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Attention to: Mr. Joseph Maraba

Electricity Pricing Policy Submission

The Green Connection welcomes the opportunity to participate in the framing of transitioning the electricity sector through comment on this piece of the system, the revised Electricity Pricing Policy.

At the centre of our concern, is the issue of affordability. The revised EPP does not do enough, or provide sufficiently tangible and clear measures, to show how it plans to address rising electricity prices and the key question of electricity affordability.

Further, and related, key concerns include the following:

1. the need for full transparency in determining the composition of various charges (for example, legacy and capacity charges) that make up electricity tariffs and the need for prices and charges to be accurately cost reflective - ensuring that only legitimately incurred and necessary, efficient costs are passed through to consumers.

2. The need for the EPP to speak to and inform (and be informed by) the various material power sector reforms including the setting up of a SAWEM and a wholesale tariff - these changes all need to be aligned, and we are concerned that NERSA's draft methodology for the wholesale tariff and this EPP already do not necessarily say the same thing.

3. To align the EPP with the Climate Change Act, NEMA and Constitutional obligations to protect human rights, as a key core objective and focus for the policy, given the impact that South Africa's electricity decisions have on human rights.

4. NERSA's ability to implement and undertake the various additional studies, frameworks and tasks mandated in the draft EPP - along with the need for better and more comprehensive consultation by NERSA and other players.

Energy Policy

The first energy policy document in a democratic era was the 1998 White Paper on Energy which stated that "*The general approach to policy formulation has also changed and places greater emphasis on transparency, inclusiveness and accountability. The energy white paper process has therefore attempted to make government's approach more transparent; to build public confidence; to clarify organisational roles; to communicate policy effectively; and to integrate policy processes. "*

Since 1998, much water has passed under the bridge. But the White Paper on Energy still remains our overarching policy:

"To cope with multiple causal linkages, energy policy analysis usually commences with the demand side by means of the process entitled- 'integrated energy planning'. This recognises that energy is not an end-good but is rather consumed as a means to an end. Policy must facilitate optimal energy consumption and production to meet social needs. This requires consumer choice and the operation of market forces. Integrated energy planning suffers from the same drawbacks as other ideal models. It requires a great deal of data and analysis to implement, of which South Africa has a scarcity. Nonetheless, this white paper identifies integrated energy planning as the most suitable base for planning purposes and also addresses the issue of data scarcity (Energy White Paper 1998)."

The white paper listed as its number one objective to:

Increasing access to affordable energy services: Government will promote access to affordable energy services for disadvantaged households, small businesses, small farms and community services.

Government supports gradual steps towards a competitive electricity market while investigations into the desired form of competition are completed. Eskom will be restructured into separate generation and transmission companies.

It is important to note that already in 1998, it was envisaged that electricity would be diversified and that there would be a competitive electricity market and a separate transmission Eskom.

Government also recognises the fundamental importance of pricing to the efficient operation of energy markets. Government policy is to remove distortions and encourage energy prices to be as cost-reflective as possible. To this end prices will increasingly include quantifiable externalities. The price of energy services to poor households will, necessarily, have to be subsidised at times since the fulfilment of basic needs remains a higher priority for government than the achievement of cost-reflective prices for this market segment.

As part of South Africa's energy policy objectives, the electricity supply industry objectives must:

improve social equity by specifically addressing the energy requirements of the poor;

• enhance the efficiency and competitiveness of the South African economy by providing low-cost and high quality energy inputs to industrial, mining and other sectors; and

• achieve environmental sustainability in both the short and long-term usage of our natural resources.

To ensure the success of the electricity supply industry as a whole, various developments will have to be considered by government over time, namely:

• giving customers the right to choose their electricity supplier;

• introducing competition into the industry, especially the generation sector;

• permitting open, non-discriminatory access to the transmission system; and

• encouraging private sector participation in the industry.

Central to the policy, should be the provision of electricity as a service to the people of South Africa. It should therefore be affordable, reliable security of supply that ensures that economic development takes place within the environmental and social/equity rights, i.e. in the public interest.

The white paper is also far sighted in its comments on distribution industry:

While there are many distributors that are not financially viable today, collectively the industry is able to fund both the supply of electricity and electrification over the long-term. However, if the industry is expected to both contribute to funding other municipal services (as it does currently) and to pay for the electrification programme over the long-term, the electricity distribution industry will experience financial bankruptcy without alternative funding and pricing mechanisms, a reduction in the generation and transmission prices (i.e. the wholesale price of electricity), or substantial increases in tariffs. Even if the price municipalities pay for energy is reduced to the price paid for energy by Eskom distribution, the collective position of the industry will not change. The current Eskom distribution surplus will just be transferred to municipalities, without changing the overall cashflow problems for the industry as a whole.

The poverty context.

The first energy policy was produced in 1998 and we are now in 2026. While there have been significant changes in the technologies that are available to produce electricity, the South African society remains inequitable and there remains a fundamental need for subsidised electricity for the poor and vulnerable communities.

The Green Connection works with many other civil society organisations and in this context, we subscribe to the position of the **Climate Justice Coalition** regarding electricity, this being the following:

Electricity is essential to everyday life. We need it to keep the lights on, cook, heat water, study, and run our homes and businesses. But for millions of people across South Africa, electricity is

becoming increasingly unaffordable.

Rising electricity tariffs, unemployment and the rising cost of living are putting enormous pressure on household budgets. For millions of South African households, the rising cost of electricity is forcing painful sacrifices. Families are cutting back on food and other basic necessities just to keep the lights on.

No one should have to choose between electricity and putting food on the table. Yet every day, families across South Africa are being forced to make impossible choices about which basic needs they can afford.

That is not right. It is not fair.

Electricity is not a luxury. It is a basic need. It is essential to living with dignity, and everyone should be able to access enough affordable electricity to meet their basic needs.

Free electricity exists, but millions are missing out

South Africa already has a policy designed to help people who cannot afford electricity: Free Basic Electricity (FBE). But many households who qualify for this support are still missing out.

Around 8 million of the estimated 10 million households eligible for Free Basic Electricity do not receive it. Millions of people are missing out because the system makes it difficult for them to get the support they qualify for.

We need to expand Free Basic Electricity

Free Basic Electricity was introduced to help households meet their basic electricity needs. But the amount people currently receive is simply not enough.

Households today need electricity for far more than just lighting. Electricity is needed to cook, heat water, keep food fresh, study, work and run a home. The current allocation does not reflect the realities of modern life or the electricity needs of many South African households.

That is why we are calling for Free Basic Electricity to be increased to 350 kWh per month, while making sure that everyone who qualifies can access it.

Expanding Free Basic Electricity is an important step towards an energy system that puts people's needs before profit. (https://act.350.org/sign/free-basic-electricity-all/?r=ZA&c=AF)

The Green Connection believes that central to the policy, should be the provision of electricity as a service to the people of South Africa. It should therefore be affordable, and reliable (security of supply). It should ensure that economic development takes place within the context of protected and upheld constitutional rights, including immediately realizable rights to an environment not harmful to health or wellbeing and the right to equality. The Electricity Pricing Policy must be centred on the public interest. The meaning of “security of supply” should mean that all South Africans have affordable electricity. Access without affordability is not just.

Public participation:

We also note that in this year, there have been a number of electricity related polices, draft rules and consultation papers, tariff frameworks, which all relate to the electricity sector and material power sector changes (such as the setting up of a Wholesale Electricity Market). We note that NERSA has provided comment opportunities on a number of these draft rules and consultation papers. However, the documents are highly technical and voluminous, and no explanatory support or engagements have been undertaken by NERSA or the Department to set out more clearly what the proposed changes and market reforms mean. This places an unfair burden on civil society and particularly vulnerable communities who are being asked to comment on complex subjects without being given the capacity to participate meaningfully.

