



**SALGA**  
South African Local Government Association

# *Portfolio Committee on Energy*

## *Briefing*

### *Integrated National Electrification Programme (INEP)*

*26 August 2014*

## *Context & Purpose*

### ❑ **Previous briefings to PC on INEP**

- DoE in September 2013
- Salga and DoE in February 2012

### ❑ **Key Events**

- Electrification Indaba 15-16 March 2012 in Durban
- Household Electrification Strategy approved by Cabinet 26 June 2013

### ❑ **Purpose of Presentation**

- Present progress on INEP (municipal perspective) \*
- Identify key challenges & make proposals to address these
- Raise other issues requiring urgent PC attention

*\* Overall INEP progress presented by Department of Energy. Electrification strategy has been previously presented to PC by DoE*

## Outline

- 1. The Role of Municipalities on Electrification**
- 2. How Have Municipalities Performed?**
- 3. What Backlogs Remain?**
- 4. What are the Key Challenges? (*Municipal Perspective*)**
- 5. Recommendations for INEP**
- 6. Other Matters Requiring Urgent Attention**

## *The Role of Municipalities*

- ❑ Municipalities have the constitutional mandate to manage electricity reticulation
  - Electricity reticulation is a local government competence (schedule 4 (b)) in the constitution
  - The Electricity Regulation Act (as amended by Act 28 of 2007) defines electricity reticulation as follows:
    - *“reticulation” means trading or distribution of electricity and includes services associated therewith;”*.
    - *“trading” means the buying or selling of electricity as a commercial activity.”*
- ❑ Municipalities have a mandate and duty to provide **basic services to all households** (Municipal Systems Act)
- ❑ This means municipalities have an important role to play in both developing and managing the electrification distribution network, that is, electrifying households.
- ❑ But municipal distribution licenses exclude Eskom customers and supply areas.

## *How Have Municipalities Performed?*

### **1. Municipal Performance has been declining when compared to target**

- Declining performance is acknowledged and a cause for concern
- However there are a number of real challenges that are contributing to this decline which need to be addressed
- These are dealt with under key challenges further in this presentation

## *How Have Municipalities Performed?*

### 2. But metropolitan municipalities have performed well

Year	Connections Target	Connections completed to date	% Completed
2012/13	10 534	12 258	<b>116%</b>
2013/14	14 755	14 600	<b>99%</b>

([Source](#) – National Electrification Advisory Committee (NEAC) presentation: 28 May 2014 and previous INEP reports)

3. The level of performance by the Metros has been consistently high but allocations to these municipalities have been limited.

## *How have municipalities performed?*

### 4. For example, City of Tshwane:

Year	Total Allocation (R)	Expenditure (R)	% Spent
2011/12	R21m	R21m	<b>100%</b>
2012/13	R30m	R30m	<b>100%</b>
2013/14	R65m	R65m	<b>100%</b>
2014/15	R32m	R0.00	0%

Source: *City of Tshwane Performance Statistics (INEP Funds Only)*

## How Have Municipalities Performed?

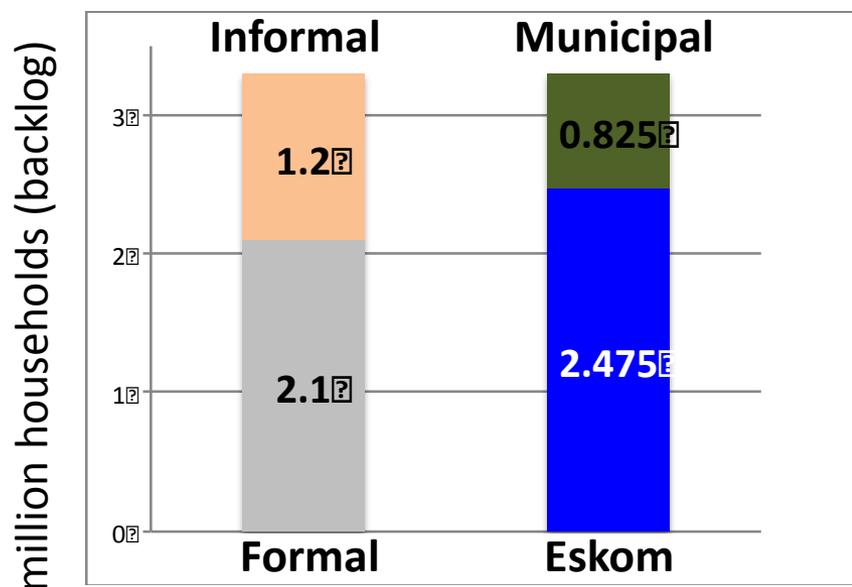
Year	Connections Target	Connections completed to date	Allocation (R)	% Completed
2006/07	8 065	8 065	R25m	100%
2007/08	11 250	11 250	R45m	100%
2008/09	3 375	3 375	R13.5m	100%
2009/10	4 139	4 139	R22,8	100%
2010/11	4 848	4 848	R32m	100%
2011/12	1 506	1 506	R11m	100%
2012/13	1 000	1 000	R10m	100%
2013/14	2 722	2 722	R28.6m	100%
<b>Total</b>	<b>36 905</b>	<b>36 905</b>	<b>R187.9m</b>	

