

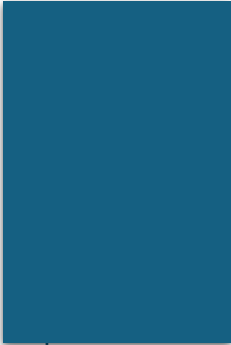


NERSA PRESENTATION ON ESKOM MYPD6 SETTLEMENT

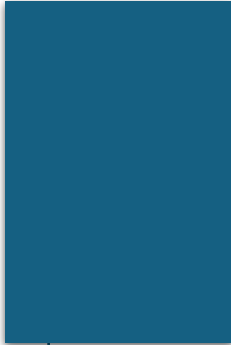
**PRESENTATION TO THE PORTFOLIO COMMITTEE MEETING ON ELECTRICITY AND ENERGY BY
MS. NOMFUNDO MASETI, FULL TIME REGULATOR MEMBER PRIMARILY RESPONSIBLE FOR
ELECTRICITY REGULATION**

10 SEPTEMBER 2025

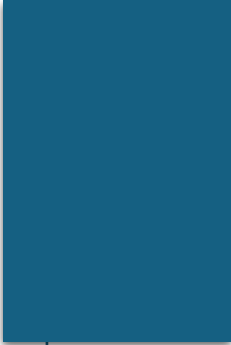
Content Outline



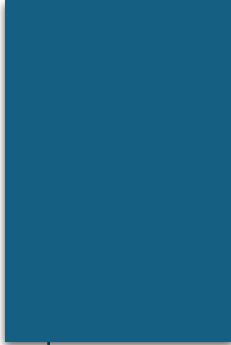
1. Background & Identification of the error



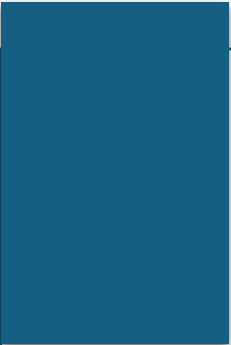
2. NERSA Generation RAB Review



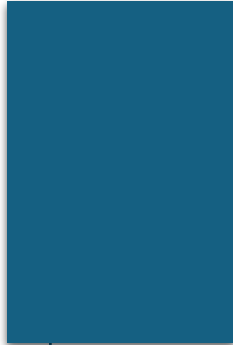
3. NERSA / Eskom Settlement



4. The Decision-Making Process



5. Remedial Systemic Intervention



6. Conclusion



1. Eskom's Revenue Application



1. Background & Identification of the Error

Background

- NERSA received Revenue Applications for:
 - Eskom Generation.
 - National Transmission Company of SA.
 - Eskom Distribution.
- Each application contained Regulated Asset Base.



- Correctly assessed the RAB for:
 - National Transmission Company of SA.
 - Eskom Distribution.
 - The 1st year of the Eskom Generation RAB.
- The errors were in 2nd & 3rd year assessment of the Generation RAB.

Identification of the error

At the 23rd January 2025 ELS meeting:

- During this meeting, the ELS members identified the **error in the Generation RAB** and directed the technical team to rectify.
- Such errors were the same as was later identified by Eskom (e.g. data input error, treatment of assets transferred from work under construction to commercial operation and Depreciated Replacement Costs).

At the 30th Jan 2025 ER meeting

- At this meeting, the Regulator members were advised that the Generation RAB errors had been **“rectified.”**
- The Regulator had also directed the team to make changes on other areas and improvements on the document.
- Based on the technical team’s assurance that the figures that appeared on the document, including Generation RAB had been revised. The Energy Regulator **proceeded to take the decision and pronounced on it.**

Identification of the error

Post the Decision

- The Reasons for Decision document was issued on the 9th of June 2025.
- It was discovered then that the error pointed out in the ER meeting were not rectified.
- Upon receipt of the RfD Eskom approached the Court for a judicial review seeking remedies against the Regulator's decision on the Generation RAB. This is in accordance with section 31 of the Electricity Regulation Act read with section 10(3) of the National Energy Regulator Act.



