

ROLE OF THE NATIONAL ENERGY REGULATOR (SOUTH AFRICA)



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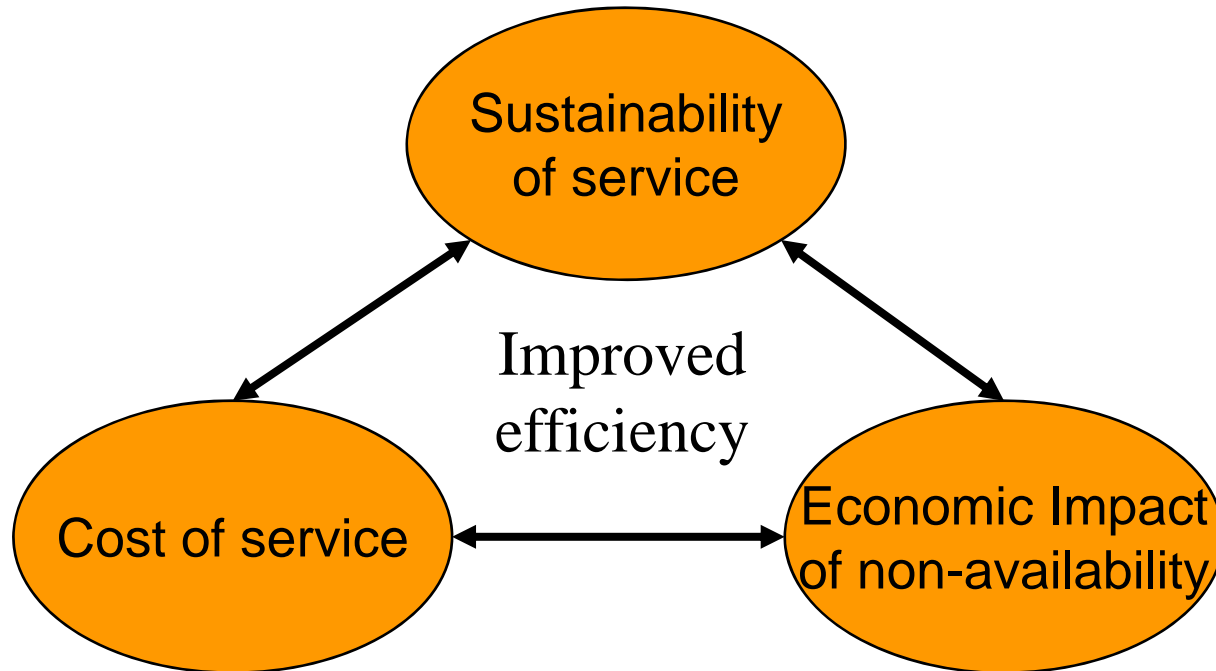
OUTLINE OF PRESENTATION

- Regulatory Principles
- South African Energy Regulation
 - Legal framework
 - NERSA Act
 - NERSA Secretariat
 - Impact of NERSA on electricity industry
- Regulation of International Trade
- Oversight of System Expansion

TYPES OF REGULATION

- Economic regulation
- Technical regulation
- Health, safety and environment regulation
- Security

KEY ELEMENTS OF ECONOMIC REGULATION



HISTORY OF ENERGY RELATED LEGISLATION

- 1987 Electricity Act
- 1995 Establishment of Electricity Regulator
- 1996 Constitution
- 2000 Promotion of Administrative Justice Act
- 2001 Gas Act
- 2003 Petroleum Pipelines Act
- 2004 National Energy Regulator Act
- 2005 Establishment of Energy Regulator

NATIONAL ENERGY REGULATOR ACT

- Combines the non-technical aspects of the Electricity, Gas and Petroleum Pipelines Acts and deletes these provisions from the three Acts.
- Establishes a National Energy Regulator to administer all three Acts and related legislations (regulations, levies)
- Passed by Parliament, operationalised on 15 September 2005

SECTION 4 : FUNCTIONS

- Undertake functions of Gas Regulator (Section 4 of Gas Act)
- Undertake functions of the Petroleum Pipelines Regulatory Authority (Section 4 of Petroleum Pipelines Act)
- With effect from a date determined by the Minister by notice in the Gazette, undertake the functions of the NER (Section 4 of Electricity Act); after 31 May 2005

FUNCTIONS OF NERSA

- Regulation of monopolies
- End-user tariffs
- Service and performance standards
- Regulation of entry (licensing)
- Facilitate open access and trade
- Enforcement of rules
- Ensure safety of installations (Gas and PP)

