Article 4

The Cost of Water and Electricity - *Business Tech*

R2,960 per month electricity price blow for South Africans

Eskom's proposed 36.15% tariff increase will mean South Africans will pay R2,960 more per month for electricity than they did in 2010—an increase that is far above inflation over the same period.

The National Energy Regulator of South Africa (Nersa) recently published Eskom's revenue application for the next three financial years, open for public comment until 1 November 2024.

As South Africans consider the likelihood of higher tariffs starting in April 2025, the conversation around energy affordability is increasingly turning toward alternative, self-reliant power sources like solar energy.

Eskom argues that its pricing must become cost-reflective, meaning electricity tariffs should cover the true cost of producing and distributing power.

According to the utility, Nersa has historically rejected Eskom's attempts to adjust prices accordingly, worsening its financial troubles and postponing necessary reforms.

Now, Eskom claims that moving toward cost-reflective pricing will prevent the sudden, sharp price hikes that have shocked consumers in recent years.

Unfortunately, the numbers still paint a grim picture.

By mid-2024, the price of electricity for households had risen by 350% above the Consumer Price Index (CPI), making it increasingly unaffordable.

This comes at a time when South Africans are already facing tough economic conditions, compounded by rising living costs and stagnant wages.

In contrast, hybrid solar solutions are proving to be a far more affordable and sustainable alternative, offering households the opportunity to reduce their reliance on the national grid.

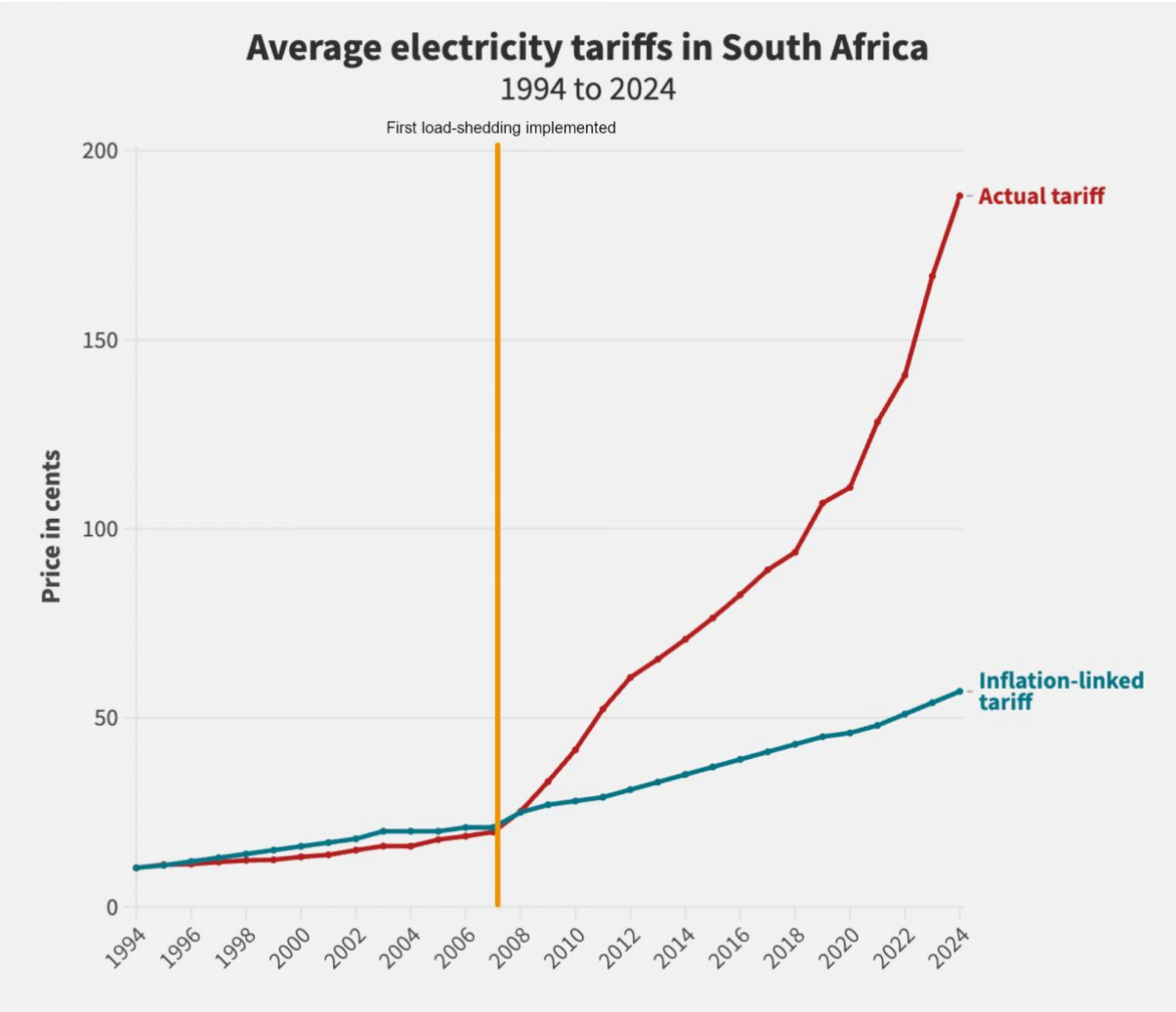
In 2014, a typical Eskom customer using around 800 kilowatt-hours (kWh) per month would have paid about R1,055.40 for their electricity.

