

To: National Energy Regulator of South Africa

526 Madiba St
Arcadia
Pretoria
0007

Attention: Mr. Zwanga Ralufhe, NERSA

By email Zwanga.Ralufhe@nersa.org.za cc: erts@nersa.org.za

17 January 2025

RE: SAFCEI's Comment on ESKOM's RETAIL TARIFF PLAN 2025/26 Submission

1. Introduction:

Thank you for the opportunity to comment and for extending the deadline to 17th January 2025

SAFCEI (Southern African Faith Communities Environment Institute) is a multi-faith organisation committed to supporting faith communities in Southern Africa. Some of our key concerns include energy justice, the negative health and socio-economic impacts of energy poverty, and the environmentally sustainable use of resources.

1.2 Summary of SAFCEI's comments on the RTP includes a call for:

- 1.2.1 NERSA to urgently petition for intergovernmental action to address the crises of national electricity affordability and service provision.
- 1.2.2 NERSA to urgently petition the relevant governmental agencies to address energy poverty.
- 1.2.3 Retaining the Incline Block Tariff (IBT) until an effective energy poverty programme is implemented.
- 1.2.4 Ensuring that fixed charges are based on the level of service use and are not one-size-fits-all.
- 1.2.5 Rejection of the proposed Legacy Tariff on older Renewable Energy Independent Power Producers Procurement Programme (REIPPP) power plants.
- 1.2.6 Ensuring that tariff restructuring does not undermine the development of private generation that supports national energy security.
- 1.2.7 ESKOM to develop a new value-adding service that integrates private generation with its national transmission and distribution infrastructure to benefit both ESKOM and a national shift to clean generation.

1.2.8 A national campaign run by ESKOM and the Local Authorities that: 1) acknowledges customers as active participants efficient electricity use, and 2) educates customers about the costs of electricity services, tariff structures, and cost-saving options to encourage behaviours that support the optimal use of electricity.

2. Overview of comments:

It needs to be stated at the outset that SAFCEI believes ESKOM's focus on cost recovery is failing both ESKOM and its customers. SAFCEI has repeatedly called for a review of the funding model for electricity provision. An intergovernmental approach is urgently needed to facilitate this.

South Africa can't afford a failed ESKOM. Neither can the status quo of unaffordable tariffs, increasing payment defaults to ESKOM, and growing levels of energy poverty continue. SAFCEI feels exasperated that the underlying issue of how to fund a functional efficient electricity utility that serves all citizens is buried under a continual call for consultation on energy issues such as the Electricity Pricing Policy, the MYPDs, ESKOM's RTPs, etc. **SAFCEI would like the National Energy Regulator to respond with a clear plan for intergovernmental action to address the ESKOM and national electricity affordability and service provision crisis.**

ESKOM's huge debt legacy, a product of bad planning and mismanagement, cannot be addressed with new tariffs alone. Given ESKOM's bad credit rating, a higher percentage of private generation is a reality for the country to meet its growing energy demand.

This is an opportunity for ESKOM to look at providing a new range of energy services that integrate its service provision with private generation, rather than focussing on a different tariff structure to earn revenue.

A key consideration in the future of electricity provision is the high percentage of households (HHs) that cannot afford current electricity prices. The existing subsidy mechanisms for Low-Income Households (LIHHs) cannot be sustained by local authorities in the face of ESKOM tariff increases and the Free Basic Electricity (FBE) programme is seriously inadequate. SAFCEI has been calling for the effective implementation of an energy-poor policy for years. SAFCEI would like NERSA to urgently appeal to the relevant governmental agencies to address energy poverty.

In its documentation, ESKOM equates COST OF SUPPLY with COST TO SERVE (CTS). It is unfortunate that despite South Africa's Development Agenda, many customers could justifiably say that ESKOM's CTS is too expensive to serve them.

3. Expanded comments on the RTP:

SAFCEI's comments will follow NERSA's format as set out in [*Annexure-1-Consultation-Paper-on-Eskom-Retail-Tariff-Restructuring-Plan.pdf*](#) all text in *italics* is from either NERSA or ESKOM documentation. Our comments focus on the core areas of concern for our constituency, namely addressing energy poverty and reducing environmental impacts.

Stakeholder Comment #1: Eskom Cost-to-Serve (CTS) Stakeholders are invited to comment on the acceptability of basing the tariff restructuring on approved revenue allocation as opposed to the true cost to supply customers and the potential impact thereof.

