SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION
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Inspiring service delivery

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MEDIA STATEMENT

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Municipalities, households, and small businesses will feel the pinch as electricity prices continue to rise unabated.

As the national voice of South Africa's 257 municipalities, the South African Local Government Association (SALGA) has noted with grave concern that the National Energy Regulator of South Africa (NERSA) has approved Eskom's tariff application, resulting in electricity price increases of 18.65% in the fiscal year 2023–2024 and 12.74% in the fiscal year 2024–25.

Although SALGA appreciates the mandate NERSA has in setting the rules and rates for electricity generation, transmission, and distribution in South Africa, the ongoing increases in electricity prices while Eskom continues to face a shortage of generation capacity will have continuing negative impact on municipalities, consumers, and businesses.

The approved tariff approved NERSA amounts to a total of 33% increase over next 2 years. Effectively this is the increase Eskom asked for and is an increase of more than 8 times inflation, coming at a time of stage 6 load shedding where we are experiencing a loss of power for 8 hours out of 24 means that for one third of the time, we don't have power at all. Such a price increase can only result in a lot of hardship for customers across the board: domestic, commercial, mining, industrial and municipal customers which will result in accelerated levels of non-payment, theft, illegal connections and related technical losses, and will further exacerbate municipalities' inability to pay Eskom.

In an economy where we are likely to see weak economic growth this year, with stagflation risks, high unemployment and high inflation rate with rising prices and overall cost of living, consumers are cash strapped and the electricity price hike is unaffordable. This is visible in consumer debt to municipalities which stands at R289 billion. Utility services are becoming increasingly unaffordable. All this is happening while municipalities are still recovering from the COVID-19 pandemic which hit hard the ability of municipalities to collect revenues and service municipal debt.

In the current business model municipalities purchase bulk electricity from Eskom and then sell to customers at a value that includes mark-up. The fundamental question is now: if Eskom cannot provide electricity to keep the lights on, what power are municipalities going to sell to consumers? And where will the municipal revenues come from? It is hard to see anything positive in all of this.

Certainly, the tariff increase will result in reduced use of electricity and make the business case for alternative solutions to grid power more and more compelling. With a 33% price increase above the price increases over the last few years, the business case for solar top PV and battery storage becomes a no brainer as it will save money, increase resilience, business security and security of supply and allow businesses to reduce their carbon footprint.

This will further reduce municipal revenue at a time when municipalities are facing increased operational and salary costs.

The business case for cost control, decarbonization, savings in electricity, security of supply also applies to municipalities where municipalities are taking on board the energy transition and are already addressing energy efficiency, demand side management and alternative delivery models.

The current electricity model is fundamentally flawed, which is why SALGA, on behalf of its members is advocating to accelerate the energy transition including legislative reforms that would enable municipalities to generate their own electricity and purchase electricity from independent power producers (IPPs) in order to relieve pressure on Eskom and ensure energy security.

The Department of Energy needs to get the renewable energy IPP programme running as this would pull down costs as tariffs for renewable energy such as solar and wind are decreasing. Every day we delay in getting the IPP programme running (or Eskom buying from its own IPPs), we are locking ourselves into the very high-cost structure related to the coal plants since a lot of the costs stay the same, even when we are load-shedding. DMRE needs to facilitate decreasing the cost structure by making it easier for Eskom and municipalities to procure renewables and bring down the total costs of electricity in the medium to longer term. We can't afford these delays while we are sliding further into economic decline and electricity shortages.

We also believe that there is a lot of room for Eskom to be more efficient. For example, the coal contracts are not transparent, especially when buying coal from many coal suppliers. The skills within Eskom and the number of employees needs to be looked at, including ongoing corruption that is crippling the power utility. We would like to see transparent coal contracts and more information about Eskom's capacity.

SALGA made submissions to NERSA last year that Eskom's tariff rise for the fifth Multi-Year Price Determination (MYPD5) should be capped at the inflation target set by the South African Reserve Bank (SARB). We remain committed to this stance and implore NERSA to rethink its decision. NERSA's decision to grant Eskom's electricity tariff application has effectively compensated the power utility for underperformance, which only widens the trust deficit gap between Eskom, municipalities, and their communities.

The Energy transition means a transition away from our current thinking into the thinking of the new world of electricity - which is far more complex than simply putting up prices.

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