



RCAs submitted for FY2014/15, FY 2015/16 and FY 2016/17

**Durban
NERSA Public Hearings
19 April 2018**

The Regulatory Clearing Account (RCA) is the regulatory mechanism for risk management

RCA is a balancing mechanism between what was awarded by NERSA on the basis of a forecast (MYPD), and what actually materialised (Eskom's audited financial statements) - a backward looking reconciliation

NERSA Framework

1. Differences materialise if Eskom either does not achieve or exceeds the awarded revenue (due to pricing or demand factors), or incurs costs greater or lower than those which were taken into account when NERSA calculated the MYPD allowable revenue
2. RCA balance could either be in favour of Eskom or consumer
3. RCA is subject to approval by the Regulator
4. Liquidation of the RCA as approved by the regulator may result in an increase or decrease in future electricity prices
5. The MYPD Methodology as published by NERSA in December 2012 is applicable to the MYPD3 control period

Eskom application

1. Eskom has submitted 3 RCAs for years 2 to 4 to be adjudicated
2. Applications were made based on the 2013/14 RCA determination and principles applied by Nersa
3. RCA application **not** a revenue application based on future estimates
4. The RCA is not a response to the price increase 5.23% for FY2018/19
5. Eskom is not expecting a once off price adjustment for the 3 RCAs

The RCA is a globally accepted regulatory principle and is part of RCA best practices; MYPD2 RCA decision made in 2014 and MYPD3 RCA Year 1 (2013/14) made in 2016

- 1** Allowed revenue is computed on at Eskom Company level and based on billed revenue
- 2** Gas turbines variances limited to amounts allowed by NERSA and additional volumes recouped at average variable costs for coal
- 3** International purchases treated as cross border IPPs
- 4** Over expenditure of operating costs are absorbed by Eskom and is not allowed to be recovered

Summary of the RCAs for Year 2-4 of MYPD3

The Constitution Court ruling of August 2017 has cleared the way for Nersa to process the 3 outstanding RCAs which total over R66 billion

RCA for 2016/17 (RM)	RCA 2014/15	RCA 2015/16	RCA 2016/17	Total RCAs Years 2-4	% contribution
Revenue	8 787	15 578	20 016	44 382	67%
Independent Power Producers	4 346	620	2 452	7 418	11%
International Purchases	3 299	3 567	2 283	9 149	14%
Coal	574	3 258	-359	3 473	5%
Open Cycle Gas Turbines (OCGTs)	1 944	689	-1 259	1 374	2%
Other Primary Energy	1 355	728	722	2 805	4%
Environmental Levy	-683	-1 180	-1 404	-3 267	-5%
Subtotal	19 622	23 261	22 451	65 334	
Other	-437	372	1 418	1 353	2%
RCA balance	19 185	23 633	23 869	66 687	100%

Revenue alone contributes to 67% of the RCAs over the 3 years

Revenue variance - NERSA decision in RCA for MYPD 3 – Year 1

NERSA decision

- NERSA allowed for variance in domestic sales
- NERSA considered international sales with a gross approach as opposed to the net position
- NERSA excluded internal sales revenue
- NERSA deducted revenue related to load shedding and curtailment