2. Generation Regulatory Asset Base (RAB) Review

Eskom's Revenue Application

Generation Allowable Revenue (related to the RAB and replated accounting elements)

	FY 2026	FY 2027	FY 2028	Total (ROA+Dep)	
Eskom Application (August 2024)	R million	R million	R million	R million	
Generation Regulatory Asset Base (RAB)	828 717	909 656	893 438		
WACC	4%	5%	6%		A
Total Returns (ROA)	33 149	45 483	53 606	132 238	B
Depreciation	53 054	55 406	61 921	170 381	C
Energy Regulator Decision (January 2025)					
Generation Regulatory Asset Base (RAB)	767 035	703 141	592 017		
WACC	4%	5%	6%		D
Total Returns (ROA)	30 681	35 157	35 521	101 359	E
Depreciation	31 203	31 266	31 327	93 796	F
Application and Decision variance - assuming successful court challenge (July 2025)					
Total Returns (ROA)	2 467	10 326	18 085	30 878	G
Depreciation	21 851	24 140	30 594	76 585	H
			TOTAL (G+H)	107 463	

Settlement Agreement

- Eskom claimed a revenue shortfall of **R 107 464 million**. NERSA did not accept this amount as it was incorrect.
- Eskom subsequently proposed a settlement amount of **R62 676 million**.
- Following negotiations, NERSA counter-proposed a settlement of **R54 000 million** with the aim to ameliorate the extent of the increase while balancing:
 - Customer affordability; and
 - Eskom's financial sustainability.
- The forward-looking allowable revenue will be subject to:
 - **Accountability** through periodic reporting;
 - **Verification audits**; and
 - **RCA adjustments or claw-backs**, where necessary.

Generation Regulatory Asset Base (RAB) Review

Eskom dispute	Reason for settlement	Basis for settlement	Amount	Notes
Depreciation	MYPD6 data input error	Correction of error	R14 513 m	Recovered within MYPD6: - FY2026/27: R11 493 million; - FY2027/28: R3 020 million Total RAB adjustment revenues relating to depreciation and returns will be recovered over the MYPD6 and post-MYPD6 periods. Recovered within MYPD6: - FY2026/27: R507 million; - FY2027/28: R19 993 million.
Depreciated Replacement Cost (DRC) and Transfer to Commercial Operation	Compliance with previous court order and MYPD methodology.	MYPD6 revenue application reinstated	R 39 487 million	
Work Under Construction	No adjustment from January determination	Only capacity adding assets allowed	R0 million	
Net Working Capital	No adjustment from January determination	Application deemed efficient	R0 million	

The DRC and Commercial Transfers were correctly calculated for the NTCSA and Eskom distribution RABs



3. NERSA / Eskom Settlement

NERSA / Eskom Settlement

Category	FY2026	FY2027	FY2028	post MYPD6	Total Settlement
NERSA approved revenues - R millions (January 2025)	351 951	370 854	396 425		
ADD: Correction of depreciation error (July 2025)	-	11 493	3 020		14 513
ADD: Return based on corrected RAB (July 2025)	-	507	19 993	18 987	39 487
Corrected allowable - R millions (July 2025)	351 951	382 854	419 438		54 000
Standard tariff sales volume (GWh) January 2025)	159 312	159 335	160 395		
Approved percentage increase (January 2025)	12.74%	5.36%	6.19%		
Additional increase due to corrections (July 2025)	-	3.04%	2.64%		
Resultant Eskom 'average' increase (July 2025)	-	8.76%	8.83%		

Recovery Plan

To minimise the impact of price increases on customers, NERSA resolved to implement only **R35 013 million** of the full **R54 000 million** within the MYPD 6 control period.

The amount will be liquidated as follows:

- FY2025/26: No additional recovery
- FY2026/27: **R12 000 million**
- FY2027/28: **R23 013 million**
- The remaining **R18 987 million** balance has been deferred beyond the MYPD 6 period, as a measure of relief to customers.
- As stated in slide 6, allowed revenue for the 3 year MYPD6 period will be subject to **accountability** and **clawback** - to offset any increases.

