NATIONAL ASSEMBLY PLENARY
TUESDAY, 19 SEPTEMBER 2024 AT 14:00 – 18:30
GOOD HOPE CHAMBERS

STATEMENT: Delivered by MP, VA Nkosi, ANC

The politics of distribution: Re-examining the costs of electricity distribution at the municipal level

HONOURABLE SPEAKER, MEMBERS AND GUESTS IN ATTENDANCE.

Eskom is now front and centre of national interest; following its tariffs increase application to the National Energy Regulator of South Africa (NERSA) for the next 3 financial years. This focus creates a 'municipal void', given that; it largely concentrates on Eskom's electricity tariffs and gives limited attention to municipal electricity tariffs.

Thanks to Honourable Mvana with the enlightening contribution, the Multi-Year Price Determination (MYPD) methodology and its embedded Regulatory Clearing Account (RCA) have fallen short in providing sustainable and predictable electricity tariffs, resulting in Eskom's tariffs increasing faster than the rate of inflation.

Equally important, the nature of the tariffs setting methodology aimed at satisfying the condition set for the purpose of regulating municipal electricity tariffs is enmeshed with shortcomings,

thereby inhibiting NERSA from adequately achieving the government's lofty goals, which are setting stable municipal electricity tariffs

and balancing between affordable electricity and cost-reflective tariffs.

Historically, NERSA's approach to setting municipal electricity tariffs has taken the benchmarking and percentage guideline increase in which the Regulator uses guideline increases and municipal tariff benchmarks to determine standard percentage tariff increases across all municipal distributors.

This approach, dependent on Eskom's approved revenue allowance and Retail Tariff Structural Adjustment (ERTSA), has enabled municipalities to generate super revenues through their electricity tariffs.

While as this methodology allows municipalities to operate on a cost-recovery basis and induces municipalities like the City of Cape Town and The city Tshwane to use super revenues from the sales of electricity to cross-subsidize their developmental and redistributive mandate, its drawbacks are that it bears no resemblance to the actual cost of supplying electricity, much less unclear on how to proceed if cost-reflective municipal tariffs are in fact unaffordable for significant numbers of poor and working-class households.

Henceforth, municipal electricity tariffs have been kept so high beyond the financial reach of poor and working-class households, resulting in these households spending between 10-17 per cent of their meagre incomes on electricity.

In short, ensuring that poor and working-class households have access to affordable electricity is not part of this methodology since percentage guideline increases and municipal tariff benchmarks do not keep costs as low as possible to ensure that electricity is affordable.

…. the self-objective goal of this methodology is laden with cost recovery.

Of course, the large impact of increases in municipal electricity tariffs can be offset by reallocating the Free Basic Electricity (FBE) subsidy which has a stronger pro-poor **incidence**, to the poor and working-class households connected to the grid.

The net effect of the Free Basic Electricity subsidy will undoubtedly, reduce the share of electricity in household expenditure, thereby discouraging poor and working-class households from fundamentally choosing between which trade-offs to make, among multiple and competing goals, notably food and transport.

Unfortunately, the implementation of the Free Basic Electricity across most municipal distributors deprives millions of poor and working-class households of this important subsidy. Even worse, the number of poor and working-class households registered for the Free Basic Electrity subsidy has declined over the years meanwhile the allocated funds towards the Free Basic Electricity subsidy in the national budget have increased.

THE UPSHOT IS THAT MUNICIPAL DISTRIBUTORS SELDOM USE THEIR ALLOCATED FREE BASIC ELECTRICITY FUNDS TO AGGRESSIVELY IMPLEMENT THIS SUBSIDY.

Given the way municipal electricity tariffs secure unfair advantages for municipal distributors at the expense of poor and working-class households, it is hardly surprising that NERSA's methodology for setting municipal tariffs is now the subject of legal review.

After the decision of the High Court to declare NERSA's methodology predicated on guideline increases and municipal tariff benchmarks unlawful, the Regulator overhauled its methodology for the 2024/25 financial year and replaced it with the Cost of Supply Framework which requires municipal distributors to set their tariffs based on a comprehensive cost of supply studies. Where the cost of supply studies was absent, NERSA used the Cost Breakdown Structure (CBS) to assess municipal tariff applications for the current financial year.

Whereas AfriForum, which the DA supported in its case against NERSA; pose that the Cost of Supply Framework and the Cost Breakdown Structure is a flexible methodology which inexorably enjenders affordability and equality,

Evidence, mainly is in the negative as the results of the Cost of Supply Framework or the Cost Breakdown Structure have resulted in municipal tariffs increasing at very high percentages,

implying that unaffordable municipal tariffs still flourish under the new methodology regime.

More crucially, municipalities that failed to provide cost-of-supply studies will not implement any NERSA approved tariff increases, thus negatively impacting on their sustainability. Particularly as Eskom increases on municipalities has taken effect and the proposed electricity tariffs increase is in-turnable.

Municipal distributors, levy the surcharge to generate a surplus to fund future capital expenditure or to cross-subsidise the cost of providing another service.

Although, of course, the surcharge is the safest and most effective way to accomplish a surplus for municipalities, it constitutes a double charge on poor and working-class households as the direct and indirect costs of providing electricity are recouped through municipal electricity tariffs.

Similarly, the surcharge discourages wealthier households from migrating away from the grid through solar PV systems since this surcharge is used as a buffer against the free-rider effect, wherein wealthier households with solar PV systems do not pay fully for their share of the electricity system's fixed costs, shifting the burden to households without solar PV(Photo voltecs) systems.

While as the logic underpinning it's is an attempt to make municipalities more attractive when compared to alternative sources of energy like solar PV systems, it nevertheless runs counter to the government's goal of reducing the load on the grid through Small Scale Embedded Generation (SSEG).

In conclusion, the Ministry of Electricity & Energy, in concert with the National Treasury, must implore municipalities to roll out the Free Basic Electricity subsidy as it has the benefit of hedging poor and working-class households against the escalating electricity tariffs. Furthermore, the surcharge requires rethinking as the way it is currently implemented is self-defeating since it does not adhere to the pay principle which requires that beneficiaries of a service pay in line with their income generating capacity to ensure equity.

I Thank you.