

**DEPARTMENT: PUBLIC ENTERPRISES**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**PQ QUESTION NO.: 1032**

**QUESTION:**

**Ms O M C Maotwe (EFF) to ask the Minster of Public Enterprises:**

What is the projected return on investment for the (i) Medupi and (ii) Kusile Power Stations, and over what period?

**REPLY**

**According to the information received from Eskom**

1. **( i & ii)**

In terms of the economic regulation framework applicable to the regulated parts of the Electricity Supply Industry (ESI), all investments should earn a return equal to its weighted average cost of capital (WACC), on the depreciated asset value, over its full life cycle – in line with globally-accepted regulatory practice.

This is dependent on the initial asset construction cost, as well as the ongoing annual operating and maintenance cost, and the performance of the asset being assessed as prudent and efficient.

The electricity regulator assessed the %WACC for Eskom for the current MYPD4 revenue cycle as 7.1% pre-tax ‘real’. The regulator also commented in a Reasons for Decision and a subsequent affidavit that the overnight construction cost of Medupi is approximately 6% above the international benchmark norms, and that of Kusile fell within the international benchmark norms. The current operating and maintenance costs are at or below international benchmark norms. After some initial teething problems, Eskom is confident that both Medupi and Kusile will perform according to their design parameters.

Therefore, once the electricity price reaches the level of cost-reflectivity the power stations should earn a return on investment of equal to the %WACC, which for the current MYPD4 revenue cycle is assessed as 7.1% pre-tax ‘real’. However, in the interest of a gradual transition to cost-reflective electricity prices the electricity regulator is not yet awarding the full return on investment in its revenue and price determinations.

For the current MYPD4 revenue cycle the electricity regulator awarded a return of 1.5% on the regulatory asset value, however due to the regulator having reduced the revenue by the amount of the government equity support of R23bn per year the actual returns are close to zero.

(b) In terms of the economic regulatory framework applicable to the regulated parts of the ESI, the return on investment on the depreciated asset values should annually be equal to the %WACC, over the full life cycle of the asset. This will apply once electricity prices are cost-reflective.