PIETERMARITZBURG ECONOMIC JUSTICE & DIGNITY

Economic justice through the lens of human dignity

A comment on the electricity hike
Household Affordability Index
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For immediate release

A comment on the 2024 electricity tariff price hike

The Eskom electricity increase for local authorities of 12,72%, came into effect on the 1st of July 2024. Electricity tariffs are not priced at the same level (not universal) across municipalities. The percentage increase levied and the baseline price per kilowatt hour (kWh) differ markedly across and within municipalities, with thousands of different tariff scales applied across the country. It means that whilst the overall annual Eskom hikes are known and regulated by NERSA; at the local municipal level where all sorts of additional charges are included (unilaterally), and municipalities employ both credit meters and prepaid meters – managed by an assortment of vendors, the actual price of electricity which households must pay not only at a local level, but even from an national optic, is largely opaque, not sufficiently regulated and very messy.

Whilst we may not know the exact prices of electricity which households are expected to pay across different parts of the country, unless very carefully tracked; we do know that both the baseline price of electricity for households at municipal level and the annual increases levied by Eskom, including the additional charges added on top of Eskom's rates by local authorities have far exceeded the ability of households to pay for them, and for most South Africans, electricity is unaffordable.

The electricity increases in the areas where we track food prices have increased between the range of zero to R200, for households consuming an average of 350kWh a month. 350kWh is considered a low consumption volume. The new total cost of electricity for households consuming 350kWh per month, again in the areas we track, range from R900 to R1200 per month.

Electricity hikes drive not only the price of direct energy at household level upwards, but also the prices of all other goods and services in the economy. When electricity prices go up it means that households must absorb the increase of the tariff hike, plus the inflationary knock-on effect for all other essential goods and services required in the household.

The food/electricity nexus is also problematic in South Africa because both must be present for food to be put on the plate. All South African staple food must be cooked for it to be edible *viz*. maize meal, rice, samp, potatoes, flour, eggs, meat etc.) On low incomes families cannot choose between spending the little money they have on electricity or on food – money must be found to pay for both electricity and food. This creates competition in the household purse, and because food is one of the few expense's women can control, the higher electricity costs are likely to remove money prioritised for the monthly food purchases. Just how bad the negative consequences of a lower food budget will be for households is dependent on the ability of households to absorb the new electricity tariff hike.

For this, we need to look at the annual social grant and National Minimum Wage adjustments for 2024/25 in relation to the electricity hike.

We use Pietermaritzburg electricity data (Msunduzi Municipality) as an example of this year's annual increase and its consequences. Consistent with past data we use the prepaid *S1 Domestic Lifeline tariff* (one of the lowest tariff scales in the municipality). This year's increase is 15% (it was 17%, but NERSA intervened and knocked it down to 15%).

The *Pietermaritzburg S1 Domestic Lifeline tariff* increased from R2,5912/kWh to R2,9799/kWh. On a low electricity consumption of 350kWh per month, the new increase means that monthly electricity **has increased by R136,05**, from the previous R906,92 to R1 042,97).

Using this above example, are households able to absorb the annual electricity hike on the social grant and National Minimum Wage adjustments for the 2024/25 term?

Looking at the social grant increments for the 2024/25 term, we see the following:

The **Child Support Grant** was increased by **R20** a month (from April).
The **Old Age Grant** was increased by **R90** a month (from April) with an additional R10 to be added in October.
The **Special Relief of Distress Grant** was increased by **R20** a month (from April).

It is clear from the annual social grant adjustments of **R20 and R90**, that the new electricity tariff hike of **R136,05** cannot be absorbed by the annual adjustments on social grants. Further to this, social grants are specifically given to assist individuals, and families, mothers, and children to buy food and to absorb higher food costs, to assist with improving both child and household nutrition. However, as we can see from the above, the new electricity tariff hike acts to obliterate any monies that may have been directed to absorb higher food costs during the year, and moreover do not even cover the higher electricity charges in full.

It means that mothers will likely cut down on the amount and diversity of food purchased for their families, with the direct consequence that the entire family, but especially mothers (who eat last and the least nutritious food) will suffer with poorer nutrition and worse health -children will get sick more often, more severely and for longer; women will suffer from more non-communicable diseases *viz*. diabetes, heart problems, higher blood pressure etc., and more school days will be lost and productivity in the workplace will decline, with mothers either having to take time off to take their children to the clinic or mothers themselves having to get treatment, and thereby missing work. The likely result therefore of the electricity hikes; is that food insecurity will worsen, nutrition will worsen, health and wellbeing will worsen, education outcomes will deteriorate, and social dissent will increase.

The annual electricity tariff hikes, which for years have been unaffordable – act to undermine the social security system, designed specifically to assist millions of citizens to at least meet some basic food and other critical needs, albeit not sufficiently but at a very low level. Moreover, by forcing mothers to cut back on nutritious food, the electricity tariff hikes will further cost the state more money in health care – as mothers and their children will be driven into clinics and hospitals, more money in education – as the state will be forced to employ more teachers and resources because hungry and malnourished children are harder to teach; and more money into policing and security as there is a greater likelihood of social fallout when citizens become increasingly impoverished and public trust erodes.

We have looked at whether families reliant on social grants are able to absorb the electricity tariff hikes, now let us consider the approximately 3,8 million workers covered by the National Minimum Wage.

The **National Minimum Wage** for the 2024/25 term was increased by **R362,88** a month (if full 21-day month worked) from March.

