



The Impact of Eskom's Megaflex Tariff Mechanism on Buyers and IPPs

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March 2022

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Problem statement

1.

Given that Eskom's **Megaflex tariff** is made up of amounts to cover:
(i) Variable costs (average time of use costs at peak and offpeak periods);
(ii) Fixed costs; and
(iii) Subsidies (rural electrification etc);

2.

Given that Eskom has sought to decrease the variable portion of its tariff and increase the fixed portion in order to maximise its revenue from creditworthy customers;

3.

Given that Buyers of electricity on a wheeled basis pay the standard tariff charges for all energy consumed, but there is net-billing such that:

- there is offset of the variable portion of the tariff (credit for the exported energy on a time of use basis)
- BUT fixed costs and subsidies must still be paid;

4.

The lower the variable portion of Eskom's tariff and the higher the fixed portion of Eskom's tariff, the lower the IPP's tariff has to be in order for the Buyer to make a saving as against Eskom's tariff by purchasing electricity from an IPP.

5.

Eskom's revised tariff mechanism could have a chilling effect on the private PPA market. What can the market do about this?

Legal suggestions

1.

Participation in public consultation - Under section 14 and 15 of the Electricity Regulation Act, NERSA must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return. NERSA has a legal duty to ensure that a methodology is in place in order to facilitate a legal and rational tariff determination. Public consultation processes are built into Electricity Regulation Act (section 35) and the National Energy Regulator Act (section 8) eg MYPD5 consultation paper.

2.

Public comment on the Electricity Pricing Policy - On 10 February 2022, DMRE published the draft review of the EPP for public comment by 25 March 2022.

3.

Potentially intervening in administrative justice litigation - Eskom initiated a court bid to review the NERSA's rejection of its MYPD5 application.

- Part A – semi-urgent application to set aside the NERSA decision and compelling NERSA to use the 2016 MYPDM for its 2022/23 revenue application (Judge Kollapen awarded this relief – MYPD4 methodology to be applied - “imprudent and destabilising” for NERSA to introduce a radically new regulatory methodology in the midst of an existing MYPD period.
- Part B – the setting aside of the NERSA decision to reject its revenue application for 2023/24 and 2024/25. Part B was not heard as part of the urgent matter, and a ruling is yet to be made.

4.

Possible competition law solution – abuse of dominance and effect of Eskom's tariff application methodology on electricity supply industry?

Impact of Eskom's Application

- Eskom's revenue application amounted to R279 billion for 2022/23, it claimed that most of the cost increases had been driven by the new requirement to increase its energy purchases from **IPPs** as well as the increase in carbon taxes.
- This table shows the revenues as applied for by Eskom in MYPD5 Application. The following had been considered when developing the impact of total assumed revenues:
 - The revenues are as per Eskom's application without prudence test conducted;
 - Include a recovery of the R46 billion in Government support, which is the subject of a 2020 Court order;
 - Considering the impending changes to the MYPD methodology, the total outstanding R46 billion has been included under FY 2022/23;
 - All approved RCAs have been included;
 - Only the approved STPPP has been included;
 - Considering the impending changes to the pricing methodology , the approved 2019/20 RCA has been included; and
 - the 2020/21 RCA has been included as applied for.

