



**KEY NOTE ADDRESS BY THE MINISTER OF ENERGY, MS.
DIPUO PETERS, MP AT THE ASSOCIATION OF MUNICIPAL
ELECTRICITY UNDERTAKINGS (AMEU) CONVENTION**

FEATHER MARKET CONFERENCE CENTRE, PORT ELIZABETH

28 SEPTEMBER 2009

Your Worship, Mayor Maphazi,
President of the AMEU. Ms. Sy Gourrah,
President Elect,
Honorary Members and Past Presidents present here today,
Pastor Vermaak,
Our foreign guests,
Dignitaries,
Ladies and Gentlemen,

I trust and sincerely believe that like my predecessors, I can also rely on the Association of Municipal Electrical Undertakings as an important stakeholder, especially at this time as we grapple with the challenges that the electricity sector faces.

I must stress from the outset that without continued collaboration between the key players in this industry, we will regret the missed opportunity intended to provide the leadership needed at this critical moment in our country.

I am sure that all of us will agree that the moment is indeed critical. The electricity sector has never been as vulnerable as what it is today.

On the supply side, our power stations are performing sub-optimally as they edge closer to their end of life. We have started to see a declining system performance not inconsistent with 30- and 40-year old plant. This happens at the same time that we seek to spur economic growth to levels that are important for job creation and poverty eradication, as well as in a period that we are spearheading action as government to steer our country out of the economic recession that challenged us so severely in recent times.

Ladies and Gentlemen,

Were it not for the global economic downturn we would have struggled to continue keeping the lights on. We find ourselves in this vicious trap, where on the one hand our economy is hurting due to the global economic downturn and we must stimulate economic growth at all costs, and, on the other hand, to do that depends largely on our ability to provide reliable electricity supply.

We have responded to the supply side problem by embarking on the biggest capital expansion program in the history of this country, to build new power stations. This exerts upwards pressure on electricity tariffs, and it happens at a time when about [24%] of our households remains un-electrified. As mentioned earlier, this also happens in the wake of the biggest economic decline the world has seen since the Great Depression of the 1920s.

Ladies and gentlemen

We all know about the malaise of unemployment in South Africa, against which the President has mobilised the state machinery.

Municipalities are a key component of this state machinery, and your role has taken centre stage given the importance of electricity security in the quest to create jobs.

There are 187 licensed municipalities plus Eskom providing unequal services to a captive domestic and industrial user. This legacy stems from the political process of rationalization of municipalities. For those that do not remember, just a mere 10 years ago, we used to have more than 400 local authorities that provided municipal services.

The disparity in the service provision takes a number of dimensions, worth noting here are elements such as:

- credit worthiness of municipalities,
- tariff levels,
- service standards,
- maintenance backlogs,
- Free Basic Electricity provision,
- quality of customer service,

- skills capability etc.

We all know just how difficult it is to draw scarce technical skills to the rural municipalities.

I am told that the total cost of the municipal electricity distribution infrastructure backlogs is R27 billion. How are we going to deal with the estimated R27 billion, or the estimated *R5 billion* in bad debts due to the low consumer payment rate and related credit control problems. These are ticking time bombs and clearly need our combined efforts to consolidate municipal electricity undertakings, so that we can maximize economies of scale and provide reliable electricity supply.

We must disentangle the relative significance of external factors on investment from those that are internal to the sector.

I have been informed that municipalities are resisting the investment in the electricity infrastructure maintenance primarily because we are working on establishing the Regional Electricity Distribution Services(REDS).

Electricity services are a key revenue generator for municipalities and therefore need to be prioritized. We need to work together with all, to make sure that the REDS process is concluded in the best interest of all electricity distribution beneficiaries e.g. Industry and households.

Municipalities must treat electricity supply as a jersey cow that gives the milk. For it to continue producing milk you must get it the best pastures and care for it well, so that it can continue giving milk for many more years. Let electricity supply provide revenue and also have the good and reliable infrastructure so that the supply is not disrupted.

Can you imagine the impact of a power disruption in June next year, right in the middle of the World Cup?

The impact of any disruption on the economy of such incidences add up to a huge opportunity cost. We estimate that each Megawatt-Hour of “unserved energy” costs R75 000. Remember the one lost job opportunity man hours, lost earnings and loss of production that could have resulted had the power been provided over these hours of electricity disruption.

We have heard about loss of power in Mthatha, Johannesburg and many other areas, these really have become so commonplace that they are symptomatic of a deep-seated problem.

The regulator NERSA is overwhelmed due to the sheer number of reports, that the regulatory provisions under the Electricity Regulation Act get undermined, particularly licence conditions. I am sure that you will agree with me that the point of introducing laws is that they must be enforced! Surely there must be some normalisation of this situation, for the sake of the electricity user and our economy.

