Comment to the National Energy Regulator (Nersa) by groundWork on Eskom's proposed retail tariff plan

To: ertsa@nersa.org.za
CC: Mr Charles Hlebela, Head of Communications
charles.hlebela@nersa.org.za
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Introduction

Eskom's MYPD6 application said that, by 2027, government bailouts to Eskom will amount to R480 bn, says Eskom. According to Treasury, this is an undercount and the bailouts will come to R496 bn in 2025.[1] Eskom says, this is "an indirect subsidy to all electricity consumers' and the biggest users getting the most [MYPD6 155]. It demanded a 36% hike in revenue but said it would still not enjoy "a fair return as required by the Electricity Regulation Act" [155], and this price hike would merely contribute to "the migration towards cost reflectivity" [154].

As in our MYPD6 submission, we therefore observe:

- First, Eskom cannot produce electricity at a cost that people can afford;
- Second, cost reflective pricing is not viable.

[1] Parliament, Media Statement: *Standing Committee on Appropriations Concerned That Eskom Bailouts About to Reach R496 Billion*, 16 October 2024.

Nevertheless, cost reflective pricing remains the basis for proposed new price determination policies centred on ‘cost to serve’. Eskom’s retail tariff plan follows this logic, being founded on its cost to serve study. A striking omission in this study, and in its tariff plan, is the harm to the environment and to people’s health from mining and burning coal. These costs remain purposely externalised.

Cost to serve makes a virtue of ever expanding demand. It is calculated to the advantage of big industrial users. High line charges and reduced energy charges are also calculated to advantage rich and energy extravagant households, and disadvantage poor households who use least, households who conserve energy, and households and communities who install grid-tied renewables. This is the opposite of what is needed.

Call for a national review of how the electricity system is funded

We therefore call for a fully participatory national review of how national and local power systems should be funded. Accounting for externalities underlines the imperative to transition from fossil and nuclear fuels to renewables as fast as possible. While Eskom should remain a critical component of a future people’s energy system, it is only one part. The question is not so much how to fund Eskom alone, but how to fund the whole of a people’s energy system.

It is critical that this must be part of a just transition. So a national review must start with the question of the purpose of the power system and what is to be funded. Under the minerals energy complex (MEC), the purpose was to provide cheap power, and hence profits, to industry and finance capital. It produced a highly concentrated and unequal economy – creating great wealth on the one side and mass poverty on the other – and an energy and carbon intensive economy. The power system model was composed of large coal power stations supplying base load to large power users.

The review should be framed by the necessity of transforming energy. The climate crisis is intensifying as is the local environmental crisis in the coal regions. The crisis of poverty and inequality is likewise intensifying. These linked crises must be addressed with absolute

urgency. We call for a just transition in energy to a renewable, socially owned and democratic system inclusive of all people. The purpose of the system should be to serve people's energy needs, including energy for the production of what is needed for life, rather than for private profit. The regulation of the sector should serve that end.

Energy is situated by what people need to do with it in their homes and settlements and by what businesses do in mines, factories, shops and offices to provide for people's needs. The first priority must be to minimise consumption – cutting profligate consumption while ensuring that all people have enough. Enough is a lot less if homes are built for thermal efficiency.

In most settlements the infrastructure is in disrepair. Roads are potholed, drains are blocked, water pipes leak, sewage spills into the streets and rubbish piles up on the corners. This comes with high energy and resource costs and makes people more vulnerable to the heavy weather of climate change. Planning for resilience is also about ease of living – amongst other things, how much energy is needed for a full life.

A people's energy system should be based on renewables and socially owned across three scales: community, municipal and national. The bulk of generation should be dispersed through households, community scale mini-grids and municipal scale local grids. Mini-grids should be interlinked with each other and through the municipal and national grids. Off-grid mini-grids should be engineered to link to the main grid, or neighbouring mini-grids, when this becomes practicable. In this way, off-grid systems would be seen to attract rather than repulse the grid.

Dispersed generators should be backed up with national scale generators to moderate variability. Treasury's Eskom bailout conditions exclude Gx investments, with some exceptions. We propose, to the contrary, that Eskom Gx must be required to invest in renewables while the ban on new coal, gas, diesel and nuclear plants should remain in place. Thus, Eskom Gx should be a leader in the transition to renewables and should not be stranded with increasingly costly dirty plants.

We welcome the formation of the NTCSA separate from Gx. We believe it is vital that national and local grids remain in public hands. We do not support plans for the partial

privatisation of the grids through concessioning to ‘independent power transmission’ corporations.

Notes on selected questions

Since our proposals are founded in a different logic to that of Eskom’s proposed plan, we will confine further comment to selected questions posed by Nersa.

Question #1: Eskom Cost to Serve

Nersa askes if it is acceptable to base tariff restructuring on approved revenues instead of ‘true costs’.

As we make clear above, we do not accept the basic premise of Eskom’s plan, nor indeed of Nersa’s alternative. We also object to the same methodologies being transferred to municipal pricing plans. This does not mean that we are indifferent to costs or how they are incurred. However, changing the system will also change costs and how they are structured.

Question #2, 3 & 11: Time of Use

At present, time of use concerns big industrial users. We do not have an opinion on these specific changes but agree that they should reduce peak time use.

For households, people may consider the benefits of ‘solar living’ – that is, adapting energy use to the cycle of solar production. Eskom proposes that ‘Homeflex’ time of use tariffs are introduced for households with rooftop solar who can then also export surplus energy to the grid in exchange for ‘energy credits’. These energy credits do not reduce fixed charges.

