THE TRADE-OFFS BETWEEN PRO-POOR AND COST-REFLECTIVE TARIFFS IN SOUTH AFRICA: A REGULATORY PERSPECTIVE

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ABSTRACT
This paper attempts to examine trade-offs between pro-poor and cost-reflective tariffs in the context of South Africa. The study attempts to answer one critical question: How can the electricity sector adequately attract local and foreign investors without necessarily affecting government objectives such as universal access to electricity? We look at the arguments for and against pro-poor and cost-reflective tariffs from a regulatory perspective. We found that poor households have historically benefited from relatively cheap electricity and that tariffs have not been cost reflective. In other words, there has been a mismatch between tariffs and underlying costs of supplying electricity. We also find competing expectations between poor electricity consumers and utilities. Consumers expect to receive electricity at an affordable price while, utilities argue that to provide a good reliable electricity supply tariffs must be matched with costs. The study, therefore, recommends a gradual movement towards cost-reflective tariffs in order to minimise the impact on poor households.

Key Words: Tariffs, Pro-poor, cost reflectivity, Energy Regulator and South Africa
1. INTRODUCTION

This paper sets out to assess the trade-offs between pro-poor and cost-reflective tariffs in the context of South Africa. Around the world, electricity tariffs have been a subject of great interest among utilities, end users, governments and regulators dating as far back as the 19th century. In fact, there has never been a lack of interest in this subject matter. In South Africa, much of the debate over the past decade has been on how the electricity supply industry (ESI) can balance between the needs of low-income consumers and those of power utilities without affecting the sustainability of the ESI. In other words, the main issue is balancing between pro-poor tariffs to achieve government social objectives and cost-reflective tariffs to attract private sector investment into the ESI.

In South Africa, most electricity consumers (mainly domestic and small business) are still on traditional ‘flat rate’ tariffs where the price remains stable over time rather than relative to their contribution to daily demand peaks. However, as the electricity market continues to evolve, this model of electricity pricing has become unsustainable given that the structure of existing tariffs for households and other electricity consumers does not reflect the structure of costs. In fact, literature suggests that the relationship between pro-poor and cost reflectivity is dependent on the willingness of end-users to pay for the service rendered.

Furthermore, evidence suggests that the relationship differs from one country to another. For a country with a large social welfare base, like South Africa, the relationship between pro-poor and cost-reflective tariffs is different from that of a developed country. What exacerbates the inverse relationship is that electricity infrastructure expansion is very costly to build. A large proportion of electricity infrastructure is built to meet growing peak demand, which only occurs during certain hours of the day. To date, there has been a general understanding among role players that appropriate tariffs are important to any development of the ESI; however, there has been no agreement on what constitutes an appropriate tariff that meets the expectations or needs of both the utility and the consumer. There are strong signs that local electricity utilities are facing serious challenges as falling energy consumption has resulted in declining revenues. However, this is not followed by a decline in network expenditure costs. As such, two common approaches are being implemented to counter this problem: (i) increasing electricity tariffs to allow utilities to recover their fixed costs of existing infrastructure used to supply electricity and (ii) introducing innovative tariff structures that will align tariffs with the actual costs of rendering electricity to end-users. Both approaches make it difficult for the ESI to supply cheap electricity to the poor and this has a negative impact on government’s drive to universal access to electricity by 2025. This study will therefore attempt to answer one critical question: How can the electricity sector adequately attract local and foreign investors without necessarily affecting government objectives such as universal access to electricity?
2. THE SOUTH AFRICAN ELECTRICITY SUPPLY INDUSTRY

Different from developed economies, South Africa does not have a market for wholesale or retail electricity trading, instead the ESI is predominantly owned by the state-owned utility Eskom, which generates approximately 94 per cent of all electricity consumed. Eskom also wholly-owns the power transmission network through the national transmission company. The National Energy Regulator (NERSA), established through an act of parliament, regulates the electricity industry rather than the market, covering licencing of new plants and electricity tariffs. The main objectives of the electricity sector, as set out in the energy White Paper of 1998 and the Electricity Pricing Policy of 2008 (EPP), are to:

a) improve social equity by addressing the requirements of the low income households;
b) enhance efficiency and competitiveness to provide low-cost and high-quality inputs to all sectors;
c) provide competition especially in the generation sector; and

d) increase private sector participation in the industry.

