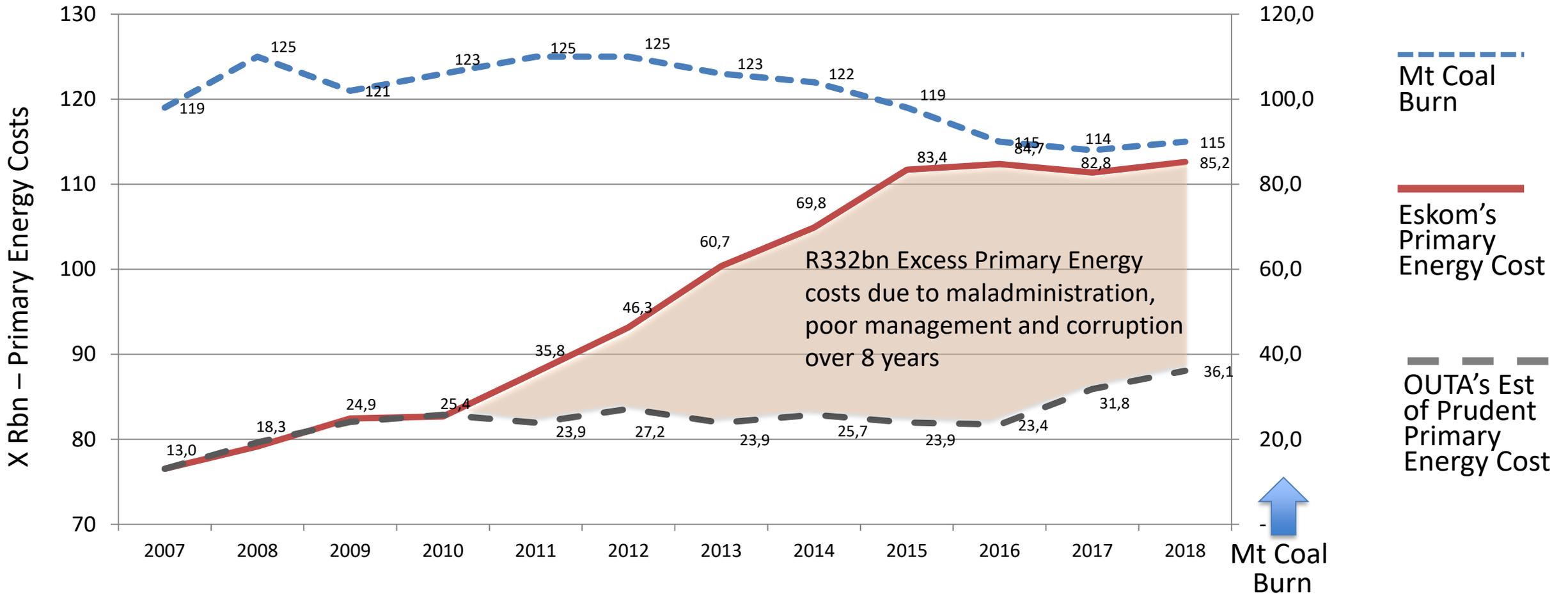
# REALITY CHECK

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## ❑ **South Africans paying the ultimate price of:**