Questions #5 & 10: Unbundling energy charges and tariffs

Unbundled energy charges are concerned to recover ‘capacity charges’ (a power station’s fixed costs), and ‘legacy costs’ in addition to energy use. Tariffs are also unbundled into energy use charges and network charges covering the costs of grid connection. Broadly, Eskom seems concerned to maximise fixed charges.

National grid charges (called transmission use of system charges) increase with the distance from the main centre of coal fired generation on the Highveld and from the urban centres of consumption. We think geographical discrimination should end. At the same time, localising renewable production would reduce losses and other grid costs.

As observed above, the unbundled charges are calculated to the advantage of big industrial users and energy extravagant businesses and households. They disadvantage poor households who use least, households who conserve energy, and households and communities who install grid-tied renewables.

A people's renewable energy system should have a different logic:

1. Before the development of national grids, municipal generators were the norm. In a decentralised system, they can once more take a leading role.
2. The costs of rooftop PV are already at or below municipal retail tariffs and will soon be below wholesale tariffs. Local PV and other micro generation technologies should be accepted as part of the national and/or municipal resource. This may increase some system (grid and storage) costs but save on other system costs (grid and losses) as generation will be closer to point of use. Household, community and business battery storage should support grid services. They also save on procuring power plants.
3. If the middle classes and commerce and industry are pushed off-grid, they will leave municipalities and the poor with a slum grid & more poor people cut off. The aim should be to retain a common grid to which each can contribute according to their means. This must be accompanied by publicly funded programmes to support the development of locally owned and democratically controlled renewable mini-grids in poor areas.
4. Bringing renewables to the people would be an essential element in addressing domestic air emissions, producing considerable 'co-benefits' for people's health and for the health system.

Question #6: Capacity charges

Industry consumes 56% of produced power, and the remaining 25 members of the Energy Intensive Users Group consume about 40%.[2] Hence, the bulk of Eskom's coal power capacity is to supply big industry. In particular, industrial demand drove the 'new build' and the misguided choice of very large coal fired power – Medupi and Kusile. The massive cost and

[2] /https://eiug.org.za/wp-content/uploads/2024/09/EIUG_Membership_20240917.pdf

time overruns were predictable and predicted. A large part of these costs have been picked up through Treasury bailouts.

Question #7: Legacy charge

The legacy costs are attributed to renewable energy projects procured through the independent power producer procurement programme IPPPP. Eskom comments that the power purchase agreements (PPAs) awarded to these producers "are often higher than the current generation costs" [32]. We agree that projects in Bid Windows 1 and 2 were over-paid. Prices in subsequent rounds – particularly from BW4 – have come in well below "current generation costs" – assuming this to be Eskom's average cost of production.

Meanwhile, Eskom's costs have escalated, driven up by the massive costs of Medupi and Kusile, by increased maintenance on ageing plants, by escalating coal costs and diesel, and by the corruption and outright thievery that attended on both new build, plant operation and maintenance and coal procurement. Are these not 'legacy costs'?

This raises the further question of production costs at each power station. We call for a full list of the cost of production (R/kWh) at all power stations, including costs of capital. For IPPs, data should include production costs as well as prices determined by PPAs.

We note that the price paid for grid supply from rooftop plants is unilaterally set by Eskom and Nersa and has no bearing on costs of production.

Question #9: Inclining block tariff (IBT)

In the last several MYPD applications, Eskom has cited IBTs as a measure to 'protect the poor' while also calling for its removal. It has previously argued that customers find IBT confusing. It has now conducted a survey which claims that customers don't like it and don't see why they should pay more if they consume more – i.e. for the second block. The questions do not ask if people should pay more for the first block. We think the survey was designed to give Eskom the result it wanted.

The IBT is supposed to operate in the same way as progressive taxation and applies equally to everyone: the more you earn the more you pay in tax or, in this case, the more you consume, the more you pay for electricity. We propose that it start with a dramatically expanded free provision adequate to real needs for the first block (350 kWh/month), thus doing away with the means testing that accompanies FBE. The tariff on the next block – say 350-500 kWh – should be modest but with steeper increases for each block thereafter. The total bill for extravagant consumers should rise higher than the overall price rise.

Eskom complains that this "greatly incentivises higher-consumption customers to use alternative energy sources and energy efficiency" [43]. That is exactly what it should do. The question then is how to ensure that rooftop solar systems contribute to the common grid. For example: how can household surplus production contribute to local supply; how can the combined capacity of household or community battery storage be managed for the common good?

Question #12: Subsidy adjustment

First, it should be recalled that, on Eskom's account, all users are subsidised and the biggest users are subsidised most. On top of that, all other users are subsidising the biggest industrial energy users through negotiated pricing agreements (NPAs). Eskom's MYPD6 application said that this added 5.7% to the bills of other users [MYPD p.16].

The Free Basic Electricity (FBE) subsidy is not working, largely because it is appropriated by municipalities and does not get to about 80% of the people who should get it. Further, means testing is open to abuse by local political power holders. As above, we think it should be replaced with a universal IBT with the first 350 kWh block free to all.

Conclusion

Eskom's retail tariff proposals are essentially about how Eskom can retain or increase revenues in the face of declining demand. This is, in part, because it views its own interests separate from those of society as a whole. Its imagination is further constrained by the history of its central role within the minerals energy complex. It represents an effort to recuperate

what it has lost with the break up of the MEC and the erosion of monopoly rights and the advantages of centralised production.

Our call for a national review of how to fund a people's energy system proposes instead that Eskom is viewed as part of a more diverse system. There, the national and local grids will play the critical role of linking the other elements.

End:-

groundWork