

ESKOM RETAIL TARIFF ADJUSTMENT FOR 2011/12

1. NERSA-approved price increase

The National Energy Regulator (NERSA) last year (on 24 February 2010) granted a three year price determination - the second Multi-Year Price Determination (MYPD 2) - that covers the Eskom financial period from 2010/2011 to 2012/2013 as follows:

Standard average prices and percentage price increases	2010/11	2011/12	2012/13
Standard average price (c/kWh)	41.57 c/kWh	52.30 c/kWh	65.85c/kWh
Percentage Price increase (%)	24.8%	25.8%	25.9%

- In addition to determining the average Eskom price increase, NERSA also approves the structure of the tariffs, the rates and the increases applied to the rates to recover the total revenue allowed. The latter is submitted by Eskom to NERSA each year for approval.
- On 28 February 2011 NERSA made known the tariff determination for 2011/12.

2. Average price increase

The average price increase per tariff category is as follows:

Table 1: Average increase per tariff

Tariffs	% increase
Local authority rates	25.34%
Non-local authority urban tariffs	26.95%
Non-local authority rural tariffs	25.8%
Residential tariffs	14.3%

The reasons for the increases per tariff category and those applied to individual tariff rates not being the same as the Eskom average increase are as follows:

3. Impact on individual tariff rates

The increases in Table 1 are average increases for the whole tariff category and not the increase to the individual tariff rates. The following is taken into account when determining the increase per tariff category.

3.1 Subsidies and the residential tariff's inclining block rate structure

The NERSA MYPD 2 decision included the implementation of inclining block tariffs to provide protection for lower usage residential customers against high price increases.

The residential tariffs are subsidised as they recover less than the cost to supply residential customers. The average increase to residential customers is 14.3% (see Table 1), which is below the 25.8% average of increase required. The difference between what the increase should have been for the residential tariffs i.e. 25.8% and the actual increase applied i.e. 14.3% results in a shortfall in revenue and therefore a subsidy. NERSA decided in 2010 that all the residential subsidies must be recovered only from the Eskom non-local authority urban customers. This resulted in these tariffs seeing a higher increase than the average price increase shown above.

3.2 Environmental Levy Charge

The tariffs rates for 2011/12, similar to the previous year, have an explicit 2c/kWh environmental levy charge to reflect the costs of Eskom having to pay this levy for electricity generated from non-renewable resources and nuclear energy generation.

In the Budget Speech on 23 February 2011, the Finance Minister announced that the environmental levy payable to SARS was to be increased from 1 April 2011 from 2 c/kWh to

2.5 c/kWh. The increase in levy is related to funding for the costs of rehabilitation of roads due to coal haulage damage that has already been included in the Nersa MYPD2 approval of the revenue requirement.

The increase in the environmental levy is therefore not intended to increase electricity tariffs, and the resultant environmental levy (2 c/kWh) charge as applied in the tariff rates to the consumer will, therefore, not be increased.

3.3 Municipal Finance Management Act

Due to the requirements of the Municipal Finance Management Act (MFMA) Eskom splits its tariffs between local authority (municipal) and non-local authority (non-municipal) tariffs. All the local authority tariffs will experience the same increase across tariff categories. These tariffs in compliance with the MFMA were tabled in parliament on 14 March 2011.

4. Impact per tariff

The impact of the implementation of the NERSA approved 2011/12 Eskom retail tariffs is different for each per tariff category. The tariff rates are adjusted with the average increase approved by the NERSA on 28 February 2011 and these percentages exclude the 2 c/kWh environmental levy. When the 2c/kWh environmental levy is added to the percentages, this provides the annual average impact that customers will experience on the different tariffs.

The respective average percentage increases per tariff category are as follows:

4.1 Local Authority increase

In compliance with the MFMA, the 2011/12 the increase to all tariffs charged by Eskom to municipalities will only be effective from 1 July 2011 for the duration of the Eskom 2011/12 financial year. The tariff rates will be adjusted by **26.56%** increase because of the later implementation date of 1 July. Municipalities will however, experience an annual average increases of **25.34%** once the environmental levy is included.

4.2 Non-local authority increases

- The **Urban tariffs** Megaflex, Nightsave Urban Large, Nightsave Urban Small, Miniflex, Businessrate and Public Lighting tariffs rates will be adjusted by **28.41%**, but once the environmental levy is added the overall impact on their bills is **26.95%**.

This higher increase than the annual average caters for the subsidy for the lower priced residential IBT tariffs enjoyed by customers consuming equal to or less than 350 kilowatt-hours per month.

- The **Rural tariffs** Nightsave Rural, Ruraflex, Landrate and Landlight tariff rates will be adjusted by **26.53%** but once the environmental levy is added the overall impact on the bills will be **25.8%**. Rural tariffs do not contribute to the IBT subsidy.
- The **Residential tariffs** will see an annual average increase of **14.3%**.

4.3 Residential tariffs: Billed and Prepaid

Eskom implemented the inclining block tariff for its billed residential customers on 1 April 2010 and on 1 April 2011 will implement to residential customers using prepaid electricity. The delay to implement to prepaid users was due to the changes required to the prepayment vending system to accommodate inclining block tariffs.

An inclining block tariff is a tariff structure with tariff charges that change depending on the amount of consumption. As consumption increases, the tariff rates become more expensive. Depending on consumption, the average increase on the monthly amount payable for 2011/12 will differ. From 1 April 2011, the inclining block rate is the same for both billed and prepaid. The following table gives an indication what the increases will be at different consumption levels.

Table 2: Comparison of monthly amount (excluding VAT) payable under the inclining block tariff structure

Average monthly usage	50 kWh	150kWh	350 kWh	600 kWh	1000 kWh	1500 kWh	5000 kWh
Amount payable in 2010/11	R 27.35	R 85.83	R 202.79	R 393.67	R 728.63	R 1,147.33	R 4,078.23
Amount payable in 2011/12	R 28.83	R 94.99	R 227.31	R 467.43	R 888.83	R 1,415.58	R 5,102.83
R/month increase	R 1.48	R 9.16	R 24.52	R 73.77	R 160.21	R 268.26	R 1,024.61
% increase	5.39%	10.67%	12.09%	18.74%	21.99%	23.38%	25.12%

4.4 Summary of price increases.

