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## **MEDIA STATEMENT**

**24 FEBRUARY 2010**

### **NERSA'S DECISION ON ESKOM'S REQUIRED REVENUE APPLICATION - MULTI-YEAR PRICE DETERMINATION 2010/11 TO 2012/13 (MYPD 2)**

The National Energy Regulator of South Africa (NERSA) at its meeting held today, Wednesday, 24 February 2010, approved an allowed revenue of R 85bn for 2010/11, R 109 bn for 2011/12 and R 141bn for 2012/13. This will result in the average standard price of 41.57 c/kWh, 52.30 c/kWh and 65.85 c/kWh for 2010/11, 2011/12 and 2012/13 financial years respectively. This will result in a percentage price increase of 24.8% on the average standard tariff from 1 April 2010 followed by another average increase of 25.8 % from 1 April 2011 and a further price increase of 25.9 % from 1 April 2012.

On 30 September 2009, the National Energy Regulator of South Africa (NERSA) received Eskom's Revenue Application (Multi-Year Price Determination 2 [MYPD2]) requesting average annual price increases of 45% per annum over the MYPD2 period. In that application, Eskom was requesting revenues of R99bn, R146bn and R216bn for MYPD 2 period.

On 30 November 2009, NERSA received a revised Eskom application requesting an average price increase of 35% per annum over the MYPD2 period. In the revised application, Eskom was requesting revenue of R98 billion, R132 billion and R180 billion for MYPD 2 period.

The revised application was received by NERSA after Eskom received comments from the National Treasury and the South African Local Government Association (SALGA) as per the requirements of the Municipal Finance Management Act (MFMA).

The decision-making process included the application being published for comments and conducting public hearings in all nine provinces at which affected parties and the applicant made presentations.

A total of 427 written comments from stakeholders were received. These were comments from private individuals, small users, intensive users, government departments, political parties, trade unions and other stakeholders. A total of 85 oral presentations were made by various stakeholders during the public hearings.

After duly considering the application, the written submissions, reasons, facts and evidence provided, the Energy Regulator approved the following:

1. Allowed revenues, standard average prices and percentage price increases be approved for the period 1 April 2010 to 31 March 2013 (control period) as detailed in the table below:

	2010/11	2011/12	2012/13
<b>Allowed revenues from tariff based sales (R'm)</b>	<b>85 180</b>	<b>109 948</b>	<b>141 411</b>
Forecast sales to tariff customers (GWh)	204 551	210 219	214 737
<b>Standard average price (c/kWh)</b>	<b>41.57</b>	<b>52.30</b>	<b>65.85</b>
<b>Percentage Price increase (%)</b>	<b>24.8 %</b>	<b>25.8 %</b>	<b>25.9 %</b>
Total expected revenue from all customers (R'm)	90 927	116 152	148 378

Table 1: Allowed revenues, standard average prices and percentage price increases

2. The allowed revenues to be used to recover Eskom's costs, as detailed in the table below:

<b>SUMMARY OF ALLOWED REVENUE</b>	2010/11	2011/12	2012/13
	R'm	R'm	R'm
Eskom's own primary energy cost	36,464	40,486	45,351
IPP and Co-generation	2,304	4,299	5,819
Operating Expenditure	32,611	34,727	36,847
Depreciation	9,356	12,812	17,880
Return on assets	3,039	15,936	33,163

Demand Side Management	1,406	1,688	2,351
	85 180	109 948	141 411

Table 2: Summary of allowed revenues to Eskom

- In order to provide for cross-subsidies for low income domestic customers, as required by the Electricity Pricing Policy (EPP<sup>1</sup>), implement residential inclining block rate tariffs concurrently with this price increase. The structure of the inclining block tariffs, together with the average c/kWh and percentage price increases, are as follows:-

Monthly level	Consumption	2010/11		2011/12		2012/13	
		c/kWh	% increase	c/kWh	% increase	c/kWh	% increase
Block 1 (≤50kWh)		54.70	(10.59)	57.65	5.40	60.83	5.50
Block 2 (51-350kWh)		58.48	(5.20)	66.16	13.23	75.09	13.50
Block 3 (351-600kWh)		76.35	21.95	96.05	25.80	120.93	25.90
Block 4 (>600 kWh)		83.74	35.82	105.35	25.80	132.63	25.90
Average residential tariff		60.60		68.83		78.62	

