



Eswatini Electricity Company (EEC) Regulatory Clearing Account 2020/21

Performance Analysis for the Third Quarter

Introduction

The Regulatory Clearing Account (RCA) is a mechanism for reconciling the licensee's allowed revenue requirement with the actual results. The Eswatini Electricity Supply Industry (ESI) uses a rate of return methodology to set a revenue requirement and subsequently, tariffs for the regulatory period.

The revenue requirement or allowed revenue is based on forecast economic and business variables. This gives the level of costs expected to be incurred in supplying electricity to consumers. Revenue recovery is a mechanism by which the costs of electricity supply are recovered from the consumers. This includes energy charges, facility charges, access charges and demand charges. The RCA aims to reconcile the actual financial performance with the budgeted and any variations recorded so that they can be recouped in future tariff applications. Depending on the changes in the assumed economic and business variables, the RCA can either have an over-recovery, where by the utility has recovered more revenues than allowable costs, or under-recovery position, where by recovered revenues do not cover allowable costs. Whereas over-recoveries reduce future revenue requirements, under-recoveries on the other hand increases future revenue requirements.

The 2020/21 RCA

We will recall that the 2020/21 tariff adjustment was suspended as a response to the difficulties brought about by the COVID-19 pandemic. The RCA is therefore based on the revenue allowance for the financial year 2020/21, as well as taking into consideration that tariffs will remain the same for the period. Below is a summary of the Revenue Requirement and the projected revenue recovery streams.

Table 1: Budgeted Annual Revenue Requirement

2020/21	
Allowed Revenue	Szl
Cost of Sales	1,583,995,958
Opex	574,941,657
Depreciation	171,016,440
RCA & Return on RAB	260,250,129
Total Allowed Revenue	2,588,162,984

Table 2: Recovery Streams for Annual Revenue Requirement

2020/21	
Revenue Recovery	Szl
Energy Charges (SZL)	1,823,385,538
Demand Charges (SZL)	352,643,386
Facility Charges (SZL)	72,163,402
Access Charges (SZL)	155,561,385
Total Revenue Recovered	2,403,753,711

Third Quarter Performance (October- December 2020)

ESERA continued to monitor the performance of the utility during the third quarter of 2020/21 against the EEC's revenue allowance. The actual revenue requirement was E573.93 million against a budget of E624.90 million whilst revenues recovered were E581.59 million against a budget of E574.01million. This can be seen in table 3 below. Cost of sales were 8% below the budget due to increase of low-priced imports from the Day-Ahead-Market and EDM, replacing expensive imports from Eskom. Opex was 11% lower than the budget. This is mainly due to delayed dredging of dams by EEC and less than projected adverse events on networks. Depreciation was 8% below budget as many capital projects stalled.

The average electricity tariff for the quarter was E1.96/kWh against a budgeted average price of E2.04/kWh for the quarter. This is was mainly due to energy mix differing from the projections, as some of planned Eskom imports were displaced with imports for EDM and the SAPP day-ahead-market. Year to date, the average price was E2.09 kWh (against budgeted E2.13/ kWh) The RCA balance stood at E38.70 million under-recovery, indicating a possible future increase in revenue requirement.

Table 3: Summary of Third Quarter Revenue Requirement and Recovery Streams

	Quarter 3			
	Budgeted	Actual	Variance	
Allowed Revenue				
Cost of Sales	381,981,881	349,845,583	32,136,298	8%
Opex	138,506,321	123,255,533	15,250,789	11%
Depreciation	42,751,610	39,164,475	3,587,135	8%
Return on RAB & RCA	61,660,075	61,660,075	-	0%
Total Allowed Revenue	624,899,887	573,925,665	50,974,222	8%
Revenue Recovery				
Energy Charges (SZL)	438,725,644	445,935,452	(7,209,807)	2%
Demand Charges (SZL)	78,357,521	81,452,321	(3,094,800)	4%
Facility Charges (SZL)	18,040,850	17,529,844	511,007	3%
Capacity Charges (SZL)	38,890,346	36,672,595	2,217,751	6%
Total Revenue Recovered	574,014,363	581,590,212	(7,575,849)	1%

Table 4: Year-to-date Performance

	Year to Date			Variance
	Total Annual Budget	Budgeted Year to date	Actual Year to date	
Allowed Revenue				
Cost of Sales	1,583,995,958	1,206,042,465	1,095,292,412	9%
Opex	574,941,657	436,049,479	380,917,959	13%
Depreciation	171,016,440	128,264,830	118,493,772	8%
Return on RAB & RCA	258,208,929	190,236,005	190,236,005	0%
Allowed Revenue	2,588,162,984	1,960,592,780	1,784,940,148	9%
Revenue Recovery				
Energy Charges (SZL)	1,823,385,538	1,345,498,113	1,346,132,118	0%
Demand Charges (SZL)	352,643,386	254,679,214	239,498,430	6%
Facility Charges (SZL)	72,163,402	54,122,551	52,113,737	4%
Capacity Charges (SZL)	155,561,385	116,671,039	108,491,451	7%
Revenue Recovered	2,403,753,711	1,770,970,917	1,746,235,736	1%

Table 5: Accumulative RCA Balances and Year-to-date Balance

Under/ Over-recoveries				
Budgeted Costs vs Actual Costs	Budgeted Costs	Actual Cost	Variance	Variance
Quarter 1	630,888,024	585,792,249	45,095,775	7.1%
Quarter 2	704,804,869	625,222,233	79,582,636	11.3%
Quarter 3	624,899,887	573,925,665	50,974,222	8.2%
Quarter 4	-	-	-	0.0%
Y-T-D	1,960,592,780	1,784,940,148	175,652,632	9.0%
Budgeted Revenues vs Actual Revenues	Budgeted Revenues	Actual Revenues	Variance	Variance
Quarter 1	583,817,688	554,159,832	(29,657,856)	5.1%
Quarter 2	613,138,867	610,485,692	(2,653,175)	0.4%
Quarter 3	574,014,363	581,590,212	7,575,849	1.3%
Quarter 4	-	-	-	0.0%
Y-T-D	1,770,970,917	1,746,235,736	(24,735,181)	1.4%
Actual Costs vs Actual Revenue	Actual Costs	Actual Revenues	Variance	Variance
Quarter 1	585,792,249	554,159,832	(31,632,417)	5.4%
Quarter 2	625,222,233	610,485,692	(14,736,541)	2.4%
Quarter 3	573,925,665	581,590,212	7,664,547	1.3%
Quarter 4	-	-	-	0.0%
Y-T-D	1,784,940,148	1,746,235,736	(38,704,411)	2.2%