Eskom

Summary of the Retail Tariff Plan

October **2024**

1. Overview

Eskom submitted a Retail Tariff Plan to NERSA, proposing structural changes to the Eskom tariffs to be implemented in 2025/26. The Retail Tariff Plan application addresses only the restructuring of tariffs and is not for an annual price increase.

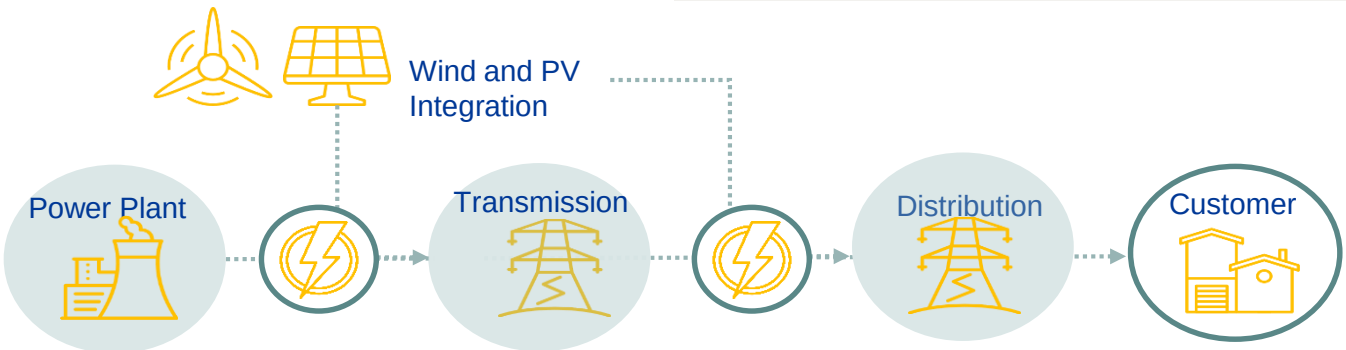
The proposed changes are based on the 2024/25 cost-of-supply (or cost-to-serve (CTS)) submitted to NERSA in August 2024. The restructuring aims to address historical mismatches between Eskom's cost structure and the revenue recovery from existing tariffs, ensuring that tariffs more accurately reflect NERSA-approved costs for electricity generation, transmission, and distribution services.

The motivation for restructuring is driven by several factors:

- Firstly, current tariff rates do not reflect the actual cost proportions of the services provided by Eskom, due to the historical application of average price increases,
- As Eskom undergoes the unbundling of its functions, it is necessary to realign tariffs with the actual costs of the different services within the respective functions,
- Furthermore, the evolving nature of the energy industry and the future competitive electricity market necessitates fully unbundled tariffs that clearly separate energy and network charges.

By ensuring that customers pay for the true costs of the services they use, including grid backup or energy exports, the proposed tariff changes aims to distribute costs fairly and reduce the burden on those without access to alternative generation.

Ultimately, the proposed tariff changes will enable Eskom to recover NERSA-approved costs and returns by aligning prices and tariff rates with the actual costs incurred. Unbundling tariffs will ensure fair cost recovery, remove unfair subsidies, support the responsible integration of alternative energy sources and the transition to a more sustainable electricity market.



2. Motivation for the proposed changes

The key motivation and objectives for this tariff restructuring submission are:

1. Historical average increases

Over the past 11 years, the annual NERSA-approved revenues for electricity generation, transmission, distribution, and retail services have increased at different rates. However, during this period, Standard tariffs, increased at a uniform rate, causing a misalignment between current tariff rates and the allowed costs for energy, transmission and distribution network use, and retail services. Tariffs, therefore, need realignment to reflect current costs accurately, and ensure that the tariff structure supports the unbundling of Eskom .

2. Addressing the price and cost mismatch

To address the price and cost mismatch, Standard tariffs are updated based on unit costs from the FY2025 Cost of Supply (CTS) study. The CTS study identifies the actual cost to supply electricity to customers using the NERSA-approved allowed costs and forecasted sales. The CTS also aligns time-of-Use (TOU) periods to System Operator needs, balancing supply and demand efficiently, and support large customers in optimising production.

3. Building on past tariff unbundling

Tariff unbundling separates charges into specific cost components, ensuring customers pay only for costs they incur. Previous unbundling steps included separating transmission and distribution network charges and adding transparency on subsidies and residential fixed charges. The proposed FY2025 tariff unbundling builds on this, aiming for all users to contribute fairly to the costs they generate.

