



Eskom Update

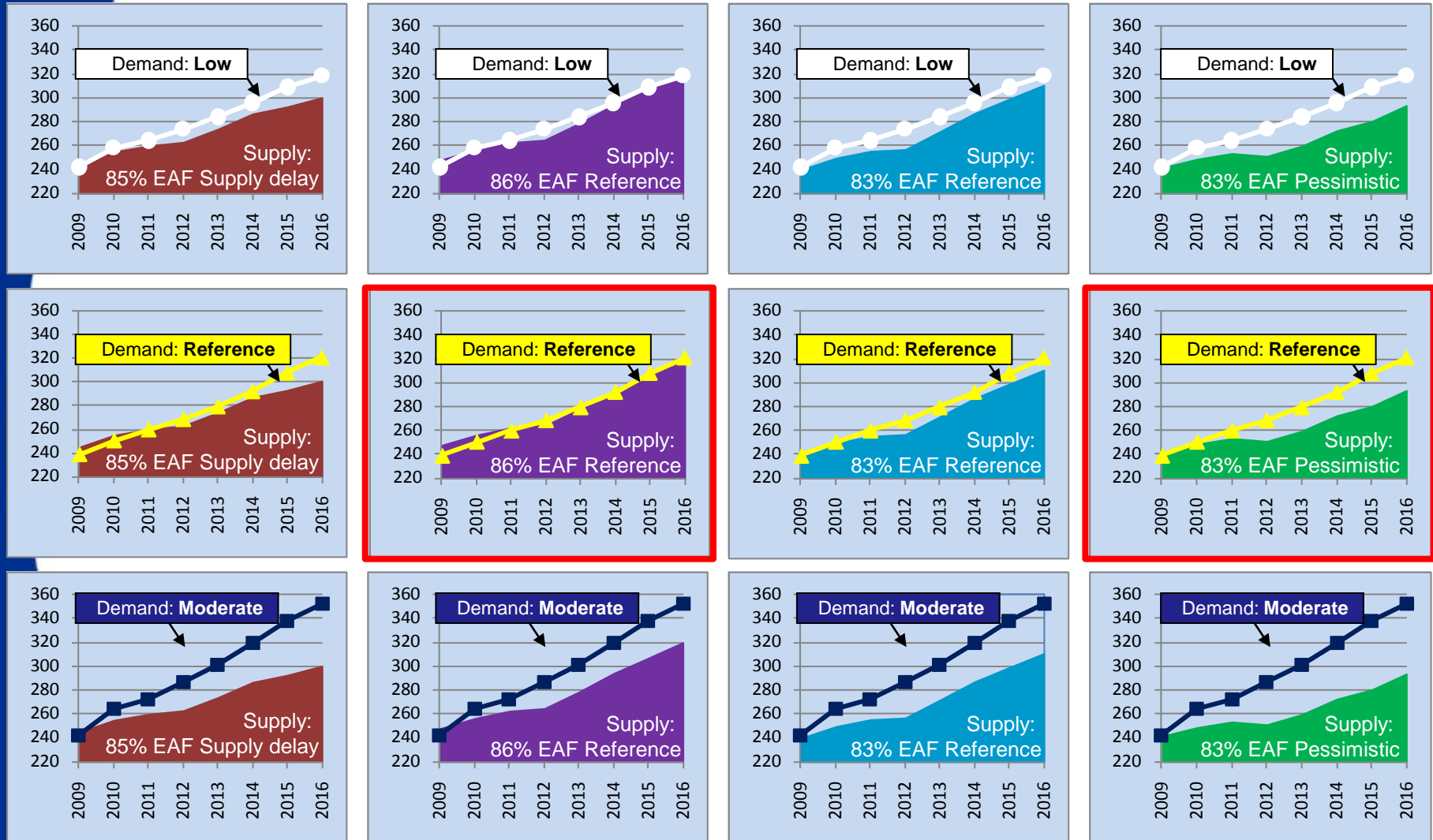
3 December 2009

Facilitating the South African Dream

Energy Policy

- Nuclear Fleet Strategy
- Solar Fleet Strategy
- Importing power from regional gas and hydro sources
- Diversity of energy sources
- Adequacy criteria for generation and transmission
- The Department of Energy's Energy Efficiency policy including the target of installing 1,000,000 solar water geysers by 2014
- IPP
- Renewable Energy Feed-in Tariff programme
- Goal of universal access
- Role of clean coal technologies

Alternate demand / supply scenarios



Introduction Process

30 September 2009

Proposed MYPD 2 application submitted to NERSA, National Treasury and SALGA as per Municipal Finance Management Act.

