SALGA
South African Local Government Association

Portfolio Committee on Energy

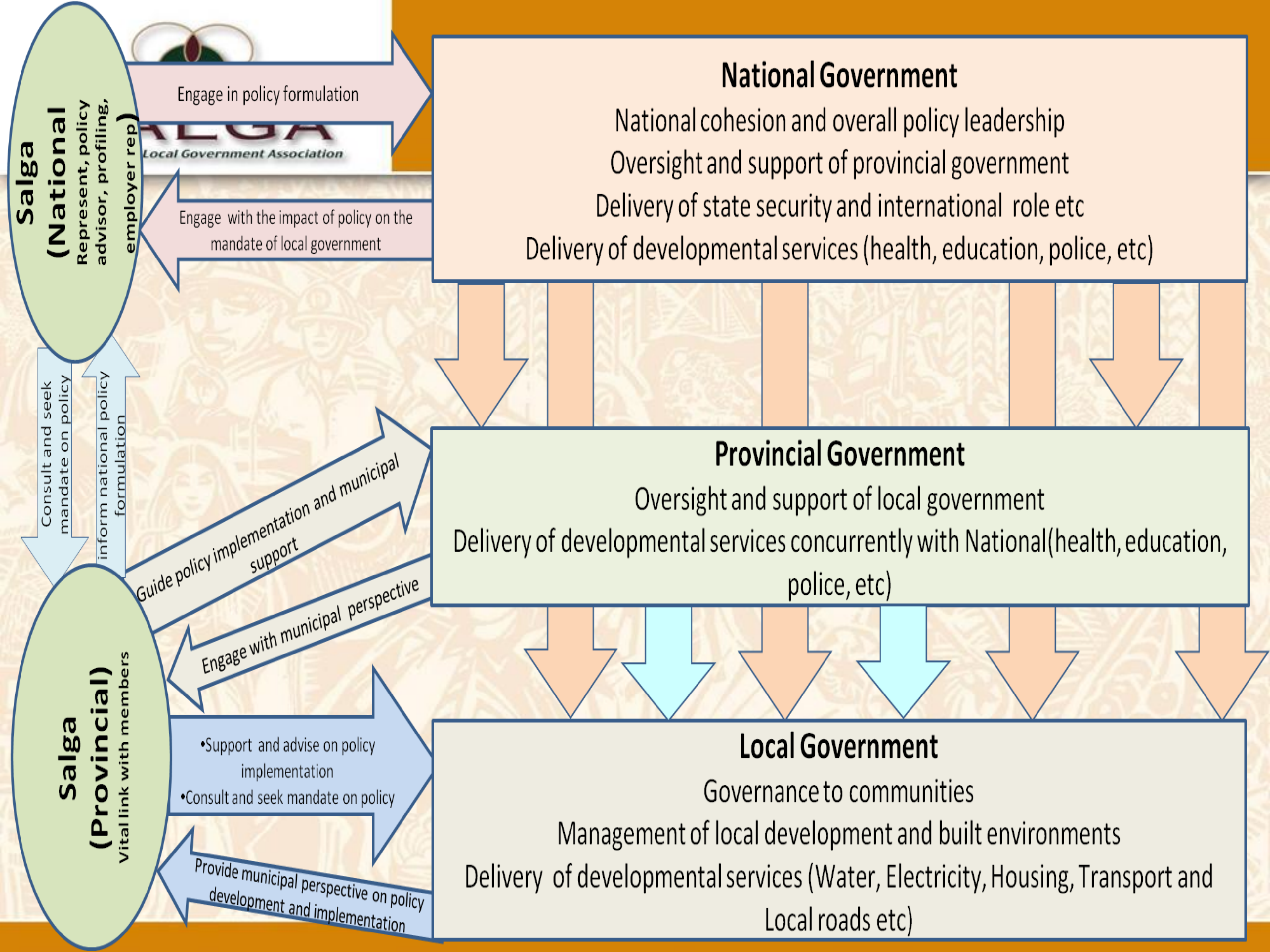
31 March 2011

The role and program of SALGA

Contents

Presentation covers

- The role of SALGA in general and in the EDI sector
- SALGA key issues for 2011/12
    1. Councilor Induction
    2. Restructuring of the EDI sector
    3. Distribution price regulation issues
    4. Investment in infrastructure
    5. INEP
    6. Curbing electricity theft
    7. Energy efficiency program
    8. Facilitating investment in RE
    9. Inputs in the MYPD 3



Local Government Association
Salga (National)
Represent, policy advisor, profiling, employer rep)
Engage in policy formulation
Engage with the impact of policy on the mandate of local government
National Government
National cohesion and overall policy leadership
Oversight and support of provincial government
Delivery of state security and international role etc
Delivery of developmental services (health, education, police, etc)
Consult and seek mandate on policy
inform national policy formulation
Guide policy implementation and municipal support
Engage with municipal perspective
Provincial Government
Oversight and support of local government
Delivery of developmental services concurrently with National(health, education, police, etc)
Salga (Provincial)
Vital link with members
•Support and advise on policy implementation
•Consult and seek mandate on policy
Provide municipal perspective on policy development and implementation
Local Government
Governance to communities
Management of local development and built environments
Delivery of developmental services (Water, Electricity, Housing, Transport and Local roads etc)

How?



