SOUTHERN AFRICAN FAITH COMMUNITIES' ENVIRONMENT INSTITUTE (SAFCEI)

20th November 2012.

Attention:
Mr Charles Hlebela,
National Energy Regulator of South Africa,
Kulawula House, 526 Vermeulen Street, Arcadia,
Pretoria.
Tel: 012-401 4600, Fax: 012 401 4700
Email: MYPD@nersa.org.za or Charles.hlebela@nersa.org.za

Submission to NERSA
In response to

Eskom's application for a Multi year price determination November 2012

Introduction:

The South African Faith Communities' Environmental Institute (SAFCEI) aims to promote the care and nurturing of all of God's Creation. We are an institute of people of many faiths, united in our diversity through our common commitment to earthkeeping. Our aim is to support the faith communities in fulfilling their environmental & socio-economic responsibility.
SAFCEI upholds the core principles of the Earth Charter, including:

- Respect and care for the community of life
- Ecological integrity
- Social and economic justice
- Democracy, non-violence and peace

We note with dismay, the devastating impact of global warming and climate change; and the long term consequences of the use of nuclear energy and fossil fuels, and its impact particularly on poor and vulnerable communities. We are committed to working towards achieving a transition to clean energy.

We believe that faith based communities have a significant role to play in the nurturing and protection of God's creation. We call on governments to place environmental justice at the forefront of their agenda, to promote a value based economic system and take steps to safeguard the future of our children and planet earth.

The South African government has committed itself to the path of sustainable development through the Johannesburg Programme of Action, adopted at the World Summit on Sustainable Development held in 2002.

Within the Energy sector, South Africa has committed to pursuing renewable energy and NERSA's has its own stated objective of contributing to socio-economic development in a sustainable manner. We believe that few would disagree that we need to move from the polluting energy generation from fossil/nuclear sources towards the cleaner, environmentally sustainable renewable resources.

We believe that there are a number of principles that NERSA needs to take into account when deciding on the MYPD3.

- All government interventions (NERSA is a government agency) should aim to improve the quality of life and livelihoods for the poor and marginalised sectors of our society

- The pricing of electricity should ensure that electricity provision and choice of future supply is in the public interest

- The environmental principles in the National Environmental Management Act (NEMA) that apply to all government decisions that may have a significant impact on the environment must be applied to this decision of NERSA, particularly to take account of external costs in the tariff determinations

- Global climate change is now internationally recognised. Electricity regulation needs to ensure that our electricity supply and demand side options both mitigate and adapt to climate change.

- Eskom is a state owned entity and should therefore operate in the public interest, treated as providing a service not selling a commodity for profit, and subject to public scrutiny in its decision-making and policy determination

- Public participation in matters of governance must be encouraged and meaningful participation **particularly by poor and marginalised communities** must be facilitated

Key points:

Eskom raises an interesting point in suggesting that if electricity prices are not cost reflective, then every unit of electricity is subsidised – either now or by future generations. We believe that externalities should therefore be included in the tariffs – but not only carbon emissions but also acid mine drainage, health costs from air pollution; as well as land degradation from energy related pollution.

It is of concern to read that Eskom has assumed that no carbon tax would be implemented before 2030, as this would imply that Eskom is understating the cost of supply, and will return to the regulator to adjust the tariffs upwards again should a carbon tax be brought in.

A major motivation for the Eskom increase appears to be the need to become a stand alone entity, with the ability to raise its own funds for its own new build. But, as Eskom's credit rating is unlikely to be better than government, would this not result in more expensive capital loans, whose costs would then be passed on to the citizens in the form of higher electricity prices?

It seems that such a move is not desirable and we question the necessity, of doing so, especially in the light of the need to split transmission off from generation in Eskom. Eskom has raised concerns of the impact of the split of transmission on its ability to loan money – is it likely that Eskom split off from government would do better?

