

NERSA public hearings, 11-22 January 2010

Avuxeni Makweru. Hearings Chairperson Mr Thembani Bukula, members of



Creating a 'country compact' to ensure a secure and sustainable future

Mr Mpho Makwana
11-22 January 2010
NERSA public hearings
Eskom's MYPD2 application

the Regulatory Authority and Panel (NERSA), members of formations of Organised Labour, Farmers, members of civil society at large, ladies and gentlemen good morning, dumelang, thobela, silotshile, goeie more, Ndaa!

We thank the regulator,

NERSA for the opportunity we are granted today to present some remarks and highlights from our submission of 30 November 2009. We also thank you ladies and gentlemen for your attendance and participation today in this very important process.

We see this process also as an opportunity to facilitate dialogue that prompts all South Africans to engage in a Public-Participation-driven process to shape a crucial decision that has to be made on an appropriate tariff increase that will enable a secure and sustainable future electricity supply for our country.

Creating a 'country compact' to ensure a secure and sustainable future



- Although we are dealing with this application in a 3 year context, it is important for continuity of supply to keep in mind the longer term requirements for the country
- As a country we need a long term perspective on what is required to achieve a sustainable and secure long term future for South Africa and its electricity industry
- The current reality is that:
 - We have a low reserve margin which results in increased operating costs, and the need for significant additional capacity.
 - The tariffs are too low to sustain the funding needs culminating in the current weak Balance Sheet.
- Eskom acknowledges that a strategic shift based on effective integration and alignment with stakeholders is required to achieve a successful outcome for Eskom and for South Africa.

Chairperson, today's conversation in its full context is not just about Eskom – it is about how we as a nation work together, seek solutions together to achieve our goals for a shared prosperous future. South Africa needs its citizens, business people, government, regulator, energy producers and manufacturers to engage in dialogue around a long term perspective on what is required to achieve a sustainable and secure long term future for South Africa and its electricity industry.

This future cannot only be secured and or guaranteed by Eskom on its own – building on the conversation we will have today and beyond, we ultimately need a national 'compact' between all South Africans working together at overcoming our challenges. It is important to note that this price increase application only covers the first three years of this future. ESKOM on the other hand conducts its affairs and business as is the case with any energy utility operator in the world, over a long-term planning horizon of 10, 15 to 20 years.

This MYPD2 (application) although located in context of the current three-year cycle seeks to also proactively take a view on addressing security of electricity supply for the future sustainability of Eskom, the electricity industry and ultimately the economic growth of South Africa.

At the end of September Eskom proposed a 45% annual increase in electricity tariffs over 3 years. Since that time we have been engaged in many rich and insightful discussions with a wide range of stakeholders. We have also had significant engagement with our shareholder and Board of Directors which culminated in overall better alignment and commitment for

collaboration on aspects of the application. This has led to the revision of the application from 45% to 35% annual increases.

These engagements also culminated in a new decision of the Board of ESKOM and the Shareowner to explore alternative funding options, including prospects for private equity ownership on a Project basis of one of its power stations, Kusile.

Most of the detail of the other changes to the application will be highlighted in this presentation.

Creating a 'country compact' to ensure a secure and sustainable future



- This outcome cannot be guaranteed by Eskom on its own – we need a compact between all South Africans to work together to overcome our challenges
- Accordingly, Eskom's revised application is based on this collaborative and integrated approach and will involve making choices and trade-offs as a country to ensure a sustainable energy future.
- Eskom has therefore changed its tariff application from 45% to 35%, but this choice increases the risk profile relating to sustainability and fundability.
- Eskom is committed to work in partnership with stakeholders to address these risks.

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With this context in mind, Eskom's MYPD2 application rests on six pillars:

Eskom's MYPD2 application is based on six pillars



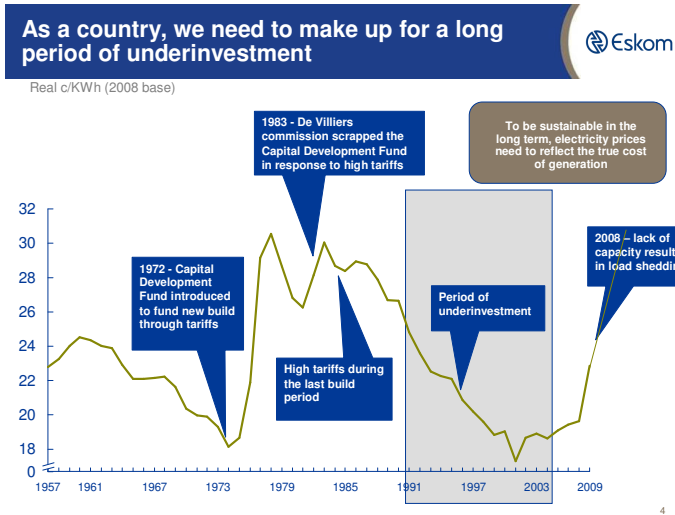
- 1 The role of Eskom in the economy
- 2 Resolving the funding model for the new build
- 3 Meeting the cost of keeping the lights on
- 4 A sustainable economy, protecting the environment and mitigating climate change
- 5 Allowing for entrance of IPPs
- 6 Addressing the impact on economically vulnerable communities

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1. Clarifying the role of Eskom – and of other role players – in South Africa's economy
2. Establishing a way forward for funding the urgently needed investments in new generation capacity
3. Clarifying the real cost of keeping the country's lights on – ensuring that future electricity tariffs reflect the real cost of power generation
4. Making sure that our approach as a country to investing for our future needs is sustainable over the long term – in particular regarding impact on the environment and on climate change
5. Ensuring the right enabling conditions are put in place to allow for the entry of Independent Power Producers other than Eskom in the market
6. Providing a suggested approach to mitigating the impact of higher electricity tariffs on South Africa's poor. At the moment Eskom may be seen to be insensitive to this pillar – on the contrary Eskom is

committed to working with government to achieve the country's developmental agenda.

Activity	Measure	2009	2008	2007
BEE	Rm	35 209	25 447	16 557
Electrification	Number	112 965	168 538	152 125
Corporate Social Investment	Rm	79,50	69,80	74,70



Because we are dealing with a 20 year planning horizon let me take you back to the history.

From 1972 to 1983 South Africa made provision to fund new build through deliberately establishing higher electricity tariffs. These tariffs allowed Eskom to accumulate a Capital Development Fund to pay for new infrastructure.

You can see from the graph that the result was a steep rise in real electricity prices (adjusted for inflation) – because a sustainable electricity tariff needs to reflect the true cost of producing electricity - This cost includes the cost of generation, and capital costs associated with investing in future capacity.

The Capital Development Fund was scrapped by the then government in 1983. You can clearly see the result – since the 1980s we had electricity prices that increased below the rate of inflation. Herein lies the current challenge of the electricity supply industry in South Africa - as a country we have not invested sufficiently in providing for our future electricity needs.

When the lack of capacity in more recent years severely reduced the reserve margin (leading to the load shedding of 2008), – new funding needed to be sourced in order to build the new supply capacity we require. This is the challenge we are now addressing as a country. To meet this challenge will ultimately require a cost-reflective real electricity price of 70c/kWh.

The current low reserve margin has major implications for Eskom and for the country



Tighter reserve margin and rising costs since 2007/8

Reduced security of supply

- **Constrained supply:** Available capacity not able to meet increased demand
- **Planned load shedding:** balancing demand and supply require shedding specific users to prevent system collapse

Increased opex cost base

- New power stations resulted in increased human capital costs due to **new vacancies** to be filled
- Ageing power station fleet and high load factors results in **increased maintenance costs**

Higher primary energy costs

- **Higher volumes:** Tight reserve margins require higher energy output from stations and therefore more coal volumes
- **Higher coal price:** Reliance on more expensive short-term coal contracts due to depleting cost-plus mines
- **Higher transport cost:** Depleting cost-plus mines resulting in coal imports from mines further away and transported by road

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The low reserve margin we currently experience have severe implications for both Eskom and the country as a whole. As you can see in this slide...

