



Issues Paper

Eskom Revenue Application

Multi Year Price Determination

2010/11 to 2012/13

(MYPD 2)

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Abbreviations and definitions

Abbreviations

c/kWh	Cents per kilowatt hour
CCGT	Closed Cycle Gas Turbine
CPI	Consumer Price Index
DOE	Department of Energy
EEDSM	Energy Efficiency and Demand Side Management
EPP	Electricity Pricing Policy
ERA	Electricity Regulation Act No. 4 of 2006
FBE	Free Basic Electricity
GDP	Gross Domestic Product
GWh	Gigawatt hour
IPPs	Independent Power Producers
MRP	Market Risk Premium
MEA	Modern Equivalent Assets
MYPD	Multi Year Price Determination
NERSA	National Electricity Regulator of South Africa
OCGT	Open Cycle Gas Turbine
OPEX	Operating Expenditure
PCP	Power Conservation Programme
PPI	Producer price index
RAB	Regulatory Asset Base
R/MW	Rand per Megawatt
ROA	Return on assets

RTS	Return to Service
WACC	Weighted Average Cost of Capital

Definitions

Allowable revenue	The total revenue allowed to Eskom by the Regulator which includes the total costs to supply plus a fair rate of return on the asset base as determined by the Regulator .
Beta	An arbitrary measure of the volatility of a given stock using an index of the volatility of the market as a whole: <i>A beta of 1.1 indicates a stock that is 10 percent more volatile than the market.</i>
c/kWh	Refers to price of a unit of electricity
Cost of capital	The required return necessary to make a capital project worthwhile. Cost of capital includes the cost of debt and the cost of equity.
Debt	An amount of money borrowed and owed by one party to another. In the MYPD, debt refers to all borrowings by Eskom.
Depreciated Replacement cost	This is an approach where assets are valued on the basis of the cost of replacing the existing assets (i.e. like for like)
Equity	Funds that are raised by a business in exchange for an ownership interest in a company
Funding model	Confirmed sources of long-term capital to be used by a business entity to fund its capital investments. A funding model would be backed by investors/owners' undertaking to provide some optimal combination of debt, equity, retained earnings and revenue from tariffs, in sufficient amounts to meet the planned capital expenditure
Independent Power Producers	Any undertaking by any person or entity which the government of South Africa does not hold a controlling ownership interest (whether direct or indirect), of new generation capacity at a generation facility following a determination made by the Minister of Energy in terms of section 34(1) of the Act.

Indexed historical cost	Is a replacement cost approach whereby the historical cost, which is the original cost of acquiring the asset, is adjusted upwards by inflation to obtain the current cost of that asset.
Load forecast	The forecast of the electricity consumption of all electricity users in South Africa and exports to neighbouring countries
Market risk premium	The difference between the expected return on a market portfolio and the risk-free rate.
Modern Equivalent Asset	Modern Equivalent Asset is a Replacement Cost approach applied where the underlying technology has changed significantly such that existing assets cannot be replaced in an identical form. In this case replacement cost is based on the cost of a modern asset with similar service potential, known as modern equivalent asset (MEA).
Primary energy	The energy resources from which electricity is produced such as fuel and water. Primary energy cost includes the associated cost of procuring and delivering the resources to the power station
R/MW	Refers to price of generation capacity
Rate of return	The gain or loss of an investment over a specified period, expressed as a percentage increase over the initial investment cost.
Regulatory Asset Base (RAB)	The total of all assets that are used in the production and supply of electricity after the deduction of the accumulated depreciation on these assets. The RAB also includes an allowance for working capital.
Regulatory methodology	A set or system of methods, principles, and rules for regulating the allowable revenue and the price at which electricity is sold
Reproduction cost	Cost of exact duplication (creating an exact replica) of the asset with the same materials and specifications at the same location
Revenue requirement	The total revenue applied for by Eskom which includes the total costs to supply plus a fair rate of return on the asset base as determined by the applicant .
Weighted Average Cost Capital	The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders (equity and debt) to finance its assets.

