

## **Speech by Kevin Mileham MP**

### *DA Spokesperson on Electricity and Energy*

Chairperson,

As of today, we have had 178 days without the scourge of loadshedding. And while this is indeed something to be celebrated, it is not right that this we consider this exceptional. It should be the norm! Right now, a further 900 000 households are subjected to up to 4 hours of load reduction daily. Essentially, this is loadshedding by a different name. I raise this because ESKOM's practices and policies have an enormous effect, both on ordinary citizens and our economy.

One of the most severe impacts is that of electricity pricing. It is often claimed that South Africa had some of the cheapest electricity in the world. That is no longer the case. Our electricity prices now place us well amongst the top 50% of most expensive countries for electricity globally. Electricity prices in South Africa have risen 945% over the past 17 years, far outstripping inflation! To put this in perspective, an average household, using 350 kilowatt hours in 2007, would have paid just R69,30. Today they are paying R724,50! And ESKOM is requesting an increase of between 36 and 43% on top of that. So that same household can expect to pay around R1000 for the same amount of electricity next year! It should therefore be no surprise that more than 80 000 South Africans have signed a petition to say NO to ESKOM's exorbitant demands for electricity price increases.

NERSA, the National Energy Regulator of South Africa, has already approved an R8 billion recovery by ESKOM as part of its Regulatory Clearing Account or RCA determination. The RCA is a mechanism that allows Eskom to recover variances between projected and actual costs.

It is intended to ensure that Eskom can cover unforeseen expenses and maintain financial stability. This amounts to a *further* 4% increase on the current tariffs in the coming financial year. There can be no doubt that the RCA adjustments are complex and not easily understood by consumers and businesses, who are just expected to cough up. Additionally, it incentivizes inefficiencies within ESKOM.

There is little motivation on the part of the utility to manage its costs and revenues effectively, when under-recovery in prior years can be made up by charging consumers and business more in the next financial year.

ESKOM's ongoing reliance on RCA adjustments suggests that there are systemic issues within the organization that are not being addressed. But we cannot discuss the implications of tariff increases by only looking at the RCA component.

When NERSA considers its multi-year pricing determination for ESKOM tariffs, a large proportion of the increase is based on what is called the Regulatory Asset Base. This represents the value of Eskom's assets used in electricity generation, transmission, and distribution. It is a critical factor, as it is the largest single component of ESKOM's allowable revenue and, consequently, the tariffs. Concerns have been expressed about the overvaluation of Eskom's assets, which artificially inflates the RAB and leads to higher tariffs. This overvaluation is estimated to be around R500 billion. An example of this are the corruption and cost overruns of Medupi and Kusile, which ran more than R154 and R146 billion over budget respectively. These overruns have been attributed to various factors, including design flaws, corruption, and delays – in other words, ESKOM inefficiency!

Last week, NERSA confirmed that it does seek to take inefficiencies out of the tariff determination. But then, in an astounding about face in the very presentation, the Regulator stated that debt-servicing costs – which include those self-same inefficiencies and cost-overruns! – were still part of the tariff determination.

It's a well-known fact that ESKOM carries some R400 billion in debt. And it is its customers who are paying the costs of that, even when it is its own internal issues that have caused the problem in the first place!

Over the past ten years, Eskom received approximately R242 billion in bailouts from the national government. This included various financial support packages aimed at stabilizing the utility's operations and addressing its debt issues. And for the next ten years, Eskom is set to receive a further R254 billion in debt relief.

That's half a TRILLION rand, to prop up an entity that has a near monopoly on South Africa's electricity supply. What this means, is that taxpayers are paying TWICE for ESKOM's poor decisions. Firstly they pay in the form of bailouts, and then they pay again when they buy their electricity!

Minister Ramokgopa often refers to the Energy Trilemma. This relates to the challenges of balancing three key aspects of energy policy: **energy security**, **energy sustainability**, and **energy affordability**. Put simply, energy security is about ensuring a reliable and uninterrupted supply of electricity. Energy sustainability is about reducing the environmental impact of energy production and consumption, usually by transitioning to renewable energy sources such as wind, solar and hydro. Most relevant to today's debate, however, is **energy affordability**.

The energy trilemma impacts significantly on electricity pricing. From an energy security perspective, our aging infrastructure and frequent load-shedding have necessitated substantial investments in maintenance and upgrades. These costs have been passed on through higher electricity tariffs and bailouts. The transition to cleaner, more sustainable energy sources requires significant upfront investment. While this shift is crucial for reducing greenhouse gas emissions, even the upgrades on existing generation plants have resulted in large financial outlays, and more expensive electricity. From an energy affordability viewpoint, rising electricity prices disproportionately affect low-income households, making it harder for them to afford basic energy needs. In response, municipalities and ESKOM have increasingly moved to prepaid meters in order to ensure that they get paid. While helping manage consumption, this often results in higher charges to the user.

Today, you're going to hear certain members blame the rising cost of electricity on the increased usage of renewables. This is disingenuous. It is a fact that in the earlier bid windows of the Renewable Energy Independent Power Producers Procurement Programme, renewables were more expensive than fossil fuel generation. However, that is no longer true, and from bid window 5 onwards, the cost of electricity from these independent power producers has been lower than that of coal. This was confirmed last week by both NERSA and the Minister of Electricity.

Others will suggest, hypocritically, that the rising cost of generation at ESKOM is linked to the increased cost of coal.

It's a matter of public record that the Optimum Coal/Tegeta deal, for which ESKOM forked out R586 million in prepayment (so that the Gupta-linked company could purchase Optimum Coal Mine), resulted in Tegeta supplying coal that was substandard and did not meet ESKOM's requirements.

This impacted on the operational efficiency and maintenance of the coal-fired power plants, and may have worsened the effects of load-shedding and further exacerbated the financial crisis which has ensued – thereby raising the cost of electricity.

The Minister has suggested that delaying carbon taxes on ESKOM will reduce the increase by about “3 to 4%”. That's only a small portion of the overall increase ESKOM is seeking and amounts to little more than kicking the can down the road, in the hope that someone else will deal with it.

Minister, the reality is that the Electricity Pricing Policy is decades out of date. NERSA's methodologies are inadequate and the Regulator does not heed the advice of their internal electricity experts. Furthermore, they are slow to respond to a rapidly changing, diversifying and competitive electricity market.

As the DA, we today call for an urgent review of how our electricity sector is structured, a clear picture of what the role of the National Transmission Company is in terms of procuring electricity, and where ESKOM fits into that picture.

We must, as the Electricity Regulation Amendment Bill says: “provide for an open market platform that allows for competitive electricity trading” and which recognises that ESKOM is just one supplier among many, as we diversify our electricity generation capacity. We need to have a dialogue on how NERSA determines the tariffs, and what can be done to foster greater transparency in this regard. And we need to ensure that those tariffs are implementable, and can withstand rigorous scrutiny. For far too long, the tensions between NERSA and ESKOM have resulted in court cases, disputes and rulings that have ended up costing, you and I, and every member of the public, more.

It has now reached the point where ordinary South Africans are being forced to choose between having electricity, or putting food on the table. Between having petrol in their car, or power in their home. As parliament, and as government, we need to be doing everything we can to make electricity more affordable. The Democratic Alliance will not allow these tariff increases to stand unchallenged. We will fight for the right of every South African to have access to affordable electricity.