Eskom's funding model, determined by government, covers both tariffs and other funding sources



Eskom's regulated revenue (tariff) is intended to cover the cost of current electricity supply

- **Recovery of prudently incurred costs**
 - Primary energy
 - Operating expenditure
- **Depreciation on existing assets**
- **Return on existing assets**



New plant should ideally be funded from sources other than tariffs

- Retained earnings (reserves)
- New equity from the shareholder
- Borrowings

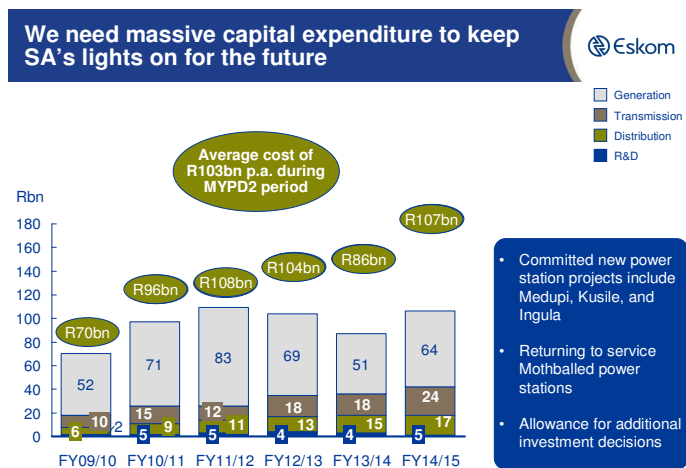


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To resolve the low reserve margin, additional capacity is required. In a normal business usually reserves are built up to assist in funding future

expansions together with new equity and debt. It is important to remember that tariffs, is only one of several sources of potential funding for Eskom which allow the organization to leverage more debt – quality debt that does not come with onerous conditions. This is particularly important as we face several years of significant investment in the new generation capacity South Africa needs.

With regard to the capital expansion programme, it should be pointed out that what is required, is a revenue stream and a balance sheet that can support borrowings and other funding options. This is being addressed in the context of the current regulatory framework.



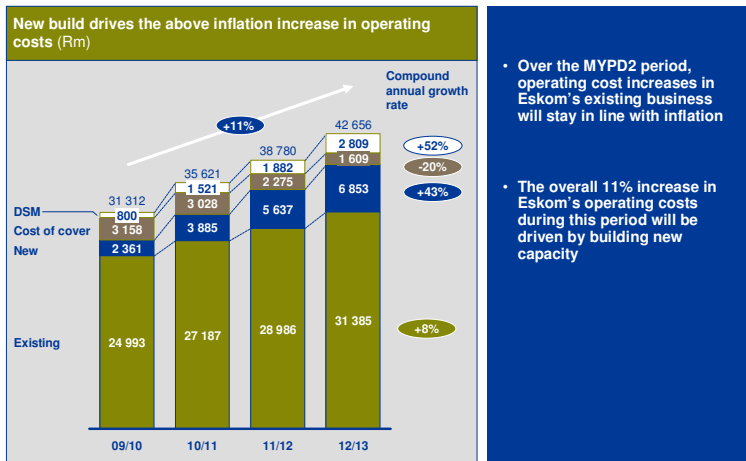
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A combination of the funding sources is required to fund this expansion programme. Due to the massive expenditure in a relative short period as well as in the long term, it is important to optimise the funding options. The investment programme for keeping SA's lights on in the future has a total projected cost well in excess of a trillion Rand by 2028 – a major decision

that needs to be taken by the country. Included is an average of R103bn per annum in capital expenditure over the MYPD2 period. This includes:

- Committed new power station projects, which include Medupi, Kusile, and Ingula
- Previously mothballed power stations being returned to service
- Allowance for additional investment decisions

New build will also drive increases in Eskom's operating costs



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The new build programme is also the driving force behind increases in Eskom's operating costs over the MYPD2 period.

We are making every possible effort to keep our costs under control through continuously improving efficiencies – I will tell you more about these efforts shortly. You can see that our operating costs for Eskom's existing business will be contained roughly in line with inflation, at about 8% p.a.

But as the construction of new build projects progresses, and especially as new capacity begins to come on line towards the end of the MYPD2 period,

there will inevitably be new operating costs for the new parts of the business.

Progress on Funding the operations and capacity



In the first instance we have explored the alternative funding options to the tariff increase, these are:

- Equity/quasi equity: Government has provided R60bn and approved exploring additional equity options
- Borrowings:
 - Three ECA transactions totalling R27bn
 - AfDB of R20,7bn
 - Ongoing negotiation with World Bank (USD \$3.75bn)
- Guarantees: R176bn government guarantee
- We tailored our cashflow to 'live' within our means, which translates to savings in opex and capex of R22bn by March 2010.