1. Introduction

Eskom has applied to the National Energy Regulator of South Africa (NERSA) for a review of the electricity prices offered by Eskom. The application is for a three year control period starting from 1 April 2010 to 30 March 2013 which is referred to as the Multi-year Price Determination (MYPD 2 – where 2 refers to the second MYPD). On 30 September 2009, NERSA received an application from Eskom for an adjustment to the required revenue for the period 01 April 2010 to 31 March 2013. Considering the projected volumes/sales this revenue applied for translates into an application for an electricity price increase of 45% per annum for the three year control period. This application was published on NERSA website on 14 Oct 2009 for comments. The title of the document is Eskom's Proposed Revenue Application – Multi Year Price Determination 2010/11 to 2012/13 (MYPD 2) – 30 September 2009.

NERSA has not yet formulated any opinions on the issues in the application but NERSA is only raising them such that stakeholders can give their opinion on these issues.

In short Eskom states that the key drivers for this application are

1. increasing primary energy costs mainly due to rising coal costs, increased utilization of the more expensive power plants (e.g. OCGT plants) and increased coal transportation and other logistical costs;
2. with regards to the revaluation of assets, the Government Notice No. 1398: Electricity Pricing Policy, Government Gazette No. 31741 of 19 December 2008, provides that:
 - a. *The revenue requirement for a regulated licensee must be set at a level which covers the full cost of production, including a reasonable*

risk adjusted margin or return on appropriate asset values. The Regulator, after consultation with stakeholders, must adopt an asset valuation methodology that accurately reflects the replacement value of those assets such as to allow the electricity utility to obtain reasonably priced funding for investment; to meet Government defined economic growth.

b. In addition, the regulatory methodology should anticipate investment cycles and other cost trends to prevent unreasonable price volatility and shocks while ensuring financial viability, continuity, fundability and stability over the short, medium and long term assuming an efficient and prudent operator.

3. increased capacity requirement demanding a significant capital expansion programme; and
4. Limited equity funding and inadequacy of loan funding which in turn leads to high reliance on funding of the capital programme from tariffs.

The Energy Regulator will be making a determination on Eskom's application in February 2010. However, prior to the decision the Energy Regulator will embark on a due process involving stakeholder consultations and public participation. As part of this process, NERSA is requesting stakeholders to comment on the application by Eskom (which was published on the NERSA website at www.nersa.org.za on 14 October 2009) and more specifically to comment on the issues raised in this document.

NERSA will collate all comments received which will be taken into consideration when the decision is made. NERSA will also hold public hearings during January 2010 wherein presentations may be made by interested and affected parties. The process for the consultation and decision-making is outlined in the table below:

TIMELINES FOR PROCESSING ESKOM'S MYPD 2 (2010/11-2012/13) APPLICATION	
ACTIVITY/TASK	DATE
Receipt of Eskom's MYPD 2 revenue application.	30 September 2009
Publication of the Eskom's MYPD 2 application on NERSA website.	14 October 2009
Electricity Subcommittee to consider the Draft Issues Paper on Eskom's MYPD 2 application.	29 October 2009
Publication of Issues Paper on Eskom's MYPD 2 application (request for comments) on NERSA website.	30 October 2009
Closing date for comments on Eskom's MYPD 2 application and Issues Paper.	30 November 2009
Public Hearings in all provinces ¹ .	11 – 22 January 2010
Electricity Subcommittee to consider the Draft Reasons for Decision on Eskom's MYPD 2 application.	17 February 2010
Energy Regulator's Decision on Eskom's MYPD 2 application.	24 February 2010

Due to the unprecedented public interest in Eskom's MYPD2 application, NERSA is also planning to conduct public hearings in all provinces during 11 – 22 January 2010. This will be to allow stakeholders in all provinces an opportunity to participate in the consultation process.

Stakeholders are requested to send their comments on the issues raised in this document and any other issues emanating from Eskom's application to mypd2@nersa.org.za

The key issues of consultation are raised below.