The impacts of government decisions on the same communities will be significant, as it will determine how they receive their electricity in the future and at what price. The Green Connection therefore calls on government to ensure that they fulfil their legal obligations have been. NERSA has a statutory duty, under the National Energy Regulator Act 40 of 2004 to "act in the public interest, to ensure that its decisions are taken within a procedurally fair process in which affected persons have the opportunity to submit their views and present relevant facts and evidence to the Energy Regulator"; and "to make decisions that are consistent with the Constitution and all applicable laws." (S9 and 10, NERSA Act, 2004). The Department has a legal duty to act in accordance with the Constitution, affording affected persons a fair process, including adequate notice, and an opportunity to be heard (s33 of the Constitution). The NEMA section principles apply to all government decisions that pertain to the environment and clearly electricity prices which include environmental externalities would be included.

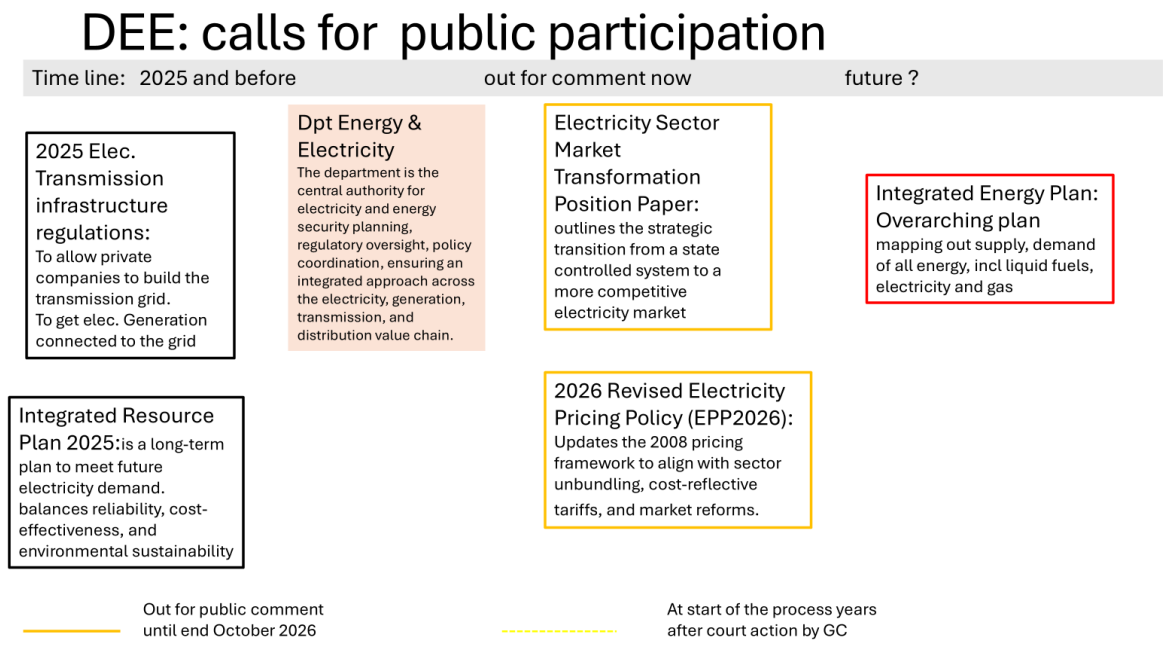
(1) *The principles set out in this section apply throughout the Republic to the actions of all organs of state that may significantly affect the environment and -(a) shall apply alongside all other appropriate and relevant considerations, including the State's responsibility to respect, protect, promote and fulfil the social and economic rights in Chapter 2 of the Constitution and in particular the basic needs of categories of persons disadvantaged by unfair discrimination;(NEMA 1998)*

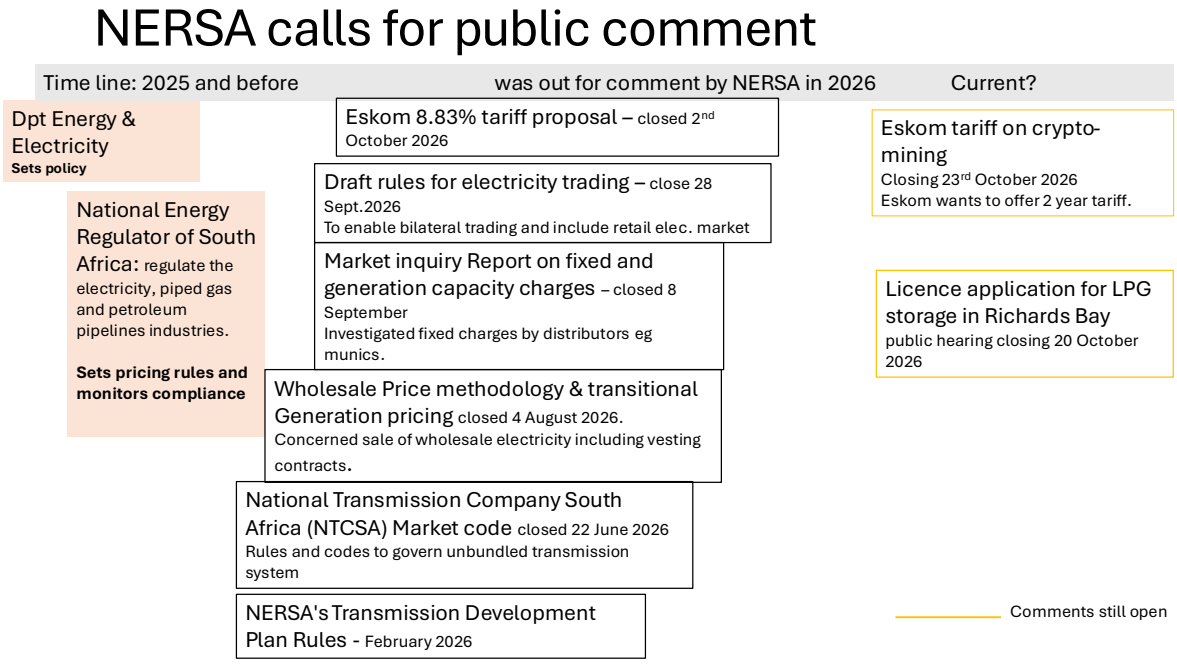
Principle 4 (f)

The participation of all interested and affected parties in environmental governance must be promoted, and all people must have the opportunity to develop the understanding, skills and capacity necessary for achieving equitable and effective participation, and participation by vulnerable and disadvantaged persons must be ensured. (NEMA 1998)

Timeframe for public comment:

The figures below show how many public consultation processes are underway this year.





The challenges with this timeframe and multiple commenting periods are as follows:

- DEE and NERSA are out of alignment making it difficult to comment in an integrated manner.

- NERSA has already closed comments on various important regulatory documents which will impact on the electricity pricing.
- However, the DEE has only released the EPP and the Market transformation policy documents at this point. The DEE's Market Transformation position paper and revised Electricity Pricing Policy should have preceded, and should inform, NERSA's draft market code, rules and tariff and pricing framework documents.
- The DEE is supposed to set policy whereafter, NERSA should then figure out how to set power sector rules and regulate the tariffs to support the policy.
- The consequence of this timeline is that NERSA has made decisions which may contradict national policy. It could be that once DEE has finished its consultative process and finalized its policies; they may be in conflict with the regulatory decisions that NERSA has made.
- NERSA is also processing 2 applications at this point; one is for a special pricing arrangement for bitcoin mining that Eskom is applying for.
- If the EPP is trying to reduce subsidies, then it could be that NERSA will have authorized a subsidy decision which would not fit within the review of the EPP but which Eskom will have got permission for. This would mean that all other Eskom consumers will have to subsidise the bitcoin mining industry in the future. This seems unfair.
- Crucially, it is doubtful if there has been sufficient meaningful consultation with electricity consumers on key market transformation implementation for which they will pay the cost.