In its application, ESKOM repeatedly states that a key objective of the proposed new RTP is transparency around the cost of the different services that make up the total cost to supply electricity. The tariff restructuring should therefore be based on the true costs of

supply. SAFCEI has concerns regarding the *approved revenue allocation* as an accurate reflection of the actual cost of supply. Too often the MYPD tariff increases have been loaded with additional revenue allocations to compensate for ESKOM's over-projection of revenue. This results in the contested Revenue Clawback, which most recently added billions to the MYPD6 tariff application.

Stakeholder Comment #2: *Peak hours changes. Stakeholders are invited to comment on the potential impact of increasing the evening peak hours from 2 to 3 hours as well as on the potential impact on demand management and load shifting.*

It is anticipated that as generation shifts to include more wind and daytime solar energy, electricity demand patterns will also need to shift. Peak Demand electricity is expensive electricity often involving the usage of diesel OCGT peaking plants. SAFCEI supports measures to incentivise the shift of the discretionary use of energy to off-peak times.

These can include TOU tariffs, load-limiting technologies, battery storage, etc. Examples of the costs resulting from tariff changes for different user categories would provide customers with a clear idea of how they can use ESKOM electricity more efficiently. Educational campaigns must be run to inform and involve customers in required behavioural changes.

Stakeholder Comment #3: *Ratio change Stakeholders are invited to comment on the change in ratio from 1:8 to 1:6 and whether these ratios are representative of the intended signals or related costs.*

See the comments in 2 above. Additionally, SAFCEI supports the use of price signals to incentivise a shift of the discretionary use of electricity to off-peak times. We are not sure why ESKOM proposes making the high-demand energy charge cheaper unless they are making the fixed infrastructure charges more expensive to compensate. The user pay principle should apply for electricity consumption at peak times, and the energy charge is a transparent way to reflect this. As more electricity is generated using wind and solar, so evening and morning consumption peaks need to be reduced as far as is reasonable. A transition to clean alternative energy needs active and informed customer involvement in energy use.

Stakeholder Comment #4. *Service Charges Based on Points of Delivery (POD): No comment.*

Stakeholder Comment #5: *Unbundling energy charges Stakeholders are invited to comment on whether it is equitable and fair to recover fixed capacity charges differently from customers with and without own generation, considering that customers with own generation were forced to fund alternative energy sources when Eskom experienced capacity constraints.*

Fixed costs should not be a one-size-fits-all. In its RTP application, ESKOM states: *Tariff unbundling separates charges into specific cost components, **ensuring customers pay only for costs they incur.*** (SAFCEI's highlight) As with the kWh costs, fixed or infrastructure availability, costs must reflect the users' demand profile. Customers who generate electricity and who use ESKOM's network less frequently should not have to pay the same as customers who use the grid 24/7. The principle of fair costing for consumption/use of service is written into the Electricity Pricing Policy. A one-size-fits-all

fixed tariff can easily be used to penalise clients with their generation. Private generation means that ESKOM sells fewer units of electricity. However, private generation assisted ESKOM significantly by reducing demand during load shedding. As ESKOM's Electricity Availability Factor (EAF) is still in the range of 60+ percent, private generation is still a factor in providing electricity to keep businesses operational. Private generation is likely to continue to support electricity demand as the country transitions off fossil fuel. ESKOM needs to offer value-added services such as storage and transmission as alternative revenue sources rather than increasing fixed charges on existing services to make up revenue.

Private wind and solar generation have many benefits, including supporting economic growth and jobs as well as reducing National CO2 emissions. In its briefing note for 2022, Meridian Economics warns against tariff restructuring that will be punitive for IPPs. [Briefing-Note-2022-04-The-impact-of-Eskom's-Proposed-Retail-Tariff-Plan.pdf](#)

Supporting a private generation industry that is integrated with ESKOM service delivery should be a national interest.

Stakeholder Comment #6: Generation capacity cost determination Stakeholders are invited to comment on the approach taken to determine the Generation Capacity Charge (GCC), propose alternative ways to recover fixed generation costs and identify the potential impact of introducing the GCC. Concerns that ESKOM inflates its generation capacity.

Historically ESKOM has often over-estimated its sales volumes resulting in the unethical Revenue Claw Back process. Furthermore, in the past, ESKOM has been accused of corruption and mismanagement resulting in inefficiency. How can we be sure that the GCC process won't hide ongoing inefficiency and add to increased tariffs?

How will NERSA ensure that the GCC does not result in the overestimation of sales volume, which imposes an additional cost on customers? If the GCC includes use of the emergency peak power plants such as the OCGT, this shifts the burden of high costs onto customers instead of red-flagging inefficiency by ESKOM.

