

Annexure B

**ESKOM'S SIXTH MULTI-YEAR PRICE DETERMINATION (MYPD6) REVENUE
APPLICATION FOR FY2026 – FY2028**

CONSULTATION PAPER

September 2024

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Abbreviations and Acronyms

EPP	Electricity Pricing Policy
ERA	Electricity Regulation Act, 2006 (Act No. 4 of 2006)
GWh	Gigawatt hours
IPP	Independent Power Producer
IRP	Integrated Resource Plan
M&V	Measurement and Verification
MEAV	Modern Equivalent Asset Value
MIRTA	Minimum Information Requirements for Tariff Applications
MWh	Megawatt hours
MYPD	Multi-Year Price Determination
NERA	National Energy Regulator Act, 2004 (Act No. 40 of 2004)
NERSA	National Energy Regulator of South Africa
NTCSA	National Transmission Company of South Africa
O&M	Operating and Maintenance
OCGT	Open Cycle Gas Turbine
RCA	Regulatory Clearing Account

1. EXECUTIVE SUMMARY

- 1.1. The multi-year price determination (MYPD) is a process of determining allowable revenues for Eskom. This approach is a cost-of-service, rate-of-return-based method with incentives for cost savings, and efficient and prudent procurement by the licensee (Eskom). This process is the basis for the determination of tariffs for various customer categories. To ensure that electricity prices in South Africa are implementable by 1 April 2025, Eskom is required to table a NERSA-approved tariff in parliament before 15 March 2025.
- 1.2. The MYPD is developed as a guide to the Regulator in the regulation of the electricity supply industry in a manner that is deemed rational and would result in predictable and stable prices. It forms the basis on which the National Energy Regulator of South Africa (NERSA) will evaluate the price adjustment for Eskom over a multi-year period and becomes the de facto price path.
- 1.3. Eskom's fifth MYPD (MYPD5) revenue application has been developed using the MYPD4 Methodology that had been published by NERSA in October 2016. The revenues and tariff decisions that will be determined by NERSA will be implemented from 1 April 2025 for non-municipal customers and from 1 July 2025 for municipal customers.

2. INTRODUCTION

- 2.1 In performing its duties to review regulatory tools, set tariffs, and evaluate Eskom application, NERSA is guided by, among others, the Electricity Regulation Act, 2006 (Act No. 4 of 2006) ('the ERA'), the Electricity Pricing Policy (EPP) and the regulatory framework.
- 2.2 NERSA's regulatory framework according to the ERA requires the achievement of several objectives, which include:
 - a) safeguarding the needs of customers;
 - b) achieving the efficient, effective and sustainable development of electricity supply infrastructure;
 - c) facilitating investment;
 - d) promoting universal access;
 - e) promoting competitiveness and customer and end user choice; and importantly
 - f) facilitating a fair balance between the interests of customers and end users, licensees, investors in the electricity supply industry and the public.

- 2.3 Thus, in setting tariffs, NERSA has a broader set of objectives to consider. As some of these objectives may work in different directions, a balancing process is required.
- 2.4 Eskom submitted its MYPD6 application (attached as Annexure A) on 16 August 2024. In this application, Eskom is requesting to be allowed an amount of R446bn for FY2026, R495bn for FY2027 and R537bn for FY2028, respectively.
- 2.5 The application was screened against all the requirements of the MYPD Methodology and it was found to be compliant. This application has followed the MYPD format and has been sufficiently completed for it to be published for the stakeholder consultation process. Any other information, such as corporate strategy, will be provided during the engagement with Eskom.
- 2.6 The information provided is sufficient for the team to conduct its analysis and for stakeholders to provide oral and written comments.
- 2.7 The Energy Regulator, at its meeting held on 9 September 2024, considered and approved the compliance of Eskom's MYPD6 application with the MYPD Methodology and the Minimum Information Requirements for Tariff Applications (MIRTA) to allow for a public participation process.