Furthermore, specific objectives addressed in the abovementioned policies refer to ensuring that electrification targets are met; the provision of low-cost electricity; better price equality; financial viability; improved quality of service and supply (including security of supply); proper co-ordination of operation and investments and the attraction and the retention of a competent work force. During the past two decades, the government has developed energy policies that support universal access to energy sources. Policies such as rural electrification aim to electrify poor households around rural and peri-urban areas (Gaunt, 2004). The design of energy strategies that contribute to reducing poverty have been a topic of great importance within the South African political discourse (Howells et al, 2006). In 2008, government had set a target of achieving cost-reflective tariffs by 2013 in order to reform tariffs to reflect their underlying costs, and attract and retain public and private sector investment. However, to achieve cost-reflective tariffs meant that tariffs had to increase significantly over a short period. A steep increase in tariffs to achieve cost reflectivity could potentially cause low-income consumers to ‘either increase their expenditure to maintain consumption; change their behaviour through energy savings; or compromise their health and safety by switching back to unsafe and inefficient fuels such as paraffin or wood’ (Franks, 2014 p. 16).

Historically, South Africa’s electricity pricing regime has been pro-poor in nature. These pro-poor tariffs are concerned with relieving some of the burden on the poor by introducing tariff structures that benefit the poor more than the rich. More specifically pro-poor electricity tariffs were designed to provide discounted electricity to those most vulnerable to falling into or already in energy poverty.
For example, pro-poor tariffs make electricity affordable to the poor via a zero charge for the first block of the Inclining Block Tariff (IBT), usually 50kWh a month. This also promotes energy conservation by applying high tariffs in the upper consumption brackets. Eskom through the Energy Regulator is allowed to protect the poor, through a tariff structure with transparent cross-subsidies and a single digit or lower than average tariff (rural and residential) increase at a time (Eskom, 2013). The principal challenge currently dominating the ESI is the issue of pro-poor tariffs (including subsidies) and cost-reflectivity of tariffs. However, there is a commonly accepted notion among industry participants that electricity tariffs need to be cost-reflective to ensure financial stability of the power system and the sustainable provision of electricity services. In the South Africa case, these prices are often beyond the reach of low-income households. Compounding the problem is that if low-income consumers pay less than the cost-reflective tariff, then they will need to be subsidised, either by other electricity consumers or from other financial sources such as government grants. Therefore, questions have emerged regarding whether these pro-poor tariffs consider other benefits, such as social grants provided by government to low-income households. If not, are these pro-poor tariffs set at the right level? Are poor households over-subsidised?

