

Submission to NERSA re Eskom price hike

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NERSA HEARING ON ESKOM'S PROPOSED PRICE INCREASE OF 35% (MYPD2)

DR Ruth Rabinowitz

Director of MamaEarth

Our submission is based on an overview of the reasons why this increase is not justified, in the absence of a coherent forward looking country vision, within which context the price should be adjusted.

We argue that

1. Eskom is not entitled to claim the increase nor NERSA adjudicate it without the framework of a legitimate IRP
2. Renewable Energy (RE) has not been factored adequately into the financing.
3. A comprehensive energy efficiency strategy has not been implemented
4. Eskom has not been adequately transparent and accountable to the public.

The public should therefore draw a line in the sand and begin by asking NERSA to act on our behalf by requiring Eskom and government to fulfill certain requirements before the increase is introduced.

We do not argue that there should be no increase, but that it should be implemented subject to plans and commitments made by government and Eskom, being fulfilled.

Our submission begins where Eskom ends the MYPD2, with a summary of the factors forming the basis of the application. Eskom emphasizes that "this application is a country application that requires country choices to be made. These choices can only be made in the context of along term view of our overarching objectives. Some of these objectives are to ensure security of supply and consequently facilitate economic growth, address access to and affordability of

electricity for the poor, encourage and empower private players to enter the market, facilitate a move towards cleaner generation technologies and support regional development.”

We contend that these objectives would better served with a different vision for electricity generation and that the time for talking is passed and must be replaced by various kinds of action.

THE COUNTRY PLAN.

In what context is NERSA making this decision? Whose role is it to provide this long term view and to make these country choices? Eskom or the government? Is Eskom accountable to the government and the tax payer via parliament or are the citizens of this country being asked to provide easy money for Eskom’s solo vision?

The Integrated Resource Plan (IRP) should provide the overall vision and framework within which the Eskom’s strategy should be structured. But here is Eskom’s plan without a legitimate IRP having been debated, justified or finalized. An Interim IRP was released before Copanhangen, a token one immediately after, but the MYPD2 was drafted long before any IRP had been released. Clearly we are putting the cart before the horse.

RENEWABLE ENERGY

There is every reason to believe that a strategy that commits to a vigorous RE path for this country using the REFIT and various local government strategies to buy RE from biomass and biogas sources, would reduce the capital expenditure needed by Eskom, change the assumptions of Eskom’s generation needs, protect the poor, create jobs, decentralize energy supply, provide energy security, release us from the burden of exchange controls that may impact severely on the costing of the new build program and create an entirely different price path. The proposed cost for coal fired power stations is 70 c by 2012. At that price methane gas turbines can generate electricity from municipal waste even without the REFIT. The private equity that is sought for power stations could be replaced by private equity invested in CSP plants and wind farms.

The MYPD2 alludes to PPA's and the MTPPP, but government has not yet presented the IPPs with an equitable PPA. Is the commitment to Renewable Energy and IPP's a word game or a fact.

In advocating a RE agenda we are not only concerned about the carbon factor but about sustainable living which is important to South Africa, Africa and particularly the poor. Drought, food shortage, conflict over scarce resources, pollution, decreased fresh water supply are some of the problems linked with the climate change and energy debate. To address them we should steer away from wasteful use of natural resources, inefficient use of dirty energy, and centralized production of energy by a monolithic utility Eskom. The O2 we seek to resuscitate the patient will come from an Energy Efficiency program, RE for which the entire chain must be in place (i.e the REFIT, PPA and SBO), municipalities and companies investing in decentralized energy solutions, and enabling legislation for electricity from multiple sources.

The costing provided in the various appendices of the MYPD2 are fairly blunt figures which do not provide in depth detail or reflect externalities, nor do they reflect an in depth comparison between the cost of producing electricity using coal fired stations with back up OCGT, and providing energy using multiple decentralized energy sources in an integrated fashion.

Although the South African government triumphed by forming a pressure block to champion the cause of developing nations at Copenhagen, we have a poor track record at home that can be trumpeted as an example of good energy and environmental practice.

At Copenhagen, government committed to a 34% deviation from business as usual. But in whichever IRP we refer to as reflecting governments commitment, RE will supply a mere 700 MW of electricity to reach the measly target of 10 000 GWh by 2013. 40% will come from Solar Water geysers and 60% from electricity. By 2009 approx 450 GWh of RE had been installed, which is less than 5% of the target.

Yet in the MYPD2 the building of a 100 MW wind farm is delayed to 2012. A CSP program is delayed to 2019. These represent tokens not commitment to targets. What actions will NERSA take with regard to targets that are not met?

So, not only is our current performance dismal but the IRP drafted with energy planners at Eskom, aims at little better. Even the best scenario offered therein would not meet 50% of the LTCMS(Long Term Climate Mitigation Strategy) target agreed to by cabinet. How does this justify the case made at Copenhagen?

