

MYPD 6 Application

Public Hearing
Cape Town - Closing

19 November 2024



 **Affordability**

 **Coal**

 **Start-up fuel and gas**

 **Why are sales reducing**

 **Indicative aspects where more detail will be provided this week**



**System status – Port Elizabeth
Generation Performance – Durban**

Will be further guided by NERSA Regulator member requests



The Government electrification programme

Facilitation of access (cost of connecting a house) to a 20A (low consumption) electricity supply.

- This complements an already subsidised tariff.



Free basic electricity (FBE)

Social grants provided directly to customers through Free Basic Electricity of 50 kWh per household per month by national government to the indigent through the Equitable Share Fund

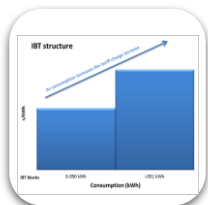
- Eskom provides FBE to customers in their area of supply as an agent for the municipalities



Subsidised Eskom tariff

For the MYPD3 period and subsequently the increase on the Homelight 20A customers (lifeline tariff) was lower than the average increase. Lower than 18% by 8% at 10%. Includes affordability subsidy (price level) and ERS subsidy (networks)

- Subsidised by direct Eskom large urban customers through the **affordability subsidy**
- The continual implementation from this lower base allows for extension of an effective subsidy
- Average Homelight 20A subsidy in FY25 was 144c/kWh of total 334c/kWh - a 43% subsidy. (Source FY2025 CTS study)



NERSA Inclining Block Rate (IBT)

The IBT was implemented by NERSA to cushion low-income households that use very little electricity.

- Eskom believes that the IBT as it is currently structured does not sufficiently target low-income households and places an unsustainable subsidy responsibility on urban customers
- IBT lowers the price and the key issue is the stepped increase above 350kWh that also makes it difficult to understand

