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**SUMMARY OF CHANGES ON THE ELECTRICITY MULTI-YEAR PRICE
DETERMINATION TARIFF METHODOLOGY**

JULY 2024

1 INTRODUCTION

The Electricity Supply Industry (ESI) in Eswatini is undergoing transformation due to legislative and policy reforms as well as technological developments. These changes are anticipated to result in multiple licensees operating within the sector with a greater degree of private sector participation.

These market reforms have made it necessary that the Multi-Year Price Determination Tariff Methodology (MYPD Tariff Methodology) and Operating Reporting Manual-ORM (Pricing model), to be used for regulating tariffs and charges in the ESI, be revised to accommodate the evolving needs of the sector. The current MYPD Tariff Methodology and ORM model came into effect in June 2011. The Authority requested GET.transform for Technical Assistance (TA) to review the Electricity MYPD Tariff Methodology and ORM-pricing model.

2 PURPOSE

The purpose of the document is to provide a summary of changes between the existing Tariff Methodology and the Proposed Tariff Methodology, to highlight the key changes proposed and therefore allow stakeholders to particularly appreciate these and be in a position to provide considered comments on these key changes.

3 SUMMARY OF CHANGES

The below is the summary of changes. Stakeholders are urged to go through the full document of the Tariff Methodology over and above the summary of changes and provide written feedback by 24 July 2024.

Description/section	Change and Rationale
Legal Framework	No Changes to the legal framework. The Electricity Act specifies that the electricity prices are regulated by the Authority in accordance with a defined and approved Tariff Methodology.
Market Structure	<p>Existing Tariff Methodology: Based on the market structure at the time, the Tariff Methodology focused primarily on Public Utility tariffs to end users.</p> <p>Proposed Tariff Methodology: will accommodate the evolving needs of the sector such as ringfencing of licensed activities in utility operations, increased private sector participation in the ESI as allowed by Market Structure and adoption of incentive-based regulation. The Tariff Methodology will see the Revenue Requirement being determined per licensed power sector activity (generation, transmission, system operation (embedded in transmission), distribution, and supply).</p>
Objectives of the Tariff Methodology	No Changes

