

SUBMISSION TO NERSA IN RESPONSE TO ESKOM'S TARIFF INCREASE APPLICATION

While it is recognised that Eskom has suffered many setbacks to its mandate of delivering electricity across the country, SACCI holds the view that many of these were not beyond the company's prevention or control. It is unpalatable, therefore, that consumers, and notably those in the business sector as far as this organisation is concerned, should be faced with the prospect of tariff increases which far exceed the consumer price index and the growth rate of the economy, tariff increases which are required, apparently, to recover over R22 billion of past expenditure, a good deal of which might have been avoidable.

When Eskom requested 25,3% during 2015, a survey of SACCI members revealed the extent to which their businesses would suffer from such a large increase. In the case of by far the majority of companies, profits would decline by as much as up to 20%. Half would have to scale down their operations while 52% would reduce their staff complements. A majority (75%) would have to increase their prices to meet the new tariffs (if approved) and this would affect their competitiveness in global markets and/or local markets where imported products are to be found.

Now, the overall situation is little different. Indeed, while the requested increase is lower than mooted previously, the economic and business climate has become notably bleaker. Now, 80% of responding businesses believe they would suffer a loss in profitability, while 65% would have to reduce their operations, mainly through retrenchments.

SACCI believes that the responses of its member companies would be similar to those of all businesses across the country. These proposed tariffs are simply very bad for business and would come at a very inopportune time.

In broader terms, SACCI wishes to register its strong objection on the following broad grounds:

- Over the past few years, NERSA has rejected the full tariff increase requested by Eskom, authorising instead a more modest one which NERSA considered appropriate having considered all current circumstances.
- The present economic and business climates, especially those relating to mining and manufacturing, represent the worst times in which any extra-inflationary increase should be considered. If the conditions did not warrant requested increases before, there is no justification for considering that the present conditions represent a more suitable time.
- The prognosis for the country's economy is so poor at present, that every means possible should be explored to provide encouragement to those upon whose efforts economic welfare depends.
- The country's economic growth, and the prospect thereby of reducing unemployment and addressing problems of equality and poverty, is dependent on an integrated approach to government decision-making. While Eskom may have a particular financial constraint, this cannot be considered in isolation from the economy as a whole, and the reality is that an increase of the magnitude proposed will have an extremely negative impact on current business operations, let alone on the country's attraction to foreign investors.

- Aside from the untenable impact increases of this size will have on manufacturing which, in terms of government policy, is considered to be of pre-eminent importance in arresting further increases in unemployment and improving the country's balance of payments, damage to the SMME sector needs to be seriously considered. While SMMEs have suffered severely as a result of poor trading conditions since 2008, and many have not survived, they survive on tight margins which would be completely compromised by such massive increases in utility bills. Retrenchments will be inevitable in this sector.
- The matter of electricity tariffs, and, indeed many other aspects of electricity provision, has never been satisfactorily transparent. It is a common perception within the business community that Eskom has long been guilty of obfuscation and, consequently, the latest tariff request is not considered credibly justifiable.
- In the absence of harmonised tariffs, municipal charges, and the ways in which municipalities have exploited their customers in the wake of Eskom's 'average' increases, have done nothing to facilitate transparency. Thus, it may be expected that, when called upon to pay the extra amounts required, municipal distributors will find ways and means of increasing their own revenues, thereby increasing charges, for some if not all customers, by additional amounts.

SACCI urges NERSA to reject this tariff request on the grounds presented above. The performance of Eskom, particularly insofar as the need for load-shedding has been arrested, suggests that lost ground can be made up by means of good management. At this time, this should be the mitigation strategy of choice in order not to increase the burden on commerce and industry.