Table 3: Residential inclining block tariffs for Eskom residential customers

- Eskom is required to submit proposals for the structuring of the retail tariffs of other customer classes by 1 March 2010. NERSA will then make a decision on these tariffs structures before 15 March 2010.
- The revaluation of assets<sup>2</sup> be phased-in over a period of five years to allow for the smoothing of prices while allowing Eskom adequate revenues and cash flows needed for the capital expansion programme. The Modern Equivalent Asset Value (MEAV) provided by Eskom has been accepted for the purpose of MYPD2 but will be verified during the control period and adjustments may be made in line with the MYPD2 rules.
- In order to allow Eskom to repay its loans, interest during construction (IDC) has been catered for within the increased depreciation and the allowed return on assets.
- For those municipal distributors who implemented the 34% increase in the 2009/10 financial year, a municipal guideline increase of 15.33 % is approved for implementation with effect from 1 July 2010 followed by 16.03 % from 1 July 2011 and another 16.16 % from 1 July 2012. For those municipal distributors who implemented a different increase, the Energy Regulator will consider applications on a case by case basis.
- Based on the abovementioned guideline increases, the following are the applicable average municipal electricity tariff level benchmarks that must be implemented. The tables below include the benchmark levels for block tariffs for residential customers.

<sup>1</sup>. Policy Position 48 of “The South African Electricity Supply Industry: Electricity Pricing Policy GN 1398 of 19 December 2008”.

<sup>2</sup> Policy Position 1 of “The South African Electricity Supply Industry: Electricity Pricing Policy GN 1398 of 19 December 2008

c/kWh	Domestic Block 1	Domestic Block 2	Domestic Block3	Domestic Block 4	Commercial Prepaid	Commercial	Industrial
RED <sup>3</sup> 1	54 - 60	58 - 64	71 - 76	83 - 90	91 - 96	91 - 96	91 - 96
RED 2	54 - 60	58 - 64	71 - 76	83 - 91	90 - 95	90 - 95	92 - 97
RED 3	54 - 60	58 - 64	71 - 76	83 - 90	91 - 96	91 - 96	92 - 97
RED 4	54 - 60	58 - 63	70 - 75	83 - 90	90 - 95	90 - 95	92 - 97
RED 5	54 - 60	58 - 64	71 - 76	83 - 90	91 - 96	91 - 96	91 - 96
RED 6	54 - 60	58 - 62	70 - 75	83 - 90	91 - 96	91 - 96	92 - 97

Table 4: Benchmarks: 2010/11 at 15.33 % guideline increase

c/kWh	Domestic Block 1	Domestic Block 2	Domestic Block 3	Domestic Block 4	Commercial Prepaid	Commercial	Industrial
RED 1	57- 64	63 - 68	83 - 88	99 - 104	106 - 111	106 - 111	106 - 111
RED 2	57- 64	63 - 68	83 - 88	100 -105	105 - 110	105 - 110	108 - 113
RED 3	57 - 64	63 - 68	83 - 88	99 - 104	106 - 111	106 - 111	108 - 113
RED 4	57 - 64	62 - 67	82 - 87	98 - 103	105 - 110	105 - 110	108 - 113
RED 5	57 - 64	63 - 68	83 - 88	99 - 104	106 - 111	105 - 110	106 - 111
RED 6	57 - 64	62 - 67	82 - 87	98 - 103	106 - 111	106 - 111	108 - 113

Table 5: Benchmarks: 2011/12 at 16.03 % guideline increase

c/kWh	Domestic Block 1	Domestic Block 2	Domestic Block 3	Domestic Block 4	Commercial Prepaid	Commercial	Industrial
RED 1	60- 67	67 - 72	97 - 102	115 - 120	123 - 128	123 - 128	123 - 128
RED 2	60 - 67	67 - 72	97 - 102	117 - 122	122 - 127	122 - 127	125 - 130
RED 3	60 - 67	67 - 72	97 - 102	115 - 120	122 - 127	123 - 128	125 - 130
RED 4	60 - 67	66 - 71	95 - 100	114 - 120	122 - 127	122 - 127	125 - 130
RED 5	60 - 67	67 - 72	97 - 102	115 - 120	123 - 127	123 - 128	123 - 128
RED 6	60 - 67	65 - 70	95 - 100	115 - 120	123 - 127	123 - 128	125 - 130

Table 6: Benchmarks: 2012/13 Guideline increase: 16.16%

9. The deadline for submission of municipal tariff applications is 30 April 2010 for implementation on 1 July 2010.

**End.**

**ISSUED BY THE NATIONAL ENERGY REGULATOR, PRETORIA, 24 FEBRUARY 2010**

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<sup>3</sup> Regional Electricity Distributor is an entity comprising of municipal and Eskom electricity distributors in a particular region.