MINERALS COUNCIL
SOUTH AFRICA

MEDIA STATEMENT

MINERALS COUNCIL NOTES GRANTING OF ABOVE-INFLATION TARIFF INCREASES

These increases will have a negative impact on the mining industry

Increases of this nature are unsustainable and underscore the need to turn Eskom around

Johannesburg, 7 March 2019. The Minerals Council South Africa notes the approval by the National Energy Regulator of South Africa (NERSA) of annual electricity tariff increases of 9.4% in 2019/2020; 8.1% in 2020/2021; and 5.2% in 2021/2022 in terms of the Multi-Year Price Determination Period four (MYPD4), for the period 1 April 2019 to 31 March 2022. It notes further the approval by NERSA of an additional 4.4% tariff increase in terms of Eskom's Third Multi-Year Price Determination Regulatory Clearing Account (RCA) for year five which will, in effect, increases the annual electricity tariff for 2019/2020 to 13.9%. *The increases amount to a compounded increase of 9.0% over three years, which is 29.5% higher than the current electricity tariff.

The Minerals Council's Chief Economist, Henk Langenhoven notes: "We are disappointed to again see higher-than inflation increases being granted to Eskom, amounting to nearly two thirds of what the power utility applied for. There is no doubt that these substantial tariff increases will have a major impact on the industry's cost structure, jeopardising the viability of marginal and loss-making mines and, inevitably, accelerating job losses at energy-intensive mines in particular.

"It is most disappointing that the regulator has chosen to support Eskom's own inevitable downward spiral that will come as a result of inflated tariff increases and declining electricity usage by a critical consumer. The mining industry consumes around 30% of Eskom's annual power supply, for both mining and smelting activities. The industry has worked closely with Eskom to allocate demand to off-peak hours. And, in addition to being a major customer of Eskom, it is a consistent and early payer.

"As a result, the mining industry fundamentally supports the financial wellbeing of Eskom and helps ensure the supply of electricity to the country as a whole at current costs. If the mining industry's usage declines as tariffs make certain operations and activities unprofitable, Eskom will not achieve its targeted sales volumes. This will inevitably result in additional substantial increases in electricity prices across the country, that will have to be paid by industrial and private consumers alike."

The Minerals Council welcomes the much stronger position taken by NERSA in terms of impropriety and corruption at Eskom, as well as prescribed measures to Eskom to reduce costs; address electricity supply concerns (including reducing the number of unplanned outages and the frequency of load shedding); develop maintenance plans for its assets; and address inefficiencies and design failures at the Medupi and Kusile power stations.

The Minerals Council also notes that the R23 billion support announced by Treasury in February, combined with NERSA's stricter position relating to cost variables, weak governance and management, and the structural changes to Eskom proposed by President Ramaphosa, should improve the efficiency of the power utility. While these measures will take time to deliver results, it is hoped that they will mitigate the consequences of excessive tariff increases since 2006 as a result of state capture and the gross mismanagement of Eskom for which the productive and employment creating sectors of the South African economy are currently paying.

***CORRECTION AND CLARIFICATION:**

This media release has been revised to restate the value of the compounded tariff increase per annum.

The original media release published on 7 March, stated that "The increases amount to a compounded increase of 9.7% over three years, which is 24% higher than the current electricity tariff."

The restated value is as follows:
"The increases amount to a compounded increase of 9.0% per annum over three years, which is 29.5% higher than the current electricity tariff."

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