

Department of Mineral Resources and Energy

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Attention: Mr Matthews Bantsijang

SAFCEI's comments on the Updated Energy Pricing Policy (EPP) of 2008 Gazetted on 10 Feb 2022 for 30 days comment by 25 March.

1. Introduction

SAFCEI (Southern African Faith Communities' Environment Institute) is a multi-faith organisation committed to supporting faith leaders and their communities in Southern Africa to increase awareness, understanding and action on eco-justice, sustainable living and climate change. With almost 50 % of South African citizens unable to afford sufficient electricity to meet their basic needs, SAFCEI calls on the DMRE, NERSA and National Treasury to acknowledge their mandate from the ERA and the NDP to look at strategies to provide affordable access to safe, clean energy which does not damage our environment. The EPP should be part of these strategies. With this in mind, our comments on the Updated Energy Pricing Policy (EPP) follow.

2. SAFCEI supports the update of the Energy Pricing Policy. That stated, the draft EPP is a hugely complex and technical document which will:

- 1) impact all electricity customers and require customer understanding of the tariffs and the costs that make up tariffs; and
- 2) require pro-active customer participation, through their electricity consumption decisions in demand side management as this impacts the cost of supply and therefore the tariffs.

For these reasons, a process of educating the public about the EPP policies and resulting new tariff structures needs to be undertaken as a priority. A Just Energy future with a range of energy service providers is one in which we ALL need to be informed and involved participants.

2.1 RECOMMENDATION: DMRE and NERSA need to implement educational programmes that explain technical aspects of the EPP in accessible and understandable language to build producer and customer understanding of the cost of supply of electricity and the tariff structures.

3. Issues of Affordability. The EPP addresses a wide range of the energy issues focussing on infrastructure. However, **the EPP does not give adequate attention to the aspects of affordability that directly impacts energy access for low income households and small businesses.** Access to clean affordable reliable energy is core to SA's developmental agenda. The National Development Plan's (NPC, 2011) goal of greater social equity with regard to access to energy services by 2030 promotes expanding access to energy, maintaining affordable tariffs, and maintaining targeted and sustainable subsidies for poor households. While the EPP identifies the need for subsidies to Low Income Households (LIHH) and discusses existing provisions for LIHH such as the FBE, it does not recognise that these existing mechanisms are hopelessly inadequate. (*As SA restructures its electricity supply system, the poor are left behind. [**3.1 RECOMMENDATION:** DMRE and NERSA need to initiate a forum with other government structures to address affordable access to electricity as an urgent priority.](http://As SA restructures its electricity supply system, many... (dailymaverick.co.za)</i>). The EPP is pushing a strong case for cost of supply tariffs and for consumer pay principles. This leaves almost 50 % of citizens suffering from energy poverty in the dark.</p></div><div data-bbox=)*

4. The EPP makes repeated reference to the REDs (Regional Energy Distributors). However, REDs have not been set up to date and the EPP does not clarify if, when or how the REDs option will be revisited. The issue of REDS needs to be clarified.

5. SAFCEI supports the following EPP principles but with additional clarification:

5.1 A national framework guiding the application of tariff related subsidies with transparency of costing structures. Such a framework is long overdue. This links to SAFCEI's appeal to NERSA for a review of the support system for LIHHs including the FBE system and associated Lifeline subsidies. The EPP needs to be sufficiently 'open' to a subsidy framework that will not compromise the objective of the ERA to ensure that *"Low income households (LIHHs) must have access to at least basic services"*.

RECOMMENDATION: The draft EPP needs to clearly define what accounts for basic services for LIHHs.

5.2 Recognition that: *"The provision of cross-subsidies for low income domestic customers is a foregone conclusion and it is expected that this would be a requirement at least for the next ten years.* In spite of this statement in the EPP, it makes a number of inaccurate and or conflicting statements around energy provision for LIHHs. These are discussed in Section 6 below.

5.3 Support for the transparency of the Costs of Supply (CoS) and this transparency to be included in unbundled tariff structures.

RECOMMENDATION: Tariffs need to be explained in multiple languages and non-technical terms so that customers know what they are paying for.