The 2026 draft electricity pricing policy states that it "*seeks to establish a coherent, transparent, and forward-looking pricing framework aligned with the restructured electricity sector. It provides the basis for cost-reflective tariffs, promotes efficient investment and operation, and incorporates mechanisms to address affordability and ensure equitable access to electricity*" (EPP 2026).

Core issues:

The Green connection has noted a number of core concerns across the NERSA/DEE documents released for public comments, particularly regarding how the future electricity tariffs are proposed to be calculated.

There appears to be a disproportionate concern about Eskom's future profits. Eskom is a state entity and has been given consistent inflation price increases, and over a number of years. In addition, Eskom has consistently returned to NERSA to demand additional money through the RCA claw back mechanism.

In the EPP, there is an application of the principle of an opportunity to earn allowed revenue rather than a guarantee thereof. This would provide for a shift away from current methodology which has the RCA clawback mechanism and would be welcomed.

However, our reading of the NERSA draft wholesale tariff methodology seems to contradict this principle with a mechanism which would guarenttee Eskom's revenue.

There is a particular category of costs, the proposed legacy charge and capacity charges under the draft Wholesale Tariff Methodology proposed by NERSA, which could have the effect of

protecting Eskom Generation's coal fleet, to the exclusion of cleaner, efficient, low-marginal-cost generators, ensuring that Eskom does not have to compete with more affordable cleaner generation, but is being subsidized once again.

According to the latest published draft of NERSA's proposed Wholesale Tariff Methodology, the proposed legacy charge, would include: "any difference due to competitive market prices that are less than or more than the legacy PPA costs (REIPPP) and legacy cross-border contracts, stranded assets and vesting imbalances" (11.1, Draft NERSA Wholesale Tariff Methodology) In other words, this charge will enable for the recovery of the costs of historic power purchase agreements (PPAs) (e.g., REIPPPP and vesting contracts with the Eskom legacy fleet); as well as stranded assets and Central Purchasing Agency (CPA) imbalances. This could include imbalances from any new and future section 34 PPAs, as the CPA is required, under the ERA, to "be the buyer for existing Independent Power Producer power purchase agreements, **as well as new Independent Power Producer power purchase agreements, as required by Ministerial determination**" (emphasis added) (S34B(5)(c)(i), ERA).

There also appears to be a tendency to create additional complexity in the costs of supplying electricity and to create additional steps in the processes, all of which would have the tendency to push up the price of electricity. The introduction of the market is supposed to result in long term stability of electricity prices but the manner in which it is proposed risks locking the people of S outh Africa into increasingly expensive electricity if we have to continue to pay for Eskom's coal fleet as well as new fossil projects.

The danger is that these new fossil projects will become stranded assets but will would still be able to recoup their costs through government guarantees and/or recovery through a legacy charge (to be charged by the Central Purchasing Agency) in the wholesale tariff. .

However, the EPP states that "Revenue recovery is not guaranteed, and utilities must seek efficiencies during their licensed activities. Tariffs should promote overall demand- and supply-side economic efficiency and be Efficient use structured to encourage sustainable, efficient, and effective use of electricity. Efficiency will be incentivised by setting tariffs against the efficient use of assets by assessing utilised capacity against available capacity".

The revised EPP should address these issues and the question of wholesale tariff charges, as these will have a significant impact on retail tariffs, and ultimately, electricity prices.

We are supportive of the aims of the EPP provided but believe that the 5th point in the aims should be adjusted.

Rather than " *Balance economic efficiency with affordability and social equity considerations",* this should rather read.

Ensure that Economic efficiency supports the realization of equitable social and environmental rights. (refer to page 25 section 1.1 of the EPP)

The Legislative Context:

As well as ERA, there are additional pieces of legislation that need to be considered and which apply to the electricity sector. These include the Climate Change A ct, 2024 and the National Environmental Management Act, 1998 particularly the principles in section 2 which apply throughout the Republic to the actions of all organs of state that may significantly affect the environment. Section 7(1) of the Climate Change Act requires every organ of state that exercises a power or performs a function affected by climate change, or that is entrusted with powers and duties aimed at achieving, promoting or protecting a sustainable environment, to "*review and if necessary revise, amend, coordinate and harmonise their policies, laws, measures, programmes and decisions in order to — (a) ensure that the risks of climate change impacts and associated vulnerabilities are taken into consideration; and (b) give effect to the principles and objects set out in [the Climate Change Act]*".

The DEE, NERSA and the NTCSA each fall within this description in their respective roles under the ERA. This means that the revised EPP must give effect to the objects of the Climate Change Act and must ensure that the risks of climate change impacts and vulnerabilities associated with the EPP are taken into consideration. The DEE should, in the revised EPP, demonstrate how it has fulfilled this obligation.

2. General Pricing Principles

2.1.h. Tariff determinations *may* consider all planned projects reflected in the integrated resource plan and the transmission development plan *only* as far as these projects could impact on the costs of the licensee, for the period during which the tariff shall apply.

It is not clear who is the licensee but if Eskom, or any municipality, they should not be forced to buy electricity from more expensive generation. It has become clear that some of the planned generation in the IRP would burden electricity consumers with electricity prices far beyond affordable if built. Such generation projects should then fail at the licensing and/or determination phase if they had not been stopped before that, to avoid stranded assets. Electricity consumers cannot be regarded as a captive audience to pay for vanity politically motivated projects. Ministerial determinations under s34 of the ERA, as administrative action ought to be subject to public participation before being issued, and (under s34 ERA) should only be issued by the Minister in the event of a failure of a market, or in the event of an emergency, or for the purposes of ensuring security of energy supply in the national interest.

Environmental commitments.

Section 2.1 heading 'other principles' from the LGMSA (g) page 27 is also something that needs revising.

g. this currently reads... The economical, efficient, and effective use of resources, the recycling of waste and other appropriate environmental objectives must be encouraged.

This should be revised to ensure this policy aligns with existing policies and legislation regarding the meeting of environmental standards. Principles of the Polluter Pays contained within NEMA should be included in this section to avoid any misunderstanding.

Duty of care and remediation of environmental damage

(1) Every person who causes, has caused or may cause significant pollution or degradation of the environment must take reasonable measures to prevent such pollution or degradation from occurring, continuing or recurring, or, in so far as such harm to the environment is authorised by law or cannot reasonably be avoided or stopped, to minimise and rectify such pollution or degradation of the environment.

Additional principles are put forward.

Pag 28, principle d. This is a crucial shift in the manner in which tariffs have been applied in the past.

Tariffs are set in order to recover the costs of supply and to provide an allowed profit. However, there should be no guarantee for the licensee to be able to recover their revenue if they failed to sell sufficient electricity to meet their expenses. We support this principle d as it will remove the RCA mechanisms which have forced electricity prices to increase beyond reasonableness on some idea that Eskom has the right to make money on the backs of the poor.

In examing the objectives,

For Customers the description is as follows. *Affordable means that Price levels should assume an efficient and prudent utility; in other words, prices should be prudent and based on least life-cycle cost options and exclude inefficiencies. Consumers have the right to apply for direct contract prices that reflect the NERSA-allowed cost of supply and services consumed.*

The issue of affordable customer prices is key. In addition to applying for the contract price, customers should also have the choice to choose another supplier should they find their prices exceed the regulated NERSA tariff linked prices.

The objectives of affordable, cost reflective and transparent seem to be undermined by an objective for utilities to set prices at an industry level. Surely different licencees will have different economic costs and therefore be able to buy or sell electricity at different prices.

