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Higher electricity connection fees in South Africa? A good, and necessary, next step

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There's been outrage from some quarters in South Africa about reports that the power utility Eskom and some municipalities intend to increase the connection fee for electricity users who also generate their own power.

Source: Gallo/Getty

A number of commentators – including the executive director of the Presidential Climate Commission – have also criticised the idea even though Eskom has said that no such proposal has been tabled officially.

We take a contrary view, for two main reasons.

Firstly, we believe that grid connection fees are crucial to protect the finances of both Eskom and municipalities. Secondly, they are needed to support the 'just transition' to which the South African government and energy experts claim to be committed.

There is a broad consensus that the world needs to move to 'net-zero' energy sources to avoid a global warming climate disaster. For South Africa's coal-based society, this transition will have a major effect on peoples' livelihoods and standards of living. A 'just transition' would distribute the costs, benefits and opportunities fairly.

The proposed connection fee is a good example of the principle. The fee is needed to cover the costs that electricity providers incur to build and maintain the capacity to generate and deliver additional energy when users' private systems cannot provide enough.

Opposition to the connection fee reflects the interests of commercial users and wealthy individuals. They want access to backup power but are not willing to pay the costs of making it available ‘on demand’ when the sun goes down, the wind stops blowing or their own systems break down. They are supported by businesses who provide ‘cheap’ renewable energy solutions.

The debates have left the wider public confused. South Africa’s electricity supply has become increasingly unreliable and expensive. Many of those using solar at home appear to believe that they should not be charged for, as they see it, helping to solve electricity supply problems.

Our view is that both grid connection fees and structured feed-in arrangements are necessary to ensure greater fairness in the social distribution of Eskom’s financial woes. The burden of the costs should not disproportionately fall on the less wealthy middle class, the working class and the poor – or on future generations.

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Connecting the dots

The confusion is aggravated because the South African government is in the process of separating Eskom into three separate components: generation, transmission and distribution. We have argued that this is at best a misplaced priority which risks aggravating the country’s electricity problems. But it is also contributing to the confusion.

Eskom has two crises: a generation crisis and a financial crisis.

The generation crisis is the most visible to ordinary citizens because it manifests in staged power cuts when Eskom cannot generate and distribute enough electricity to meet demand, especially at peak times.

The financial crisis is more serious but has only been visible in the rapid increases in electricity tariffs over the last decade and reports of corruption. But the crisis is obvious when one considers that Eskom cannot afford to pay back its loans without regular cash transfers from government. While the current CEO has been praised for ‘reducing Eskom’s debt levels’, this mostly reflects bailouts from the government not better financial management.

Recently, National Treasury has announced its intention to take over a large portion of Eskom’s debt. This confirms, as we argued before, that the public was going to have to pay for Eskom’s debt.

But the financial crisis could be aggravated by government’s decision to allow large-scale decentralised electricity generation. While this may help to reduce power cuts, it will make Eskom’s financial problems worse.

Decentralised generation will also undermine municipal finances because they rely on levies on electricity sales to raise revenue.

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Why connection fees matter

If businesses and wealthy households dramatically reduce their use of grid electricity there will be less revenue but also less scope to raise tariffs from the poorer remaining users. That is a deeply inequitable outcome which illustrates how flawed the policy process has been: no cost implications of these decisions has ever been published.

The financially unsustainable combination of grid defection and higher tariffs creates the so-called electricity utility death spiral. Under this scenario, the government and citizens either have to take on the costs or allow the utility to fail. Since failure would have a disastrous impact on government's broader ability to borrow, the costs will inevitably be transferred to citizens through higher taxes and public debt levels, or reduced expenditure on public goods and services.

This is where grid connection fees come in. Wealthy households and businesses that choose to generate their own electricity and 'defect from the grid' often stay connected so that they can use electricity from the public supply as a backup. Put simply, they use the grid as insurance but no longer pay their fair share of the infrastructure, maintenance and other costs of maintaining an operational grid. Such costs have traditionally been covered by energy tariffs.

A (higher) grid connection fee for these defecting electricity users will reduce the financial losses and be less inequitable. But it will not prevent wealthier municipalities sourcing electricity elsewhere and large companies going entirely off grid - those problems will require other solutions.

Some of those who are loudly objecting to such a policy are part of the small elite who can afford the large upfront costs of home solar energy systems. Others have simply misunderstood – or misrepresented – the purpose of the policy.

It is not to punish electricity users for generating electricity from solar or other sources. Rather it's about ensuring equitable contributions to the costs of the grid.

A separate but related challenge is arising in municipalities. Households and domestic users not only want to use the municipal infrastructure as backup, but also to 'feed in' the excess energy from their rooftop solar panels when they have more than they need.

Many users don't understand why they should have to pay a connection fee and why the credits they receive for the electricity they 'feed in' are so low. For example, Cape Town allows households to use solar power but they must pay a monthly fee to stay connected to the municipal supply. They will also have to buy an 'advanced meter' (costing around R10,000) and pay an additional monthly administration fee. Surplus power fed into the municipal grid is only paid as a 'credit' and at a rate less than a third of what the city charges to provide a supply.

However, after years of criticism and lobbying by wealthier households, the city proposes to increase the rate and intends to 'pay cash' for such electricity. Whether this is equitable at the municipal level remains to be seen, but such dynamics will only compound national inequalities.

Grid connection charges and feed-in tariffs must reflect the real costs of building and running the system. The complexities involved provide fertile ground for critics and lobbyists to press for more favourable treatment for wealthier individuals. But for a 'just transition', the decentralisation of power generation must ensure that the costs and benefits are fairly distributed in society at large.

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