Ensuring that Government policies are implemented

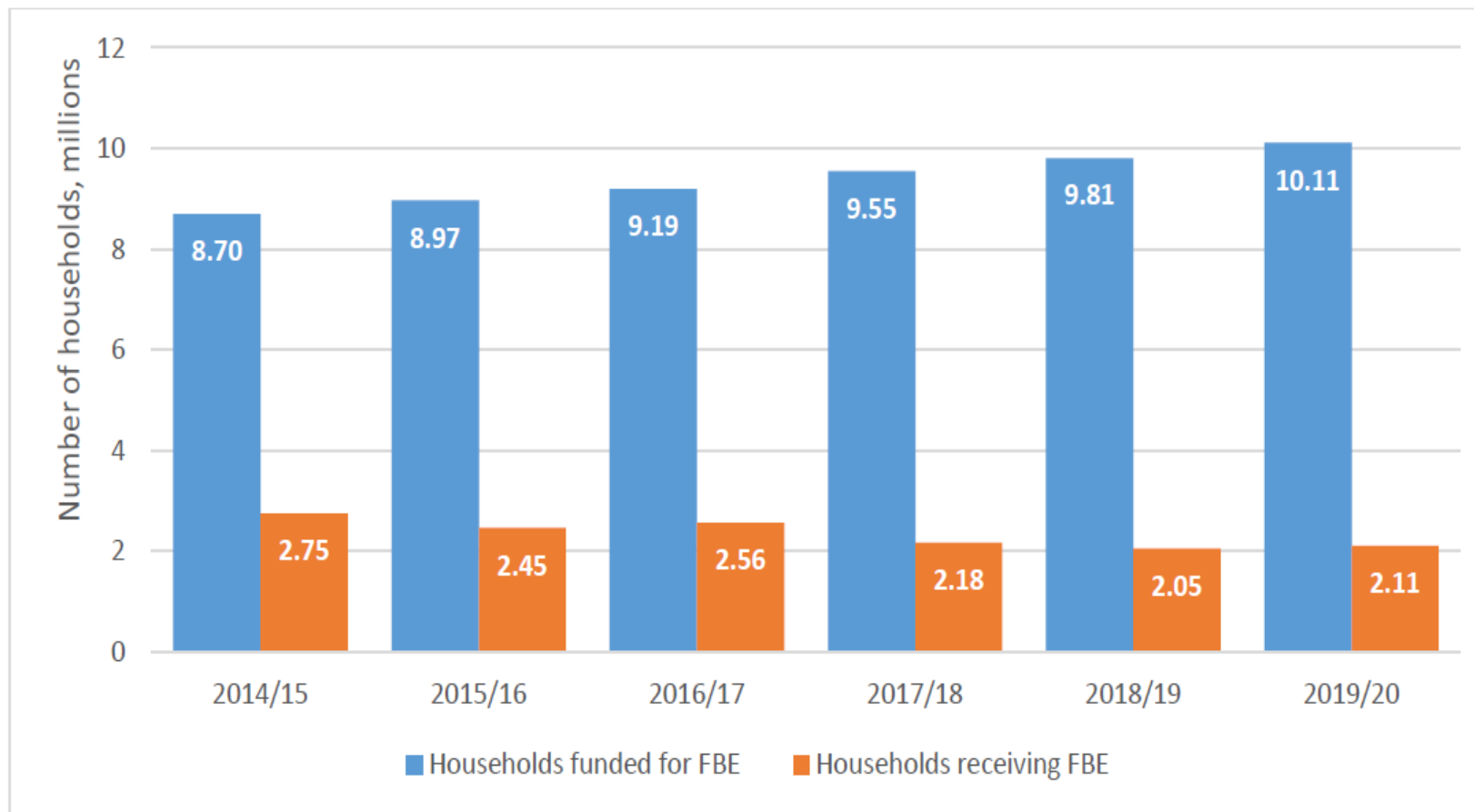
- ❑ The electrification programme is still underway
 - Government has a detailed programme in place to ensure that further areas are electrified
- ❑ It has been reported that the FBE of 50kWh is not being implemented to all relevant recipients
 - The Reserve Bank study indicates that only about 2 million recipients of a potential 10 million receive their FBE (2021)
 - Only Municipalities determine eligible recipients (indigent registers) – even if Eskom customers
 - Additional efforts are required to ensure that further recipients are identified
 - This is potentially a priority for NECOM to consider
 - The Government Departments will also have a role to play

Possible further policy changes that could be considered

- ❑ Eskom's Retail Tariff Plan (RTP) has made proposals to changes to the Inclining block tariff
 - To improve the benefit to poor residential customers, Eskom proposes **removing the IBT structure** and replacing it with a single energy rate charge for Homelight 20A customers.
 - This implies that converting the residential lifeline tariff, Homelight 20A into a single c/kWh energy rate.
 - This will protect the poor. An increased rate will not be paid by poor residential customers (for the second block)
 - This will further support poor residential customers
- ❑ The Government has indicated that protecting the poor is priority – other initiatives could be considered

Majority of FBE customers who should qualify are not being served by municipalities