3. PRO-POOR VS COST-REFLECTIVE TARIFFS IN SOUTH AFRICA

Electricity consumers and utilities are very important stakeholders in the ESI; however, they have competing and different expectations, which at times regulatory authorities find difficult to balance. Pro-poor policies strive to ensure that all consumers have access to affordable electricity services. On the other hand, achieving 100% access to electricity comes at a price, especially for the poor mainly in rural areas. Rural connections are costly compared to connecting a poor household in an urban area and this makes the average cost of providing the services to these areas high, which goes against pro-poor policy’s objective of providing affordable services to all. There seems to be an inverse relationship between providing services to all and affordability at least in the short term. One way of providing affordable services to the poor is through subsidies. This means that high-income households pay more than the cost of providing the service they consume while the poor pay less than what the actual cost of providing the service is. Although subsidies are an acceptable solution to dealing with affordability issues, it has its own challenges especially when the segment of the population to be subsidised is larger than the subsidising population. This overburdens the subsidising population, which may lead to questions as to why they have to carry the burden alone. Currently, subsidising electricity customers are questioning the appropriateness of this subsidy amount paid to poor customers. The argument is that these subsidies encourage inefficiency in the use of this limited resource. Are the poor households not over-subsidised if one takes into account all other government subsidies/benefits that the poor get, such as social grants and others social relief aids. Over-subsidisation of the poor could potentially lead to inefficient use of electricity.
This leads to the next questions that regulators and policy makers need to answer: What is the appropriate grade of service that a subsidy to the poor seeks to achieve? Is it permissible to allow utilities to offer a lower-grade service at a lower price so that the poor can receive at least some service, thus giving the poor options that make services more affordable while at the same time reducing the subsidy burden to the subsidising group? Some countries reject the idea of allowing the poor to be provided with lower-grade service as they see this as discrimination. If the acceptable grade of service that the poor should receive is unaffordable at a particular point in time, does it mean that the poor should not be allowed access to at least some form of service until the acceptable service grade becomes affordable? Is this not justifiable discrimination? Regulators and policy makers are still grappling with these issues. Those who support providing a lower grade level of service to the poor argue that providing a high-grade level of service is not what the poor need – what they need is a level of service that they can afford and that meets their needs. Providing the poor with more than what they need may result in inefficient use of resources.

3.1. The Low Income Pro-Poor Tariffs for Electricity in South Africa

As discussed above, the ESI has a host of cross-subsidies, where certain customer tariff categories subsidise other customers connected to the network. These subsidies include the following:

a) Electrification and rural subsidies meant to cover the cost of connecting a house to a 20A (low consumption) electricity supply.

b) Affordability subsidies to residential customers i.e. Inclining Block Tariffs (IBTs) and Free Basic Electricity (FBE). IBTs, together with lower-than-average tariff increases, has resulted in subsidies of up to 42% of the total residential customers. The FBE programme on the other hand provides 50kWh (more in some local authorities) of free electricity per month to identified indigent customers.

c) Subsidies to low-voltage customers (large power users and commercial customers).

The subsidies are currently borne by industrial and commercial customers.
Table 1: Subsidy receipts and contributions per sector

<table>
<thead>
<tr>
<th>Subsidised Customers</th>
<th>Subsidised Customers %</th>
<th>Subsidising Customers</th>
<th>Subsidising %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>28</td>
<td>Bulk / Distributors</td>
<td>9</td>
</tr>
<tr>
<td>Public Lighting</td>
<td>38</td>
<td>Commercial</td>
<td>2</td>
</tr>
<tr>
<td>Residential</td>
<td>40</td>
<td>Industrial</td>
<td>13</td>
</tr>
<tr>
<td>Traction</td>
<td>6</td>
<td>Mining</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Eskom MYPD3 2014/15 Tariff Decision

Table 1 and Figure 1 above show the extent of cross-subsidisation in the ESI. The biggest beneficiary of subsidies is residential customers (40%) and the biggest contributor is industrial customers (13%). These customers contribute more subsidies than other customers supplied by Eskom and the municipalities. However, these subsidies sometimes result in large annual unaffordable tariff increases and negatively affect the sustainability of these customers’ businesses. A breakdown of residential customer subsidies shows a worrying trend. Residential customers on 20A and 60A connections are the highest recipients of subsidies in the country. Furthermore, the majority of these customers received free basic electricity of 50kWh per month. Table 2 below gives a breakdown of residential subsidies.