Stakeholder Comment #7: Legacy charge Stakeholders are invited to comment on the approach adopted by Eskom to recover legacy costs and to comment on any other alternative approach to deal with legacy costs.

SAFCEI finds the legacy charge attributed to the first rounds of the REIPPP unacceptable. While it is true that the early RE generators did result in contracts for higher energy costs, numerous studies have shown that these RE generators reduced the need for load shedding, reduced the costs of running the OCGT peaking plants AND saved the economy billions of rands by helping to keep 'business lights' on. **SAFCEI wishes to remind ESKOM that as a state-owned utility, it serves national interests and not just an electricity supply profit motive.**

The cost overruns, delays and bad management of the build programme of Medupi and Kusile have collectively created a legacy debt, which is an ongoing burden for ESKOM and National Treasury. The additional ongoing legacy of air, soil and water pollution and the impacts on the respiratory health of people living near ESKOM coal power stations with inadequate, and illegal, emissions control is a tragic legacy.

It is understood that in the transition to an open electricity market, where generators will compete to sell their electricity, the older REIPPP plants may be at a price disadvantage. However, the cost baseline is unequal as the true cost of the illegal air emissions from many of ESKOM's coal power plants is not factored into the cost of their electricity. Furthermore, while South Africa still has an undersupply of electricity, these legacy REIPPP projects will be needed. They also have the advantage of marketing themselves as green energy which could give the purchasers of their electricity carbon credits. Once again, the issue of expensive legacy projects, including coal, and ESKOM debt needs an intergovernmental solution.

Stakeholder Comment #8: Municipal Tariff Rationalization No Comment.

Stakeholder Comment #9 Comment on the proposal to remove the IBT. And whether the implementation of IBT has yielded its intended purpose.

“The IBT as a tariff structure is no longer appropriate because of customer perceptions and provides uneconomic incentives for customers installing embedded generation.”

The above statement is unlikely to be true for Homelight customers, as very few households would be in a position to afford Small Scale Electricity Generation (SSEG). Regarding ESKOM's survey of *customer perceptions*, it appears that several customers complained about the cost of electricity and that they could not afford to purchase more electricity units than they currently do.

*“54% of the participants indicated that they have a negative opinion about the tariff, because the **tariff is perceived as punitive and unfair**, and they state challenges around affordability and the high cost of living”.* (SAFCEI's text highlight)

“67% of the participants also shared that they do not believe you need to pay more per unit if you use more electricity”.

“There were responses from SASSA recipients who would like to see special tariffs created for them or concessions and deductions.”

ESKOM's survey included a set of online questions for its employees including a single question sent by SMS to 900,000 ESKOM customers. The SMS question is: *“Dear Eskom Customer Please reply with YES if you are satisfied with a stepped tariff or NO: it is confusing and it costs more if I buy more. Thank you.”* SAFCEI does not believe that ESKOM's survey adequately assessed the view of customers on Homelight who currently pay less for the first 350kWhs per month. In addition, the SMS survey question is simplistic and even loaded as it focuses on paying more for buying more, without explaining the savings for the first inclining block. It is not clear that ESKOM explained that once the IBT system is removed, there will no longer be a block of cheaper units. The cheaper consumption block offered the tariff with the highest subsidy and therefore lowest cost. This would directly benefit small households who kept their consumption low as well as households that used fuels for heating and cooking.

We do not believe ESKOM's survey adequately records people's understanding and opinion regarding the IBT system. Therefore, we do not accept it as motivation to remove the IBT.

SAFCEI acknowledges that many households, across all economic categories, do not understand the tariff structures and the costs that contribute to their electricity costs. Rather than a failure of the IBT, this is a failure by Eskom and Local Authorities to educate customers about the costs of supplying electricity and the tariff categories. Future tariffs need to reflect the cost of supply factors and the Time of Use of electricity. The public needs to be educated to encourage behaviour change. Many customers do not even know if they are supplied by Eskom or their local Authority. Education about electricity supply needs to be addressed urgently to avoid customer confusion and anger.

SAFCEI does not support the removal of the IBT for Homelight customers until an effective subsidy structure has been put in place for Low-Income Households. We note that Eskom's application for a 36% tariff increase for 2025/26 will have a devastating impact on Homelight and all LIHs.

