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Electricity prices almost tripled in South Africa

By Shaun Jacobs



The average national tariff charged for electricity in South Africa has risen by 190% since 2014, with repeated above-inflation increases threatening to make it unaffordable.

The Council for Scientific and Industrial Research (CSIR) revealed this in its annual report on power generation statistics in South Africa.

One of the key themes addressed in the report is the rising price of electricity in South Africa, which has repeatedly increased above inflation.

The CSIR said these repeated increases point out the need for alternative energy sources in South Africa as Eskom's unreliable coal fleet continues to be a major driver of the rising electricity price.

It also showed that above-inflation increases were not always the norm in South Africa, with annual price changes before 2008 being mostly below inflation.

South Africa, at the turn of the century, had cheap and abundant electricity which enabled heavy industry to thrive in the country.

However, the local industry is now globally uncompetitive due to rising input costs, of which electricity is a large part.

The CSIR explained that the sharp rise in electricity prices coincided with the beginning of load-shedding in 2008.

As South Africa's historical coal-fired power stations became unreliable, Eskom was forced to rely heavily on open-cycle gas turbines (OCGTs) to manage load-shedding.

These plants are designed as peaking stations, intended to be used on short notice during temporary periods of high demand and not as a constant electricity source.

OCGTs are significantly more expensive to run, operating on diesel, and Eskom's increasing reliance on them pushed up its cost of producing electricity.

As South Africa's electricity tariffs are cost-reflective, the price soared, Eskom's costs rose, and sales declined due to load-shedding.

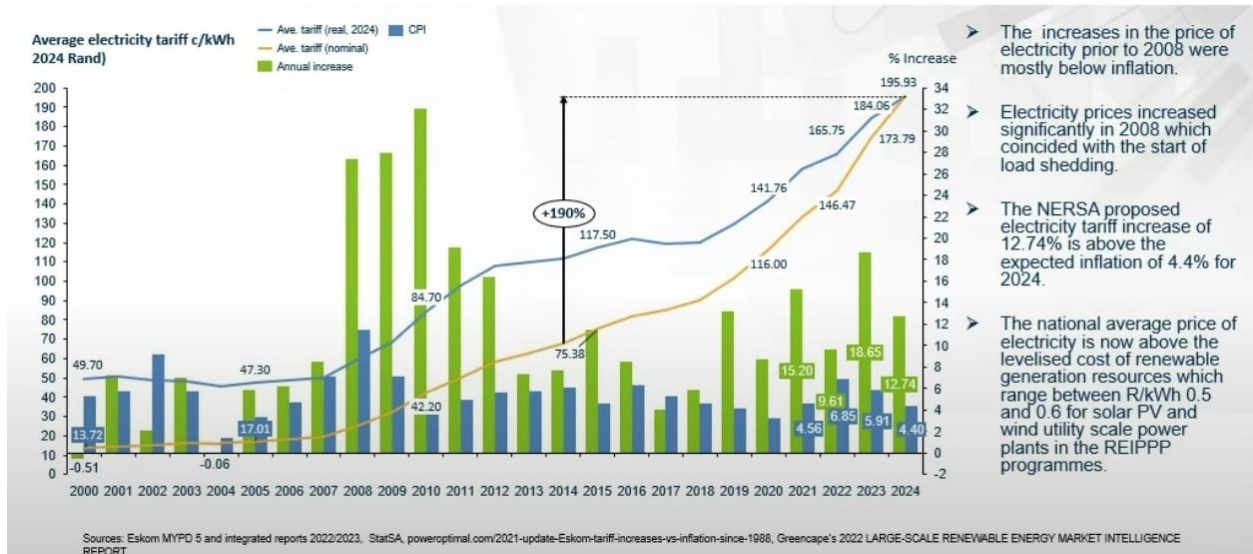
South Africa experienced mammoth electricity price increases from 2008 to 2010, with the average annual rise during this period being above 20%.

While price increases have slowed from this peak in the last decade, they remain above inflation, and since load-shedding picked up from 2018 onwards, so have the size of the increases.

