
NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

In the matter regarding

Eskom's application for the 2020/21 Retail Tariff and Structural Adjustment

By

ESKOM HOLDINGS SOC LIMITED (ESKOM)

REASONS FOR THE DECISION

THE DECISION

Based on the available information and the analysis of Eskom's retail tariff adjustment submission, on 9 March 2019, the Energy Regulator decided as follows:

1. The average tariff increases for the respective customer categories and affordability subsidy must be recovered from industrial and urban customers, as outlined in Table 1 below:

Table 1: Retail tariff adjustment (2020/21)

Categories	Average increases
Total Standard Tariffs	8.76%
Municipal - 1 July	6.90%
Key Industrial & Urban	
Other Tariff Charges	8.76%
Affordability Subsidy	13.61%
Rural	8.76%
Homelight 20A	
Block 1 (0-350kWh)	8.76%
Block 2 (>350kWh)	8.76%
Homelight 60A	8.76%
Homepower	8.76%

2. Approved the tariffs as outlined in the schedule of tariffs submitted by Eskom on 13 February 2020. Please note that the NERSA-approved tariffs are exclusive of value-added tax (VAT), as the rate is determined by the Minister of Finance.

Note that Eskom will ensure that its approved Schedule of Standard Prices for 2020/21 is published on its website, communicated to all customers, and made easily available to the general public on request.

ABBREVIATIONS AND ACRONYMS

c/kWh	Cent per kilowatt hour
CPI	Consumer Price Index
ERTSA	Eskom Retail Tariff and Structural Adjustment
GWh	Gigawatt hour
kWh	Kilowatt hour
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MYPD	Multi-Year Price Determination
NERSA	National Energy Regulator of South Africa
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
R'm	Rand million

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INTRODUCTION

1. On 7 March 2019, the National Energy Regulator of South Africa (NERSA) approved Eskom's Fourth Multi-Year Price Determination (MYPD4) Allowable Revenue for the 2020/21 financial year, as depicted in Table 2 below:

Table 2: Eskom's MYPD4 Allowed Revenue decision of 7 March 2019

MYPD4 (excl RCAs)	Decision 2019/20	Decision 2020/21
Total expected revenues from all customers (R'm)	206 380	221 843
Negotiated price agreement and International customers (R'm)	15 441	16 736
Revenues from tariffs based sales (R'm)	190 939	205 107
Forecasted sales volumes to standard customers (GWh)	186 064	184 898
Standard average tariff (c/kWh)	102,62	110,93
Percentage tariff increase (%)	9,41%	8,10%

2. On 30 October 2018 and 29 May 2019, the Energy Regulator approved the implementation of the MYPD3 Regulatory Clearing Account (RCA) of R7 776 million and R1 876m respectively, to be recovered in 2020/21 from standard tariff customers, as highlighted in Table 3 below:

Table 3: Allowable revenues, including RCA

MYPD4 (Incl RCAs)	Decision 2019/20	Decision 2020/21
Allowable revenue to standard customers tariff based sales before RCA (R'm) (A)	190 939	205 107
Allowable RCA revenue from standard customers (Year 2,3,4) (R'm) (B)	7 776	7 776
Allowable RCA revenue from standard customers (Year 5)(R'm) (C)		1 876
Total allowable revenue from standard customers after RCA (R'm) (D)= (A+B+C)	198 715	214 759
Forecasted sales volumes to standard customers (GWh)	186 064	184 898
Standard average tariff after RCA (c/kWh)	106,80	116,15
Increase in average tariff after RCA (%)	13,87%	8,76%
Total expected revenue from all customers after RCAs (R'm)	214 553	230 016

3. The approved allowable revenue of R214 759m 759 million and 184 898/GWh forecasted sales volumes will result in an average 116.15c/kWh price that is 8.76% average percentage price increase from 106.80c/kWh, as shown in Table 3 above.
4. On 13 February 2020, Eskom submitted its Retail Tariff and Structural Adjustment application for the 2020/21 financial year, together with the schedule of standard tariffs, for approval. The 2020/21 schedule of tariffs is for implementation on 1 April 2020 for non-local authority customers and 1 July 2020 for local authority customers.

