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**Free Market Foundation comment**  
**on the**  
**Draft Electricity Regulation Act Amendment**

The Draft Electricity Regulation and Act Amendment issued for comment on 23 April is a very small step in the right direction, which is to open the electricity market to private electricity generation and supply.

The intention “to increase the threshold for embedded generation from 1 MW to 10MW and determine that a person who operates a generation facility contemplated in items 3.1, 3.2, 3.3, 3.4 or a person who performs the activities of a reseller as contemplated in item 3.7 of the Schedule, must register with the Regulator.” Owners of generation plants of less than 10 MW will therefore no longer be required to acquire a licence from the National Energy Regulator. Whilst this is a welcome lifting of restrictions on electricity generation, there is so much more that needs to be done if South Africa is to take its place as one of the highly developed countries of the world.

One of the most urgently needed changes is the removal of the monopoly status that Eskom has in the generation and transmission of electricity. This monopoly and the absence of large-scale independent competitors in the generation and supply of electricity inexorably leads to higher prices. Eskom would not possibly have been assured of the price increases that NERSA has granted Eskom of 8.76% for 2020/21 and 10.58% in 2021/22, if the electricity supplier had been operating in a fully competitive environment.

In 1998 a government White Paper was published which put forward proposals for possible changes to the electricity production and delivery environment. Possibilities mentioned were:

1. Give customers the right to choose their electricity supplier.
2. Introduce competition into the industry.
3. Permit open no-discriminatory access to the transmission system.
4. Encourage private sector participation in the industry.

Transforming South Africa's electricity industry would have considerable benefits such as security of short-term and long-term supply as was discovered by other countries that carried out transformations. The evidence showed that:

1. Legislated monopolies do not provide consumers with lowest cost, most efficient supplies.
2. Specialisation and competition, wherever possible is essential.
3. In its early years the European Union mandated open access to the electricity grids of member countries. Prices fell by as much as 20% in some countries.
4. The UK broke up its electricity monopoly. After the break-up it took 20 years for prices to double. In South Africa the price of electricity increased by more than double the inflation rate over a period of nine years.
5. South Africa needs an independent transmission grid, independent transmission grids and competing generation companies to provide first-world efficiency and lowest cost electricity.

Notwithstanding the above comments the relief granted in the draft Electricity Regulation Act Amendment will be most welcome.

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