¹ Details regarding logistics (venues, dates and times) will be communicated in due course

2. Funding Model

Eskom acknowledges that in any business there are three main sources of funding capital requirements namely: equity which is funded by the shareholder, debt obtained through loans raised from the capital markets and the price which recovers the cost to produce and sell goods and services, as well as give shareholders the return for the risk taken in investing their capital. Eskom has stated that it is facing a significant capital investment programme which puts great pressure on its financial position. However, Eskom further acknowledges that there should be an appropriate balance between its various funding options. Eskom has summarised its funding options as follows:

- **Equity:** the shareholder, which is the South African government, has made available a R60 billion subordinated loan which will be drawn in three years as R10 billion in 2008/9, R30 billion in 2009/2010 and R20 in 2010/11. Eskom's view is that if the government was to consider additional equity injections, it would be through some form of infrastructure levy.
- **Debt:** the ability to raise funds beyond the tariff increase is limited by its +BBB credit rating. The Government has issued R176 billion government guarantees to facilitate access to debt and also limit the average cost of debt. Eskom estimates it will be able to raise and sustainably afford an average debt raising ability of R40bn per annum over the three year MYPD2 control period,
- **Regulated revenue and tariffs:** Eskom stated that this component of funding is crucial in that it provides the stream of future revenues that is fundamental to the long-term viability of the overall funding approach. The customer "pays" for the infrastructure which is funded in advance by debt, equity and tariffs of which ultimately the tariffs must recover all the costs.

<p><u>Stakeholder Question 1:</u> What are your views of funding by the shareholder and debt as provided by Eskom in its application?</p>

Stakeholder Question 2: What are your views of funding through the tariffs as stated by Eskom?

Stakeholder Question 3: What would be the appropriate balance for the Eskom's funding options?

3. Cost of Capital

Eskom has stated in its application that it has undertaken a comprehensive review of benchmarked rates of return. Its key findings are provided as follows:

	WACC
Real pre-tax cost of debt	7.3
Real pre-tax return on equity	10.6
Gearing debt/(debt+equity)	60%
Real pre-tax WACC	10.3

Stakeholder Question 4:

- 4.1 Does Eskom's proposal on the real pre-tax WACC (weighted average cost of capital) represent a fair and reasonable risk adjusted return?
- 4.2 Please provide comments regarding the components of the pre-tax WACC as proposed in the Eskom application.

Eskom stated that its proposals represent long-term (forward looking) benchmarks which may be phased in over time in order to smooth price shocks over the MYPD2 control period. It will obtain a rate of return less than the long term sustainable benchmark rate (i.e. transitional rate of return) as follows:

	2010/11	2011/12	2012/13	2013/14	2014/15
Real pre-tax return	-0.9	3.6	9.5	8.6	9.0

Stakeholder Question 5:

- 5.1 Please comment on the transitional rate of return to be implemented on a phased approach in line with the above calculation.
- 5.2 Comment on whether these should be considered as transitional or a representative risk adjustment rate of return?

The other key components of the WACC proposed by Eskom are the Market Risk Premium (MRP) and the Equity beta which are used to calculate the real return on equity. These two components are valued at 6.0% and 1.1% respectively.

Stakeholder Question 6: What are your views on these benchmark figures?

Stakeholder Question 7: Is the return on equity suggested by Eskom representing a fair real return for a regulated utility?

4. Regulatory Asset Base

The Eskom MYPD2 application assumes the Regulatory Asset Base will be revalued at depreciated replacement cost. The Electricity Pricing Policy requires that the Energy Regulator, after consultation with stakeholders, must adopt an asset valuation methodology that accurately reflects the replacement value of those assets.

Stakeholder Question 8:

- 8.1 What is the best way of implementing the replacement cost valuation method?
- 8.2 Should the revaluation reserve be allowed to Eskom as a return of capital (armotisation added to allowable revenue) and a return on capital (the revaluation reserve added to RAB on which a reserve is earned)?
- 8.3 Should the revaluation of assets be phased in over time, (e.g. over five years as per EPP or as proposed by Eskom), to limit the impact on prices?

Stakeholder Question 9:

Should the revaluation of assets be conducted on the basis of the Modern Equivalent Assets (MEA) as prepared by Eskom or should other alternative replacement methodologies be considered?