<p>Key Features of the Tariff Methodology</p>	<p>Existing Tariff Methodology: focused entirely on the regulation of the Public Utility's tariffs.</p> <p>Proposed Tariff Methodology: takes account of the developments within the ESI and addresses the needs of Eswatini's evolving market structure. The Proposed Tariff Methodology introduces the below;</p> <ul style="list-style-type: none"> ➤ Tariff regulation categorization: Electricity sector participants in Eswatini will be categorized in the following broad categories. <ul style="list-style-type: none"> ✓ Category 1: This category will apply to licensees that apply the Allowed Revenue Regulation as the basis of the tariff determination. The licensees consist of (i) the Public Utility and (ii) private players who have a license but are a monopoly. ✓ Category 2: This category will apply to licensees who have long term Power Purchase Agreements (PPAs) and some form of contracts with the System Operator in the Public Utility. ✓ Category 3: This category will apply to licensees who also have long term PPAs but with parties other than the Public Utility and consists of willing buyers and willing sellers. ✓ The Proposed Tariff Methodology will apply to Category 1 and Category 2 participants and Category 3 will be on a case-by-case basis.
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	<ul style="list-style-type: none"> ➤ Regulation by ringfenced functions: The regulation principles are provided for each of the functions i.e., Generation, Transmission, System Operation (embedded in transmission), Distribution and Supply. ➤ Multi-Year Price Determination (“MYPD”) Period: The MYPD period shall be for a minimum of 2 years and maximum 5 years. A licensee can propose a period of any length from 2 years to 5 years, but the ultimate decision rests with the Authority. ➤ Re-opener: A provision that allows for tariff adjustments to be made before the lapse of the approved MYPD Tariff period as a result of changing circumstances to ensure that the licensee is able to recover its costs and maintain financial stability. ➤ Incentives/penalties: The methodology introduces the incentives/penalties scheme in order to encourage licensees to improve the technical and economic efficiency in the quality of service to its customers together with the introduction of an Allowance for Demand Side Management and Energy Efficiency for Supply Licensee. ➤ Historical contracts: The Tariff Methodology takes into account the impact of historical contracts on the revenue requirements of the affected licensees. ➤ Allocation of corporate overheads: The Tariff Methodology addresses the allocation of the corporate overheads for licensees that operate vertically integrated businesses. ➤ Revenue Streams and Transfer Pricing: The Tariff Methodology sets rules for the transfer of costs amongst licensees. Transfer pricing is important in this methodology where individual units in vertically
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	<p>integrated entities (such as the Public Utility's Generation, Transmission, Distribution and Supply licensees) are treated and measured as separately run entities.</p>
<p>Regulatory Formula Components: RAB</p>	<p>Existing Tariff Methodology stated that future assets are excluded from the rate base until they are used and useful. The existing Tariff Methodology further had a provision that at the Authority's sole discretion, under certain conditions and on proper and sound motivation by the licensee, a reasonable allowance can be granted to a licensee for special and strategic expansion projects that are in the interest of the sector.</p> <p>Proposed Tariff Methodology: states that future assets are excluded from the rate base until they are used and useful and there is no provision for an allowable return on special and strategic projects as the Proposed Tariff Methodology is designed to allow the utility to fund future investments. Earning a return on future assets would undermine economic efficiency.</p> <p>No changes on asset valuation.</p>
<p>Regulatory Formula Components: Rate of Return</p>	<p>No changes on the weighted average cost of capital. Cost of debt is pre-tax, and Cost of Equity is post tax. WACC formula is the same and cost of debt is then post tax upon applying the tax benefit (the 1 minus Tax element). The proposed Tariff Methodology provides more clarity on the formula compared to the doubt that may be caused by the existing Tariff Methodology.</p> <p>Elements for determining Capital Asset Pricing Model (CAPM) for cost of equity has an addition of a study undertaken to determine market risk premium, beta, target gearing.</p>

Regulatory Formula Components: Operating and Maintenance cost	No changes
Regulatory Formula Components: depreciation expense	No changes
Regulatory Formula Components: other charges	Proposed Tariff Methodology has an additional provision for other charges specific to the licensed power sector activity (e.g these charges will be specific to generation, transmission, system operation (embedded in transmission), distribution, and supply licensees).
Regulatory Formula Components: Reconciliation adjustments (RCA)	No changes on RCA except that the Proposed Tariff Methodology provides detailed clarity on how the reconciliation should be carried out (including exceptional events), Liquidation and an addition of the Re-opener (A provision that allows for tariff adjustments to be made based on changing circumstances to ensure that the licensee is able to recover its costs and maintain financial stability). Moreover, an addition of 3 thresholds to deal with the RCA variances.
Regulatory Formula Components: Corporate tax	The Proposed Tariff Methodology provides for a specific component on corporate tax to encourage private sector participation. The actual corporate taxes paid or to be paid during the MYPD tariff control period by the licensee, may be included in the determination of revenue allowed

<p>Planning Parameter</p>	<p>Existing Tariff Methodology: only accommodates inflation rate.</p> <p>Proposed Tariff Methodology: acknowledges that the determination of electricity tariffs depends on various economic parameters where uncertainties should be considered to maintain the economic sustainability of regulated licensees. Such parameters include:</p> <p>a) Inflation Rate; b) Foreign Currency; and c) Exchange rate</p>
<p>Tariff Application and Approval process</p>	<p>Existing Tariff Methodology: the Tariff review period was capped to 3 months with no clearly defined roles for the applicant and the Regulator.</p> <p>Proposed Tariff Methodology: has additional review period to allow for more robust stakeholder engagement. Moreover, the proposed Methodology has clearly defined roles for the applicant and Regulator.</p>