

Draft Market Inquiry Report on Fixed Charges and
Generation Capacity Charges Levied by Electricity
Distributors

SUBMISSION TO NERSA
PREPARED BY: SAPVIA

Table of Contents

1. Executive Summary	2
2. Introduction	3
3. Response to Stakeholder Questions	4
3.1. Question 1	4
3.1.1. SAPVIA's identified gaps	4
3.1.2. SAPVIA's proposed alternatives:.....	5
3.2. Question 2	5
3.2.1. SAPVIA's Response:	5
3.2.2. SAPVIA's rationale and supporting evidence:.....	5
3.2.3. SAPVIA's Proposed inclusions and/or alternatives:	6
3.3 Question 3	6
3.3.1 SAPVIA's Response:	6
3.3.2. SAPVIA's Rationale & Elaboration:	7
3.3.3. SAPVIA's suggest alternative considerations:	7
3.4. Question 4	8
3.4.1 SAPVIA's Response:	8
3.4.2 Additional Measures to be Considered:	8
3.5. Question 5	9
3.5.1. Response	9
4. Conclusion	10

1. Executive Summary

SAPVIA supports NERSA's inquiry into the impact of fixed charges and the Generation Capacity Charge (GCC). However, we have concerns regarding the methodology, findings, and recommendations from the Draft Report, particularly as they pertain to embedded generation, competition, and the broader market reform objectives.

Key points from this submission include:

- The Inquiry's dataset is insufficient, comprising only 33 data points heavily weighted towards industrial users. It fails to adequately represent residential, commercial, and embedded generation customers, leading to conclusions that may not be robust and inclusive.
- The Draft Report's framing of solar PV customers as "free-riders" is economically misleading. Distributed solar PV provides significant value to the grid by reducing peak demand, deferring capital expenditure, and enhancing security of supply. Cost-reflectivity must be applied symmetrically, recognising the services provided by solar PV.
- The Inquiry has not adequately assessed the impact of fixed charges and the GCC on competition. The current tariff structures risk entrenching the incumbent utility, raising barriers to entry for independent traders and aggregators, and creating a margin squeeze.
- The greatest risk is that a tariff structure intended to improve cost recovery will accelerate grid defection, weaken investment incentives, and undermine the development of a competitive wholesale electricity market.
- The report's recommendations are directionally correct but insufficient. Stronger measures are needed to ensure competitive neutrality, supplier-neutral cost recovery, and a committed timeline for separating wires from trading.

SAPVIA urges NERSA to address these gaps before finalising the report and implementing any recommendations.

2. Introduction

The South African Photovoltaic Industry Association (SAPVIA) welcomes the opportunity to provide comments on NERSA's Draft Report on the Market Inquiry into the Impact of Fixed Charges and Generation Capacity Charges Levied by Electricity Distributors (published 25 June 2026).

SAPVIA represents over 530 members across the solar PV value chain with interest in the solar photovoltaic (PV) industry, including independent power producers, developers, installers, manufacturers, and associated service providers. Our members are at the forefront of South Africa's energy transition, driving the deployment of distributed generation, utility-scale solar PV, and battery energy storage systems (BESS).

This submission consolidates critical input from our members regarding the Draft Report. It addresses the specific questions posed in the Consultation Paper, focusing on the methodology, findings, recommendations, and implementation risks identified by the Inquiry.

3. Response to Stakeholder Questions

3.1. Question 1

Does the methodology adopted by the Inquiry adequately assess the impact of fixed charges and Eskom's unbundled tariff structure on electricity customers? What are the identified gaps or proposed alternatives?

3.1.1. SAPVIA's identified gaps

No, the methodology does not adequately assess the impact on all electricity customers. SAPVIA identifies three critical gaps:

- The Inquiry acknowledges that its usable dataset comprises only 33 data points, weighted towards industrial and large power users. Residential, prepaid, and embedded-generation customers are significantly under-represented (paragraphs 2.16, 2.19 and the Executive Summary of the Draft Report). This means the findings on embedded generation, including rooftop solar PV and Commercial & Industrial (C&I) self-generation, are based on a thin and unrepresentative foundation.
- The methodology contains no dedicated assessment of the impact of fixed, capacity, and GCC on embedded generation, nor on the fast-growing Small-Scale Embedded Generation (SSEG) customer base. The economic viability of these customers is directly affected by these charges, yet they are not adequately modelled. Furthermore, there is an assumption that solar PV households are uniform, this is incorrect. The market includes a diverse range of solar PV users, from large households with small systems to small households with large systems, households with Electric Vehicles (batteries on wheels), and the emergence of subscription-based models means non-wealthy South Africans can now afford solar PV. There is also no acknowledgment of the value of solar PV in reducing costs for the electricity distributor.
- There is no competition or market-access lens applied to distributed generation, independent traders, and aggregators, despite this being an express Terms of Reference objective. The methodology fails to assess how fixed charges and GCC may raise rivals' costs, cause margin squeeze, or create barriers to entry.

