

## MYPD process:

The following extracts were taken from a NERSA consultation process entitled: Eskom multi-year price determination methodology, published on 14<sup>th</sup> October 2011.

decision is made. NERSA will also hold a public hearing in February 2012 wherein presentations may be made by interested and affected parties. The process for the consultation and decision-making is outlined in the table below:

<b>DRAFT HIGH-LEVEL TIMELINES FOR APPROVAL OF THE MYPD METHODOLOGY</b>	
<b>ACTIVITY/TASK</b>	<b>DATE</b>
Publication of draft methodology for stakeholder comments on the MYPD methodology	14 October 2011
Closing date for stakeholder comments on the MYPD methodology	14 November 2011
Public Hearing	02 February 2012 <sup>1</sup>
Energy Regulator decision on the MYPD methodology	28 February 2012
Publication of the MYPD methodology on the NERSA website	05 March 2012

licensee (Eskom). The MYPD duration is three years and runs concurrently with Eskom's financial year(s). A second MYPD period started from 01 April 2010 to 31 March 2013, with the next one scheduled to run from 01 April 2013 to 31 March 2016<sup>2</sup>.

### 8.6 Efficiency of operating costs

8.6.1 In classifying operating costs further into controllable or non-controllable elements, the Energy Regulator will place incentives for Eskom to minimise costs that are under its control as well as encourage it to reduce some of the costs that are not under its control.

9.1.2 In considering the allowable primary energy costs, the Energy Regulator will consider the most appropriate generation mix that can be achieved practically to the best interest of both the customer and the supplier.

### **9.3 Gas Turbine Generation Costs**

- 9.3.1 Gas turbine generation costs will be allowed as a full pass-through cost, but limited and conditional to volumes allowed by the Energy Regulator except where such use is necessary to ensure security of supply.
- 9.3.2 Capacity constraints must be mitigated by gas turbine generation as a last resort. However, this must not be interpreted to mean that Eskom must use gas turbines instead of load shedding.

### **9.4 Other primary energy costs**

- 9.4.1 Other primary energy costs (nuclear, hydro, etc.) will be allowed as pass-through costs.
- 9.4.2 Other primary energy costs at the coal-fired power stations, for example water treatment, start-up fuel and coal handling costs will be allowed as pass-through costs and will be reviewed by the Energy Regulator based on the percentage cost increase (inflation forecast).

### **9.5 Road repairs and maintenance**

- 9.5.1 The South African National Road Agency Limited (SANRAL) will be responsible for road repairs and maintenance.
- 9.5.2 Eskom will be allowed a full pass-through cost for repairs and maintenance, based on its beneficial use of the roads. This contribution will be on a toll fee basis, referred to as road usage costs or a shadow toll. The toll fees will be allowed as the cost to be determined by Eskom.
- 9.5.3 The shadow toll will be determined by SANRAL.

## **10 Purchases from Independent Power Producers (IPPs)**

- 10.1 In accordance with the provisions of Section 14(f) of the Electricity Regulation Act, the Energy Regulator will, as a condition of licence, review power purchase agreements entered into by licensees before signature.
- 10.2 Purchases or procurement of energy and capacity from IPPs, including capacity payments, energy payments and any other payments as set out in the PPA, will be allowed as a full pass-through cost.

#### **14.1 Principles regarding taxes and levies**

14.1.1 The taxes and levies are exogenous and will be treated as a pass-through cost in the MYPD.

### **16 Tariff Design**

16.1 The Energy Regulator will consider the approval of tariff designs and structures after due consideration of the legal and policy frameworks in place.

16.2 The tariff design principles must meet the objectives as set out in the EPP. The following, among others, are the key objectives that should be considered,:

16.2.1 Tariffs should be affordable.

16.2.2 Tariffs should be equitable and fair.

16.2.3 Tariffs should be easy to understand and apply.

16.2.4 Tariff levels and structures should accommodate social programmes.

16.2.5 Tariffs should be transparent.

16.2.5.1 Revenue from tariffs should reflect the full cost (including a reasonable risk adjusted margin or return) to supply electricity and ensure that the industry is economically viable, stable and fundable in the short, medium and long term.

16.3.7.1 An adjustment to tariffs to provide for cross-subsidies between customer classes to address certain socio/political/environmental needs will be allowed.

MYPD results:

	2010/11	2011/12	2012/13
<b>Allowed revenues from tariff based sales (R'm)</b>	<b>85 180</b>	<b>109 948</b>	<b>141 411</b>
Forecast sales to tariff customers (GWh)	204 551	210 219	214 737
<b>Standard average price (c/kWh)</b>	<b>41.57</b>	<b>52.30</b>	<b>65.85</b>
<b>Percentage Price increase (%)</b>	<b>24.8 %</b>	<b>25.8 %</b>	<b>25.9 %</b>
Total expected revenue from all customers (R'm)	90 927	116 152	148 378

Table 1: Allowed revenues, standard average prices and percentage price increases

<b>SUMMARY OF ALLOWED REVENUE</b>	2010/11	2011/12	2012/13
	R'm	R'm	R'm
Eskom's own primary energy cost	36,464	40,486	45,351
IPP and Co-generation	2,304	4,299	5,819
Operating Expenditure	32,611	34,727	36,847
Depreciation	9,356	12,812	17,880
Return on assets	3,039	15,936	33,163
Demand Side Management	1,406	1,688	2,351
	85 180	109 948	141 411

Table 2: Summary of allowed revenues to Eskom

Monthly level	Consumption	2010/11		2011/12		2012/13	
		c/kWh	% increase	c/kWh	% increase	c/kWh	% increase
Block 1 ( $\leq 50$ kWh)		54.70	(10.59)	57.65	5.40	60.83	5.50
Block 2 (51-350kWh)		58.48	(5.20)	66.16	13.23	75.09	13.50
Block 3 (351-600kWh)		76.35	21.95	96.05	25.80	120.93	25.90
Block 4 (>600 kWh)		83.74	35.82	105.35	25.80	132.63	25.90
Average residential tariff		60.60		68.83		78.62	

Table 3: Residential inclining block tariffs for Eskom residential customers