

# Eskom Presentation to the Select Committee on Public Enterprises and Communication

**NERSA Revenue Decision for FY2024**

26 April 2023



- In accordance with the Electricity Regulation Act (ERA), NERSA is assigned the role of Regulator for inter alia electricity supply. They **need to ensure that the price of electricity enables an efficient licensee to recover the full cost** of its licensed activities, **including a reasonable margin or return**
  
- The **first step** in determining a tariff is to **ascertain a revenue allowable** determination
  - Eskom in its Multi-Year Price Determine application applied to NERSA to determine allowed revenue for FY2023 – FY2025. The FY2023 determination was made on 24 February 2022.
  - On 12 January 2023 NERSA determined the allowed revenue for FY2024 and FY2025
    - **NERSA determined an amount of R318 billion for FY2024 and R352 billion for FY2025**
    - This **translates** into an **average increase of 18.65% for FY2024 and 12.71% for FY2025**
  
- The second step is to implement the revenue decision through increases to approved tariff structures as prescribed in the NERSA Eskom Retail Tariff and Structural Adjustments (ERTSA) methodology
  - On 10 March 2023, NERSA determined the tariffs to be implemented from 1 April 2023 for Eskom direct customers and 1 July 2023 for Municipal customers for FY 2024.
  - The tariff adjustments for FY 2025 will be determined by NERSA during 2024
  - In accordance with the Municipal Finance Management Act, bulk tariffs need to be tables in Parliament by 15 March

