A decorative graphic on the left side of the slide, consisting of three overlapping circular frames. The top frame shows a close-up of solar panels. The middle frame shows a large industrial facility with several tall, cylindrical cooling towers and a body of water in the foreground. The bottom frame shows a worker in a safety harness and hard hat working on a high-voltage power line tower, with a helicopter visible in the background.

## **Eskom Regulatory Clearing Account (RCA) year 5 of MYPD 3**

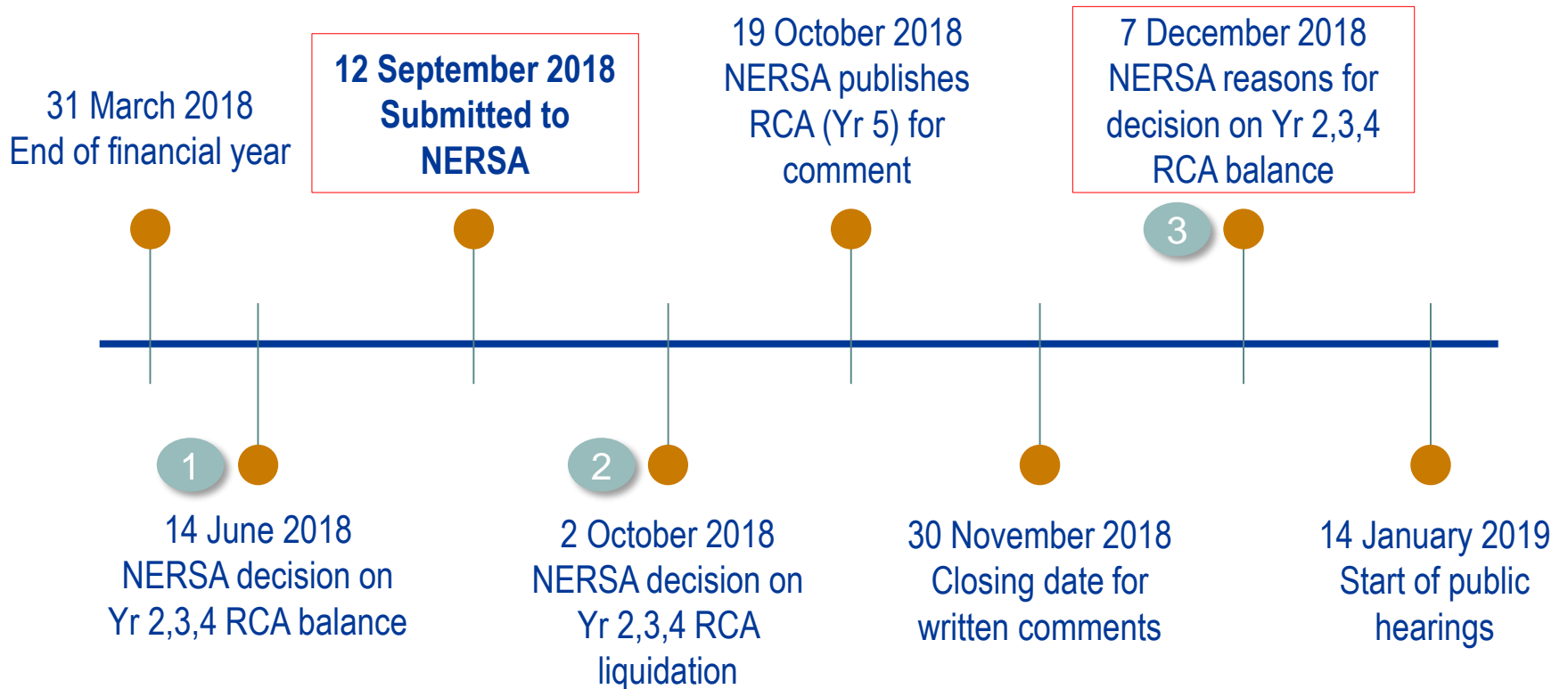
Public Hearings- Mbombela

Date: 25 January 2019

## *RCA*s require 3 decisions:

- 1 Balance decision
- 2 Liquidation decision
- 3 Reasons for decisions

## *RCA Year 5, MYPD 3*










# The Regulatory Clearing Account (RCA) is the regulatory mechanism for risk management

*RCA is a balancing mechanism between what was awarded by NERSA on the basis of a forecast (MYPD), and what actually materialised (Eskom's audited financial statements) - a backward looking reconciliation*

## **NERSA Framework:**

1. Differences materialise if Eskom either does not achieve or exceeds the awarded revenue (due to pricing or demand factors), or incurs costs greater or lower than those which were taken into account when NERSA calculated the MYPD allowable revenue
2. RCA balance could either be in favour of Eskom or consumer
3. RCA is subject to approval by the Regulator
4. Liquidation of the RCA as approved by the regulator may result in an increase or decrease in future electricity prices
5. The MYPD Methodology as published by NERSA in December 2012 is applicable to the MYPD3 control period