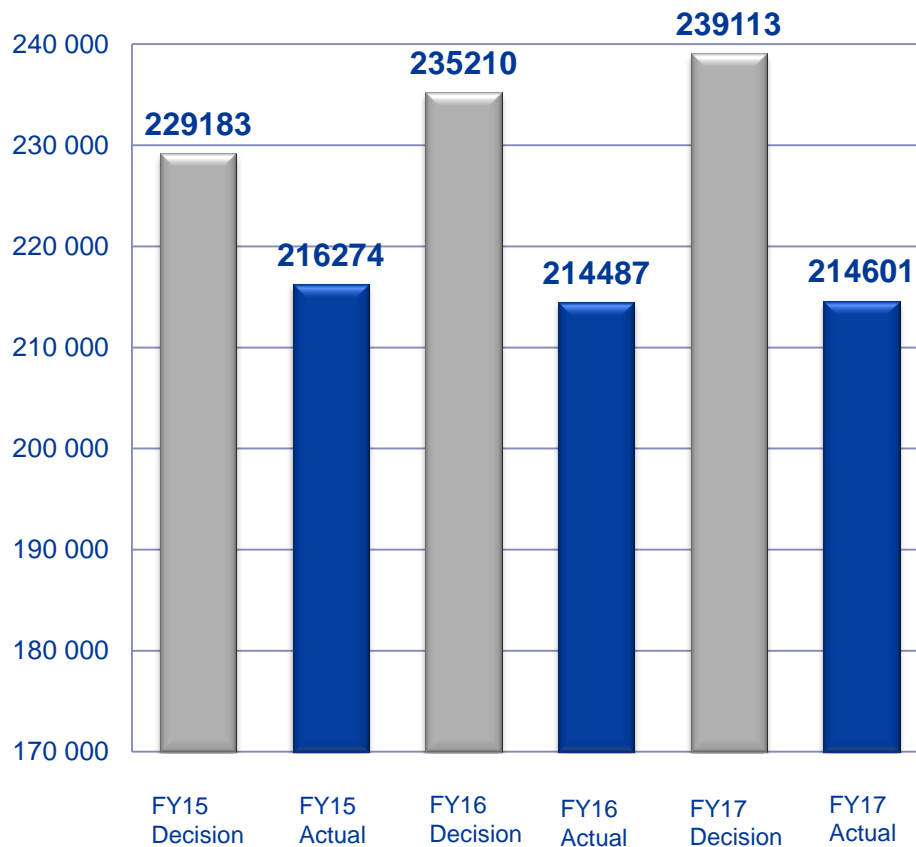


Eskom considerations in RCA calculation

- Eskom used the precedent set by NERSA in RCA year 1 of MYPD 3 period for subsequent applications for years 2, 3, and 4
- Eskom applied for variance in domestic sales
 - Eskom considered international sales with a gross approach as opposed to the net position
 - Eskom excluded internal sales revenue
 - Eskom deducted revenue related to load shedding and curtailment

Eskom ensured that precedent set in Nersa decision RCA year 1 is applied in years 2, 3 and 4

Total sale volumes (GWh)



MYPD Methodology¹

- Allows for **revenue adjustments** attributable to **volume and mix changes**

Reasons for RCA amount

- Lower sales volume from standard tariff customers –
Drop in volumes due to various factors including
 - Downturn in economy
 - Lower investor confidence
 - Decrease in reliance on Eskom
 - Commodity price changes
 - Elements of price elasticity
- Higher sales from export sales contributed positively to the total revenue
- Load shedding impacts in FY2015 is adjusted in the revenue variance

Significant change in assumptions that impact sales

GDP growth %	2012	2013	2014	2015	2016	2017
MYPD3 GDP growth %	4.0%	4.0%	4.0%	4.5%	5.0%	5.0%
Actual GDP growth %	2.2%	2.2%	1.5%	1.3%	0.3%	

Commodity Prices	MYPD 3 Decision Assumption	Actual average 2014/15	Actual average 2015/16	Actual average 2016/17
FeCr	\$1.20/lb-\$1.32/lb	\$0.76/lb	\$1.00/lb	\$0.96/lb
Aluminium	\$2 500/ton - \$2 750/ton	\$1 867/ton	\$1 519/ton	\$1 604/ton
Platinum	\$1 480/oz - \$2 000/oz	\$1 384/oz	\$963 /oz	\$986/oz

Sales volume variance in 2014/15

Sales volume variance per customer category (GWh)	Actual Sales	MYPD 3	Variance
International ¹	11 911	9 862	2 049
Distribution sales	205 154	219 744	-14 590
Re-distributors	91 090	95 986	-4 896
Industrial	53 467	59 172	-5 705
Mining	29 988	35 122	-5 134
Traction	3 098	3 117	-19
Residential	4 199	4 505	-306
Commercial	9 644	9 527	117
Agricultural	5 401	5 184	217
Prepayment	7 386	6 620	767
International A	89	88	1
Internal sales	791	423	368
Total electricity sales volumes	217 065	229 606	-12 541
Exclude Internal sales	-791	-423	-368
Total external electricity sales volumes	216 274	229 183	-12 909

Redistributors

- Largest unfavorable impacts are seen in City Power, Ekurhuleni due to the sluggish economic growth.
- Expectation was Coega development project would have started up but due to the absentee of “the anchor project”, very little development have materialized up to this point.
- Cape Town Municipality introduces a huge savings drive to save 10% of their total consumption.
- Due to the Global economy that did not pick up as expected as well as the fluctuation of the ZAR exchange rate, the manufacturing sector behind the bulk meters in the municipalities were not able to secure orders, thus producing less with a resultant drop in energy consumption.
- NUMSA strikes also negatively affected the consumption in certain Metro’s in 2014.

Industrial

- Impact from closure of the Bayside Aluminium smelter
- Sasol Infra Chem commissioned their own gas generation plant.
- Ferro and steel smelting industry realized a drop in consumption due to high winter prices, low demand for products and unfavourable commodity prices that led to diminishing orders and downsizing and closure of customers.

Mining

- In Platinum sector due to mainly labour unrests which caused shaft closures and many projects to be delayed and some projects were cancelled. Had endured the longest strike in history.
- The unfavourable Platinum price and demand for platinum also negatively affect the start-up of project as well as the cancelation of some projects.
- The Gold sector realized a drop in consumption due cost pressure as a result of labour unrest and high salary increases which caused high cash costs and resulted in down scaling and shaft closures in many of the Gold mines.
- Gold mines that were liquidated and shafts that closed. Many shafts were also put under care and maintenance due to cost pressures. The unfavourable commodity price also played a major role in escalating the cost pressures.