Source: City of Tshwane (INEP Funded<sup>8</sup> Connections Only: 2006/07 - 2013/14)

## What Backlogs Remain?

12,2 million households using electricity as a light source and access increased from 34% in 1994 to 85% in 2011 (Census data), but backlogs remain:

### Location of backlog (millions of households)



### Backlog by Province: (households)

Gauteng	924 000
KwaZulu-Natal	858 000
Eastern Cape	594 000
North West	264 000
Western Cape	165 000
Limpopo	165 000
Mpumalanga	165 000
Free State	132 000
Northern Cape	33 000
<b>Total</b>	<b>3 300 000</b>

**Total backlog = 3.3 million households**

## ***INEP Financial Allocations***

### □ **INEP 2014/15 Allocations**

	<b>R billion</b>
Municipalities	1,015
Eskom	2,948
<b>Total</b>	<b>4,149</b>

- A further R96 million is allocated to the Non-Grid electrification programme.
- The increased allocation will enable the expansion of the Integrated National Electrification Programme (INEP) to increase the number of households connected to the Electricity Grid and also the number of Non-Grid connections



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# Key Challenges (Municipal Perspective)

- Roles & Responsibilities (Eskom/Munics)
- INEP Allocations & Funding Policies

- Lack of Integrated Planning (Eskom/Munics)
- Inadequate 'Backbone' Infrastructure
- Massive Rehabilitation Backlog

**Policy**

**Planning and  
infrastructure**

**Resources**

**Management &  
administration**

- Timing of Allocations
- Procurement Processes (SCM)
- Eskom Levy

**Environment**

- Municipal Finances
- Electricity Tariffs
- Skilled Staff

A moving target due to Rapid Migration

## **Key Challenges** *(Policies)*

### **□ Division of Revenue Act Funding Allocations**

- Lack of certainty on funding allocations inhibits planning (allocations for 2014/15 changed after formal INEP notice to municipalities confirming the reallocation of R460m from the Municipal programme to the Eskom programme)
- Limited pre-engineering allocation of funding made to municipalities while Eskom is funded 100% for the costs of this function.

### **□ Inequitable INEP Funding Policy**

- INEP policy to partially fund electrification connections by municipalities (urban and rural subsidies) but provide the full cost of connections provided by Eskom. Municipalities are thus required to 'top-up' funding of electrification projects which exceed to cost of the relevant subsidy

# Key Challenges (Policies)

## ❑ INEP 80% Occupancy Rule

- INEP policy requires that new housing developments achieve an 80% occupancy before allowing electrification of the development to begin. It was understood that this rule had been discarded by the National Electrification Advisory Committee (NEAC) but Eskom still insists on applying this rule before commencing on projects. Serious impact on these projects with strong community resistance to moving to houses not serviced.

## ❑ Department of Human Settlements – Internal Wiring Policy

- DoHS announced that housing rules and associated subsidies would change with effect from 01 April 2014 to include an amount for the internal wiring of new houses. Confusion exists on the responsibilities for undertaking this work and payment thereof



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## **Key Challenges** *(Planning and Infrastructure)*

### **□ Integration Planning**

- Where Eskom and municipalities distribute electricity in the same area, there is a lack of integrated planning and possible duplication of resources.