Other replacement methodologies include Depreciated Replacement Cost (DRC) of “like for like”, Indexed Historical Cost, Reproduction Cost, and Modern Equivalent Asset Valuation MEAV adjusted for condition of asset and depreciation, please comment on the most appropriate valuation methodology to use.

Stakeholder Question 10: How should the principle of stable and predictable price be achieved given the requirements of the EPP to revalue assets?

5. Operating Expenditure

Operating expenditure is one of the biggest components of the revenue requirement, and the increases in each category of operating expenditure are above inflation forecasts throughout the MYPD2 control period. These operating costs are: human capital costs; maintenance costs; and road maintenance costs.

Stakeholder Question 11: What are your views on these costs as presented in Eskom's application?

Eskom is also in a process of embarking on a capital expansion programme. Eskom states that this will result in an average annual increase in operating expenditure (OPEX) of 12.7% during the five years starting from 2010/11. Higher increases to OPEX can be attributed to the re-commissioning of return-to-service (RTS) power stations and new generation capacity, including new peaking plants. Due to the capital expansion programme, human resource costs and other operating costs will increase significantly as the new power stations will need to be resourced.

Stakeholder Question 12: Stakeholders are requested to comment on the above inflation OPEX increases.

Another key driver for the high increase in overall operating cost is increased maintenance due to ageing plant. Eskom's projections are that maintenance costs will increase above the average Producer Price Index throughout the control period.

Stakeholder Question 13: Stakeholders are requested to comment on the justification of higher maintenance costs in the light of capacity constraints, ageing plant and ensuring security of supply.

Eskom's expansion programme results in high staffing requirements and the associated increase in human capital costs. Overall human capital costs are increasing above inflation to support both the existing business and the expansion program.

Stakeholder Question 14: Are Eskom's human capital costs that are driven by the expansion program reasonable and justifiable?

6. Primary Energy & Production Plans

6.1 Production Volume Forecast

The electricity production volume including power purchases from non-Eskom generation and power imports as stated in Eskom's application is 11.5% above Eskom's sales forecast, including power exports for the MYPD2 period. The difference provides for transmission and distribution network losses (10% of production) and pumped storage pumping requirements (1.5% of production).

In its application, Eskom states that the load forecast assumes that the sales decline which started in 2007/8 is recovered in 2008/9 with electricity sales volume growth of 5.4%, 2.8% and 2.7% in the three years of the MYPD2.

Eskom considers the network losses and pumping requirements to amount to 4% transmission losses; 6% distribution losses and pumped storage pumping requirements being 137% of the pumped storage generation.

Stakeholder Question 15: Stakeholders are requested to comment on the Eskom sales forecast and the balance of production and sales in the MYPD2 control period.

6.2 Production Mix Forecast

Eskom's application states that the production mix forecast for the MYPD2 control period indicates that coal-fired generation will remain the predominant form of generation and will increase due to the return to service of the mothballed coal fired generation plant. Non-coal fired generation contributes 13% of the energy requirements during the period. The baseload (coal-fired and nuclear) generation is being used at maximum capability and power imports are also at maximum. The production plan relies on the availability of energy from co-generation and independent power producers which becomes the largest production component after the baseload plant (coal-fired, nuclear and power imports).

Pumped storage usage remains high throughout the control period, resulting in a high pumping load that is supplied by the baseload coal-fired production.

Eskom expects that gas turbine generation will increase from 281GWh in 2009/10 to 685GWh, 1013 GWh and 1168GWh during the respective years of the MYPD 2 period.

Stakeholder Question 16: Stakeholders are requested to comment on the mix of generation that is used to meet the load requirements.

6.3 Cost of production

In the application Eskom's primary energy costs expressed in c/kWh are increasing at 22%, 15% and 13% for the three years of MYPD2 control period. The escalation in 2008/09 was 46% and is expected to be 8% for 2009/10. The cost of coal usage in c/kWh is expected to increase by 19.6% in 2011/12.