Table 2: Subsidies 2012/2013 FY (billion)

<table>
<thead>
<tr>
<th></th>
<th>Allocated allowed costs</th>
<th>Current tariffs</th>
<th>Current subsidy</th>
<th>Current subsidy (% of revenues)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>R12.2</td>
<td>R7.6</td>
<td>-R4.5</td>
<td>-59%</td>
</tr>
<tr>
<td>Homepower</td>
<td>R 2.4</td>
<td>R 2.1</td>
<td>-R 0.3</td>
<td>-15%</td>
</tr>
<tr>
<td>Homelight 20A</td>
<td>R 5.3</td>
<td>R 2.6</td>
<td>-R 2.7</td>
<td>-107%</td>
</tr>
<tr>
<td>Homelight 60A</td>
<td>R 4.5</td>
<td>R 2.9</td>
<td>-R 1.5</td>
<td>-49%</td>
</tr>
</tbody>
</table>

Source: Eskom (2013)
Cross-subsidies represent an important principle for electricity pricing and a critical element of the effective functioning of the electricity pricing system. The cross-subsidisation principle as reflected in the EPP is meant to promote equality in electricity pricing and contributes to the advancement of government’s electrification programme. According to Eskom (2013), cross-subsidies increased from R9 billion in 2012/13 to 11.3 billion in 2013/14.

However, with the rate of electricity hikes over the past 8 years, the issue of pro-poor tariffs and the accompanying subsidies have received great attention among utilities, end-users and the regulator. Subsidising customers are questioning the fairness and equitability of these subsidies and why they should be the ones carrying the burden of advancing the government programme of universal access and affordable electricity.

In section 3 above, the question was raised regarding whether poor households are over-subsidised or not when taking into account all other benefits that they currently received from the South African Social Services Agency (SASSA). Statistics suggest a growing number of SASSA beneficiaries between 2014 and 2015. Table 3 below shows the distribution of government grants between different population groups. It also shows that South Africa has a social welfare base of 19.9million people (SASSA, 2015), which translated to approximately R122.6billion and R127billion in 2014/15 and 2015/16 respectively (South African Social Services Agency, 2015). Social welfare expenditure has increased from R122.6billion in 2014/15 to R127billion in 2015/16. This represents a 3.5% increase in social welfare expenditure.

### Table 3: Current Structure of Social Grants in South Africa

<table>
<thead>
<tr>
<th>Grant Name/Type</th>
<th>Number of recipients</th>
<th>Total Expenditure by Government 2015/16</th>
<th>Total Expenditure by Government 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant for Old Persons</td>
<td>1 580 892</td>
<td>R 26 748 692 640</td>
<td>R 25 610 450 400</td>
</tr>
<tr>
<td></td>
<td>1 580 892</td>
<td>R 27 128 106 720</td>
<td>R 27 128 106 720</td>
</tr>
<tr>
<td>Disability Grant</td>
<td>1 099 867</td>
<td>R 18 609 749 640</td>
<td>R 17 817 845 400</td>
</tr>
<tr>
<td>War Veteran’s Grant</td>
<td>261</td>
<td>R 4 478 760</td>
<td>R 4 290 840</td>
</tr>
<tr>
<td>Foster Child Grant</td>
<td>427 928</td>
<td>R 4 416 216 960</td>
<td>R 4 262 162 880</td>
</tr>
<tr>
<td>Care Dependency Grant</td>
<td>131 296</td>
<td>R 2 221 528 320</td>
<td>R 2 126 995 200</td>
</tr>
<tr>
<td>Child Support Grant</td>
<td>11 956 549</td>
<td>R 47 347 934 040</td>
<td>R 45 195 755 220</td>
</tr>
<tr>
<td>Grant-in-Aid</td>
<td>132 620</td>
<td>R 525 175 200</td>
<td>R 501 303 600</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>16 910 305</strong></td>
<td><strong>R127 001 882 280</strong></td>
<td><strong>122 646 910 260</strong></td>
</tr>
</tbody>
</table>

Source: South African Social Services Agency (2015) and Author’s calculations.
3.2 Rationale for Cost-Reflective Tariffs and its Implications

The ambition of moving to cost reflectivity goes as far back as 2004. It is a goal that is seen by government as a critical tool to improve the sustainability of utilities, reducing costly subsidies and a prerequisite for attracting private capital. Achieving this goal would show a high impact on increasing electrification and improving reliability in the ESI. According to the PwC (n.d.) study, the inability to recover the cost of new generation via current electricity tariffs is a major barrier to investing in new large-scale generation and transmission projects. This is a recurrent theme in surveys and heads the list of energy policy measures needed to address the key challenges of expanding power provision and making existing assets more reliable (PwC, n.d.).