***The RCA is a globally accepted regulatory principle and is part of RCA best practices; MYPD2 RCA decision made in 2014 and MYPD3 RCA Year 1 (2013/14) made in 2016. The RCA balance decision for FY2015, FY2016 and FY2017 was made in June 2018.***

-  RCA submission is **based on MYPD3 Methodology decision and reasons for decision for MYPD 3 RCA 2013/14**
-  Is **driven substantially by revenue under-recovery due to lower sales** as assumed in the MYPD 3 decision for FY 2018..
-  The determined **RCA application of R21 541 million is motivated with facts and evidence** to enable prudency assessments by NERSA
-  Cost variances relate predominantly to **primary energy costs** which **off-set the revenue variance** related to sales
-  **Opex variances are not included in RCA as it is not re-measurable** in terms of the MYPD 3 methodology (has been changed in revised methodology)
-  **Energy Conservation Scheme (ECS) adjustments ~ R1 100 million** of sales variance
-  Nuclear spent fuel decommissioning costs of R830 m incurred in 2013/14 approved for recovery over 10 years resulting in R83m being included in the total RCA claim for liquidation purposes of R21 624 million (i.e R21 541m + R83m)

# MYPD Year 5 RCA application: Revenue variance makes up majority of the balance

RCA for 2017/18 (Year 5 of MYPD3)	MYPD3 Decision	Actuals 2017/18	Variance to MYPD3	RCA adjustments	RCA 2017/18
<b>Total Revenue R million</b>	205 213	175 041	30 172	-3 277	26 895
<b>Primary Energy , R million</b>					
<b>Coal</b>	49 914	46 992	-2 922	-15	-2 937
<b>Open Cycle Gas Turbines (OCGTs)</b>	1 724	328	-1 396		-1 396
<b>Other primary energy</b>	6 766	7 576	810	-	810
<b>Independent Power Producers</b>	23 018	19 317	-3 701	1 983	-1 718
<b>International Purchases</b>	470	2 768	2 298		2 298
<b>Environmental levy</b>	9 746	8 061	-1 685		-1 685
<b>Demand Market Participation (DMP)</b>	-	160	160		160
<b>Total primary energy , R million</b>	91 638	85 202	-6 436	1 968	-4 468
<b>CECA for RCA , R million</b>	33 667	34 592	925	0	925
<b>EEDSM for RCA , R million</b>	1 244	142	-1 102	-17	-1 118
<b>Operating costs for RCA , R million</b>	47 764	51 892	4 128	-4 128	-
<b>SQI for RCA , R million</b>				390	390
<b>Inflation adjustments , R million</b>				39	39
<b>ECS (Electricity conservation scheme) adjustment</b>				-1 122	-1 122
<b>FY2018 RCA application for year</b>					<b>21 541</b>
<b>Nuclear decom - RCA 2013/14 phased 10 years for liquidation</b>					83
<b>FY2018 Liquidation claim , R million</b>					<b>21 624</b>

<b>CECA for RCA , R million</b>	925
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## **Total Capex (R million)**

MYPD 3 Decision (Year 5)	45 407
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Actual	47 527
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## **Capital Expenditure Clearing Account (CECA)**

- Variance is attributable to
  - higher costs incurred for new build projects
  - outage capital costs and
  - partially reduced by lower expenditures incurred for Transmission and Distribution networks following Eskom's capital expenditure reprioritisation process.

# MYPD 3 rules only assesses variances in respect of capital expenditure when computing CECA

## ❑ Change in RAB is determined in terms of rule 6.7.2 in the MYPD 3 methodology:

*6.7.2 To accommodate the unstable environment in which the WUC cost will be undertaken, the approach for adjusting works under construction for cost and timing variances will be as follows:*

*6.7.2.1 Eskom will annually report to the Energy Regulator on its capital expenditure programme, providing information on timing and cost variances.....*

- It is clear from the rules that only item re-measurable in Capital Expenditure Clearing Account (CECA) is **capital expenditure** variances
- Methodology does not allow for re-measurement of RAB for any other asset movements such as depreciation, transfer to commercial operations, asset transfers and disposals

- ❑ **NERSA disallowed majority of distribution and transmission capex based on reasons in RFD extract below:**

**8.6.48** Eskom has not provided NERSA with sufficient information to allow NERSA to reasonably satisfy itself of the prudence and efficiency of the Transmission capex. Moreover, Eskom has demonstrated that the required information is available as the information has been provided as requested, however these figures have not been split into the respective years to allow NERSA to make a determination.

Based on the above, the following need to be considered:

- Information requested was provided in a manner consistent with the FY2014 RCA in which CECA was granted in full.
- Is it reasonable to disallow all capex incurred when the MYPD 3 decision allowed a certain level of capex i.e. this effectively means that the MYPD 3 decision allowed almost zero capex for Transmission and Distribution
- NERSA decided to evaluate Transmission and Distribution capex variances for years 2,3 and 4 of MYPD 3 in year 5 RCA