Objective of efficient use. There needs to be some policy objective that ensures that there is an equal playing field between those whose capex has been paid off vs those new generators that are building new plants.

EPP objectives: g. The economical, efficient, and effective use of resources, the recycling of waste and other appropriate environmental objectives must be encouraged (EPP page 27 of gazette).

Environmentally responsible. As observed above, it is not about being mindful but of ensuring compliance with water quality and air emissions standards amongst others. This objective needs to be amended to reflect compliance with environmental law and standards.

For the utility, the objective is given as *Sufficiency in generation capacity* with a description that says "*Expansion through the development of least-cost resource options in line with national resource planning.*" . This appears to be a reference to the IRP. This needs to be clarified so as to understand that the state would only procure additional generation if there are specific

electricity needs that existing generation, and other electricity services are not providing. The IRP needs to be revised regularly as a subset of the IEP which should determine the energy landscape going forward, including the electricity sector, and in light of a future wholesale electricity market which will, to a large, extent inform the electricity mix and decisions on new generation capacity going forward.

According to the EPP, *Economic theory suggests that a perfectly competitive market would produce efficient prices. The electricity industry in South Africa is currently not structured to deliver perfect competition, but this does not diminish the importance of efficient electricity prices in any way. In the absence of a perfectly competitive market, the usual approach is to institute economic regulation, which is aimed at mimicking the competitive conditions to steer prices towards efficient levels. Therefore, if well implemented, economic regulation should lead to efficient prices.*

Efficient electricity prices would lead to:

a. the optimum allocation of scarce resources including financial, human, and natural resources;

b. the optimum usage of electricity;

c. the optimum generation of electricity;

d. the optimum usage of the different energy forms (e.g. electricity, gas, oil, and coal); and

e. a financially viable industry.

Page 30. Economic theory and perfect markets do not exist. We support completely the necessity for regulation in order to ensure social equity and environmental sustainability. These cannot be left to the market. However, efficiency within the principles of regulation to ensure compliance constitutional rights, and ensuring that fossil industries are not subsidized to avoid their environmental and social liabilities, could, and should, lead to the optimium electricity prices.

As pointed out above, if environmental responsibilities are only to be encouraged and not enforced, then the efficient market will be skewed because the full costs of coal fired generation will not be counted, and the outcomes of such a perfect market would be completely undermined.

It is a little disappointing that the EPP having listed a number of objectives then says "*These objectives are sometimes in conflict, and trade-offs need to be made during the tariff determination process*". This appears to be passing the buck to NERSA who sets the tariffs but without clear direction about how to resolve potential conflicts.

Policy position 1. (page 31 EPP)

The principle for all licensees to ensure that they are financially viable while assuming they are efficient and prudent operators is supported.

If NERSA is to be given the task of reviewing a asset valuation methodology, it must be given additional resources to ensure it has sufficient capacity to do its job.

As raised above, we cannot ensure that the market will ensure affordable electricity prices. It is the role of the regulator to ensure that there is compliance with the rules.

The "utility" Is not defined.

However, as Eskom is to be unbundled, the generation section of Eskom will be a separate entity, composing mainly coal fired power stations. Given climate constraints and the unaffordability of building large fossil fueled power stations into the future, it is unclear why NERSA needs to develop an asset valuation methodology that replaces generation for Eskom. We would assume that Eskom power stations would not be replaced and that it is for the Treasury to determine how any outstanding debt would be paid.

NERSA, after consultation with stakeholders, must adopt an investment prudency framework and an asset valuation methodology that accurately reflects the prudency and replacement value of those assets, *to allow the electricity utility to be financially sustainable, meet its debt-service obligations for the full tenor of the debt, and achieve stand-alone investment-grade credit ratings;*

Why is NERSA being directed to ensure Eskom's financial sustainability as it seems very likely that creatively adopting a methodology that favours Eskom's financial sustainability would undermine the core role of the regulator, to ensure electricity pricing is efficient. We believe that Eskom coal fired generation must be phased out, as soon as possible and replaced with renewable energy, storage and other electrotechnology solutions (demand side management and energy efficiency).

Policy position 2 is about cost reflectivity. Section 2.4 under cost reflectivity, refers to the types of metering available. The policy should be clear in stating that all metering technology should be reviewed and installed over time to be such that can comply with the policy position 3 intensions.

Full disclosure (transparency) and breakdown (unbundling) of

all key cost drivers, where practical, are essential features that would empower customers to make

informed consumption decisions

Policy position 3 is concerned with transparency and ensuring that customers understand all parts of their bills.

We support the EPP in the statement that "*Full disclosure (transparency) and breakdown (unbundling) of all key cost drivers, where practical, are essential features that would empower customers to make informed consumption decisions*" .

This would enable Consumers to choose their electricity supplier.

Policy position 4 page 33.

EPP - a) NERSA must, within 12 months of this policy coming into effect, address all forms of discriminatory pricing practices, other than those permitted, to unlock the full potential of electricity for all.

The sentiment of removing unjust subsidies is an excellent one that we support. We have seen various pricing agreements signed which allow consumers so buy at below the cost of supply. However, it is not clear how NERSA is to address this. Should the policy not specify where licensees have entered into discriminatory pricing agreements, such licenses should be reviewed.

Policy position 5 page 34.

This policy position relates to all paying for the use of the networks. In principle, we support the idea of ensuring customers can access the grid in a non-discriminatory manner.

There is a reference to incremental risks and costs for Distributors and retailers, but it is not at all clear what these are. To justify any additional charges, these need to b transparently unpacked.

We agree that network operators should be obliged to optimizes benefit to all users. However, there would need to be very clear rules. For example, if the grid is constrained, you should not be able to cut supply to residential customers to enable a better paying wheeling agreement to industry.

The EPP refers to SAPP rules applying but does not provide access to these rules. We would say that such rules should apply providing that sapp rules do not contradict anything within this policy.

Policy 6. Page 34

There is a reference to short term needs and new product innovations. In paragraph 2.7, there is some reference to rebates, very high demand periods and mechanisms that could be used to assist. Howevre, time of use tariffs are not specifically mentioned.

I think tou tariffs must be included in such mechanisms and NERSA should review the current tariff framework to ensure that tou tariffs are implemented through the elec system including the distr4ibution sector and to all classes of customers.

Long term price outlook.

Policy position 7.

NERSA, after consulting with stakeholders, should develop and publish annually a multi-year price path covering at least five years forward updated every 2 years aligned to the Integrated Resource Plan (/RP) whilst catering for private generation pipeline including implications from embedded low-voltage own generation trends.

NERSA should develop a multi year price path to be updated every 2 years.

> However, this should not assume the IRP build. It should be aligned to trends in the sector, including behind the meter developments as well as private generation projects, market developments within the SAWEM and any other future market mechanisms (for

example, should a capacity market be developed in time), and include updates on wheeling trends and private bilateral agreements. NERSA can then compare the price path for the current trajectory compared to the projected IRP. This price path should then also be used to review the IRP section of the IEP each year.

Section 3: Pricing interfaces.

Pg 36. We see the inclusion of legacy costs recovery. This needs to be unpacked further as such legacy costs should only apply to generation already committed through long-term power purchase agreements (such as the REIPP) and not to new generation. It should also not allow for the recovery of costs for imprudently procured projects or Eskom generation to be subsidized to rebuild new capacity and/or to recover for stranded assets. Legacy costs should only be in the system for a fixed short to medium term and for a finite number of legitimate legacy projects.

The word consider should be changed to promote and enforce carbon pricing mechanisms. This is in line with the polluter pays principle and speaks again to the principle of full cost accounting.

