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South African Local Government Association

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SALGA welcomes NERSA decision for allowing less than half of Eskom RCA application but remains concerned about affordability

"Temporary victory for many because the battle for fair and affordable tariffs has not been won completely"

The South African Local Government Association, as the voice of local government, representing all 278 municipalities in the Republic of South Africa, welcomes the decision of the National Energy Regulator (NERSA) not to allow Eskom's full RCA claim for over-expenditure of R22.8 billion which Eskom claimed was mostly due to decline in electricity sales, excessive use of diesel for its open-cycle gas turbines, and electricity imports and exports due to forced outages etc, and wanted to pass this on to all end consumers.

This decision is viewed as an NERSA's attempt to balance Eskom's interests and those of the country's economy and consumers, although SALGA is still concerned with the unpredictable and unstable electricity price increases.

Although NERSA did not grant the full 16.6% tariff increase (R22.8 billion) for 2016/17 that Eskom applied to collapse in its RCA, SALGA as an organisation in the coalface its member's (Municipalities) revenue collection challenges which is mostly due to their customers not paying for services is concerned that the 9.4% increase (R11.2 billion) that was granted may still have a negative impact on affordability, the economy, and job losses.

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After this decision, the next challenge for the municipalities would be to meet the 15 March 2016 MFMA budget process as well as implementation (01 July 2015), deadlines in a process that not only required crunching of numbers but also going through their formal budget processes again to open up for the change as well as organising public hearings to their communities as well as packaging their applications for tariff increases to NERSA. Due to the misalignments of timeline between Eskom and Municipalities budget and tariff increase processes, municipalities always find themselves not complying to the MFMA deadlines which comes across as an audit finding by Auditor General.

NERSA hosted public hearings on Eskom's application to recoup R22.8 billion through a Regulatory Clearing Account (RCA) for 2013/14 financial year which the utility said it used mainly to avert load shedding through the use of expensive technology (Open Cycle Gas Turbines) and also cited a reduction of sales due to power capacity constraints.

This RCA was for the first year (2013/14 period) of the third multi-year price determination (MYPD3). SALGA presented local government's position at all the public hearings, across the six provinces, between 18 January and 05 February 2016. During these hearings SALGA warned both Eskom and NERSA of the dire socio and economic consequences should Eskom be allowed to recover the R22.8bn through a 16.6% tariff increase. Municipalities are already experiencing high levels of non-payment, as well as theft of both electricity and infrastructure which SALGA believes are a direct result of ever increasing electricity prices and other commodities. . Low collection rates as well as high penalties and interest charges are amongst the main reasons that some municipalities are defaulting on Eskom accounts.

The NERSA decision on 1 March 2016 allows Eskom to recover R11.2bn from its customers as follows:

a) R10.25bn is going to be recovered from standard tariff customers, including municipalities,

b) R0.983bn is going to be recovered from imports and exports, and

c) In order for Eskom to recover the R10.25bn from standard tariff customers, the tariff increase will be 9.4% (for the 16/17 financial year), however Eskom still needs to pronounce the retail tariffs for each category of customers within the standard tariff group. We look forward to Eskom pronouncing the tariff increase that is specific to Municipalities as soon as possible.

NERSA further instructed Eskom to submit a full MYPD application within three months of the decision based on the revised assumptions and forecast so that the MYPD is a true reflection of the country's current and recent social and economic circumstances. SALGA welcomes this requirement since the current RCA is only for 2013/14, if Eskom comes with a full MYPD application it means the RCA of 2014/15 which would have come with another unpredictable higher tariff falls away. We believe that full MYPD will provide for stable increases for the next 5 years and beyond, hopefully with the view that the MYPD framework will be reviewed to relook at the RCA rules' provision as a matter that highly criticized in the NERSA public hearings as not bringing stability and predictability to the Electricity Prices.

As much as the NERSA decision to not allow the full 16.6% tariff increase is welcomed, the battle for fair and affordable tariffs has not been won completely, as the NERSA decision on Eskom RCA only applies for 2016/17. All concerned parties need to prepare for a bigger battle, which includes scrutinizing the MYPD application that is forthcoming to ensure that municipalities and customers are shielded from further increases.

Lastly, we urge Eskom to seriously improve efficiency, noting that less than half of Eskom's claim was deemed prudent by the regulator. Customers cannot continue being at the receiving end of Eskom errors and inefficiencies. SALGA reaffirms its support for Eskom's viability as a national strategic asset but calls on the power utility to explore long term solutions, including a possible re-look at Eskom's cost structure and coal contracts. Municipalities are already confronted with billions in losses of revenue – ongoing exorbitant electricity tariff increases will only exacerbate underlying systematic and structural challenges.

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