



PIETERMARITZBURG AGENCY FOR COMMUNITY SOCIAL ACTION



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Addendum to PACSA's submission on Msunduzi Municipality's 2013/14 draft proposed rates and tariffs.

Realisation of free basic electricity for prepaid households at NO COST to Msunduzi Municipality

**Submitted by PACSA
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Please accept our addendum to PACSA's submission dated 25 January 2013. This submission shows how the municipality can provide free basic electricity to all households on the prepaid meter system at no cost to the municipality by utilizing the over-recovery in the prepaid pricing structure. Our proposal shows that around 150kWh of free basic electricity can be provided to all poor households on the prepaid meter system with no loss of revenue to the municipality. The proposal can be implemented immediately.

(Please see calculations over page).

Background to our proposal:

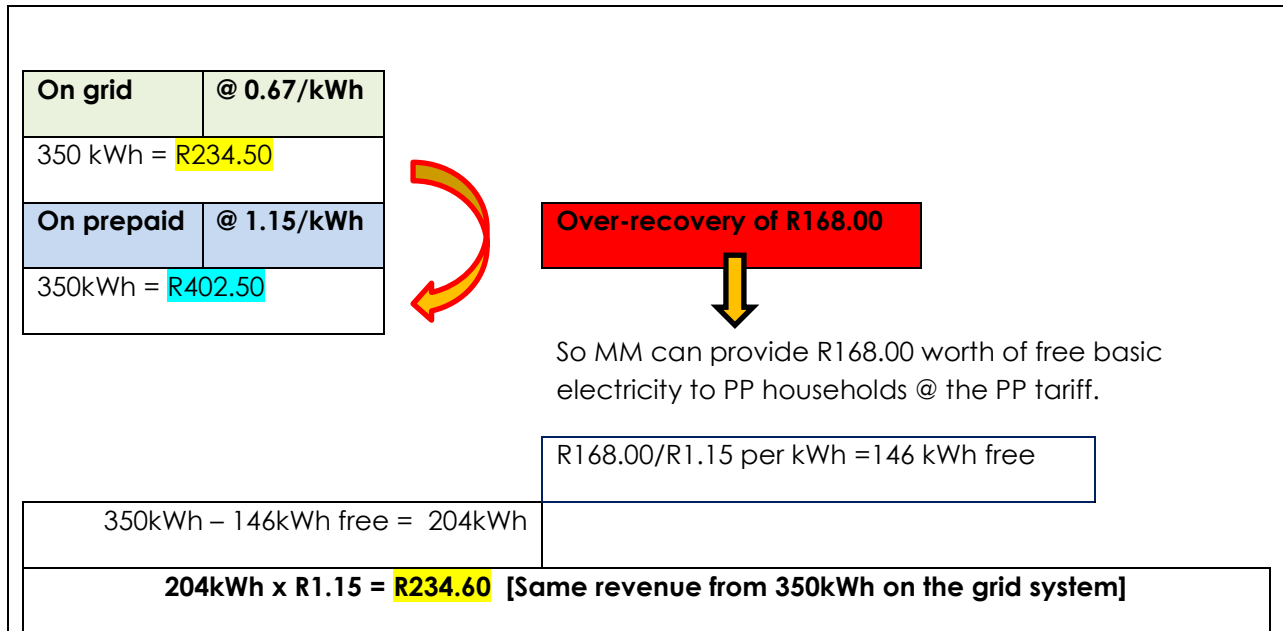
- In October 2010 Council passed a resolution to provide all poor households with 200kWh of free basic electricity per month. The local ANC's 2011 campaign manifesto reiterated this commitment.
- For a period grid households were provided 200kWh free basic electricity per month. Prepaid households were excluded.
- Under the current 2012/13 term free basic electricity has been reduced to 50kWh free basic electricity for qualifying households on the grid system. Prepaid households are still excluded.
- Electricity consumption for low-income households in Pietermaritzburg averages at 382kWh per month.¹
- The per kilowatt charge for prepaid households is substantially higher than that of grid households (0.67/kWh vs. 1.15/kWh at 2012/13 tariffs and 0.81/kWh vs. 1.36/kWh at proposed 2013/14 tariffs).
- Prepaid households pay for their electricity up front (there is no financial risk to the municipality regarding non payment; nor is there any administrative cost: tokens are outsourced via vendors, there is no metering involved and nor is there any disconnection fees since households effectively disconnect themselves).

