



SALGA
South African Local Government Association

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

SALGA STAKEHOLDER WORKSHOP

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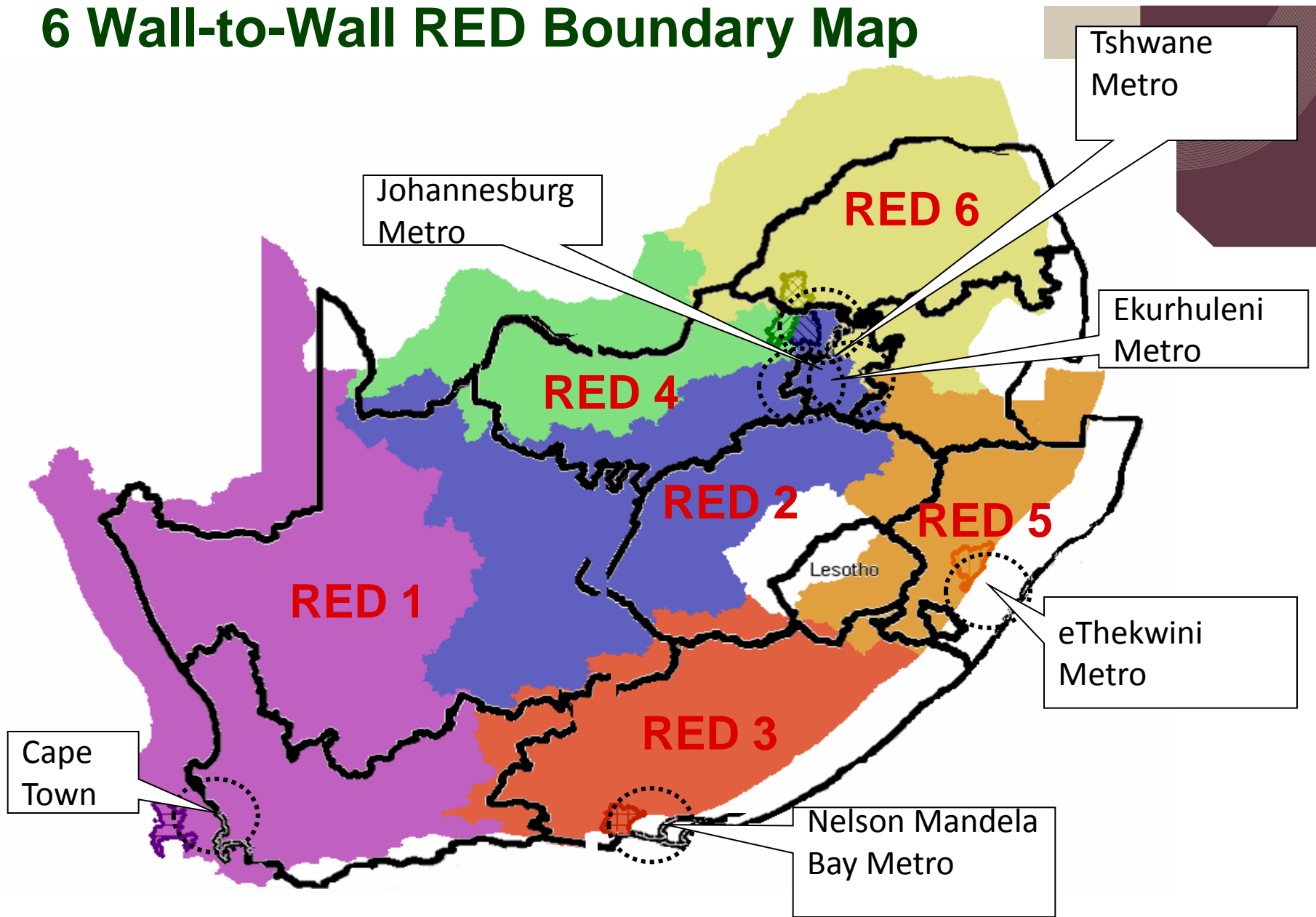
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Historical overview of EDI Restructuring

