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DEPARTMENT OF MINERALS AND ENERGY

Electricity Distribution – Portfolio Committee on Public Service and Administration

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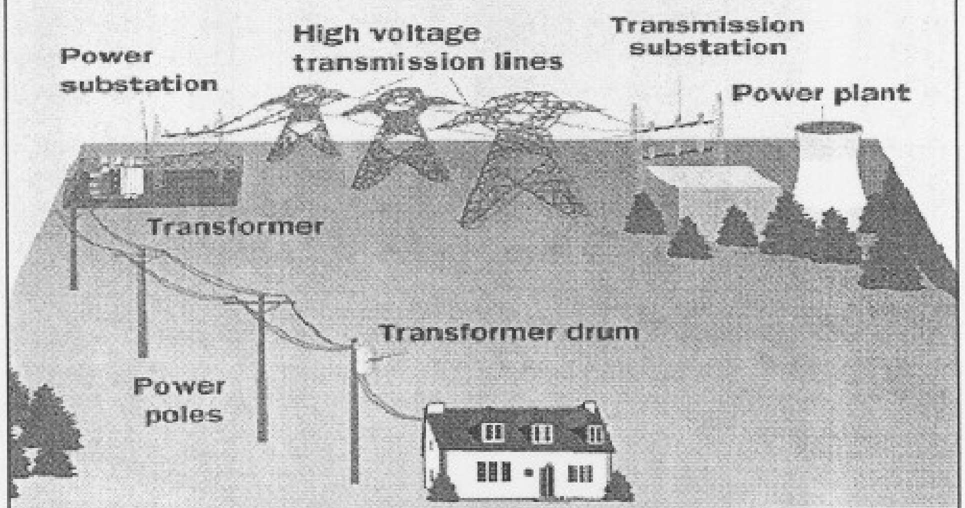
THE ELECTRICITY SYSTEM



THE ELECTRICITY DISTRIBUTION SCENE

- **"blackouts" and "brownouts" continue**
  - Used to be municipalities mainly
  - Now also Eskom transmission (Western Cape)
  - Recovery plan in place for Western Cape winter 2006
    - Koeberg contingency plan in place
    - Rotor installed and on-load
    - Other Eskom initiatives involve LP Gas distribution to shift load
- **Revamped regulatory environment**
  - Electricity Regulation Act operational from July 2006
  - New licensing framework
  - Quality of supply norms and standards
  - Penalty provisions in the event of breach of licence conditions

THE ELECTRICITY DISTRIBUTION SCENE

- **Aggregate personnel costs must not increase in a way that undermines the objective of a single/uniform public service**
  - It is estimated that there are 31000 staff involved in the electricity distribution function to be transferred to the 6 REDs, of whom 16000 are employed by municipalities and 15000 by Eskom. Whereas the majority of municipal staff is employed in metropolitan areas (63% or 10000 staff), the majority of Eskom staff is employed in rural areas (80% or 12000 staff)
- **No additional funds or taxes (fiscus and/or local government) without the approval of Cabinet**

THE ELECTRICITY SCENE

Legislation still to come

- EDI R Bill still has to go to Cabinet for approval
  - Will provide a framework for RED formation
  - Still a voluntary process : Constitution
- Dual regulation in terms of the Electricity Regulation Second Amendment Bill, dealing with Section 75 issues
- This would complete the regulatory and structural form of the distribution industry

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THE ROLE OF EDI IN SA ECONOMY

- To provide electricity to all consumers on a cost effective basis with equitable tarriffs
- To provide reliable and high quality supply and services to all consumers
- To meet the country's electrification targets in the most cost-effective manner
- To meet the legitimate, economic and social interests of all role-players in the EDI and
- To operate in a financially sound and efficient manner in order to provide a reliable and sustainable future for the EDI

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Key Challenges facing EDI in SA

- Current industry structure is highly inefficient owing to fragmentation
  - Absence of economies of scale in respect of investing in assets, sharing of facilities, services, people development, etc.

- Inadequate maintenance of networks
  - Estimated maintenance backlog: R5 billion p.a.
  - Supply interruptions cost to the Economy: R2.9 billion to R 8.6 billion p.a.**

- Unequal treatment of consumers across the country

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Key Challenges facing EDI in SA

- Significant disparities in tariffs
  - Over 2000 tariffs
  - Significant variance in tariffs by Distributors:
    - Range#: 19c/kWh – 71c/kWh
- Inability to supply electricity to the indigent
  - Access to electricity: ~73 %
- Slow and inconsistent roll-out of FBE

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REDS FORMATION PROCESS

Why form the REDS after all?