Sales volume variance in 2016/17

Sales volume variance per customer category (GWh)	Actual Sales	MYPD 3	Variance
International	15 005	9 618	5 387
Distribution sales	199 596	229 495	(29 899)
IPP Network Charge	52	-	52
Re-distributors	89 666	100 176	(10 510)
Industrial	48 295	61 697	(13 402)
Mining	30 559	37 191	(6 632)
Traction	2 849	3 133	(284)
Residential	3 911	4 591	(680)
Commercial	10 339	9 903	436
Agricultural	5 405	5 344	61
Prepayment	8 115	6 972	1 143
International A	87	90	(3)
Internal Sales	480	398	82
Other	(162)	-	(162)
Total electricity sales volumes	214 601	239 113	(24 512)
Exclude Internal sales	-480	-398	(82)
Total external electricity sales volumes	214 121	238 715	(24 594)

Redistributors

- In eThekweni Metro, a large customer, Tata Steel closed down
- Global economy that did not pick up as expected as well as the fluctuation of the ZAR exchange rate, the manufacturing sector behind the bulk meters in the municipalities were not able to secure orders,
- NUMSA strikes also negatively affected the consumption in certain Metro's in 2015.
- Due to the price increases, price elasticity also played a role resulting in savings
- DSM initiatives impacted sales due to the roll outs of CFL's and installation of solar geysers.
- The closure of EB Steam customers by Eskom also affected the variance unfavourably especially in the Western Cape, Eastern Cape and KZN as they were included in the assumptions of the MYPD decision

Industrials

- Ferro and steel smelting industry due to low demand for their products as a result of the collapse of commodity prices and cheaper imports from China .
- Many customers are downsizing and some considering full closures as a result of a low demand for their product. These included Highveld steel, IFM and ASA metals
- The Titanium sector experienced a drop in world demand for their product and the resultant very weak commodity price.

Mining

- Platinum mines' labour unrests caused shaft closures .
- The unfavourable Platinum price and demand for platinum that negatively affected the start-up of projects (delayed in the hope of an upturn in the markets) while others were cancelled
- The Gold sector experienced cost pressure as a result of labour unrest and high salary increases. This again caused high cash costs and resulted in down scaling and shaft closures in many of the Gold mines. Some Gold mines were liquidated while others closed their shafts. Many shafts were put under care and maintenance due to cost pressures. The unfavourable commodity price also played a major role in escalating the cost pressures.

Sales volume variance in 2015/16

Sales volume variance per customer category (GWh)	Actual Sales	MYPD 3	Variance
International	13 376	10 761	2 615
Distribution sales	201 773	224 877	(23 104)
Re-distributors	89 591	98 510	(8 920)
Industrial	50 150	60 145	(9 995)
Mining	30 629	36 210	(5 582)
Traction	2 852	3 133	(281)
Residential	4 034	4 555	(521)
Commercial	10 150	9 729	421
Agricultural	5 733	5 276	457
Prepayment	7 820	6 802	1 019
International A	89	89	0
Internal Sales	661	428	234
Other	64	-	64
Total electricity sales volumes	215 149	235 638	(20 489)
Exclude Internal sales	-661	-428	(234)
Total external electricity sales volumes	214 487	235 210	(20 723)

Redistributors

- Similar assumptions were made throughout the MYPD 3 period. Thus similar changes in assumption affect the whole period. This is evidenced by the following again.
- City Power and Ekurhuleni Metro's experienced sluggish economic growth. They are within the economic hub of South Africa and thus severely affected by the slow local & global economic growth.
- Coega development project would have started up but due to the absence of "the anchor project", very little development has materialized
- Cape Town Municipality introduced a huge savings drive to save 10% of their total consumption.
- In eThekweni Metro, a large customer, Tata Steel closed down

Mining

- Mining production in South Africa slumped year-on-year in 2016, according to figures from Statistics South Africa. The biggest factors affecting production are commodity prices, followed by cutbacks, official and unofficial go slows, Section 54 and 55 safety stoppages and strikes.
- The Platinum sector realized drop in consumption mainly due to:
 - Labour unrests which caused shaft closures.
 - The unfavourable Platinum price and demand for platinum that negatively affected the start-up of projects (delayed in the hope of an upturn in the markets) while others were cancelled
 - Section 54 and 55 safety stoppages.
- The Gold sector drop in consumption due cost pressure as a result of labour unrest and high salary increases. This again caused high cash costs and resulted in down scaling and shaft closures in many of the Gold mines. Some Gold mines were liquidated while others closed their shafts. Many shafts were put under care and maintenance due to cost pressures. The unfavourable commodity price also played a major role in escalating the cost pressures.

