

30 May 2015

NERSA
PO Box 40343
Arcadia
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Pretoria

Dear Sir/Madam

Re: Submission into NERSA decision on Eskom's MYPD3 selective reopener application.

We wish to thank you for the invitation to make a written submission on Eskom's MYPD3 selective reopener application. We call on NERSA to reject Eskom's application for a 25.3% increase and immediately put steps in place at local government level so that municipalities mitigate the effects of the already passed 12.69% for their citizens. Eskom's application for a 25.3% increase currently before you comes at a time when the majority of working class households are struggling to put food on the table. A 25.3% increase in electricity tariffs will have a devastating impact on South African households and our future trajectory as a nation. Eskom's excessive price hikes in electricity tariffs have long ago breached our ability to pay. The 25.3% increase will be our tipping point.

For the majority of poor working class households in South Africa: food, electricity and transport may comprise as much as 90% of a households' monthly expenditure. All 3 costs for most households have long exceeded affordability thresholds. A 25.3% increase on electricity, in a context where low incomes remove the possibility of absorbing such increases and where most families already have reduced their electricity consumption to the most barren level will mean that monies will have to be found either by reducing food or transport. Transport is tricky as workers need to work; so monies will be sought from within the food budget. An increase in electricity at the levels which Eskom is asking for will directly impact on food purchased. Health, well-being and productivity come from the body – eating less food or foods of poorer nutritional value adversely affect our education, health and economic outcomes. We are already seeing this. Our health system is overwhelmed by common illnesses which could ordinarily have been remedied through a good plate of food; our children are struggling to learn at school; many of our workers do not eat enough energy to work.

PACSA tracks the price of a monthly basket of food for low-income households. Last year households told us they were only able to afford to spend between R600 and R1000 on food. In April 2015, the cost of the PACSA food basket was R1629.04. This is 41% or R1 138.32 less than the R2 767.36 required to secure a basket of food to meet a basic level of nutrition for health and well-being for a family of five. Between January 2015 and April 2015, the price of a 25kg bag of maize meal, the staple food for the majority of South Africans, increased by 11.05% to R164.16.

In Pietermaritzburg the 25.3% increase will move the monthly electricity expenditure for households on prepaid meters and using a low average of 350kWh per month from R465.50 to R584.50 – an increase of R119.00 per month (from R1.33 to R1.67 per kWh). South Africa's latest poverty lines indicate that 53.8% of South Africans live below R779 a month, of whom eleven million people or a fifth (21.7%) of our population live on less than the food poverty line of R335 a month or R11.17 a day. STATSSA's latest Quarterly Labour Force Survey for the 4th quarter (2014) shows that only 43% of the total working-age population is employed (15 million out of 35 million people). Its mid-year population figures for 2014 shows that our entire population of 54 million people is supported by just 28% of people. In February the Minister of Finance increased the CSG by 3.1% or R10, from R320 to R330 a month. The old age pension was increased by R60 (4.4%) from R1350 to R1410 a month. Cost recovery as a principle to access a public good is only just when those affected have the means to pay the costs. Increasing electricity costs by 25.3% in our current context makes cost recovery unreasonable. It might

also have the effect of forcing people to tamper with electricity because they cannot afford that essential service.

We can no longer afford to pay the excessive amounts that Eskom, with increasing nonchalance, is demanding. Our pockets can no longer fund Eskom. Other sources of funding are available and must be pursued. NERSA is our regulator also. It has to consider whether a 25.3% increase is affordable for us, particularly those of us – the majority – who are struggling. If NERSA's consideration is informed by the reality in which we find ourselves; then it must reject Eskom's application. If it does not then the state must abandon the notion that tampering with electricity is a crime. It must accept responsibility that it has forced people to act outside its laws.

PACSA has warned since July 2014 that the excessive price hikes in electricity tariffs have long breached our ability to pay for it. We have warned that electricity tariffs will erode any progressive gains in wages and destroy the capacity of social grants to deliver equity and reduce poverty. We have warned that electricity tariffs increase the price of food across the food value chain and therefore the food on our tables. We have warned that because electricity is an input to ensure that food is cooked and homes are hygienic and warm; the payment of electricity is not-negotiable and therefore reduces the amount of money available to spend on food. We have warned that municipalities across the country will start falling because the extra revenue they used to rely on from the difference between the Eskom tariff and the local tariff will be reduced to zero. We have warned that electricity price hikes will destroy the progressive future South Africa imagines and instead will entrench poverty and inequality. We have warned that our affordability thresholds have long ago been breached – a 25.3% increase in electricity will be our tipping point. We can predict that it will lead to public revolt and protests.

While we believe that rejecting Eskom's application for a 25.3% increase is critical we are concerned that NERSA is not acting to ensure local municipalities are prepared for the price hikes, even if they remain at 12.69%. It is our view that the municipalities could do many things to reduce the burden on struggling citizens. We are deeply concerned that there is not enough being done by NERSA to compel local municipalities to use their available instruments – particularly their tariff structures and the Equitable Share – to adequately respond to the affordability crisis.

The following are some general recommendations for NERSA's intervention into local municipalities and recommendations particularly for Msunduzi Municipality (Pietermaritzburg), whose citizens are in an affordability crisis that is now entrenched.

Recommendations for NERSA intervention: General – Local Municipalities:

Traditionally municipalities used to make profits on electricity. In some municipalities this over recovery contributed between 15% to 18% of the total municipal budget. The excessive hikes in the Eskom prices will mean that local municipalities can no longer rely on the extra revenue generated through the sale of electricity as the difference between the Eskom tariff and the local tariff will be reduced to zero. This coupled with lower rates of payment from citizens may mean that municipalities across the country will start falling. We call on NERSA to meet with CoGTA to consider the implication of what this may mean and to put in steps and mobilise alternative funds to mitigate against this.