3. LEGAL BASIS

- 3.1 Section 4(c) of the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ('the NERA') empowers and burdens NERSA with the responsibility to undertake the functions detailed in section 4 of the ERA.
- 3.2 The ERA sets out the powers and functions of NERSA. Specifically relevant to this application is section 4(a)(ii), in terms of which NERSA is empowered and required to regulate prices and tariffs.
- 3.3 In performing its mandated functions, NERSA is required to ensure that the following objects of the ERA are achieved:
 - a) The efficient, effective, sustainable and orderly development and operation of electricity supply infrastructure in South Africa
 - b) The interests and needs of present and future electricity customers and end users are safeguarded and met, having regard to the governance, efficiency, effectiveness and long-term sustainability of

the electricity supply industry within the broader context of economic energy regulation in the Republic

- c) Investment in the electricity supply industry is facilitated
- d) Universal access to electricity is facilitated
- e) The use of diverse energy sources and energy efficiency is promoted
- f) Competitiveness and customer and end user choice are promoted
- g) A fair balance between the interests of customers and end users, licensees, investors in the electricity supply industry and the public is facilitated.

3.4 In order to facilitate compliance with the regulatory framework and create regulatory certainty regarding Eskom's revenue applications, NERSA developed a Multi-Year Price Determination Methodology in line with section 14(1)(g) and (e) of the ERA, as well as the MIRTA, which are to be complied with by Eskom but does not restrain the exercising of discretion by the Energy Regulator when taking a decision.

4. SCOPE OF CONSULTATION

4.1. Stakeholders are requested to comment on the MYPD6 application for the 2025/26 to 2027/28 financial years, NERSA's discretion when applying the MYPD4 Methodology and the impact of Eskom's request considering the already approved Regulatory Clearing Accounts (RCAs). Questions are raised for each area identified and stakeholders are requested to comment on each question raised.

5. COMMENTS ON THE APPLICATION

5.1. Eskom's revenue application amounts to R446bn for FY2026, R495bn for FY2027 and R537bn for FY2028.

5.2. The major drivers are as follows, in ascending order:

- a) Primary Energy
- b) Operating costs
- c) Independent Power Producers (IPPs)
- d) International purchases
- e) Depreciation.

Stakeholder Question 1:

- a) Stakeholders are requested to comment on the Eskom application attached as Annexure A.

6. APPLICATION OF MYPD4 METHODOLOGY

- 6.1 This application is made based on the MYPD4 Methodology, which has its own limitations. The Methodology is not law, however, each time NERSA has to deviate from applying its requirements, NERSA must observe the *audi alteram partem* principle.
- 6.2 NERSA applies the established revenue requirement methodology to allow certain costs/expenses in order to set Eskom's tariff. The methodology is founded on three regulatory principles that determine whether utilities will be provided with an opportunity (not an assurance) to recover their costs and earn a return on their capital investments. The costs and investments must be:
- 6.2.1 'prudent',
 - 6.2.2 'used and useful', and
 - 6.2.3 'known and measurable'.
- 6.3 NERSA has a duty to ensure some, and promote other, objectives of the EPP and the ERA, suggesting a reasonable latitude to exercise its discretions when adjudicating Eskom's revenue application.

Stakeholder Question 2:

- a) Stakeholders are requested to comment on the following:
- i. treatment of coal costs
 - ii. treatment of operating cost, in particular workforce costs
 - iii. treatment of regulatory assets base
 - iv. sales forecasting.
- b) Stakeholders are requested to comment on the utilisation of Eskom's fleet and how that should be factored into the revenue determination.
- c) In terms of the above, how should NERSA exercise its discretion in this regard, and specifically to this application?

7. DETERMINATION OF SEPARATE REVENUES FOR NTCSA, GENERATION AND DISTRIBUTION

- 7.1 Eskom has submitted a summary application with separate submissions for the National Transmission Company of South Africa (NTCSA), Generation

and Distribution. These three businesses have their own revenues to run their activities. The cost drivers are different for each of the three businesses.

Stakeholder Question 3:

- a) Stakeholders are requested to comment on the NTCSA's revenue application and whether there is a need for a separate revenue determination.
- b) Stakeholders are requested to comment on the Generation and Distribution applications, and if these revenues can be determined separately.
- c) Stakeholders are requested to comment on how the NTCSA and Generation tariffs can be determined.
- d) Stakeholders are requested to comment on the imprudence/inefficiency of Eskom and how such imprudence/inefficiency should be addressed.