Benefits we see in our proposal:

- Free basic electricity for prepaid households can be implemented with no loss of revenue to the municipality.
- It can be implemented immediately.
- It will equalize the tariff costs for prepaid households and grid households up to 350kWh.
- It will ensure the realization of the right to all poor households to free basic electricity.
- A volume of around 150kWh free basic electricity sends a strong message to the electorate that the municipality is substantially committed to improving lives.
- Providing free basic electricity on the prepaid system specifically targets the poor.
- Since the free volumes provided for by way of this proposal are financed via over-recovery in the current prepaid pricing structure; space is opened up for the augmentation of free volumes by the use of other traditional funding instruments (e.g. the Equitable Share) and cross-subsidies.

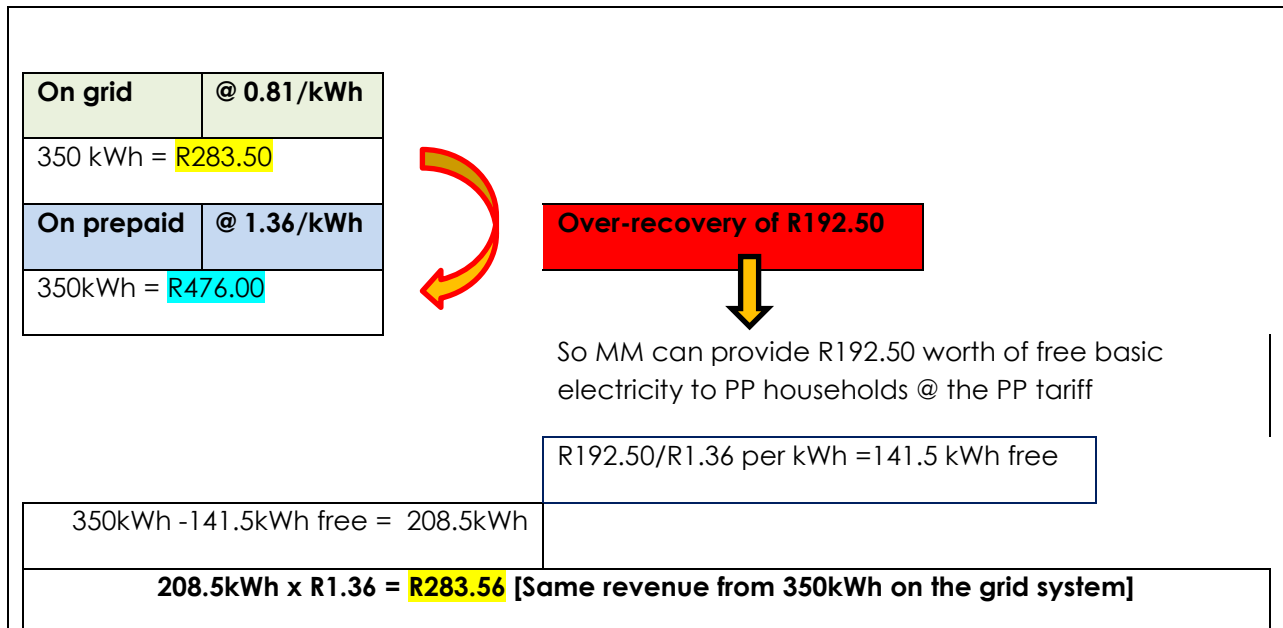
¹ Abrahams M (2010). Does the Free Basic Electricity policy lift the energy burden on poor households? Pietermaritzburg Agency for Christian Social Awareness [PACSA], Pietermaritzburg. October 2010.

Realising free basic electricity at current 2012/13 tariffs



In summary: At current 2012/13 tariff MM can provide 146kWh free basic electricity to all prepaid households at NO COST.

Realising free basic electricity at proposed 2013/14 tariffs



In summary: At proposed 2013/14 tariff MM can provide 141.5kWh free basic electricity to all prepaid households at NO COST.

A similar formula can be applied to the FINAL negotiated tariff increase passed.