4. Tariff unbundling to fairly allocate costs and risks

Further tariff unbundling will make visible the different generation costs (fixed and variable) promoting transparency and comparability of energy prices between different generators. Fair cost distribution ensures customers with self-generation who use the grid contribute to subsidies and capacity availability. Currently, tariffs recover all energy costs through c/kWh energy charges. For example, an average energy rate of 190c/kWh comprises 16% fixed costs, 11% renewable subsidies, and 74% (140c/kWh) variable costs. The appropriate energy price for comparison is 140c/kWh instead of the total 190c/kWh.

2. Motivation for the proposed changes

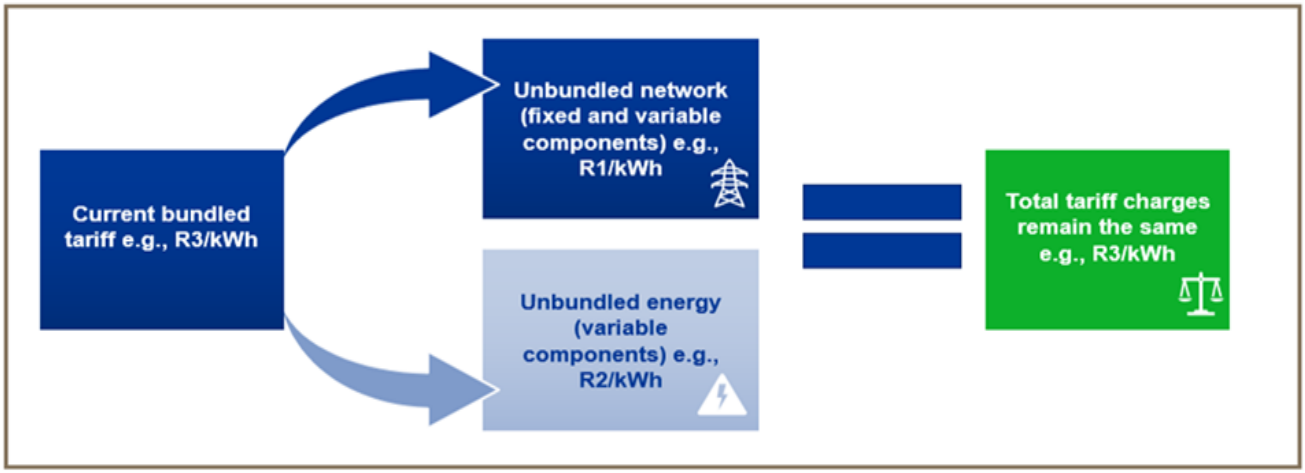
5. Financial Sustainability

Unbundled tariffs also assist with improving Eskom recovery of NERSA allowed costs and returns by mirroring prices / tariff rates to the nature and level of costs incurred. When tariffs are not unbundled sufficiently, this imposes revenue risks for the Licensee and unfairly increases tariffs to all customers. Correctly unbundling and structuring tariffs will ensure fair cost recovery, avoid unfair cross-subsidies, and support responsible integration of alternative energy sources.

6. To adapt to the changing electricity supply and demand environment

Eskom's tariff restructuring is essential to keep up with changes in the electricity supply and demand environment. The 2023 amendment to the Electricity Regulation Act (ERA) removed the licensing requirement for embedded generators, allowing more small- and medium-scale generators to generate energy for their own use or to sell to other customers through wheeling using the Eskom network. To accommodate this shift, tariffs need to be unbundled, separating energy and network charges to ensure transparency and fairness.

Unbundling tariffs into fixed and variable charges results in the total tariff charges remaining the same as shown in the above figure. This unbundling does not generate extra revenue but allows Eskom to accurately recover costs for the different services provided.



3. Proposed Changes to Eskom Standard Tariffs

The following major structural changes to the retail tariffs are proposed:

1. Updating tariffs with a cost to serve study

Designing all charges using the updated NERSA-approved forecast volumes, divisional cost splits, and cost allocation methods. This includes update to TOU periods and peak/off-peak rates, the introduction of a fixed generation capacity charge to recover the fixed costs of generation, and legacy charges to ring-fence and separately charge for legacy Independent Power Producer (IPP) costs.

The following TOU changes are proposed:

- increasing the evening peak to three hours (from two hours) and reducing the morning peak to two hours
- introducing a two-hour standard period on a Sunday evening.
- reducing the current 1:8 ratio of the summer (low-demand season) off-peak rate to the winter (high-demand season) peak rate to a 1:6 ratio and adjusting the rest of the rates commensurately.

2. Simplifying Municipal Tariffs

Eskom's multiple municipal tariffs will be consolidated into three categories: Municflex (large power users), Municrate (small power users), and Public Lighting for non-metered supplies.