Eskom still has a R14bn cash shortfall within the MYPD 2 Period

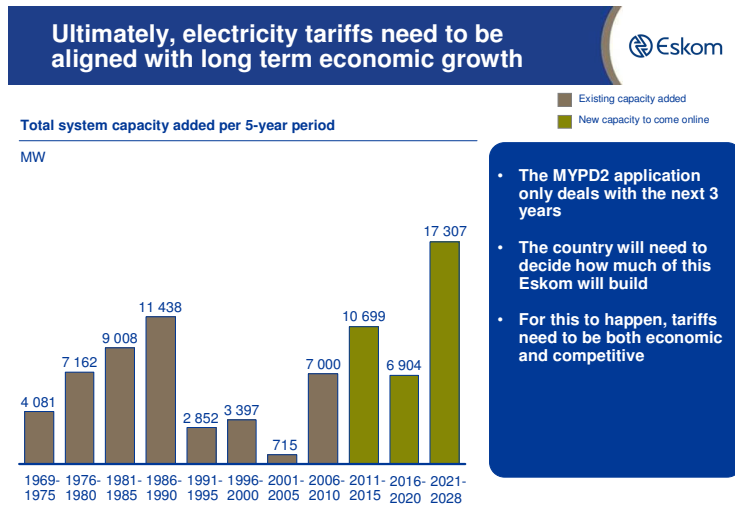
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As funding is a key enabler to the successful execution of this programme (as stated previously), Eskom has done the following

- Secured Equity from government of R60bn and currently exploring additional equity options
- Extended our borrowing programmes to include facilities from three Export Credit Agencies (ECA) transactions totalling R27bn, AfDB of R20,7bn and we are currently in negotiations with World Bank (US \$3.75bn)
- Guarantees: R176bn government guarantee
- Cash flow savings in operating and capital costs: R22bn by March 2010

Despite all these initiatives Eskom remains R14bn short.

I should emphasise that as a state-owned enterprise Eskom’s objective is to meet its mandate of supplying reliable electricity and to ensure that it is able to remain financially sustainable in order to deliver on its mandate.



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As already stated we need to be mindful of the longer term implications. The current capacity expansion programme results in a doubling of South Africa’s installed capacity over the next 20 Years. Eskom and IPPs will play a part in providing the new supply for South Africa. The realisation of energy efficiency is critical to ensure a cleaner future as well as reducing the impact of price increases on the consumers

- Current installed Generation capacity in South Africa and contracted imported Generation amounts to approximately 43 500 MW. Of this 43 500 MW;
 - *1500 MW is generated and imported out of Cahora Bassa,*

- *2000 MW comes from small local co-generators like the City of Tshwane, Kelvin Power Station and SASOL's facilities in Secunda,*
- *40 500 MW comes from ESKOM*
- Current expansion plans are based on the moderate growth scenario (averaging 3% electricity consumption growth rate over a 20 year period). , to ensure adequate reserve margin, 20 000MW of additional generation capacity is required by 2020 and up to 40 000 additional megawatts by 2030.. This may change as part of the IRP development process.
- The country will through the IRP process determine how much Eskom and IPPs will build.
- Eskom's older coal fired power stations may start to be de-commissioned from 2023 onwards.
- Eskom's current build programme and well advanced IPP projects could contribute at least 14 000 MW by 2017 to this requirement.

The implication is that electricity prices will have to rise significantly until 2012/13, to ensure that the tariff reflects the true costs of installing and operating generation capacity (i.e. an average real price of 70c/kWh). These increases are required for both Eskom and IPPs to ensure reliable electricity, which is a critical strategic imperative to ensure sustainable economic growth in South Africa.

- 35% per year over three years
- Price increase over period to 82c/kWh
- R14bn cash shortfall for Eskom in 2011/12 and R8bn in 2012/13
- Eskom will look into other funding interventions to address the expected shortfall
- A re-opening of the application may be necessary if our funding and other assumptions do not materialise

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Relying on a national commitment to mitigate the risks that could materialise from this change, Eskom has applied for a revenue requirement that translates into a price increase of 35% for each year of the MYPD 2 period. This will lead to an average real price of 43c/kWh in FY2010/11, 55c/kWh in FY2011/12 and 70c/kWh in FY2012/13.

This will still mean a cash shortfall for Eskom of R14bn in FY2011/12 and R8bn in FY2012/13. We will address this shortfall by intensifying our efforts to raise the required borrowings and by facilitating the introduction of private equity as soon as possible.

