TRACK C - SESSION 14: Regulatory issues affecting energy intensive customers

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Security of supply for large electricity users in South Africa

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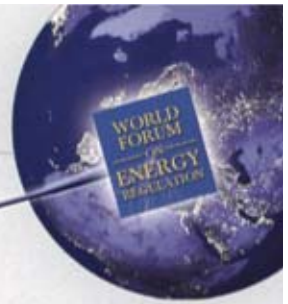
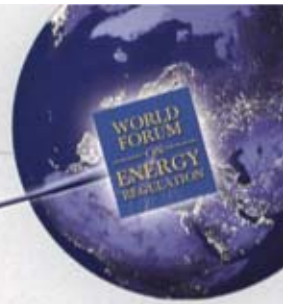
National Electricity Utility (Eskom)



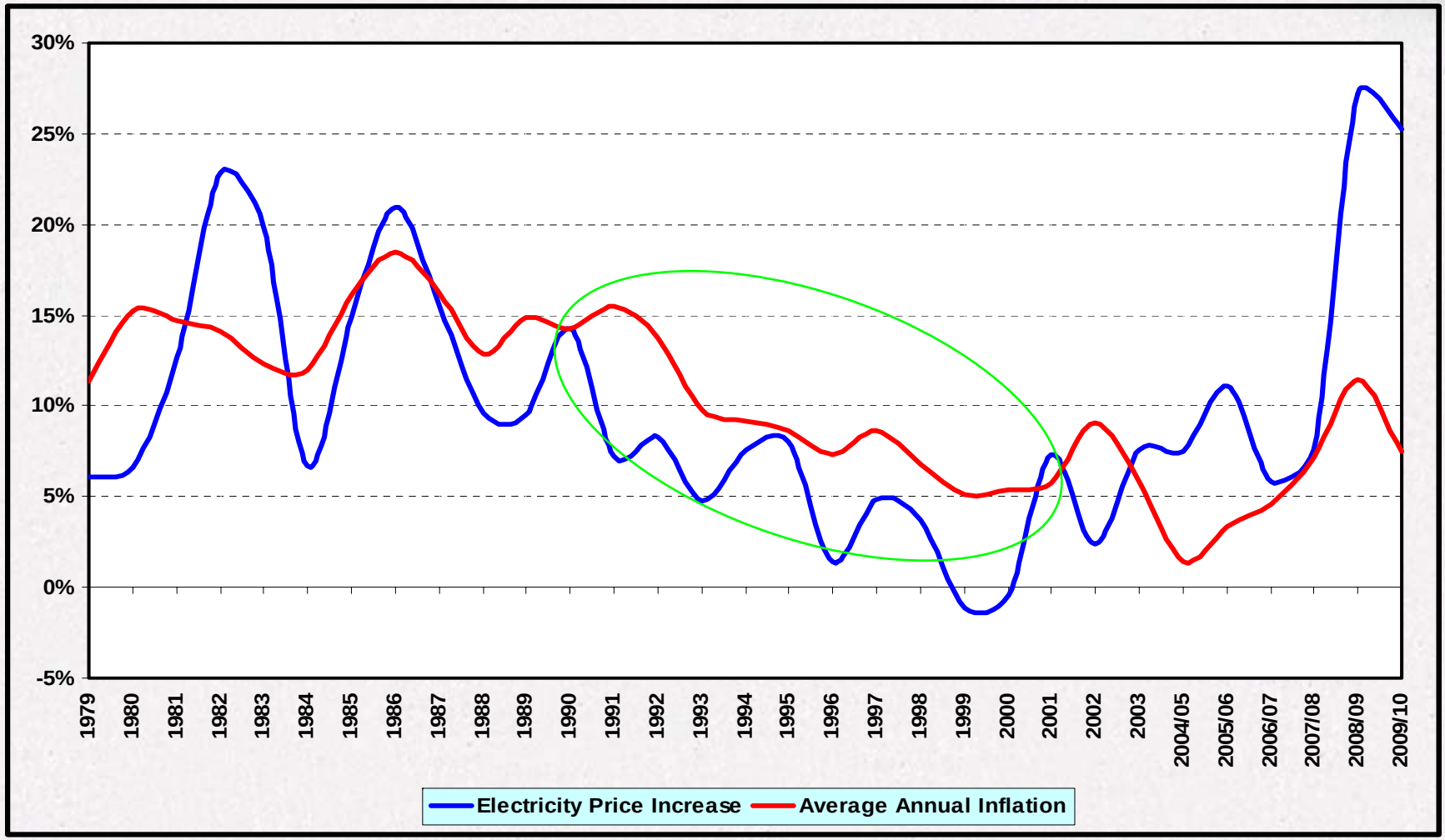
- State owned
- 95% of South African market
- approximately 45% of the electricity used in Africa.
- net maximum capacity is 40 503 MW
- 10th largest generator in world

