



**MEDIA RELEASE
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**RMB PROPOSES INNOVATIVE SOLUTION TO
ELECTRICITY TARIFF CRISIS**

Rand Merchant Bank (RMB), a division of FirstRand Bank Limited, today unveiled an innovative proposal aimed at solving the impasse over the current electricity tariff hikes.

The proposal calls for the establishment of a transparent power market listed on the Johannesburg Stock Exchange and a two-tiered pricing structure. According to RMB commodities trader Bevan Jones, large industrial users will, under the proposed structure, have the price of their electricity linked to coal, while domestic households will benefit from Eskom's fixed-price coal contracts.

As fuel costs are clearly the major input cost for electricity, this type of electricity pricing model is implicit in European and other deregulated energy markets world-wide. A German utility, for instance, has to buy South African coal, ship it to Rotterdam, burn it and then sell the resulting power at a high enough price to also cover their carbon emissions, operating costs and capital costs for their new build stations. Currently Eskom does not need to cover its cost of carbon.

RMB's proposal is an attempt to ensure that the increases in tariff required due to volatile fuel costs and Eskom's build programme are appropriately positioned for the diverse needs of its customers.

"The two-tiered tariff structure ensures that those users paying market-linked prices can hedge their exposure, while households are shielded from sharp price increases," says Ebrahim Patel, commodities analyst at RMB. "The aim is to make financial markets work for both the financially vulnerable as well as the financially able."

The structure will ensure that Eskom's finance needs are catered for through fixed margins irrespective of the coal price while, at the same time, ensuring that South African power remains internationally competitive.

A listed power market will provide price certainty to outside investors and independent power producers. "RMB feels that the ability of industrial users to hedge through the financial markets will soften the impact on industry and help preserve jobs in energy-intensive sectors. Our strategy, while commercially viable and profitable, is also steeped in a sense of social justice and fairness," says Jones.

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