Workers should reasonably expect the annual increase on the NMW to cover inflation on all their basic expenses required to care for their families and allow them to be productive in the workplace. The electricity increase however may remove R136,05 or 37,5% from the total increase of R362,88 (cutting it to an R226,83 monthly increase), and erode it from an 8,5% annual increase to a low 5,3%. For workers on the NMW, whilst technically they may be able to absorb the electricity hike, it is unlikely that after absorbing the increase that enough money will remain to absorb the higher costs of food, upcoming transport increases; and all the other basic inflationary increases on expenses such as schooling, domestic and hygiene products, cell phone data etc. required to maintain a functioning household and a productive worker; and including improving their life trajectories through employment.

The annual electricity tariff hikes, which for years have been unaffordable – act to undermine the National Minimum Wage as an instrument of improving equity in wages, dealing with historical wage injustice, and improving the lives of South African workers and their families.

Historically, when electricity was cheap, and households could afford to pay for it; municipalities used the electricity revenue surpluses to maintain and expand local electricity infrastructure, and even fund other municipal services and infrastructure projects and close national government funding gaps. Surplus electricity revenue was an important revenue source for municipalities to be financially sustainable and to grow. Eskom's runaway electricity prices now, no longer allow this, because citizens can no longer afford the increased tariffs. And, as we have shown, the higher electricity prices act to undermine other departmental programmes, and including impoverishing households.

Municipalities, mostly underfunded and under enormous pressure to remain solvent and financially viable are forced to employ increasingly hostile methods to recover monies from their citizens, which hurt citizens and give rise to unnecessary flash points. This situation is unlikely to improve, instead it seems to us that the relationship between citizens and the nearest arm of the state will grow increasingly antagonistic, unless something changes.

Perhaps there is another way? It seems to us that the administration of electricity at the local level has been made far too complicated and onerous with the myriad of different tariff scales and differentiating between the deserving and undeserving poor proving extremely difficult to manage and largely out of control. Affordability studies prior to tariffs being past have never found traction, and the free basic electricity policy has mostly failed, as has cross-subsidisation.

A new administrative way which could be much easily implemented and controlled, may be to apply a universal approach with a uniform tariff across the country. Here, it would still be possible to implement a blocked tariff structure – say a 3-tier system of free electricity, cheap electricity, and reasonably priced electricity for high-volume, consumers. These tiers can be uniformly priced across the country. Municipalities can forgo administratively burdensome and dehumanising means testing, do away with indigent policies and instead apply the principle that it is good for all of us to have access to safe and sufficient energy. Area-based targeting can be employed via rates registers to segment populations of high-volume consumers (if necessary) from the majority of households whose financial reality is that they can afford zero or just a very small amount.

Each municipality is in the best position to work out exactly how much it costs to deliver electricity and maintain and expand its energy infrastructure and services. These calculations can be handed to National Treasury for a revised Division of Revenue, [i] fully funded to cover those households requiring free and cheap electricity. For households requiring free electricity there need be no contract – National Treasury can pay the municipalities directly. For households able to pay a small amount for electricity then it would be much easier to manage if flat-rates are applied (of which National Treasury will heavily subsidise, and which should be low enough not to remove any food from the table, and of course no VAT should be levied). The principle around this second tier is that if a household is not paying the flat-rate then they cannot afford it, the municipality need not chase payment, instead the household receives free electricity, being moved onto the first tier. The third tier: high-volume consumers can be left in the hands of the municipality – if they wish to pursue harsh recovery methods, however it may be better if we try and instil integrity and solidarity in payments – because whilst there may be few people who can still afford to pay the full cost of electricity, there are still some that can pay it and they too need a role to play in making South Africa a place where all can live better.

Using this approach, municipalities can unburden themselves from raising money from electricity to cover costs and including surpluses to fill national government funding gaps, and instead focus on governing well and rebuilding the public trust that has been lost. The Division of Revenue to municipalities must support such an approach and the necessary political decisions made for reprioritisation and allocation of revenue from National and Province to Local Authorities. Energy access is one of the primary instruments to delivery equity and put us on a path to both human progress and human dignity and economic growth. It would require a political decision that electricity becomes a public good, taking no profits from households, and be a real asset on which to build a strong foundation for social development and economic growth. Monies that have been reallocated to household electricity will, in the medium term free up revenues spent in health care, education and policing because of the positive outcomes of having affordable electricity, and therefore these monies will be recovered.

These are our initial suggestions for dealing with an untenable electricity affordability crisis. There are many different ways of doing things. Since 1994, government has focused on revenue, cost recovery, getting people who cannot pay to pay, punishing and disconnecting us and putting us at risk of poor health and even death through denying us safe energy; this has not worked and has and is leading to innumerable negative consequences for most of our developmental aspirations; perhaps changing our starting point to finding a way to ensure that all people have access to affordable electricity because this would be good for all of us, might change how we manage it.

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[i] It seems to us that there is scope to increase the revenue share to local government. Currently the Division of Revenue's medium-term estimates for 2024/25 is as follows: 48,5% National departments; 41,7% Provinces; and 9,7% Local Government. For more see National Treasury (2024). **Annexure W1**.2024 Budget Review Explanatory Memorandum to the Division of Revenue. National Treasury. South Africa. P7 See link: https://www.treasury.gov.za/documents/National%20Budget/2024/review/Annexure%20W1.pdf