In the event that such initiatives are not realised, the rephasing of the capital expansion programme or other appropriate interventions may become necessary.

Areas of opportunity

- Demand reduction
- Responsibility for new capacity and re-phasing
- Cost reductions
- Additional funding



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You can see that we are facing significant financial challenges. Successfully meeting this challenge with a lower tariff increase than Eskom initially requested is indeed possible – but this will require making some choices and trade-offs as a country.

Our approach to this submission has been informed by the choices that need to be made regarding the following issues:

- Firstly demand forecasts
- Secondly the capital expansion programme
- Thirdly cost reductions
- And finally seeking additional sources of funding

I will now provide some detail about these choices and trade-offs.

Demand forecast

- Sales forecast reduced to include 8.5TWh in savings from DSM over five years (roughly equivalent to the full output of half of a big coal station in one year)
- Lower electricity demand helps reduce SA's carbon footprint and is crucial to ensuring security of supply
- All South Africans will need to work together to save electricity



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Regarding the sales forecast, Eskom's sales assumptions have been revised to reflect the impact of securing 8.5TWh reduction through energy efficiency savings over 5 years, resulting in a lower sales forecast. The primary lever for achieving these DSM savings is the successful rollout of solar water heating to 1 million households. It is important to note that the application only caters for a small portion of the funding of the solar water heating, thus the remainder must be funded elsewhere.

In the long term reducing demand for energy will be good for South Africa, lowering our carbon emissions and ensuring we have sufficient capacity to meet demand.

But reducing demand will require all South Africans to work together by changing our consumption behaviours and investing in more energy-efficient technologies where possible.

Responsibility for new capacity and re-phasing

*Where cashflows are deferred, it implies that the project, if required to be built by Eskom will be built later. Where the IPP calls for capacity & if such capacity is to be built by another party, the timelines would remain unaffected.

In addition, if any recommendation regarding deferral of cashflows is not aligned with the expectations of Eskom's role in terms of the final IPP, additional funding may be required to ensure complete alignment.

- Introducing more IPPs after the MYPD 2 period, in a longer term plan, means capital expenditure for the following projects is now excluded from MYPD2
 - Coal 3
 - Nuclear
- We will optimise the following build projects within reasonable timeframe given contractual and funding constraints
 - Kusile power station
 - Sere (wind) power station
- We recommend delaying DoE's IPP until after MYPD2, based on our revised demand forecast

All choices made in the revised submission are subject to government's final Integrated Resource Plan

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We have also optimised the schedule of Kusile within reasonable timeframe given contractual and funding constraints. The lower demand forecasts have already resulted in further flexibility in this regard. It should be pointed out that the impact on the schedule of the major committed contracts is being assessed and may be unaffected. We have also looked at re-phasing other build projects:

- Introducing more IPP options in later years (after the MYPD 2 period)
- Removing expenditure to prepare for the next power station (which we previously referred to as coal 3), on the assumption that someone other than Eskom will build this capacity, regardless of whether it be coal, gas or hydro-powered.
- Moving capital expenditure for the next nuclear plant outside the MYPD 2 period
- Delaying the wind option (Sere) for a year
- Recommending the removal of the expenditure for the Department of Energy IPP from Eskom's funding requirement for the MYPD 2 period has been recommended based on the revised demand forecast

It should be noted that most of the above choices are not Eskom's to make alone – they are subject to decisions made in government's final Integrated Resource Plan (IRP). Where capacity is instead built by someone other than Eskom, the original timelines might be unaffected.

Choices and assumptions: Operating costs



Cost Reductions	<ul style="list-style-type: none">• During the MYPD2 period, Eskom will work to reduce its overall costs by >R12bn<ul style="list-style-type: none">– We will further reduce operating costs by R6.9bn– Reduced demand from DSM will result in R3,4bn in projected primary energy savings over the period– We will further reduce primary energy costs by R1.6bn– Maintenance and road repairs to be excluded after the first year, and covered by provincial government or SANRAL (Eskom to pay a shadow road toll for coal haulage)• These are highly ambitious stretch targets
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We at Eskom are also doing our part to save on costs during the MYPD2 period.

Apart from pursuing internal efficiencies, reduced demand will help us save on primary energy such as coal costs. We will also work to improve contracting arrangements and operational practices to further save on coal costs.