The fundamental issue regarding the move to cost-reflective tariffs is a complicated one, but utilities and the regulator have a duty to consult constantly with consumers and consumer groups in order to reflect their interest and concerns. Understanding the psychology of consumers and the effects such tariffs have on different consumer groups is crucial to getting the best from electricity tariffs (CUAC, 2015).

A substantial body of literature on electricity pricing highlights three important issues as to why linking tariffs to actual cost drivers is important. Firstly, it promotes efficient use of electricity infrastructure by ensuring that only those consumers that most value the service during high cost time use the system, while encouraging use of the network during low costs periods. Secondly, it promotes efficient investment in electricity infrastructure and innovative technology as usage corresponds to the willingness of consumers to pay the true costs of providing services when required. Thirdly, it is
viewed as a fair pricing system as consumers directly contribute to the costs that they impose on the system because of their usage (Gerlach and Franceys, 2010; Franks, 2014; Tait, 2011).

Costs reflective tariffs typically recover the following key costs:

- Time and seasonal variance of the cost of energy (Generation).
  - The price paid will depend on the usage pattern of customers represented by the load profile. It will include environmental levy costs.
  - It could include signals to incentivise behaviour.
- Network costs (distribution and transmission wires) based on the voltage of supply, the density of the network to which customers are connected, geographic location (transmission), electrical (technical) losses for both distribution and transmission) and the reactive energy support.
- Retail costs that typically cover customer services based on the size of the supply and usage. This reflects the type of the service provided to the customer.

The overarching argument then in cost reflectivity is that where end consumers are faced with the actual costs of their consumption and decide to change their behaviour, network investment can be avoided and costs substantially reduced. Over time, this should result in lower network costs for all consumers than when continuing with non-cost-reflective tariffs (CUAC, 2015). Furthermore, industry participants highlight that matching tariffs with actual costs will potentially eliminate problems of capacity shortages, investment and maintenance backlogs, which lead to high interruption costs and inequitable treatment of consumers.

The biggest factor driving electricity infrastructure investment is peak demand. These levels are only reached for short periods each day in South Africa. However, network costs are recovered from most end users, particularly domestic consumers through charges on their consumption over the course of the day, rather than on their peak demand. Current ESI prices do not reflect the true underlying costs of using electricity during demand peaks nor are the costs distributed fairly among end users. Low-income domestic consumers with high demand and low consumption receive implicit subsidies from households with low demand and high consumption (see Figure 3 below).
Good ESI tariffs must be efficient, equitable, provide stable billing for end users and revenue for utilities and be acceptable to consumers. However, as it stands, the current electricity structure appears inequitable as most costs incurred by the majority of residential and agricultural users are borne by commercial and industrial consumers as shown in Figure 1 and 3 above.

Therefore, it is obvious that without cost-reflective tariffs, private and public utilities would find it difficult to raise capital to expand their generation, transmission and distribution infrastructure networks. Furthermore, it would be nearly impossible to attract new private sector investment to increase competition and lower costs in the electricity industry. Infrastructure expansion in the ESI is critical for economic growth as utilities struggle to meet electricity demand and as the country is short of generating capacity.

Although cost-reflective tariffs are imperative for the ESI, achieving cost-reflective tariffs in a heavily subsidised environment may negatively affect government’s effort towards universal access. The transition towards cost reflectivity must be gradual and accompanied by greater emphasis on stakeholder participation. A quick move to cost reflectivity may affect the proper functioning of the sector as well as the economy in general.