Represent LG

1. **National**
    1. Technical MINMECs
    2. MINMECs
    3. Legislature
    4. NCOP
2. **Provincial**
    1. Sector technical policy structures
    2. Sector political policy structures
    3. Legislature

Inform, consolidate and represent LG perspective

- SALGA then becomes a platform for
  - Consolidating local government policy perspective on infrastructure policy matters
  - Sharing experiences and practices on infrastructure matters
  - Accountability of municipalities to each other as members of the association???

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In respect of electricity distribution

Support

- Identify common municipal service delivery challenges and find solutions through shared research (LG research effort efficiency)
- Identify specific individual municipal service delivery challenges and mobilize appropriate support from partners
- Facilitate knowledge sharing and lessons learning from innovations by others and by municipalities themselves
- Identify funding and training opportunities to support municipal infrastructure service delivery
- Policy lobbying and advocacy to create a conducive environment for municipal infrastructure service delivery

Represent

- Represent local government in sector IGR structures nationally and provincially and in the legislature and the executive
- Development of local government infrastructure and services policy positions
- Knowledge hub on municipal infrastructure services delivery
- Profiling municipal infrastructure services delivery national and internationally

Advise

- Inform and advise municipalities on policies and policy implementation
- Inform and advise municipalities on technological innovations and/or advances related to municipal infrastructure services

Key issues for 2011/12

1. Councilor Induction
2. Restructuring of the sector
3. Distribution price regulation issues
4. Investment in infrastructure
5. Curbing electricity theft
6. Energy efficiency program
7. Facilitating investment in RE

Councilor Induction

- Anticipated that more that 60% of councilors will be new after elections
- Desperate information asymmetry between the administration and councilors leads to poor oversight and poor decisions by council structures (Mayco, Exco and Council Committees)
- Need to empower councilors so that they may engage intelligently with administration
- SALGA will manage implementation of Three Phases of a Councilor Induction Program
  - *Phase 1*: Generic for all new Cllrs focusing on the role and functioning of municipalities and councilors in the architecture of the SA governance system
  - *Phase 2:* Sector specific induction focusing on policies, legislations, institutions and key issues in each sector.
  - *Phase 3:* Municipal level orientation in all municipalities focusing on the specifics of the municipality in respect of each sector (Development challenges in the municipal area, how the municipalities has responded so far (local policies and programs), institutions and processes)

Restructuring of the EDI sector



- In 2009 LG at a SALGA NMA took a decision to recommit to the restructuring of the electricity distribution industry in order to address the following challenges among others:
  - High inefficiency of the industry owing to fragmentation
  - Inability to leverage of economies of scale in respect of investing in assets, sharing of facilities, services, people development
  - Inequitable treatment of consumers across the country
  - Misalignment between the EDI and the current architecture of the local government fiscal framework (very important, from a local government perspective)

Restructuring of the EDI sector

- In terms of the current architecture of the local government fiscal framework, municipalities are expected to primarily rely on local revenue (property rates and service charges linked to their tradable services functions) in order to finance the performance of their constitutional mandate.
- Electricity distribution income and property rates are currently the key sources of local revenue for municipalities – water services and solid waste management services operated at break-even or deficit)
- Electricity distribution income is a key contributor to municipal revenue without which municipalities will not be able to meet their obligations.

Restructuring of the EDI sector

- A significant portion of EDI income accrues to a national entity, Eskom, from which local government draws no financial benefit.
- Eskom services key industrial customers as well as households and businesses in the medium and smaller size municipalities that are not licensed to be distributors.
- Smaller and medium size municipalities do not get any financial benefit from EDI in the areas of where Eskom is providing distribution services.

Restructuring of the EDI sector

- Income from the provision services to key industrial customers does not accrue to local government.
- Undermines the current architecture of the local government fiscal framework and contributes to financial viability challenges of some municipalities
- Municipality are not able to exercise the function of being the ED services authority over Eskom (Eskom refuses to sign SLAs with municipalities where it is a distributor)
- This constitutes a critical element of the problem statement that must be resolved as part of the EDIR process.

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Restructuring of the EDI sector

- On the 8th of December 2010 Cabinet took a decision to discontinue EDI restructuring
- At the time of this decision:
  - 154 of the 175 municipalities licensed to distribute electricity had signed the accession to the co-operative agreement
  - 56 ring fenced electricity business
- But identified 25 key deal issues that needed to be resolved towards the restructuring of the industry

Restructuring of the EDI sector

- In 2010 at a SALGA NMA Local government noted that, LG as a sphere of government whose performance of the Electricity Distribution function and whose revenues depends on the success of the service providers, have the most to lose if the outcome of the EDIR process is:
  - unviable electricity distribution service providers (the REDs at the time); or
  - Viable electricity distribution service providers but severely compromised municipalities
- And committed that local government should therefore play a leading role in shaping this outcome.
- SALGA has not been favoured with the reasons for the Cabinet decision
- However, during 2011/12 SALGA is intending to facilitate (in partnership with DoE) a session of LG and energy practitioners and leaders to propose a way forward in respect of creating a sustainable EDI