Load Shedding – 2014/15

Load shedding and Curtailment impact in 2014/15						
Month	Load shedding Hours	Load Curtailment Hours	Total Load Shedding & Curtailment Hours	Load reduction GWh	Standard average price c/kWh	Revenue loss impact R'million
Apr-14	-	-	-	-		
May-14	-	-	-	-		
Jun-14	5.6	2.6	8.2	6.5		
Jul-14	-	-	-	-		
Aug-14	-	-	-	-		
Sep-14	-	-	-	-		
Oct-14	-	4.0	4.0	0.7		
Nov-14	78.5	4.0	82.5	112.8		
Dec-14	61.0	39.0	100.0	122.3		
Jan-15	32.5	20.6	53.1	48.8		
Feb-15	152.0	130.0	282.0	237.4		
Mar-15	29.0	29.0	58.0	45.7		
Total 2014/15	358.6	229.2	587.8	574.2	70.65	405.6







During 2014/15 load reduction estimated at 574GWh (359hrs) of load shedding and interruptions **Revenue loss using the principle of standard tariff rate** . The load reduction impact of **574GWh is multiplied by the actual average standard tariff price (70.65c/kWh)**. This equates to a total revenue loss attributable to the load reductions was calculated at **R406 million**. This amount is added back to reduce the amount of revenue variance claimed as part of the RCA submission.

Load Shedding – 2015/16

Month	Load shedding Hours	Load Curtailment Hours	Total Load Shedding and/or Curtailment Hours	Load reduction GWh	Standard average price c/kWh	Revenue loss impact R'million
Apr-15	133.2	133.8	136.8	235.2		
May-15	215.6	213.1	225.1	360.4		
Jun-15	129.6	9.0	130.0	213.8		
Jul-15	114.7	30.0	115.0	190.9		
Aug-15	28.9	5.0	28.9	59.3		
Sep-15	2.3	-	2.3	3.4		
Oct-15	-	5.5	5.5	1.5		
Nov-15	-	-	-	-		
Dec-15	-	-	-	-		
Jan-16	-	-	-	-		
Feb-16	-	-	-	-		
Mar-16	-	-	-	-		
Total FY 2016	624.2	396.4	643.6	1 064.5	79.73	848.7

During 2015/16 load reduction estimated at 1 064.5 GWh (643.6 hours) for load shedding & interruptions **Revenue loss using the principle of standard tariff rate**. The load reduction impact of **1 064.5GWh is multiplied by the average standard tariff price of 79.73c/kWh as was determined by NERSA in 2013/14 RCA decision**. This equates to a total revenue loss attributable to the load reductions of **R849 million**. This amount is added back to reduce the amount of revenue variance claimed as part of the RCA submission.

- Impact of initial lower sales volume
 - If a lower sales volume is employed at the decision mode (assumption in decision), it would result in a higher rate (in c/kwhr) at the decision phase
 - If the sales volume in the actual mode is higher than the assumption in decision - then revenue variance will be in favour of consumer
- Impact of initial higher sales volume
 - If a higher sales volume is employed at the decision mode (assumption in decision), it would result in a lower rate (in c/kwhr) at the decision phase
 - If the sales volume in the actual mode is lower than the assumption in decision - then revenue variance will be in favour of Eskom

Initial Sales	Actual Sales	Rate (c/KWWhr) Original Decision	RCA Variance in favour of
			Consumer
			Eskom

**Resultant position is neutral – matter of timing
For MYPD 3 period – Consumer benefitted initially and then
neutrality restored by benefit during RCA to Eskom**

- Like any electricity utility, Eskom incurs fixed and variable costs
- When the volumes of electricity sales increases or decreases, certain fixed costs are still incurred
 - These include the repayment of debt
 - Interest payments
 - Operating costs in the short term are fixed including employee benefits , maintenance, insurance, other operating costs
- Key variable costs include most primary energy costs and certain operating costs related to variances in sales
- The revenue variance included in the RCA application
 - Is with reference to the fixed costs that need to be recovered when the sales volume change
 - This is offset by avoidance of volume related variable costs of certain primary energy and sales related operating costs (refer to primary energy slide)
 - It needs to be kept in mind that certain primary energy costs are fixed such as water costs, coal contracts and renewable IPP contracts that are take-or-pay
- Thus this is a prudent and efficient variance that is included in the RCA balance

MYPD 3 RCA 2013/14 decision supports Eskom is required to recover allowed revenue as reflected in MYPD 3 decision. However these revenues are only fully recovered if all sales are achieved as assumed in the decision. Therefore, **in the event of lower sales materialising, it results in Eskom not recovering the allowed revenue components as was assumed.**

