



CITY OF CAPE TOWN
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Submission to NERSA Public Hearing
ESKOM'S RCA APPLICATION
2014/15, 2015/16, 2016/17
17 APRIL 2018

Making progress possible. **Together.**

Content

- RCA methodology applicability for Revenue
- Primary Energy cost and Sales contradiction
- Impact of application

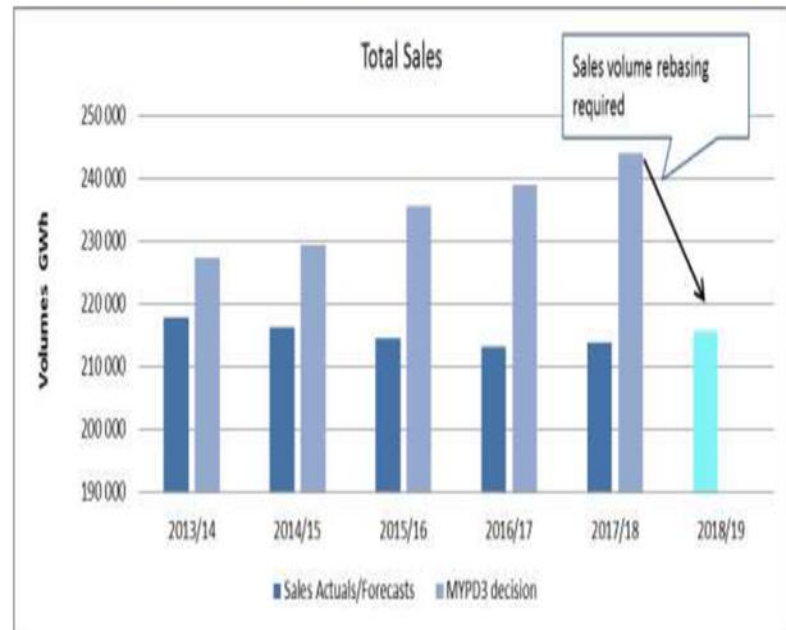
RCA methodology applicability for Revenue

“14.1 The risk of excess or inadequate revenues is managed in terms of the RCA. The RCA is an account in which all potential adjustments to Eskom’s allowed revenue which has been approved by the Energy Regulator is accumulated and is managed as follows:

14.1.5 Adjusting for other costs and revenue variances where the variance of total actual revenue differs from the total allowed revenue. In addition, a last resort mechanism is put in place to trigger a re-opener of the price determination when there are significant variances in the assumptions made in the price determination.”

- Annual application
- Small variances (revenue over-recovery)
- Significant variance in sales (revenue)
- Re-opener
- MYPD4
- RCA not applicable for revenue variance

Figure 10: Total Eskom forecasted sales



Primary Energy cost and Sales contradiction

	2014/15	2015/16	2016/17
Total allowed revenue tariff based sales	147	170	190
Current RCA application	19	24	24
Revenue	8.8	15.6	20
Primary Energy	10.5	8.1	2.6

- Load-shedding avoidance increases primary energy cost
- Cost increase while energy production decreases
 - Primary energy costs don't adequately reflect the decline in energy sales
 - -6.79% vs -13.82%
- Failure of the Central Buyer model
- In a Market system, Eskom Generation would make a loss
- Write down bad business



Impact of application

	MYPD3					MYPD4	MYPD5		
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Total allowed revenue tariff based sales	135	147	170	190	198	190			
Current RCA application		19	24	24					
Increase in Revenue due to RCA							35%		

- 35% increase in revenue (tariff)
- Not affordable
- Accelerate decline in sales
- Out-of-sync with International practice

- Undermine any possible turn-around in mining, beneficiation and industrial sectors
- Liquidity - wont resolve non-payment (accrual)
- Acknowledgement that major cost cutting is needed



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Thank You

Making progress possible. Together.