

Chairperson,

My name is Kevin Mileham. I am the Democratic Alliance Shadow Minister of Mineral Resources and Energy in the National Assembly. With me today, is Ghaleb Cachalia, the DA Shadow Minister of Public Enterprises.

We are here today to discuss ESKOM's application for some R27 billion worth of additional tariffs as a result of a shortfall in ESKOM revenue. The Regulatory Clearing Account mechanism, in regulation 14.2 of the Multi-Year Pricing Determination Methodology, provides that an excess or shortfall in revenue recovery by the SOE can be regulated. It is telling that there has been no determination in recent history where ESKOM has had an excess in the RCA, and thus the consumer benefits. In other words, every single RCA determination has been in ESKOM's favour, rather than the consumer's.

But regulation 14.2 cannot be read in isolation. It must comply with the Electricity Regulation Act, which reads as follows at s2: *"The objects of this Act are to: -*

(b) ensure that the interests and needs of present and future electricity customers and end-users are safeguarded and met, having regard to the governance, efficiency effectiveness and long-term sustainability of the electricity supply industry within the broader context of economic energy regulation in the Republic;

(f) promote competitiveness and customer and end-user choice; and

(g) facilitate a fair balance between the interests of customers and end-users, licensees, investors in the electricity supply industry and the public."

Regulation 7.6.3 of the Multi-Year Pricing Determination notes that: *"Expenses must be prudently and efficiently incurred and must be at arm's length transaction. Eskom must have a competitive procurement policy and demonstrate to the Energy Regulator that it has been strictly adhered to in its procurement processes."*

As part of the last RCA determination, ESKOM "conceded" certain governance failures occurred in the SOE, however, at the time of RCA determination and although some of the adjustments were effected, the extent of the governance failures or amounts associated therewith had not been fully quantified. How very generous of them!

The reality is that ESKOM has NOT been either prudent or efficient. The cost-overruns on Medupi and Khusile alone (ignoring for the moment, the increasing interest costs on the loans obtained to build these plants) amount to some R300 billion, according to a presentation made to the Portfolio Committee on Public Enterprises by the national department in February last year. And this is likely to be on the low side, as the plants are still not fully operational and functional, and require significant modification to bring them up to specification.

Equally, ESKOM's procurement leaves much to be desired. Its coal contracts were completely overhauled during the tenure of Brian Molefe, Anoj Singh and Matshele Koko. This resulted in less coal being delivered, at a higher price than the previous contracts. Without commenting on the arguments for or against the purported reasons for the revised contracts, it is an indisputable fact that the entity is paying more and receiving less, and receiving it far less reliably as well.

We are currently experiencing stage 2 load-shedding. ESKOM CEO, Andre de Ruyter, has indicated that we are likely to have 18 months of this, while the utility implements overdue plant maintenance. But what isn't being said is that during 2019, we had a record year for load-shedding: according to a CSIR report, published just a month ago, ESKOM shed 1 352 GWh of electricity, at an estimated cost to the economy of between R59 and R118 billion! And for this, we must reward them?

In addition, the blame can be placed firmly at ESKOM's door for a failure to supplement the electricity supply. In 2016 (and again in 2018) ESKOM refused to sign power purchase agreements with 27 Independent Power Producers, putting the construction and connection of these projects on indefinite hold. This despite the fact that government had awarded these projects licenses in terms of the most recent IPP bid windows. As a result, we are stuck with load-shedding. And now, there is pressure from government for these projects to be concluded in a hurry, to alleviate the problem.

The fact of the matter is that ESKOM holds a monopoly stranglehold on electricity supply in South Africa, that would not, under any circumstances be condoned in the private sector. As a result, it is able to get away with poor governance, mismanagement and corruption on a grand scale, and then have the gall to demand that the South African taxpayers bail them out!

Last year, National Treasury awarded ESKOM a R69 billion bailout, subject to certain conditions, which have never been fully made clear. Among those, however, was the urgent unbundling of ESKOM, to create an "independent system operator". Little has been done in this regard, and now the new ESKOM CEO seems to be backtracking on this, stating that he views it more as "divisionalisation" rather than true unbundling.

It cannot be argued that s2(b) of the Electricity Regulation Act has been complied with, as the interests and needs of present and future electricity customers and end-users are NOT being safeguarded and met. ESKOM's Energy Availability Factor is at a record low of approximately 58% - well below their own Annual Performance Plan or the Integrated Resource Plan predictions - and it is becoming increasingly clear that the entity is unable to meet the demands of either the current rather stagnant economy, or any potential growth. This needs to take primacy when the Regulator considers this application. We can no longer condone the entity's inability to govern itself, maintain its plants and ensure a consistent, reliable supply of electricity.

Hard decisions need to be taken at ESKOM. Among these are a comprehensive review of staff needs. According to some reports, ESKOM is overstaffed by as much as 30% in comparison to similar entities. And while this will cause much wailing and gnashing of teeth by the unions, if ESKOM is to be saved, it needs to show its willingness to "trim the fat". It needs to be brutal

in slashing costs and getting rid of non-core assets. It needs to open its books to a thorough forensic audit and come clean on the costs and terms of its various coal contracts. It needs to be open to the idea of a competitive electricity generation market, in which it is but one player, rather than the anarchic monopoly it currently enjoys.

If, and only if, this is done, should NERSA consider its application for further tariff increases.

The Democratic Alliance opposes the Regulatory Clearing Account application by Eskom to add approximately R27.3 billion to customer tariffs on the basis that Eskom has not demonstrated it operated prudently and efficiently, that it was grossly mismanaged and that its procurement processes were not competitive. Eskom has demonstrated its inability to manage South Africa's electricity supply effectively. They should not be rewarded for failure, and it is completely unacceptable for consumers to bear the burden of such continued failure.

Enough is enough. The Democratic Alliance calls on NERSA to reject this application and protect South African electricity consumers from Eskom's incompetence.

By Kevin Mileham MP – DA Shadow Minister of Mineral Resources and Energy