


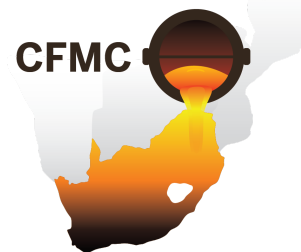


Casting, Forging and Machining Cluster of South Africa NPC

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Att: Thabo Tshabalala
municguideline@nersa.org.za (Email submission)

CC: DDG Industrial Competitiveness and Growth at the Dtic
Chairperson - RSA Clusters Group NPC
RSA Clusters members
Chairperson - Casting, Forging, and Machining Cluster of SA NPC
Chairperson - Rail Manufacturers Cluster
Chairperson - Mining Equipment Manufacturers South Africa
CEO - Middelburg Business Chamber

Consultation document: Municipal Tariff Guideline, Benchmarks and Timelines 2022/23 - Electricity Tariffs

To whom it may concern,

Thank you for the opportunity to provide a response to this Consultation document, as published. We believe that it is very important for industrial users to become more involved, and to make use of opportunities like this to share opinions, to present advisory inputs, and to engage with NERSA in a value chain focused debate, seeking to improve the competitiveness, at all levels of activity, in the manufacturing sector.

About the CFMC

The Casting, Forging, and Machining Cluster of South Africa NPC (CFMC) is a nonprofit, industry-led cluster initiative to develop and grow manufacturing production and associated service providers in the casting, forging, machining and associated manufacturing industries. Members of the CFMC are committed to working together to address the challenges facing them and the local industry in South Africa. CFMC is committed to strengthening linkages between manufacturing companies and institutions, including economic regulators, like NERSA. Also necessary is relationship building and collaboration alliances with the government and industry support structures, with the aim to stimulate capacity development and improve competitiveness of South African companies

and the products that they make locally. Localization and import replacement are the major focus points that will headline the cluster's plans to initiate this process of change.

The CFMC and its members are primed to play their part in the revitalisation of the South African metals industry. Together the collective bargaining power, great structures and open cooperation of the cluster and its members can forge forth a South Africa first industry, which rewards locally produced cast and forged core products, improving local manufacturing and contributing toward job creation. CFMC has a Board, and is managed by a Steering Committee of elected leaders.

Our members consist of mini-mills, foundries, forges, heat treatment plants, machine shops, metal processing plants, component manufacturers, as well as industry associations. Most manufacturers are high energy users, with electricity supplied through municipal licensees. This group of Municipal industrial users is calculated to consume approximately 19% to 20% of the electricity that Eskom generates, and serves to provide a significant portion of the employment opportunities in the country.

Background

We need coal generated energy until suitable solutions to the current supply side predicament are found. The large majority of companies in the manufacturing cluster are SMEs, or are larger companies involved in the conversion of minerals and scrap into metal-based products. For them a change from electricity to alternative energy sources is not a simple process. They have long ago made the investments needed to acquire electric systems and equipment in line with industry best practices and the incentive of low cost South African coal fueled electricity. Through no fault of their own, their commitment to electricity, and the decline in the instability of the electricity grid (national and municipal), has become a major productivity hurdle that they are struggling to deal with.

Municipal inefficiencies and rising costs have not caused a large portion of the manufacturing community to migrate to other energy sources. They are simply not able to do so, and any form of deterioration in the system or in their profitability is converting to job losses, and in some cases, to business closures.

We need tariffed municipal electricity distribution infrastructure to be properly maintained. The fact that the infrastructure is crumbling and supply is no longer reliable, is of major concern, as the status quo is no longer sustainable. Equally concerning is the sharp increase of infrastructure vandalism and theft. To make matters worse, the equipment and parts needed to fix the infrastructure are in many instances imported, due to delays, or increasing prices, from local manufacturers, often caused by the waning productivity.

We need to have a winning formula for the Municipal distribution industry: What we have today, does not work. We are eating away and destroying productive capacity, for no other reason than municipal non compliance. STOP!!! This has to be revisited, and actionable processes put in place right now. The extreme levels of unemployment and poverty in the country need those of us who can, to deal with the

issues and make decisions that will favour job creation as the singular most important task. No longer can any one of us say that we don't know what to do, when the way forward is clear. In our instance, manufacturing production is the biggest opportunity for the municipalities to increase their revenue, raised from a growth in the manufacturing sector, as opposed to increased taxes. In this case electricity regulation is of extreme importance, as the counter decisions to be made might have equal but different weightings in the eyes of different stakeholders. NERSA, in our view, needs to revisit the economic priorities, and re-consider the priorities of electricity users users, and to give them more prominence in the discussion, and help them to better define their needs, and to bring on board additional electricity generation capacity that resides in the private sector, instead of wasting resources in what appears to be an act of begging and pleading with the municipalities. NERSA needs to focus on regulating the actions of municipalities, and dealing with their poor performance to comply with their basic mandates, and in so doing to compel them comply with the regulated requirements, as found in the regulatory framework, including the supply of ALL the financial information required. The imbalance appears to be structural, and once corrected, we suggest that the changes should have a good chance of working and being successful. We do, however, foresee that the approach to problem solving will need to be far more collaborative, and hereby commit our interest to work with NERSA to help facilitate the way forward. By working together, we hope to get a better understanding of the key challenges, to identify and prioritise actions, to help reset the course of our collective efforts, and to map the way forward. In short, we hope to find a path that will generate revenues for the municipalities, whilst creating an enabling environment to increase manufacturing production, and output. In this view, our priority is to get manufacturers back to work, and helping them to claw back work lost. In this process NERSA has a key role to play.