Eskom aims to procure an additional 2Mt per annum of short term coal which impacts coal costs over the MYPD2 control period. It should be noted that Eskom plans to increase its road transported coal from the current 24Mt per annum to 26Mt in 2011/12 and 32Mt in 2012/13, returning to 24Mt in 2013/14 when the coal transported by rail increases from 11Mt to 21Mt.

Stakeholder Question 17: Stakeholders are requested to present views on the following aspects of coal fired power station costs and colliery production:

- 17.1 The continued coal price escalation above inflation on an already high base that already provides for coal being transported by road;
- 17.2 The increase in the volume of coal transported by road until rail transport becomes available;
- 17.3 Transporting coal to power station with tied collieries when the contracted production of the tied colliery is unable to meet the burn requirements of the power station. What is the feasibility of increasing mine production above contractual levels for a few years? and

17.4 Expediting the rail and conveyor transport of supplementary coal to power stations.

6.4 Coal stock

Eskom is procuring additional coal to build up coal stock levels to target values at each power station depending on the coal supply risk at each station. The application states that the targeted average coal stock days have been determined as 42 days.

Stakeholder Question 18: Stakeholders are requested to present views on Eskom's coal stockpiling strategy:

18.1 The minimum coal stock that should be carried at each power station;

18.2 The target coal stock days of 42 days;

18.3 Mine contingencies being covered by mine stock to assure contractual deliveries; and

18.4 Minimising coal stock building from other than local tied collieries.

6.5 Road maintenance for coal transportation

The application provides for the cost of maintaining and rebuilding the roads used for coal transport in Mpumalanga which poses an immediate risk to security and the continuity of coal supply. The roads are not repaired by the relevant roads authorities although a road levy contribution is paid by the coal transporters. Eskom has provided for an amount of R4 billion for road maintenance in the MYPD2 period. The cost of road repairs in the 5 year period 2011 to 2015 is expected to be R10 billion. In its capital expenditure budget Eskom provides for a rail link to Majuba power station.

Stakeholder Question 19: Stakeholders are requested to present views on the coal transport infrastructure and on Eskom's funding of public road maintenance and repair.

6.6 Cost of water supply

The application states that the cost of water supplied to Eskom's coal-fired power stations as cooling water is expected to increase sharply over the MYPD2 period due to expected rate increases by the Department of Water Affairs relating to the water pricing strategy. Water costs are expected to increase by 23%, 33% and 12% over the MYPD2 period. These increases follow on a projected water cost of R1.26 billion in 2009/10, which is an increase of 86% on the 2008/9 cost of water.

Stakeholder Question 20: Stakeholders are requested to present views on the water cost projection and expected further increases during the MYPD2 period.

6.7 Cost of OCGT fuel

Eskom states that the price of OCGT fuel (diesel / kerosene) will increase by 105% in 2010/11, 6% in 2011/12 and 10% in 2012/13 according to Eskom's application.

Stakeholder Question 21: Stakeholders are requested to present views on the price of OCGT fuel and the expected price escalation over the MYPD2 period.

6.8 Production by independent power producers

The average cost of IPP generation and co-generation provided for in Eskom's application is 79 c/kWh in 2011/12. The price increases to 144 c/kWh in 2012/13 due to an allowance for generation from the DOE initiated OCGT IPP in the IPP plant mix.

The average price of IPP production is based on IPP production of 3111, 4228 and 5176 GWh in the three years of MYPD2 and OCGT production of 137 GWh per annum starting 2012/13.

Stakeholder Question 22: Stakeholders are requested to present views on the average price of IPP generation and whether the projected IPP volumes are realistic.

6.9 Power Imports

The Eskom's application states that the average cost of power imports from neighboring countries within Eskom's application is estimated at 19 c/kWh which is below the cost of IPP generation and the cost of Eskom's base load generation using transported coal. All contracted volumes are used in the plan.

Stakeholder Question 23: Stakeholders are requested to present views on cost and volumes of power imports in the MYPD2 period.

7. Energy Efficiency and Demand Side Management

As part of the MYPD costs, Eskom is allowed to recover the cost of Energy Efficiency and Demand Side Management (EEDSM) projects from its electricity tariffs.

