

Eskom's Pricing Application

MYPD 3 – 2013/14 to 2017/18

Presentation to NERSA

by

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MYPD 3

Fundamental problems

- NERSA has an impossible task
- Regulator asked to set prices - should be set by consumers buying from competing suppliers
- No regulator can determine the 'right prices' to ensure efficient generation, transmission and distribution of electricity
- With the right electricity market structure the impossible task will disappear

What structure?

- Only restructuring of the electricity industry will contain prices
- Competition from IPPs
- Open access for IPPs to transmission grid (an independently owned and managed SOE)
- Competition at the distribution level
- Choice for consumers in a market of competing generators, distributors and traders

Implement 1998 White Paper

- Giving customers the right to choose their electricity supplier
- Introducing competition into the industry, especially the generating sector
- Permitting open, non-discriminatory access to the transmission system
- Encouraging private sector participation in the industry

Relieving the pressure

- IPPs financing, building and operating all new generation capacity – not Eskom
- Future capital needs and returns to government not built into prices (R450bn?)
- Financial pressure off government – no massive guarantees
- No huge price increases for consumers
- Take huge pressure off SA economy

South Africa is not unique

- Other countries have also had vertical electricity monopolies
- All the existing EU countries and those joining the EU
- UK and New Zealand
- Established competitive electricity markets

Competition gives best results

- EU (27 countries) opened up electricity to competition – access to transmission grids
- EU prices fell by up to 20% – depending on level of openness
- The UK broke up electricity monopoly – prices took 20 yrs to double
- The US has a multiplicity of competitors – integrity of grid managed by non-profit NERC

EU Electricity Policy

European union – Directive 2009/72/EC

Paragraph 8 - In order to secure competition and the supply of electricity at the most competitive price, Member States and national regulatory authorities should facilitate cross-border access for new suppliers of electricity from different energy sources as well as for new providers of power generation

EU Electricity Policy

European union – Directive 2009/72/EC

Paragraph 9 - Without effective separation of networks from activities of generation and supply (effective unbundling), there is an inherent risk of discrimination not only in the operation of the network but also in the incentives for vertically integrated undertakings to invest adequately in their networks

Eskom Prices and Inflation

Period 1 April to 31 March	Average price per kWh in cents	Nominal annual % increase	% increase on 2009 price	Annual inflation rate	Cumulative inflation rate	Eskom above-inflation increases
31/03/2009	22.10	-	100.00		100.00	-
2010 actual	33.14	49.95	149.95	7.1	107.1	42.85
2011 actual	41.50	24.80	187.13	5.0.	112.45	74.68
2012 actual	52.30	25.80	235.42	5.7	118.86	116.56
2013 actual	60.67	16.00	273%	5.5	125%	148%
2014 MYPD3	71.00	16.00	316.78	6.0	132.93	183.85
2015 MYPD3	82.00	16.00	367.47	6.0	140.90	226.57
2016 MYPD3	95.00	16.00	426.26	6.0	149.36	276.90
2017 MYPD3	110.00	16.00	494.46	6.0	158.32	336.14
2018 MYPD3	128c	16.00	574%	6.0	168%	406%
9 Years	X5.79			Inf.Eq.	37c	91c

Eskom Prices and Inflation

25% pa – 2018/19 to 2022/23

1 April to 31 March	Avg. price per kWh in cents	Nominal annual % increase	Cumulative % increase on 2009 price	Annual inflation Rate (estimated)	Cumulative inflation rate from 2009	Eskom above Inflation increase
31/03/2018	128.00		574%		168%	406%
2019 Eskom	160.00	25.00	716.96	6.0	177.89	539.07
2020 Eskom	200.00	25.00	896.20	6.0	188.56	707.64
2021 Eskom	250.00	25.80	1,120.25	6.0	199.88	920.37
2022 Eskom	312.50	25.00	1,400.32	6.0	211.87	1188.45
2023 Eskom	390.63	25.00	1,750%	6.0	225%	1525%
14 years	X 17.68			Infl. Equiv.	49.63c	341.00c

A better scenario

- Independent transmission grid
- Independent distribution grids
- Competing generating companies in an open electricity market
- Electricity trading
- Futures market

Electricity reform – making a start

- Open up transmission grid for wheeling from IPP's to customers
- Establish objective rules for PPAs and wheeling
- Make transmission grid independently owned and managed SOE – ASAP
- Enable immediate entry of all co-generators such as sugar producers

Comparing with New Zealand

- 1993/94 Removed statutory monopolies in distribution and retailing
- 20 Retail brands & 7 Service providers
- 9 or more competing brands in some areas
- 24 hrs for householders to switch supplier
- Electricity Authority role - promote competition, efficiency and reliability of supply for the long-term benefit of consumers

Determining prices

- Independent experts – technical and financial – must interrogate MYPD 3 figures – too important to be decided upon without double and treble checking
- Entire economy is at stake
- Until clarity is achieved, limit increases to inflation adjustment

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