

Balancing the Grid: The Controversy Behind Johannesburg's New Prepaid Tariffs

By **Maike Gohl** (Partner),
and **S'negugu Dlamini** (Associate)

30 July 2024

INTRODUCTION

As of the 1st of July 2024, the City of Johannesburg ("the City") implemented new prepaid electricity tariffs, a decision that has sparked significant debate among residents and stakeholders and creating a huge disparity.

THE NEW TARIFFS

The revised tariffs mark a significant shift in how prepaid electricity is billed. As traditionally, prepaid customers paid solely for their consumption, with network availability and service charges secured through advance payments made in relation to the electricity consumption charges. The new tariffs, however, introduce additional charges that many argue undermine the foundational principles of prepaid electricity. This tariff structure is seen as unfairly penalizing residents who choose prepaid systems for better control over their electricity expenses and to minimize bad debt risks for the City.

To place this in context, there are now two separate classifications when it comes to pre-paid electricity. Being, the "high" prepaid and "low" prepaid classifications, which refer to two different tariff structures which are based, as previously, on consumption patterns and the more you consume the more expensive your electricity will become.

The low prepaid tariff structure features a lower per unit charge in comparison to that of the high prepaid tariff, intended to minimize upfront costs for consumers. However, users pay higher variable charges per unit of electricity consumed than a post-paid meter consumer. It must, however, be borne in mind that this per unit charge includes both the cost of electricity itself and network-related fees for infrastructure maintenance.

In contrast, the high prepaid tariff now has an upfront fee to be paid for network charges and service fees (currently at R200 (ex VAT) a month) before any electricity is consumed, as well as a higher cost per unit

of electricity consumed, than a post-paid meter and the low pre-paid consumer group (bearing in mind that the post-paid electricity tariffs carry a much higher network and service charge than the newly implemented prepaid charges for the same provision).

WHO QUALIFIES FOR WHICH CLASSIFICATION?

Unfortunately the City does not provide a detailed explanation of its selection process in terms of which classification a consumer will fall into. From the draft tariffs it seems to be that the differentiation comes in in relation to either being an indigent customer or not. The writers have deduced that from the proposed tariff the differentiation of the two is that non-indigent customers will automatically be placed into the high prepaid tariff classification. This means that they will be expected to pay a service and network charge which is an additional amount R200 (R230 including VAT) on the prepaid high-usage electricity tariff, before they even use the services on demand, whereas the same will not be expected of the low pre-paid classification.

The introduction of this service charge places an additional financial burden on households already grappling with the high cost of living. "For many residents, particularly low-income families who rely on prepaid meters to manage their electricity usage, this extra R230 a month is an insurmountable expense. It effectively penalises these households for their efforts to control and reduce their electricity consumption, undermining the principles of fairness and equity. As such be warned, if you do not qualify for the indigent benefits in the City of Johannesburg, (which qualifications can be found at the following link: https://joburg.org.za/services_/Pages/City%20Services/Social%20Package/Expanded-Social-Package0217-1439.aspx) you will be expected to pay an additional R230 a month this tariff year (being from 01 July 2024 to 30 June 2025), for your pre-paid electricity, before you have even started consuming any electricity.

That being said, comparatively, the network and service charges billed to post-paid meter users are still much higher than that of pre-paid meters. As such, it should still be cheaper to be on the pre-paid option than to be on the post-paid option.

CONCLUSION

The new prepaid tariffs in Johannesburg represent a significant policy shift with far-reaching implications. While the City's need to address its financial challenges is clear, insofar as providing flexibility and cost-effectiveness, this must be done in a manner that does not disproportionately impact residents.

This tariff structure risks exacerbating existing inequalities and may not fully address the diverse needs and financial realities of Johannesburg's residents.

Kindly contact the authors of this article on 011 568 8500 for more information.

Please note: this article is for general public information and use. It is not to be considered or construed as legal advice. Each matter must be dealt with on a case-by-case basis and you should consult an attorney before taking any action contemplated here.



Maike Gohl
(Partner)



S'negugu Dlamini
(Associate)