- **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



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

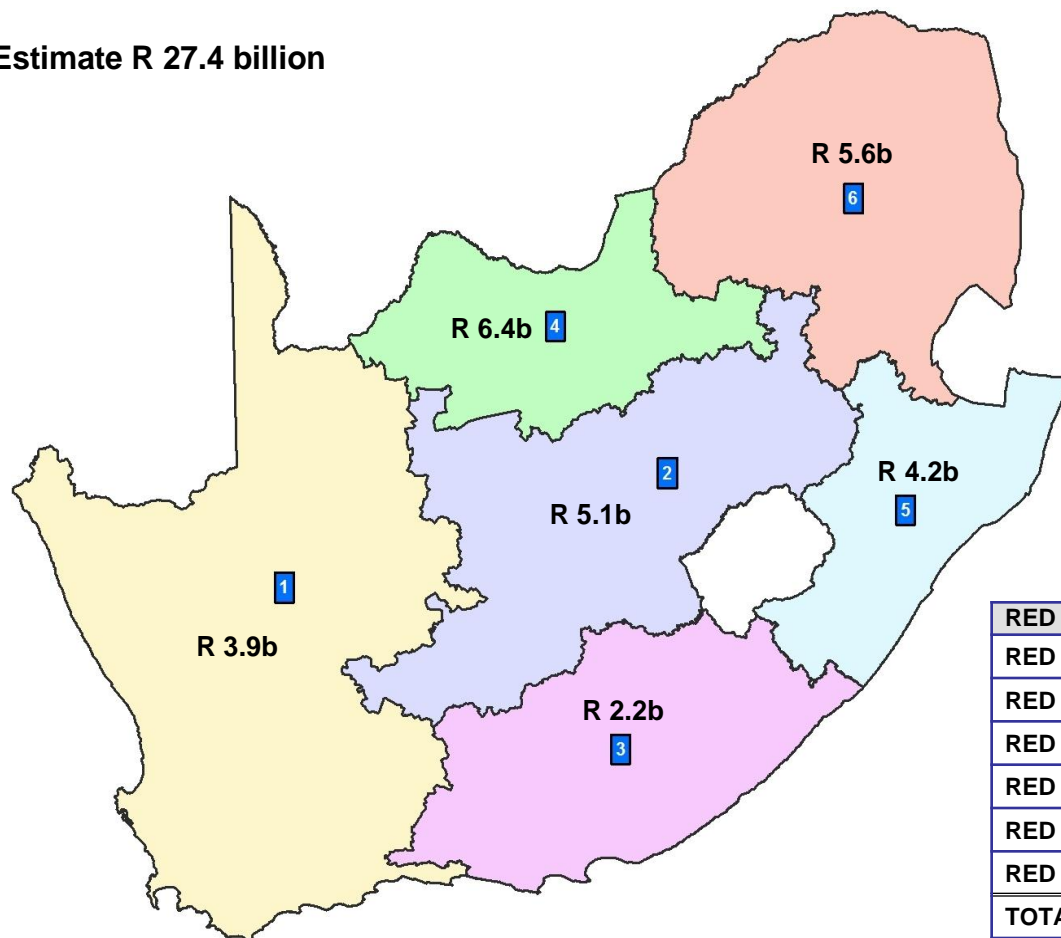
- RED1 established (but later disestablished)
- 154 munics signed cooperative agreements and agreed in principle to establishment of REDs
- 56 muncis went through ring-fencing processes
- A number of munics assisted to improve their performance
- Eskom reconfigured distribution into 6 regions
- Asset 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

RED	Total Backlog
RED ONE	R 3,851,578,245
RED TWO	R 5,132,373,764
RED THREE	R 2,186,296,025
RED FOUR	R 6,413,148,398
RED FIVE	R 4,158,350,649
RED SIX	R 5,627,399,914
TOTAL	R 27,369,146,995

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



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THANK YOU