4. THE ROLE OF THE REGULATOR

The National Energy Regulator is putting more emphasis on moving towards self-sustainability for the electricity sector while addressing the issue of affordability. Appropriate low-cost options that give poor households access to formal services have been matched with appropriate tariff structures,

Figure 3: Costs vs tariffs (c/kWh)
Source: Eskom, 2013
which allows both public and private utilities to recover their prudently incurred costs of operations and ongoing maintenance, as well as ideally generating revenues that enable debt servicing of capital investments.

In terms of tariff decisions, NERSA always tries to strike a balance between affordability and sustainability of the electricity industry. The Energy Regulator takes into account tariff principles such as cost recovery, signals for investors, efficient use of the network, simplicity and cost-effectiveness, transparency, and social and political objectives among others. For example, in balancing between cost recovery and social and political objectives, NERSA only approved an average Multi-Year Price Determination (MYPD) tariff increase of 8% instead of the 16% applied for by Eskom. In arriving at its decision, the Energy Regulator endeavours to set tariff levels not only to ensure that licensees collect enough revenue to recover full costs, but also to allow them to obtain reasonable funding in the future. Various ratios, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), interest cover and debt service cover, are used to test for reasonableness and the financial impact of every decision made. However, the utility has raised concerns regarding its sustainability and the impact the current five-year determination will have on its infrastructure expansion programme. On the other hand, consumers have argued that the 8% increase over the five-year period was exorbitant. They list affordability and timing as their biggest concerns.

It is clear that the expectations of consumers and utilities are always at variance. On one hand, consumers expect to receive services at an affordable price and of high quality, while utilities argue that to provide a good quality service means increasing tariffs. The pursuit of higher tariffs is in conflict with consumer expectations and pro-poor policies. Table 4 below lists some of the different and conflicting expectations that the two parties may have.

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Poor customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk mitigation</td>
<td>Availability of affordable supply of electricity</td>
</tr>
<tr>
<td>All costs recovery</td>
<td>Reliable and safe supply of electricity</td>
</tr>
<tr>
<td>Reasonable return on investment</td>
<td>Protection from exploitation by operators</td>
</tr>
<tr>
<td>Financial balance: Costs and Tariffs</td>
<td>Participation, consultation, and transparent decisions of the regulator and utilities.</td>
</tr>
<tr>
<td>Bankable contracts</td>
<td>Prompt response to customer complaints and disputes</td>
</tr>
<tr>
<td>Regulatory certainty</td>
<td>Value for money</td>
</tr>
<tr>
<td>Customer buy-in</td>
<td>Simplicity, convenience of payment and understandability</td>
</tr>
</tbody>
</table>

Source: Author
Table 4 above highlights that affordable and reliable electricity is the main concern for poor households, while utilities put more emphasis on mitigating all risk and earning a reasonable return on investment. From a regulatory point of view, reasonable return and affordability are two of the most difficult issues to balance in the ESI without necessarily compromising the other.

5. POSSIBLE WAYS OF PROTECTING LOW-INCOME HOUSEHOLDS

Costs vary between customer categories. These customer categories impose different costs on the power system. There are higher costs associated with supplying low-voltage, low usage consumers in remote areas than high voltage and high usage customers close to generation stations. In order to develop an effective cross-subsidy framework one needs to understand the main cost drivers of supplying electricity to a consumer. These costs consist of the energy costs (cost of generating electricity); the transmission and distribution network costs (cost of moving electricity from where it is generated to where it is supplied) and the customer service costs (providing necessary and optional support services to consumers).

5.1 Possible approaches

Local and international literature list various ways of promoting affordability of electricity usage by low-income households.