5. The 1 July 2020 implementation date of the 2020/21 schedule of approved tariffs is in accordance with the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).
6. On 9 March 2020, the Energy Regulator approved the Eskom Retail Tariff and Structural Adjustment (ERTSA) and a schedule of tariffs for 2020/21.

THE APPLICANT

7. Eskom Holdings SOC Limited (Eskom), registration number 2002/015527/06, is a schedule 2 South African state-owned enterprise in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999), wholly owned by the South African Government. Eskom is regulated under licences granted by the Energy Regulator to generate, transmit and distribute electricity in terms of the Electricity Regulation Act, 2006 (Act No. 4 of 2006).
8. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and other distributors. It also buys electricity from and sells electricity to the countries of the Southern African Development Community (SADC).
9. Through its subsidiary, Eskom Enterprises (Pty) Limited, Eskom is also active in local unregulated markets and various African countries.

APPLICABLE LAW

10. The legal basis for the Energy Regulator to approve electricity prices is derived from the Electricity Regulation Act, 2006 (Act No. 4 of 2006) ('the Act') and the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ('the National Energy Regulator Act').

THE APPLICATION

11. The total allowable revenue from standard tariff customers for the 2020/21 financial year is R214 759m. This is made up of the MYPD4 2020/21 R205 107m plus the allowed MYPD3 R7 776m, and R1 876 m RCA liquidation revenue. This results in an annual average standard tariff increase of 8.76%.
12. Table 4 below shows Eskom's application for the annual average standard tariff increase to the respective customer groups, as well as the affordability

subsidy for Homelight 20A customers that will be recovered from industrial and urban customers. All the increases are for implementation on 1 April 2020, except the increases applicable to local authorities/municipalities, which are for implementation on 1 July 2020.

Table 4: Eskom tariff application for 2020/21

Total Standard tariffs	8.76%
Municipal - 1 July	6.90%
Eskom direct	
Key industrial and urban <i>Megaflex, Miniflex, Nightsave Urban, WEPS, Megaflex Gen</i>	
Other tariff charges	8.76%
*Affordability subsidy	13.61%
Other Urban <i>Businessrate, Public Lighting</i>	8.76%
Rural <i>Ruraflex, Nightsave Rural, Landrate, Landlight, Ruraflex Gen</i>	8.76%
Homelight 20A	
Block 1 (>0-350kWh)	8.76%
Block 2 (>350kWh)	8.76%
Homelight 60A	8.76%
Homepower	8.76%

ANALYSIS OF THE APPLICATION

13. The annual average increase approved for both the municipal and non-municipal tariffs for the 2020/21 financial year is 8.76%, as approved by the Energy Regulator.
14. As shown in Table 5 below, the total allowed revenue for 2019/20 was R198 715m, of which R86 077m (on 85 815GWh) was from municipal customers and R112 586m (on 100 249GWh) from non-municipal customers. Based on the forecasted volumes of 186 064GWh, the allowed average standard tariff price was 106.80c/kWh.
15. The 2019/20 annual average tariff of 106.80c/kWh was increased by 8.76%, which resulted in an annual average tariff of 116.15c/kWh for 2020/21 as shown in Table 5 below.
16. Based on the municipal annual average tariff and the forecasted sales volumes for 2020/21, the annual allowed revenue was R95 152m (on 87 226GWh).

Table 5: Approved annual average increases for 2020/21

Customer Group	2019/20			2020/21			Increase
	GWh	R'm	c/kWh	GWh	R'm	c/kWh	
Municipal	85 815	86 077	100,31	87 226	95 152	109,09	8,76%
Non-Municipal	100 249	112 586	112,31	97 672	119 607	122,46	9,04%
	186 064	198 715	106,80	184 898	214 759	116,15	8,76%

17. The 2019/20 non-municipal annual average tariff of 112.31c/kWh, was increased by 9.04%, which resulted in a non-municipal annual average tariff of 122.46c/kWh, as shown in Table 5 above. Based on the non-municipal annual average tariff and the forecasted sales volumes for 2020/21, the annual allowed revenue was R119 607m based on 97 672GWh.
18. The increase to non-municipal customers will be effective from the beginning of Eskom's financial year, which starts on 1 April 2020.