We have also removed the provision for the maintenance/repairs to roads after the first year, on the understanding that the roads will be maintained by Provincial Government or South African National Roads Agency Limited (SANRAL). Eskom will only be liable for a shadow toll for its use of the roads for coal haulage.

Achieving these savings targets will not be easy – we are cutting to the bone in an effort to make the new financial plan feasible.

Choices and assumptions: Additional funding



New sources of funding

- We have assumed total borrowings of R123bn over the MYPD2 period:
 - R40bn in 2010/11
 - R43bn in 2011/12
 - R40bn in 2012/13
- Compared to our September submission, we are assuming additional borrowings of R8.5bn
- We also assume we will source private sector equity of at least R20bn within 24 months – and our target will be R40bn if possible
- However, the current funding plan still requires an additional R7bn for FY10/11 and FY11/12, to close the R14.1bn cash shortfall
- Interest cover will breach the targeted ratio of 3 by FY12/13, improving financial flexibility

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In terms of Additional Funding, we are planning to borrow a total of R123bn over the MYPD2 period. The revised application thus factors in an assumption that we will make additional borrowings of R8.5bn.

For planning purposes we have assumed that equity of at least R20bn will be sourced from the private sector at a project level within 24-36 months – but our intention is to maximise the introduction of such private equity with a target ultimately of R40bn.

This will not be sufficient, however, as we will still need another R7bn in 2010/11 and 2011/12 to cover Eskom's cash shortfall as a result of escalating capital expenditure and operating costs.

It should also be noted that funding from private equity comes with its own trade-offs – given that a higher tariff will need to be sustained so as to provide a fair return on investment for the equity partner.

Country risks as a result of these choices



	Risk	Implication
Demand	<ul style="list-style-type: none"> Faster recovery in economic growth and electricity demand 	<ul style="list-style-type: none"> Potential insufficient capacity to meet demand
Capacity	<ul style="list-style-type: none"> Potential delays to Kusile, Sere, Nuclear 1, Regulatory framework for IPPs not put in place in time 	<ul style="list-style-type: none"> Potential insufficient capacity to meet demand
Primary energy	<ul style="list-style-type: none"> Dependency on 3rd party for road quality (timing and safety) 	<ul style="list-style-type: none"> Coal delivery, safety and power outages
Cost reductions	<ul style="list-style-type: none"> Financial risk of not realising efficiency gains sustainably Slowdown in maintenance activities 	<ul style="list-style-type: none"> Further cash flow challenges Compromising maintenance and security of supply
Additional Funding	<ul style="list-style-type: none"> Assumed high level of borrowings Access to equity 	<ul style="list-style-type: none"> Cash flow challenges Need to re-phase capital investment programme

Participation of all stakeholders necessary to manage risks, as not all risk within Eskom's control
Last resort, to re-open price determination

Eskom's price application balances the interests of Eskom, customers and the country. It has also mitigated/reduced the possible adverse impact on the economy and job losses by choosing a longer time period to achieve cost reflective tariffs.

However, without collaboration with government and other stakeholders, this approach may increase South Africa's exposure to risks related to security of supply. It will also increase the risk profile of our operations and financial sustainability.

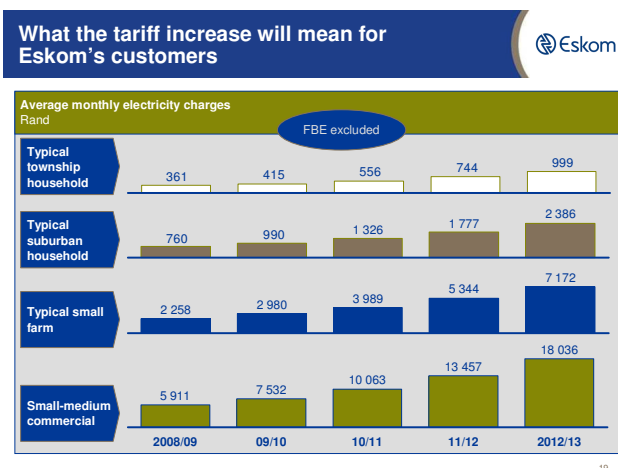
- In particular, should demand growth exceed our latest assumptions, urgent intervention will be necessary to ensure sufficient capacity is built timeously.
- Furthermore, the assumed levels of borrowing and equity are optimistic, and may not materialise. Should Eskom fail to raise the requisite funding, it will have little option but to further re-phase the capital investment programme. Such delays will further increase the security of supply risk.