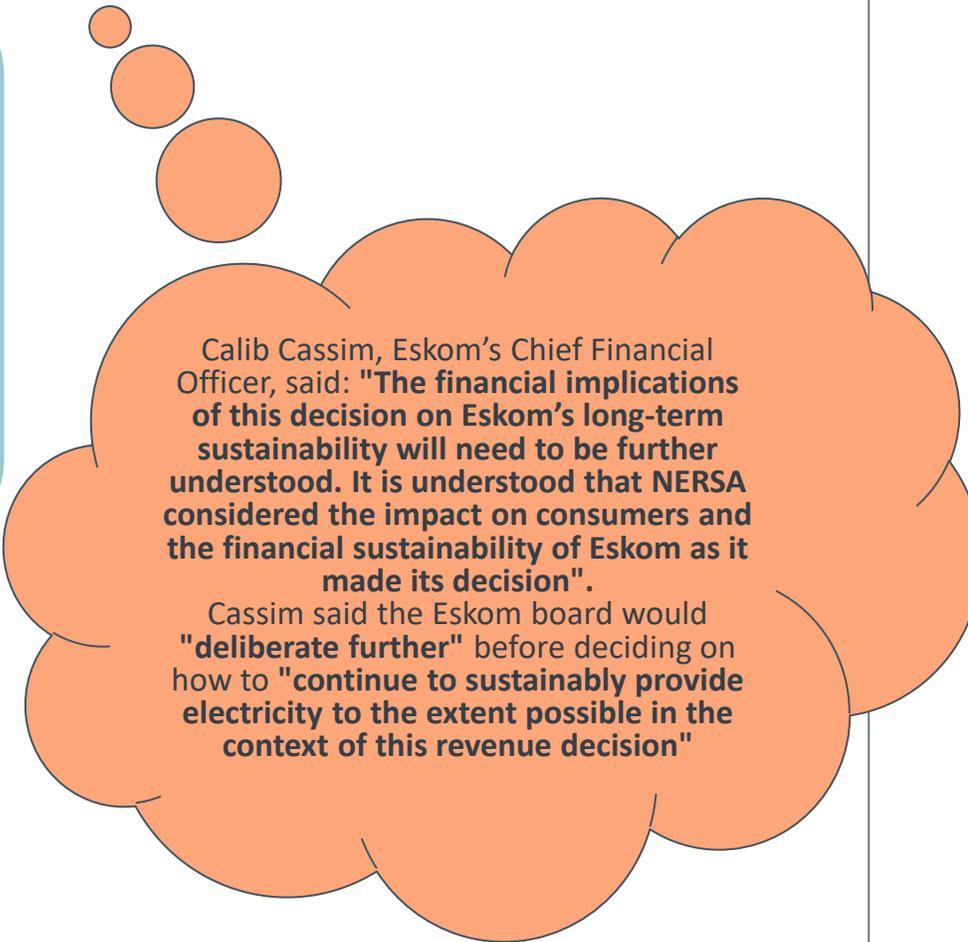
More fixed portion, less variable portion

NERSA noted that, although only the Eskom revenue application is limited to projected revenue required to cover forecasted 2022/23 costs, there are a number of already approved revenues, court orders and pass through costs that would also need to be recovered in the FY 2022/23 revenue determination. These would also include recently approved and recently applied for RCAs, whose implementation periods have not been decided on by the Energy Regulator.

Eskom's FY 2022/23 MYPD 5 tariff increase	
R'm	2022/23
FY 2022/23 Revenue application as applied	279 018
MYPD 3 RCA (Yr 2,3,4)	7 776
RCA arising (2018/19)	6 150
Approved STPPP	742
2019/20 RCA	3 461
2020/21 RCA As applied	10 720
Government injection	46 000
Total Revenue from standard customers	353 867
Sales Volumes(GWh sold)	171 549
Production Volumes (GWh sent out)	180 475
Price bases on sales volumes	206,28
Price bases on Production volumes	196,08
Percentage Price Increase based on sales	54,35%
Percentage Price Increase based on production	49,6%

NERSA's decision delivered on Friday, 25 February 2022

- NERSA made the decision to grant Eskom a **9.61%** tariff increase **less than half of the 20.5%** it wanted.
- The tariff increase is made of 3.49% for the 2022/23 year as well as legacy decisions from previous years, which brings it to 9.61%.
- NERSA noted that the prices are "indicative" and will still be finalized
- Petrol and diesel prices are predicted to go up dramatically due to Russia's invasion of Ukraine.



Calib Cassim, Eskom's Chief Financial Officer, said: **"The financial implications of this decision on Eskom's long-term sustainability will need to be further understood. It is understood that NERSA considered the impact on consumers and the financial sustainability of Eskom as it made its decision"**.

Cassim said the Eskom board would **"deliberate further"** before deciding on how to **"continue to sustainably provide electricity to the extent possible in the context of this revenue decision"**



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