Implementation of Municipal Increase on 1 July 2020

19. The increase to municipal customers is with effect from the beginning of the municipal financial year, which starts on 1 July 2020, as per the provisions of the MFMA.
20. As a result of the delay in the implementation of municipal increase for Eskom's approved revenue, Eskom is not able to recover all the revenues due for the first three months of its financial year falling within the last three months of the municipal financial year. This revenue is equal to R23 842m, as depicted in Table 6 below.
21. Eskom must, however, over its financial year (i.e. 1 April 2020 to 31 March 2021) recover the full allowed revenue of R95 152m (as shown in Table 6 below) from municipal customers.

Table 6: Municipal increase effective on 1 July 2020

2019/20 Municipal customers			
	GWh	R'm	c/kWh
Apr-Jun	21 776	20 378	93,58
Jul-March	64 039	65 699	102,59
	85 815	86 077	100,31
2020/21 Municipal customers			
	GWh	R'm	c/kWh
Apr-Jun	22 190	23 842	107,44
Jul-March	65 036	71 310	109,65
	87 226	95 152	109,09
			8,76%

22. As shown in Table 6 above, Eskom will recover R23 842m based on 22 190GWh from 1 April 2020 to 30 June 2020.
23. The balance of R71 310m based on 65 036GWh must be recovered over the remaining nine months to ensure that Eskom recovers the full allowed revenue of R95 152m from its municipal customers.
24. The nine months' allowed revenue of R71 310m from 65 036GWh resulted in an average tariff of 109.65c/kWh, as shown in Table 6 above.
25. The nine months' average tariff of 109.65c/kWh (2020/21) – the effective increase in the municipal tariff is 8.76% – will remain in place for 12 months (1 July 2020 to 30 June 2021) due to the MFMA requirement. This increase allows Eskom to recover its full allowed revenues over a period of nine months from municipalities.
26. The 6.9% increase is applicable for the nine months, together with the increase that is applicable for the first three months at 14.82%, resulting in an annual average increase of 8.76% to municipal customers as shown in Table 6 above.

Cross Subsidy on Homelight 20A

27. Historically Homelight 20A customers have been subsidised for socio-economic reasons. The Homelight 20A tariff increases were lower than the average non-municipal average increases in the previous years. As a result, the Homelight 20A subsidy receipt is embedded in the 2020/21 Homelight 20A tariff rates.
28. NERSA approved an affordability subsidy for residential customers for the MYPD3 as follows:

- a. Homelight 20A Block 1 – an increase of 5.6% (CPI)
- b. Homelight 20A Block 2 – an increase of CPI plus 2%

29. Homelight 20A, where 90% of the consumption occurs, is currently receiving a subsidy of 47.98 cents, as depicted below.