8. CROSS CUTTING QUESTION

Stakeholder Question 4: Status of the application

- a) Under introduction there is a reference that Eskom is making a revenue application. Eskom also stated that this revenue application does not deal with any potential Eskom tariff structural changes. A separate approval process for restructuring of tariffs will be made to NERSA for implementation from FY2026. Stakeholders are requested to comment on status of this application been a revenue application and not a tariff application. Does NERSA have the mandate to process a revenue application?
- b) This application is being made when the industry is undergoing transition. The ERA amendment is approved by the President of the country, and it is not yet operational. The NTCSA, a wholly owned regulated subsidiary of Eskom has been operationalised on 1 July 2024. The NTCSA will de facto become the Transmission System Operator (TSO) when the ERA amendment is implemented. Is it proper for NERSA to deal with Eskom MYPD6 application submission in the format it is given these changes?
- c) How should NERSA determine NTCSA revenues and corresponding tariff?
- d) Stakeholder are requested to comment of the fact that Eskom has applied for the same WACC percentage for all business activities?
- e) Eskom assertion is that NERSA to continue to limit Eskom's tariff increases below cost-reflective levels. Please comment on this assertion by Eskom.

Stakeholder Question 5: The application methodology

- a) Eskom indicated that the only existing methodology for a revenue application during September 2023 was the MYPD methodology, as published during 2016. Stakeholders are requested to comments of the used of MYPD4 methodology in processing MYPD6 application.
- b) Eskom indicated that the regulatory framework in which Eskom’s regulated revenue and tariffs are set provides that the licensee is to recover its prudent costs of service. Stakeholders are requested to comments on the regulatory framework in which Eskom’s regulated revenue and tariffs are set.

9. THE CONSULTATION PROCESS

9.1 Stakeholders are requested to comment in writing on the Consultation Paper for Eskom’s MYPD6 revenue application. Written comments can be forwarded to mypd@nersa.org.za; hand-delivered to Kulawula House, 526 Madiba Street, Arcadia, Pretoria; or posted to PO Box 40343, Arcadia, 0083, Pretoria, South Africa. The closing date for the submission of comments is **1 November 2024 at 16:00**.

9.2 NERSA will collate all comments received, which will be taken into consideration when the decision is made. Public hearings will be held using MS Teams where presentations may be made by interested and affected parties.

9.3 The process for consultation and decision-making is outlined in the table below.

Table 1: Timelines to process MYPD6 Revenue application

Task Name	Duration	Start	Finish
Timelines for processing Eskom's MYPD6 Application	89 days?	Mon 24/09/23	Thu 25/01/23
Special Electricity Subcommittee (ELS) to approve publication of the applications and indicative timelines.	1 day?	Mon 24/09/23	Mon 24/09/23
Incorporation of comments form members of the ELS and preparation of the publication	1 day?	Mon 24/09/23	Mon 24/09/23
Publication of the consultation paper and the MYPD6 applications to solicit written stakeholder comments	1 day	Mon 24/09/23	Mon 24/09/23
Closing date for stakeholder comments on the applications	30 days	Mon 24/09/23	Fri 24/11/01
Preparation for Public Hearings	10 days	Mon 24/11/04	Fri 24/11/15
Public Hearings	13 days	Mon 24/11/18	Wed 24/12/04

Analysis of stakeholders comments and drafting the Reasons for Decision (RfD) for ELS consideration	5 days	Thu 24/12/05	Wed 24/12/11
Special ELS to recommend the Draft Decision and Reasons for Decision	4 days	Thu 24/12/12	Tue 24/12/17
Requesting licensee to provide comments on the ELS recommendation before ER approval	1 day	Fri 25/01/17	Fri 25/01/17
Energy Regulator decision	3 days	Wed 24/12/18	Fri 24/12/20

Table 2: Public hearing indicative dates and venues

PROVINCE	MEETING TYPE	DATE
Western Cape	Physical Meeting	18 -19 November 2024
Eastern Cape	Physical Meeting	20 November 2024
KwaZulu-Natal	Physical Meeting	21-22 November 2024
Free State	Physical Meeting	25 November 2024
Northern Cape	Physical Meeting	26 November 2024
Mpumalanga	Physical Meeting	27 November 2024
Limpopo	Physical Meeting	29 November 2024
North West	Physical Meeting	2 December 2024
Gauteng	Physical Meeting	3 - 4 December 2024

*The dates of the public hearings might be extended/reviewed depending on the number of presenters that register.

For more information or queries on the above, please contact Ms Lehuma Masike or Mr Thilivhali Nthakheni at:

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End.