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CHAMBER OF MINES RESPONDS TO NERSA MYPD3 RE-OPENER

NERSA ENCOURAGED TO CONSIDER ALTERNATIVE FUNDING MECHANISM

further multi-year tariff hike jeopardises mining industry sustainability

Johannesburg, 23 June 2015. The South African Chamber of Mines today submitted its response to Eskom's application to NERSA for a multi-year increase of 24%. The Chamber's opposing stand to the further tariff hike is based on the premise that the mining industry's sustainability will be severely compromised should this increase be imposed.

In line with the Energy Intensive User Group (EIUG) submission on the matter, the Chamber does not believe that the correct funding mechanism to solve Eskom's financing requirements should be at the expense of the mining sector. "Nevertheless," says Chamber of Mines CEO Roger Baxter, "we note Eskom's need for further funding. What we *are* saying is that government needs to explore other avenues to raise these funds – we cannot accept that tariff increases are the most appropriate way of dealing with this shortfall at this time."

Since 2008 electricity tariffs have increased by 300% in South Africa. By applying energy management and efficiency projects a number of member companies of the Chamber have effectively absorbed about one third of this cumulative tariff increase by reducing utilization, and installing significant back-up generation capacity. From this point going forward, any improvements and efficiencies in mining will have much less impact, and will also be more costly to implement. Among certain mines the contribution of electricity to overall operating costs has doubled, and consequently any further tariff increase today is much more debilitating than in 2008.

A concern remains around whether the underlying causes for the current electricity crisis has been adequately addressed. At the core of the additional funding required by Eskom is what has been occasioned by the delay in commissioning new generation capacity, the increased backlogs in unplanned maintenance, which in turn have necessitated the running of very expensive open cycle gas turbine (OCGT) capacity as base load power. Effectively, all consumers are being expected to cover this additional cost which could have been averted had the new build programme been on track and if the maintenance programmes had been effectively run.

"Given the crisis situation the sector finds itself in, with the majority of operations loss-making, this additional electricity tariff increase will place the industry in jeopardy.

"Further job losses may be sustained as a result of operations scaling back significantly, being placed on care and maintenance or having to close completely," said Baxter.

The Chamber submitted a number of related concerns in support of its objection to the tariff increase, including the indirect cost implications on items such as water, estimated to increase from the planned 14% hike to 17%.

The current price increases proposed by Eskom do not give industry (nor the rest of the country as a whole) a sense of an electricity price trend or projections into the future; this is a critical function of the MYPD. With the reopener and the Regulatory Clearing Account (RCA) it creates uncertainty around future electricity cost increases and an unpredictable operating environment. This discourages investment and undermines any potential growth in the mining sector.

The mining sector is in a difficult position in that it is essentially a price taker. To date it has had some flexibility in restructuring its input and operating costs. The structural increases in electricity costs and the sector's inability to cut these any further, along with unreliable electricity supply, has severely compromised the electricity-intensive gold and PGM mining sub-sectors. A more stable electricity environment, in terms of both pricing and supply, is critical to ensuring the long-term sustainability of these sub-sectors in particular.

The mining industry is at a tipping point: the long-term negative economic impact of these proposed increases would result in damage to investor confidence, employment, capital expenditure and to the manufacturing sectors supporting the mining industry. The Chamber therefore encourages government to explore alternative funding mechanisms such as traditional shareholder recapitalisation and to consider the reallocation of the electricity levy revenues. We need all stakeholders to work together in order for the mining sector to emerge from its current malaise, to prevent further job losses and to make a more positive contribution to the broader South African economy.

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