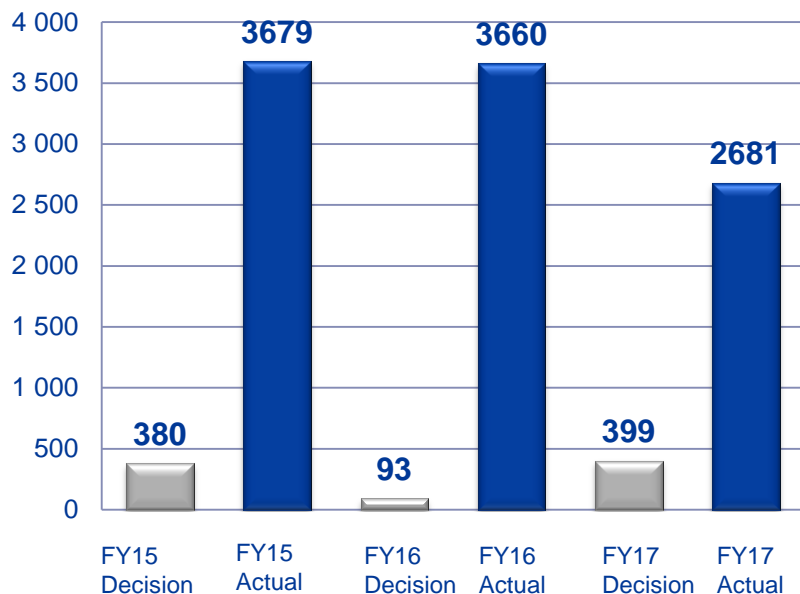
NERSA decision

- Nersa made a decision on international purchases and sales from a gross position as opposed to a net position in the MYPD 3 decision
- Nersa treated international purchases as cross border IPPs
- Nersa decision was to allow the variance of R1 136 million with regards to regional IPP costs in the MYPD 3 Year 1 RCA decision

Eskom maintained NERSA decision for MYPD 3 year 1 in RCA applications for MYPD 3 years 2, 3 and 4

International purchases represents cross border IPPs and is passed through to consumer

International purchase costs (R'm)



MYPD Methodology

- International purchases represents cross border IPPs
- International purchases are match with international revenue
- Variance is recovered as is treated as IPPs
- Revenue variance takes extra inflows into RCA

MYPD3 RCA decision for 2013/14

- Accounted for revenue on a total basis which included export revenues
- Thus the equivalent approach was applied to purchase costs and the full international purchases was allowed for RCA 2013/14

The revenue determination for 2018/19 further reinforced this principle to incorporate the full international purchases in the primary energy costs

NERSA decision in MYPD 3 Year 1 RCA

- Extract below summarises NERSA decision

Independent Power Producers (IPPs)

49. The Independent Power Producers (IPPs) costs were based on approved Power Purchase Agreements (PPA) contracts submitted by Eskom

50. Therefore Eskom is allowed the variance of R580m with regard to IPP costs in its favour.

Eskom maintained NERSA decision for MYPD 3 year 1 in RCA applications for MYPD 3 years 2, 3 and 4

IPPs of R7.417 billion will be a pass-through cost for years 2-4 of the RCA for MYPD 3

- Variance of R7.674 billion for STPPP, R1.843 billion for Municipalities, R223 million for WEPS and R63 million for MTPPP (benefit to Eskom)
- Renewable IPP projects variance of **R423 million** (benefit to consumer)
- DOE Peaker projects were **variance of R1.205 billion** (benefit to consumer)
- Transmission ancillary/network costs were **variance of R758 million** (benefit to consumer)
- Total IPPs reflects a net variance of R7.417 billion between years 2-4 (benefit to Eskom)

MYPD 3 Variance Decision - IPPs (Actuals)	RCA 2014/15	RCA 2015/16	RCA 2016/17	Total RCAs Years 2-4
MYPD 3 Variance	4 346	620	2 451	7 417
Renewables	2 442	-2 061	-804	-423
DOE Peakers		-605	-600	-1 205
MTPPP	-30	56	37	63
STPPP	2 132	2 682	2 860	7 674
Municipalities		858	985	1 843
WEPS	75	78	70	223
Tx Ancillary costs/ Network costs	-273	-388	-97	-758
Cumulative variance	4 346	4 966	7 417	

NERSA decision in MYPD 3 Year 1 RCA

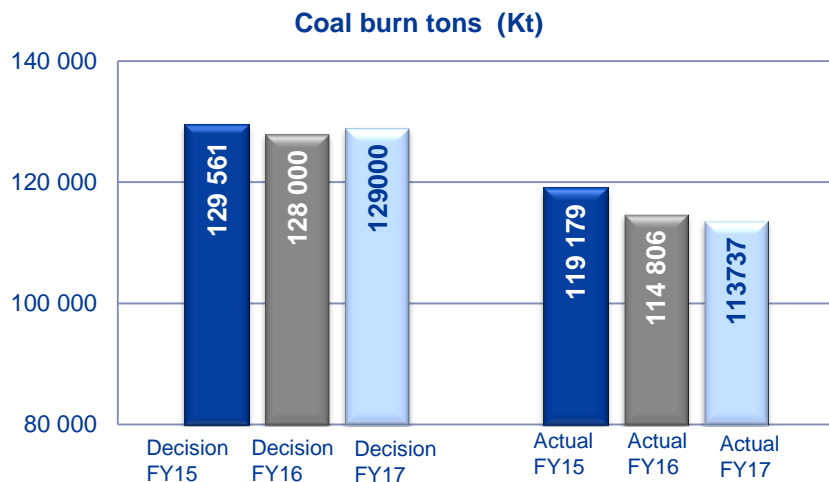
- NERSA applied the Performance Based Regulation (PBR) formula as outlined in the MYPD3 Methodology for the coal burn variance
- Extract below is the NERSA decision

