An Overview of the Restructuring of the South African Electricity Distribution Industry (EDI)

SALGA STAKEHOLDER WORKSHOP

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Historical overview of EDI Restructuring

- **1992**: ANC National Electrification Conference at UCT
  - Transform old ECB into National Electricity Regulator
  - Restructure EDI to fast-track electrification

- **1994/5**: NER established

- **1995/6**: Electricity Working Group convened by NER
  - Proposal to Cabinet for Regional Electricity Distributors (REDs)

- **1997**: Electricity Restructuring Interdepartmental Committee (ERIC)
  - Report to Cabinet to guide creation of REDs

- **1998**: Energy Policy White Paper
  - Endorsed RED approach

- **1999**: Electricity Distribution Industry Restructuring Committee (EDIRC)
  - PriceWaterhouseCoopers EDI Restructuring Blue Print endorsed by Cabinet in 2001
6 Wall-to-Wall RED Boundary Map

- RED 1
- RED 2
- RED 3
- RED 4
- RED 5
- RED 6

Provincial Boundaries:
- Cape Town
- Nelson Mandela Bay Metro
- Tshwane Metro
- Ekurhuleni Metro
- eThekwini Metro
Key drivers of reform proposals

• Fragmentation and inefficiencies: no economies of scale
• Inequitable treatment of customers / tariffs
• Financial crisis – many distributors bankrupt
• Inadequate investment in refurbishment and maintenance
• Loss of experience and skills
• Accelerated electrification
EDI Holding led restructuring

- **2003 EDI Holding established by DME**
  - to resolve outstanding issues and to manage the restructuring process
- **2005 RED1 established**
  - City of Cape Town with intention to later incorporate adjacent Eskom and other municipality assets
  - Conditions precedent not met: e.g., issue of NERSA licence to RED1 subject to relevant assets being transferred within 12 months
  - Absence of an asset transfer framework
  - Lack of political support in City of Cape Town
- **2006 RED1 dissolved**
- [2005 – Cabinet briefly considered alternative model of 6 metro REDs plus one national RED but reverted to 6 REDs again in 2006]
The death of the REDs Model

- **2010** Cabinet abandons REDs model
  - Notes lack of support for a constitutional amendment
- **After 7 years and the expenditure of hundreds of millions, Cabinet decides to close EDI Holdings**
  - DOE asked to:
    - “review the whole electricity value chain with a view to developing a holistic approach to revitalise electricity infrastructure, energy security as well as the financial implications”
- **2011** EDI Holdings transferred to DoE
- **2012** Presidential Infrastructure Coordinating Commission (PICC)
  - EDI included in Strategic Investment Priorities (SIPs)
  - DoE applies for funds to run pilot exercises in using Approach to Distribution Asset Management (ADAM)
Constitutional provisions

- Sections 156 (1) and (2) assign municipalities **executive authority and right to administer** local government functions laid out in Schedule 4 Part B which includes **electricity reticulation**

- Section 151(3) vests municipalities with the right to govern those matters on their own initiative, **subject to national and provincial legislation, as provided for in the Constitution**

- Section 139(1) : **When a municipality cannot or does not fulfil an executive obligation in terms of legislation, the relevant provincial executive may intervene by taking any appropriate steps to ensure fulfilment of that obligation …**

- Section 155(7) **National government…. and provincial government have the legislative and executive authority to see to the effective performance by municipalities of their functions in respect of matters listed in Schedules 4 and 5, by regulating the exercise by municipalities of their executive authority**
Legislative provisions

• **Electricity Regulation Act 28 of 2007** defines electricity reticulation as the “trading or distribution of electricity and includes services associate therewith”. Empowers the Minister /or regulator to establish norms and standards, KPIs and for municipalities to ring-fence their EDI financial statements.

• **Municipal Systems Act 32 of 1998** defines municipality as service authority with the right to decide who will distribute electricity in its area and may appoint a suitable service provider in terms of a service delivery agreement.

• **The Municipal Fiscal Powers and Functions Act12 of 2007** regulates the municipal surcharges.
Consequences of local government restructuring on EDI

- Approximately 179 out of 278 munics reticulate electricity
- Eskom distributes electricity within the boundaries of some munics, although without any service delivery agreements
- Only a few district municipalities distribute electricity
- Eskom continues to supply most commercial farms directly
- Eskom also supplies about 150 key customers directly
Expected reform benefits

- Universal access to electricity
- Service standards met
- Rationalised and competitive tariffs
- Financially viable distributors
- Efficient provision of electricity
- Adequate maintenance and refurbishment
- New investment in expanding networks
- Adequate skilled human resources
- Competitive EDI with benchmarking to improve performance
Reform achievements

- RED1 established (but later disestablished)
- 154 munics signed cooperative agreements and agreed in principle to establishment of REDs
- 56 muncis went through ring-fencing processes
- A number of munics assisted to improve their performance
- Eskom reconfigured distribution into 6 regions
- Asset transfer framework developed by NT
- EDI bench-marking conference in 2011
- Backlog assessed
- ADAM developed and approved
Unresolved issues

- Protection of surcharges
- Stranded assets
- Compensation
- Control over customers
- Credit control
- Tariff consistency
- Credit ratings
- Street lighting
- Social development plans
- Delivery of IDPs
- Service delivery agreements
- Return of assets
- Previously transferred assets
- Retention of debtors book
- Transfer of assets and liabilities
- Board of governance
- Continuity of service delivery
- Access to fibre optic networks
- Rights to determine tariffs
- Demand-side management support
- Key industrial customers
- Eskom transitional shareholding
- Shared service centres
- Conditions of service
- Servitudes
Estimated Refurbishment and Maintenance Backlogs 2008

Total Estimate R 27.4 billion

Backlog now R35 billion

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<tr>
<th>RED</th>
<th>Total Backlog</th>
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<td>RED ONE</td>
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<td>RED SIX</td>
<td>R 5,627,399,914</td>
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<tr>
<td>TOTAL</td>
<td>R 27,369,146,995</td>
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</table>
Key lessons of reform to date

- Constitutional amendment now unlikely
- Voluntary reform wise (within required norms and standards)
- REDs are dead
- Municipality revenues need to be protected
- Core goals of reform remain
  - Delivery of reliable, competitively priced electricity to all
  - Efficient and financial viable EDI to achieve above
- Unaddressed refurbishment and maintenance backlogs are growing and need urgent attention
- Skills and experience in EDI also diminishing and need addressing
Reform process lessons

- Political agreement
- Leadership and governance
- Customers are key reform allies
- Eskom has to be on board
- Create policy and regulatory certainty
- Timing
- Incremental reform
- Prioritise reforms to maximize benefits
- Define clear goals and performance outcomes
- Funding for reform and creating incentives for improved performance
- Back reforms with regulatory muscle
  - Ring-fencing
  - Reporting
  - Conditional funding flows
THANK YOU