

RESTRUCTURING OF THE ELECTRICITY DISTRIBUTION INDUSTRY

**PRESENTATION TO THE PORTFOLIO COMMITTEES ON ENERGY
AND COOPERATIVE GOVERNANCE & TRADITIONAL AFFAIRS**

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CHALLENGES FACED BY LOCAL GOVERNMENT

- Welcome the initiative – strengthen service delivery
- It is important to note that different categories of municipalities face different challenges. This therefore requires that our strategies and interventions should take into consideration these differences;
- Urban municipalities continue to face challenges arising from urbanisation
 - high growth in population in urban areas
 - the 12 major cities in the country, collectively are home to approximately 42% of the country's total population
 - this trend (of urbanisation) is projected to continue
 - urban municipalities have high levels of capital expenditure, high levels of economic activity but relatively low backlogs
 - expenditure on new infrastructure in this group is mostly related to economic growth
 - however, the challenges of urbanisation and economic growth put pressure on infrastructure investment requirements in these municipalities

CHALLENGES FACED BY LOCAL GOVERNMENT...

- On the other hand, rural municipalities have
 - the biggest backlogs,
 - the highest degree of economic disadvantage,
 - the biggest capital finance gaps
 - low technical and management capacity
 - are hugely dependant on fiscal transfers and
 - have the lowest levels of viability
- They account for a significant portion of the population (27%)
- Because of these disadvantages, they are unable to attract and retain skilled personnel
- These municipalities need critical, comprehensive infrastructure delivery and operating assistance

OTHER ISSUES IMPACTING ON SERVICE DELIVERY

- *There are also distinct causes of service delivery failures that affect electricity distribution. Key causes include:*
 - governance failures;
 - lack of adequate technical capacity;
 - funding and fiscal issues;
 - ineffective existing support initiatives; and
 - inadequate institutional coordination and alignment.
- *We therefore need a multi-pronged, multi-disciplinary response to these challenges;*
- *Emphasize improved institutional coordination and alignment in the industry to ensure that support provided to municipalities is more effectively scoped and targeted*

SOME OF THE FISCAL ISSUES THAT NEED TO BE ADDRESSED:

- Municipal own contribution to capital expenditure, 2006 to 2012
Municipal own contributions are now less than 50% of total capital spending;
- Municipalities need to pay attention to revenue management
- Municipalities also need to ensure integrity of billing information, accuracy of billing systems and ability to collect;
- High outstanding consumer debt - In December 2010, municipalities were owed a total of R62.3 billion. This represents an increase of 10.8% from the same month in 2009;
- Under-pricing of services – generally tariff setting is a problem in many municipalities. At minimum, tariffs must reflect the cost of rendering the service
- Forward planning of capital budgets is generally poor, resulting in under-spending
- Quality of budgeting – In 2010/11, Only 123 municipalities had budgets that were adequately funded

Issues regarding electricity that we need to address

- Government has decided not to create REDs, but there is still a need to address: poor infrastructure maintenance and weak management capacity
- Rehabilitation of existing infrastructure should be a priority
- Eskom services 48.6% of domestic customers. This means municipalities lose this source of own revenue
- There is a need to address the issue of using electricity cut-offs as a credit control measure
- There is a need for increased investment in new and existing electricity infrastructure
- We must address our high non-technical electricity losses: international norm is 3.5%

Issues regarding electricity that we need to address...continued

- Currently maintenance is regarded as discretionary expenditure, we need to deal with this;
- Need to find measures to protect poor households from price increases;
- We should consider the possibility of municipalities ring-fencing the finances of electricity;
- We must also deal with the issue of misalignment between the financial year of municipality and the rest of government;
- We must also look at the (possible misalignment) in the respective roles played by the various national institutions in the electricity value-chain

Skills and Capacity Development

- CoGTA's newly established agency, the Municipal Infrastructure Support Agent (MISA), will focus on providing skills development and technical support to municipalities for infrastructure development and management;
- MISA is in the process of establishing a dedicated Unit focusing on supporting municipalities on energy issues;
- MISA has also prioritised 108 low capacity municipalities for support in the implementation of the electrification programme;
- One of MISA's priorities is to improve the skills of existing municipal technical officials as well as infuse new capacity in municipalities

Conclusion

- We welcome this initiative. We believe restructuring of the industry is necessary in order to ensure quality electricity infrastructure and improved service delivery;
- Subsequent to the Parliament's process, we propose an establishment of an inter-departmental task team to take the following issues forward:
 - Status of existing municipal electricity infrastructure including backlogs in the refurbishment of the infrastructure – current status, costing and how to address this;
 - A well coordinated and effective skills development and capacity building programme;
 - Development of policy, technical and institutional issues
 - Reporting and compliance issues