The R2 000m coal burn cost is allowed in favour of Eskom

Eskom maintained NERSA decision for MYPD 3 year 1 in RCA applications for MYPD 3 years 2, 3 and 4

Coal burn variance reflects a price element which is partially offset by the volume variance

Coal Burn tons and energy produced



Coal burn variance included in RCA

Coal burn variance	unit	RCA 14/15	RCA 15/16	RCA 16/17
Coal burn price variance	R'm	3 814	8 211	5 530
Coal burn volume variance	R'm	-3 240	-4 953	-5 889
Coal burn costs incl in RCA	R'm	574	3 258	-359

MYPD Methodology¹

- **Performance Based Regulation (PBR) formula**
 - Compares **burn costs** between decision and actuals
 - Variance is **shared between customers** and Eskom
 - Sharing **percentage** is determined by NERSA
- The **PBR pass-through** cost consists of a **price and volume variance**

Reasons for RCA amount

- **Nersa allowed benchmark coal R/Ton was lower than Eskom's actual cost at that time**
- **Lower production** from cheaper **Cost Plus and Fixed Price mines.**
- **Procurement of additional short/medium term coal resulting in transport of coal** via road and rail instead of coal over a conveyor belt from long term contracts.
- **Favourable volume variances** passed onto consumer

NERSA decision in MYPD 3 Year 1 RCA

▪ **OCGT Volume variance**

- OCGT volume variance of 2 564GWh from OCGTs over and above the MYPD3 allowed volumes
- Allowed at next available least cost option (coal-fired power stations at 26.3c/kWh)
- Allowed for the additional 2 564GWh is R674m in favour of Eskom.

▪ **OCGT Price variance**

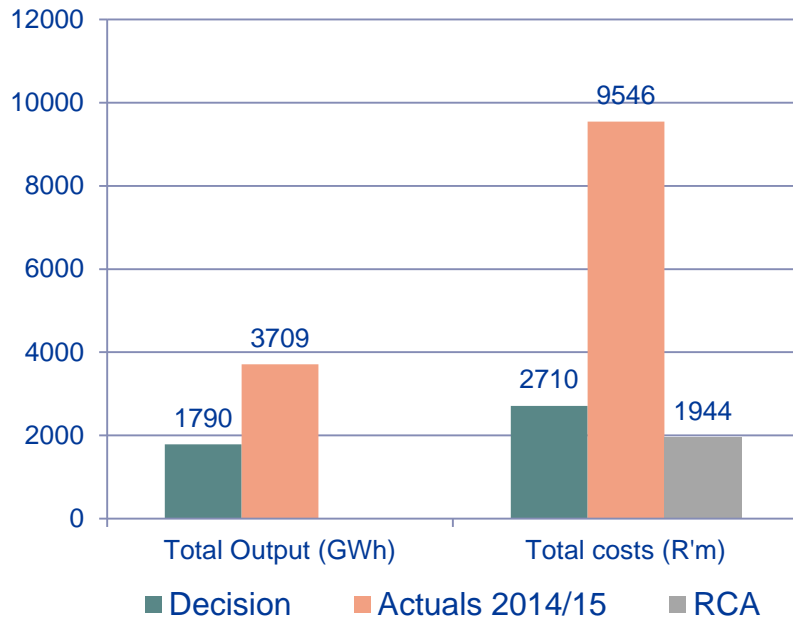
- Eskom to pass-through all variances due to fuel price up to allowed fuel volumes
- Actual average price was 9.19R/L, higher than allowed average unit price of 7.49R/L
- Eskom is therefore allowed a fuel price variance of R578m.

Eskom maintained NERSA decision for MYPD 3 year 1 in RCA applications for MYPD 3 years 2, 3 and 4

- ***The coal cost equivalent for volumes above decision volumes applied for***
 - ***Price variance applied for***

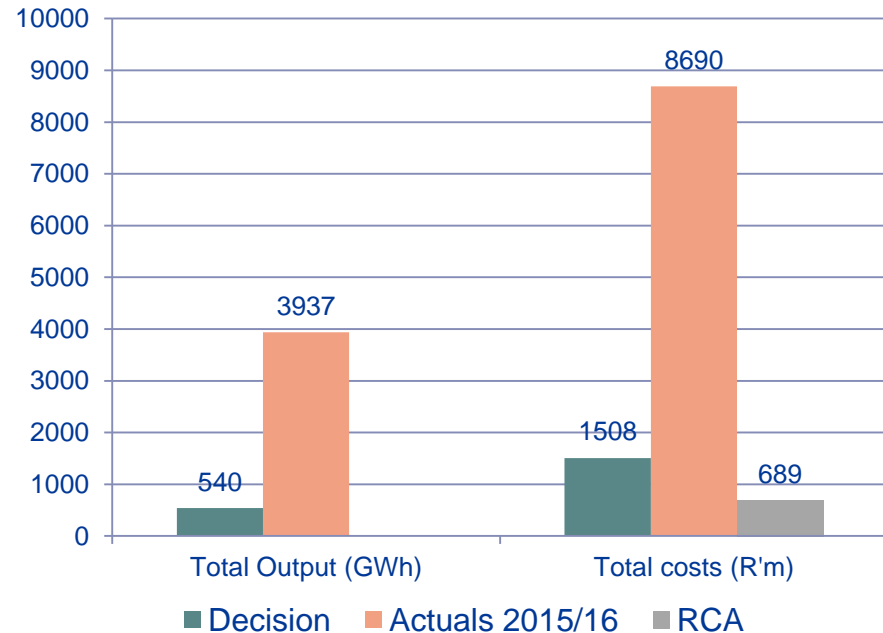
OCGT usage and costs exceeded the MYPD3 allowances in FY14/15 & FY15/16. However the RCA claim was limited based on the decision taken for 2013/14 RCA. Eskom absorbed R11.4bn to its bottom line

