CHAMBER OF MINES
of South Africa

MEDIA STATEMENT

CHAMBER OF MINES OPPOSES ESKOM'S APPLICATION FOR 20% INCREASE AT NERSA HEARINGS

- ***If granted, Eskom's proposed increase will result in a vicious downward spiral for South Africa - of higher electricity prices, lower growth and even less electricity consumption***
- ***Short term solutions must be found to prevent Eskom from failing, and the economy suffering irreparable damage***
- ***Any short term solution must be conditional on significant structural adjustments programme***

Johannesburg, 17 November 2017: Chamber of Mines Chief Economist, Henk Langenhoven, formally presented the Chamber's response to Eskom's application for a 19.9% tariff increase at the hearing by National Energy Regulator of South Africa (NERSA) today. The Chamber of Mines represents 90% of South Africa's mining production by value.

Mr Langenhoven noted that should the proposed tariff be granted, this will result in a continued vicious downward spiral for South Africa - of higher electricity prices, lower growth and less electricity consumption. If unchecked, Eskom will be a key contributor to 'no growth' for South Africa and credit downgrades.

The Chamber's view is that historical multi-year price determination (MYPD) decisions have proved to be unrealistic, owing to the continued decline in electricity intensity within the South African economy; lower than expected economic growth; delayed impact of IPP's on costs; massive overruns in construction costs at the Medupi and Kusile power stations; and large increases in operational costs at Eskom.

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Eskom's large budget shortfalls are of its own making, and the possibility of the utility not being able to service its debt in the short term is high. The situation is dire. And this tariff application is in addition to the outstanding regulatory clearing account (RCA) claims of R48 billion for 2014 to 2017 (and is projected to increase by another R20 billion by 2018), which is not being considered at this time.

The industry is highly skeptical of Eskom's claims that it will deliver 'higher efficiencies', which it defines as lowering its headcount (virtually only through natural attrition), keeping primary energy costs down (that is, low coal price increases) and sacrificing its desired rate of return on capital. The utility attempts to rationalise a 19.9% increase (levied on its customers) to be preferable over an 8% increase to customers necessitating government support. Either of these options will have dire consequences.

The former will result in economic growth declining by 0.1 (on 0.6%) percentage points or 17%, and the cumulative opportunity cost in job losses of over 600,000. For mining, the contribution to GDP will decline by between 5% and 9%. The impact on loss-making mines will be disastrous putting tens of thousands of jobs in jeopardy. The Chamber estimates that the proposed increase would result in a R3.21 billion increase in costs, which would mean that the operations of around 66% of all gold and platinum mines would be unsustainable, and could result in around 48,000 additional job losses.
The latter will lead to the government debt to GDP ratio rising from just over 50% now to 75% by 2021 and over 104% by 2030 with all its consequences.

Mr Langenhoven concluded that "short term solutions must be found to prevent Eskom from failing and the economy suffering irreparable damage. Any short term solutions must be conditional on an immediate structural adjustment programme to be undertaken by the utility.

"NERSA must pursue the least damaging solution to deal with Eskom's impending cash crunch. Drastic changes are needed at Eskom. These could include:

- accelerated decommissioning of old, inefficient power stations;
- bringing Eskom's operational cost (primarily head count) in line with international standards;
- completing the regulated asset base re-evaluation as soon as possible, so that the return on asset (ROA) absolute value diminishes while the weighted average cost of capital (WACC) stays the same;

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- accelerating the completion and commissioning of the new, more efficient power stations;
- accelerate the purchase of electricity from IPPs and continuing this programme; and
- revisiting the MYPD and Regulatory Clearing Account (RCA) regulatory regime.

The Chamber of Mines' presentation and full submission may be found at: https://goo.gl/VVeRHM

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