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Government wants electricity pricing rethink

The Department of Energy wants to change "radically" the method used by Nersa to determine electricity tariffs for Eskom

LINDA ENSOR

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CAPE TOWN — The Department of Energy wants to change "radically" the method used by the National Energy Regulator of SA (Nersa) to determine electricity tariffs for Eskom, because high prices have reached a "tipping point".

It is concerned that high energy costs have caused businesses to close , restrained new investment and threatened job-creation targets. They have also contributed significantly to higher inflation and the risk of an interest rate hike.

High electricity costs were one of the main reasons why Exxaro Resources decided two months ago to close its zinc refinery — the only one in SA — and for minerals company Tharisa's decision to build a ferrochrome smelter in China, using chrome ore from its Rustenburg mine, rather than in SA.

"We have reached a tipping point in terms of electricity pricing. We are very, very concerned," energy department director-general Nelisiwe Magubane said during a briefing on its annual report on Friday.

Her sentiment was shared by Trade and Industry Minister Rob Davies at a media briefing the same day. "If we want to create jobs then we have to have reasonably priced electricity. If it is unaffordable then we are not going to create those jobs," Ms Magubane said.

The government's rethink of the methodology of electricity price determination comes at a critical time for Eskom, which will be submitting its new three-year tariff application for 2013-16 to Nersa shortly. Industry is concerned that future increases do not repeat the annual average increase of 25% for the 2010- 12 period, which indirectly supported Eskom's R345bn expansion programme. Eskom spokeswoman Hilary Joffe said the utility would "engage with the Department of Energy through our shareholder" (the Department of Public Enterprises).

Ms Magubane told MPs that the way Eskom applied to Nersa for tariff increases based on the revenue it required to fund its expansion programme created "a very, very perverse incentive. Even if they don't meet their target (if construction was delayed) they are still going to get money. We need to look at how we regulate to ensure that we get the correct value," she said.

"Basically, the way we regulate has to change quite radically.

"What we are saying to the independent power producers is that we are not going to pay you until we get the first megawatt. We need to do the same thing for Eskom. We are engaging with Nersa on this."

Independent Democrats MP Lance Greyling warned of runaway electricity prices if demand declined and SA was left with "stranded assets". Ms Magubane said the department also worried about this.

Another area of concern was the "significant" lack of investment in the rehabilitation of distribution infrastructure, which posed the risk of disrupting the delivery of electricity to consumers. The Financial and Fiscal Commission estimated R32bn was needed for rehabilitation and Ms Magubane said discussions were under way with the Treasury about funding this.

Discussions were also taking place on how to manage the fiscal sustainability of municipalities and the cost of the electricity they provided to consumers. Municipalities were not recovering enough and would not implement tariffs that were not in their interest.

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