



OFFICE OF THE MEC

DEPARTMENT OF LOCAL GOVERNMENT

GAUTENG DEPARTMENT OF LOCAL GOVERNMENT SUBMISSION TO THE PORTFOLIO COMMITTEE ON MINERALS AND ENERGY ON THE MATTER OF THE NATIONAL RED

15 May 2006

Introduction

The Gauteng Government, through its political leadership and senior management, is in support of the Cabinet decision of 2 May 2001 that seeks to facilitate the Government's decision to restructure the Electricity Distribution Industry (EDI) into six (6) independent and financially viable Regional Electricity Distributors (REDs), including the Establishment of EDI Holdings as a vehicle of Government through which EDI Restructuring will be implemented. The Gauteng Government further support and amplify the Cabinet decision of 14 September 2005 to fast-track the restructuring of the EDI by establishing six (6) Metropolitan REDs after the 2006 Municipal elections, subject to the necessary modeling to determine the financial impacts, governance and shareholding thereof. To this effect, the Gauteng Government has mandated the Gauteng Department of Local Government to spearhead and support a smooth roll out of the Regional Electricity Distributors within the Province of Gauteng. In manifesting its commitment to this process, the Department has been engaging with various stakeholders, including municipalities, ESKOM, DME, and EDI Holdings to ensure the sharing of common strategy and action among all stakeholders.

Discussion

The involvement of the Gauteng Government through the role played by the Department of Local Government has emphasised some critical principles, some of which will be covered below:

1. That the restructuring of the electricity industry and the establishment of the REDs has to happen within the context of the Gauteng Growth and Development Strategy, which seeks to eradicate poverty, create jobs and sustain economic growth.
2. That the Gauteng Government recognises that the establishment of REDs has to contribute towards government meeting the 2012 target of electrifying all households.
3. That the EDI restructuring will have to happen within the context of the provincial strategy of developing Gauteng as a Globally Competitive City Region.
4. That the establishment of the REDs must not leave municipalities in a disadvantaged fiscal position.
5. That the province has accepted and supported the fact that the 3 Gauteng Metros will anchor the 3 REDs that will go beyond the borders of Gauteng.

Based on these principles, it is the Province's considered view that the success of this restructuring process will not only require an integrated process, but will also require that the provision of the electricity service by the new REDs is done in a manner that advances and is in line with the provincial strategies and policy direction. To this effect, the role of the Metros in anchoring the 3 REDs will be critical, for they bring the necessary leadership, resources and expertise into the process, as well as overall linkages with the provincial strategies. Even though we accept that the REDs will include municipalities beyond Gauteng's political and administrative borders, the fact that they will be anchored by the 3 Gauteng Metros gives us a space to provide an integrated service, gain economies of scale and allow the other small Gauteng municipalities to be part of the overall strategy and provision of service contained within what we consider to be a Global Competitive City Region, with the necessary resources, economic and financial muscle.

It is on this basis that the province is concerned and has reservations about the proposed National RED that is apparently aimed at accommodating the small municipalities outside the Metros. Such a National RED, as it is proposed, would effectively mean that other Gauteng municipalities will fall under a RED that does not have a direct link to the province. Thus, it will fall short of satisfying our long term goal of ensuring that Gauteng (Provincial and local government) operate within the realm of the provincial strategies, namely the Global City Region strategy and the Growth and Development Strategy. In our view, this would compromise the role of the province in playing a major role in ensuring integration of strategy and action by the key stakeholders in the province, of which the electricity industry players are critical. This approach would, in all likelihood, not be in line with the 5 critical principles raised above. But even more critical, the creation of a National RED involving Gauteng municipalities is more than likely to disintegrate and undermine the provincial government's role in supporting municipalities, making it even more difficult to influence the direction of the electricity industry in the province.

Thus, the province will submit that:

- ❖ The original strategy of establishing 6 REDs, of which 3 will be anchored by the Gauteng Metros, be retained.
- ❖ A thorough consultation process is embarked upon before any changes are made to the original strategy.
- ❖ Provinces and other major stakeholders are given an opportunity to make the necessary presentations to the responsible parliamentary committees and government structures before any changes are made to the original strategy.

Conclusion

It is the commitment of the Gauteng government to endeavor to work with all stakeholders to ensure a smooth transition to the REDs. The recent EDI

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