Policy position 9 page 38.
The generator pricing structure may consist of energy, capacity and ancillary charges. These services should be priced according to their value in the market at the time. Generators that can provide both energy and ancillary services should be paid for their services separately to avoid discrimination of other players.

Note that (regarding policy position 9) for PPAs and any publicly procured generation capacity or transmission infrastructure, must be transparent and subject to prior public participation.

Section 4.3 Tariff level. Page 38.
Avoided system costs is a not well-defined term that was abused during load shedding to try to force the procurement of extremely expensive electricity.

The tariff level should be referenced to the cost of supply and related to the service supplied. If only one generator can supply dispatchable power during peak times and has to stand idle for the rest of the day, then the price of that power will be understandably extremely expensive but will only be used when nothing cheaper is available.

Policy position 10:
Where prices are derived from an “approved PPA”, it is crucial that that PPA and its terms and pricing be published and subject to a public participation process prior to approval and signing. The process for ex ante approval of power purchase agreements (as referenced in policy position 10) must be transparent and subject to a public participation process. This is aligned with the basic requirements for just administrative action, as set out in the Constitution and Promotion of Administrative Justice Act, 2000.

Page 39 section 5. Wholesale pricing.

This does not seem to be at all aligned with the proposed wholesale tariff methodology being developed by NERSA for the SA Wholesale Electricity Market. It's crucial that the EPP and any wholesale tariff methodology and resulting rules are aligned.

There are various services that need to be included in the tariff structures, for example, the capacity charge, as proposed in NERSA's draft wholesale electricity pricing methodology.
However, if both consumers and generators pay such a back up charge, then there is double counting.

We would propose that generators pay the capacity and any other charges which are then part of their cost of supply. The customers can then compare apples with apples in choosing where to buy their power. However, all charges must be transparently unbundled in line with the principles of transparency.

If Generators enter into wheeling contracts across the network, similarly, all charges should be transparently revealed.

At a distribution level, customers are already being charged hefty, fixed charges without being able to sell into the grid. If they were genuine prosumers, they would pay the backup/capacity , and other charges when they sold electricity as generators. However, the distribution rules need to be overhauled by NERSA at some point.
The EPP needs to allow for such future arrangements and not curtail futher modernization of the electricity system.

Low load customers who had TOU tariffs would be able to shift their demand to periods of low tariffs. Currently hhs and others being supplied by Eskom who do not have access to TOU tariffs have no incentive to reduce their load during peak times. If we assume that the market is about choice, then customers need to be educated not that everyone needs to pay more because they don't have a choice or don't know what their choices.
This also means ensuring that technology available which can for example implement TOU tariffs at residential household level.

In the future, hhs might sign with a new electricity supplier who has capacity to supply them at a lower cost. Such households will be free to move away from a centralised supply utility.

Policy 11 page 41

a. Overall, much more clarity is needed in this policy position 11, on the transitional pricing measures to apply to Eskom (currently only addresses vaguely in NERSA's transitional pricing and vesting contracts framework) and publicly procured (s34 ERA) IPPs as per NERSA's proposed wholesale pricing methodology. Any vesting contract arrangements

for Eskom and the composition of the legacy charge will have a substantial bearing on electricity prices and are therefore relevant for this EPP.

b. Cannot be a generator and demand charge. That is double counting.
c. This policy decision should clarify that any capacity charges to be charged by Eskom (as part of NERSA's wholesale tariff methodology) are intended solely to preserve reliability during the transition and should not become a mechanism for extending the economic life of fossil-fuel based generation assets beyond what is reasonably necessary. The EPP should clarify the composition and intention for any broader capacity charges to apply to all wholesale customers as a "demand related charge". As stated above, this must nit enable double counting.
d. Legacy charges cannot be a subsidy to continue business as usual. The aim must be to phase them out over the shortest most efficient time. It is essential that clarity be provided on what can and what cannot be covered by the legacy charge. The EPP should specify that legacy charges are intended exclusively to recover unavoidable transition costs and should not operate as an indirect mechanism for preserving high-emitting fossil-fuel based generation assets beyond their economically justified transition period, or for enabling imprudently publicly procured new generation capacity.
e. If the CPA will apply to NERSA for a review of its subsidies etc, we make the point once again, that NERSA needs to be capacitated to do its job. In the past Eskom has been allowed what we would regard as imprudent costs due to rules that are not aligned with the public interest.

Policy 13 page 42

Wholesale energy tariffs must align with the cost of wholesale purchases, including capacity, energy, and ancillary services and as far as possible provide the correct signals for various products and services at the wholesale level; and

b) NERSA must develop a dynamic and timeous over/under recovery mechanism to deal with mismatches between legacy energy costs and revenues at the Wholesale and retail levels.

Legacy costs should be a temporary measure to ensure that existing contracts are honoured. They are not a means for Eskom or Ministerial section 34 determinations to build vanity projects and impose the costs of those projects on to the electricity consumer. If the legacy costs would result in unaffordable electricity prices, these projects should be halted. Generators should not be rewarded for bad business decisions. Clarity must be provided on exactly what can and what cannot be covered in the legacy charge, as well as a clear indication of timeframes for which some of these charges (like the legacy charges) will apply. For example, will future generation projects to be procured under s34 ERA or future Eskom generation projects be able to recoup their costs through the legacy charge? This is material information in the public interest.

Page 43 Policy position 14

The cost of ancillary services provided by the transmission network operator must form part of the transmission network charge;

b) The System Operator is to ring-fence its costs and the cost of operating the system, which is to be recovered through ancillary service-related charges, and such charges may be based on consumption and/or capacity;

and

c) The cost-recovery mechanism for ancillary services should allow for the faster recovery of over- and underexpenditure relating to regulator-approved tariffs aligned to the adjustment of retail tariffs.

Page 44 Policy position 15

The cost of providing generator standby services to all customers, including customers with their own generators, must form part of the wholesale prices; and

b) The costs of system balancing shall, to a reasonable extent, be borne by those causing the imbalance. However, a balancing charge may be applied as part of ancillary service charges to cover any shortfall.

c) NERSA and the Market Operator must ensure that system balancing is fair and transparent and provides appropriate price signals for consumers to manage their consumption or Distributors to support end-users balancing risks in line with the costs of imbalance as reflected in the related Distributor balancing charges for associated risk mitigation.

For both policy position 14 and 15, our view is that such services should be charged on a cost of supply basis which includes any other related charges such as debt/profit etc, and that these tariffs should be transparently unbundled and such services are then bought by consumers or the system operator.

Whether a consumer is participating in the market, or has private wheeling agreements, the costs of non energy charges must also form part of the tariff structure. In our view, such charges would be easier to administer if they were part of the generator licensee application, rather than charged to consumers as well as that could result in double counting.

Policy position 16: page 46

Transmission tariffs must be unbundled (e.g. charges for: TUOS, ancillary services costs, line losses, customer services, and connection) to reflect more accurately the cost of supply;

b) The transmission tariff structure must reflect the overall cost of supply and coufd consist of a combination of capacity, energy loss factors, ancillary services, service, and administration charges, etc.;

c) Connection charges must be fair and calculated in accordance with the Code;

d) No customer connecting to the transmission system shafl be permitted to avoid contributing to approved subsidies or fegacy costs unless allowed by NERSA; and

e) The calculation of charges for the unbundled services should be in line with the principles set out in the Codes to ensure fairness and transparency in the way transmission charges are calculated

The legacy charge is a subsidy to Eskom and the REI4p projects that received subsidized tariffs for very different reasons. These subsidies must fall away at the end of their contracts.

Eskom legacy charges should fall away as the coal plants are phased out. If the coal power plant life is extended then such extension, then the viability of such extensions and its impact on the price path and tariffs should be assessed. If there are non-financial reasons for extending the life of such power plants, then treasury should subsidise this, not the electricity consumers. Any extension of life of any coal power [plant should include the full environmental costs to be externalized in part of the assessment to see if this is a rational burden to place on the public purse or electricity consumers.