Figure 15: Underspending in free basic electricity



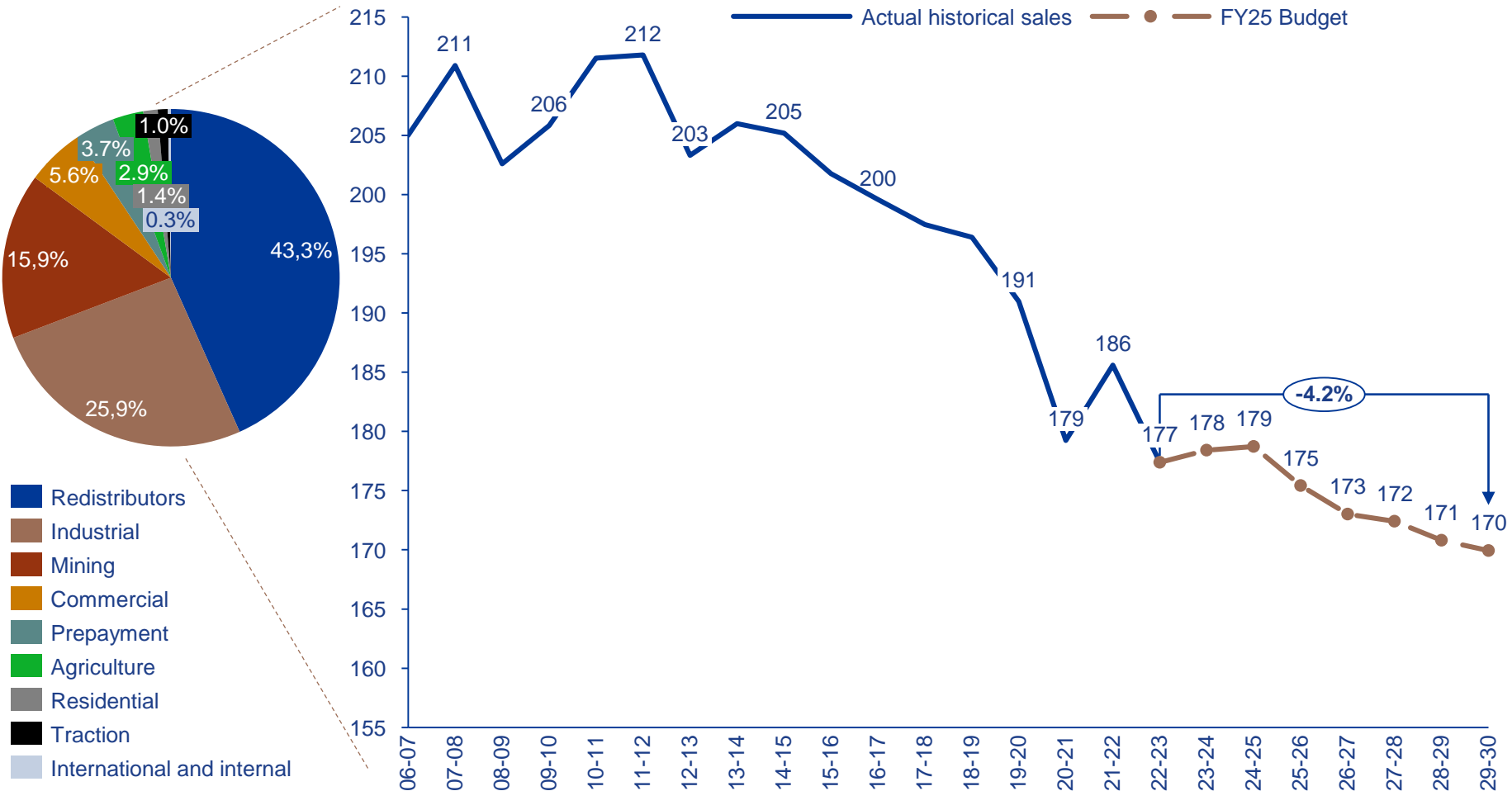
- Municipalities are responsible for recognition & administration of customers who qualify for FBE for Municipal and Eskom customers
- Municipalities have only recognized ~20% of qualifying customers. Majority customers who should qualify are not being allocated by municipalities
- Eskom provides FBE to customers identified for FBE by Municipalities
- In subsequent years situation has worsened
 - FY 2021 – 1 654 160 households
 - FY 2022 – 1 753 091 households

(Source: Non-financial census of municipalities for year ended 30 June 22, published by Stats SA, 26 March 2024)