3. Removal of Inclining Block Tariffs (IBT) on residential tariffs

The punitive IBT structure will be eliminated for residential customers, with a single energy rate applied for Homelight customers. The Homepower and Homeflex tariff will be unbundled for greater transparency between energy, network and retail charges.

Existing Time-of-Use Periods

High Season			
Time	Weekday	Saturday	Sunday
0:00	3	3	3
1:00	3	3	3
2:00	3	3	3
3:00	3	3	3
4:00	3	3	3
5:00	3	3	3
6:00	1	3	3
7:00	1	2	3
8:00	1	2	3
9:00	2	2	3
10:00	2	2	3
11:00	2	2	3
12:00	2	3	3
13:00	2	3	3
14:00	2	3	3
15:00	2	3	3
16:00	2	3	3
17:00	1	3	3
18:00	1	2	3
19:00	2	2	3
20:00	2	3	3
21:00	2	3	3
22:00	3	3	3
23:00	3	3	3

Low Season			
Time	Weekday	Saturday	Sunday
0:00	3	3	3
1:00	3	3	3
2:00	3	3	3
3:00	3	3	3
4:00	3	3	3
5:00	3	3	3
6:00	2	3	3
7:00	1	2	3
8:00	1	2	3
9:00	1	2	3
10:00	2	2	3
11:00	2	2	3
12:00	2	3	3
13:00	2	3	3
14:00	2	3	3
15:00	2	3	3
16:00	2	3	3
17:00	2	3	3
18:00	1	2	3
19:00	1	2	3
20:00	2	3	3
21:00	2	3	3
22:00	3	3	3
23:00	3	3	3

Proposed Time-of-Use Periods

High Season			
Time	Weekday	Saturday	Sunday
0:00	3	3	3
1:00	3	3	3
2:00	3	3	3
3:00	3	3	3
4:00	3	3	3
5:00	3	3	3
6:00	1	3	3
7:00	1	2	3
8:00	2	2	3
9:00	2	2	3
10:00	2	2	3
11:00	2	2	3
12:00	2	3	3
13:00	2	3	3
14:00	2	3	3
15:00	2	3	3
16:00	2	3	3
17:00	1	2	2
18:00	1	2	2
19:00	1	3	3
20:00	2	3	3
21:00	2	3	3
22:00	3	3	3
23:00	3	3	3

Low Season			
Time	Weekday	Saturday	Sunday
0:00	3	3	3
1:00	3	3	3
2:00	3	3	3
3:00	3	3	3
4:00	3	3	3
5:00	3	3	3
6:00	2	3	3
7:00	1	2	3
8:00	1	2	3
9:00	2	2	3
10:00	2	2	3
11:00	2	2	3
12:00	2	3	3
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15:00	2	3	3
16:00	2	3	3
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18:00	1	2	2
19:00	1	2	2
20:00	1	3	3
21:00	2	3	3
22:00	3	3	3
23:00	3	3	3

