



NATIONAL COUNCIL OF PROVINCES
Policy Debate on Budget Vote No. 29 – Energy
7 June 2011

Honourable Chairperson of the National Council of Provinces
Honourable Minister
Honourable Members

We stand before you today on the back of yet a very successful local government election in which our communities have gone against international trends in respect of voter turn-out in local government elections and came out in their numbers to vote for parties and local representatives of their choice.

The message we have heard from interacting with voters before and during elections is clear. They said “we expect better services now”.

In the context of electricity this means that citizens need to have **access to electricity** in their homes and when they turn on the power switch **the lights must come on all the time**.

We have now been given this responsibility for the next five years. We intend to do exactly that in partnership with the Minister and her Department.

For us to achieve what is required by the citizens, there is a need to ensure that:

1. There is enough energy to meet the distribution demand
2. The demand is managed to be within the supply capacity
3. There is extension of distribution infrastructure to reach all households

4. There is refurbishment and maintenance of the distribution infrastructure so that when users turn on the power switch, the lights must come on all the time
5. The prices of electricity are such that consumers may afford to pay for services and that distributors remain financially viable in the context of electricity income being the only other revenue source, in addition to rates income, from which municipalities must raise 90% of the revenue they require to perform the 38 functions assigned to them by the Constitution.

SALGA would like to focus on these five matters above in discussing this budget vote.

1 Enough energy to meet the distribution demand

Eskom, with support from government, has gone a long way towards meeting the requirement of providing enough energy to meet the distribution demand. We have raised our concerns in respect of how this has been done; that is in as far as it has impacted on affordability of electricity.

We think that, as municipalities, we can also contribute towards ensuring that there is enough energy to meet the distribution demand.

1.1 Resuscitation of some of the old mothballed municipal power stations

We stand ready to work with the Minister in respect of the resuscitation of some of the old mothballed municipal power stations.

1.2 Waste-to- energy

We also believe that **waste-to-energy** is another critical opportunity that has multiple benefits for our country. It will not only contribute towards supply of energy but it also makes solid waste to have an economic value which can then unlock the potential interest of private sector, SMMEs and Community Co-operatives in waste collection and transportation to energy generation plants. This will make our towns and rural areas cleaner while relieving municipalities of the ever increasing costs of waste management. We would like to request the Minister to add this in her list of priority initiatives and work with local government to make this a reality.

2 The demand is managed to be within the supply capacity

2.1 Energy efficiency

For us local government energy efficiency is not only a matter of climate change mitigation. We see energy efficiency as an immediate measure in response to the capacity constrained distribution infrastructure. We have started to work with National Departments to facilitate publication of regulations that will support the development and enforcement of energy efficiency by-laws in buildings.

2.2 Localising the energy efficiency awareness campaign

There is a need to supplement the energy efficiency awareness campaign with local driven public awareness campaigns through ward councillors and committees using municipal and public buildings as demonstration points of how this can be done and the benefits thereof. We stand ready to partner with the Minister in localising the energy efficiency awareness campaign.

2.3 Energy efficiency retrofitting

Local government appreciates the support that is being provided by the Department of Energy to 21 municipalities towards retrofitting municipal buildings to improve energy efficiency and retrofitting streets and traffic lights to use renewable energy sources. We believe that this initiative has now been tested and should be rolled out at scale to all municipalities. Indeed, if we do this, it will be possible to reduce the municipalities' own electricity consumption and take town's own-operation's electricity consumption completely off grid.

2.4 Solar Water Heating (SWH)

We believe that the 115 000 SWH systems delivered in two years against a target of 1 million in 2010/11 alone is a cause for concern. While we accept that there may have been a funding constraint, the question that has to be asked is how the target of 1 million in 2010/11 was set if there were no resources to meet such a target.

Be that at it may, we believe that the approach of delegating this project to Eskom, and Eskom's implementation mechanism that sidelined municipalities may have been part of the problem. We call upon the Department to devise an implementation

strategy for this programme that takes advantage of the benefit of numbers and ability to access communities that may be leveraged by working with municipalities.

We still observe situations in which insurance companies do not replace burst geysers with solar water geysers; surely it should be possible to use the rebate as a top-up to the insured value of a new geyser to cover price difference between a normal geyser and a solar water geyser.

We would like to propose that government discusses the immediate implementation of such a scheme with insurance companies. We also hope that the NERSA announcement of a rebate level under the standard offer, as indicated by the Minister, will also assist in this regard.