In 2024, that same customer is now paying R2,948.98—a staggering increase of 179.42%.

Over the same period, inflation rose by only 67.8%, highlighting the stark disconnect between rising energy prices and overall inflation.

If Eskom's proposed 36.15% tariff increase takes effect in April 2025, the same customer could expect to pay around R4,015.04 per month, further exacerbating the financial strain on households.

This represents an R2,960 per month increase over the past decade, which is almost triple the cost in 2010.



Eskom's steep tariff increases are largely driven by its ongoing struggle to maintain ageing infrastructure, service its substantial debt, and meet operational demand.

These issues have made electricity price hikes a necessary evil for Eskom, but the cost to consumers is becoming unbearable.

For many households, the rising costs of electricity are unsustainable, and the move toward alternative energy sources is not just a choice but a financial necessity.
The growing reliance on solar energy is changing South Africa's energy landscape.
The private sector's contribution to the national grid has more than doubled since 2008, climbing from 4% in 2010 to 14% by mid-2024.

Much of this shift has been driven by the rise of off-grid solar power, which now accounts for nearly 5 gigawatts (GW) of capacity, almost 10% of the national grid's installed capacity.
The shift toward alternative energy solutions is also driven by Eskom's increasingly aggressive pricing strategy, which is alienating consumers.

In the second quarter of 2024 alone, Eskom's electricity prices were 15% higher than the previous year, while inflation hovered at just 5%.

This pricing disparity is pushing more South Africans to explore solar and other renewable energy options, even though load shedding has been temporarily suspended for over 160 days.

Energy experts warn that Eskom's approach could backfire. As electricity prices continue to rise, households and businesses that can afford to switch to private energy providers are doing so, reducing Eskom's customer base.

Those left behind are predominantly low-income households that cannot afford solar installations or energy-efficient upgrades. This situation is likely to lead to higher rates of non-payment and further financial strain on Eskom.

For many homeowners, investing in solar power has become an increasingly attractive option.

Hybrid solar systems, which combine solar energy with a grid connection for backup, are now seen as a practical, long-term solution to rising electricity costs.