SAFCEI supports the EGI-SA submission attached, and in particular would emphasise that:
"*Interestingly, Eskom states in its MYPD3 application that "Price is more effective at promoting investment into energy-efficiency technologies than incentive schemes or other factors. If price levels provide the correct signals, consumers will respond by limiting electricity use and employing more energy-efficient technologies, reducing demand.*" *Does this mean that Eskom accepts that price is a driver of reduced demand? …… And yet, Eskom's MYPD3 application assumes that, contrary to what price elasticity trends have shown, electricity demand will increase by 1.9% compound annual growth a year over the MYPD 3 period*"[1].

At a recent NERSA parliamentary presentation, NERSA presented the following electricity trends, showing that electricity prices have more than tripled in the last 6 years. SAFCEI is currently investigating some of the discrepancies in electricity pricing, particularly the high connection charges, in some areas, and how this might impact on urban and rural households. Again, we emphasise the point made in the EGI-SA submission:

[1] EGI-SA submission 20 November 2012

"*We recognize that Eskom supports the need for a more pro-poor IBT structure, but the proposed structure illustrates that fairly low users of electricity (<500kWh) will still pay significantly more than they do under the current IBT. There are reductions for very high users (>1500kWh pm) but increases for those who use less, reducing the price signal for energy efficiency substantially[2]".*

Energy efficiency is recognized as a more cost effective option to meet demand than building new power stations. Yet, "In *its MYPD3 application Eskom has stated that it will spend only an average of 1.2% of revenue on Energy efficiency demand side management programmes[3]. Surely it can do better than this?[4]".*

There are a number of issues relating to MYPD3 that are similar to those that we raised in 2009. We have consistently made the point that if we continue to exclude external social and environmental costs, in our costing calculations, we bias our electricity choices towards coal. Reliance on non-renewable sources of energy, can only lead to increasing costs as these resources are used up.

So, for as long as NERSA abdicates their responsibility in assessing external costs, electricity prices will keep rising.

In conclusion, SAFCEI would, in principle, support the submissions of ELA Johburg, EGI-SA and Groundwork, highlighting the following recommendations[5]:

1. Before granting any tariff increases under MYPD3, NERSA to cancel the SPA with BHP Billiton.
2. NERSA includes the costs of road maintenance in Eskom's costs of coal-fired generation
3. NERSA to include carbon taxation in Eskom's pricing curve.
4. NERSA to include externalised costs into Eskom's cost structure, and to halt the pass through of the environmental levy
5. NERSA to halt tariff increases until the review of the IRP2010 as been completed, particularly in light of the reduced economic demand forecast.
6. That Eskom is not provided with any tariff increases at this time. The completion of the IRP2010 review early in 2013 could provide a basis for revision of tariffs.
7. That there should be a greater emphasis on significant investment in energy efficiency programmes.
8. That the allocation of free basic electricity for the poor should be increased to enable them to have at least a similar level of use as in 2007.
9. That the findings of the economic modeling undertaken to show that increased taxes would have worse distortionary effects on the economy than cost-reflective tariffs (Pg 49) should be made public.

The timeframe for commenting on the voluminous Eskom documents is quite restricted and we will elaborate on the points in our submission at the hearings. We are analysing some of Eskom's figures and drawing in some of our own experiences which we wish to bring to the attention of the regulator. Should our findings be completed before the time of the hearings, we would like to submit additional information for your consideration. Would that be in order?

We also request an opportunity to present at the public hearings. We once again commend NERSA on its commitment to holding public hearings in the provinces and look forward to participating.

Sincere regards,

Liz McDaid
Climate Change and Energy Programme Coordinator
Office Tel: (+27) 21 6835182
Email: liziwe@mweb.co.za

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[2] EGI-SA submission 20 November 2012

[3] Table 41 in Eskom's application reveals that most of the IDM is actually spend on peak demand reduction and not on energy reduction. This is confirmed in chapter 5.2.1 Energy efficiency versus demand management.

[4] EGI-SA submission 20 November 2012

[5] SAFCEI will elaborate on these points at the public hearings.