### **□ Inadequate Backbone Infrastructure**

- Inadequate reticulation backbone infrastructure constrains new connections, particularly in Eastern Cape and KwaZulu-Natal where there are large backlogs

### **□ Large Rehabilitation Requirements**

- Municipalities need to invest very large sums in the rehabilitation of the reticulation network.

# **Key Challenges**

## *(Management and Administration)*

### **❑ Project Flexibility**

- Eskom is permitted to transfer INEP funds from one project to another to suit circumstances. This facility is not permitted to municipalities without undergoing a `Change Control` process.

### **❑ Procurement Processes and Timing (MFMA)**

- Work can only commence in July of any financial year for most municipalities (detailed planning, appointment of contractors, purchase of materials). INEP transfers of funding only begin in July of the financial year. Supply Chain Management regulations inhibit purchase of materials/ equipment prior to contract beginning and also often result in incorrect/unsuitable purchases.

## **Key Challenges** *(Management and Administration)*

### **❑ Eskom Levy on Electrification Projects with Municipal Funding**

- Eskom levies a charge of 5% of the cost of a project undertaken in its areas by a municipality with INEP and its own funding. Eskom claims that this charge is to cover the cost of the electricity meters supplied for the project as well as project administration and management costs (Clerk of Works, inspection, shut down for connection etc.)
- Eskom intends to exclude the provision of the meters for these projects which cost will be raised separately, thereby raising the levy to almost 10%
- The total installation is handed over to Eskom on completion of the project.

## **Key challenges** *(Resources)*

### **❑ Municipal Finances**

- Many municipalities are experiencing financial difficulties.

### **❑ Electricity Tariffs and Levies**

- Electricity tariff increases are controlled by NERSA
- Municipalities face very high bulk electricity purchase costs
- Due to lack of Service Delivery Agreement's (SDA's) in Eskom's supply areas, municipalities are unable to levy surcharges from those areas

### **❑ Lack of Skilled Staff**

- Municipalities (especially the smaller ones) struggle to recruit and maintain suitably skilled and experienced staff.

## *Response to Challenges*

### □ **Skills Gap in Municipalities**

In an effort to assist (especially smaller) municipalities with the skills gap, the following is being done:-

- SALGA has initiated a Businesses-Adopt-a-Municipality Programme
- SALGA is looking at Metros and secondary cities to partner with and support smaller municipalities
- MISA (COGTA) has deployed skilled staff to priority municipalities

### □ **SALGA Position Paper on EDI Reform**

*(discussed later in presentation)*

# *Recommendations*

## **Policy**

- ❑ DoE should allow and fund upgrade of existing infrastructure required for electrification projects
- ❑ Consideration for the 80% requirement for occupancy of housing developments before any electrification can commence be done away with
- ❑ Adjustment of the National Housing Programme to include funding for the removal of the existing meters and the re-installation thereof in the new dwellings
- ❑ DoE policy should provide the full cost of connections in areas provided by both Eskom and municipalities

## Recommendations (2)

### Better Coordination and Improved Capacity

- ❑ Need for shared capacity to provide technical support to under-capacitated municipalities (***capacitation of INEP regional offices to play this role***)
- ❑ INEP offices should be the points of coordination and planning alignment between various electrification projects and funding agencies
- ❑ Scale up a coordinated **skills development program** through a partnership that includes the Department of Higher Education, DoE, Eskom, Local Government, Private Sector and the relevant SETAs.
- ❑ Provincial Housing Departments must make their approved Multiyear Housing Development Plans and priority development objectives available to the DoE enable the latter to align its electrification programme accordingly

## *Recommendations (3)*

### **Institutional Reforms**

- ❑ Eskom should enter into SDAs with municipalities where Eskom is a distributor so as to ensure
  - Alignment of expectations
  - Municipalities are rightfully placed at the middle of the relationship between the service and the communities
  - Recognition of municipalities as the electricity service authority
  
- ❑ The requirements of Section 78 processes of the Municipal Systems Act (which need to be undertaken prior to signing an SDA) need to be addressed (simplified) so as to reduce the high costs associated with the process.
  
