

Sustainable Energy Briefing 1: Electricity Pricing Policy

South Africa is currently developing an Electricity Pricing Policy. A draft policy was released in early April, with the deadline for comments being 18 June 2004.

According to the draft policy document, developing an electricity pricing policy suitable for South Africa entails “striking a balance between affordable electricity prices to households and low-cost electricity for industrial sector.”

Unfortunately, the policy fails to strike this balance. Instead it prioritises low-cost electricity for industry, thereby failing to contribute to social and environmental equity – two critical objectives underpinning it.

Current electricity pricing:

Currently, electricity pricing favours big electricity consumers, like industry. The more electricity you use, the more you benefit. This is because the price paid for electricity includes less than half of all the costs incurred in producing it. Externalised costs that are not integrated in the sales price include public health costs for pollution-related illness and environmental damage such as acid rain and climate change.

Unlike big electricity users, smaller electricity users, especially the poor, don't benefit from the externalisation of electricity prices because they don't use enough electricity.

Draft electricity pricing policy:

The draft electricity pricing policy under review fails to change this practice, and still favours big electricity consumers.

This has two major consequences:

1. It makes big electricity consumers less likely to use electricity efficiently. If electricity is so cheap, why should industry introduce measures to become more efficient?
2. Poor electricity users cannot pay for their electricity. This completely undermines the Department of Minerals and Energy National Electrification Programme, under which a total of almost 3 million homes have been electrified since 1991.¹ Yet this push to expand access to electricity has been undermined because it's not affordable. This in turn has led to increasing debt, as well as cut-offs. The findings of a 2002 survey of households in Soweto² clearly illustrate the reality of this:
 - 89% (178) of the 200 households surveyed had some level of electricity debt.
 - Due to this, 61% (122) of households had had their electricity cut off within the past 12 months of the survey.

Strengthening the draft electricity pricing policy:

SECCP strongly recommends two changes are made to strengthen the electricity pricing policy:

First, we recommend that a Stepped Block Tariff be introduced, where the initial block of electricity is charged at a lower rate, becoming more expensive the more that is used – as shown in the diagram below:

Proposed stepped block tariff for residential electricity use

Note: A different fee structure would be developed for business, with special rates for SMMEs

			Block 4 500 - 1000 kilowatt hours 40c per kW/h
		Block 3 201 - 500 kilowatt hours 35c per kW/h	
	Block 2 51 – 200 kilowatt hours 20c per kW/h		
Block 1 1 – 50 kilowatt hours Free			

Having a stepped block tariff would correct the negative consequences of current electricity pricing:

1. It would correct the unfair benefits enjoyed by big electricity consumers. Currently, they are using the vast proportion of SA's electricity without having to pay for any of the costs associated with producing this electricity.
2. It would encourage the efficient use and conservation of electricity. The need for increased efficiency and conservation is especially relevant this winter in which large parts of Johannesburg have experienced power blackouts, as the electricity distribution system can't cope with increasing demand.

Second, SECCP recommends that the government provide Free Basic Electricity (FBE) on a per person basis instead of per household. Currently each household is granted 50 free Kilowatt-hours of electricity per month – which is enough to run a two bar heater for approximately 25 hours or a security light (250Watt) for 200 hours. As, the Soweto survey referred to above found, 50 Kw/h per month is less than 10% of average household use, and so has little impact on a household's electricity bill.

In summary, SECCP recommends that the electricity pricing policy clearly give the National Electricity Regulator the power to implement the recommendations made above in order to address the inequalities in electricity pricing which disadvantage the poor.

Next steps:

- The DME has indicated that the deadline to make written submissions on the Electricity Pricing Policy has ended, and that the only way the public can influence the policy is if parliament allows public hearings to be held.
- For more information about the status of the Electricity Pricing Policy within the DME, contact: David Mahuma, Director of Electricity Pricing and Analysis, tel: (012) 317 9210, e-mail: david.mahuma@dme.gov.za

¹ Eskom's Sustainability Performance 2003 information pamphlet.

² Fiil-Flynn, M. "The Electricity Crisis in Soweto," Municipal Services Project Occasional Paper 4, April 2002.