October 2009

Stakeholder engagements

November 2009

Feedback from SALGA and National Treasury

30 November 2009

Revised application submitted to Nersa

11-21 January 2010

NERSA public hearings

24 February 2010

Decision by Nersa

1 April 2010

Implementation Eskom customers

1 July 2010

Implementation Municipal customers

Key pillars of the application

- 1 The role of Eskom in the economy**
- 2 Resolving the funding model for the build**
- 3 The cost of keeping the lights on**
- 4 Invest for the future needs of the country in a sustainable manner**
- 5 Allow for entrance of IPPs**
- 6 Address the impact on economically vulnerable communities**

How to achieve balance?

Sustainable balance sheet

- Ensure long term delivery of capacity
- Level competitive playing field by introducing IPP's
- Minimise risk of disruptions (adequate reserve margin)
- Price evolution to ensure funding

Trade-offs Required

- No disruptions
- Low energy prices
- Acceptable rate of price increases
- Certainty of price evolution
- Security of supply
- Equitable access
- Affordability for poor

Eskom considered two alternatives

A

Once-off increase

- 146% increase in year 1 from 33-83c
- 12% increase in year 2 from 83-93c
- 12 % increase in year 3 from 93-104c

Significant increase in year one will have major impact on customers and economy

B

Smoothing option

- Smoothed over 3 years
- 45%, per year, over 3 years
- Price increase over period to 99c/kWh
- R30bn cash shortfall in Eskom
- Eskom will look into other funding interventions to address the expected shortfall

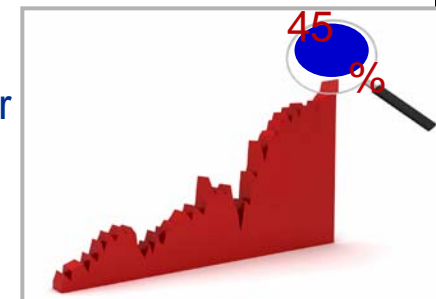
Preferred option as it is progressive over a period

Economic Impact

Feedback from stakeholders: South Africa's choice



- 1 The high tariff increase has a significant risk on jobs and GDP growth
- 2 South Africans generally understood the need for an increase in price but preferred lower prices
- 3 There was a call for Eskom to spread its risk through partnerships
- 4 Stakeholders requested that we factor in additional efficiency savings
- 5 Equity and borrowings should be extended
- 6 Eskom should include more innovative solutions to offer secure electricity for today and the future



Path to achieve country's choices

Areas of opportunity:

- Demand reductions
- New Capacity and Re-phasing
- Cost reductions
- Additional funding

Eskom's new alternative

New

New alternative

- Smoothed over 3 years
- 35%, per year, over 3 years
- Price increase over period to 70c/kWh
- R14bn cash shortfall in Eskom
- Eskom will look into other funding interventions to address the expected shortfall
- A re-opener may be necessary if our funding assumptions do not materialise