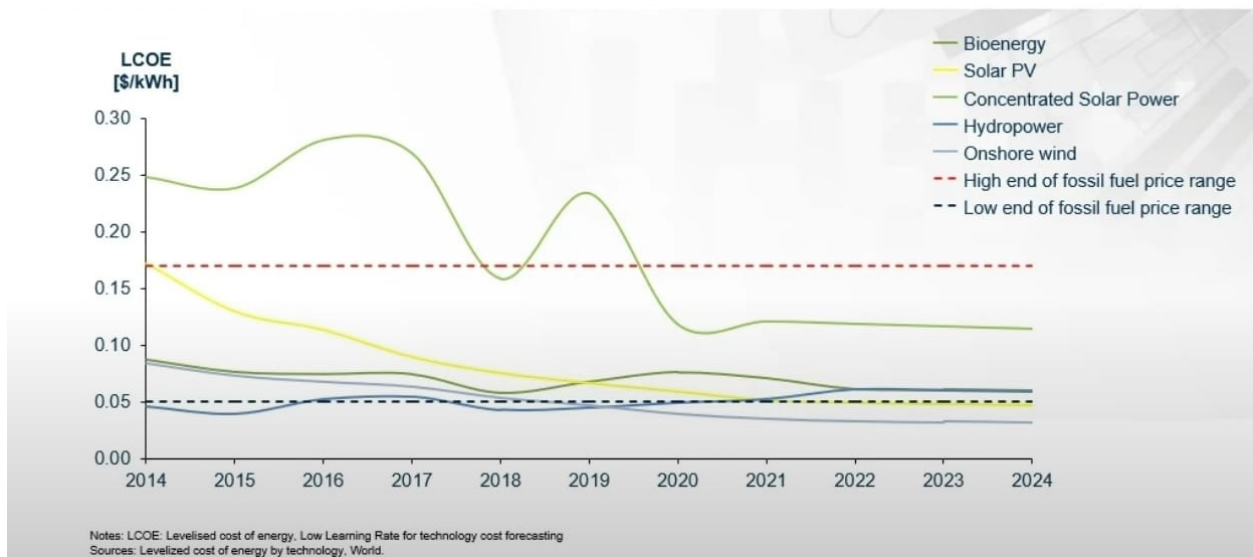
Since 2014, the average electricity tariff in South Africa has risen by 190%. This excludes the proposed tariff increase of 12.74% in 2025.

According to calculations from Momentum Investments, electricity prices have risen by over 600% since January 2008. This is compared to a headline inflation rate of 139% over the same period.

This can be seen in the graph below, courtesy of the CSIR.



- The increases in the price of electricity prior to 2008 were mostly below inflation.
- Electricity prices increased significantly in 2008 which coincided with the start of load shedding.
- The NERSA proposed electricity tariff increase of 12.74% is above the expected inflation of 4.4% for 2024.
- The national average price of electricity is now above the levelised cost of renewable generation resources which range between R/kWh 0.5 and 0.6 for solar PV and wind utility scale power plants in the REIPPP programmes.



The CSIR explained that these consistent above-inflation increases in the price of electricity have created an affordability problem.

It has also created a significant problem for Eskom, with the rising electricity price pushing many South Africans to invest in alternative energy sources.

Data from the CSIR shows that the average price of electricity is now above the levelised cost of renewable generation resources.

The levelised cost of renewable energy ranges between 0.5 R/kWh and 0.6 R/kWh for solar PV and wind utility-scale power plants in South Africa.

As a result, Eskom's sales have steadily declined over the past decade, putting further pressure on the utility to raise prices to make up for the revenue shortfall and cover increased operating costs.

This can result in a death spiral for the utility, where its raised prices force customers to find alternative energy sources.

Over the past few years, companies and households have invested heavily in alternative sources of energy to Eskom to mitigate the impact of elevated load-shedding levels.

Despite Eskom's greatly improved performance, companies and households are still looking to reduce their electricity usage from the utility.