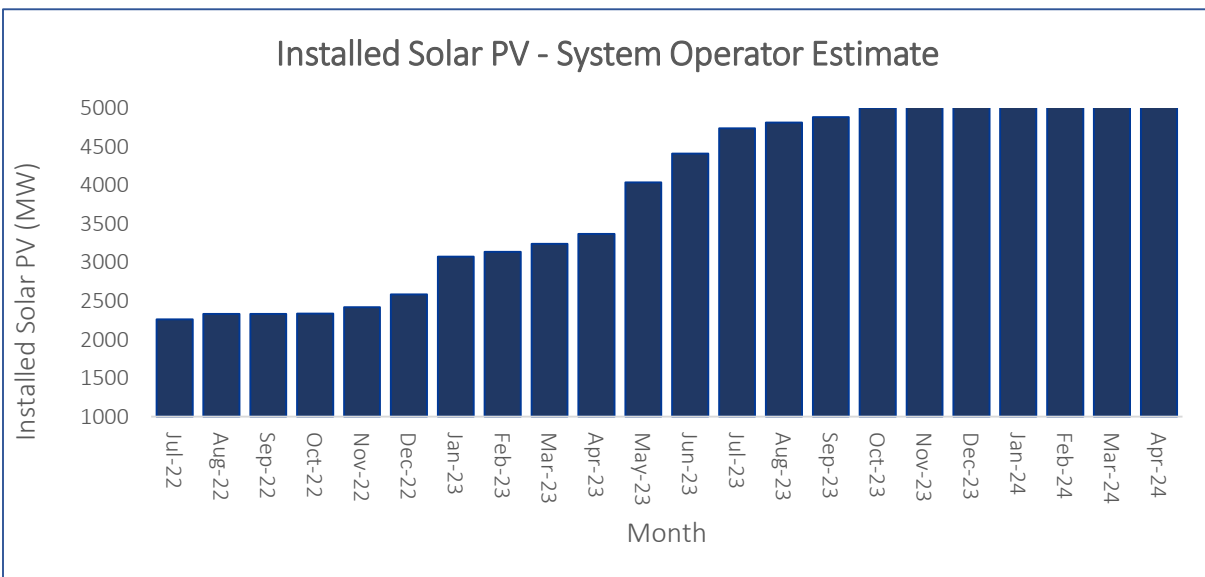
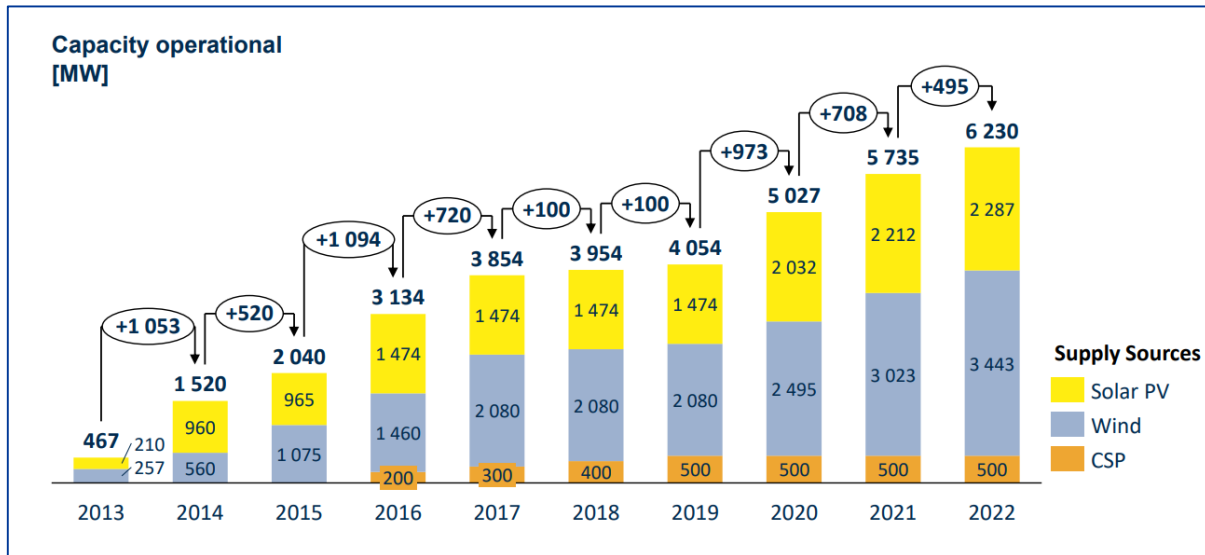
Source: Ledger (2021).