- ❑ Proceed with reform of electricity distribution industry



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# *Briefing on Other Urgent Matters*

## *Other Urgent Matters*

- Municipal Debt To Eskom (Bulk Sales)**
  
- Electricity Cable Theft**
  
- EDI Reforms**

## *The Problem*

### **Municipal debt to Eskom for purchase of bulk electricity has increased significantly**

- ❑ Failure to make regular payments will
  - compromise municipal service responsibilities
  - increase Eskom's financial stress and compromise its services
- ❑ The situation is not sustainable

SALGA is committed to work with relevant stakeholders to ensure:-

- ❑ the consistent servicing of outstanding debts by municipalities, and
- ❑ the financial viability and sustainability of municipal electricity operations.

# Municipal Debt to Eskom for Bulk Electricity Sales

## Section 41(2)(b) : Arrears owing and the age profile of outstanding amounts relating to Bulk Electricity Sales

	Name of Municipality	Current	30 days	60 days	90 days	90 days+	Total
1	Eastern Cape Municipalities	331,628,353	19,099,405	20,820,573	14,581,652	49,921,928	436,051,910
2	Free State Municipalities	203,096,363	74,554,691	95,094,851	90,351,449	772,045,069	1,235,142,423
3	Gauteng Municipalities	1,880,965,745	29,156,746	45,143,536	54,307,911	68,113,715	2,077,687,652
4	Kwazulu Natal Municipalities	740,410,354	45,938,780	1,756,882	388,996	32,231	788,527,242
5	Limpopo Municipalities	108,347,607	19,206,321	7,289,878	17,211,804	71,113,169	223,168,779
6	Mpumalanga Municipalities	222,001,952	70,295,260	163,362,357	187,736,203	435,888,972	1,079,284,745
7	North West Municipalities	200,184,063	72,899,300	94,834,426	61,771,101	178,742,534	608,431,425
8	Northern Cape Municipalities	75,961,523	6,266,940	15,662,355	18,388,014	37,984,608	154,263,440
9	Western Cape Municipalities	722,374,696	2,134,907	7,743,782	7,219,993	14,533,825	754,007,202
<b>TOTAL</b>		<b>4,484,970,655</b>	<b>339,552,351</b>	<b>451,708,640</b>	<b>451,957,122</b>	<b>1,628,376,050</b>	<b>7,356,564,819</b>

## Response

- ❑ SALGA met with Eskom to request Eskom to extending the outstanding bulk electricity account settlement window period.
- ❑ **Outcomes of the meeting:**
  - Eskom to look into the issue of varying interest rates on municipal bulk arrear electricity accounts and will seek to adopt a common approach in determining the repayment period of arrears on a case-by-case basis based on proven affordability.
  - A special Eskom team will look into the Notified Maximum Demand (NMD) penalties taking into considerations economic growth and infrastructure upgrade needs of municipalities.
  - Eskom will further explore the formalization of cooperation with municipalities on Demand Side Management (DSM) and Integrated Demand Management (IDM) projects.

## *Municipal Challenges with respect to Cash Flows and Electricity*

- Municipalities are having difficulties to pay their bills due to:
  - Cash flow problems due to a declining revenue base and non-payment by households, government and businesses
  - High technical losses (Illegal connections).
  - Ageing Infrastructure in need of rehabilitation
  - Incorrect billing due meter reading problems
  - Incorrect Tariffs
  - High rate of interest charged by Eskom on arrears;
  - Eskom is not willing to invest in upgrades due to municipal arrears as well as massive deposit rates charged for upgrades;
  - Eskom's Maximum Demand penalties after electricity shutdowns;
  - Active deceased accounts

# ***SALGA Support to Municipalities***

## **Training**

- Financial And Contract Management Training For Municipal Officials;

## **Policy and Strategy Support**

- Development And Implementation Of Cost Recovery Strategies;
  - Customer Cash Recovery Prioritisation Strategies
- Reviewing Credit Control Policies To Ensure Risk Mitigation Relating To Customer Payments;
- Addressing Indigent Policies In Line With Free Basic Services Policies;

## **Capacity Support**

- Deploying The Adopt-a-municipality Programme To Affected Municipalities;
- Ensuring Regular Reporting To CoGTA and National Treasury on the Status of Municipal Debt.