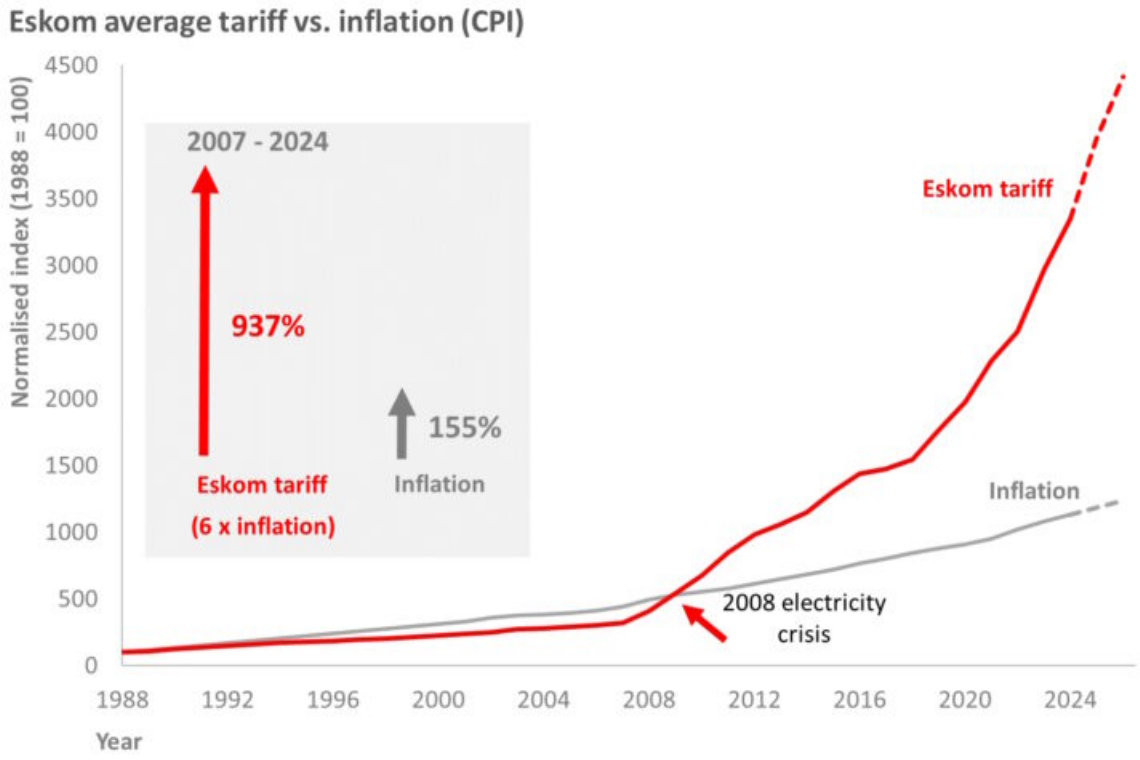
These systems allow homeowners to maximize their use of solar energy, reducing reliance on Eskom's grid and the associated high costs.

While going completely off-grid can be expensive due to the need for solar panels and battery storage, hybrid systems offer a more attainable and cost-effective alternative.
The recent interest rate cut by the South African Reserve Bank (SARB), which reduced the repo rate by 25 basis points to 8%, has made financing solar installations even more accessible.

In 2015, 2017, 2019 and 2022 we published infographics showing Eskom annual tariff increases since 1988 compared to inflation.

Eskom tariffs increased by an eye-watering 18.7% in 2023 and again by a painful 12.7% in 2024. This compares to CPI (Consumer Price Index) increases of 5.9% and 4.9% over the same two-year period.

The graph below shows the Eskom tariffs from 1988 to 2024, plotted against CPI (Consumer Price Index) or inflation over the same period. It also shows projections up to 2026, based on inflation projections and Eskom's planned applications to NERSA (and assuming NERSA only grants half their requested increase of 36.15% for 2025).



Note: The graph depicts overall average increases – actual increases will be different for different types of consumers (residential, commercial and industrial) and will vary between municipalities.
Looking at the graph, the following can be noted:
In the period from 1988 up to the 2008 electricity crisis, electricity tariff increases did not keep tread with inflation. This was partly due to government policy to keep electricity tariffs as low as possible for poor communities, but also due to Eskom having an oversupply of electricity (in the 1990's) and not investing in new capacity (in the 2000's).
Between 1988 and 2007, electricity tariffs increased by 223%, whilst inflation over this period was 335%.

From the 2008 electricity crisis onwards, there is a clear and sharp inflection point for electricity tariffs in South Africa. From 2007 to 2024, electricity tariffs increased by 937%, whilst inflation over this period was 155%. Thus, electricity tariffs increased six-fold (or SIX times faster than inflation) in real money terms in 16 years.
Eskom plans to apply for another 36.15% increase in 2025, so unfortunately it seems the dramatic increases in electricity prices are likely to continue.

