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**Title - Developing Countries: Cost Reflective Tariffs vs Affordability.**

The challenges in tariff design in developing countries are often the absence of clear tariff design policies and guidelines; the consistent interpretation and application of these policies, role players that do not always understand the role they should play in the industry and how the paradox of cost reflective tariffs and affordability should be balanced and managed. South Africa has moved a long way to address some of these challenges and lessons learnt will be shared in this paper.

Strategic pricing objectives normally includes energy efficiency and economic sustainability, cost reflectivity, fairness and equity as well as transparency, and aim to inter alia:

Cost reflectivity and affordability are generally two opposing objectives in efficient tariff design - the more cost-reflective the tariffs, the less affordable it is for the poor customers. This is more specifically applicable in developing countries where they are still migrating towards cost reflective tariffs.

The paper highlights how Eskom's, and thus South Africa's retail tariff levels have not been cost reflective due to historical reasons such as bundled tariffs in the past; electrification and rural subsidies; and providing additional subsidies to residential customers to ensure affordability.

This has resulted in challenges such as industrial and commercial customer tariffs increasing at a rate higher than the average price increase over the past years, thus making the industrial and commercial customers to cross-subsidise the residential tariff. This makes the tariff uncompetitive and unsustainable in the longer term. Another challenge to date, is that the tariff subsidies have evolved in the absence of a national subsidy framework, with very little analysis of the long-term impact on customers and the economy.

In the absence of such a national subsidy framework, cross-subsidies are not managed properly. This has created a situation where all stakeholders want to 'protect the poor' according to their own interpretation and understanding.

The paper recommends that a proposed national subsidy framework should be developed by government to establish subsidy objectives in a transparent manner. All key stakeholders should play a part in developing guidelines; ensuring a long term supply of reliable, and affordable energy service in the development and implementation thereof.