# NERSA's decision for FY2024 and FY2025

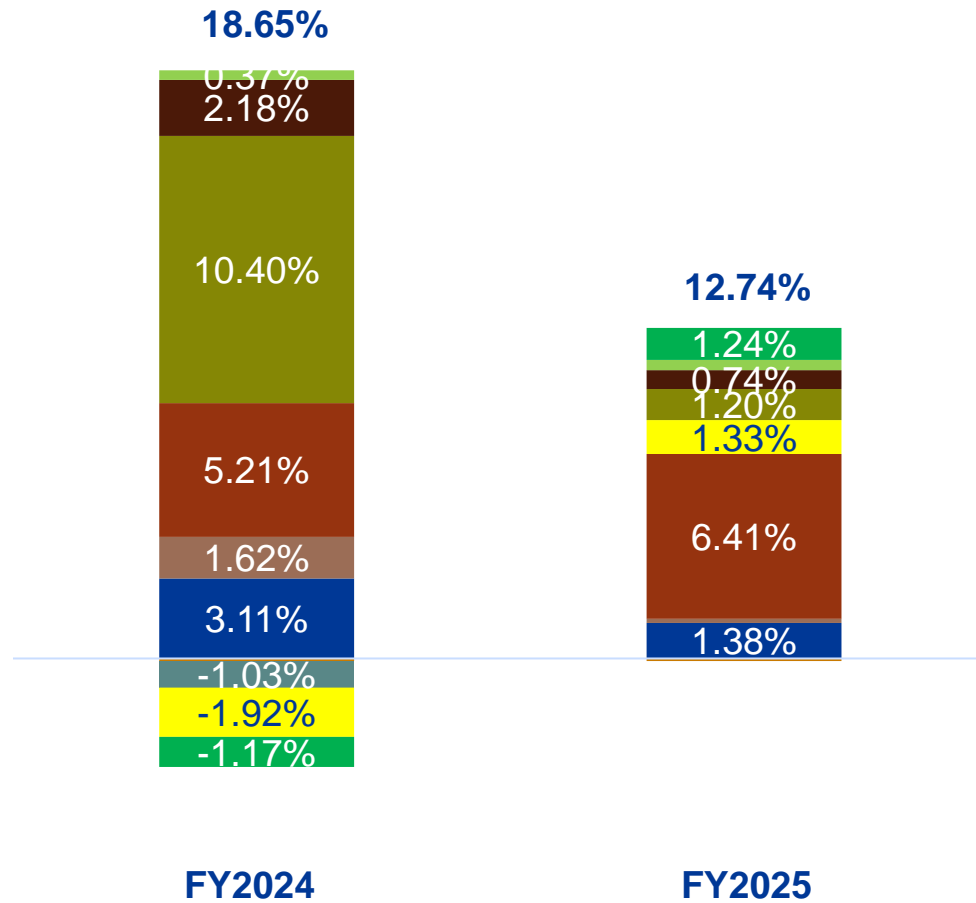













			FY 2023/24 Application			FY 2024/25 Application		
MYPD 5	Formula	FY2022/23 NERSA Decision	Eskom Application	NERSA Adjustment	NERSA Decision	Eskom Application	NERSA Adjustment	NERSA Decision
Regulated Asset Base (RAB)		550 509	1 241 499	(227 502)	1 027 134	1 227 311	(296 597)	949 554
Average Regulatory Asset Base			896 004	(467 606)	788 821	1 234 405	(262 049)	988 344
WACC	X	1.08%	1.70%		1.70%	1.58%		1.58%
Return		7 557	15 277	(1 867)	13 410	19 516	(3 900)	15 616
Operating costs	+	62 513	63 115	(5 757)	57 358	65 852	(4 884)	60 969
Primary energy	+	80 495	101 943	(14 819)	89 317	104 159	(10 835)	92 816
IPPs	+	43 131	67 521	(10 234)	57 288	85 618	(8 649)	76 970
International purchases	+	4 589	8 925	0	8 925	9 334	0	9 334
Depreciation	+	42 321	71 001	(726)	70 275	74 214	(838)	73 376
IDM	+			(37)	453		(35)	473
Levies and taxes	+	7 133	6 895	1	6 896	6 500	3	6 503
<b>Allowable revenue from all customers before RCAs</b>		<b>250 452</b>	<b>334 676</b>	<b>(33 438)</b>	<b>303 922</b>	<b>365 195</b>	<b>(29 135)</b>	<b>336 057</b>
Add: Approved RCAs for liquidation	RCA	13 926	1 700	(1 700)	0	1 700	(591)	1 109
Government injection as per court order	Liquidation	-	15 000	0	15 000	15 000	0	15 000
<b>MYPD5 Allowable revenue including RCAs</b>		<b>264 378</b>	<b>351 376</b>	<b>(35 138)</b>	<b>318 922</b>	<b>381 895</b>	<b>(29 726)</b>	<b>352 166</b>

# NERSA's decision for FY 24 and FY 25 – Analysis

Allowable Revenue (R'm)	Decision FY2023	Decision FY2024	% change from FY23	Decision FY2025	% change from FY24	Note
Closing Regulated Asset Base	550 509	1 027 134	86.58%	949 554	-7.55%	Value of RAB was subject of successful Court review. NERSA is required to implement court order.
Average Regulatory Assets Base	702 932	788 821	11.43%	988 344	25.29%	
WACC %	1,08%	1.70%		1.58%		NERSA's WACC was determined to be 10% in FY 23
Return	7 557	13 410	77.50%	15 616	16.45%	ROA increase due to implementation of Court order
Operating costs	62 513	57 358	-8.25%	60 969	6.30%	Operating costs decrease by 8% and then increase by 6%. Includes maintenance & employee benefits. Based on contractual agreements
Primary energy	80 495	89317	10.96%	92 816	3.92%	Total PE increase by 11% and 4%. Based on contractual agreements
<i>Diesel</i>	3 753	8 400	123.82%	8 400	0%	Diesel more than doubles to FY 24 to address load shedding. load factor increased from 3.5% to 6%. Rest is market price dynamics
<i>Primary Energy net of diesel</i>	76 742	80 917	5.44%	84 416	4.32%	Without diesel, PE increases by 5%
IPPs	43 131	57 288	32.82%	76 970	34.36%	Contractual agreements requiring payment
International purchases	4 589	8 925	94.49%	9 334	4.58%	Contractual agreements requiring payments
Depreciation	42 321	70 275	66.05%	73 376	4.41%	Subject to court order
IDM	421	453	7.60%	473	4.42%	Minimal increase. Assists with load shedding
Levies and taxes	7 133	6 896	-3.32%	6 503	-5.70%	Payment to SARS – legislative requirement
<b>MYPD5 Allowable revenue before court decisions</b>	<b>250 452</b>	<b>303 922</b>	<b>21.35%</b>	<b>336 057</b>	<b>10.57%</b>	
Add: RCA	13 926			1 109		NERSA decision
Court order		15 000		15 000		Outcome of court order
<b>MYPD5 Allowable revenue including court decisions</b>	<b>262 086</b>	<b>318 922</b>	<b>27.71%</b>	<b>352 166</b>	<b>10.42%</b>	

# Year-on-year contribution to percentage price increases



Legend	FY2024 (%)	FY2025 (%)
 RCA and Court Order	0.37%	0.40%
 Returns	2.18%	0.74%
 Depreciation	10.40%	1.20%
 Operating cost	-1.92%	1.33%
 Arrear debt	0.00%	0.00%
 Environmental levy	-0.11%	-0.10%
 IPPs	5.21%	6.41%
 International purchases	1.62%	0.16%
 Primary Energy	3.11%	1.38%
 Carbon tax	-1.03%	0.00%
 Adjustment for volumes on std tariff	-1.17%	1.24%

Note: approximate percentage increases based on approved standard tariff sales volume and Eskom application volumes for NPAs therefore an adjustment factor is required

# NERSA has made progressive revenue decision allows for further migration towards cost reflectivity

## NERSA has essentially implemented the NERSA MYPD methodology

- Eskom will not undertake a judicial review of this decision
- This is a change from the previous revenue decisions where Eskom was required to ensure implementation of methodology

