



**6 November 2023**

## **MEDIA STATEMENT**

### **ENERGY REGULATOR DECISIONS OF MEETING NUMBER 266 OF 26 OCTOBER 2023**

The National Energy Regulator of South Africa (NERSA) announced that the Energy Regulator, at its meeting held on 26 October 2023, has made the following decisions under the electricity and petroleum pipelines industries:

#### **1. Electricity Regulation**

##### **1.1. Eskom Holdings (Pty) Ltd Application for a separate Six-Year Negotiated Pricing Agreement for each of four of the five Glencore-Merafe Chrome Venture ferrochrome smelter operations in Mpumalanga, Limpopo and North-West.**

The Energy Regulator approved Eskom Holdings (Pty) Ltd's application for a separate Six-Year Negotiated Pricing Agreement (NPA) for each of four of the five Glencore-Merafe Chrome Venture ferrochrome smelter operations in Mpumalanga, Limpopo and North-West.

Eskom will implement a separate six-year NPA for each of the four Glencore-Merafe Chrome Venture ferrochrome smelter operations in Mpumalanga, Limpopo and North-West as follows:

- 1.1.1. Boshhoek (130 MVA); and
- 1.1.2. Wonderkop (310 MVA) located in the Rustenburg area of the Bojanala Platinum Municipal District in the North-West Province - supplied by Eskom;
- 1.1.3. Lion (275 MVA) located in the Steelpoort area of the Sekhukhune District Municipality in Limpopo Province - supplied by Eskom;
- 1.1.4. Lydenburg (165 MVA) located in the Lydenburg area of Ehlanzeni District Municipality in Mpumalanga Province - supplied by Eskom (is not operating)

A separate six-year NPA for each of the four Glencore-Merafe Chrome Venture ferrochrome smelter operations in Mpumalanga, Limpopo and North-West shall commence on the first day of the month with at least one full calendar month between NERSA approval and implementation date, and terminate 72 calendar months from the commencement date.

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#### **Regulator Members:**

Mr T Bukula (Chairperson) Ms Z Mpungose (Deputy Chairperson) \*Adv NP Sithole (Chief Executive Officer)  
\*Mr N Gumede \*Ms N Maseti \*Mr MW Mkhize Ms T Semane Mr FK Sibanda Ms PN Sibiya  
\*Full-Time Regulator Members

Eskom submitted its application on 9 May 2023, in line with the interim long-term framework for NPAs that was approved by the Minister of Mineral Resources and Energy on 20 August 2020. NERSA conducted a preliminary assessment of the six-year NPA application to ensure that the application is compliant with the interim framework for long-term NPAs. The findings of the preliminary assessment were that the six-year NPA application is compliant with the interim framework for long-term NPAs.

### **1.2. Eskom Holdings (Pty) Ltd's Application for a Six-Year Negotiated Pricing Agreement for each of the six Samancor Chrome Limited's ferrochrome smelter operations in Mpumalanga, Limpopo and North-West**

The Energy Regulator approved Eskom Holdings (Pty) Ltd's application for a Six-Year Negotiated Pricing Agreement (NPA) for each of the six Samancor Chrome Limited's ferrochrome smelter operations in Mpumalanga, Limpopo and North-West.

The NPA is set at a level to ensure the sustainability of Samancor Chrome Limited while covering the cost of supply of Eskom. A separate six-year NPA for each of the six Samancor Chrome Limited's ferrochrome smelter operations in Mpumalanga, Limpopo and North-West are as follows:

- 1.2.1. Ferrometals (270 MVA); and
- 1.2.2. Middelburg Ferrochrome (286 MVA) located in the eMalahleni/Middelburg areas of the Nkangala District Municipality, Mpumalanga province;
- 1.2.3. Tubatse Ferrochrome (245 MVA); and
- 1.2.4. Tubatse Alloy (220 MVA) located in the Steelpoort/Burgersfort areas of the Sekhukhune District Municipality, Limpopo province; and
- 1.2.5. TC Smeters (140MVA); and
- 1.2.6. Dikwena Chrome (202 MVA) located in the Mooiwooi/Brits area of the Bojanala Platinum Municipal District, North-West province.

Collectively amounting to 1363MVA, with projected baseload sales of about 7.6 TWh/annum.

Eskom submitted its application on 9 May 2023, in line with the interim long-term framework for NPAs that was approved by the Minister of Mineral Resources and Energy on 20 August 2020. NERSA conducted a preliminary assessment of the six-year NPA application to ensure that the application is compliant with the interim framework for long-term NPAs. The findings of the preliminary assessment were that the six-year NPA application is compliant with the interim framework for long-term NPAs.