3.1.2. SAPVIA's proposed alternatives:

- NERSA should issue a targeted data request to distributors for the embedded-generation and SSEG customer cohort, including matched before-and-after bills.
- The Inquiry should include independent traders, aggregators, and embedded-generation developers as a distinct stakeholder class in its analysis.
- The ex-post assessment (recommendation 14.3) and customer-class impact modelling (recommendation 14.4) must be completed with an explicit embedded-generation category before any firm regulatory action is taken.
- The methodology should account for the value of solar PV in reducing costs for the electricity distributor, such as reduced peak demand and deferred network investment.
- The most significant unaddressed issue for residential customers is the absence of detailed modelling of solar PV households and how increasing fixed charges may affect future solar PV adoption and grid-defection behaviour.

3.2. Question 2

Do stakeholders agree with the Inquiry's findings and recommendations regarding affordability, cost-reflectivity, transparency and customer impact? Please provide reasons, supporting evidence and proposed inclusions and/or alternatives.

3.2.1. SAPVIA's Response:

Although the analysis is incomplete, SAPVIA agrees that unbundling improves transparency and that cost-reflectivity is the correct organising principle. We support cost-reflective network charges where all grid-connected users, including solar PV customers, pay for the network services they use.

However, we strongly disagree with the framing in the Executive Summary that a key motivation for splitting out the capacity charge is to protect non-solar PV customers from subsidising solar PV customers and IPP generators. This suggests that customers with solar PV systems installed are "free-riders," which is misleading, untrue from economics point of view. SAPVIA calls for the withdrawal of **"the free-rider" framing** on the report.

3.2.2. SAPVIA's rationale and supporting evidence:

- Distributed solar PV reduces peak demand, defers network and generation investment, adds capacity during constrained periods, and improves security of supply.
- Recovering the utility's lost volumetric revenue through fixed and GCCs is not cost-reflectivity; it is revenue protection. This contradicts the report's own conclusions at paragraphs 13.6 to 13.7, as well as national policy on SSEG enablement and embedded-generation registration reform.

- The report itself acknowledges (paragraph 6.2.24) that fixed capacity obligations dilute the returns on self-generation and weaken the case for decarbonisation. Our members who are developers of embedded generation and a provider of C&I energy solutions, are directly negatively affected.
- Cost-reflectivity must be applied symmetrically. If customers are charged for the network capacity they use, the methodology must also recognise and value the services distributed solar PV provides. Energy exported to the grid should be fairly compensated.
- The analysis remains incomplete as it does not adequately quantify impacts on residential customers, prepaid users, low-income households, or various types of solar PV customers. For instance, City Power's push of solar PV users onto a post-paid tariff with fixed fees in excess of R1500, when pre-paid users pay less than R250, needs to be investigated and regulated more closely. This disproportionate impact on solar PV users is a critical affordability concern.

3.2.3. SAPVIA's Proposed inclusions and/or alternatives:

1. The report must be amended to reflect the value of solar PV and to withdraw the "free-rider" framing.
2. The Inquiry should investigate and regulate the disproportionate fixed charges imposed on solar PV users by other distributors (municipalities).
3. A dedicated residential phase is required before any definitive conclusions are drawn about the fairness of fixed charges, GCC, or the impact on households with Solar PV installations.

3.3 Question 3

Has the Inquiry adequately considered the implications of fixed charges and Generation Capacity Charges on electricity market reform, competition, investment incentives and future market development? Please elaborate and suggest alternative considerations.

3.3.1 SAPVIA's Response:

No, the Inquiry has not adequately considered these implications. This is the area of primary concern for SAPVIA, as there are contradictions in the report itself.

3.3.2. SAPVIA's Rationale & Elaboration:

- Conclusion number seven (paragraph 13.7) correctly note that fixed, capacity, and legacy cost allocation can raise rivals' costs, cause margin squeeze, and create barriers to entry for independent traders and retailers. However, the NERSA's Market Inquiry Report executive summary then dismisses this as not being the case, asserting that the correct balancing of charges promotes true competition. This assertion is unsupported by any competition assessment and should be withdrawn.
- The report accepts (paragraph 5.3.3) that opaque or excessive transmission and wheeling charges deter competition and keep customers on the incumbent's bundled offer but makes no recommendation. Wheeling and use-of-system charges must be transparent, cost-reflective, standardised, and predictable so that an independent trader can calculate the full delivered cost of wheeling from an IPP to an end-user in advance.
- Equitable access to limited grid capacity for all IPPs and embedded generators is essential. Access rules must not entrench incumbent access at the expense of new entrants.
- The Legacy Charge should be recovered through a transparent, supplier-neutral, non-bypassable mechanism applied equally to all energy consumed regardless of supplier. It must not be structured in a way that is punitive when a customer buys from a competitor.