## *Electricity Cable Theft*

- ❑ Local Government experiences huge revenue loss due to electricity cable theft, the impact of electricity theft is devastating for smaller distributing municipalities.
  - Municipalities and Eskom suffer huge revenue and energy losses due to electricity cable theft totalling an estimated R4.4 billion per annum.
  - The fight against electricity cable theft is a strategic national imperative to ensure sustainable power supply in support of the growth of the South African economic landscape.
  
- ❑ In October 2010, SALGA partnered with Eskom, PRIMEDIA, Proudly SA, BUSA, Business Against Crime and Crime Line to launch Operation Khanyisa (An anti-electricity theft campaign aimed at raising awareness about the criminal nature of this act and to establish mechanisms for the public to report and distributors to act on these reports).

## *Proposals (Cable Theft)*

- ❑ Establishment of a **National Electricity Theft Working Group**
  - The Electricity Theft Campaign be championed at the highest political level to bring about change in curbing electricity theft.
  - Identifying Electricity Theft Campaign Ambassadors to encourage communities to pay for electricity, to rally against and report electricity theft.
  - Promotion of compliance and enforcement on Electricity Theft (e.g. involvement of SAPS, NPA and other relevant security cluster agencies).
- ❑ **LAW ENFORCEMENT:** Increasing policing efforts and vigilance among communities and relevant stakeholders against cable theft and unlawful copper dealers.
- ❑ Ensuring and accelerating sustainable Local Economic Development and Job Creation through the National Development Plan (NDP)

# *Electricity Distribution Industry (EDI) Restructuring*

## The Problem

❑ **Unreliable and uneconomical distribution** due to fragmentation in the electricity distribution sector with about 188 licenced distributors (Eskom, 174 municipalities and 13 private distributors)

