MINERALS COUNCIL
SOUTH AFRICA

MEDIA STATEMENT

MINERALS COUNCIL OPPOSES ESKOM'S MYPD4 APPLICATION

Proposed 15.5% annual tariff would sound death knell of parts of the mining industry

Johannesburg, 1 February 2019. The Minerals Council South Africa opposes Eskom's application to the National Energy Regulator of South Africa (NERSA) for a 15.5% annual electricity tariff increase in terms of the Multi-Year Price Determination Period four (MYPD4) for the period 1 April 2019 to 31 March 2022. Minerals Council Chief Economist, Henk Langenhoven, presented to NERSA in Soweto today.

Says Mr Langenhoven: "South Africa's economy is a primary minerals intensive economy with almost one fifth of the economy dependent on the mining sector. A reliable supply of competitively priced electricity is key to both sustaining mining operations and to support the continued beneficiation of South Africa's mineral resources. The sector is both a supplier of primary energy to generate electricity (>90%) and a large consumer of electricity, consuming more than 30% of total electricity supply if smelters and refineries are taken into account."

The cost of electricity constitutes a significant component of the total input cost basket of mining, particularly in the gold and platinum sectors. Excessive increases in electricity tariffs have had a detrimental impact on the overall inflation profile of the mining sector. Between 2006 and 2017, South Africa's electricity tariffs have increased by 488% across all categories and industries. Over the same period, the mining industry experienced increases of 523%, the highest increases experienced by any sector. The average electricity tariff increase of 15.5% per year between 2006 and 2017 reduced fixed investment by a cumulative R103.2 billion and contributed to the loss of around 53,500 mining jobs - of which 34% can be directly attributed to the exorbitant increase in the cost of electricity.

"The 15.5% annual tariff increase is in addition to the 4% Regulatory Clearing Account increase and will only serve to further erode the mining industry's competitive advantage and will lead to more mine closures and job losses.

"At the prevailing gold price and taking into account current inflationary pressures, the proposed tariff increase will virtually eliminate the entire gold mining sector, rendering 95% of all gold mining operations marginal or loss-making in a short period of three years, threatening around 98,500 jobs. Similarly, the impact will be severely felt in the platinum industry where around 37,600 jobs would be jeopardised if current inflationary pressures are taken into account.

“If history is anything to go by, the 15.5% annual electricity tariff increase currently being applied for by Eskom will cause considerable damage not only to Eskom’s mining customers, but to the utility’s income and future.”

Should Eskom’s application be approved, the Minerals Council estimates that the number of mining (baseload) customers would decline by 36% by the end of the MYPD4 period. The result would be a severe reduction in Eskom’s income, triggering drastic increases in the unit cost of electricity for other customers which would further reduce Eskom’s customer base and ultimately lead to its collapse.

“Unsustainable tariff increases will only serve to accelerate the demise of the mining industry with devastating consequences not only for the people who depend on mining, but for the economy at large. The proposed tariff increase is simply not possible. We are hopeful that government, as the representative of the people of South Africa and the sole shareholder of Eskom, will play a critical role in finding alternative solutions to address Eskom’s debt and operational challenges,” concludes Mr Langenhoven.

For further information on the Minerals Council’s position in respect of Eskom’s MYPD4 application see https://bit.ly/2DOgoig and https://bit.ly/2UuOsFF

For further information, please contact:

Charmane Russell
Tel: +27 (0)11 880 3924 or Mobile: +27 (0)82 372 5816
Email: charmane@rasc.co.za
Web: www.mineralscouncil.org.za

Memory Johnstone
Tel: +27 (0)11 880 3924 or Mobile: +27 (0)82 719 3081
Email: memory@rasc.co.za
Web: www.mineralscouncil.org.za