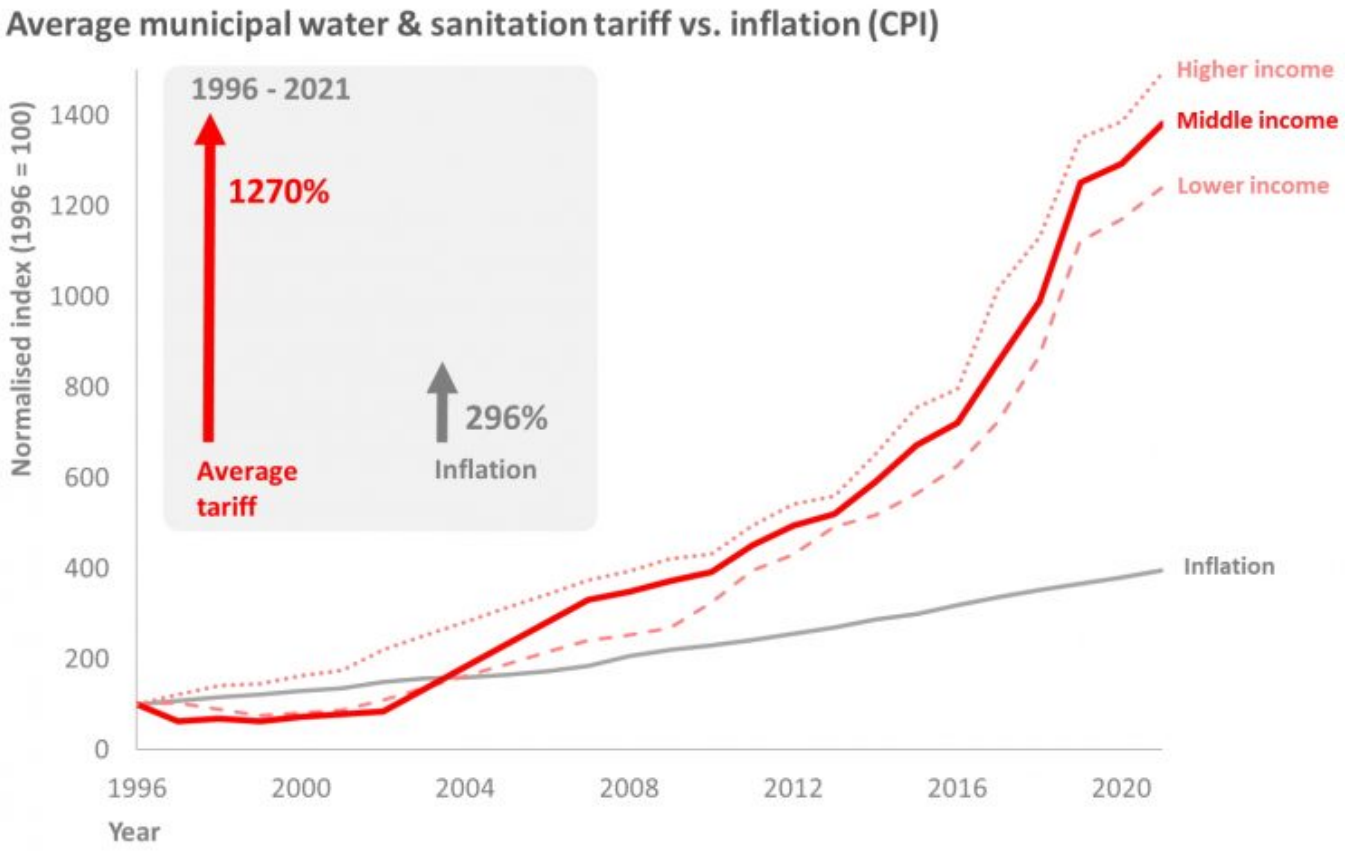
Chapter 2. Average municipal water & sanitation tariff vs. inflation (CPI)

In the previous chapter we discussed the 512% increase in the average Eskom electricity tariff since 2007. We shall now embark on the 2nd leg of our journey in which we highlight an equally odious development in a tariff that has received a lot less negative press: Water and sanitation.

You are not alone if you allowed the increasing cost of your most basic need to go unnoticed…

Perhaps now is the time to explore the real water tariff trends, overshadowed by Eskom's conspicuous plight and camouflaged by a complicated tariff structure, but which impacts our daily lives as South African citizens. Think back to 'Day Zero' in 2018 and the questions surrounding a lack of access to water and water insecurity in South Africa.

Now ask yourself this: Is it possible that the cost of the water provided by municipalities has increased faster than inflation, considering the deteriorating service delivery on a broader scale?



As can be seen in the graph, average municipal water tariffs have increased four times faster than inflation since 1996.

Essentially, the average municipal water tariff was almost 1300% higher in 2020 than in 1996… Unfortunately, we must bear this burden together with that of Eskom's runaway tariffs.

In the next chapter, we compare electricity and water & sanitation tariffs over the past 25 years and consider why the increases in average municipal water tariffs have gone largely unnoticed.