



BEYOND MYPD(2) 2009 – SAIEE PERSPECTIVE

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SYNOPSIS

Eskom applied to NERSA on 30 November 2009 for a MYPD(2) 2009 tariff increase of 35% year on year for the period 1 April 2010 to 31 March 2013. The SAIEE together with many other stakeholders submitted comments on the application and on 24 February 2010 NERSA announced the tariff increases. This paper gives an overview of developments since 24 February 2010.

BACKGROUND

On 30 September 2009 Eskom submitted the MYPD (2) 2009 application to the National Energy Regulator (NERSA) for a 45% increase in the Electricity tariff year on year for the next three years starting 1 April 2010. Due to consumer pressure, the application was resubmitted on 30 November 2010 with the increase applied for having being reduced to 35% every year for the next three years.

The South African Institute of Electrical Engineers (SAIEE) is a learned professional society recognised by the Engineering Council of South Africa (ECSA) as a Voluntary Association (VA). The Institute has more than 5 000 active members who are electrical engineers, certificated engineers, technologists and technicians, most of them professionally registered with the Engineering Council of South Africa. Members of the SAIEE are involved in all spheres of electricity consumption in the country as domestic consumers, as employees of energy consumers, large and small, and commerce, as consultants, as academics, etc.

The Institute registered with NERSA as an Interested and Affected Party (Stakeholder) and submitted comments made by its members together with many other submissions. The Institute also made five presentations on its submission at public hearings arranged by NERSA around the country.

On 24 February 2010 NERSA announced increases of 24,8%, 25,8% and 25,9% year on year respectively from 1 April 2010. The equivalent average standard price of electricity would be 41,57c/kWh with effect from 1 April 2010, 52,30 c/kWh with effect from 1 April 2011 and 65,85c/kWh with effect from 1 April 2012. NERSA also announced increases in the municipal tariffs for those municipalities who received a 34% during 2009/2010 of 15,33% with effect from 1 July 2010, 16,03% with effect from 1 July 2011 and 16,16% with effect from 1 July 2012. On 16 March 2010 Nersa announced the increase applicable to all other local authorities of between 19 and 22 %.

DEVELOPMENTS SINCE MYPD(2) 2009

1. Integrated Resource Plan for Electricity (IRP(E))

A prerequisite laid down by NERSA for the consideration of the MYPD(2) 2009 application submitted by Eskom was the inclusion of an Integrated Resource Plan, the so-called Integrated Resource Plan (1) 2009 (IRP(1) 2009) which was published in the Government Gazette on 31 December 2009 without any public participation. This plan was received with little enthusiasm and it was obvious that a proper plan had to be put together.

Work has commenced within the Department of Energy on the preparation of the second version of this plan, the Integrated Resource Plan for Electricity (2) 2010 which has to cover the next 20 years and which will be reviewed every three years. The aim is that the IRP(E)(2) 2010 will form part of a proposed Integrated Energy Plan for the country which has yet to be commenced with.

Work on the IRP(E)(2) 2010 is being carried out by a hand full of selected task team members from large consumers, the academic sphere and consultants . Members of the Task Team serve in their private capacities and were sworn to secrecy on the work they are doing. The first deliverable of the Task Team was a suite of 29 Parameters which is being used to draw up the plan. Stakeholders, who had registered with the DoE as such, were given until 11 June 2010 to comment on the Parameters. On 07 and 08 June the DoE held plenary meetings where stakeholders were given the opportunity to present comments on the Parameters. The revised Parameters are scheduled to be published on the IRP website for information.

The target for the publication of the Plan for public comment was August 2010, but the latest indications are that it is unlikely to happen before the end of September 2010.

2. NATIONAL PLANNING COMMISSION

The National Planning Commission (NPC) is a new initiative of government. Chaired by the Minister in the Presidency for National Planning, the NPC will be responsible for developing an all-inclusive long term vision and strategic plan for South Africa. The process of developing this draft plan will include discussion and engagement across our country and will also provide opportunities for people to come forward with ideas and suggestions. This draft will be considered by Cabinet and accepted, amended or rejected. The Commission will also advise on cross-cutting issues that impact on South Africa's long term development.

On 30 April 2010 the names of the 25 members of the Commission were announced. There are high expectations of the role that the Commission will play, however to date very little has been made known of the activities of the Commission.

3. MYPD(3) 2012

Initial indications were that post MYPD(2) increases beyond 31 March 2013 would be 13%, 13%, 13% per year, year on year. It now appears more likely to be at least 25% year on year.

ANOMALIES IN THE STRUCTURES IN THE COUNTRY

1. Promotion of a culture of energy efficiency

In 2000 the Government committed to the provision of free basic electricity and water to the poor. Whilst the idea of free basic electricity for the poor is a noble idea, it is counterproductive in the effort to promote a culture of energy efficiency among users. Especially when read against the background of penalising larger household consumers of electricity through higher block tariffs.

2. Tariff versus Consumption

Large industrial consumers of electricity enjoy discounted tariffs; domestic consumers who exceed certain limits are penalised through inflated block tariffs.

3. Funding of Demand Side Management Initiatives

The Eskom electricity tariff structure makes provision for the funding of demand side management initiatives undertaken by consumers. Previously load shifting initiatives were funded by Eskom 100% and energy efficiency initiatives 50%. Load shifting initiatives are now no longer funded. Yet, the DSM Parameter on which the IRP(E)(2) 2010 will be based, clearly makes provision for both load shifting and energy efficiency.

This should also be read against the background of funding being allowed for very high cost peak demand supply initiatives such as the Ingula (previously called Braamhoek) pumped storage scheme power generation scheme near Harrismith between KwaZulu-Natal and the Free State and open cycle gas turbine installations.