- Providing a partial or full subsidy for the connection fee. This once-off capital subsidy promotes access to the grid. In other words, affordability is not a constraint for connecting to the electricity grid (where a grid is available to be connected to).
- Reducing or eliminating the fixed charge component of the tariff. This has the effect of eliminating any ‘lump sum’ payments required on the part of the poor household. That is, the household does not need to find R200 per month (or whatever the monthly fixed charge may be) to maintain a connection to the grid. Access to electricity by the poor can be promoted through subsidising fixed charges (including the connection charge).
- Eliminating the energy charge for a defined maximum consumption per month. Currently municipalities and Eskom offer 50kWh of FBE per month.
- Reducing the energy charge for a defined maximum consumption per month, that is, a partial energy charge subsidy with a limit.

6. RECOMMENDATIONS

We make the following recommendations:
a. There should be a gradual movement towards cost-reflective tariffs in order to minimise the impact on poor households.

b. There should be an understanding of the level of service grade that the poor need based on their economic circumstances.
   - Do poor households need first grade services? This is easy to implement in the water sector where, for example, a number of households could have one public water tap instead of having a tap in every household. This could help to avoid an over-supply of services, which could lead to inefficient use of the services. There must be an understanding of the minimum service that the poor need, and those who need to consume more than the minimum should pay for the extra consumption.

c. There should be an understanding of other subsidies that accrue to the poor.
   - This helps in the determination of whether the subsidies given are enough to achieve government social objectives or not. Over-subsidisation of the poor can delay the achievement of cost-reflective tariffs.

d. Indicators should be developed that will assist policy makers and regulators in determining whether the poor still need subsidies or are they able to pay for the full services.
   - For example, once a poor person or household have achieved a minimum annual income of a certain amount, they should fall out of the subsidy programme.

e. Monitoring tools should be put in place to determine whether high-income households receive subsidies by mistake.
   - Both utilities and regulators should collect data on low-income areas.

f. Utilities must develop strategies to include poor households.
   - Even though utilities claim to include the poor in their decision-making processes, there is no evidence of written strategies that consider poor households’ needs.

g. Lobby groups should be established to ensure that the previously unserved constituencies receive basic services that reflect their economic circumstances.
   - The unserved are mainly poor households in South Africa and these represent the fastest growing group/areas. Utilities generally perceive these poor households and low-income areas as commercially unviable. They believe that these areas are more difficult to manage than others. Therefore, utilities tend to delegate services or ignore these areas. This is compounded by their lack of knowledge on how to deal with poor households and low-income areas.

h. Regulators, utilities and local government must be able to identify poor and vulnerable households in low-income areas.
   - The overarching ESI goal should be providing access to electricity for all with minimum standards. The main issue will then be identifying poor households and designing strategies to reach them.
7. CONCLUSION

This study sought to assess the trade-offs between pro-poor and cost-reflective tariffs in the context of South Africa. This study further highlighted the need to adequately attract and return local and foreign investors without necessarily affecting government’s objective of universal access to electricity.

The study also highlighted that the structure of the ESI in South Africa focuses more on electricity and its impact on poor households and investment. We further stated that the existing tariffs for residential/domestic users do not appear to reflect the structure of costs. From a regulatory perspective, it can be argued that there is evidence that low-income households will not be reached if utilities were to decide whom to supply without subsidisation of tariffs. Poor households and low-income areas would be disconnected permanently from the network. It is also equally important that the regulator consider the socio-economic implications of costs reflective tariffs within the broader context. It is most important to shield the most vulnerable customers in South Africa. Furthermore, the point is made that the protection of poor households and low-income areas goes beyond issues of affordability of services. Moving them from informal to formal services is a fundamental starting point even without necessarily establishing pro-poor tariffs. In conclusion, it is important that electricity tariffs be balanced to enable private and public investors to recover efficiently incurred costs and make a reasonable profit while also attempting to supply poor households and areas with affordable electricity.

8. REFERENCES


A Regulatory Perspective: Pro-Poor and Cost-Reflective Tariffs in South Africa