Peak = 1 **Standard = 2** **Off-peak = 3**

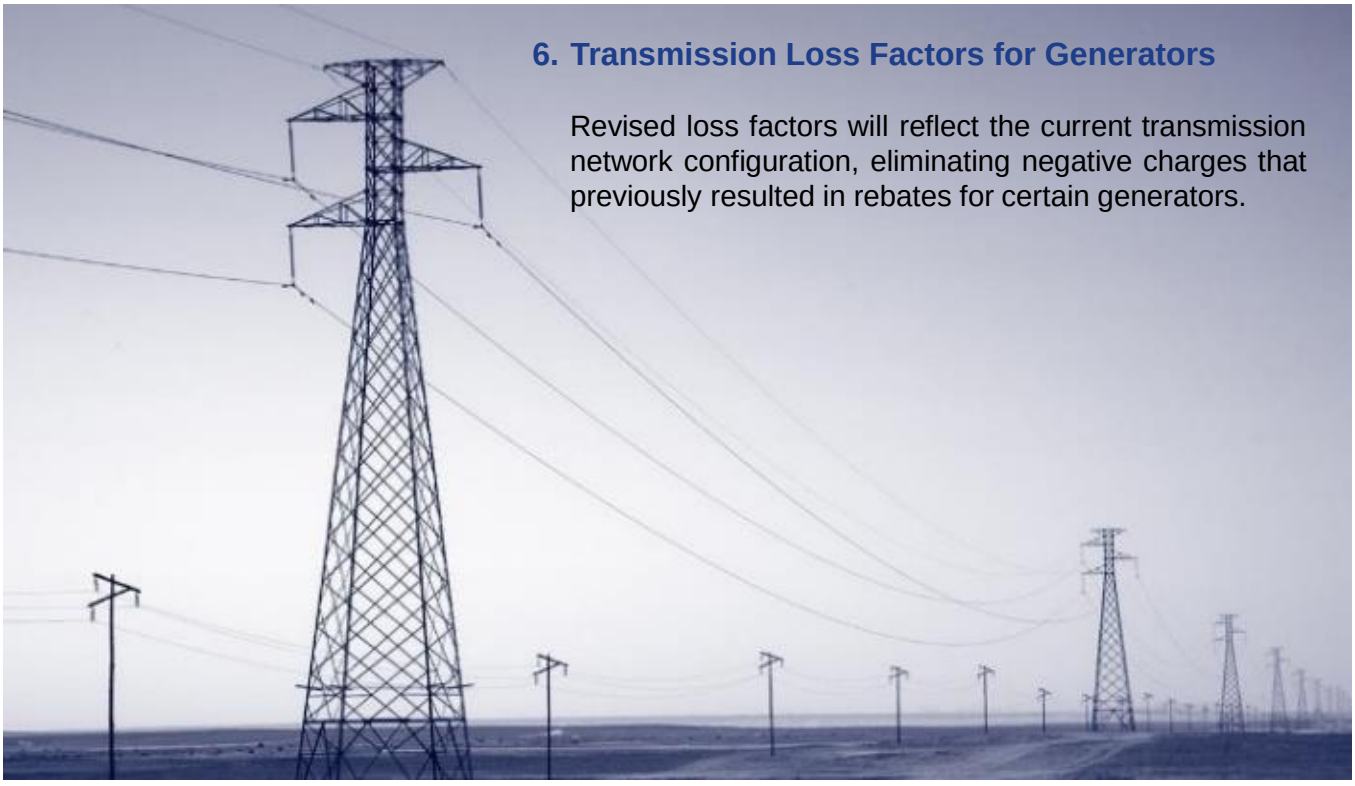
3. Proposed Changes to Eskom Standard Tariffs

4. Raising Service Charges based on point of delivery

The methodology will be changed to raising service charges per point of delivery (POD), rather than per account. This change aims to ensure fairness and better reflect the resources required to manage multiple PODs, promoting a more equitable system.

5. Adjustments to Gen-Wheeling and Gen-Offset Tariffs

The affordability subsidy credit for customers wheeling or exporting own energy will be removed to ensure all customers contribute fairly to socio-economic subsidies.



6. Transmission Loss Factors for Generators

Revised loss factors will reflect the current transmission network configuration, eliminating negative charges that previously resulted in rebates for certain generators.

4. Summary of Changes per Tariff

A summary of the changes per tariff are shown in the following table (excluding the impact of CTS on the level of the charges).

Tariff		
	Energy charges	Service charges
MEGAFLEX MINIFLEX **WEPS** (Wholesale Electricity Purchase System)	Energy charge will be unbundled into a fixed generation capacity charge and a c/kWh legacy charge Will also be updated with new TOU ratios and periods	Service charges will be converted from R/account to R/POD
Transflex	Energy charge will be unbundled into a fixed generation capacity charge and a c/kWh legacy charge Will also be updated with new TOU ratios and periods	The service charge will be converted from R/account to R/POD
NIGHTSAVE **Urban Large and Small customers**	Energy charge will be unbundled into a fixed generation capacity charge and a c/kWh legacy charge	Service charges will be converted from R/account to R/POD
RURAFLEX NIGHTSAVE **Rural**	Energy charge will be unbundled into a fixed generation capacity charge and a c/kWh legacy charge Will also be updated with new TOU ratios and periods for Ruraflex	Service charges will be converted from R/account to R/POD

4. Summary of Changes per Tariff

Tariff	Changes			
	Energy charges	Network charges	Service charges	Other structural changes
BUSINESSRATE	Energy charge will be unbundled into a fixed generation capacity charge and single variable charge which includes the legacy charge			The electrification and rural subsidy (ERS) charge will be introduced
LANDRATE	Energy charge will be unbundled into a fixed generation capacity charge and single variable charge which includes the legacy charge.			
LANDLIGHT				No structural changes
HOMEPOWER	Energy charge will be unbundled into a fixed generation capacity charge and single variable charge which includes the legacy charge.	A network demand charge (c/kWh) and network capacity charge (R/POD/day)	a R/day service and administration charge will be introduced	The IBT structure will be removed and the tariff will be unbundled.
HOMELIGHT **20 and 60A**	The IBT will be replaced with a single energy charge			Structural changes proposed include removing the IBT and converting to a single energy charge (c/kWh)

