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**Ms Buyiswa Mabinya**  
National Energy Regulator of South Africa (NERSA)  
PO Box 40343  
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Email: [EskomNPAAplication@nersa.org.za](mailto:EskomNPAAplication@nersa.org.za)

Dear Ms Mabinya

## **EIUG COMMENTS ON ESKOM PROPOSED NEGOTIATED PRICING AGREEMENTS**

The Energy Intensive Users Group of Southern Africa (“EIUG”) was established in 1999 as a voluntary, non-profit association. It was incorporated as a Non-Profit Organisation in 2019. The group was founded on the belief that energy is the engine for economic growth and development in the country.

The EIUG represents intensive energy users consuming around 40% of electricity, contributing over 20% of GDP and employing over 650 000 employees in South Africa. The EIUG therefore has significant “skin in the game” and appreciates the opportunity to be heard in this consultation process. The EIUG continues to engage all stakeholders in a constructive manner to raise our concerns and contribute to finding solutions. The EIUG believes that as a collective of stakeholders, we need to create an enabling electricity supply industry that will enable the country to prosper by improving our electricity supply reliability and capacity, stabilising our escalating electricity costs and support the decarbonisation of our economy.

The EIUG therefore welcomes the efforts by NERSA to process and advance the Interim Long Term (ILT) Negotiated Pricing Agreements (NPAs). The EIUG is supportive of the objectives of the ILT Framework and NERSA’s role in approving NPAs. However, the EIUG is unable to comment on specific member’s applications for NPA’s and will therefore restrict its comments in this response to the role and importance of NPAs for distressed Large Power Users (LPU).

### **Directors**

J J Martin (Chairman), V Dlamini, H M Pretorius and N F Dawson

### **Chief Executive Officer**

F F Mondli



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**Motivation**

The EIUG is passionately and proudly South African, and our members contribute to the economy through creating and sustaining jobs, paying taxes, developing our local economies and funding social-investment programmes. We are therefore strongly supportive of Government’s re-industrialisation policy, especially regarding the efforts to preserve existing jobs and grow the economy to create new jobs. As a result, the EIUG is supportive of the objectives of the ILT Framework in assisting distressed industrial customers and the role NERA plays in this regard.

Energy is the engine for economic growth and development in our country. EIUG members are Key Industrial Customers (KICs) who comprise a significant part of our country’s industrial and mining landscape as well as rail users.

We are alarmed at the deterioration of the industrial and mining sectors in South Africa. This is evidenced by the steady decline in Eskom’s energy supplied, which last year (2020) was almost 21% below 2008 levels, and the number of industrial and mining customers dropped by 11%. This is due mainly to industrial and mining capacity shutting either permanently or temporarily or moving offshore. Unfortunately, we see no change in this downward trend.

**Table 1: KICs Customers and Sales Decline Between 2008 and 2020**

Customer Category	Number of Customers		Customer Delta	Sales per Category (GWh)		Sales Delta
	FY2007/08	FY2019/20	%	FY2007/08	FY2019/20	%
Industrial	2 966	2 684	-9.5	61 510	45 610	-25.8
Mining	1 153	961	-16.7	32 373	28 703	-11.3
Traction/Rail	510	475	-6.9	2 990	2 600	-13
<b>TOTAL</b>	<b>4 629</b>	<b>4 120</b>	<b>-11</b>	<b>96 873</b>	<b>76 913</b>	<b>-20.6</b>

Data Source: Eskom Annual Reports 2008 and 2020 (See page 220 and 151, respectively)

Eskom’s prices are increasingly becoming unaffordable for a large part of our membership. Electricity presently makes up between 15% to over 50% of the operating costs of energy-intensive industrial and mining operations. The recent price increases further erode our international competitiveness.

The EIUG believes that NERSA now has the opportunity to exercise leadership and act to protect South African industry and mining. We stress that the situation is immediate and serious and requires urgent intervention whenever an NPA application is made. Accordingly, we urge NERSA to make



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available Long-Term Interim Negotiated Price Agreements (NPAs) as approved by Department of Mineral Resources and Energy (DMRE) to be implemented to curtail plant closures, protect employment, increase production and restart shut plants. This will also help Eskom immediately recover and grow sales and improve its revenue position to the benefit of all electricity consumers as a whole. If this incentive is not made available urgently, then the likely outcome is that plants will continue to shut, further jobs will be lost and Eskom will become increasingly unviable (as it loses its base load customers).

We also urge NERSA to also immediately commence work with Eskom and industrial sector to urgently develop a standard industrial tariff for Key Industrial Customers. Our members are not asking for special deals, special treatment or for special subsidies. What is required is cost reflective tariffs to KICs, which allows Eskom to recover their costs of supply and earn a reasonable return. NERSA has the policy and legislative power to intervene in the manner we are proposing, as follows:

The general principle of cost-reflectivity is already established Government policy (Section 2.3 of the South African Electricity Supply Industry – Electricity Pricing Policy 2008 ('EPP')). Cost-reflectivity is defined in the EPP as: *'The pricing method to reflect the full economic cost of supplying electricity to a customer' (Definitions, EPP). The Objective of cost-reflectivity is stated as: 'A link between the prices a user must pay to the cost of serving that user' - (Section 2.1, Table 1 of EPP).*

Currently subsidies make up about 20% of the MegaFlex tariff for a typical KIC. This subsidy amount goes directly from KICs to benefit other electricity customers. Some of these subsidies are transparent, while others are embedded in the various price components of the MegaFlex tariff. Some of these subsidies are useful for the targeted customer categories but should be dealt with outside the Electricity Supply Industry.

### **Conclusion**

Implementing the NPAs will save jobs and improve Eskom's financial position. In addition, moving to cost-reflective tariffs for KICs as soon as possible is the only way to ensure the sustainability and viability of both Eskom and its industrial and mining customer base. This will arrest the de-industrialisation of our country, facilitate new investment, grow the economy and create jobs. Inaction now will result in a decline in sales to industrial customers seen since 2008 that cannot be arrested and reversed, it will lead to a "death spiral" scenario where falling demand triggers price increases which result in further demand destruction, etc. In such a scenario, all users will have to pay more for



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electricity, which triggers further unintended outcomes such as lower GDP growth, less job creation and more non-technical losses.

The EIUG is confident that NERSA will timeously perform its legislative obligations as custodian and enforcer of the regulatory framework for the Electricity Supply Industry to ensure the sustainability of Eskom and its energy intensive industrial and mining customers.

We also urge NERSA to prioritise the establishment of a cost reflective industrial tariff that will allow the KICs to pay what allows Eskom to recover their efficient costs of supply and earn a reasonable return.

We appreciate the opportunity we have been given to make this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Fanele Mondi', is enclosed within a hand-drawn circle.

**Fanele Mondi**

**Chief Executive Officer**

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