3.3.3. SAPVIA's suggest alternative considerations:

- A competitive and non-discriminatory framework for the allocation of fixed, capacity, network, and legacy costs is needed so that cost allocation does not advantage one market participant over the other. The executive summary should align with the paragraph 13.7.
- A committed timeline with milestones for the separation of distribution network services (wires) from electricity trading functions (recommendation 14.5) for distributors (Eskom and municipalities), together with alignment of municipal SSEG and tariff rules.
- In a genuinely competitive market, fixed charges should never cover generation costs because doing so stifles competition. To successfully unbundle Eskom, generation costs must be shifted entirely to variable charges.

3.4. Question 4

Are the recommendations proposed in the draft report appropriate and sufficient to address the concerns identified through the Inquiry? If not, what additional measures should be considered?

3.4.1 SAPVIA's Response:

While the report's recommendations are largely appropriate and necessary particularly regarding transparency, revenue-neutrality testing, and customer impact simulations, they remain insufficient. They rely too heavily on deferrals and out-of-scope, failing to adequately address competition, embedded generation, and the full market implications of rooftop solar PV, batteries, self-generation, and wheeling.

3.4.2 Additional Measures to be Considered:

1. A competitive-neutrality and non-discrimination framework for the allocation of fixed, capacity, network, and legacy costs, so that cost allocation does not advantage the incumbent's own energy sales over those of independent suppliers.
2. Recovery of the legacy charge through a transparent, supplier-neutral, non-bypassable mechanism, with a published methodology and quantum.
3. Ensure that capacity, GCC, and standby charges based on coincident peak demand and actual network use, not contracted capacity or gross consumption.
4. A published, standardised wheeling and use-of-system charge methodology, with consistent treatment of losses, ancillary services, and reactive energy, and a clear firm versus non-firm distinction.
5. A margin-squeeze or imputation test when approving Eskom retail tariffs against wholesale and network charges.
6. Reclassification of competition matters from "beyond scope" (paragraph 12.5) into a committed workstream, and withdrawal or qualification of the solar PV "free-rider" framing.
7. A stronger set of recommendations would explicitly address residential solar PV customers, affordability safeguards, customer behavioural responses, distributed energy resources, and long-term market design, all of which are likely to become increasingly important as South Africa's electricity market evolves.

3.5. Question 5

What implementation risks, unintended consequences or practical challenges should NERSA consider before finalising the report and implementing any recommendations?

3.5.1. Response

SAPVIA highlights the following implementation risks and unintended consequences:

1. If the GCC and fixed charges are implemented now while competitively neutral cost allocation and the separation of wires from trading are deferred, the transition will strengthen the incumbent's position immediately and open the market only later, if at all. That sequencing is itself a barrier to entry and will be difficult to unwind.
2. Punitive fixed and GCC charges intended to protect incumbent (state utility) revenue will push customers towards fuller defection through solar PV-plus-battery systems, worsening the state utility death-spiral the report itself warns of (paragraphs 6.2.6, 6.3.12 and Finding 8). The report's own better answer is cost-reflective network pricing combined with targeted support delivered through the fiscus (paragraphs 5.3.5 and 5.3.7). The greatest implementation risk is that a tariff structure intended to improve cost recovery, and transparency could unintentionally accelerate customer migration away from the grid, weaken investment incentives, increase affordability pressures, and undermine future market development if not carefully calibrated.
3. Divergent and unpredictable municipal fixed and standby charges and SSEG rules, illustrated by the charges applied outside approved tariffs at Ndlambe Municipality (recommendation 14.2.1), create a patchwork that deters both solar PV adoption and market entry. Municipal alignment and transparency are needed.
4. IPPs, traders, and investors require predictable, published methodologies before committing capital (a point the report accepts at paragraph 6.2.6). NERSA should prioritise publishing the wheeling, use-of-system, and Legacy Charge methodologies.
5. The final report would be strengthened by requiring more rigorous modelling of residential customer behaviour, distributed energy adoption, competition effects, and long-term market evolution before significant tariff changes are entrenched.

4. Conclusion

SAPVIA appreciates the opportunity to provide this consolidated submission. The Draft Market Inquiry Report raises critical questions about the future of South Africa's electricity market. However, its current methodology and findings are insufficient to address the complex challenges of a transitioning energy system.

We urge NERSA to consider the gaps, risks, and recommendations outlined in this submission. Addressing the methodological deficiencies, withdrawing the misleading "free-rider" framing, and prioritising competition-neutral market reforms are essential steps. A stronger set of recommendations would explicitly address residential solar PV customers, affordability safeguards, customer behavioural responses, distributed energy resources, and long-term market design, all of which are likely to become increasingly important as South Africa's electricity market evolves.

SAPVIA remains committed to working with NERSA and all stakeholders to build a transparent, competitive, and sustainable electricity market for South Africa.



South African Photovoltaic Industry Association

GENERAL INFORMATION

REGISTERED ADDRESS:
**Eastgate Office Park, Block A,
South Boulevard Road, Bruma, Johannesburg,
2198, South Africa**

EMAIL ADDRESS:
info@sapvia.co.za

NPO NUMBER:
129-644 NPO



www.sapvia.co.za