Stakeholder Question 24:

- 24.1 Stakeholders are requested to comment on the recovery of full EEDSM costs;
- 24.2 Should only a portion of the EEDSM costs be allowed to be recovered through the tariff with the rest of the costs being allocated from government funds or any other means of funding EEDSM?

Eskom has made an application to deliver savings ranging from 432 MW to 1046 MW in the next three years. The average cost of the EEDSM projects provided in the application is increasing from R1.85m/ MW in 2009/10 to R5.05m/ MW in 2010/11.

Stakeholder Question 25: Stakeholders are requested to comment on the following;

- 25.1 Comments on table 11 (Page 46 of Eskom's application – "Demand Side Management savings and costs")² of the application which outlines the savings realised in relation to the cost incurred (i.e. increasing in R/MW saved over the next three years);
- 25.2 How the funds should be allocated between Energy Efficiency (e.g. Compact fluorescent lamps) and Demand Side Management (load management, Demand Market Participation); and
- 25.3 Should the tariff signals be enough to incentivise customers to manage their electricity demand (e.g. load management)?

The South African government has indicated that a focused effort on energy efficiency is required, while plans to bring in new capacity are under way. The power conservation programme, demand side management (DSM) and co-generation form the pillars of the national demand management strategy.

The Power Conservation Programme (PCP) is a medium term solution to South Africa's electricity shortage until new generating capacity is added. The PCP is designed to accelerate the achievement of the 10% overall energy savings through behaviour change and promoting the use of demand side management (DSM). Core to the PCP strategy is a mandatory energy conservation scheme and a strategy for managing new connections and growth in consumption to align with available capacity.

The Eskom application provides for the implementation of the power conservation programme (PCP) which consists of the development of the system (Allocation and Trading) at a cost of R20m and an operating cost of R280m over the MYPD2 period.

² Proposed Revenue Application Multi Year Price Determination 2010/11 to 2012/13 (MYPD 2)

Stakeholder Question 26: Stakeholders are invited to comment on the following:

- 26.1 The cost structure of the PCP programme as proposed by Eskom
- 26.2 Should the cost of PCP be recovered through Eskom's tariff or other funding?
- 26.3 Should the PCP trading function be housed within Eskom or elsewhere?

8. Research and Development Costs

Research and development is a normal business operating cost. Eskom has planned a number of research and development activities in its operating costs.

Stakeholder Question 27:

- 27.1 What criteria should be used to allow or disallow research projects?
- 27.2 Which research projects should be allowed?

Stakeholder Question 28: What would be a reasonable cap on the expenditure for research and development which Eskom undertakes?

9. Economic Impact

Eskom's application indicates that the capital expansion programme creates jobs. However, it does not indicate as to how many jobs will be lost as industries become less competitive, as their cost of electricity rises. Eskom also states that if the proposed tariff increase is not granted, this will have severe implications for the GDP and the economy.

Stakeholder Question 29: What are your views on the statements above?

Stakeholder Question 30: What are your views on the impact of the proposed increases on the different sectors of the economy?

Stakeholder Question 31: What are your views on the inflationary consequences of the proposed tariff increases?

Stakeholder Question 32: What are your views on economic assumptions made by Eskom particularly, GDP growth?

Stakeholder Question 33: What are your views of the impact of electricity prices on inflation and GDP?

10. Eskom Tariff Structures, Protection of the Poor and Free Basic Electricity

Eskom makes certain statements regarding tariff structures and cross subsidies, and considers various options in order to protect the poor from the impact of increasing prices.

10.1 Eskom's Tariff Structures

The allowable revenue/price increase approved by NERSA is applied to the Eskom retail tariff rates. The Eskom tariffs are based on a cost of supply study and are designed to be as cost reflective as possible. Table 28 ("subsidy for tariffs" on page 68)³ of the application indicates the existing level of subsidy provided or received by each of the tariff groups.

Stakeholder Question 34: Stakeholders are requested to comment on whether the existing cross subsidies should be retained, reduced or increased.

