

National Energy Regulator of South Africa

Kulawula House
Pretoria
22 January 2016

Re: Submission to the National Energy Regulator of South Africa on Eskom's RCA application to increase electricity tariffs by 16.6%.

We call on the National Energy Regulator of South Africa (NERSA) to turn down Eskom's Regulatory Clearing Account (RCA) application for the first year of the MYPD3 period (2013/14 financial year), for an additional 8.6%, moving the total tariff increase requested for 2016/17 to 16.6%.

Eskom's application for a 16.6% increase comes at a time when the affordability thresholds of low-income households have long ago been breached and households are under considerable financial strain. A 16.6% increase has no relation to household affordability capacities, nor does it recognise our current socio-economic challenges.

The annual increments in wages and social grants are typically granted at CPI or lower – current CPI is 5.2%. Last year's increases on pensions were only 4.4% and on child support grants only 3.1%. Unemployment levels remain high and wages for those employed remain low. In the last month, the cost of a basic basket of food increased by 4% (R66) month-on-month, bringing the total cost of a basket to R1 714. Food prices, due to the drought and exchange rates, will increase substantially in 2016. Electricity tariffs last year were increased by 12.69%, with a low average consumption of 350kWh costing a Pietermaritzburg household R507.50 per month – for a household living in Pietermaritzburg, with the average income of R3 200 a month; electricity charges consume 15.9% of total income. Household debt to disposable income ratios are 77.8%: this means that for every R100 income, R77.80 goes to repay debt and only R22.20 is left to pay for goods and services (transport, electricity, education, health care and food etc.). A 16.6% electricity tariff hike in this context will have a devastating impact on South African society.

The negative impact of the tariff increase will be immediate. It will push millions of households deeper into poverty, entrench inequality and increase unemployment. The increase will make it extremely difficult to overcome our current socio-economic challenges and will destroy our future social, agricultural, economic, health and education trajectory.

The Eskom hike will affect not only domestic electricity prices but the prices of all goods and services because electricity is an input across all value chains. This will mean a double burden on citizens: domestic electricity prices will go up and the prices of all other goods and services will go up; this at a time when most families have much less money in their pockets.

Low-income households cannot cut back their consumption to absorb escalating costs. Low-income households are already using as little electricity as possible and this low consumption is absolutely essential to cook food, to keep families warm, for light, health and security. Low-income households will be unable to absorb the tariff increases by spending more money. On very limited and low-incomes, households will be forced to cut back on other essential requirements such as food, education, transport and health care. Reducing or eliminating essential requirements will have a devastating impact on household health, well-being, dignity, functionality and productivity.

In Pietermaritzburg, a 16.6% increase will move the monthly electricity expenditure for low-income households on prepaid meters and using the low average of 350kWh per month from R507.50 to R591.75 – an increase of R84.25 per month (from R1.45 to R1.69 per kWh).

Electricity is a critical developmental input into building our social base. Without equitable, affordable and reliable access, households will not be able to function at a level of dignity and be productive

members of society. Because electricity is critical to cook food, ensure warmth and health; provide light and security – excluding people from its access by not ensuring its affordability impacts directly on our social, educational, health, economic and security outcomes. The access to affordable electricity is one of the most cost effective and direct interventions to building our social base and ensuring South Africa's future trajectory.

The claw back due to higher than expected expenditure on coal and diesel costs and revenue under-recovery is the reason stated for Eskom's request for an additional 8.6%. South African society accepted load shedding, those able to reduce consumption listened to Eskom's appeal for people to cut back to ensure that the lights stayed on for everyone. For many more, however – already using as little as possible, tariffs were unaffordable and electricity consumption dropped, not out of choice but because electricity was too expensive. It appears that Eskom is now punishing us, either for listening to its pleas to reduce consumption or because households simply were unable to pay and were forced to disconnect themselves. Eskom's new RCA application for a 8.6% increase is thus terribly unjust and locks us in a cycle where again next year Eskom will under-recover and again request additional tariff increases in its RCA application because its electricity tariffs have exceeded affordability thresholds and, expressing solidarity, households continue to reduce consumption where possible, or taken out of their hands load shedding occurs. NERSA should not allow this cycle to continue.

We call on NERSA to turn down Eskom's Regulatory Clearing Account (RCA) application for an additional 8.6% electricity tariff increase. The application must be rejected on the basis of affordability. Low-income households cannot afford it. South Africa cannot afford it.

We call on NERSA to regulate tariffs beyond the annual scope of Eskom negotiations, and to regulate final tariff determinations at municipal level. NERSA must play a stronger role to ensure that tariffs are affordable and structured through rising block tariffs to enable this affordability and equity locally. Properly structured tariffs will enable households to absorb some of the excesses in the annual tariff increases.

We call on NERSA to ensure municipalities comply with National Policy and provide Free Basic Electricity to households that require it. In Pietermaritzburg, the Msunduzi Municipality continues to discriminate and exclude households on prepaid meters from accessing free basic electricity. NERSA must intervene urgently in this matter.

We call for immediate intervention by NERSA where municipalities are unable or unwilling to restructure electricity tariffs into rising blocks to ensure affordability by low-income households. In such cases NERSA must compel these municipalities to increase Free Basic Electricity allocations to volumes required for dignity – from 50kWh to 350kWh.

We call on NERSA to take the lead to ensure that Eskom responds to the principle and public mandate to ensure affordable, equitable access to electricity for all households.

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