## Significant contributors to price adjustment included

- Depreciation – due to Court ordered correction of regulatory asset base
- IPP costs – due mainly to conclusion of additional bid windows
- Primary energy costs – mainly due further reliance on OCGTs

## Understandable key disallowances mainly related to

- IPP costs – due to delay in commissioning of IPP projects – corresponding to 5 TWh of energy
- Diesel costs – to motivate Eskom to improve coal plant availability to at least 64.8% (FY24) and 62.9%(FY25)

## Stability experienced in operating costs

- Includes employee benefit and maintenance costs
- Experience a lowering in first year with a slight increase in subsequent year

## Gap between Eskom price and cost reflective efficient price is narrowing

- Cost reflective of efficient electricity price could be achieved in next few years

The revenue determination translates into an average tariff increase of 18.65% and 12.74% for the respective years



			FY 2023/24 Application			FY 2024/25 Application		
MYPD 5 (incl RCAs)	Unit of measure	FY2022/23 NERSA Decision	Eskom Application	NERSA Adjustment	NERSA Decision	Eskom Application	NERSA Adjustment	NERSA Decision
Allowed revenue to STD customers tariff based sales before RCA	R'm	235 800	317 698	-31 742	285 956	347 298	-27 711	319 588
Allowed revenue tariff -based sales RCA	R'm	13 926	1 700	-1 700	0	1 700	-591	1 109
Government injection as per court order	R'm		15 000	-767	14 233	15 000	-735	14 265
<b>Total allowed revenue tariff -based sales after RCA</b>	R'm	249 726	334 398	-34 208	300 190	363 998	-29 036	334 962
Volumes from tariffs -based sales incl RCA	GWh	170 485	172 722		172 722	170 947		170 947
Standard average price after RCA	c/kWh	146.48	193.60		173.80	212.93		195.95
<b>Increase in average tariff after RCA</b>	%	<b>9.61%</b>	<b>32.17%</b>		<b>18.65%</b>	<b>22.52%</b>		<b>12.74%</b>

# Table of tariffs determined by NERSA for FY2024

<b>Total Standard tariffs</b>	<b>18,65%</b>
<b>Municipal - 1 July</b>	<b>18,49%</b>
<b>Eskom direct</b>	
<b>Key industrial and urban</b> <i>Megaflex, Miniflex, Nightsave Urban, WEPS, Megaflex Gen</i>	
Other tariff charges	18,65%
*Affordability subsidy	29,53%
<b>Other Urban</b> <i>Businessrate, Public Lighting</i>	18,65%
<b>Rural</b> <i>Ruraflex, Nightsave Rural, Landrate, Landlight, Ruraflex Gen</i>	18,65%
<b>Homelight 20A</b>	
Block 1 (>0-350kWh)	10,00%
Block 2 (>350kWh)	10,00%
<b>Homelight 60A</b>	18,65%
<b>Homepower</b>	18,65%

- Tariffs to municipalities can, in terms of the MFMA, only be increased from 1 July of any year hence the corresponding average price increase for municipal customers is 18.49%.
- NERSA allowed for a higher affordability subsidy.
- This resulted in Homelight 20A for lower income residential customers to have a 10% (not 18.65%) increase in tariffs
- The affordability subsidy is fulfilled by industrial and urban customers. This will result in a further increase of ~0.5%



## *Viable next steps within legislative, policy and NERSA frameworks to be implemented*

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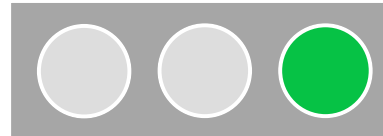
- ❑ Continue implementation of changes at tariff level from April 2024 which will allow
  - For modernisation to reflect the changing electricity supply and demand environment
  - To reflect costs more accurately
  - To ensure fairness and equity and transparency of subsidies existing in the system
  - To prepare for Eskom unbundling by ensuring that divisional costs are accurately reflected to avoid large tariff impacts after legal separation

2

- ❑ Next revenue decision from FY 2026
  - Have world recognised MYPD methodology in place
  - Methodology allows for recovery of efficient and prudent costs
  - To allow for further migration towards cost reflective revenue levels for efficient electricity service
  - Must be ringfenced revenues for Generation, Transmission and Distribution

*Progress in the four key criteria are*

## Debt support



Debt relief of R254 billion over next 3 years

## Cost reflectivity



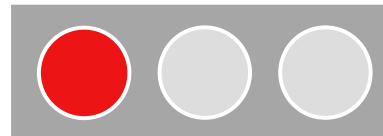
Majority of costs recovered, substantial movement on Regulatory Asset Base (RAB).  
Gap to be closed is Return On Assets (ROA) % is still low.

## Operational efficiency improvements



Maintenance costs fully allowed  
Other Opex – some disallowance

## Recovery of Municipal debt



Zero allowance for arrear debts in MYPD decision  
Municipality arrears continue to increase annually  
New Municipality Circular – published by NT to address arrears – success thereof yet to be determined



Thank You