5.4 Support that the amount individual users pay for services should generally be in proportion to their use of that service. Fixed charges should relate to the cost of providing the distribution infrastructure as well as the extent of use. Anything more is a tax and is not equitable.

RECOMMENDATION: SSEG who purchase less energy should not be penalised unduly in recognition of their investment in shifting South Africa to Lower GHG emissions as well as investing in green jobs.

5.5 Agree that price signals are an important component of CoS tariffs such as peak demand tariffs. For example, as all households are collectively responsible for the national morning and evening demand peaks, all should all be charged peak demand Time of Use tariffs (TOU), even if not at the same rate, to encourage a shift of discretionary energy use to off peak times.

5.6 That changes of consumption patterns, especially reducing peak demand, contributes positively to managing the shift to more RE on the grid.

RECOMMENDATION: In the context of changing behaviour to adapt to more PV on the grid, shouldn't we consider separating the country into two time zones to lower the cost of peak demand electricity. This will reduce the peak and spread the high demand across more hours?

5.7 Support for Policy Position 59 *"Sophisticated TOU tariffs with dynamic emergency price signals, DSM and load management features with support of smart meters must be planned for rapid implementation where economically viable and practical. Mechanisms for special funding for this purpose need to be made by DMRE."* This is a key investment in a smart grid system which is an important part of a JET.

5.8 Tariff structure and levels to be aligned with the results of up to date CoS studies. (Policy Position 29).

However, many LAs do not appear to be competent to undertake accurate COS studies.

RECOMMENDATION: Urgently capacitate LAs to undertake CoS studies so that the genuine cost of supply is reflected in the tariffs. This is part of a clean audit process which is the mandate of all governmental agencies.

6 Issues of concern in the EPP.

6.1 How to lift citizens out of energy poverty. While it can be argued that the EPP is not mandated to consider non- tariff solutions to energy poverty, tariffs do impact affordability and therefore open or close access to energy. Affordability for LIHHs and small businesses is not adequately dealt with. A number of municipalities and NGOs have piloted different strategies. It is time to look beyond traditional solutions to identify responses that are effective. An electrical supply that is too expensive for a large number of customers does not serve them nor the utility.

RECOMMENDATION: A multi-stakeholder study needs to be undertaken, as a priority, to look at a range of solutions to provide affordable access to energy that also addresses different contexts. If it is outside the mandate of the EPP, then the EPP needs to identify the need for such a study.

6.2 The EPP recognises the current strategies to provide energy subsidies but not their shortcomings.

6.2.2 The subsidised Life Line Tariff. According to the EPP, qualifying customers shall be subsidised through the application of a life line tariff with limited capacity to 20Amps and a consumption upper limit of 350kWhs per month as this is the break even for cost reflective tariffs. These limits are based on cost of supply for the distributor, but how do they relate to the needs of the customers? Many distributors have already installed connections with a higher capacity than 20 Amps, which impacts their cost of supply and subsidy model.

Note that the South African Local Government Association (SALGA) and research into energy strategies for LIHHs in Cape Town (2020) both report that the cross subsidy model is unsustainable in the current situation with increasing electricity costs.

6.2.3 Confusion around FBE. Section 1.4 states: *"The provision of Free Basic Electricity (FBE) is slow and inconsistent."* Then page 108 states: *The application of FBE is proceeding well and is reaching the target market, but there are certain application problems that need to be continually monitored to ensure that they are applied correctly and are addressing the needs of the low income."* It is simply not true that the FBE allocations are reaching the qualifying LIHHs. See the PARI report Broken Promises which clarifies that while the Treasury is providing the funding for FBE, the funds are not ring fenced and therefore not reaching sufficient beneficiaries. *" There are just over 8 million households who are funded for FBE and are not receiving it."* (pg 32 PARI's ENERGY AND SOCIETY WORKING PAPER #2 APRIL 2021)

RECOMMENDATION: The treasury allocation for FBE needs to be a conditional grant which is audited to ensure that the qualifying LIHHs do get the benefit. This should be part of the CoS study for electricity distribution of LAs.