3 Extension of distribution infrastructure to reach all households

3.1 Integrated National Electrification Programme

It has come to the attention of SALGA that some municipalities are slow in spending their INEP allocations. There are also cases where municipalities do not have qualified electricity managers and depend entirely on self-interested consultants to apply and secure funding from INEP. In such cases there is no review of the appropriateness of proposed investments and quality of work.

Both of these are a reflection of technical capacity constraints that is as a result of skills shortage in this sector. It must be noted that the country's skills development is a function of national government and that each sector department, including DoE, should work the Department of Higher Education and Training to ensure that the country has the required technical skills for its sector.

In the short term, we would like to propose to the Minister that the Regional INEP offices be provided with capacity to visit municipalities that do not have electricity engineers to facilitate identification of appropriate projects, verify the appropriateness of proposed projects and the quality of work done and advise Municipal Managers accordingly before approving applications or paying invoices.

4 Refurbishment and maintenance of the distribution 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 further accumulated as a result of the country's otherwise appropriate decision to prioritize the extension of infrastructure to the unserved rather than focusing on maintaining infrastructure that served a minority. A study done by EDIH in 2008 estimated that the backlog was R27billion growing at R2,5 billion per annum.

Municipalities, on their own, will not be able to raise R35 billion in the medium term. But it would be irrational of us, as a country, to spend hundreds of billions of Rands in electricity generation infrastructure but remain with decaying distribution infrastructure to reticulate power to the end user. R35 billion, while big, it is a fraction of what we are spending in the generation capacity.

SALGA would like to propose to the Minister and her Department to partner with Local Government, Eskom and National Treasury in leading a process of developing a strategy to address this funding challenge as part of developing a way forward in respect of creating a sustainable electricity distribution industry.

5 Electricity revenue and pricing

5.1 Municipal fiscal framework and the electricity distribution industry

Currently, electricity income is the only other revenue source, in addition to rates income, from which municipalities **must** raise 90% of the revenue they require to perform the 38 functions assigned to them by the Constitution. The perverse evidence of this is that municipalities that are not electricity distributors do not have revenue that is anywhere close to the levels required to meet their responsibilities even at a basic level.

The dire financial circumstances of municipalities force them to milk the electricity distributions industry to a skeleton and price electricity at a level wherein it would enable them to keep the skeleton from collapsing completely while using the rest to do the same to the other 37 functions. In the past the reaction of national

government to this has been to require that electricity income be ring-fenced and used to maintain the electricity distribution infrastructure. This approach neglected the fact that this is a problem of the structural design of the municipal fiscal framework. Consequently it never worked. We would like to request the Minister to join hands with local government in pushing for a review of the municipal fiscal framework especially in as far as it is a burden to the electricity distribution industry.

5.2 Electricity pricing

The various consecutive high Eskom electricity price increases have given rise to a debate about the protection of the poor against high electricity cost. In February 2010 NERSA required that Eskom rolls out Inclining Block Tariffs (IBT) to conventionally metered domestic customers and later required the same for all domestic customers (conventional and prepaid meters) supplied by Eskom and municipalities.

While NERSA is commended on its efforts to provide relief for the low usage customers, unfortunately there are many shortcomings with its IBT version. Its approach to the implementation of IBTs has raised problems in the industry.

For example;

- The NERSA IBT structure removed the previous capacity related signals included in existing tariffs.
- It introduced a revenue risk by removing fixed charges
- Many non-poor customers will benefit from the tariff structure
- It does not take into account regulatory and EPP requirements regarding higher consumption customers paying fixed charges and time-of use rates.
- The basis for determining the blocks, the rates and the increases to the rates appears arbitrary and difficult to justify on a national scale.
- The structure is based on REDs areas rather than income distribution characteristics of consumers in groupings of comparable municipalities

The NERSA forced IBT application by Eskom on its conventionally metered customers has had a massive negative financial implication. This has caused the tariff to the rest of Eskom's customer base to increase by a **further 4.6%** over and

above the average increase granted by NERSA even though when Eskom applies the NERSA IBT it can hedge the impact on the non-domestic customers despite the fact that this impact is unsustainable for the economy.

The impact on municipalities, even more so for the smaller ones, is just not viable. Typical results from the application of the NERSA IBT for municipalities will lead to an estimated 25% loss of domestic consumer.

Despite various efforts by Eskom, SALGA and its member municipalities, NERSA has not been positive in entertaining any debate about alternatives to its version of IBT.

While we hope that NERSA, on the basis of the above issues which have been communicated to it, will be accommodative of municipalities that will have to deviate from its price increase benchmarks, SALGA wishes to request the support of the Minister to address this matter at a policy level.

I thank you

Cllr W. Mxolose