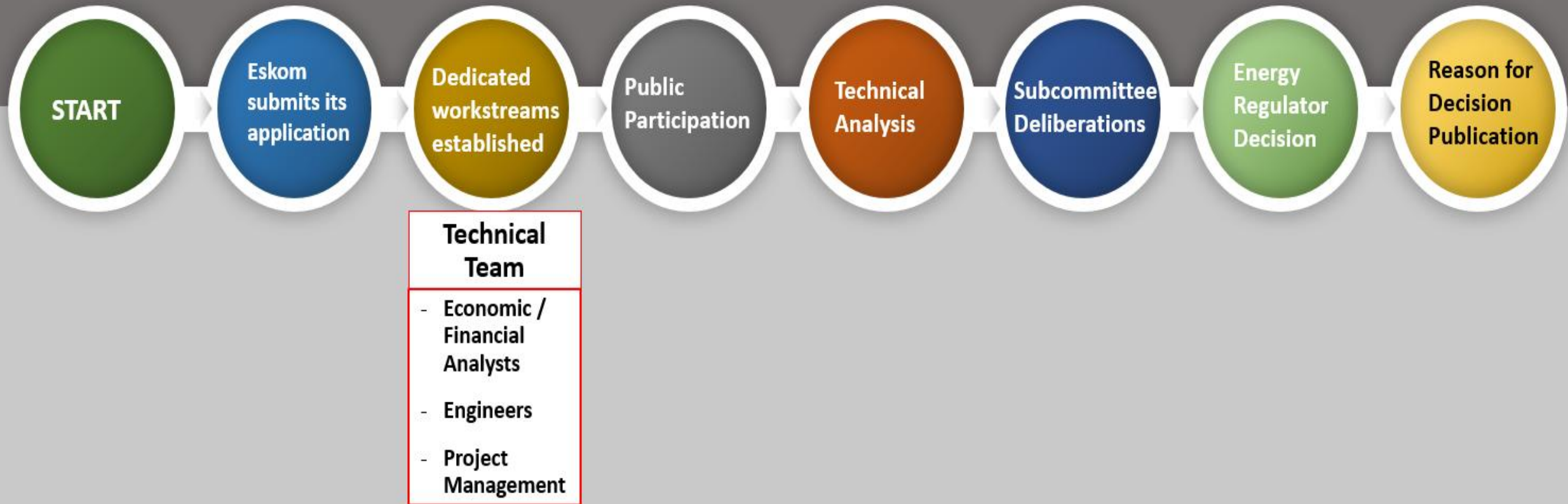
NERSA followed due legal process within the legislative framework to resolve the matter



4. The Decision-making Process

NERSA's Assessment and Decision-making

The Decision-making Process



Legal Remedies against the ER's decision

Remedies against the decision:

- Section 10 (3) of the National Energy Regulator Act applies to every decision by the Regulator taken in terms of this Act, except where this Act provides otherwise or where the Regulator sits as a tribunal, in which case section 10 (4) of that Act applies.
- The settlement was guided and dictated by section 31 of the Electricity Regulation Act of 2006 read with section 10(3) of the National Energy Act no. 4 of 2004
- This was meant to strengthen the Regulator's independence and eliminate its dependency on the Department of Electricity and Energy for its judiciary affairs.



5. Remedial Systemic Intervention

NERSA has continuously assessed the Resources suitability



Capacity Review

- Assessed the required skills for the implementation of the ERAA
- Training Needs Assessment - Training / Upskilling
- Reviewed business processes & enhanced quality assurance for approvals

Regulatory Efficiency

- Review of tools with a view of automating the business processes.
- Collaboration with selected forums for further reviews.
- Application of technologies to improve efficiency.

Accountability

- Implementation of the consequence management policies.
- Further enforcing compliance with policies and procedures.
- Continuous monitoring and review of effectiveness of policies & procedures.

The Goal: To be recognised as the world-class energy regulator

6. Conclusion



- The error is regrettable; it should not have happened.
- Additional quality assurance steps have been implemented.
- Further reviews by selected Advisory Forums will be implemented.
- The employees responsible for the errors will be held accountable.

Thank You.

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