Surplus Capacity Late 1980s

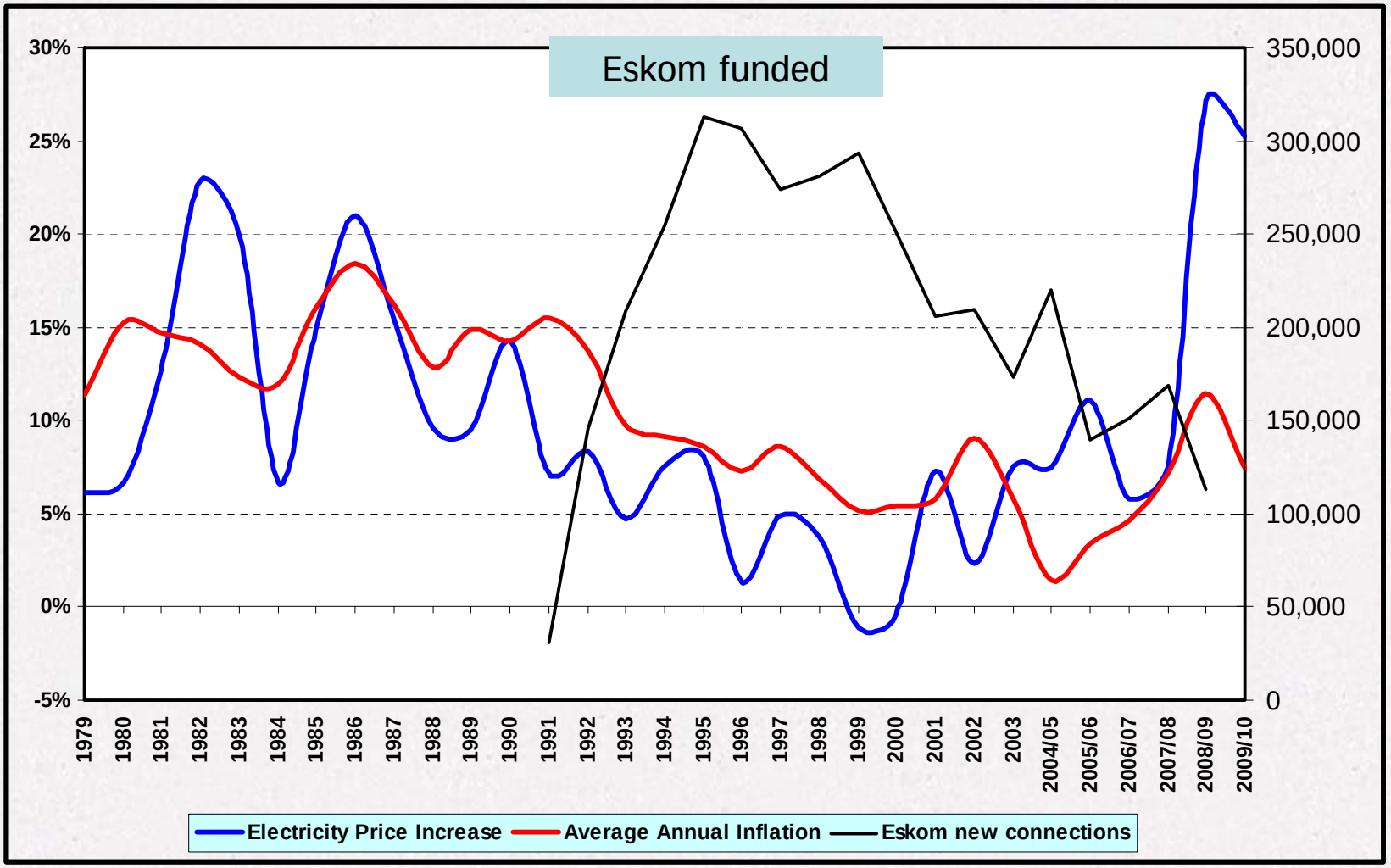


- Attracted energy intensive users,
- Commodity linked tariffs
- 1990 mothballed 3 800 MW
- Commenced domestic electrification programme 1991

Price Increases



Electrification

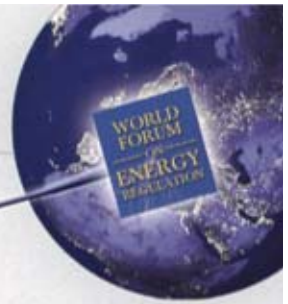


Current position

- January 2008 rolling black outs
