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MEDIA STATEMENT

NERSA'S DECISION ON ESKOM'S REGULATORY CLEARING ACCOUNT APPLICATION FOR YEAR 5 (2017/18) OF THE THIRD MULTI-YEAR PRICE DETERMINATION AND ESKOM'S FOURTH MULTI-YEAR PRICE DETERMINATION FOR THE CONTROL PERIOD OF 2019/20 TO 2021/22

The National Energy Regulator of South Africa (NERSA) announced today that based on the information at its disposal and the analysis of Eskom's Regulatory Clearing Account (RCA) application for year 5 (2017/18) of the third Multi-Year Price Determination (MYPD3) period and Eskom's MYPD4 application for a duration of three years, from 2019/20 to 2021/22, it has made the following decisions:

1. MYPD3 RCA YEAR 5 (2017/18) DECISION

The Energy Regulator approved as follows:

- (a) An RCA balance of R3,869bn.
- (b) The RCA balance of R3,869bn will be recoverable from the standard tariff customers, local Special Pricing Arrangement (SAPs) customers and international customers.
- (c) The Energy Regulator will develop an implementation plan for the MYPD3 Year 5 RCA for the 2017/18 financial year balance for approval.

The approved Eskom RCA balances for the 2017/18 financial year are provided in Table 1 below.

Table 1: Approved Eskom RCA year 5 (2017/18) balances

RCA for 2017/18 (Year 5 of MYPD3) R'm	Eskom 2017/18 RCA Balance	NERSA Adjustment	NERSA's decision
Revenue	26 896	-10 956	15 940
Primary Energy	-4 385	-1 856	-6 241
CECA	925	-3 951	-3 026
EEDMS	-1 118	0	-1 118
SQI	390	0	390
ECS	-1 122	0	-1 122
Inflation	39	7	46
Revenue from previous year (McKinsey) ¹	0	-1 000	-1 000
Totals	21 625	-17 756	3 869

2. MYPD 4 (2019/20 TO 2021/22) DECISION

The Energy Regulator approved as follows:

- (a) Allowable revenue of R206,380bn for financial year 2019/20, R221,843bn for financial year 2020/21 and R233,078bn for financial year 2021/22. The approved allowable revenue will result in average percentage price increases of 9.41%, 8.10% and 5.22% respectively. The allowable revenues approved are detailed in Table 2 below.

Table 2: Approved MYPD4 allowable revenues

MYPD4	Decision 2019/20	Decision 2020/21	Decision 2021/22
Total expected revenues from all customers (R'm)	206 380	221 843	233 078
Negotiated price agreement and International customers (R'm)	15 441	16 736	18 480
Revenues from tariffs based sales (R'm)	190 939	205 107	214 598
Forecast sales to tariff customers (GWh)	186 064	184 898	183 856
Standard average tariff (c/kWh)	102,62	110,93	116,72
Percentage tariff increase (%)	9,41%	8,10%	5,22%

- (b) The Energy Regulator will subject the costs in Table 2 above to further extensive prudency reviews, efficiency tests and performance thresholds.
- (c) The Energy Regulator will also perform independent valuation of Eskom's Regulatory Asset Base (RAB), if necessary, adjustments will be made.
- (d) The Energy Regulator will further conduct performance audits on Eskom's generation fleet, if necessary, adjustments will be made.
- (e) The allowed revenues must be recovered from both Eskom standard and non-standard tariff customers (Negotiated Pricing Agreements and International Customers) based on the previously approved tariff principles and structures using the Eskom Retail Tariff Structural Adjustment (ERTSA) Methodology as approved by NERSA.

¹ Revenues recovered from previous irregular expenditures.

- (f) The Energy Regulator will consider the ERTSA for the 2019/20 financial year following submission of the application by Eskom.

The Energy Regulator also considered that Eskom conceded that certain governance failures occurred in Eskom, however, at the time of the above decisions and although some of the adjustments were effected, the extent of the governance failures or amounts associated therewith had not been fully quantified. The Energy Regulator may initiate its own investigation into the governance failures in Eskom and may effect adjustments to Eskom's revenue based on the relevant outcome of its investigation and/or those undertaken by bodies or entities, including, but not limited to, Eskom, National Treasury, the Special Investigating Unit, the South African Directorate for Priority Crime Investigation (Hawks), the Parliament of the Republic of South Africa or any Commission of Enquiry as and when they are concluded or a conclusive outcome is reached and the costs associated therewith have been quantified.

NERSA received Eskom's MYPD3 RCA Year 5 (2017/18) application, totalling R21.6bn, on 12 September 2018. Eskom's MYPD4 application for a duration of three years was received on 14 September 2018. Eskom applied for R219bn for financial year 2019/20, R252bn for financial year 2020/21 and R291bn for financial year 2021/22. Upon receipt of the applications, NERSA conducted an analysis to ensure compliance of the applications to Minimum Information Requirement for Tariff Application (MIRTA) requirements. Full compliance was confirmed on 2 October 2018 after all outstanding documents were submitted by Eskom.

Eskom's RCA application was evaluated using the MYPD3 Methodology and the MYPD4 application was evaluated using the MYPD4 Methodology. In terms of the provision of the MYPD Methodology, the Energy Regulator has to, upon application by Eskom, assess qualifying allowed revenue and qualifying allowed expenditure against relevant actual revenue and actual expenditure, as well as performance incentive-based adjustments.

The Energy Regulator made the decision after conducting the due regulatory process, which included publishing Eskom's applications and inviting written comments from stakeholders from 19 October 2018 to 30 November 2018. The Energy Regulator also conducted public hearings in seven of South Africa's nine provinces between 14 January and 5 February 2019. This was to afford interested and affected stakeholders the opportunity to present their views, facts and evidence.

The Energy Regulator has, in arriving at this decision, balanced both Eskom's interests and those of the public in line with section 2(b) of the Electricity Regulation Act.

The Reasons for Decision document will be available on the NERSA website at www.nersa.org.za in due course.

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