



**PRESIDENTIAL
CLIMATE COMMISSION**
TOWARDS A JUST TRANSITION

Energy Poverty Dialogue Report

**A PRESIDENTIAL CLIMATE COMMISSION
ENERGY DIALOGUE REPORT**

Thursday, 20 July 2023 11h00 - 13h00

This report is a summary of the energy poverty dialogue, the full recording to the energy dialogue and presentations can be found on the [PCC website](#).

Building on the series of energy dialogues that took place from June to November 2022, the Presidential Climate Commission (PCC) convened a public discussion on energy poverty on the 20th of July 2023. Critical to the discussion were the contributions from National Treasury, Eskom, and SALGA because of their roles in the budget allocation and distribution of Free Basic Electricity (FBE) to indigent households. Research institution PARI provided a framing for the dialogue, and we welcomed views and inputs from civil society organisation Project 90 by 2030 and the broader PCC stakeholders in attendance. The objective of the dialogue on **Energy Poverty** was to unpack the relationship of energy and development and its implications for communities and government, in particular local government.

The electricity sector plays an important role in both economic and social development. Access to reliable, safe and affordable electricity is critical for directly and indirectly addressing South Africa's triple challenge and ensuring a Just Transition to a low-carbon and climate resilient economy. Sustainable Development Goal (SDG) number 7 aims to *“ensure access to affordable, reliable and sustainable modern energy for all”*, and encapsulates both the developmental and environmental challenges that many countries face.

The Energy Trilemma as coined by the World Energy Council describes the broad requirements for meeting SDG7 and electricity systems that balance Energy Equity (access and affordability), Energy Security (Reliability and Stability) and Environmental Sustainability (climate change, water-use and air quality). For South Africa, Social Sustainability (e.g., employment, livelihoods, skills) is an important fourth priority as it links the trilemma to the supporting the objectives of the National Development Plan.

Stakeholders and programme participants agreed that universal access to electricity is important for growing the economy and alleviating poverty. However, the issue of reliable and affordable electricity continues to exacerbate the marginalisation of households with low-income earnings as they are unable to afford electricity to ensure a sustainable well-being. Moreover, the current allocation of FBE of 50kwh to indigent households is insufficient and it can intensify developmental challenges such as malnutrition, the need for health care and increased propensity for adult violence.

The state continues to make efforts to alleviate household food insecurity and malnutrition and to improve electricity access. Together with housing and water, the South African government has prioritised the provision of electricity to all households to improve the standard of living, and to alleviate poverty in South Africa. Despite the challenges currently being faced by policymakers and all spheres of government, there was acknowledgement of the several interventions that are currently underway to support households to alleviate poverty. However, there was consensus that access to sufficient, affordable, and reliable electricity would make the country's developmental goals much easier to achieve.

Other measures to cushion very low income and indigent households against energy poverty include:

- Social wage and grants which aim to alleviate poverty for those with very low or no wage income.
- Access to free education, health, and housing.
- Municipal revenue management improvement programme.

- Connection subsidies for indigent households, which promotes access to the grid.
- Inclining block rate tariffs and cross subsidies targeted at low consumption households.
- Solar water heating programmes.
- FBE allocation.
- Free basic alternative energy programme.

The South African government has allocated a budget of R57.6bn to FBE from the 2023 Medium Term Expenditure Framework (MTEF) over a three-year period, this includes a 10% allocation for maintenance of infrastructure. Accordingly, the state has allocated about R17bn annually for 50kwh FBE to reach about 11.2m low-income households. It is worth noting that, from the historical statistics presented, the number of households receiving FBE remains consistently lower than the funded number of households. In the 2021/2022 financial year only 2.374 million households received FBE compared to the 10.374 million households that were funded.

The government faces several challenges relating to budget constraints and the number of households the current FBE allocation reaches. The current FBE allocation does not reach all the households that are funded by government. Additionally, to afford this increase the government would have to raise revenue from a constrained tax base. Regardless, stakeholders argued that increased allocation of FBE to at least 350kwh would increase spending and enlarge the tax base, thereby benefiting the state. Other challenges raised include:

- Despite significant progress in rolling out household electrification, several households in poorer areas do not have access to electricity and they rely on traditional biomass (wood or coal) for cooking which contributes to indoor air pollution and health issues.
- Fiscal leakages, National Treasury facilitates the unconditional transfer of FBE to municipalities, in some instances this allocation does not reach Eskom is mostly responsible for the distribution of electricity to low-income and poor households.
- Non-payment, meter tampering and illegal connections are impacting the state's ability to collect revenue and allocate resources accordingly.
- Inclining block rate tariff based on consumption, in most cases the affluent customers are investing in alternative energy sources and energy efficiency. This lowers their electricity consumption to the lower block rate, thereby benefitting from the lower block rate intended for low consuming indigent households.
- As distributors, both Eskom and municipalities are experiencing revenue loss as customers install VRE technologies as a result not having properly structured and cost structures in place.

Electricity security can be a mechanism to fix inequality, grow state capacity and communities.

Access reliable and affordable electricity should be associated with connecting households to the grid and ensuring they receive the benefits associated with minimum level of consumption. Further to this, the allocation of FBE received by indigent households has to be sufficient to support development and basic needs of low-income households.

The process used for identifying households that are recipients of the FBE allocation should be improved and the indigent register updated to ensure that households living below the poverty line benefit from the FBE allocation. Further, there were suggestions of direct allocation of FBE to Eskom, where Eskom is providing electricity to consumers, will reduce administrative costs and leakages in the system as in some instances Eskom is challenged with receiving the FBE allocation from municipalities.

Well-structured electricity tariffs support the facilitation of affordable energy access to those that need it. Currently, low-income, and poor households cannot afford electricity tariffs and often sacrifice food budgets and other basic needs for electricity. As a result, there was strong recommendation for electricity pricing to reflect cost structures that will enable municipalities and Eskom to recover revenue for the increased allocation of FBE, for example, network cost or capacity cost that is fixed in nature has to be recovered through fixed costs.

- Variable costs would have to be recovered through variable structures. The current fixed cost pricing is being impacted by declining revenue as affluent households instal VRE technologies.
- Cost reflective tariffs would make electricity less affordable for the poor, therefore simultaneous protection measures would be required.

A summary of the key recommendations from the energy dialogue are detailed below:

- A review on the amount of FBE allocated to each household is required, stakeholders suggested an increased allocation to 350kWh per household per month.
- A review in the pricing throughout the electricity value chain that incorporates electricity access and affordability for indigent households.
- A national subsidy with clear principles on targeted tariff cross-subsidies to the indigent.
- Ongoing support should be provided to municipalities to update their indigent registers regularly to ensure that households living below the poverty line benefit from the FBE allocation.
- Government to consider ring-fencing costs for allocation to customers in Eskom supplied areas to be paid directly to Eskom. This will reduce the administrative challenges experienced by Eskom in facilitating the allocations on behalf of the municipalities.
- Efficient and transparent fiscal policies and their implementation are important for addressing energy poverty and maximising the resources that are currently allocated.