Waiting in the wings to be installed by private investors is 4000 MW of wind and to be developed, the SA Concentrated Solar Power industry. We have the best climate in the world, excellent capacity in the CSIR and Stellenbosch and investors wanting in but no champion for this technology which would change the face of Africa. The Department seems convinced that only coal and nuclear stations have the capacity to provide base load power. But by combining the many sources of WIND, SOLAR THERMAL, HYDRO, BIOMASS, LANDFILL GAS, BIOGAS DIGESTERS and BIODIESEL from cellulose, we would reduce the waste pouring into rivers, the agricultural waste burnt into the atmosphere to dispose of it uselessly, and the tons of carbon being spewed into the atmosphere. Tons of biomass produced here is being exported because we have no policy for its viable use.

All of Africa could be linked through varying RE resources, using mainly CSP in the north and south, hydro in the centre and a hybrid mix of other REs as a versatile and flexible back up, just as Europe has been linked with varying RE technologies, making clean tech one of the fastest growing industries in the world.

The REFIT 1 and 11 (Renewable energy Feed In Tariff) have been introduced by NERSA. The REFIT could provide an overarching framework for RE implementation. But, in spite of regulations adopted on 5 Aug 2009, there is not a viable PPA (Power Purchase Agreement) that balances liability between Eskom and IPPs (Independent Power Producers), to make the REFIT work. There is no buyers office with financial capacity yet established to back the setting up of PPA's. Eskom has also halted the MTPPP (Medium Term Power Purchase Program). Hence we are stalled on the road that was intended to reach the 10 000 GWh target. Paradoxically, rumor has it that behind the scenes Eskom has lined up partners for power purchase agreements.

The token IRP commits to this program being implemented by March 2010. What will NERSA do if it is not? What will NERSA do in relation to the PPP's lined up behind the scenes.

ENVIRONMENT

The only commitment to the environment in Eskom's future financial planning is an investment in carbon capture. This does not cope adequately with the atmospheric pollutions to which hundreds of thousands of SA's are exposed and is a threat to the right to a clean environment.

ESKOM'S PROPOSED ALTERNATIVES.

Even within its own submission Eskom admits that alternative strategies would change the picture. I quote

"Government should:

- Publish a country electricity plan to provide clear direction on the vision for the electricity sector in the next 20 years and the role of Eskom and independent power producers. This also starts the process of public consultation for input into the next plan.
- Clarify policy on renewable energy and nuclear energy.
- Create an effective enabling framework for the funding and implementation of demand side management programmes
- Promulgate regulations to facilitate the implementation of the power conservation programme.

NERSA should:

- Approve and publish the cost recovery mechanism rules.
- Approve and publish the procurement rules for the renewable energy programme
- Approve and publish rules for the power conservation programme".

WE argue that these strategies must be implemented immediately by government Eskom and NERSA before the price hikes can be justified.

OUR PROPOSALS, in addition to those mentioned are the following:.

NERSA should now act on the public's behalf by demanding from Eskom :
Full transparency on all costings, both past and present, including externalities and comparison

between technologies.
The thinking behind the draft Integrated Resource Plan.
The prices contracted by the Intensive Users group, how they were determined and when they will be renegotiated.

Eskom must be required to answer the following questions:
How will a commitment to RE with a REFIT impact on the electricity price?
Why it should not privatize the grid?
What steps it is taking to assess and repair the grid for RE uptake?
Why it does not make publicly available, information on solar energy levels provided to it by the international body SOLAR PACES?
Who is drafting the PPA and when it will be implemented?
Why is the SBO not already established and when will it be so?
What has happened to the MTPPP?
Who has been promised contracts to provide energy in any future PPP?
When will government introduce enabling legislation so that municipalities and local councils can introduce RE solutions?

We ask that NERSA regulate for reverse metering by households using PV without waiting for the REFIT and regulate the use of generators which are even now being used to reverse meter dirty energy into the grid.

A special commission or a special committee should be set up, to investigate Eskom's Power Purchase Program, to renegotiate contracts with the 45 Intensive energy users and to make Eskom answerable to government and the tax payers rather than the other way round. It should also probe the reason why the conflict arose between previous Chairman of the board Bobby Godsell and the previous CEO, Jacob Maroga.

We would like to propose that a working group or advisory panel be appointed to bring representatives from the ministries involved in RE out of their silos, to bring all the energy planners out of hiding and to incorporate some NGOs, business representatives, academics and international financiers. They could also examine the financial assumptions in the IRP and

provide input on the possibility of rapidly changing SA's energy strategy from one based mainly on coal and nuclear to one that phases out those two and phases in RE.

CONCLUSION

NERSA does not make policy but it is the check for the public on Eskom and government in relation to energy prices, through regulations, rules and guidelines. NERSA can therefore use its leverage to ensure implementation of verbal commitments made by both government and Eskom.

WE do not endorse price hikes without transparency and do not believe that the current calculations or any other process managed by Eskom has received the public exposure it deserves.

We DO believe that if NERSA does not hold Eskom to account it should be the responsibility of civil society organizations and business to obtain answers to the questions we have asked and to seek legal redress for changes to the way in which Eskom handles its business and our energy supplies.