Briefing Note: Eskom MYPD6 – Key Issues for Energy Intensive Consumers

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Purpose

This briefing note distills the main issues, concerns, and recommendations from the analysis of Eskom's Multi-Year Price Determination (MYPD) 6 application, as prepared submitted for NERSA MYPD6 Consultation. It is intended to summarise EIUG submission on the potential impacts, areas of concern, and suggested actions for regulatory and business engagement.

Audience: Technical and operational stakeholders in energy-intensive industries (mining, manufacturing, large commercial, etc.)

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1. Context and Overview

Eskom's Multi-Year Price Determination (MYPD6) application for FY2026–FY2028 proposes significant increases in allowable revenue and tariffs. The application is under review by NERSA, with substantial implications for energy-intensive users. This note highlights the technical and operational issues most likely to affect your business, with a focus on cost drivers, risk areas, and recommended actions.

Eskom's MYPD6 application seeks significant revenue increases to move towards cost-reflective tariffs. While sustainability is important, the application lacks clear initiatives to address operational inefficiencies.

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2. Key Technical Issues

2.1 Operating Costs

- **Other Operating Costs:**
    - Eskom proposes a 66.6% increase in "Other Operating Costs" for FY2026, with limited transparency on cost drivers (insurance, IT, security, etc.).
    - The increase is well above inflation and previous NERSA decisions.
    - **Risk:** Unchecked, these costs will be passed through to tariffs, increasing operational expenses for large users.

- **Employee Costs:**
    - Projected increases (3.65%–4.43% p.a.) occur despite declining energy production and supposed headcount reductions.
    - Discrepancies exist between Eskom's application and actual headcount trends.
    - **Risk:** Inefficiencies in workforce management may inflate tariffs.
- **Maintenance:**
    - Maintenance costs are projected to rise, with a 40% increase in FY2026 compared to the NERSA FY2025 decision.
    - **Risk:** Elevated maintenance costs may not be justified by plant performance improvements.

2.2 Primary Energy Costs

- **Coal Procurement:**
    - Shift from cost-plus to more expensive medium-term contracts (43% of coal volume in 2023 vs. 3% in 2000).
    - Coal-fired generation costs per kWh are rising faster than inflation and output is declining.
    - **Risk:** Inefficient procurement and technical inefficiencies (e.g., high burn rates) drive up costs.
- **Unit Cost Trends:**
    - Primary energy cost per unit is projected to increase from R0.62/kWh (2024) to R0.92/kWh (2028), a CAGR of over 10%.
    - **Risk:** Energy-intensive users will face above-inflation increases in input costs.

2.3 Capital Expenditure (CAPEX)

- **Generation CAPEX:**
    - Large increases in outage and technical plan CAPEX, with unclear justification for continued high spend as EAF targets improve.
    - **Risk:** Over-investment in CAPEX may not yield proportional reliability gains.

- **Transmission & Distribution CAPEX:**
    - Transmission CAPEX focused on strengthening and expansion (79% of NTCSA CAPEX), but underlying cost drivers (e.g., R13bn for synchronous condensers) lack transparency.
    - Distribution CAPEX up 125% in FY2026, with mining companies often asked to fund upgrades while using only a fraction of substation capacity.
    - **Risk:** Double-charging and over-recovery from large users.

2.4 Regulated Asset Base (RAB) and Return on Assets (RoA)

- **RAB Calculation:**
    - Concerns about double-counting of works under construction and transfers to commercial operation.
    - **Risk:** Artificial inflation of RAB increases allowable revenue and tariffs.
- **RoA:**
    - Eskom proposes a step-change in RoA (4%–6%), but analysis suggests a 3.09% RoA is sufficient to cover interest expenses.
    - **Risk:** Higher RoA without efficiency gains increases costs for all users.

2.5 Arrear Debt

- **Municipal Debt:**
    - Eskom seeks to reintroduce arrear municipal debt as an expense, burdening paying customers.
    - **Risk:** Double subsidy for mining and industrial users, who already contribute to affordability subsidies.

2.6 Carbon Tax and Policy Uncertainty

- **Carbon Tax:**
    - Uncertainty around Phase 2 implementation and potential relief measures.
    - **Risk:** Sudden policy changes could impact allowable revenue and tariffs.

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3. Impact Analysis for Energy Intensive Users

- **Profitability:**
    - Tariff increases of 36.15% (FY26), 11.81% (FY27), and 9.10% (FY28) will significantly erode margins, especially for sectors where electricity is 10–20% of operating costs.
    - Gold and PGM mining could see electricity costs rise to 29% and 16% of total OPEX, respectively.
- **Competitiveness:**
    - Sustained above-inflation increases threaten the viability of lower-grade operations and may accelerate deindustrialisation.
- **Mitigation:**
    - Many large users are investing in own-generation (solar, wind, battery storage) and entering into long-term PPAs with IPPs to hedge against Eskom tariff risk.

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4. Recommendations for Technical Stakeholders

1. **Engage with NERSA:**
    - Submit technical comments on cost drivers, procurement inefficiencies, and CAPEX justifications.
    - Advocate for strict scrutiny of "Other Operating Costs," employee costs, and RAB calculations.
2. **Monitor Policy Developments:**
    - Track carbon tax policy, tariff restructuring (RTP), and regulatory changes (ERA Amendment Act, NTCSA unbundling).
3. **Review Own Tariff Structures:**
    - Analyse the impact of fixed vs. variable tariff changes on your operations.
    - Prepare for possible increases in fixed charges under the new RTP.
4. **Accelerate Energy Diversification:**
    - Continue or expand investments in own-generation and energy efficiency.
    - Explore opportunities for wheeling and direct procurement from IPPs.

5. **Collaborate with Industry Bodies:**
    - Coordinate with BUSA, Minerals Council, and other associations to present unified positions on key technical issues.

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5. Conclusion

Eskom's MYPD6 application presents significant risks for energy-intensive consumers, with above-inflation increases in operating, primary energy, and capital costs. Technical stakeholders should proactively engage in the regulatory process, scrutinise cost drivers, and accelerate mitigation strategies to manage exposure to rising tariffs and operational risks.