The country's vulnerability is therefore increased and in the event that the required interventions are not implemented as anticipated, security of supply could be threatened. Conversely, if the required interventions are successful, the risk profile would reduce.

Not all these risks are within Eskom's control, and the participation of all stakeholders is necessary to manage these risks to ensure a suitable outcome and the achievement of our long-term goals as a country. Success depends on a collaborative effort by Eskom, Government, customers, business, communities and other stakeholders. An effective partnership is therefore necessary to achieve success.

It is critical that government should ensure that an effective monitoring process is established to monitor the progress regarding the achievement of the necessary interventions.

As a last resort, Eskom will consider the option of reopening the price determination process.



The impact of the proposed tariff increase for the individual customers is indicated on the above slide.


Although this slide indicates the increase in the monthly charges, it does not reflect the reduction that could be achieved through electricity efficiency. In addition, the monthly bill will be lower for those consumers who are entitled to Free Basic Electricity (FBE).

Consumers who are municipal customers may pay rates different to those shown for direct Eskom customers.

What we mean by a ‘country compact’ is precisely the kind of coordinated joint effort I have been talking about – with all stakeholders playing a part in managing these trade-offs to achieve a secure and sustainable future.

Various stakeholders such as government, NERSA, SANRAL/provincial government, Independent Power Producers and customers, not to mention Eskom ourselves, have certain responsibilities to ensure success.

I would like to discuss these various stakeholder responsibilities in somewhat greater detail.

The role of Eskom and stakeholders 

- Government**
 - Publish a country electricity plan for the next 20 years, clarifying the role of Eskom and IPPs
 - Clarify policy on renewable and nuclear energy
 - Create an enabling framework for funding and implementing DSM
 - Promulgate regulations to implement PCP
 - Ensure funding to maintain roads to transport coal
 - Take account of the key role Eskom plays in the economy
- NERSA**
 - Approve and publish rules for the following
 - Cost recovery mechanism
 - Procurement for renewable energy
 - Power conservation programme
 - Set a tariff path for completing the build programme and introducing IPPs
- SANRAL/
provincial
government**
 - Ensure repairs and maintenance of roads on which coal for certain power stations is transported

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Government should publish a country electricity plan to provide clear direction on the vision for the electricity sector in the next 20 years and the role of Eskom and independent power producers.

- Government also needs to clarify the policy on renewable energy and nuclear energy, and create an effective enabling framework for the funding and implementation of demand side management programmes. We need regulations to facilitate the implementation of

the of the power conservation programme. In addition government should ensure a funding mechanism for the repair and maintenance of roads used to transport coal to the power stations.

- NERSA in turn should approve and publish the cost recovery mechanism rules (this has since been done), procurement rules for the renewable energy programme and approve and publish rules for the power conservation programme. They should set a tariff path that caters for the completion of the current build programme and the introduction of independent power producers.
- SANRAL or provincial government should ensure that repairs and maintenance are carried out on the roads on which the coal for certain power stations is transported.
- Independent Power Producers (IPPs) should commission the capacity indicated in the medium term power purchase programme and the first phase of the renewable energy feed-in tariff programme