4. Summary of Changes per Tariff

Tariff	Changes		
	Energy charges	Service charges	Other structural changes
PUBLIC LIGHTING			No structural changes
Municflex	Energy charge will be unbundled into a fixed generation capacity charge and a c/kWh legacy charge Will also be updated with new TOU ratios and periods	Service charges will be converted from R/account to R/POD	Local-authority LPU tariffs, Megaflex, Miniflex, Nightsave Urban, Ruraflex, and Nightsave Rural are combined into a new tariff called Municflex (based on the Megaflex structure)
Municrate	Energy charge will be unbundled into a fixed generation capacity charge and single variable charge which includes the legacy charge.		Local-authority small power tariffs are combined into a single tariff called Municrate (based on the existing Businessrate structure)

4. Summary of Changes per Tariff

Tariff	Changes			
	Energy charges	Network charges	Service charges	Other structural changes
Generator-related tariffs				
Gen-wheeling	Energy charges – the credit rate will be updated with new TOU ratios and periods			Remove the crediting of the Affordability Subsidy charge
Gen-offset	Energy charges – the credit rate will be updated with new TOU ratios and periods			Remove the crediting of the Affordability Subsidy charge
Gen- DUoS (Distribution Use of System)		Updated network charges and loss factors.		
Gen-TUoS (Transmission Use of System)	Remove the negative loss factors for Transmission-connected generators			

5. Overall Impacts

When tariff changes are made, customers experience the changes differently primarily due to different customer consumption profiles (time-of-use and energy intensity). Overall, the changes result in increased energy rates and reduced network and retail charges. Notably, there is no impact on the Homelight 20A tariff, which serves indigent customers.
The proposed restructuring provides significant benefits for various customer groups:

Municipal Customers (Municflex and Municrate):
Reduced overall fixed charges, lower winter peak rates, and decreased contributions to subsidies.

Urban Large Customers:
Benefit from lower subsidy contributions and reduced winter peak rates, helping improve economic efficiency and competitiveness.

Small Urban Customers (Businessrate):
Significant reductions in monthly bills due to lower fixed charges.

Rural Customers (Ruraflex and Landrate):
Reduced fixed charges and winter peak rates on TOU tariffs. Small rural customers will experience savings on their monthly bills at average consumption.

Residential Customers (Homelight and Homepower):
At average consumption, medium- to high-consumption customers will not be negatively impacted, and customers with PV systems will continue to receive compensation for exported energy, further reducing costs. Indigent customers will remain subsidised with no fixed charges.

Generators: Will benefit from reduced network charges.

6. Conclusion

This is **not a tariff increase application**. It is an update and unbundling of tariffs based on a cost of supply study (cost to serve). The primary objectives of this submission are to correct tariff structures to align with cost drivers and divisional costs, minimise customer impact, and incentivise customer behaviour to optimise system use.

Unbundling tariffs to separate fixed network and capacity charges from variable charges energy components will:

- Not **generate additional revenue for Eskom** but will rebalance the charges to reflect NERSA approved costs.
- Ensure that **indigent customers remain subsidised** and do not pay more than what they are currently paying.
- Provide **greater cost transparency** in residential tariffs by removing the inclining block tariff (IBT)
- **Simplify municipal tariffs**, assisting in better determination of municipal purchase cost and reduced subsidy contributions.
- **Ensure fair cost recovery, remove unfair subsidies support the responsible integration of alternative energy sources** and the transition to a more sustainable electricity market.

The tariff rates to be implemented in 2025 will combine NERSA decisions on the average increase from the MYPD and restructured tariffs and will be approved through the NERSA annual increase process that is referred to as the ERTSA.

7. Definitions and Abbreviations

Definitions

Refer to Eskom's Schedule of Standard Prices for the definition of Eskom charges at www.eskom.co.za/tariffs

Abbreviations

CTS	Cost-to-serve
ERS	Electrification and rural subsidy
GCC	Generation Capacity Charge
HV	High voltage
IBT	Inclining block tariff
IPP	Independent power producer
LPU	Large power user
LV	Low voltage
MV	Medium voltage
MYPD	Multi-year price determination
NCC	Network capacity charge
NDC	Network demand charge
NMD	Notified maximum demand
POD	Point of delivery
PV	Photovoltaic
SPU	Small power user
SSEG	Small-scale embedded generation
TOU	Time-of-use
WEPS	Wholesale Electricity Purchase System

The detailed submission made to NERSA for the proposed tariff changes, FY2025 cost of supply study and customer impact analysis tools can be accessed at:
https://www.eskom.co.za/distribution/retail-tariff/