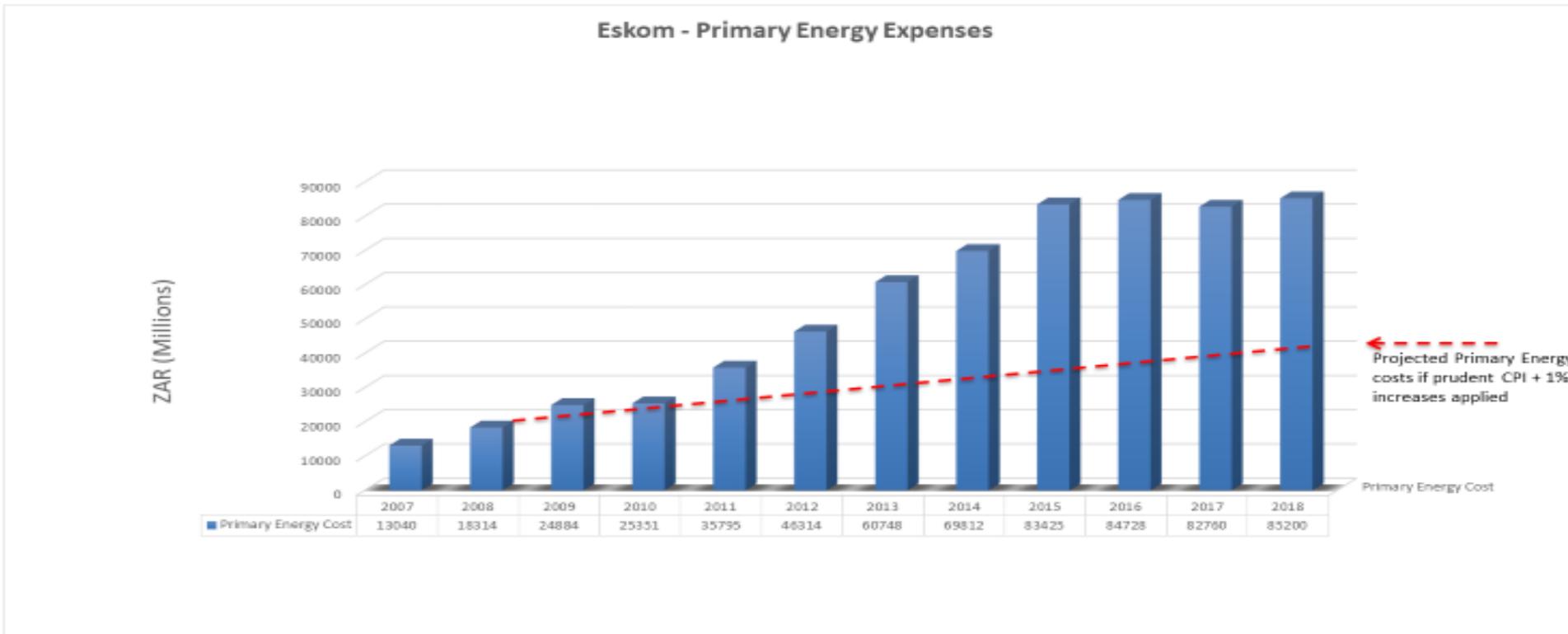
- ✓ Political meddling in the affairs of Eskom;
- ✓ State Capture's ravaging implications;
- ✓ Cost of Corruption;
- ✓ Weak Leadership & Poor decisions & Mismanagement - @ Eskom + Government;
- ✓ Fragmented institutional arrangements within the electricity supply industry (ESI);
- ✓ Procrastination in taking requisite decisive actions – failure to implement the most critical reforms;
- ✓ No proper holistic Strategic Direction from Government on Eskom & ESI future outlook

# EXTENT OF ESKOM PRIMARY ENERGY EXPENDITURE



# OUTA'S PRUDENT ESTIMATES OF ESKOM'S PRIMARY ENERGY COSTS

## ESKOM PRIMARY ENERGY COST vs OUTA'S PRUDENT Est COAL, OCGT, NUCLEAR



# REALITY CHECK (CONT...)

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- ❑ Eskom Business Model –
  - i. Not fit for purpose
  - ii. Legacy/Historical and core structural issues
  - iii. Financial sustainability
  - iv. Future role of Eskom within the ESI
- ❑ Electricity Price Path
  - Impact of electricity prices in the economy
- ❑ Clarification and limitations of Roles of Key/Critical Stakeholders within the ESI

# REALITY CHECK

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- ❑ The true costs of producing, transmitting and distributing electricity must be transparent and reflecting in pricing.
- ❑ Acknowledge the significance of the realities/challenges posed by socio-economic dynamics and pursue the journey of introducing cost-reflective tariffs in a more affordable and pace that is within a reasonable and achievable timeframe.
- ❑ **OUTA is deeply concerned that like in the MYPD3, assumptions used were found to be off-the-mark but NERSA and Eskom did not review them during the control period -**
  - ✓ **This implies that electricity users continue to pay a heavy price of the ineptitude of both Eskom and NERSA.**

# CONCLUDING REMARKS

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- ❑ Eskom is in a **dire** financial position
- ❑ **Competing priorities** – i.e. affordability, cost reflective tariffs, provision of reliable electricity supply, poor investment decisions, political meddling, recapitalisation of Eskom, South Africa as a developing country (socio-economic issues), turnaround of Eskom, future outlook of Eskom (IRP 2018 impact), etc. – conundrum of complex issues from technical, structural, political and historical perspectives.
- ❑ Eskom is at heart of state capture shenanigans – it's a **compromised entity**
- ❑ Government (Shareholder) strategic direction – **blurred vision & procrastination**
- ❑ When it comes to Eskom... **Conundrum** – Government and other key actors are faced with a **Policy Dilemma** – it's **complex** to find a proper trade-off between pursuing cost-reflective tariffs and advancing the subsidized tariff regime (pro-poor tariffs).