Page 50 Policy position 19. Page

Transmission network costs must be apportioned 50/50 between generators and customers to reflect the cost of supply more accurately;

b) The transmission tariff structure will be based on a zonal pricing methodology;

c) Transmission losses costs will be allocated directly to loads and generators;

d} Transmission service and other costs must be allocated rationally between loads and generators and must reflect the cost to provide the service; and

e) The apportionment between generators and customers must be reviewed from time to time to ensure compliance with regional approaches, so as not to disadvantage South African-based generators.

Although the costs of transmission are proposed to be paid 50/50 by consumers and generators, the administration of this appears difficult. It would be easier to ask generators to include these costs I the cost of supply, and the consumers would then pay when they buy from generators.

Page 52 policy position 20

The current transmission geographic differentials for loads must remain until they are updated by an approved redefinition of geographic differentials;

b) The transmission licence holder, DEE, and NE RSA must evaluate the redefinition of geographic differentials for customers by assessing price stability and comparing the current generation mix with that foreseen in the next 10 years; and

c) The transmission license holder, DEE and NERSA must investigate different options and adopt the most appropriate method for a/locating costs between generators

This is something that should be prioritized and reviewed. It is acknowledged as completely arbitrary and not fit for purpose. The policy position should be that it should be reviewed within a year.

In the interim, possibly it should fall away as it appear that the rationale is simply to provide ancillary services at a transmission level and these should be charged accordingly.

Page 55 policy position 26

Customer categories for costing, tariff design, new tariff or product or service development, special pricing arrangements, and electricity products must be justifiable to NERSA and based on the underlying cost drivers across the customer base, including load, generator, wheeling, trading, and aggregator customers. In determining customer categories, consideration must be given to:

i. Consumption and generation characteristics;

ii. Customer demand, size, and supply or export location characteristics;

iii. Metering arrangements;

iv. Network configuration and voltage level;

v. Customer service and account management requirements;

vi. Contribution to network losses; and

vii. The provision of energy storage or renewable energy services, where applicable.

b} A new customer costing category may be established where the cost of supply or nature of service is materially different from existing categories.

c) Customer costing sub-categories may be created where there is a justifiable distinction in cost components or service characteristics that supports more appropriate tariff differentiation.

There are customer categories, but it is not clear why they need aggregating or averaging or bundled in any way. Every licensee would apply for a license having done their homework and proposing to provide a certain demand.

NERSA, in order to predict a price path, would need to know what the demand is.

The SO would also calculate the demand of different customers in order to assess how best to supply them.

It would seem that an automated IT system that enables transparent cost of supply, cost to serve, tariffs and the ability to match demand and supply must be a key component of a successful energy system transition.

There is no disagreement that all these characteristics need to be known to deliver electricity services affordably and reliably, but we cannot just divide customers into residential, industrial, commercial etc. There is much more variety which needs to be calculated to avoid a non-functioning electric system which assumes everyone behaves the same way.

Page 58 policy position 28

NERSA shall, within 12 months of this Electricity Pricing Policy (EPP) coming into effect, develop, consult on, and finalise a framework to guide the standardisation of electricity tariff structures

and other pricing mechanisms (products and services principles and incentives, subsidies and wheeling crediting) for all licensed electricity distributors.

b) The framework shall establish a common industry tariff structure and pricing mechanisms consistent with the policy positions contained in this EPP and shall be developed through an open and transparent public consultation process.

In order to rationalize the electricity tariff structures, there is certainly a need for NERSA to rationalize this. However, the implementation of this policy needs to be accompanied by additional resources and capacity so that NERSA can do its job.

Page 58 policy position 29

NERSA must ensure that Tariff structure and levels shall be aligned with the results from an updated CoS and CTS studies and will reflect the associated revenue requirement for the licenced activity and cost structure characteristics.

b) NERSA may approve changes to tariff structures where tariffs are combined or rationalised, using existing tariff revenue without a CoS study, and.

c) NERSA shall timeously evaluate all submitted structural changes, new tariffs, crediting charges, products and services and provide reasons for decisions with guidance.

Nersa should not be allowed to approve changes to the tariff structures without a cost of supply study. This simply allows a loophole to continue with business as usual.

Page 59 policy positon 30.

DUoS charges shall apply to both generators and loads.

b) Charges shall be cost-reflective and based on an updated cost-of-supply and cost to serve studies,considering capacity, voltage level, transmission zone, network losses, and urban or rural classification (density of supply area).

DUoS and embedded TUoS charges shall recover the full cost of operating and maintaining the distribution network, including ancillary services, retail services, and approved subsidies where applicable.

d) DUoS charges shall be unbundled to improve transparency, with a minimum fixed network capacity charge and additional demand- or consumption-based charges where appropriate.

e) The charging principles shall apply to all small power tariffs, except subsidised lifeline tariffs.

f) NERSA shall implement a phased transition to cost-reflective distribution network charges within five years of the policy coming into effect.

g) NERSA shall develop a national DUoS charging framework, including standardised regulatory accounts, to ensure consistency and regulatory certainty across the electricity distribution sector within 12 months of the policy coming into effect.

The idea of charging both customers and generators to use the grid allows double counting and appears administratively unwieldy. Allow generators to include these charges in their cost to

supply. At the distribution level, there will need to be a structure to ensure that those who use the grid as backup do pay a reasonable charge. However, those prosumers that export to the grid also need to be provided with a reasonable return. It is not practical to register every homeowner as a generator but mechanisms should be found where local distributors can make use of batteries selling power into the grid by households at peak times… and making it worth their while. So that hhs do not end up subsidizing the grid.

The five year timeframe proposed seems quite slow given that the EPP proposes that there should be a policy overhaul every 5 years.

Page 62 policy position 33

Net-energy billing will be allowed, subject to any licensing or registration required by law and in compliance with NERSA rules;

b) The net-energy billing customer will be required to be at a minimum on a time-of-use tariff;

c) The net-energy billing customer will be required to pay the relevant DUoS and TUoS charges for the use of the Distribution grid associated with consumption;

d) The net-energy billing customer will be required to pay the relevant DUoS or TUoS charges for the use of the grid associated with export of energy;

e) A credit rate for energy exported into the Distribution grid will be given based on avoided purchase cost;

f) DUoS, embedded TUoS, and retail charges will always be payable and will not be credited against the value of energy exported into the Distribution grid;

g) This compensation will be done on a time-of-use basis for the value of the energy exported;

h) An additional retail charge will be raised to cover the incremental cost associated with the additional billing transaction; and

ij NERSA shall establish a framework for the raising of net-energy billing rates and approve such rates.

The principle for net billing or prosumers must be fair and such generation must be fairly compensated. This will avoid the current situation where more and more households with independent generation are leaving the grid due to the exorbitant charges being charged to use the grid.

NERSA needs to determine a fair mechanism that incentivizes prosumers to stay connected and to sell into the grid but to also pay for their connection when they need the grid.

At the moment, the tariff structure appears to be about revenue collection and not about ensuring a stable, affordable electricity system for all.

If rich customers leave the grid, then local distributors will then have poor customers which they have not means to provide for while wealthy citizens have excess power which they cannot use. NERSA needs to provide a fair tariff structure that enables and supports an integrated electricity system.

Page 63. Wheeling charges.

Policy position 34.

