



**NATIONAL ECONOMIC DEVELOPMENT AND LABOUR
COUNCIL**

(NEDLAC)

NEDLAC SUBMISSION ON ...

**ESKOM'S APPLICATION FOR PRICE INCREASE FOR
2008/9 FINANCIAL YEAR**

20 MAY 2008



NEDLAC SUBMISSIONS (*NEDLAC AGREEMENT*) ON ESKOM'S APPLICATION FOR PRICE INCREASE

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1 PREAMBLE

The current electricity emergency imposes on all constituencies the need to reduce electricity use and may include increases in the price of electricity supply. At the same time, constituencies agree to work together to minimise the social and economic cost of all measures to address the electricity emergency. In particular, constituencies need to consistently monitor implementation and on that basis identify ways of avoiding adding to the burden on poor households as well as ensuring the least possible impact on growth, employment, investment and exports.

2 PRICING

Recognising that the proposed increase in the Eskom tariff could have significant negative socio-economic consequences, particularly on the poor, constituencies agree on the following:

2.1. It is necessary to move towards a tariff for electricity that ensures sustainable development in the industry, including substantial investment over the next ten years. But these developments must be financed in ways that avoid imposing an unacceptable cost to poor communities or an excessive shock to the economy.

2.2. The following applies:

2.2.1 The constituencies will work together to agree on the required price increase over the next five years, ensuring that there is no excessive

increase in any one year and developing specific proposals on how to protect the poor.

2.2.2 It is recognised that the final increases granted for this five-year period will be subject to the NERSA regulatory processes and may require some changes in the rules surrounding its multi-year price determination framework.

2.2.3 Nedlac will submit these proposals to NERSA.

2.2.4 It is accepted that substantial fiscal injections will be necessary to ensure that financial ratios crucial to the retention of Eskom's credit rating and its financial health are maintained. The extent of these, depend on the final outcome of the NERSA determination.

2.3 Funding for demand side management (DSM) should not be included in Eskom's electricity tariff allocation over the five-year period in order to ease the burden of tariff increases in the short term.

2.4 in evaluating the socio-economic impact of an increase in the price of electricity, NERSA should take into account the 2c/kwH levy on non-renewable electricity proposed by the National Treasury

2.5 Special arrangements must be made to protect low-income households from the negative impacts of any increase.

2.5.1. Tariff directives to all licensees (Eskom and municipalities) must give practical direction on how to ensure protection of the poor.

2.5.2. The Constituencies request that SALGA commit to implementing the tariff directive referred to in 2.5.1.

2.5.3. Nedlac will urgently commission a study to identify the cost of electricity by income level and type of community, and the effectiveness of current measures aimed at providing affordable electricity to poor households including free basic services. Based on the study, the constituencies will develop and seek agreement on measures to enhance the access of poor households to affordable electricity.

- 2.6 The draft Electricity Pricing Policy will be tabled in Nedlac for consideration and will include a review of the developmental pricing policy for industry.
- 2.7 NERSA is undertaking an audit of the events leading up to the emergency, including Eskom operations, and will make the findings public. The stakeholder body will engage on the report.

3 BALANCING SUPPLY AND DEMAND

Recognizing the potential negative socio-economic impacts of some of the measures that could be adopted to address the current electricity situation, constituencies agree actions that will minimize such negative impacts.

- 3.1 An overarching strategy to address the current crisis will rely on a hierarchy of approaches as follows:
 - 3.1.1 Increasing energy efficiency
 - 3.1.2 Increasing supply
 - 3.1.3 Pricing
 - 3.1.4 Rationing
 - 3.1.5 Load shedding
- 3.2 Energy efficiency and savings will be aggressively pursued. An adequate budget should be provided. Import tariffs for energy-efficient equipment should be reviewed.
- 3.3 While maintaining public sector leadership in electricity provision, and recognizing that the Eskom build programme is the long-term solution, implementation of cogeneration will be accelerated. Measures to that end include publishing the prices to be paid and streamlining the contract and approval processes. The parties commit to fast-tracking the proposals arising from the NERT to achieve these aims
- 3.4 The dti is developing a mechanism to facilitate connections for new investments and expansions. That mechanism should be fast and cost effective, and it

should be developed urgently. It should be agreed by the proposed National Stakeholder Advisory Council on Electricity (hereafter the “Stakeholder Council”).

- 3.5 Funding will be made available to support initial audits for energy efficiency in some major industrial and commercial sectors.
- 3.6 Load shedding will be applied only in emergencies and on the basis of a national load-shedding policy that has been negotiated with stakeholders. The policy should endeavour to minimise the impact of load shedding on industry and commerce as well as essential services, by exempting them as far as possible and, where not possible, by ensuring agreement on timing, duration and notice periods.
- 3.7 Government will develop a policy on mandatory rationing, including under the Power Conservation Programme, which will ensure that negative impacts are minimized and refer the policy to the Stakeholder Council for discussion. The policy should include the possibility of trading quotas and should rely on punitive pricing rather than shut offs which should be a last resort.
- 3.8 The need to minimize unplanned outages of generation capacity must be addressed urgently by the Stakeholder Council. Constituencies will support any efforts required to achieve this end, including the deployment of additional technical resources if necessary, and continuing the current constructive engagement with primary energy suppliers.
- 3.9 The new build program of Eskom should be supported. Every effort must be made to ensure that it is not delayed and that Eskom’s financial capability in this regard is not jeopardized. Progress will be monitored by the Stakeholder Council.
- 3.10 All regulatory instruments contemplated in terms of National Electricity Response Plan must be subject to a regulatory impact assessment before finalization. Constituencies agree that duplication of regulatory requirements should be avoided.
- 3.11 The Energy Bill will be tabled in Nedlac for consideration.

4 SAVINGS CAMPAIGN

- 4.1 Constituencies commit to supporting a range of savings initiatives within their constituencies and amongst the public in general, and to monitoring their success through the Stakeholder Council
- 4.2 Core messages will include how to reduce electricity consumption through:
 - 4.2.1 Switching off geysers during the day,
 - 4.2.2 Changing to compact fluorescent lamps, and
 - 4.2.3 Using electric heaters only as a last resort
- 4.3 Business commits to intensifying efforts to further improve energy efficiency.
- 4.4 It is critical that the communications campaign to encourage electricity savings be constructive, effective and widespread. It must ensure a co-ordinated message across society, with alignment of messages from the state, Eskom and other parties
- 4.5 We all need to explore innovative mechanisms to encourage energy efficiency and savings and encourage the media to provide more consistent support.

5 ROLE OF LOCAL GOVERNMENT

- 5.1 Constituencies recognise the crucial role that local government needs to play in the implementation of a range of measures and agree that as far as possible, national harmonised (coordinated, common) approaches need to be carried out by all local authorities.
- 5.2 All measures to address the energy emergency must take into account the challenges to local government arising out of the existing technologies, state of infrastructure and capacity as well as resource availability.
- 5.3 Decisions that affect local government must be consulted consistently with SALGA.

- 5.4 The parties support the work by EDI Holdings to audit the distribution system and identify maintenance, refurbishment and upgrading needs.
- 5.5 Local government must ensure consistent and effective consultation with stakeholders at local level on measures to address the electricity emergency, including around load shedding and tariffs, in line with the policy proposed in paragraph 3.6.