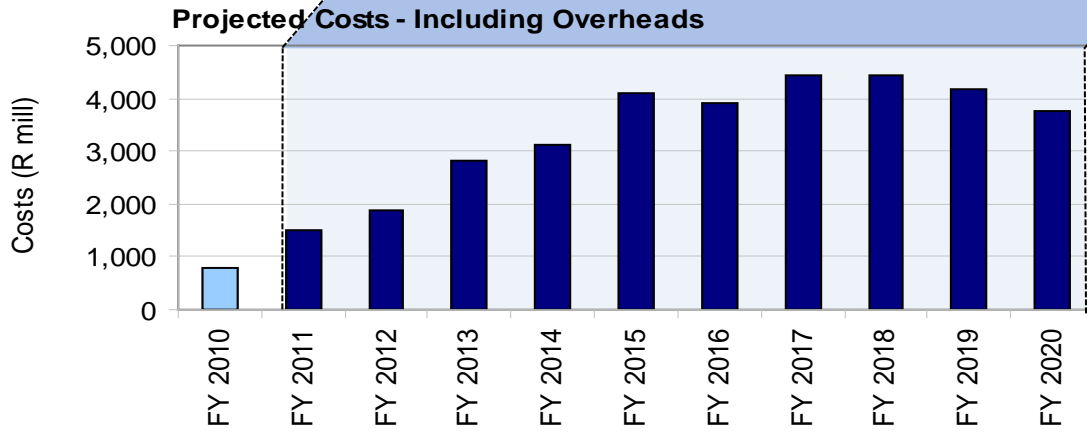
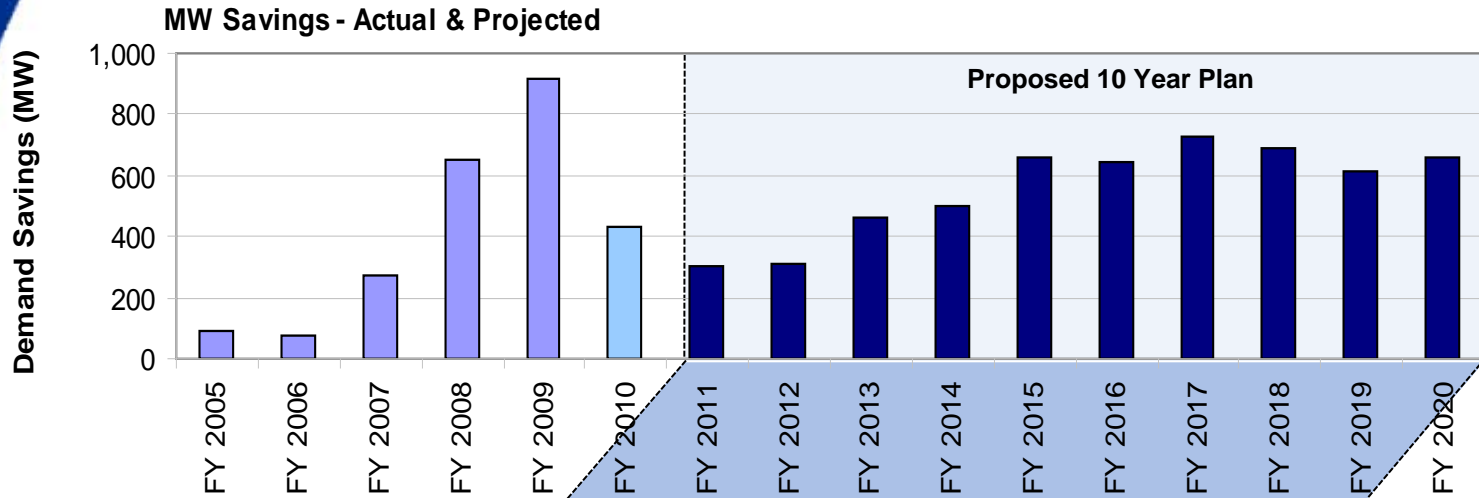
Not all risks are within control of Eskom & participation of stakeholders necessary to manage these risks

Old

Previous alternative

- Smoothed over 3 years
- 45%, per year, over 3 years
- Price increase over period to 99c/kWh
- R30bn cash shortfall in Eskom
- Eskom will look into other funding interventions to address the expected shortfall

EEDSM 10 Year Plan



**10 Year
Commitment:**

**R34,bn for
5 557MW
& 19 423GWh
@R6.14m/MW**



Enablers for a lower tariff scenario to work

Demand

- The institutional framework for the Power Conservation Programme needs to be finalised

Capacity

- For IPPs to be commissioned in time, the process needs to be driven at a co-ordinated country level
- Support needed to postpone the DoE IPP

Primary energy

- Provincial Governments to maintain roads to a standard that enables Eskom to transport coal securely

Enablers for a lower tariff scenario to work

Efficiencies

- To engage trade unions that salary increases to be curbed to CPI
- Retention of headcount
- Thorough inspection and controls over RTS stations to avoid excessive maintenance

Funding

- Govt funding for DSM to enable demand reduction (minimum 2000 MW)
- Equity party is found to ensure access to capital within the next 24-36 months
- Increased utilization of government guarantees to support a borrowing program of about R50bn per annum. In addition flexibility on non-traditional sources of funding may be required
- Additional government guarantees to enable PPAs to be signed with IPPs

Thank You