### **1.3. Approval of the reviewed cost of supply framework/ methodology for electricity distributors**

The Energy Regulator approved the reviewed cost of supply (COS) framework. The reviewed COS Framework seeks to address numerous challenges facing the South African electricity supply industry, which include ageing infrastructure, capacity constraints, financial viability, tariff structure and affordability. Additionally, since the framework was last reviewed in 2016, there was a need to consider the lessons learnt from the efforts to assist licensees in submitting cost of supply studies to be used as a basis for the tariff applications.

Several opportunities have been identified to improve the previous COS framework, some of them include the following:

- 1.3.1. There is no provision in the framework on the approach to properly ring fence accounts for electricity and allocation of overheads.
- 1.3.2. There is no provision in the framework to determine or verify asset values or to benchmark asset values.
- 1.3.3. The framework is limited on how prudence and efficiency of costs should be tested.
- 1.3.4. Does not provide a mechanism for escalating revenues and tariffs annually (index). This is currently dealt with through the guideline and benchmarks framework.

Furthermore, on 20 October 2022, the High Court of South Africa ordered that the Guideline and Benchmarking Method used by NERSA when approving municipal electricity tariffs is unlawful, invalid and of no force and effect. In this regard, NERSA is prohibited from applying the Guideline and Benchmarking Method when considering and approving municipal electricity tariffs with effect from the 2024/2025 municipal financial year.

Based on this judgement, NERSA had to review the existing cost of supply framework to address the gaps identified in the court papers and to address the deficiencies emanating from the guideline and benchmarks methodology. The review of the cost of supply framework was considered the most practical path to comply with the court judgement as NERSA had put a lot of effort in ensuring that licensees submit the compliant cost of supply-based studies and licensees have also invested resources to ensure that they comply with the Energy Regulator decision of 2016 for licensees to conduct cost of supply studies.

#### **1.4. Service Quality Incentives (SQI) for Eskom Distribution for Year 2021/22**

The Energy Regulator approved the reward amount of R69.05m to Eskom Distribution for its performance levels achieved for the third year (2021/22) of the fourth Multi-Year Price Determination (MYPD4) control period. The reward amount will be applied through the Regulatory Clearing Account (RCA).

The technical performance monitoring of Eskom Distribution is only based on technical parameters that are within the control of Eskom Distribution, these exclude Eskom Transmission and Eskom Generation.

The design of the Service Quality Incentives (SQI) scheme revolves around encouraging the utility to earn additional revenue if it improves its performance, forcing it to pay a penalty if its performance deteriorates, and allowing its revenue requirement if it maintains its existing performance. The performance targets run in parallel with each MYPD control period.

#### **1.5. Service Quality Incentives (SQI) for Eskom Transmission for Year 2021/22**

The Energy Regulator approved that there is neither reward nor penalty (R0.00) to Eskom Transmission for its performance levels for the third year (2021/22) of the fourth Multi-Year Price Determination (MYPD4) control period.

The technical performance monitoring of Eskom Transmission is only based on technical parameters that are within the control of Eskom Transmission, these exclude Eskom Distribution and Eskom Generation.

## **2. Petroleum Pipelines Regulation**

### **2.1. Bidvest Tank Terminals' application for the amendment of the conditions of a licence issued for the operation of petroleum storage and loading facilities, with auxiliary pipelines**

The Energy Regulator did not approve the application by Island View Storage (Pty) Ltd t/a Bidvest Tank Terminals ('BTT') for the amendment of its licence issued for the operation of petroleum facilities in Richards Bay, seeking to remove a Butane storage tank { previously used for liquefied petroleum gas (LPG) storage} from its licence.

On 19 March 2018, in accordance with section 15 of the Petroleum Pipelines Act, 2003 (Act No.60 of 2003) ('the Petroleum Pipelines Act'), the Energy Regulator approved the issuing of a licence to Island View Storage (Pty) Ltd t/a BTT for the operation of petroleum storage and loading facilities, with auxiliary pipelines, located at Harbour Arterial Road, Richards Bay, KwaZulu-Natal Province (Licence No: PPL.sf.lf.F3/323/2017).

On 7 March 2023, BTT submitted an application to the Energy Regulator for the first amendment of the conditions of licence issued for the operation of its petroleum facilities. BTT argued that Butane is not a licensable petroleum product and therefore applied to remove the tank converted to Butane service. However, NERSA held an opposing view that Butane is also a licensable petroleum product in terms of the Petroleum Pipelines Act, 2003; and that the tank should remain licensed. The Energy Regulator did not approve the amendment as applied for by BTT.

The detailed Decisions and Reasons for the Decision documents regarding the above decisions will be available on the NERSA website: [www.nersa.org.za](http://www.nersa.org.za) in due course.

**End.**

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