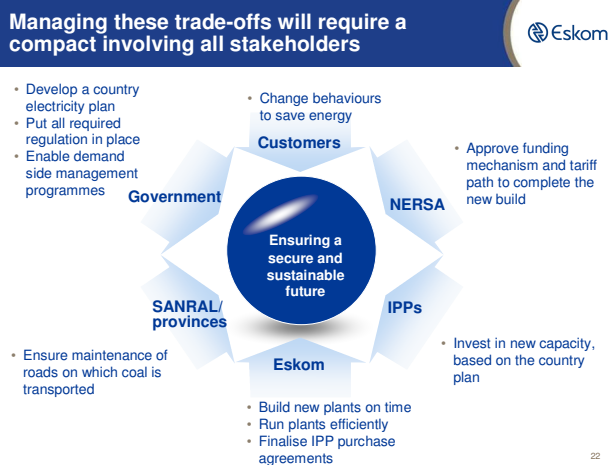
The role of Eskom and stakeholders 

Independent Power Producers	<ul style="list-style-type: none"> • Commission the capacity indicated in the medium-term power purchase programme and the first phase of the renewable energy feed-in tariff programme • Commission the required capacity on time, based on the country plan
Eskom	<ul style="list-style-type: none"> • Ensure 86% energy availability is achieved for current power stations (excluding RTS) • Commission return to service plants as planned • Finalise power purchase agreements for IPPs (subject to cost recovery mechanisms and tariff level) • Implement DSM programmes • Support customers with education on energy efficiency
Customers	<ul style="list-style-type: none"> • Large industrial and commercial customers to confirm their energy base-line and targeted savings to provide greater demand certainty • Make changes in behaviour and technology to bring down electricity utilisation • Consider an overall target of 8 - 15% energy efficiency improvements for the country over five years

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We at Eskom should:

- Ensure an 86% energy availability factor is achieved for our current fleet of power stations (excluding return to service plants)
- We should bring the return to service plants on line as planned.
- We have to ensure power purchase agreements are finalised for medium term IPPs and also the renewable energy feed-in tariff
- We have to support government in executing the demand side management programme
- We need to support government in establishing the power conservation programme, and finally
- we have to support customers with an education programme on energy efficiency



Large industrial and commercial customers need to confirm their energy base-lines and targeted savings, to provide some level of demand certainty over the next 3 years. They also need to consider their electricity utilisation patterns and make changes in behaviour and technology in order to achieve savings.

MYPD2 needs to be seen in the context of a long-term country vision



- South Africa needs to define overarching objectives for the long term success and sustainability of the economy and the electricity industry
- The contribution of various parties to the solution is required, and their respective roles should be made clear
- An enabling environment is also required to attract new entrants to the market
- A collaborative effort is required between Government, Eskom and all stakeholders - including business, communities and customers
- Eskom should focus on what is within its own capability and capacity, while other role players execute their own specific mandates



The MYPD 2 application needs to be seen within the context of developing a long-term vision for South Africa.

As a country we need to have a view of the overarching objectives for the long term success and sustainability of the economy and the electricity industry. The electricity price path must be consistent with that objective.

It is crucial that the roles of the various parties in achieving these national objectives are clear, in particular regarding the implementation of key initiatives: aggressive demand side management, facilitating access to funding, introducing new capacity, ensuring integrated infrastructure development, reducing our carbon footprint, reducing energy intensity per GDP output and ensuring security of supply.

Eskom cannot provide for all SA's future energy needs on its own – an enabling environment is required to attract new entrants to the market. A collaborative effort is therefore required between Eskom, government, and all stakeholders in the electricity industry.

Finally, Eskom needs to focus on executing its mandate within its own capability and capacity, while other role players in the country execute their own specific mandates.

Conclusion



The value proposition of this application remains unchanged

- Ensuring continuous supply of power
- Setting a foundation for a cleaner and greener future
- Building capacity for SA's future needs
- Empowering industrial development and economic growth
- Creating employment opportunities
- Building confidence in the future

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Our objective is to ensure security of supply and consequently facilitate economic growth, address access to and affordability of electricity for the poor, empower and encourage private players to enter into the market over time, facilitate a move towards cleaner generation technologies and support regional development.

This MYPD 2 application, and in particular the price path and time period within which to migrate from the current price level to an appropriate price level, should be assessed in relation to achieving the overarching long-term country objectives. The MYPD 2 application is therefore a stepping stone towards achieving the objectives of South Africa in the long term.

Eskom is concerned about the increased risk profile but is committed to working within a broader national partnership to ensure we all achieve success.

The provision of reliable and affordable electricity is a critical and strategic imperative to ensure sustainable economic growth in South Africa.



Engagement with our stakeholders has been extremely useful and has informed the choices that have now been made. We believe that Eskom's price application will result in an integrated solution that balances the interests of Eskom, customers and the country. We believe that we have mitigated the adverse impact on the economy and job losses by choosing a longer time period to achieve cost reflective tariffs. It is our firm belief that it is in the national interest to make the appropriate country choices in a collaborative and participative process.

This is a defining moment, when together as South Africans we can decide on our future. Thank You!

Footnote from President Zuma

South Africa has ongoing problems in the energy sector that requires comprehensive solutions. The problems concerning energy are broader than the huge tariff increases we have to bear. There are issues of our energy mix, environmental sustainability, distribution mechanisms, surcharges by local municipalities and the role of private producers to address. We would be failing our people if we do not address these urgently.