The running cost of the latter is particularly high. Lesotho also recently announced an investigation into a pumped storage power generation scheme.

4. Compliance with Rules

In spite of tariff increases having been announced by Nersa for municipalities and local authorities with effect from 1 July 2010 for the next three years, applications for increases outside those announced were such that Nersa arranged at least two public hearings to give interested and affected parties opportunities to object to those increases. The first of those hearings took place on 3 June 2010.

WHAT HAPPENED TO THE COMMENTS MADE BY THE SAIEE on 2009-12-14

Comments made by the SAIEE in its submission to Nersa on 14 December 2009 in response to Eskom's revised application for a tariff increase in terms of MYPD(2) 2009 included acknowledgement of the Good, the Bad and the Ugly in the application, and the expression of Concerns, Ideas and Recommendations in response to the application.

What has happened to all of this since the announcement of the tariffs for the next three years by NERSA on 24 February 2010? Let us explore some of the comments made by the SAIEE:

Comment 1

SPECIAL PRICING AGREEMENTS

- **Good:** High energy users in Industry who **may have had** the advantage of effectively subsidised electricity in the past will need to carry a more equitable share of the costs in the future.
- **Recommendation:** Electricity prices must be market related and respect market forces. Eskom must not charge less than cost for electricity to the aluminium smelters and intensive users, to avoid market distortions.

Although the SAIEE was severely criticised from industry circles for having made these comments, Eskom has since then entered into discussions with Anglo American and Billiton to re-negotiate long standing below standard tariff supply agreements with consumers both inside and outside the country.

Comment 2

ACCESS TO THE GRID

- **Good:** Industry (outside Eskom) that generates surplus energy and electricity during the normal production process can contribute to the grid supply, when suitable long term commercial structures have been mutually agreed

Recent reports in the daily printed and electronic press confirm that some progress has been made with the conclusion of Power Purchase Agreements (PPA) between private suppliers of power and Eskom to deliver power to the grid.

However, progress is rather slow in other areas such as the wheeling of private power via the existing transmission infrastructure.

In another instance, lack of agreements has left available generating plant standing unused for months, such as the IPSA gas fuel power generating plant in Newcastle. Recently a short term PPA to deliver power to the power grid over a period of 9 days only during the latter part of June 2010, was concluded.

Comment 3

THEFT OF ELECTRICITY

- **Concern:** Higher prices will drive energy theft and the concomitant risk to human life is also increased.

During the public hearings in January 2010 Eskom criticised the SAIEE for this comment.

Yet, theft is rife and on the increase in the country. Sadly it does not only contribute to higher electricity prices but also to an illegal situation and recorded deaths both of those who are making and operating the illegal connection and the public in the vicinity of these connections, such as scholars at a school where illegal take-off has been made.

Eskom and the country's municipalities lose more than 5% of their annual turnover to electricity theft, Energy Minister Dipuo Peters said in Parliament recently. Peters said in reply to a parliamentary question that up to 50%, or 5850 gigawatt-hours (GWh), of the electricity utility's losses in the 2008/09 financial year appeared to be the result of theft of electricity.

Comment 4

THEFT OF TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE

- **Concern:** The growing extent of theft of electrical infrastructure

Copper cable theft costs the South African economy R7-billion a year and Telkom is now pushing government for thieves to be charged with sabotage to combat this scourge. No extensive plans have been announced by either Eskom or local authorities to combat the theft of copper cables and other items off the transmission and distribution grids. Recently Public Enterprises Minister Barbara Hogan said in Parliament that copper may be designated a precious metal to make it more difficult for thieves to trade in the frequently stolen commodity.

Comments 5

CROSS-SUBSIDISING IN THE ELECTRICAL SUPPLY INDUSTRY

- **Unintended consequence:** The Eskom contribution to the consumer price of electricity is not the only contributing factor and the intermediaries, particularly the municipalities, add layers of inefficiency to the delivery of the service along with multiples of price overheads that are passed on to the overburdened paying consumer effectively implying consumer cross-subsidies of other municipal inefficiencies. Multiple mark-ups of Eskom rates by Municipalities should not be allowed.

Comment 6

DAYLIGHT SAVINGS AND TIME ZONES

- **Idea:** Daylight saving and splitting South Africa into two time zones (East and West) will spread the peak energy demand across a broader timeframe, thus easing pressure on the reserve margin and buy us time to explore more efficient solutions to the capacity challenge.

Studies have shown that the introduction of daylight savings and different time zones can lead to a saving of up to 0,5% through energy savings and 2,6% in the maximum demand. It worth noting the country such as Namibia has introduced daylight savings.

Comment 7

ELECTRICITY PRICING INDEX

- **Ideas:** The Electricity Regulator must publish on a regular basis, at least twice a year, comparative prices of the different categories of electricity supply prices world wide. This will eliminate speculation both by Eskom and consultants

NERSA's response at the Public Hearings held during January 2010 to this comments, was not encouraging and to date no progress has been made.

Comment 8

MONITORING OF ELECTRICITY PRICING TO ALL CONSUMERS

- **Recommendation:** NERSA must monitor the consumer price of electricity (bulk, industrial and residential) and ensure that unreasonable profits are not carried through from the Eskom wholesale pricing to the retail pricing of electricity.

There is little evidence that this is happening if one looks at the price increase being imposed by local distributors of electricity.

CONCLUSION

The SAIEE is continuing to monitor the developments and to take part in initiatives such as the development of the DoE IRP(E)(2) 2010, the work of the newly established National Planning Commission and the Eskom MYPD(3) 2012.