The regulations and the policies are in place, and should not be the focus of discussion - Alternate methods to collect financial information from unwilling municipalities appears to be the problem. We do not need to surmise which of the options offered up will be better than the other. The same information has been asked for and provided in response to previous NERSA requests. All options, in some way, rely on municipal compliance, and the efficient collection of financial information. Without a solution to that problem, NERSA will not find relief in any of the options, offered up for consultation, in this Consultation Paper.

Benchmarking is not the solution. Cost reflective tariffs, and the delivery of an efficient service, are what is called for. Anything else falls short of the NERSA mandate to act in the interests of the users, and the distributors to ensure fair payment for a quality service. Anything that falls short of that objective, destroys jobs and reduces the ability of manufacturers to positively contribute to economic expansion, and municipal revenue growth.

NERSA has the mandate, the mechanisms, and the tools to fix this problem. We suggest that: Firstly, NERSA should regulate in such a way as to enforce full municipal compliance to the ERA and EPP. Secondly, we suggest that NERSA introduces consequence management for municipal non-compliance to regulatory

requirements. Our preference is for the regulator to decline all electricity tariff increases until full financial disclosure is made to NERSA, supported by properly researched and motivated Cost Of Supply studies. are provided to y motivated requests, are consulted on and approved. If some concessions are needed, to relieve municipal cost pressures, we suggest that NERSA direct them to improve revenue collection, and distribution efficiencies.

Enabling Public Participation

The NERSA Consultation document contains detailed history and theory and provides an extensive record on how prices are formulated. It is, however, information overload, and confusing to most people that may want to express an opinion. The information should be easy for the average industrial user of electricity to understand, and should provide to them sufficient information so that users are able to reach sensible conclusions.

Consultation Questions

1. Views on approach 1 - ABC and marginal costing

There was extensive consultation done earlier in 2022 by the DMRE, seeking similar information, in response to a proposed new EPP. Our response to DMRE is attached (Ref: Annexure A)

2. Views on approach 2 - Benchmarking municipal tariffs to Eskom Tariffs

Please refer to our views as stated in the “Background” section of our response (above), where we make it clear that full financial disclosure and Cost of Supply studies should be the only means by which tariff increases are motivated. Failure to supply NERSA this information should stall the tariff increase process.

The only comment that we can add: Considering this approach will be a good interim step forward in the right direction, toward the normalisation of the tariff disparities between Eskom Direct, and Municipal electricity users.

3. View on approach 3 - Cost of Supply

We are fully supportive of this approach, which we believe to be the only realistic measure at this time. Please also refer to our views as stated in the “Background” section of our response (above), where we make it clear that full financial disclosure and Cost of Supply studies should be the only means by which tariff increases are motivated. Failure to supply NERSA this information should stall the tariff increase process.

4. View on approach 4 - Percentage Guideline increase and Municipal Tariff Benchmarks

Please refer to our views as stated in the “Background” section of our response (above), where we make it clear that full financial disclosure and Cost of Supply studies should be the only means by which tariff increases are motivated. Failure to supply NERSA this information should stall the tariff increase process.

The only comment that we can add: The use of this approach is problematic, and is the subject of detailed challenges in alternate forums. The key contention is that the baseline is flawed, that these tariffs do not result in cost reflective tariffs, and the practice applied by NERSA to approve municipal tariffs has resulted in gross variances in the tariffs paid by industrial users in different municipal areas.

5. View on request for comment 4 - Repairs and maintenance

The state of disrepair of electrical infrastructure is not being questioned, and has not been reported on or quantified. This is a major concern that requires collaborative problem solving. In our view, once the scale of the problems have been identified and the cost quantified, 6% increase in 2022/23 is probably too low.

This cost assessment, cannot be taken in isolation, however, as the municipalities responsible to have maintained and repaired the infrastructure, have not provided cost details to help this discussion along. As such, we recommend that there should be no increase until sufficient information is provided to NERSA, and that if the information is provided, NERSA places a cap on the increase to a maximum of 6%. We suggest that this cap might be reviewed on a case by case basis, on further consultation with the industrial users in the affected industrial areas.

6. View on request for comment 5

Please refer to our comment on approach 4 (above)

Please also refer to our views as stated in the “Background” section of our response (above), where we make it clear that full financial disclosure and Cost of Supply studies should be the only means by which tariff increases are motivated. Failure to supply NERSA this information should stall the tariff increase process.

7. View on request for comment 6

This can only be responded to by the municipalities, and NERSA. NERSA should also explain to the public why they have failed to enforce the implementation of the regulatory framework that they are mandated to facilitate and manage.

Please also refer to our views as stated in the “Background” section of our response (above), where we make it clear that full financial disclosure and Cost of Supply studies should be the only means by which tariff increases are motivated.

8. View on request for comment 7

No comment possible at this time.

9. View on request for comment 8 - Above guideline increases

We agree with the proposed process.

The only comment that can be added: Fully justified motivations should be assessed and approved, from time to time, on a case by case basis.

10. View on request for comment 9

The tariff agreed should provide sufficient incentive to embedded energy generators to release its surplus into the local and national grids.

The CFMC and our network look forward to engaging with NERSA and other stakeholders in support of our objective to grow manufacturing in this cluster



Regards
Steve Jardine
Managing Director
22 April 2022