The main driver of this now is the increased cost of electricity in the country, with companies and households looking to alternatives purely for economic reasons.

The head of responsible investing at Old Mutual, Tanya Mongwe, explained how the declining usage of Eskom's electricity forces it to raise prices and, in turn, encourages people to reduce their reliance on the utility.

Mongwe said some of Eskom's biggest customers have significantly reduced their reliance on the utility for electricity, with mining companies leading the way.

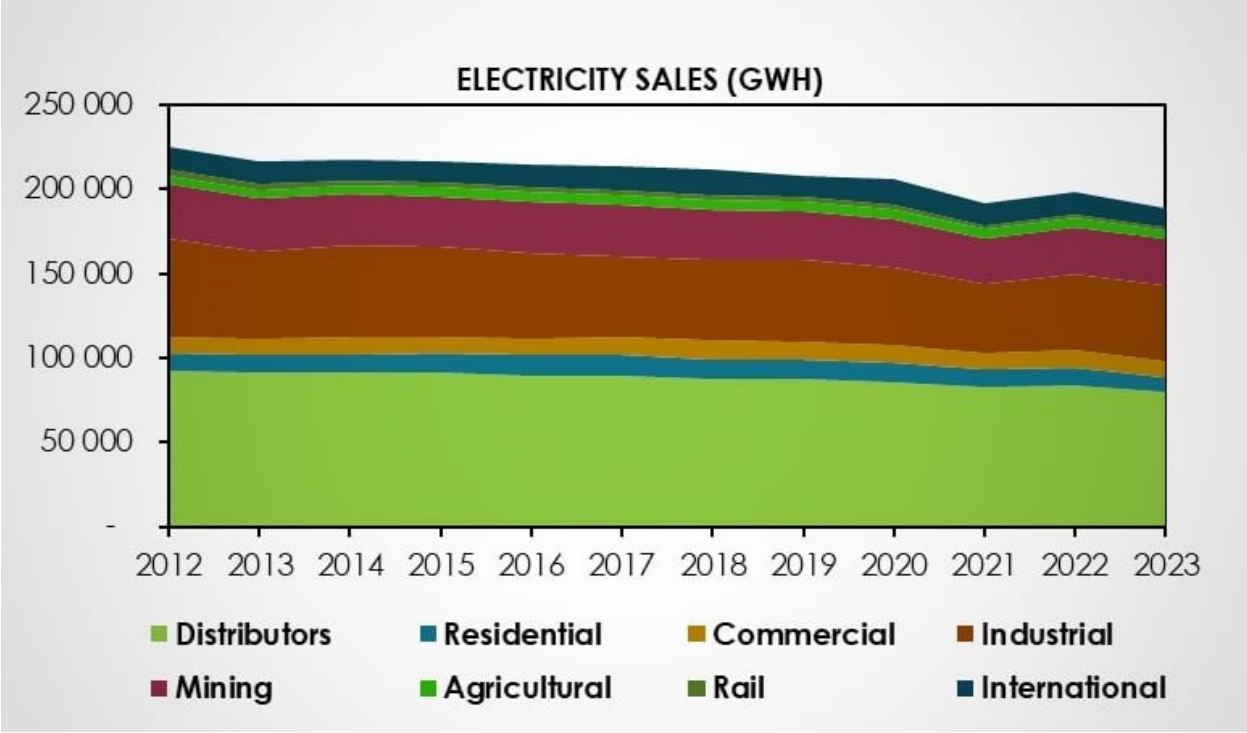
As these companies reduce the electricity consumption generated by Eskom, the utility's revenue is negatively impacted.

Eskom can only try to recover this revenue by hiking prices. This trend has exacerbated the utility's need to raise tariffs to cover its increased operating costs.

Mongwe also said the trend will likely accelerate as the government moves towards creating an open market for electricity by mid-2026, where Eskom will be forced to compete against other generation sources for sales.

In the short term, it has already impacted Eskom's sales and forced the company to apply for further increases in the above inflation in the coming three years.

This is shown in the graph below, courtesy of Mongwe and Old Mutual.



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