

TRUTH BEHIND THE ELECTRICITY TARIFF INCREASES

Dwayne Baker (City Electrical Engineer) and Hugo Stewart (Rainbow Technologies)

By now most homeowners with prepaid electricity have realized that they are needing to buy more electricity more often than before the recent price increase, but it is the SME's in uMhlathuze that will have felt the impact of the new commercial tariffs the most. For many of these companies the expectation and reality of the increased electricity cost is a serious cause for concern and some business owners will be worried about the future of their businesses. Let us step back a little and review the background to these latest price increases.

The tabled 2010/2011 Municipal Budget and Medium Term Revenue and Expenditure Framework was considered and approved by the City of uMhlathuze on the 30 March 2010. The budget and tariffs were approved in terms of the Municipal Finance Management Act.

Full public participation was undertaken in terms of the relevant legislation and the tariffs have been advertised accordingly. This was followed by a media release that highlighted the higher than average increase in electricity tariffs and the reasons thereof.

In essence Municipalities have in the past few financial years been forced to follow the Eskom annual tariff increases, which have been maintained at an artificially low level. As we all know now this has resulted in a situation now where there is a shortage of generation and Eskom needs to raise finance and increase its revenues to build new power stations and transmission networks. In a similar scenario the low revenues from electricity sales has not been cost reflective for the Municipalities. National Treasury has now indicated that this risk must be managed through an increase in electricity tariffs that is comparable with the average Municipal benchmarks. As in any business, the Municipalities need to cover their operating expenses from their annual revenues and not rely on the sale of fixed assets to balance their books. The new tariffs will ensure this will not be necessary in the future.

In order to achieve sustainable service delivery and proceed with a multi-year phased increase approach, the tariffs will be increased to an acceptable industry level comparable with the national benchmarks. Therefore the **average increase** in electricity tariffs for the 2010/2011 financial year has been approved at 38% (excluding the residential low tariff). The following table illustrates the average increase per sector:

Tariff Category	Average Increase
Time of use – now known as Enerflex	34%
Seasonal demand – now known as Demflex	35%
Commercial – now known as Comflex	40%
Residential high – now known as Resflex (prepaid)	34%

and conventional)	
Residential low – applicable to indigent customers only	21%

The following table illustrates some comparisons between uMhlathuze's approved tariffs and that of other Municipalities. It must be noted that actual variations would be totally dependant on the load factors for different categories of customer. The comparisons are made using similar tariffs obtainable from the respective web sites. The table shows that in most cases, the uMhlathuze 2010/2011 tariffs are less than other Municipalities. Time of use tariffs are not shown due to the complexity of the tariff.

Tariff	uMhlathuze	City Power	eThekweni	Buffalo City	City of Cape Town
Prepaid Domestic (R/kWh)	R0.7256	R0.7852	R0.7908	R0.8630	R0.9331
Commercial prepaid (R/kWh)	R0.9090	R1.0570	R0.9380	R1.0205	R1.2056
Commercial conventional (R/kWh)	R0.8041	R0.8092	R0.8450	R0.8748	R0.7766
Commercial service charge	R242.31	R361.81	R129.10	R90.59	R430.50
Industrial energy LPU (HDS) (R/kWh)	R0.3316	R0.6324	Obsolete	R0.3477	R0.3785
Industrial demand LPU (HDS) (R/kVA)	R166.48	R138.70	Obsolete	R132.44	R112.69
Industrial LPU service charge	R2,268.00	R2,031.80	Obsolete	R414.99	R717.00

NOTE: LPU - Large power user

It is somewhat comforting to know that Municipal power tariffs for businesses consuming about 1,5 MVA are 26% less expensive in Richards Bay than the country's next cheapest metropolitan area, Tshwane, and 45% lower than the tariffs levied over a 12-month period in Johannesburg.

The NUS Consulting Group, a company, which is a global leader in energy cost control and consulting services, found that Johannesburg tariffs were 62c/kWh, while those levied by Richards Bay were 34c/kWh (2009/2010 financial year), which were even cheaper than the tariffs received by Eskom's direct customers in this category, of 41 c/kWh. In a strange twist of irony, the second most expensive charge, of 57 c/kWh, arose in Emalaheni, previously Witbank, which is in close proximity to many of the country's coal-fired power stations. Vereeniging came in third most expensive at 56 c/kWh, followed by eThekweni (54c/kWh), Port Elizabeth (52c/kWh), Cape Town (51c/kWh); Sasolburg (50c/kWh); Ekurhuleni (49c/kWh); Polokwane and Tshwane (46c/kWh).

As we all know by now Eskom was granted increases of 24,8% for 2010/11, 25,8% for 2011/12 and 25,9% for 2012/13. Eskom said that its average tariff for the period rose to 31,9c/kWh, while its cost of production increased 8,8% to 28,2c/kWh. In the prior financial year, Eskom sold power at 24,7c/kWh, which was below its cost of production of 25,9c/kWh.

Most commercial and industrial customers would have noticed that new fixed service and administration charges have been introduced this financial year. The new service and administration charges have been introduced to recover operational expenses that the municipality has been absorbing for far too

long. The administration charge is a fixed monthly charge payable per customer over the billing period whether electricity is consumed or not. It is a contribution towards fixed costs such as meter reading, billing and meter capital. The service charge which is only applicable to the medium and high voltage customers is a fixed monthly charge payable per account over the billing period, whether electricity is consumed or not. Where applicable, this charge will be based on all premises linked to a single account. It is a contribution towards fixed costs such as customer service costs, back office processes and the systems used to provide a customer service.

In many cases there will be instances where the fixed service and/or administration charges are almost the same as the consumption bill or even higher. It is evident that in these cases, the customer may be on the wrong tariff structure. Customers are urged to make arrangements with customer services to have their tariff structure reviewed if this is the case. Customers are allowed one tariff change per financial year. It must be noted that in many cases, a change in tariff structure will result in changes to supply equipment such as the change of a circuit breaker. There will be costs associated with these changes for the customers account.

During the later part of the 2009/2010 financial year, two new levies were imposed on customers. These were the rural and electrification subsidy levy and the environmental levy. The rural and electrification subsidy levy is imposed on the total energy consumed by a customer. This levy has been imposed on all classes of customer with the exception of residential customers. The levy is to be collected by Council and paid through to Eskom, who bills the municipality accordingly, where it is then allocated to the National Electrification fund. Eskom are currently levying this charge to all their customers with the exception of residential customers.

National Government introduced an environmental levy of 2 c/kWh on electricity produced by non-renewable generation in South Africa. To recover the costs for the environmental levy, which is paid to SARS, Eskom charges the environmental levy to all customers including this municipality and it is upon the onus of Local Government to pass this charge onto the end user. As with the Rural and Electrification subsidy levy above, the Environmental Levy is imposed on the total energy consumed by a customer.

Future price increases are here to stay. It is our responsibility as uMhlatuze consumers to ensure that future Municipal electricity increases are cost reflective and justified and not just passed through from Eskom. To this end the Zululand Energy Forum (ZEF) is a forum where local businesses can share their concerns and opinions and where ideas to enhance and embrace energy efficiency initiatives are discussed and shared. The forum's next meeting will be in September. Any business owner or representative that is interested in attending the meeting can contact Raeesa Hoosen

Departmental Administrator
Zululand Chamber of Commerce and Industry
Tel: +27 35 797 1858
Fax: +27 35 797 3134

www.zululandchamber.co.za

for further information.