  - Hardest hit – large customers e.g. smelters, mines (15% of demand,)
  - Intensive users: 10% reduction for 3 months

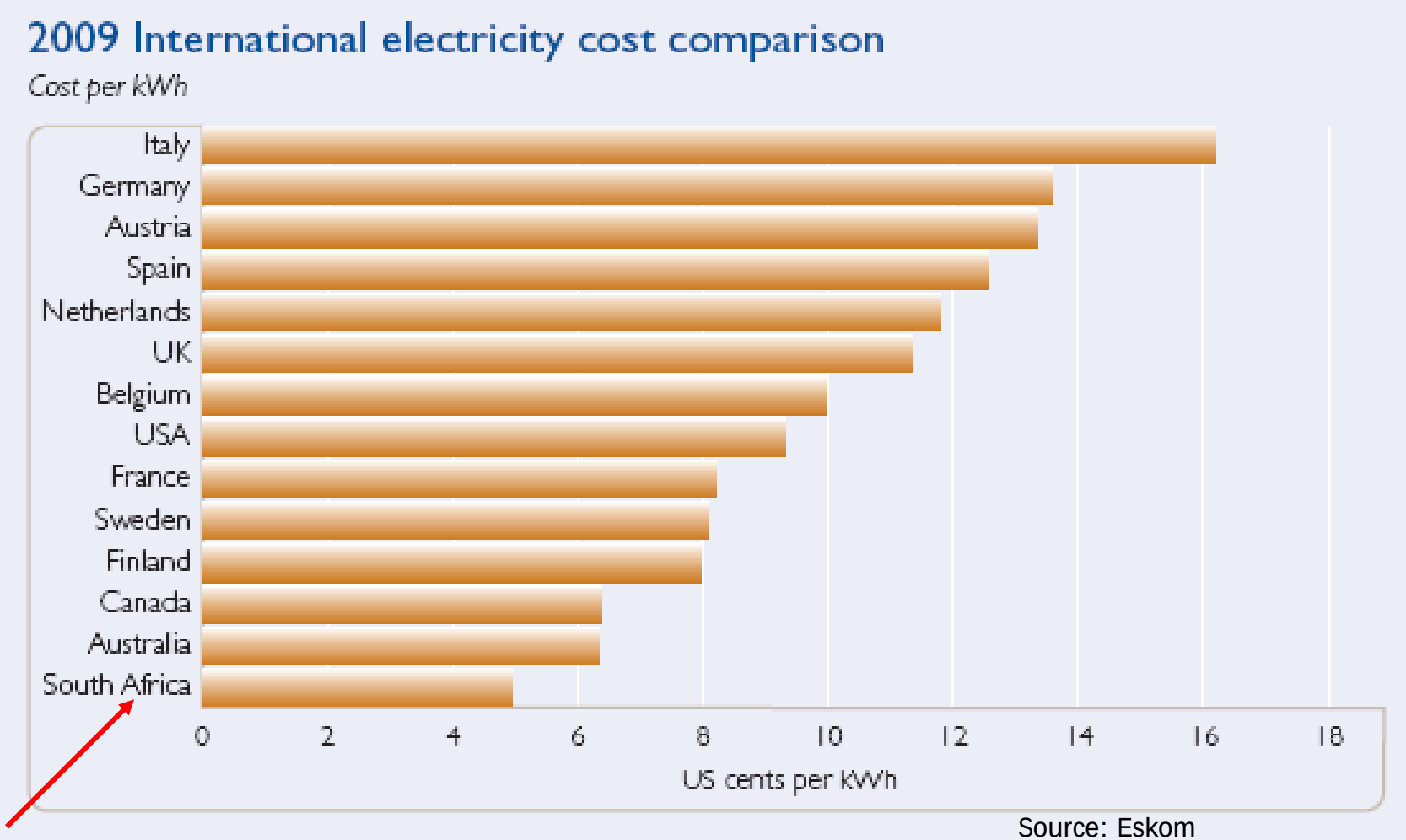
- Reserve margin: now 11.5%
- Aging plant - maintenance
- Operational expenditure “out of control” (Energy Intensive User Group) mainly coal
- Economic downturn “saved” more rolling blackouts