OCGTs analysis for 2014/15



- Actual cost over expenditure was R6836 million but the RCA claim was limited to R1944million. Thus **Eskom absorbed** the difference of **R4892 million** to its bottom-line
- Allowed OCGTs volumes was 1056 GWh plus a special allowance for the 3 months for Jan15 to Mar15 which added another 734GWh. Special allowance was to limit the impact of load shedding

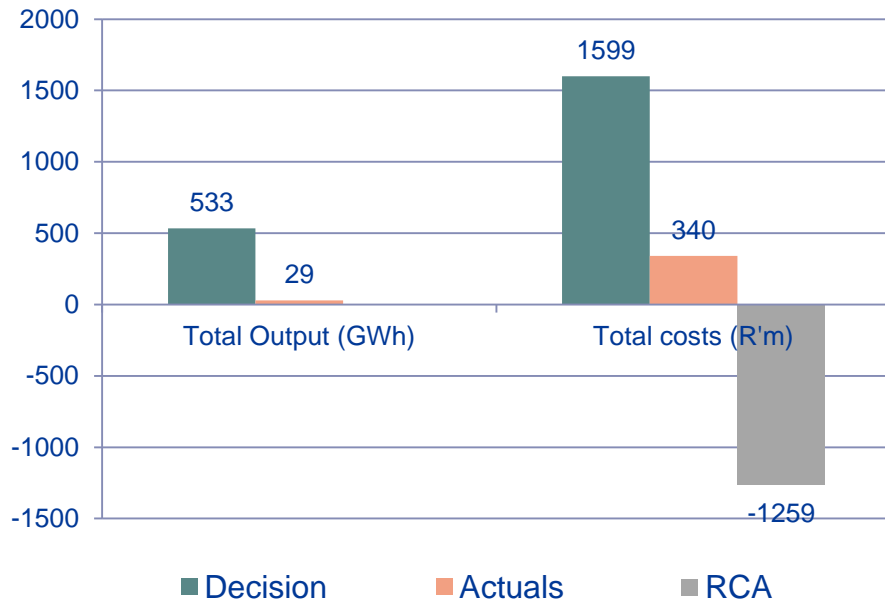
OCGTs analysis for 2015/16



- Actual cost over expenditure was R7182 million but the RCA claim was limited to R689million. Thus **Eskom absorbed** the difference of **R6493 million** to its bottom-line

OCGT usage and costs were lower in 2016/17 resulting in a claw back of R1259 million

OCGTs analysis for 2016/17



MYPD3 RCA 2013/14 decision and principle applied

- OCGT cost variances limited to amounts allowed by NERSA and additional volumes recouped at average variable costs for coal
- The above principle has been applied to the 3 RCA submissions

Reasons for RCA amount

- Due to the improvement in fleet performance and the commissioning of new capacity, lower OCGT volumes of 29GWh were required in 2016/17 compared to the allowance of 533GWh
- The under expenditure of R1259 million is then for the benefit of the consumer

