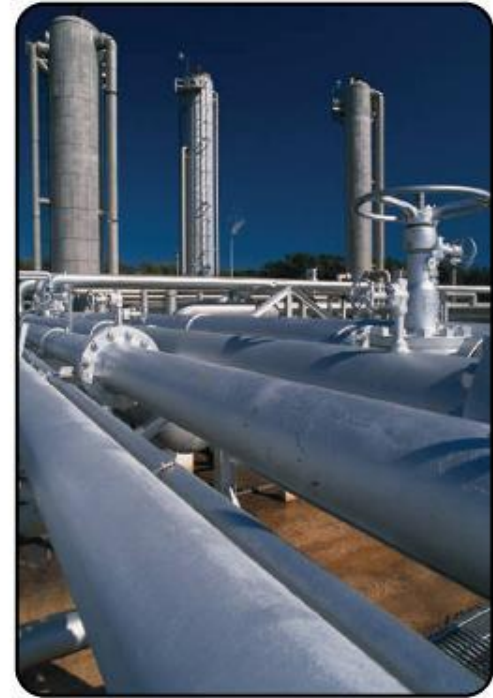
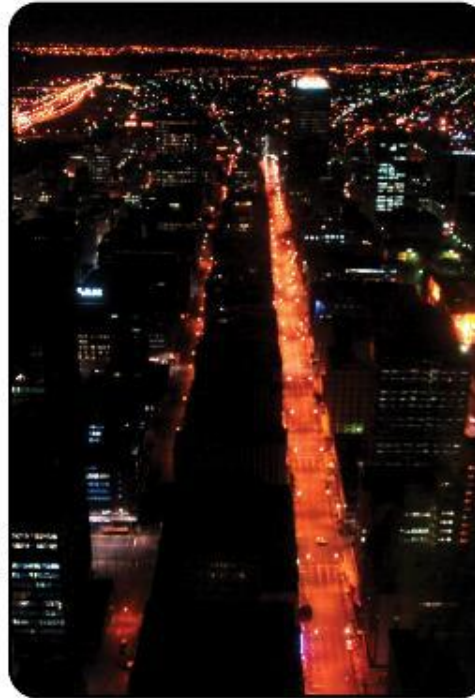


ELECTRICITY REGULATION



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OUTLINE

- Introduction
 - *Regulatory principles*
 - *Legal Framework*
 - *Regulatory functions*
- Licensing Role
- Tariff – Revenue Allocation
- Concluding Remarks

INTRODUCTION

The **National Energy Regulator of South Africa (NERSA)**: Schedule 3A Public Finance Management Act, 1999 (Act No. 1 of 1999) Entity **established on 1 October 2005** in terms of the **National Energy Regulator Act, 2004** (Act No. 40 of 2004) to regulate:

- **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....'***
- **1998 White Paper on Energy Policy; Electricity Pricing Policy; 2003 White Paper on RE; National Energy Efficiency Strategy**
- **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

TARRIF – REVENUE ALLOCATION

- NERSA is required by ERA to allow an efficient licensee to recover its costs to supply plus a fair rate of return (**Section 15 of ERA - ‘Tariff principles’**)
- NERSA uses Multi-Year Price Determination (MYPD) methodology based on a rate of return mechanism
 - *allowable revenues = costs to supply + ROA*
- NERSA approves revenue allocation of IPPs (including RE IPPs) in MYPD and tariffs for Municipalities/Distributors.
 - *licensee recovers the cost of investment + reasonable return.*
 - *predictability of tariffs for businesses/customers*
- Network investments & upgrades are funded through MYPD
 - *ensures IPPs have access to the grid*
- RCA used in addressing revenue shortfall/over-recovery:
 - *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.