## ❑ **Consequences**

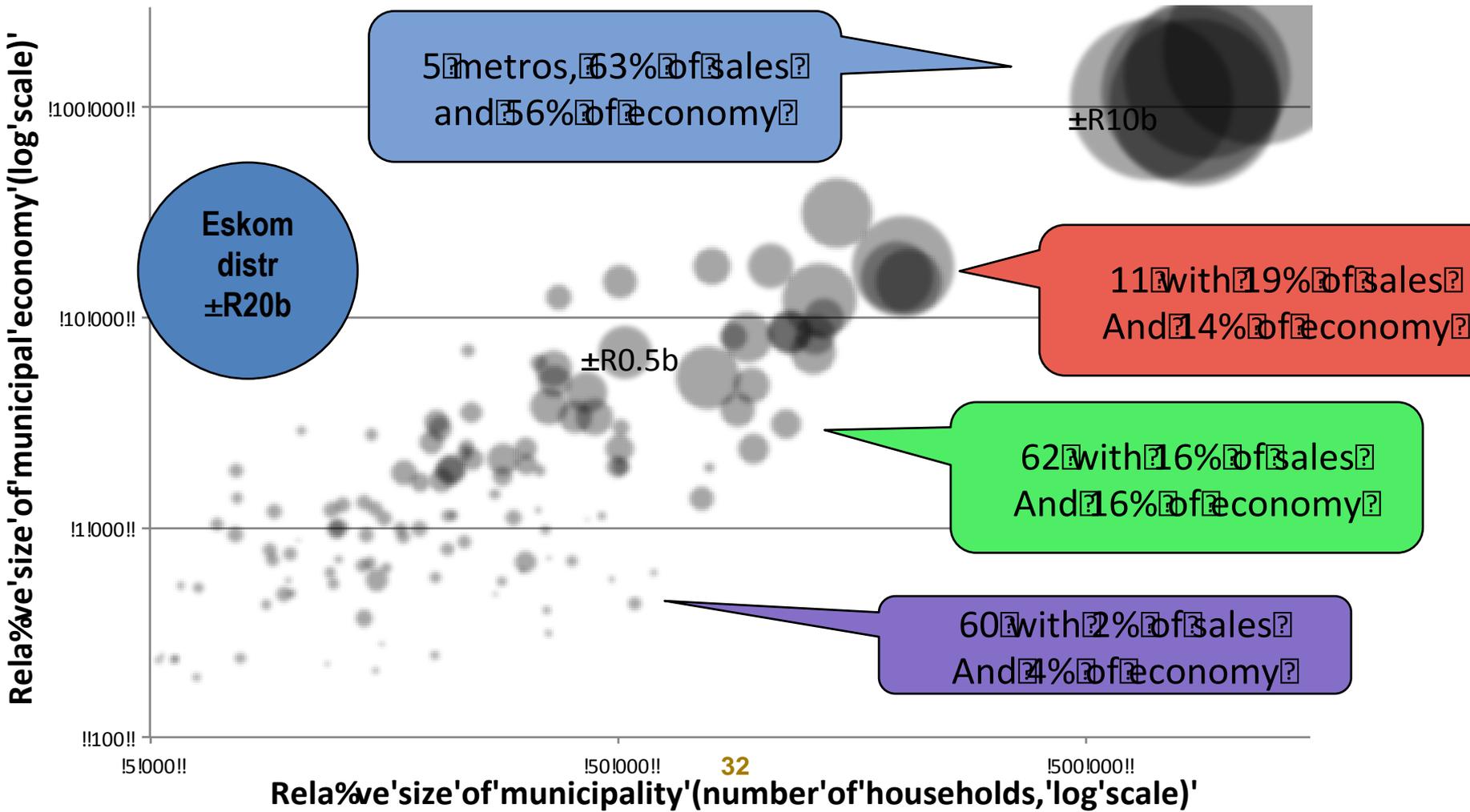
This means that:-

- There are too many small providers with **low economies of scale**
- There is **duplication** of infrastructure, resources and support arrangements **adding unnecessarily to costs** and
- Neighbouring households experience different tariffs and conditions of service when supplied by different providers

# There are many electricity distributors that are too small

Size distribution of municipal electricity distributors

Large Medium Small Verysmall



## *EDI Reforms*

### □ **Our Concern:**

- Efforts to reform the electricity distribution industry have been in progress since 1994.
- Whilst some consolidation of the industry has taken place through local government reform, the proposed establishment of six Regional Electricity Distributors (REDs) has not been achieved.
- In 2010, Cabinet abandoned the REDs model, disbanded EDI Holdings, and the Department of Energy was mandated to develop a “holistic approach to revitalise electricity distribution infrastructure”.

**There has been little progress to date.**

## ***EDI Reforms***

### **Our Proposal**

- Facilitate of a **Cabinet decision** to resuscitate the restructuring of the Electricity Distribution Industry (EDI)
- Establish a **National Electricity Distribution Reform Working Group**
- The EDI reform process needs to be governed at the highest political level (i.e. a cabinet committee chaired by the Deputy President, with the following key players playing an active role – Minister of Energy, Minister of Finance, Minister of Public Enterprises, Minister of Cooperative Government and Traditional Affairs, and the chairpersons of SALGA, Eskom and NERSA boards).

SALGA has prepared a **position paper** on EDI reforms with a **proposal on an alternative approach** to the reforms within the current constitution.

## CONCLUSION

- ❑ National and provincial departments together with municipalities need to contribute towards service delivery at a local level.
  
- ❑ There is therefore a need for an overarching, integrated business model that ensures that municipalities are able to provide sustainable and affordable infrastructure and services in a coordinated manner.
  
- ❑ It is also urgently important to transform the current focus in electricity service delivery from a project based approach to a programmatic approach that addresses long term sustainability and serve as a linking platform for different implementing entities towards a focused solution at municipal level.

## CONCLUSION

- ❑ SALGA and municipalities are committed to a successful electrification program and a sustainable electricity distribution industry.
- ❑ SALGA believes reforms to the industry are necessary to achieve this and have made proposals on this in a position paper on EDI reforms. SALGA are happy to brief the PC on these proposals.
- ❑ Reforms will require a cabinet decision and close cooperation between the main parties involved – National Treasury, DoE, DPE, COGTA, NERSA, Eskom, SALGA and municipalities.



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**THANK YOU**