All parties must comply with all applicable laws, Codes, and agreements when conducting electricity-related activities.

b) Transmission, distribution, and trading activities require NERSA licences under the Electricity Regulation Act (ERA); some distribution licences include inherent trading rights.

c) Schedule 2 activities are exempt from licensing but must be registered with NERSA, including resellers and generators wheeling electricity (provided no sale to an organ of state occurs).

d) Use-of-system charges, Wheeling Credit Rates/Tariffs and related service charges require NERSA approval; generators and buyers are responsible for aff third-party wheeling charges.

e) Licensees may impose conditions on wheeling transactions, provided they do not conflict with the ERAA, applicable Codes, this guidance, or the EPP.

Again this appears to be an attempt at double counting. Cost of wheeling must be including in the cost to supply by the generator and transparently displayed. The customer then pays for this in their price. And the generator then pays this portion back to the grid owner, whether transmission or distribution.

Page 64 policy position 36 time of use

Tariffs must include TOU energy rates as follows:

a) reflect the cost to serve;

b) be applicable ta all customers supplied at MV or above within two years;

c) be applicable to all customers with three-phase connection or above 100 kVA within five years; or

d) be applicable to all cases where the metering provides such features within five years, and

e) be applicable to all customers that have grid-tied embedded generation.

This policy position provides a timeline for the implementing of time of use tariffs which is supported. However, it also needs to be accompanied by a rule which bans munics and distributors from installing non-compliant meters with immediate effect.

The cost of this changeover needs to be accompanied by additional funds or tax breaks from the treasury as this is in the interest of the entire elec system. For example, as with solar water heaters, a targeted tax break would incentivize customers to install their own new meters which would relieve the munic/distributor from that burden.

Page 66 policy position 37

Voltage and supply position differentials must be applied in tariffs within a licensed distributor as follows:

a) based an the justifiable supply voltages, per customer and customer costing grouping;

b) based on the cast and losses differences from the cost to serve study;

c) to be applied to tariff charges as applicable; and

d) NERSA must drive a plan for phased increases in tariffs at lower voltages and a commensurate decrease of tariffs at higher voftages where voltage differentials do not reflect costs and where itemised costs will be identified in the regulatory accounts

NERSA needs to review the current situation and come up with a tariff structure which is fair to all stakeholders. This policy position should not result in untenable charges to fill distributor coffers, or charges that drive customers to install their own connection assets and that is very inefficient use of resources.

Page 66, policy position 38.

Domestic tariffs to become more cost-reflective, offering a suite of supply options with progressive capacity-differentiated tariffs and connection fees:

a) At the one end a lifeline inclining block-rate tariff or a single energy rate tariff with no basic charge, up to 60 Amps single-phase and connection charges. aligned to the DEE suite of supply options guidelines;

b) At the next level, a tariff to contain unbundled tariff charges to reflect itemised network cost-reflective charges based on capacity, an itemised customer service charge, and an itemised energy charge with cost-reflective connection charges; and

c) At the final level TOU tariffs must be instituted on the same basis as above, but with TOU energy rates for all three-phase connection (subject to smart metering roll-out).

Nersa needs to review domestic tariffs in line with the objectives of a transitioning electricity system. Without time of use or other flexibly mechanisms, IBTs were a mechanism to encourage more use at the higher end and curtail middle users and were about revenue not demand response.

If you charge those that use most more, they can calculate that it will be cheaper for them to go off grid… and so its were set to prevent that.

TOU accessible to all consumers is much fairer and would aim to further flatten the evening peak which is caused mostly by residential customers.

Page 69 policy position 41

Licensees must undertake the required analyses to determine the extent of backlog of maintenance I refurbishment and put strategies in place to catch up.

b) NERSA must give due cognisance to requests for additional funds, itemised in the regulatory accounts and to be recovered in tariffs to provide for capital for refurbishment of standard asses and all operating expenditure, including staff to manage such projects and undertake the required work.

c) The above must be done with due cognisance with proper ring-fencing to ensure that the needed funds not from the electricity sector is used to fund other sectors; and

d) The refurbishment of premium assets will be funded outside the tariffs in accordance with the Distribution Code.

It is acknowledged that the distribution asset base has considerable backlogs and that insufficient resources have been put aside by distributors to maintain the infrastructure.

These costs need to be part of the cost and charged accordingly. However, given the current price of electricity, which is regarded an unaffordable, there needs to be a separate fund to deal with the backlogs systematically. It would appear that such a fund would be held by treasury and where municipalities are unable to deal with infrastructure backlogs, finance would be made available. Such funds would need to be accompanied by conditions such as municipalities in good standing from an audit perspective. It is possible that this is a space to explore private sector partnerships which do not undermine state control of vital networks.

Presumably approaches such as the approach to distribution asset management (ADAM) as well as the municipal infrastructure grants (MIGs) and INEP would be looked at to come up with an integrated framework for ensuring that the costs are recovered.

Page 69 policy position 42

NERSA must develop acceptable standards for non-technical losses and provision for bad debt in the

regulatory accounts and related revenue requirements.

b) The component of non-technical losses and bad debt which exceeds the approved standard must be

considered unacceptable and be removed from the allowed revenue base that would otherwise impact

on the return of owners.

Distribution losses and bad debt.

Any shopkeeper needs to make allowance for a small amount of shoplifting in essence, non technical losses. This is included already in the price of the goods. There should be no extra allowance for such in the elec. tariffs.

If a business cannot manage theft, why should paying customers be faced with increased charges to pay for those that don't pay.

That does not mean that poor people should not receive subsidized electricity but those that can pay should.

Failure to force generators to pay for non-technical losses merely incentivizes them to not address the problem as they will get the revenue irrespective. Such behaviour should be discouraged.

Page 71 policy position 45

NE RSA must within 12 months of coming into place of this policy develop and implement a standardized pricing framework for electricity vending services.

b) Define allowable service fees and commission structures to prevent excessive margins.

c) Establish a monitoring and compliance mechanism to ensure transparency and adherence to the framework.

d) Conduct periodic reviews of fees and commissions to reflect market and technological changes.

e) Monitor vendor compliance with the pricing and reporting requirements.

f) Investigate consumer complaints and enforce the framework through penalties or corrective measures where necessary.

Vendors.

Electricity vendors are able to buy electricity in bulk and obtain a discount for so doing, they then obtain a return by selling electricity at the distribution price.

People who buy from vendors are often in flats and might not be wealthier customers. The tariff therefore needs to be structured in a way that the vendors get paid for their service without imposing inequitable electricity prices on their customers.

Page 71 policy position 46.

No special electricity tariffs or terms shall be permitted for organs of state or State funded institutions including schools and clinics I hospitals, and.

b) Organs of state shall be required to budget and pay for the full cost of electricity services based on NERSA approved unbundled and cost reflective electricity prices.

We agree that there should be no preferential tariffs for organs of state. However, penalties for non-payment might include some mediation before cutting off supply in the case of health emergencies such as hospitals.

page 72 policy position 47.

Under no circumstances shall the new MSOE be introduced in addition to the current non transparent un-ring-fenced surpluses as identified in the regulatory accounts.

b) NERSA shall regulate the electricity prices excluding the transparent MSOE.

Municipal surcharges have not been transparent. We would suggest that the electricity revenue needs to be ringfenced. Should another dept of the munici be funded from the munic profit, then that should be transparently reflected.

For NERSA, the profit margin for munics needs to be motivated under the idea that retailers or generators can charge cost to serve/ or supply plus a reasonable return.

Municipal rates are to provide for services excluding electricity and electricity cut offs cannot be used to force customers to pay for other services. The financing of municipalities is outside the epp but we cannot continue into the future with allowing electricity services to be used as a debt collection mechanism.

Page 73 policy position 48.