The MYPD6 shows a decline, with a cumulative reduction of 4%

Total Local sales declining over MYPD6 period, TWh



- The forecast assumes no future load shedding, an increase is expected in the short term due to recovery and current commodity prices are expected to continue boosting sales
- Sales in the Redistributors category are expected to be lower due to an increase in self generation and wheeling
- Some Redistributors (e.g., eThekweni) are expected to reduce consumption by more than 20% in the next five years
- Ekurhuleni has plans to procure 683MW from IPPs, while City Power plans to reduce reliance on Eskom by ~10%
- ~150MW in wheeling and rooftops in the Free State mining contributes to reduced sales
- Agriculture has also seen an increase in rooftop PV installations and SSEG applications
- Non technical losses will continue being a challenge in the short term in the Prepayment sector
- Bottom-up approach – 80/20 split – forecast the demand in the market



- RE growth displaces **energy** production from coal plant
- Wind and PV generation energy profile does not always match consumption
- Solar and wind do not provide total basket of services that a conventional generator does
- More generation capacity is needed because the various renewable technologies are available at different times of day and are sometimes weather dependent.

Customer and network requirements still needed:

- Provide sufficient supply to match demand
- Respond to large energy and demand change requirements
- Transport energy to customers
- Maintain frequency within limits
- Maintain voltages within limits
- Ability to restore the system
- Backup supply during periods of low RE production

System services still need to be provided by Eskom & paid for – thus Eskom is seen as a battery

Thus, the RTP is essential to separate the battery from the energy – so customers pay their fair share for service provided

Primary energy costs (R'millions)	Application FY2026
Coal usage	93 653
Water usage	3 936
Fuel and water procurement service	351
Coal handling	3 314
Water treatment	1 014
Sorbent usage	455
Sorbent handling	23
Gas and oil (coal fired start-up)	10 745
Total coal	113 491
Nuclear	982
Coal and gas (Gas-fired)	9
OCGT fuel cost	10 548
Ancillary services	2 970
Total primary energy	128 000
Environmental levy	6 539
Carbon tax	5 534
Independent Power Producers (IPPs)	66 633
International purchases (Dx)	13
International Purchases	10 249
TOTAL	216 969

Total Primary Energy

- IPP's have reduced compared to that originally estimated
- Coal usage has thus increased to bridge the above IPP gap causing an increase in coal cost
- IPP's however continue to displace Eskom generation into the future

Main drivers of coal usage increase

- Mining inflation and related cost increase are different to the general inflation basket
- Amortisation of capital expenditure/future fuel is higher because the depreciation period is decreasing due to shorter remaining tenure of the long-term contracts
- Replacement of old coal contracts/supply based on current supply pricing