# OUTA'S OVERVIEW OF APPLICATION

TOTAL ALLOWANCE REVENUE FOR THE MYPD4 PERIOD							
Allowable Revenue (R'm)	Application 2019/20	Application 2020/21	Application 2021/22	Forecast 2022/23	Forecast 2023/24	OUTA Recommends	Comment
Regulated Asset Base (RAB)	1268310	1336120	1401506	1459328	1503987	NERSA adjust the RAB accordingly and it shouldn't be more than R1trillion up to 2022	RAB growth is excessive and seems to exclude the book value of existing assets. Value of decommissioned coal plants must be used to reduce the RAB
WACC	-1,32%	-0,21%	1,45%	1,76%	2,46%		
Returns	-16687	-2765	20314	25722	37032		
Expenditure	56619	59820	62663	64633	67860	-3500000	Rigorous oversight on expenditure growth trends
Primary Energy	73386	75876	79561	87983	96393		Cap primary energy as per Prudency Testing
IPPs (local)	29590	34324	41002	44468	46877		
International purchases	3533	3734	3957	4194	4459		
Depreciation	64651	72919	75649	85838	94160		
Integrated Demand Management (IDM)	189	193	202	213	225		
Research & Development	176	187	198	210	223		
Levies & Taxies	8272	8198	8147	8108	8180		
RCA	0	0	0	0	0		
Subtotal	219730	252485	291692	321369	355408		
Not claimed in Application	0	0	0	0	0		
Corporate Social Investment	-192	-193	-150	-149	-166		
<b>Total Allowable Revenue</b>	<b>219537</b>	<b>252292</b>	<b>291542</b>	<b>321221</b>	<b>355242</b>		

# RECOMMENDATIONS

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## OUTA recommends that:

- 1) NERSA grants a **consumer price index (CPI) tariff increase of 5% per annum** for the MYPD4 control period;
- 2) NERSA **Validate & Monitor** the assumptions used in the MYPD4 application;
- 3) Government must clarify South Africa's **Roadmap towards cost reflective tariffs.**
- 4) NERSA revised the RAB applied for and request Eskom to provide verifiable assets that constitute the RAB and the schedule of plants to be decommissioned (removed/excluded from future RAB) and value of new assets under construction and separately disclose the value of the new assets already constructed/commissioned and their impact on the ultimate RAB as well as any specific variances;
- 5) The **reasons for the approval of a lower than applied for RAB** must be explicitly disclosed and outlined in order to share insights into the computation and determination of the RAB from a regulatory point of view;

# RECOMMENDATIONS (CONT...)

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- 6) OUTA is of the view that, South Africa is not ready to transition to cost reflective tariffs given its socio-economic imperatives characterised by high levels of unemployment at 27.5%, high poverty and income inequality levels.
- 7) Eskom's Board review & discontinue to provide various allowances given to its employees, especially the executives incentive schemes to reduce its cost burden, for instance, the petrol allowances, etc;
- 8) Prior to Eskom embarking on a journey toward electricity cost reflective tariffs, a **policy shift** must take place and government must **redefine Eskom's role** in the electricity supply industry (ESI) to give impetus to the utility becoming a fully-fledged competitive and commercial business enterprise.
- 9) Eskom compile and submit the **coal plants' decommissioning schedule** and the **associated costs** accompanied by possible replacements technologies.
  - This is due to the fact that, if a plant is decommissioned and/or taken offline permanently, the related costs must be **deducted from the overall future costs** and the RAB to eliminate any possibility of double counting at the expense of electricity users.

# RECOMMENDATIONS (CONT...)

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10) The closing balance plus the new assets to form the opening balance of the RAB, for instance, the RAB applied for 2018/19 was R763 589, implying that the new opening RAB for 2019/20 should be the approved RAB and plus new assets -

- **OUTA is deeply concerned that this simple exercise isn't transparent, but it is reported in a complicated manner. For instance, the RAB grew by R46bn from the MYPD3's approved 2017/18 of R717.5bn to R763.59bn in 2018/19?**

11) OUTA is querying, for instance, why did Eskom apply for R763.589 billion RAB in 2018/19 and what **new assets** have been created to increase it to **R1.268 trillion in 2019/20** –

- What **specific assets** have been constructed worth **R504.7bn in such a short period of time?**

# RECOMMENDATIONS (CONT...)

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- 12) Proper and verifiable disclosure of the RAB must be set as a **new licence condition** to assist to eliminate the myth of a “black box” in terms Eskom or licensees’ reporting of the true value of assets that must be recorded for regulatory purposes.
- 13) The recently announced **long-term Coal Procurement Strategy** be **published** – NERSA to:
- ✓ ensure that it plays rigorous regulatory oversight
  - ✓ avoid any future similar **“man-made”** situation where **emergency procurement of coal** is instigated to serve illicit vested interests in favour of certain entities/individuals at the expense of electricity users.

# RECOMMENDATIONS (CONT...)

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14) NERSA stipulates a **new licence condition** that the NERSA tariff determination as per the MYPD Methodology will be reviewed at a mid-point of any approved control period subject to any material changes in the original assumptions applied.

# THOUGHT FOR THE DAY

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□ What's up Eskom –

**“Continue Doing the Same Things and  
Expecting DIFFERENT RESULTS –  
Really???”**

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# Contact Details

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**THANK YOU!!!**