- Faster universal access to electricity (lower cost of capital)
- Improved and acceptable quality of supply
- Sustainable, affordable electricity to low-income customers
- Rationalized competitive tariffs
- Provide secure employment, skills development

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REDS PROCESS: PROGRESS

Progress

Considering two options relating to formation of National RED, in line with Cabinet decision of 14 September 2005

Option 1: anchor using Eskom Distribution in 3 phased approach
Option 2: new entity which is then populated by transferring businesses

Considers pros and cons of each approach:

- Factors in comments from stakeholders
- Keeps restructuring objectives in check
- Provides for Cabinet Memo with recommendations
  - Resolution of policy issues
  - Mandate for implementation

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REDS FORMATION PROCESS

Information dissemination

After Cabinet decision is finalized:

- Provincial energy forums
- NEDLAC
- Directly with municipalities, SALGA
- Communication strategy

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ELECTRIFICATION
Progress

Province	Backlog	2004/5 Munic Conn	2005/6 Munic Conn	2004/5 Eskom Conn	2005/6 Eskom Conn
Western Cape	154,882	5,994	5,505	6,806	2,294
Northern Cape	52,712	804	1,010	6,314	647
Eastern Cape	712,775	15,361	7,782	35,075	29,020
Free State	193,491	2,389	1,801	4,912	2,425
Kwazulu Natal	777,714	14,310	12,801	21,890	19,692
Mpumalanga	214,270	7,518	2,191	10,072	6,504
Limpopo	365,426	1,572	2,051	58,590	28,748
North West	169,647	1,780	3,470	23,995	9,945
Gauteng	639,772	10,718	7,753	12,861	7,658
Total	**3,280,689**	**60,446**	**44,364**	**180,515**	**106,933**

ELECTRIFICATION AND ENERGISATION

Challenges

- Universal access by 2012
- Funding: need extra R1 billion per annum
- Skills capacity related to accelerated program for 2012
- Providing for thermal needs of communities (heating, cooking)

Also opportunity for job creation: ASGISA

ELECTRIFICATION AND ENERGISATION

Solar Home Systems

- 25 000 installed in select district municipalities
- Three concessionaires still operational

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ELECTRIFICATION AND ENERGISATION

Socio Key Performance Indicators 2005/6

Province	BEE Expenditure to date	Person-days of work	No of Youth Employed (18 to 35 yrs)	No of Women Employed	No of People with Disabilities Employed	No of person-days of standard EPWP training received	No of Person-Days of OTHER ACCREDITED Training Received	No of Person-Days of OTHER NON-ACCREDITED Training Received
Eastern Cape	30,964,947	18,896	274	47	2	65	53	211
Free State	3,087,499	1,075	20	2	-	-	-	15
Gauteng	27,342,344	5,520	160	43	1	22	57	-
Kwazulu Natal	9,231,562	4,569	36	6	-	182	-	-
Limpopo	2,949,459	3,401	21	10	-	28	420	1,425
Mpumalanga	70,000	768	33	9	-	3	9	7
North West	499,200	5,400	46	11	3	95	-	236
Northern Cape	1,384,410	3,018	55	22	3	29	-	43
Western Cape	4,201,105	3,708	106	3	-	25	5	20
Total	**79,710,525**	**46,354**	**751**	**153**	**9**	**449**	**544**	**1,957**

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ELECTRIFICATION AND ENERGISATION

Integrated resource approach

- We will start pilot project involving LPG for heating, cooking
- Demand Side Management has become critical
- Energy efficiency needs to become new culture

- Municipal buy-in important

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FREE BASIC ELECTRICITY

	Munic Appr.	Configured	March-consumption		
	Customers	Customers	Prepaid	Conventional	Total
SOUTHERN (RED 3)	121,415	87,938	57,462	-	57,462
NORTH-WEST (RED 2	225.136	187,438	121,899	14,360	136,259
CENTRAL (RED 4)	297,352	177,997	51,006	51,413	102,419
WESTERN (RED 1)	159,689	153,316	140.358	10,485	150,843
NORTHERN (RED 6)	349,298	347,694	173.809	2,768	176,577
EASTERN (RED 5)	101,309	93,592	86,217	130	86,347
	1,254,199	1,047,975	630,751	79,156	709,907

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FREE BASIC ELECTRICITY

Challenges

- Targeting the poor and limiting "spillage"
- Increasing coverage of the "poverty net"
- Improving delivery mechanisms (technology) for access by poor
- Continuous monitoring to assess impact

Another opportunity for job creation: ASGISA

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Thank you