ELECTRICITY REGULATION

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OUTLINE

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INTRODUCTION


- **Electricity industry** [Electricity Regulation Act (ERA), 2006 (Act No. 4 of 2006)]

- **Piped-Gas industry** [Gas Act, 2001 (Act No. 48 of 2001)]

- **Petroleum Pipelines industry** [Petroleum Pipelines Act, 2003 (Act No. 60 of 2003)]
Regulatory Principles

- Transparency
- Neutrality
- Independence
- Accountability
- Consistency and Predictability
- Integrity
Legal Framework (Electricity)

- Electricity Regulation Act No.4 of 2006, with the following objects:
  
  i. To achieve the **efficient, effective, sustainable and orderly development** and operation of electricity supply infrastructure in South Africa
  ii. To promote **the use of diverse energy sources** and energy efficiency
  iii. To **promote competitiveness, customer and end-user choice**
  iv. To facilitate **a fair balance between the interests of customers and end users licensees, investors** in the electricity supply industry and the public.

- **New Generation Capacity Regulations** (published as GNR. 399 in Government Gazette No. 34262 dated 04 May 2011): ‘**The Minister may, in consultation with the Regulator determine that new generation capacity** is needed to ensure the continued uninterrupted supply of electricity; **determine the types of energy sources** from which electricity must be generated, and the percentages of electricity that must be generated from such sources….’


- **Integrated Resource Plan 2010-2030 (and Revisions).**
Regulatory Functions

Section 4 of the ERA:

- Issuing of licences and setting pertinent conditions
- Setting and/or approving tariffs and prices
- Monitoring and enforcing compliance with licence conditions
- Dispute resolution including mediation, arbitration and the handling of complaints
- Gathering, storing and disseminating industry information
- Setting of rules, guidelines and codes determination of conditions of supply and applicable standards; and
- Registration of import and production activities.
LICENSING ROLE

**Licensing**
Issue licences (incl. amendments, transfer, rectification and review), register, revoke electricity Dx, Tx, Gx, trading

**Compliance Monitoring**
Ensure and monitor conformance to Grid-Code and Conditions

**Dispute Resolution**
Resolution of customer complaints and build relationships between suppliers and customers
[Licensing]:

- NERSA must consider license applications
- Evaluate license applications after all information is received from applicants
- Conduct Public Hearings after adverts
- Make a Decision within 120 days

**Distribution Licences (187):**  
Eskom; Local Municipalities (174); Private;  Distributors (12)

**Transmission Licence:**  
Eskom (1) - 170 MTS & Subs  ~31,900km of Transmission lines

**Trading Licence:**  
Amatola (1)

**Generation Licences (168):**

- Eskom (32)
- Local Municipalities (16)
- **IPP - Renewable Energy (92 = 28+19+17+2+26) and 11 RE Projects ≤ 5MW**
- IPP – CoGeneration (15)
- IPP – Coal (1)
- IPP – Gas (1)
[Compliance Monitoring] :

- Development of regulatory standards, power quality directive and other tools – NRS047, 048, 057
- Undertakes Compliance Monitoring of licensees (Independent Technical, Compliance & QoS Audits)
- Monitoring and enforcement of compliance to license conditions: SA Grid Code and regulatory standards
- Ensures Investment in asset maintenance
[Dispute Resolution and handling of complaints]:

- Evaluate and analyze the complaints and disputes using dispute resolution procedure
- Mediate between licensees and end-users or between licensees
- Arbitrate between licensees and end-users, not between licensees
- Ensure service delivery by electricity suppliers
- Build relationships between licensees and end-users or between licensees
- Provide customer education to both licensees and end-users

FY 2015/16 - NERSA received 209 electricity-related complaints/Disputes; 86% of those cases were resolved
NERSA is required by ERA to allow an efficient licensee to recover its costs to supply plus a fair rate of return \((\text{Section 15 of ERA} - \text{‘Tariff principles’})\)

NERSA uses Multi-Year Price Determination (MYPD) methodology based on a rate of return mechanism

\[\text{- allowable revenues} = \text{costs to supply} + \text{ROA}\]

NERSA approves revenue allocation of IPPs (including RE IPPs) in MYPD and tariffs for Municipalities/Distributors.

\[-\text{licensee recovers the cost of investment} + \text{reasonable return.}\]

\[-\text{predictability of tariffs for businesses/customers}\]

Network investments & upgrades are funded through MYPD

\[-\text{ensures IPPs have access to the grid}\]

RCA used in addressing revenue shortfall/over-recovery:

\[-\text{ensures customers are not overcharged & utility recovers its cost plus margin}\]
CONCLUDING REMARKS

- NERSA is regulating Electricity Supply Industry in order to meet Government policies.
- NERSA is striving for regulatory certainty in order to contribute to an environment conducive for attracting and ensuring orderly investment.
- Revenue allocation of the RE IPP is covered in the MYPD of ESKOM.