SECTION 5 : COMPOSITION OF THE ENERGY REGULATOR

- Four full-time members: CEO, electricity, gas, petroleum pipelines; term of office 5 years renewable
- Five part-time members: Chairperson and Deputy Chairperson; term of office 4 years renewable
- The quorum is a majority of the serving members or four members, whichever is the greater

SECTION 8: MEETINGS

- Open to public unless privileged record created in terms of the Promotion of Access to Information Act (Act No 2 of 2000).
- Record of proceedings.
- Regulator may establish sub-committees of its members to perform specific functions
- Functions can include hearings, enquiries and tribunals

SECTION 10: DECISIONS OF REGULATOR

- Legally consistent.
- In public interest.
- Procedurally fair.
- Based on facts and evidence.
- Written.
- Explained.
- Appeal for review to High Court.

FUNDING, ACCOUNTING & REPORTING

- Money appropriated by Parliament .
- By levies by separate legislation.
- Charges for dispute resolution.
- Licence fees.
- Public Finance Management Act, 1999.
- Accounts audited by Auditor General.
- Annual report.

NERSA SECRETARIAT SKILLS

- Economic regulation
 - economic skills and access to specialist skills,
 - general industry knowledge,
 - detailed knowledge of the range of regulatory instruments available, and
 - quantitative and analytical skills in order to carry out analyses.
- Technical and safety regulation
 - industry knowledge, and
 - technical expertise (e.g. engineering-based asset management, reliability, quality of supply).

Impact of regulation on Eskom and the ESI

- 3 Licenses for Eskom
 - Generation, Transmission, Distribution
- 174 Municipal Distribution Licenses
- Independent & Municipal generators licenses
- Rate-of-return methodology (ROR)
 - Regulates profit of Eskom
 - Claw-back mechanism
 - Costs need to be incurred in electricity supply

Impact of regulation on Eskom and the ESI (2)

- **Tariff restructuring**
 - Ensure cross-subsidy to poor communities and rural areas
 - Move towards cost-reflectivity
 - Development of wholesale pricing mechanism for industry restructuring
- **3-Year determination for Eskom**
 - Improved predictability
 - Re-openers in exceptional cases
 - Performance incentives/penalties for licensee

Impact of regulation on Eskom and the ESI (3)

- Technical and service performance limits
 - NRS 047 and NRS 048 standards
- Grid Code
 - Minimum technical requirements for connection to network
 - Technical, service and information obligations of licensees
 - Planning criteria for network investments

Impact of regulation on Eskom and the ESI (4)

- Auditing compliance to license conditions
 - City Power technical audit
 - Technical audits on large Distributors
 - Western Cape interruption investigations
 - Licensee audits for generation, transmission and distribution
- Monitoring technical and financial performance
 - Annual returns
 - Power Quality performance specification

Impact of regulation on Eskom and the ESI (5)

- Integrated resources plan for Generation expansion
 - Plan of next power stations
 - Energy efficiency and Demand-side management
 - Tenders for new generation capacity
- Municipal Tariff applications
 - 150 assessments done annually
 - Tariff rationalisation

REGULATION OF INTERNATIONAL TRADE

- Electricity Regulation Act makes the import into or export from South Africa of electricity a licensed activity. The following are regulated:
 - Tariffs and revenue
 - Format and content of agreements
 - Quality of supply
 - The persons with whom contracts may be signed
 - The types of energy sources

DEVELOPMENT ACTIVITIES REGARDING INTERNATIONAL TRADE

- International Pricing (export) framework
- International trading framework (Covers imports/exports and the conditions for contracting)

GENERATION EXPANSION OVERSIGHT

- Eskom is supplier of last resort
- NERSA license power stations in accordance with National Integrated Resource Plan (NIRP)
- NIRP developed by NERSA – Version 3 in progress
- Advisory & Review Committee provides direction

TRANSMISSION EXPANSION OVERSIGHT

- Eskom is national supplier with obligation to provide open access
- Apart from license the Grid Code determine expansion methodology and obligations
- Grid Code determines shared and dedicated assets
- Evaluates projects for compliance to investment criteria
- International tie-lines treated seperately from national grid

Regional Electricity Regulators Association

- Established to provide co-ordination of regulatory matters of regional nature
- Capacity building and co-operation
- Increased importance as regional electricity trading increases.



THANK YOU!