Breakdown of other primary energy components

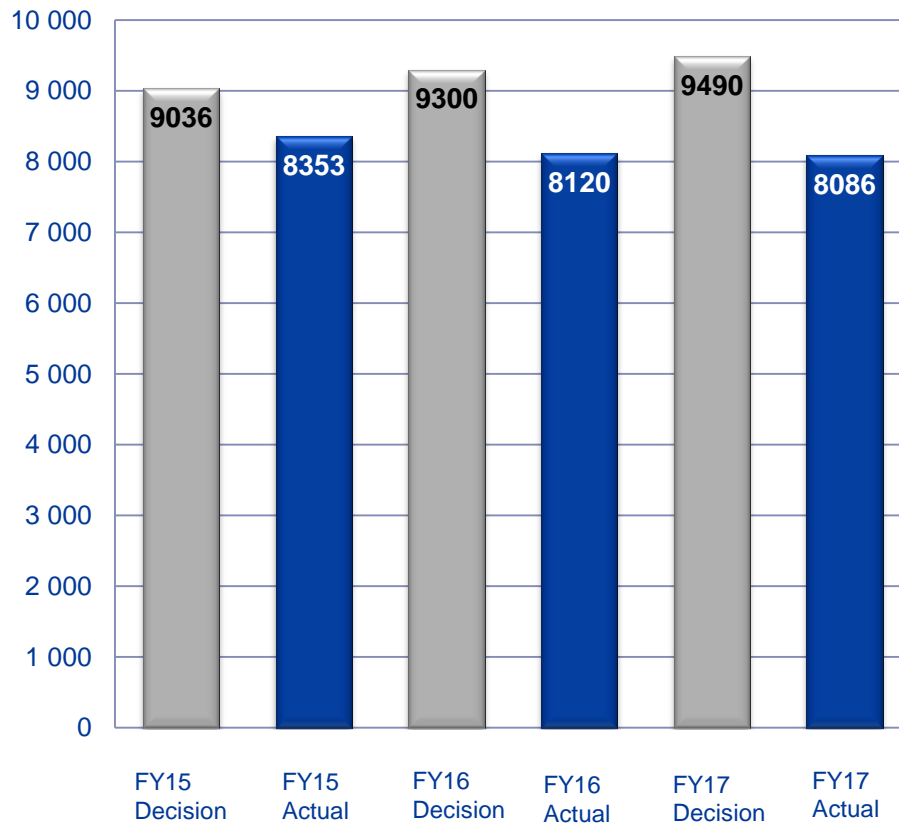
Other Primary Energy (R'm)	2014/15	2015/16	2016/17	Total
Water	-502	-428	-437	-1367
Start-up gas & oil	1 064	657	532	2 253
Coal handling	580	542	501	1 623
Water treatment	119	84	125	328
Nuclear	180	59	281	520
Fuel procurement	-86	-131	-141	-358
Sorbent usage		-55	-139	-194
Total Other Primary Energy	1 355	728	722	2 805

Drivers to other primary energy in the RCAs

- **Start up gas** - higher number of start ups are driven by the number of outages and trips
- **Coal handling** - additional costs incurred due to more coal having been reclaimed from the strategic to the seasonal stockpiles at the stations than anticipated
- **Water treatment** – more usage of chemicals due to poor water quality
- **Nuclear fuel** - due higher rates than assumed in decision
- **Water** – lower costs incurred due to actual costing rates being lower
- **Fuel Procurement** – lower due to delay in projects
- **Sorbent usage** – due to delay in FGD implementation

Environmental levy was underspent due to lower sales and therefore lower production

Environmental levy (R'm)



MYPD Methodology¹

- Allows for taxes and levies as a pass through

Reasons for RCA amount

- Environmental levy reflects a clawback in favour of the consumer
- Attributable to lower production levels linked to the lower sales volumes in actual mode
- Environmental levy rate is pass through to consumer

¹ Source: Clause 14.1.5 NERSA MYPD Methodology – Final- for publication 5 December 2012

Breakdown of Other categories

Other categories (R'm)	2014/15	2015/16	2016/17	Total
Capital Expenditure (CECA)	91	332	636	1 059
EEDSM	-149	-368	-	-517
Service Quality Incentives (SQI)	236	318	343	897
Inflation	209	-152	162	219
Other income	-528	-152	-	-662
Total other categories	-141	-4	1141	996

Drivers to other categories in the RCAs

- **Capital Expenditure (CECA)** – amounts claimed as a result of variance in return on assets due to variance in capital expenditure being incurred when compared to assumption in MYPD3 decision
- **EEDSM** – lower achievement due to delays in project executions and strategy has been revised
- **SQI** – Distribution and Transmission networks have performed well over the period
- **Inflation** – Operating costs per the MYPD3 decision adjusted for change in CPI
- **Other Income** – Amount of other income adjusted based on RCA2014 decision principles

In summary Eskom's RCA applications are within the ambit of the MYPD 3 methodology and the precedent set in MYPD 3 year 1 RCA

- Eskom has submitted the RCAs for years 2,3 and 4 of MYPD3 based on:
 - MYPD3 regulatory methodology
 - Decision and principles of the RCA 2013/14 decision
- The application is based on audited financials at Eskom company level
- Eskom is requesting the revenue variance which contributes 67% (R44bn)
- IPPs contribute 11% (R7.4bn) and cross border purchases 14% (R9.1bn)
- Coal costs adds 5% (R3.5bn); OCGTs 2% (R1.4bn) and other primary 4% (R2.8bn) and Other items 2% (R1.4bn)
- Environmental levy is clawed back by 5% (R3.3bn)
- Eskom has absorbed operating costs of R33.8bn as higher expenditure is not allowed to be claimed through the RCA under the current MYPD methodology
- Eskom has also absorbed the OCGTs costs of R11.4bn above MYPD3 levels which exceed the coal cost compensation
- Eskom is aware that the RCA Balance of R66bn will not be liquidated once off and is likely to be phased.

The phasing of the liquidation of the RCAs needs to take Eskom's financial sustainability into consideration

Thank you