Energy Intensive Users



- 35 of the largest energy consumers use >45% of electricity sales
- A number of energy intensive users have not been operational for most of the year to date - lower commodity prices - global economic downturn
- SA recovery partly dependent on energy intensive users (commodities)
- Energy intensive users influencing own security of supply

Cost Comparison



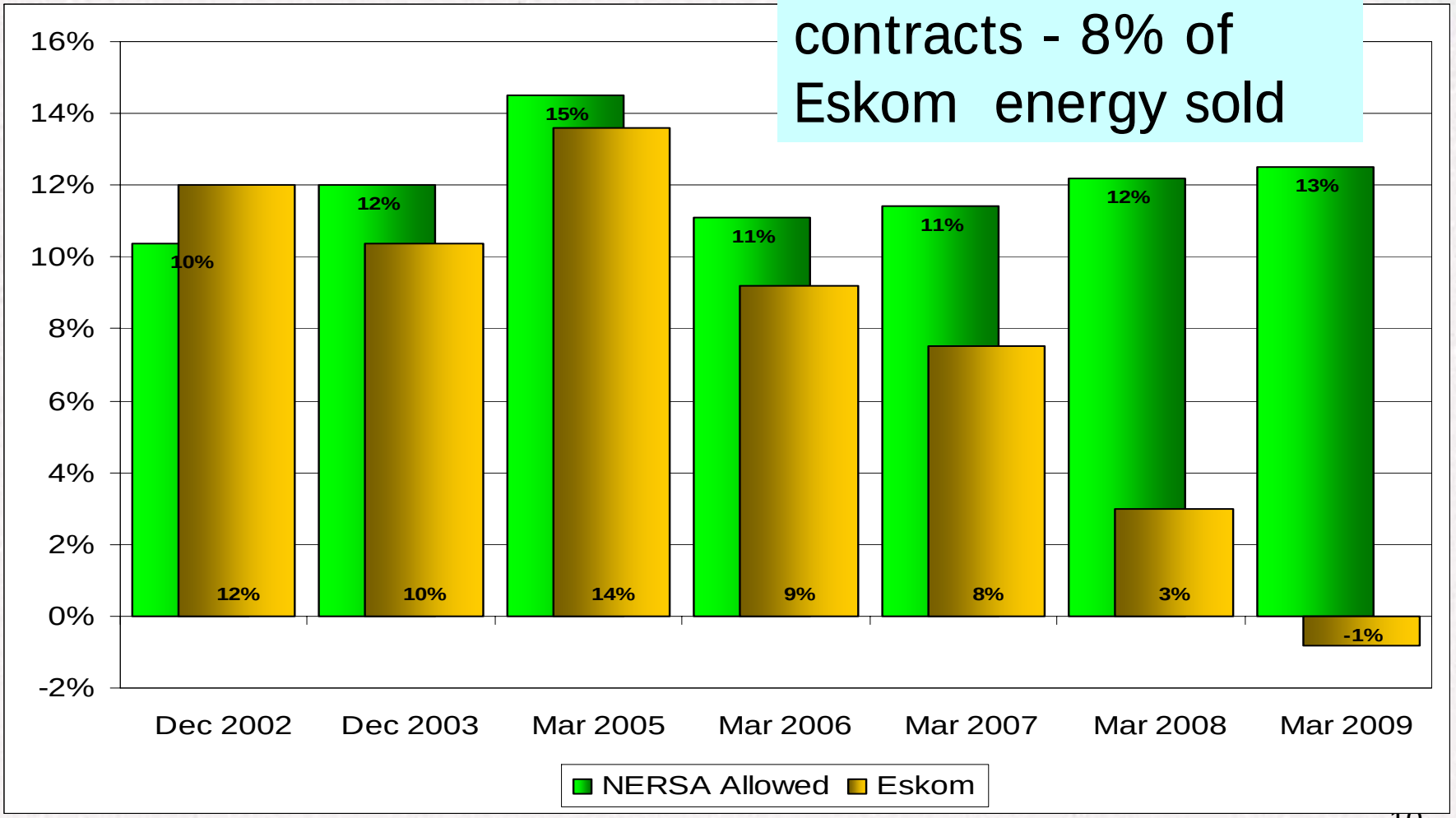
Source: Eskom

New Build

- Build programme of US$48 billion (in nominal terms) over the five years to March 2013
- Capacity expansion:
  - Last 4 years 4 454MW
  - Next 5 years 6 184 MW
- No clarity on funding model

Return on assets

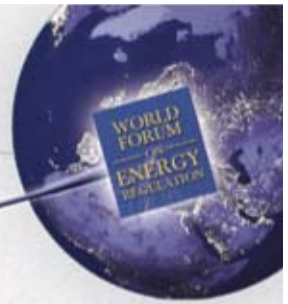
R9,7-billion paper loss for the year ended March 2009 metals-price-linked contracts - 8% of Eskom energy sold



Funding challenge

- Forecast shortfall next 3 years: US$10 billion (Assuming 31% tariff increase for the next two years)
- After Government's:
  - US$7.5 billion subordinated loan
  - further US$ 22 billion in guarantees.
- "everything relies on finding a sustainable funding model" Eskom Chairman
- Tariffs need to rise 90% for Eskom to meet funding requirements if no further intervention

Funding challenge solutions



- Tariffs?
  - Large increases?
  - Review of commodity linked tariffs for energy intensive users?
- Equity? Can Government afford it?
- Allow private equity into some new build?
  - Government policy is 30% of new capacity
  - Energy intensive users were willing to invest in power generation
- Change the model?

Which model?

- Commercial Enterprise Model protect bottom line at the expense of security of supply to the country.

- Public Benefit Enterprise Model availability of electricity is a far more strategic benefit for the country than the monetary return to the company.

- Strategic priority – keeping the lights on.

Thank you

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