Electricity tariffs vary widely across municipalities. This is useful if the local tariffs are responding to affordability challenges as well as ensuring sufficient revenue for cross-subsidisation however there must be greater uniformity of tariffs at low consumption levels and for poorer households. This is because social grants (pensions and child support grants) as well as the minimum wages set by the Employment Conditions Commission are the same regardless under which municipality people live under. We call on NERSA to regulate and rationalise electricity tariffs at low consumption levels to ensure that poor households are not unduly discriminated against simply because they are unlucky to live under a municipality that charges very high electricity tariffs. We further call NERSA to:

- Seriously consider the zero-rating of electricity from VAT.
- Compel municipalities to conduct affordability studies to inform annual tariff increases.

- Compel municipalities to update and restructure tariffs to reflect changes in socio-economic and demographical characteristics to ensure that annual tariff increases are affordable.
- Where necessary increase the volumes of free basic electricity and widen the scope of access by eliminating the means-tested application process through Indigent Policies to a universal approach.
- Compel municipalities to implement increasing block tariffs which are designed to offer affordability at lower volumes and cross-subsidisation at higher volumes.
- Where increasing block tariffs are used; to ensure that lower blocks are wide enough to absorb dignity requirements and check that prices are affordable at these lower blocks.
- Make it known to municipalities that the annual Eskom increases do not have to be uniformly applied where tariffs are structured on an increasing block structure but that lower or negative increases can be levied on lower blocks and higher rates levied on higher blocks.

Recommendations for NERSA intervention: Pietermaritzburg (Msunduzi Municipality)

Before we provide our recommendations, some background information is necessary about how electricity tariffs are currently structured and how electricity is delivered under Msunduzi Municipality.

In Pietermaritzburg there are two ways in which electricity is delivered – through credit meters and through prepaid meters.

Households on credit meters incur 3 costs: an energy charge (R1.03 per kWh), an amperage charge, and a basic charge. Households on credit meters who comply with the indigent policy receive 70kWh of free basic electricity a month.

Households on prepaid meters, the poorest families in the city, are charged just one cost – an energy charge (R1.67 per kWh) and (although hidden) often have to pay return transport to the city (R22) to buy the tokens. Households on prepaid meters who comply with the indigent policy do not receive free basic electricity. They are excluded.

The per kWh tariff charged to households on credit meters is much lower than the per kWh tariff charged to households on prepaid meters. At the 25.3% increase on a low average of 350kWh, credit meter households will be charged R360.50 vs. the R584.50 charged for prepaid household (a difference of R224.00).

VAT is levied on the energy charge, amperage charge and basic charge. The municipality does not differentiate between the mandated Eskom tariff and the subjective tariff on the amperage and basic charge. Hence the current 12.2% (on the proposed tariff register for 2015/16) is levied on all 3 charges for credit meter households.

The amperage and basic charges are fixed. They constitute a substantial part of the bill. The amperage charge (at the 12.2%) is R9.33 per amp. At the lower end of consumption households have a 30 amp connection. At the proposed 12.2% a 30 amp household will be charged a fixed R280.10 a month. The basic charge (on the 12.2%) is proposed as R25.23 a month. If the municipality applies the 25.3% across the board as it has already proposed then the affordability thresholds of a large proportion of the City's middle class and where it seeks its revenue will be breached.

The fixed costs of amperage and basic charges on the bills of credit meter households prevent households from absorbing price increases. No amount of cutting back on electricity will bring down the bill.

Msunduzi Municipality does not structure its energy charge tariffs on an increasing block tariff – all tariffs are uniform. This means that low volume consumers and high volume consumers pay the same per kWh tariff. This structure removes the possibility of accommodating struggling and low-volume consumers with affordable tariffs and it further does not allow for cross-subsidisation and maximised revenue collection from wealthier and high-volume consumers.

Msunduzi Municipality has not made any substantial changes to its tariff framework in the past 10 years. Annual percentage increases are simply added on to past prices within unchanged structures. There is no analysis of the socio-economic context or affordability study prior to the annual round of tariff increases. Because of this the affordability thresholds of the majority of households has long been breached.

PACSA calls on NERSA to urgently intervene in the affordability crisis in Pietermaritzburg by compelling Msunduzi Municipality to restructure its electricity tariffs to mitigate the deepening affordability crisis. In line with this restructuring we call for:

- Implementing stepped tariffs for electricity to ensure that struggling citizens are still able to access sufficient services at affordable prices
- Limiting or eliminating annual increases from low volumes and stepping these up on higher volumes and off different types of users
- The removal of basic and fixed charges off the bills of struggling citizens
- Collapsing amperage charges into per kWh charges to allow households who are able to reduce consumption to absorb economic pressure
- Immediately provide free basic electricity to households on prepaid meters instead of continuing to contravene national policy
- Immediately rationalising the prepaid and credit meter per kWh tariff so that households on prepaid meters are not discriminated against and are charged at the same or lesser per kWh tariff as those on credit meters.
- For households who are unable to reduce consumption because they are already using as little as possible: to use the Equitable Share to increase the volumes of free basic services and increasing the numbers of households able to access these services by providing universal access

It is PACSA's view that we can find a way to deal with Eskom's current challenges but it cannot be at the expense of the citizens of our country. It cannot be by pushing the majority of us deeper into poverty, suffering and indignity and entrenching inequality. It cannot be that we forgo our vision of a just, dignified, humane, free and democratic society. Eskom's application of 25.3% before you must be rejected.

PACSA would be open to engage further with NERSA on the current matter of Eskom and on restructuring the tariff framework of Msunduzi Municipality should it be deemed useful.

Yours sincerely

MERVYN ABRAHAMS

The Director

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