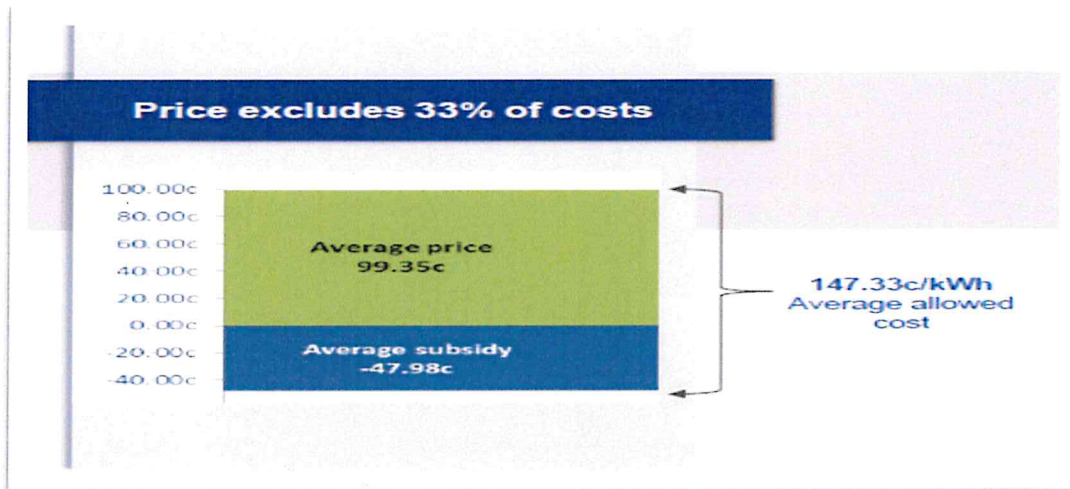


Figure 14: Homelight 20A block 1 subsidy

30. The historic cumulative subsidy received through the lower Homelight 20A tariff is recovered through the affordability subsidy charge and its increase is detailed in section 5 of this ERTSA application. Table 7 below shows the 2020/21 Homelight 20A tariff rates.

Table 7: Homelight 20A tariff increases

Homelight 20A			
	2019/20	2020/21	Increase
Block 1(0 - 350 kWh)	111,87	121,67	8,76%
Block 2 (> 350 kWh)	126,76	137,86	8,76%

Affordability Subsidy Charge Increase

31. In terms of the Energy Regulator's decision of 28 February 2013, the subsidy to Homelight 20A customers should be recovered from urban non-municipal customers, excluding all domestic, commercial and public lighting customers.
32. The revenue shortfall for 2020/21 is of the subsidy is R3 329m for 2020/21. This subsidy is recovered from industrial and urban customers, which implies that they need to pay the 4.34c/kWh to cover the revenue shortfall.

Table 8: Eskom affordability subsidy increase for 2020/21

			2019/20	2020/21
			110	-406
	Homelight 20A forecasted consumption	(GWh)	5 565	5 158
(a)	Homelight 20A at non-municipal average increase	R'm	6 676	6 729
	<i>Average price</i>	<i>c/kWh</i>	<i>119.97c</i>	<i>130.45c</i>
(b)	Homelight 20A tariff revenues at the lower increases:	R'm	6 280	6 328
	<i>Average price</i>	<i>c/kWh</i>	<i>112.85c</i>	<i>122.67c</i>
(c) = (a) - (b)	Incremental affordability subsidy receipt	R'm	397	401
(d)	Large industrial and urban sales	(GWh)	78 025	76 684
	<i>Growth in large industrial and urban sales</i>	(GWh)	<i>1 311</i>	<i>-1 341</i>
(f)	Affordability charge at previous years rands	(c/kWh)	3.31c	3.82c
(g) = ((f) x (d) / 100	Affordability charge at previous years rands	(R'm)	2 581	2 928
(h) = (g) + (c)	Total affordability for this year	(R'm)	2 977	3 329
(i) = (h) / (d) x 100	Required this year affordability rate	(c/kWh)	3.82c	4.34c
(j) = [(i) - (f)] / (f)	Affordability tariff increase	(R'm)	15.41%	13.61%

33. The incremental affordability subsidy receipt is added to the affordability charge at the previous year's rand value of R2 928m (for 2020/21). The affordability charge at the previous year's rand value is derived from multiplying the previous year's (2019/20) affordability rate of 3.82c/kWh by the large industrial and urban sales forecast for 2020/21 of 76 684 GWh.

34. Therefore, total affordability for 2020/21 will be R3 329. The R3 329m will be recovered from the 76 684GWh from large industrial and urban forecasted sales.

35. The affordability subsidy of 13.61% is as a result of the percentage difference between the 2020/21 affordability rate of 4.34c/kWh and the 2019/20 affordability rate of 3.82c/kWh.

CONFIDENTIALITY

36. There are no confidentiality issues.

CONCLUSION AND RECOMMENDATION

37. From the conspectus of the facts and evidence presented to the Energy Regulator, it is appropriate to approve the 2020/21 schedule of tariffs for standard customers.