What tariff options are there for Domestic Consumers?

From 1 July 2011, Domestic Consumers will have 2 tariff options available to them, the Lifeline Tariff and the Domestic Tariff. The upper threshold for qualification for the Lifeline tariff (and the associated benefit of the Free Basic Electricity) is an annual aggregate of 5400kWh received per consecutive 12 month period, or a monthly average of 450kWh received. Consumers receiving more than this value will take their supply at the Domestic tariff.

Note that received in this document, and all other official tariff documents, can be defined as all electricity purchased or consumed, as well as any electricity received as a free basic supply (FBE).

How many kWh do I need to buy to qualify for the Lifeline tariff?

If you are currently on the Lifeline tariff, then you need to purchase no more than 400kWh per month on average, as with the 50 free units you will then receive less than the maximum amount of 450kWh per month on average.

If you are currently on the Domestic tariff, then you need to purchase less than 450kWh per month on average in order to qualify for the Lifeline tariff. However, once you have changed to the Lifeline tariff you then need to purchase less than 400kWh, as in the first part of this answer.

To qualify for the Lifeline tariff, you need to actually receive no more than 450kWh per month on average, INCLUDING any free units you may get.

How many Rand does this equate to?

In the case of a consumer already on the Lifeline tariff, this equates to spending no more than R375 per month on average including VAT, and for consumers on the Domestic tariff it equates to R550 per month on average including VAT.

How does the new 4 block Lifeline inclining block tariff work?

For consumers on the new Lifeline tariff, in 2011/12 the first 50 units they receive will be free of charge (it's actually paid for by the City at 61.60c/kWh), the next 100kWh they receive will be at 61.60c/kWh (together, these 150kWh account for the first block of the tariff), the next 200kWh they receive will be at 81.04c/kWh, the next 250kWh they receive will be at 107.43c/kWh, and any further units they receive will be at 118.06c/kWh.

Note that the units received is per calendar month, and not per purchase, so where multiple purchases are made in a calendar month the consumer will most likely not receive the same number of units for the same amount of money.

It is also possible for a consumer on the Lifeline tariff to purchase more than 450kWh in any given month and remain on the Lifeline tariff. The key is that the monthly average has to remain below threshold value of 450kWh received. Bulk purchases are permitted, however, under this tariff structure they are not the most economical way of purchasing, as this could result in electricity being purchased at the higher blocks. Consumers also need to be careful that they at no stage exceed the month average; otherwise they run the risk of losing the Lifeline tariff, and all its associated subsidies.

How does the new 2 block Domestic inclining block tariff work?

The short answer is in much the same way as the Lifeline tariff does. All electricity received up to and including 600kWh will be charged at 107.43c/kWh, and all electricity received above this level will be at 118.06c/kWh.

As with the Lifeline tariff, this applies per calendar month, and not per purchase, so again where multiple purchases are made in a calendar month it is conceivably possible that a different quantity of units may be received for the same quantity of money.

Why are we changing to Inclining block tariffs?

The City is complying with a National Energy Regulator of South Africa (NERSA) directive that all Domestic consumers are to be placed on an inclining block tariff. The general aim of the tariff structure is to provide a level of protection to the poor consumers by keeping their tariff increases relatively low, and subsidising them from the higher consumers. This also has the effect of providing extra motivation for those larger consumers to use electricity more efficiently, as it has been shown that pricing is one of the main drivers of more efficient usage.

So what happened to the Service Charge?

With there no longer being a Domestic High tariff, there is no longer a general use Domestic tariff with a service charge.

Why are some values in these FAQ's reflected as including VAT, and others as excluding VAT?

The choice of including or excluding VAT was made in accordance with what will appear, and has appeared in both the press and on the ticket. The amount of electricity purchased for example, is reflected as including VAT as this is what consumers typically would ask for (people tend to ask for a specific Rand value of electricity, which includes VAT), and the unit price per kWh is reflected as excluding VAT because that's what has appeared in the press and will appear on the token.

Can you give us some examples of how the Lifeline tariff works?

With pleasure. The examples below also serve to illustrate the concept that the number of units a consumer receives may vary depending on their purchasing habits, and that bulk purchasing may not be the most economical way of purchasing.

<u>Example A:</u>

Consumer A purchases all R320 worth of electricity once off at the start of every month. For this they will receive 50kWh Free Basic Electricity, 100 kWh at 70.22 c/kWh (together forming the Block 1 portion), 200 kWh at 92.39 c/kWh (Block 2), and 53.1 kWh at 122.47 c/kWh (Block 3) for a total of 403.1 kWh received.

<u>Example B:</u>

Consumer B purchases their R320 worth of electricity in 2 purchases of R250 at the start of the month, and then a "top up" amount of R70 later in the month. This means that for their first purchase they will receive 50 kWh Free Basic Electricity, 100 kWh at 70.22 c/kWh (combined forming

Block 1), and 194.6 kWh at 92.39 c/kWh (A portion of Block 2) for a total of 344.6 kWh. For their second purchase of R70 they will receive 5.4 kWh at 92.39 c/kWh (the remainder of the Block 2 portion) and 53.1 kWh at 122.47 c/kWh (Block 3) for a total of 58.5 kWh. Both purchases together bring the total amount of electricity received to 403.1 kWh.

Example C:

Consumer C purchases their R320 worth of electricity in 4 equal purchases of R80 each. For their first purchase they will receive 50 kWh Free Basic Electricity, 100 kWh at 70.22 c/kWh (combined forming Block 1) and 10.6 kWh at 92.39 c/kWh (a portion of Block 2) for a total of 160.6 kWh. For the second and third purchases the consumer will receive 86.6 kWh at 92.39 c/kWh (two further portions of Block 2). For the fourth purchase of the month the consumer will receive 16.2 kWh at 92.39 c/kWh (the remainder of Block 2), plus 53.1 kWh at 122.47 c/kWh (Block 3) for a total of 69.3 kWh. Adding all the purchases together we arrive at a grand total of 403.1 kWh received in the month.

Example D:

Consumer D purchases their full annual amount of energy in one bulk purchase. They receive 4837.2 kWh for their single purchase. This is made up of 50 kWh Free Basic Electricity, 100 kWh at 70.22 c/kWh (combined forming Block 1), 200 kWh at 92.39 c/kWh (Block 2), 250 kWh at 122.47 c/kWh and 4237.2 kWh at 134.59 c/kWh. This brings the total cost for the year to R6264 (which if divided by 12 for comparison purposes results in a monthly amount of R522). It is therefore NOT advisable to purchase electricity in this manner.

What is the history of the Free Basic Supply or FBE portion of the receipts?

From July 2001, 20 free kWh per month were provided to all domestic consumers supplied directly by Cape Town. In July 2003, this was increased to 30 free kWh. National Guidelines established late in 2003 recommended 50 free kWh for consumers using less than 150 kWh per month on average. From January 2004, 50 free kWh per month were given to all domestic consumers supplied directly by Eskom in the Cape Town municipal area

From July 2004, in order to more accurately target the indigent consumers and to limit the cost of the free basic allocation, Council resolved that 50 free kWh per month would be provided to consumers using less than 500 kWh per month on average.

With the promulgation of the Lifeline tariff on 1 July 2008 (then known as the Domestic Low with FBE tariff – renamed as of 1 July 2009 to Lifeline), the FBE portion was restricted to consumers qualifying for that tariff.

Currently, the free basic supply of 50 kWh is still provided to all consumers supplied at the Lifeline Tariff, and to Eskom consumers who receive less than 250 kWh per month on average.