6.2.4 Inadequate amount of FBE. While the 50kWhs of FBE is generally considered to be too little with 200kWhs per month being recognised as a basic supply for LIHHs, the EPP states in Policy Position: 51 *"that LGs wishing to apply free electricity more than the amount provided for by the equitable share to more customers or for more kWhs, such amount shall be funded by municipal revenue and not from electricity*

income." This Policy does not acknowledge that the revenue model of local governments is increasingly unable to subsidise basic service provision. Policy 51 is therefore ineffective from the get-go.

RECOMMENDATION: As per the recommendation in 6.1 above the EPP needs to acknowledge that the FBE allocation is inadequate, and that many LAs are unable to subsidise a larger amount of FBE. Policy Position 51 is a denial of the reality on the ground. As such alternative solutions need to be investigated nationally as a priority to lift LIHs and small businesses out of their energy poverty trap.

6.2.5 The Municipal Surcharge On Electricity (MSOE). The EPP refers to the MSOE which "*currently is used by many municipalities to subsidise other municipal services.*" The reality is that this historical source of local government revenue is being rapidly eroded by ESKOM's energy price hikes. An increasing number of LAs are now using the MSOE revenue as a buffer to 'subsidise' the above inflation ESKOM electricity price increases. The rapid decline in MSOE revenue has significant consequences for service provision for customers who receive subsidized water, wastewater, refuse and energy services.

RECOMMENDATION: Treasury needs to review the impact of the loss of revenue from MSOE on local government's ability to provide efficient and reliable services. This dilemma should be identified in the EPP.

The points above make it clear that a review of the current subsidy systems for LIHs and small businesses is required as a priority. The EPP states that: "*The cross subsidies should address certain socioeconomic and [environmental](#) needs and the draft EPP proposes that the DMRE together with NERSA, finalise a national subsidy framework to guide the application of such subsidies and to ensure transparency*".

RECOMMENDATION: National Treasury, SALGA and CoGTA need to be included in the review panel and the resulting National Subsidy Framework then needs genuine public consultation before adoption.

7 Expensive generation translates into expensive tariffs and is an unreasonable demand that skews the cost of supply.

The underlying causes of the rapid cost of electricity cannot be resolved with an EPP. The cost of ESKOM electricity has been increasing at an unaffordable rate over the past two decades. A significant part of these increases are the result of mismanagement, corruption and debt, much of the debt also as a result of cost overruns owing to mismanagement and corruption. Over the years the Dept of Energy / DMRE has dragged its heels over acquiring new RE, has placed a cap on RE in the IRP and until recently has obstructed LAs from buying electricity from local IPPs. This has contributed to both the increasing costs of electricity and to ongoing energy insecurity as a result of a generation capacity deficit.

With respect, instead of fast tracking cheaper and cleaner wind and PV, both DMRE and NERSA are complicit in the unacceptable cost of electricity by approving processes for the procurement of expensive new generation from Karpowerships and nuclear energy. The controversial Karpowership process has delayed the uptake of new generation at a crucial time. In addition, it deviates from the IRP principles of least cost.

RECOMMENDATION: Prior to issuing determinations for new generation, the cost of supply needs to be determined and needs to be consistent with the principle of least cost in the ERA.

8 NERSA was busy drafting guidelines for SSEG. Where are these? They are important to support SSEG while ensuring that the uptake of SSEG contributes positively to energy security for all. For Example, affordable SABS approved bi-directional and ToU meters are required to integrate SSEG into local authority grids.

RECOMMENDATION: A SSEG policy that has also been informed by a public participation process is needed to provide clarity for investment and support to grow green jobs. This is consistent with principles of Demand Side Management / Energy Efficiency which are identified in the EPP.

9 Demand Side Management / Energy Efficiency

The EPP makes valuable points on Demand Side Management. However, a number of statements about clean coal are unsubstantiated and support as yet unproven technologies. For Example: (c). *Space heating and cooking are done with electricity rather than with alternatives, causing 400% more pollution.* Where are the references for this statement? Also (d). *The scrapping of options such as clean, de-smoked, coal projects ,* And (e). *Conversion from coal stoves / water heaters / space heaters to electricity rather than clean coal.* RE generation is tried and tested but is ignored in this section of the EPP in favour of unproven 'clean coal'. This reflects a coal lobby bias and is out of place in this EPP.