Removing the IBT is likely to add to tariff disparity as several Local Authorities will still have ITB in place. It is unequal to have some households paying Eskom tariffs while across the street or in an abutting suburb other households pay different LA tariffs for the same amount of electricity units. What is NERSA's role in this? **Once again SAFCEI calls for an urgent national action plan to implement an affordable energy service for energy-poor households.**

Eskom's table below intends to show the difference between the cost of supply and the subsidised tariff, with and without the IBT. However, the Eskom calculations are confusing as the totals shown are far lower than those calculated for the SAFCEI Table by using Eskom's Approved Tariffs for Homelight for FY 2024/25. The discrepancy appears to be more than it would be if the Eskom table did not include VAT, which is an omission as VAT adds to the cost of purchasing electricity. It appears that information is missing from the Eskom table which does not make it a useful tool. Furthermore, Eskom does not state what the new tariff would be once the cheaper consumption block is removed.

Figure 3: Impact on Homelight



Source of above table: NERSA consultation paper, page 14

Table

CATEGORIES All VAT incl	1-350 KWhs C/ per KWh	>350 KWhs C/ per KWh	1-600 KWhs C/ per KWh	>600 KWhs C/ per KWh	Cost of 350 KWhs per month	Cost of 600KWhs Per month	Cost of 1000KWhs Per month
Homelight 20 A	218.82	247.96			=R765.87	=R1385.77	R2377.61
Homelight 60 A	-	-	267.16	454.09	=R935.06	=R1602.96	R3419,60

Source of Tariff information: [ESK114-Eskom-Digital-Tariff-Booklet-2024 Final.pdf](#) Homelight Non-Local authority Charges.

Stakeholder Comment #10: Homepower unbundling Stakeholders are invited to comment on: 1. Unbundling of this tariff and introduction of a generation capacity charge, ancillary service charges, network demand charge, and a service and administration charges. 2. Impact of unbundling the Homepower tariff.

SAFCEI suggests caution in removing the Homepower IBT and adding so many additional fixed charges. Given the rapidly rising cost of ESKOM electricity as well as the general public's lack of understanding and education around the rationale of the new electricity charges, the proposed change to the Homepower tariff could result in more households choosing to go off-grid. This leaves ESKOM with fewer customers who actually pay ESKOM. The rationale for the IBT was to incentivise efficient and therefore lower use of electricity through a lower unit cost in the first consumption block. The principle of using less electricity efficiently still applies to the sustainable use of resources. This may be in contradiction with ESKOM's profit motives and the need to sell more electricity units. However, an effective and just energy transition requires efficient use of electricity to reduce the demand for all the resources required to produce and deliver electricity.

SAFCEI advises that the new tariffs should be introduced slowly and in keeping with new services that ESKOM can provide, such as offering smart time-of-use metering, installation of load limiters etc. The public has not recovered from the impact and insecurity caused by load shedding and many feel that they are paying more without a justifiable benefit.

Stakeholder Comment #11 Stakeholders are invited to comment on 1. Unbundling of this tariff and introduction of a generation capacity charge, network, retail, and ancillary service charges with the energy charges are TOU rates. 2. Potential impact of the proposed changes to the Home-flex tariff.

As stated above, SAFCEI advises that the new tariffs should be introduced slowly and in keeping with the new services that ESKOM can provide. For SSEG this could include battery storage to offset Peak Demand use. In addition, the range of fixed charges proposed by ESKOM should not be a one-size-fits-all. They need to be based on the level of use of each of these services. The TOU charge for SSEG is acknowledged as a way of incentivising private generation to reduce their demand on the ESKOM grid at Peak times.

Regarding Questions 12 – 16: SAFCEI does not feel it has sufficient technical understanding to comment.

4. CONCLUSION:

SAFCEI recognises the complexity of supporting ESKOM with its numerous challenges, including internal mismanagement and political interference in the new generation resulting in disastrous debt levels. Compounding these issues is a weaker economy with increasing poverty levels and the global energy transition away from fossil fuel generation. That said, governmental agencies, including NERSA, are failing to take decisive action to address the key roles and funding options for ESKOM. Tariffs are just one part of a solution, and excessive tariffs will continue ESKOM's and the country's downward spiral.

SAFCEI appreciates the invitation for public comment on pricing policies and tariffs. However, we are deeply frustrated that the critical issue of how to sustainably fund ESKOM while ensuring affordable energy for the many citizens who can't afford the current ESKOM model is not receiving the urgent intergovernmental attention it requires.

SAFCEI has repeatedly raised this concern and urges NERSA to address this pressing issue as a matter of priority. These comments are made to support an affordable, reliable, clean energy future for all. Please reply to acknowledge receipt of this correspondence.

With Regards,

Kim Kruyshaar (energy consultant to SAFCEI)