Investment in infrastructure

- During the long period of uncertainty regarding future ownership of distribution assets there has been a significant underinvestment in infrastructure
- This added to inherited maintenance backlogs that also accumulated as a result of the country prioritization of extension of infrastructure to the unserved rather than focusing on maintaining infrastructure that served a minority
- Study done by EDIH in 2008 estimated that the backlog was R27billion growing at R2,5 billion per annum
- SALGA will work with DoE (NT?) to develop a strategy to address this challenge in parallel to developing a way forward in respect of creating a sustainable industry

Curbing electricity theft



- LG experiences huge revenue loss due to electricity theft.
- E.gin the last year the Cities of Cape Town and Joburg lost about R121 million R250 million worth of electricity due to illegal connections respectively.
- The impact of electricity theft is devastating for smaller distributing municipalities.
- Unfortunately despite its impact (financial, economic, loss of life, sustainability, quality and stability of electricity supply and future economic growth) electricity theft is still perceived as a minor offence
- In October 2010, SALGA partnered with Eskom, PRIMEDIA, Proudly SA, BUSA, Business Against Crime and Crime Line to launch of Operation Khanyisa (An anti electricity theft campaign aimed raising awareness about the criminal nature of this act establish mechanisms for the public top report and distributors to act on these reports).
- During 2011/12, SALGA will, with support from Eskom, strengthen its coordination of this campaign among municipalities

Energy efficiency program

- With support from SDC, SALGA is facilitating the implementation of the Energy Efficiency Program in Local government starting with 5 pilot municipalities that are considered secondary regional of economic development after the major cities (these are Rustenburg, Mbombela, Sol Plaatje, King Sabata Dalindyebo, Polokwane)
- This is both a climate change mitigation project and a response to the infrastructure capacity constraints in these municipalities.
- Implemented in collaboration with DoE, to achieve effective national, provincial and local government policy frameworks and tools for implementing and monitoring energy efficiency in particular the building sector
- During 2011/12 SALGA will complete the State of Energy reports in the affected municipalities and thereafter facilitate the development of Energy Efficiency Strategies, business plans for specific projects.
- The projects may include solar water heating projects
- Currently SALGA is not involved in the SWH project. Eskom is facilitating the public offer on behalf of DoE and in 21 municipalities DoE is interacting directly with the municipalities

Facilitating investment in RE

- The primary policy instrument for promoting the uptake of renewable energy is the feed-in tariff, which is a guaranteed price at which renewable energy can be sold onto the national grid.
- The REFIT is not currently available due to delays in finalising the subsidisation mechanism, and in obtaining Treasury approval for this.
- There are also delays in establishing the independent system operator. The absence of the REFIT is a major impediment to implementing commercially viable renewable energy projects.
- The recent regulations of NERSA for the REFIT also appear to question the ability of municipalities to be IPPs, and restrict municipal involvement in PPPs with IPPs.

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Facilitating investment in RE

- The MFMA and the manner in which it is applied at local level, has also been cited by a number of project developers and officials as a primary obstacle to developing renewable energy projects.
- Energy infrastructure and the services associated with it involve long term investments, financed over extended periods up to 15 or even 20 years.
- The MFMA restricts the ability of municipalities to undertake contracts with a duration longer than three years without approval from National Treasury, thereby imposing fairly onerous requirements for consultation with national government.
- Theoretically this should not prove an insurmountable obstacle, but in practice municipal CFOs are risk averse due to the heavy penalties imposed by the MFMA, and have interpreted this in a very restrictive manner.
- The three-year horizon on contracts is a major constraint that disincentives large scale renewable energy and energy efficiency projects where capital investment needs to be recovered over longer periods than three years.

Facilitating investment in RE

- The upfront capital requirements for renewable energy and energy efficiency projects compete with other demands on municipal capital budgets for priority investments,
- Typically renewable energy and energy efficiency projects are not seen as priorities, even though they may save money over the longer term.
- While there a number of public and private sector institutions able to intermediate and provide the investment funds for commercially viable projects, the *supply chain management procedures and conservative interpretation of the MFMA* means that these more innovative financing mechanisms are not taken up.
- Constraints on renewable energy and energy efficiency projects are also experienced from the *environmental regulatory side*.
- In many instances the thresholds set for project to undergo EIAs are too low, capturing many projects where the technology is well established with clear environmental benefits.

Facilitating investment in RE

- In response, during this financial year SALGA intents to lobby the following institutions in order top create an enabling legislative and policy environment to promote investment in renewable energy at a local level:
  - The national planning commission regarding overall energy strategy
  - DOE and NERSA regarding feed-in tariffs,
  - DOE regarding the independent system operator,
  - DEA regarding EIAs,
  - Treasury regarding MFMA amendments.
- It will also encourage municipalities to:
  - Amended land use planning regulations and land use ordinances to promote renewable energy projects.
  - Identify suitable land, undertake studies and facilitate partnerships between inventors and communities where land is owned by communities



Thank You