

## WHOLESALE ELECTRICITY PRICING – A PROGRESS REPORT



**Author & Presenter: Corrie Visagie - Marketing and Relationship Manager – Eskom**  
**Co-Author: Naresh Singh - Executive Director (Regulation) – National Electricity Regulator**

### 1. Introduction

Eskom developed a wholesale electricity pricing system (WEPS), in conjunction with the National Electricity Regulator (NER). Access to WEPS will be available to key industrial customers (KICs), municipalities as well as to future Regional Electricity Distributors (REDs) as from 1<sup>st</sup> January 2005. The NER will periodically revise and announce the qualification criteria for WEPS. WEPS is designed as a cost-reflective tariff to recover the cost of energy (generation), network services (transmission) and other costs necessary to deliver a wholesale electricity service. This will include costs for losses and wheeling through the distribution system. These costs will be unbundled to show the customer exactly what is paid for. Provision is made for levies and taxes that support socio-economic programmes.

The implementation of WEPS is driven by the need to put the necessary arrangements in place for the bulk purchasing of electricity by qualifying municipalities and large customers prior to the establishment of a wholesale electricity market.

According to government's strategy on the reform of the Electricity Distribution Industry (EDI), revised arrangements for the purchase of bulk electricity by municipalities and Eskom distribution is not dependent on the establishment of the REDs. WEPS will therefore provide a non-discriminatory wholesale price at which Eskom Distribution, qualifying large customers and municipalities – as well as REDs when they are formed – can purchase their electricity.

In this paper Eskom and the NER presents a progress report on the planned implementation of the Wholesale Electricity Pricing System (WEPS).

### 3. What is WEPS?

WEPS is designed as a cost-reflective tariff to recover the cost of energy (generation), network services (transmission) and other costs necessary to deliver a wholesale electricity service. This will include costs for losses and applicable. These costs will be unbundled to show the customer exactly what services are paid for. Provision is also made for levies and taxes that support socio-economic programmes.

### 3. WEPS Implementation Phases

The implementation of WEPS is a complex process and to ensure good order in the industry during implementation and especially to reduce the risks to the various parties, a phased implementation approach has been adopted.

- Phase 1 – Internal to Eskom
- Phase 2a – Retail unbundling to Eskom qualifying customers
- Phase 2b – Retail unbundling to Municipal qualifying customers
- Phase 3 – Wholesale Contracting
- Phase 4 - Electricity Market

Overlapping of certain phases may be possible due to the need to have WEPS ready for the first RED by July next year. Phase 2b and phase 3 may therefore overlap.

#### 3.1 WEPS - Phase 1

WEPS-Phase 1 was implemented internally within Eskom under the current Eskom structure applying the principles of transfer pricing between Eskom Divisions and thereafter proper wholesale contracting between Eskom Divisions.

### 3.2 WEPS - Phase 2

Phase 2a – To qualifying Eskom connected customers (which includes municipalities)

Implementing WEPS-phase 2 will mean that the electricity bill of customers will be unbundled and the respective cost components of a customer's tariff would be made transparent.

A charge will be levied to compensate for Eskom's loss of revenue due to converting from a standard tariff to the WEPS tariff. This is called the WEPS surcharge. The incentive for customers to participate in WEPS-Phase 2 is that they would be placed in a position whereby it would be possible to monitor and manage their contribution to subsidies as well as understanding the exact individual cost components and pricing signals of their electricity bills.

Phase 2b – To qualifying embedded municipal customers.

Municipal Key Industrial Customers will be able to get a transparent Retail bill based on the WEPS components as was done for Eskom customers during Phase 2a. The same principles will apply.

The NER will be responsible for this process.

### 3.3 WEPS-Phase 3

WEPS-Phase 3 will have to be implemented before the creation of the first RED to enable the RED to procure its energy requirements. Eskom would be signing separate contracts for energy and wires due to different interfaces required, although it would most probably still be one company. The NER will develop additional appropriate qualifying criteria for this phase such as financial guarantees.

### 3.4 WEPS Phase 4

Qualifying WEPS customers, retailers and traders will become participants in the electricity market and will be bound by the market rules. However, WEPS customers who would not want to be exposed to the risks of the electricity market (volatile prices) could then purchase their electricity from a retailer, trader or through a broker of their choice.

### 4. WEPS Implementation

To ensure the smooth implementation of WEPS, the following initiatives will take place as from September 2004 to address implementation of WEPS phase 2 a:

Activity	D-date
NER board to decide on Eskom's 2005 price increase	21 October 2004
Eskom to meet with the WEPS Special Task Team to share the roll-out plan of WEPS Phase 2a taking into account the annual Eskom price increase	26 October 2004
WEPS rates for 2005 to be decided upon by the NER	3 December 2004
WEPS implementation of NER approved WEPS customers	1 January 2005

The following additional steps will be taken to prepare for the roll-out of WEPS during the above period:

- A WEPS impact study will be conducted
- A WEPS quotation will be prepared for qualifying key industrial customers and municipalities that intend participating in WEPS
- Quotation will be accepted or rejected
- Enter into contract negotiations for those qualifying key industrial customers and municipalities accepting the quote
- Supplementary agreements will be finalised and signed
- The relevant customers will be registered on Eskom's billing system

Communication with the qualifying key industrial customers and municipalities is critical. To facilitate this, a detailed communication package will be developed that will be used as a communication tool by all Eskom Customer Executives. The Eskom Customer Executives will be briefed and the package and its contents will be presented to them to ensure that they are fully equipped. The communication package will be updated with the approved WEPS rates.

## **6. Conclusion**

WEPS is a fully unbundled pricing system which splits wires and energy components clearly and giving customers detailed information on all the cost components, including levies and taxes. From Phase 3 onwards, customers will be required to contract separately for the unbundled services, either by creating an in-house capability or by contracting this service out.

Customers converting to WEPS will initially only save to the extent that beneficial load shifting can be achieved. However, the savings could increase gradually as the NER considers the phasing out of the WEPS surcharge.

Customers should also be aware that WEPS may still be further refined. It is therefore inevitable that NER-approved changes will from be made to WEPS principles, structure and rates from time to time. The most significant changes can be expected when the WEPS energy tariff is superceded by market prices in terms of the multi-market model that is currently under consideration by Government.

It should be noted that this document is not a comprehensive treatment of WEPS. Eskom's Key Customer Executives can be asked for details on specific WEPS policy and more clarity on implementation issues. The NER website also contains additional information.

## **7. References**

- 5.1 NER website
- 5.2 Minutes of WEPS meetings between Eskom and the NER