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Sasol gas price rises 'would kill factory jobs'

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A PROPOSED tariff increase that could put the single maximum price of piped gas at R128 a gigajoule in 2014 will threaten thousands of jobs at factories that use gas extensively.

This is what the Manufacturing Circle, an association of leading medium to large manufacturing groups from many industries, said yesterday.

Its analysis showed that certain industrial users might experience gas cost increases of between 30 percent and 40 percent if Sasol Gas's application for a tariff adjustment was approved in its current form.

Sasol submitted its applications for its maximum price and transmission tariff adjustments to the National Energy Regulator of SA (Nersa) in December last year.

A new price-setting methodology that allows Nersa to set maximum prices for piped gas was implemented last year after a study showed a lack of competition in local piped gas.

Besides PetroSA, which produces gas for its own operations, Sasol is the only supplier of natural gas in the country. It also owns the transmission infrastructure.

In its transmission tariff application, it requested an allowable revenue of R936.3 million for the 2013 financial year, which begins in July, and R1 billion from July 2014 to the end of June in 2015.

Sasol wanted to balance price and customer retention, on the one hand, and shareholder value on the other. The company argued that the real returns on its existing asset base were not enough for it to invest in new capacity.

It said that the allowable revenue was sufficient to cover the normal annual capital expenditure programme. But it was not enough to finance extraordinary investments such as its R1.6bn pipeline between Secunda and Sasolburg or new, large customer connections.

Sasol argued that its proposed maximum prices were competitive and justifiable as it had researched an international benchmark to determine them. And the single maximum price would be adjusted quarterly so that it could be based on the actual average data for the three to six months before that quarter.

But the Manufacturing Circle's executive director, Coenraad Bezuidenhout, said some of its member companies had done their own analysis.

The circle's members include Bell Equipment, ArcelorMittal South Africa, 3M, Allied Electronics, Aspen and SABMiller.

Bezuidenhout said that if gas costs for industrial users were to rise between 30 percent and 40 percent, as its analysis projected, this could hamper the ability of manufacturers to retain jobs.

"This cannot be viewed in isolation from the rising fuel, water and electricity costs, especially from the municipalities. Eskom is asking for a 16 percent electricity tariff increase; all this eats into the ability for manufacturers to be competitive," Bezuidenhout said.

Businesses like restaurants, which rely heavily on gas, will suffer from rising prices, the Manufacturing Circle warns. PHOTO: TRACEY ADAM

The Manufacturing Circle said its members were more concerned that Sasol had lodged its application in December but this was only published on the Nersa website recently, giving them limited time to study the details.

With a notice to join in the public hearings sent on Friday, stakeholders had less than two working days to prepare presentations, even though the due date was March 4.