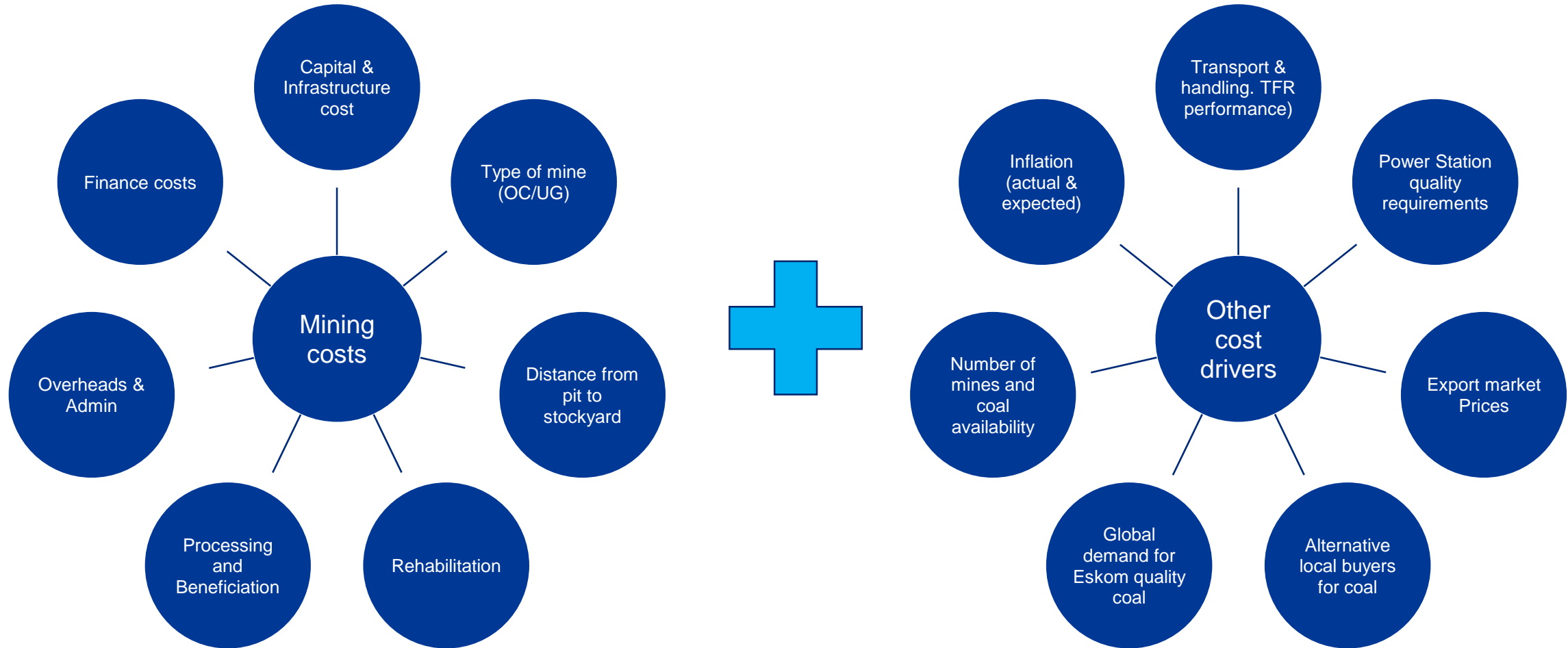
Coal & Water Future Fuel

- Future fuel expenditure is made up primarily of:
 - Re-investment in mines
 - Equipment replacement
 - Water treatment
 - Coal beneficiation
- Future fuel has a direct impact on cash requirements
- Future fuel however impacts coal usage via the amortisation of the respective projects over the useful life