RECOMMENDATION: remove all references to unproven and costly coal technologies from the EPP.

10 Green Energy Tariffs

The EPP makes a number of references to Green Energy Tariffs and seems to imply that RE is necessarily more expensive and therefore should have a special category for customers who choose green energy. Numerous studies, including those done by the CSIR, demonstrate that RE is less expensive than coal or gas powered generation as well as new nuclear power. What is required is the removal of artificial barriers to new RE.

RECOMMENDATION: If a Green Energy Tariff is to be included in the tariff structures, it must be based on cost of supply on the full range of green energy costs including the more recent and cheaper wind and PV generation costs.

11 EPP identified issues with tariff implications of 'partial self-generation'

The EPP acknowledges the increasing amount of IPP renewable energy generation responding to affordable RE technology and ESKOM's costly unreliability. The EPP appears to be attempting to use tariffs to manage the differences in time of consumption with variable nature of wind and PV generation. This needs to be done with caution as tariffs are just one of the mechanisms to match generation with consumption. South Africa's shift to a much higher uptake of RE and to storage technologies is inevitable. The air and water pollution of coal power generation is not ethically or environmentally justifiable, but these are externalised costs that are still being imposed on South Africans. Ongoing coal power also compromises South Africa's commitment to GHG emissions with sustainability costs for everyone. International oil and gas costs are high and likely to stay high as demand meets the supply constraints of these non-renewable resources where the easy to extract reserves have mostly been exploited.

The shift to RE requires IPP involvement given the debt status of ESKOM. To best benefit from increased RE the transmission and distribution networks will need to be transformed to move away from the traditional base load model of generation. New 'Smart Grid' infrastructure will benefit ALL, not just the IPPs. The upgrade of the network needs to look at all who benefit to contribute to the costs. Overly penalising IPPs can result in them going off grid. This is not a desired outcome given that electricity is an essential enabling infrastructure that should not become a commodity exclusive to those who can pay. **There is no economic future without an energy future for all.** The EPP needs to ensure that it finds the tricky balance through offering a range of services such as grid use, storage, wheeling, DSM, ToU and others rather than punitive energy tariffs. The

following EPP statement is negative. It implies an us and them with IPPs / SSEG vs traditional ESKOM supply and it need not be so: *Failure to respond adequately will provide the temporary opportunity to some 'partially self-generating' consumers to avoid having to pay for their grid services and back up capacity, pushing such costs to consumers who are not 'partially self generating'. This will ultimately and in short order make the entire ESI and grid unsustainable, to everyone's severe detriment.*

12 Conclusions:

Thank you for the opportunity to comment on the EPP. SAFCEI's comments are made with appreciation for the complexity of the issues that inform the cost of supply, most especially given the subsidy needs and the energy transition that South Africa and the world is going through.

12.1 Look at the opportunities that IPPs and SSEG provide and work out management systems and not just tariffs to encourage these to stay grid connected and contribute to affordable energy for all.

12.2 Undertake a multi-stakeholder review of the strategies to provide affordable energy to LIHHs and to small businesses. Subsidised tariffs are only part of the answer. What else is required?

12.3 Develop pro-active educational programmes that build producer and customer understanding. This is essential in a Just Energy Transition where pro-active customers can contribute positively to energy management and the cost of supply.

12.4 Support transparency in determining the cost of supply of tariffs, subsidies and tariff structures and that this information is provided in languages that customers can understand. Consider podcasts in multiple languages to increase access to information.

12.5 NERSA to complete the SSEG guidelines and publish them for comment.

12.6 Identify customer groups who benefit from ToU tariffs while saving utilities peak demand costs and fast track mechanisms to install the relevant technology to enable this.

12.7 The DSM section needs to revisit its comments on clean coal, clarify its sources and information and include RE technologies as well as community mini-grids, iShack etc as options.

12.8 The Municipal Finance Act needs to be revised and the Treasury consulted so that local governments are less dependent on the MSOE to provide efficient and reliable services.

12.9 DMRE and NERSA to desist from issuing generation licenses for expensive generation that translates into tariffs that the country can't afford.

With Regards,

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