NERSA must consider the impact and the effectiveness of demand and supply side flexible options in determining revenue requirements of licensees.

b) These demand and supply side flexible options must also be ring-fenced in the regulatory accounts and be reported on per revenue review period to demonstrate the costs and the benefit by licensees.

c) The Regulator must decide on the amount of funds to be allocated to demand, and supply-side flexible options based on requests made by the licensee.

d) The funds shall be applied and prioritised on a reliability and security of supply and/or least cost per saved MVAIMW basis.

e) All parties in the ES/ shall be treated fairly and independently based on the measure to which the application meets the qualification criteria as prescribed by the Codes.

As we transition to a integrated electricity system, these ancillary services which should include demand side flexible services would be procured in the same way that generation services are procured. Such contracts would be costed on the value of the service provided and charged accordingly. Again, it would make sense for the generator to include such costs in their cost of supply and for such charges to be paid for by consumers and then paid over to the retailer. This must of course be transparently provided.

Page 74 policy position 49.

NERSA must consider the impact and the effectiveness of utility-owned embedded generation including microgrids and rooftop solar PV in determining Licensee revenue requirements.

b) Utility-owned embedded generation must also be ring-fenced in the regulatory accounts and be reported on per revenue review period to demonstrate the costs and the benefit by licensees and end-users.

c) The Regulator must decide on the amount of funds to be allocated to utility-owned embedded generation products and services based on requests made by the licensee.

d) The funds shall be applied and prioritised on a reliability and security of supply and/or least cost per saved MV A/MW basis.

Where a munic has its own generation for its own offices, its cost of supply and cost to serve would need to be adjusted to reflect its demand reduction. This would then be reflected int the tariff that nersa approves.

If the munic has a battery system, it might be able to reduce its dependence on Eskom peak electricity. It is assumed that munics like cape town already do this with steenbras power station and their examples would be useful to study.

Subsidies.

Page 76 Policy position 50 policy

DEE, NERSA, and National Treasury sha_/w1 ithin 12 months of coming into effect of this Policy, develop a national subsidy framework to guide the application of tariff subsidies which should seek to balance the subsidy's impact on the price and affordability of electricity to recipients and contributors.

b) The core principle of the national subsidy framework will be that subsidies are determined after cost reflect tariffs have been determined and based on a consumer affordability study.

c) The framework should also define the qualification criteria for contributing to subsidies (e.g. size of supply/connection, consumption volumes), qualification criteria for receiving subsidies (e.g. size of supply, consumption volumes), maximum threshold for subsidy contribution levels in relation to some measure, e.g. not more than 10% of total revenues recovered from customer group.

d) The framework may identify specific subsidies (outside the sector) and cross-subsidies which must be instituted in the ES/ to address certain socio-economic and environment needs.

e) All subsidies in electricity prices shall be made transparent, while moving towards cost-reflective and transparent prices in the electricity industry.

f) The following principles factors shall be considered in the development.

g) NERSA approval will be required to give effect to the removal of price subsidies and the related adjusted prices.

Charges to recover remaining subsidies should be ideally structured as fixed charges added to the consumer price.

i) Tariff subsidies that are a contribution to a wider electricity consumer base than a single Distributor may be transparent and itemised and implemented at the wholesale /eve/; and

j) Licensees are required to establish and publicise the average level of subsidy between tariff categories (receipt and contributions) and itemise the same in the billing process.

Policy position 51 to 54.

Position 51

Qualifying customers shaft be subsidised through the application of a lifeline tariff:

a) a single energy rate tariff;

b) with no fixed charge;

c) limited in capacity to of not more than 60 Amps; and

d) nominal connection fee.

Position 52

The DEE in consultation with COGTA and National Treasury will determine the extent of provisions of free basic electricity, which can be funded thorough governmental transfer on an annual basis.

b) The a/location shall be subject to periodic review to align with evolving household consumption patterns and developmental requirements.

c) The cost of providing free basic electricity shall be included in the MTEF budget a/location.

d) A comprehensive 2-year review of FBE impact should be conducted by NERSA and the DEE through a study after coming into place of this policy.

e) This study must assess coverage, effectiveness, equity, sustainability, and alignment with national objectives, informing necessary policy adjustments.

Position 53

Municipalities must exercise diligent in selecting the beneficiaries of the FBAE program to uplift the unelectrified

indigent household.

b) Municipalities have a responsibility to administer and provide FBAE to indigent households within their jurisdiction.

c) Municipalities must select suitable energy carriers to be funded and supplied through their areas.

d) Municipalities must conduct awareness campaigns informing the beneficiaries on how to apply the chosen energy carriers.

Position 54

NPAs are permitted but must be structured in a way to minimise price distortions.

b) Commodity price risk exposure must be hedged outside of the ES/.

c) Existing NPAs will be honoured until the end of contract.

d) The evaluation of NPAs at inception must be based on the cost of supply (excluding cross-subsidies) on a discounted cash flow basis over the period of the agreement.

e) The cost of supply for NPAs intended for the sale and consumption of electricity in South Africa must be defined by the electricity price forecast which will be based on the prevailing regulatory methodologies in South Africa inclusive of an appropriate risk premium.

f) DEE must develop a transparent NPA application and approval process to ensure adequate evaluation and consultation with key stakeholders, including National Treasury.

g) DEE must update the NPA pricing framework setting out the evaluation criteria.

h) NERSA will approve and monitor NPAs in accordance with the framework.

i) All applications must be treated in accordance with the approved processes and frameworks and be approved by NERSA.

In an ideal society, subsidies would not be necessary. However, south Africa is the most inequitable country in the world and in order to ensure that basic services are provided, electricity needs to be subsidized. This is currently done through FBE to those that qualify and the record of ensuring that those who qualify get it, is abysmal.

However, this is a subsidy that comes from the treasury and is determined from allocations from the national budget. There are innovative mechanisms that local traders or resellers might be able to implement where those that qualify get their fbe and the cost is then subsidized by other customers.

There is no doubt that these subsidies are needed but it has long been held that 50kwh per month is too little.

This EPP is silent on the amount or the qualifying criteria, household or person.

It may be that funding a household directly through elec being part of a BIG and allowing the recipients to choose how to spend it provides a more enabling framework within which to allow economic development opportunities for poor households.

This is again a much bigger questions that an epp paper can answer, but the dee should be conducting affordability studies to understand what the FBE should be in future.

Earth life Africa worked on a study which showed 350kwh in 2010 but in 2026, prices would need an upward adjustment.

Other subsidies that need to be removed.

Exemption from MES must be removed. All externalities must be included I the tariffs. If this makes coal power unaffordable, this is a clear indication that a power station is not a going concern.

Large industries that appear to have been signed up to pricing agreements below the cost of supply must be halted. These agreements must be reviewed and industries that have received them will need to pay the full relevant tariff.

NPA agreements where Eskom under recovers revenue due to it subsidising the industry should not be able to recover this lost revenue from other customers.

Page 83 Conclusion

The epp needs regular review. It would make sense to align this review to the IEP annual review which should include the subsector of electricity.

This would enable external shocks as well as changes in circumstances to be assessed and included in tariff structures, to avoid delayed and unexpected price shocks

The Green Connection has not commented on each and every policy position. In cases where we have not provided a specific comment, it is likely that the same topic has been covered in a

separate policy position. Failing to provide a specific comment does not imply that we endorse the policy position in its entirety.

We would also reiterate that energy security means not only that there is sufficient electricity to meet demand but that there is sufficient to meet anticipated suppressed demand that is suppressed due to affordability.

The FBE is currently not enough and has remained 50kwh since 2003 whereas inflation and electricity have gone up multiple times over the years which is pushing more households into poverty. FBE needs to be reviewed regularly and align with current energy trends to meet the needs of low-income households. Also, municipalities need to implement a system that ensures all those that qualify for subsidised electricity do in fact receive it.

We thank you for the opportunity to submit comments and look forward to further engagement.

Lisa Makaula

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