10.2 Protection to the Poor

In its application, Eskom considers the following options in order to provide protection of the poor from the impact of increasing prices:

³ Proposed Revenue Application Multi Year Price Determination 2010/11 to 2012/13 (MYPD 2)

10.3 Subsidies by Other Customers

- Option 1: Cap the increase to the Poor
 - Increase of the life-line tariff (20A tariffs as per EPP) limited to CPI over the three years of the MYPD with the difference between the average price and the limited increase being subsidized by the other customers
- Option 2: Reduction of the current life-line tariffs in line with the EPP
 - In order to align with the EPP, the current life-line tariffs of all licensees would have to be adjusted to breakeven with the cost associated with the life-line tariff at 350kWh/month.
- Option 3: National Inclining Block Rate Tariff
 - Eskom states that it views the Homelight FBE tariffs as a two block inclining block rate tariff, with the first 50kWh free and the second block (usage greater than 50kWh) at the Eskom standard tariffs

10.4 Government Subsidy

- Option 4: Increasing the Free Basic Electricity (FBE) allocation
 - Eskom proposes that the FBE allocation be increased from 50kWh to 70kWh per month for all 20A FBE customers with additional funding for the incremental costs (i.e. the additional 20kWh) from National Treasury

10.5 Hybrid Option

- Option 5: Increasing the FBE allocation to 70kWh/month with the incremental cost funded by cross-subsidies through a designated levy
 - FBE allocation increased from 50kWh to 70kWh per household per month for all qualifying 20A customers. However, instead of National Treasury providing the additional funding for the incremental costs,

an FBE levy is introduced for all other Eskom and municipal customers (excluding customers requiring life line assistance).

- Funds accruing from the levy can be paid over to government and thereafter re-distributed to Eskom and municipalities to recoup the incremental costs for providing the additional 20kWh.

Stakeholder Question 35:

35.1 Stakeholders are requested to express their views on the need to provide cross-subsidies to the poor, cushioning high price increases;

35.2 Which group(s) of electricity customers should provide such cross-subsidies?

Stakeholder Question 36: Stakeholders are requested to express an opinion on which customer groups should be considered as poor and requiring protection.

Stakeholder Question 37: Stakeholders are requested to comment on the proposal for an FBE levy to be collected by government from all electricity customers (Eskom and municipal).

Stakeholder Question 38:

38.1 Stakeholders are requested to comment on the practicality of a single national inclining block rate tariff to be applied to all domestic/residential customers;

38.2 Stakeholders are also requested to provide views on the design principle and structure of an inclining block rate tariff.

Stakeholder Question 39: Stakeholders are requested to comment on the preferred or alternative method/ mechanism that should be used to provide protection to the poor against high electricity prices.

11. Any Other Comments

A view exists that without such high increases as proposed by Eskom there will be inadequate supply of electricity. Furthermore, such high increases will have a negative impact on inflation and the GDP and all other macro economic activities.

Stakeholder Question 40: Stakeholders are requested to comment of the above statement.

Eskom states in their application that the appropriate level of prices that should be targeted, based on the current asset base and subject to generation choices assumed, is considered to be in the range 80c/kWh to 88c/kWh in real terms. Even at this level, Eskom's price remains competitive when compared to international electricity prices (based on the assumptions made)

Stakeholder Question 41: Comment on Eskom's statement of South African electricity prices compared to international electricity prices.

Stakeholder Question 40: Stakeholders are requested to make any other comments on the overall application.

Stakeholders are requested to comment in writing on the Issues Paper and Eskom's proposed Revenue Application – Multi Year Price Determination 2010/11 to 2012/13 (MYPD 2). Written comments can be forwarded to mypd2@nersa.org.za; hand-delivered to 526 Vermeulen Street, Arcadia, Pretoria or posted to P.O Box 40343, Arcadia, 0083, Pretoria, South Africa. The closing date for the comments is the 30th November 2009 at 16H00.

For more information and queries on the above please contact Mr Pule Mothiba and Ms Priya Singh at the National Energy Regulator of South Africa, Kulawula House, 526 Vermeulen Street, Arcadia, Pretoria.

Tel: 012 401 4600

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