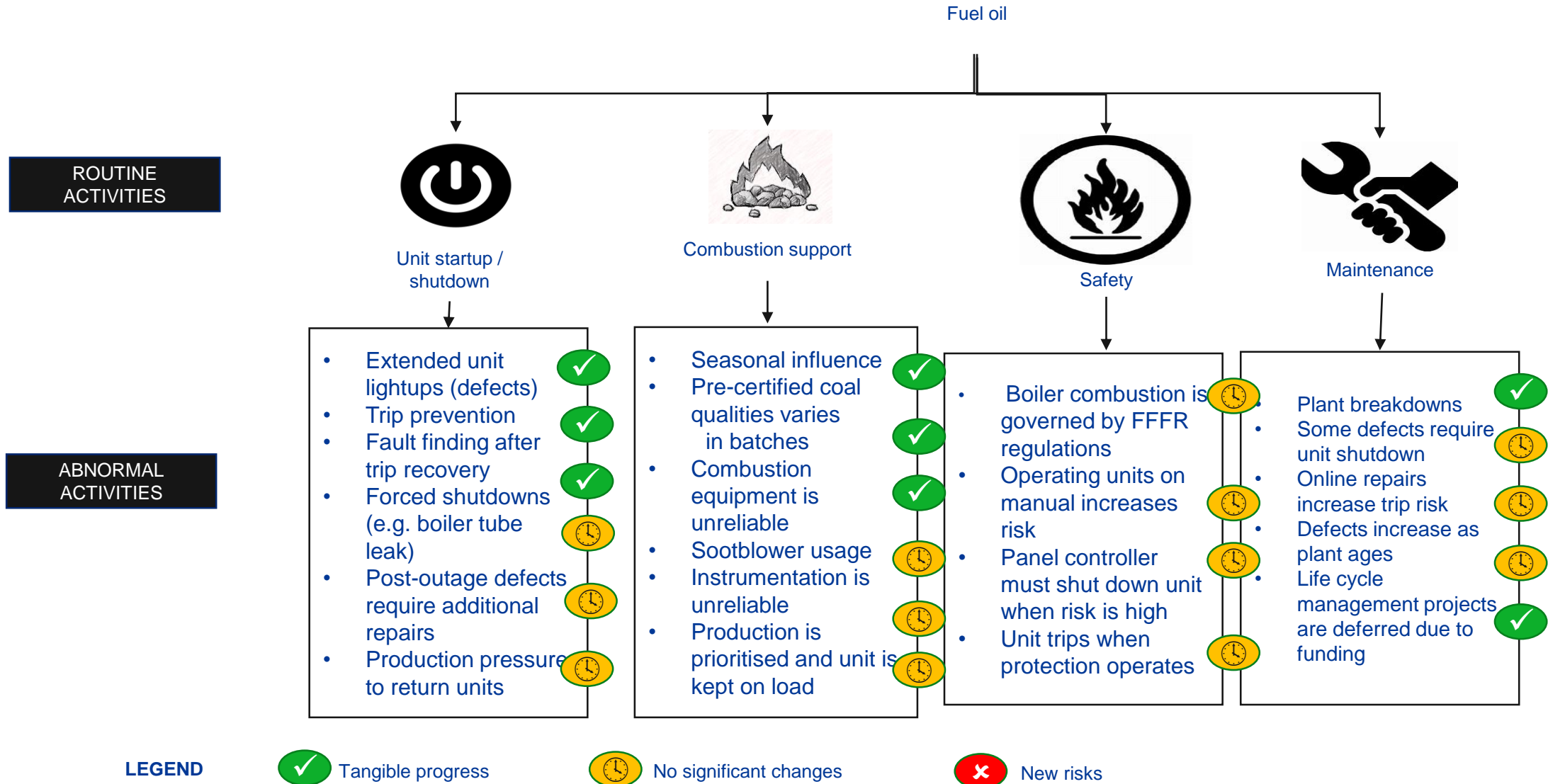
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Cost drivers that impact Eskom's coal costs are different to the general PPI or CPI basket. Hence the inflation expectation cannot be the same as general PPI or CPI



Fuel Oil usage is influenced by many factors



- ❑ The **increase in fuel oil costs** from the FY2025 Nersa MYPD5 Decision to the FY2026 Eskom MYPD6 Application is largely driven by:
 - Price increase contributes 11%
 - **Volume variance contributes 89%**
- ❑ The **volume variance is driven predominantly by a change in strategy** leading to more units operating than assumed in MYPD5
 - The MYPD5 application was based on the 2035 Shutdown Strategy whereas the MYPD6 Application is based on the Continued Operations Strategy
- ❑ The focus during MYPD6 is on Generation plant operational recovery, including an increase in maintenance initiatives
 - Fuel oil requirements are impacted by an **increase in maintenance** which necessitates an increase in fuel oil
 - Fuel oil is used to **sustain, ramp-up and stabilize** the unit
 - Fuel oil required for **pre-commissioning checks, prior to synchronising a unit**, on load and plant optimisation after performing on-load tests etc
- ❑ Limiting fuel oil usage would:
 - **Limit the ability to execute** the required maintenance to improve performance
 - **Increase risk of trips** as fuel oil is used as combustion support to keep units running, especially at low load levels
 - **Increase risk when returning units** from outages (forced and planned)



Thank you