In another dimension, the challenge relates to the distressed level of municipal finances. Last month, it was widely reported that some of the big metropolitan municipalities failed to settle their debt obligations to Eskom and water service authorities in time. If the big municipalities are battling, one wonders about the vulnerability of smaller municipalities and whether they could endure such problems.

When NERSA announced a 34% tariff increase after the Eskom application this year, municipalities prudently passed this increase on to the electricity consumer. I am raising this matter critically, as it relates to the way municipalities could have cushioned the indigent from this increase.

I am referring to a tariff structure that provides cross-subsidies between industrial consumers and domestic consumers, in terms of which the revenue requirement emanating from the Eskom increase is drawn more from non-domestic rather than from domestic consumers.

I feel very strongly that in addition to the provision of Free Basic Energy (or FBE), the opportunity must be taken to provide even more relief to the indigent through domestic tariff restructuring. South Africa needs a stepped tariff. The more you use the more you should pay.

Talking about FBE, we all know that this instrument was introduced more than 5 years ago to moderate poverty. Whilst one cannot exaggerate the important role that FBE plays in the lives of poor South Africans, is the instrument sharp enough though, or could we do better?

The extent to which FBE benefits leak to non-qualifying households is a matter of concern. Or benefiting those who it should not be benefiting. An analysis of the FBE submissions by metropolitan municipalities indicates that whilst access and penetration are satisfactory, up to fifty percent leaks. Our economy cannot sustain this inefficiency!

Ladies and gentlemen,

The low electricity tariff has also worked against efforts to use electricity more efficiently, particularly in the industrial

and commercial sectors. We estimate that there is at least a 30% upside in energy efficiency opportunities that South African can harness. In other words, that is the extent of our energy wastage and we need to do something about it.

Some could argue that this seemingly perfect storm is part of the cycle that is not unfamiliar to the South African electricity sector. When the 1986 De Villiers Commission recommended that tariffs must be nationalised, it was in response to the disparate manner in which local nuances were applied as the network expanded.

Be that as it may, in the post-apartheid era, we are now faced with concurrent supply and demand side problems which municipalities are central in resolving. Our infrastructure is deteriorating faster than we can put measures in place to halt the degradation. We need to work together more closely to address this.

Programme Director, In my maiden budget vote speech on the 23rd June 2009, I made a number of commitments and I

wish to reiterate these. This I do selfishly, to the extent that I want to solicit your support and to ensure that the commitments become reachable.

Pursuant to my energy security responsibility and in order to align the building of new power stations with government policy, I indicated that we will be promulgating a new regulation relating to the planning framework for new power stations, the procurement process and the roles and responsibilities of the respective players.

The Integrated Resource Plan, or country electricity/Power plan, will be gazetted soon. This plan will indicate both the supply side options for example power stations of various technologies, and demand side options, particularly energy efficiency interventions. I intend to introduce 1 million solar water heaters by 2014 as a clean energy initiative that intends, as far as possible, to displace domestic water heating from the electrical load. Energy efficiency interventions at the domestic level can only be effected with municipal collaboration.

As you are already aware, NERSA has promulgated a renewable energy feed-in tariff for a number of clean energy technologies. I must indicate that we see this is an opportunity to not only meet our policy objectives in the clean energy space of 10 000GWh by 2013, but also to open opportunities for rural and local economic development.

Invariably the renewable energy projects are located in areas where the biggest need for employment and infrastructure development are located. Municipalities could play a key role in ensuring access to land, environmental impact assessment, connection to the distribution network, local community mobilization etc.

The socio-economic potential and impact of renewable energy must be maximized through collaboration with municipalities.

I also intend to introduce, under the auspices of the National Electricity Response Team (NERT) which the AMEU is part, a framework for power conservation, the “standard offer”. In

terms of this plan, certain incentives would become available for those users who introduce energy efficiency measures that are measurable and independently verifiable.

The corollary holds true for those that are not energy efficient, in the way that there would be disincentives in that instance. In this way, we hope to achieve our target of a 10% aggregate saving in current electricity consumption levels.

I also want to take this opportunity to thank and congratulate all municipalities that have converted all households to CFL's and encourage all others to follow suit. At the same time I would like to indicate that the Nelson Mandela Metro is a good example of a local government which intends to introduce solar water geysers to reduce the cost of heating water with electricity. We all know that geysers use the bulk of the household energy or electricity supply.

The application by Eskom for an increase in the wholesale electricity tariff is a matter that needs to be put into proper perspective, in order to address latent concerns about the impact on the indigent.

Eskom internal problems aside, there is a need for tariffs to increase in order to fund the new power stations programme.

Our electricity pricing policy provides for tariffs to rise to the long run marginal cost over a period of time and I would like to clarify this.

Ladies and Gentlemen,

I must re-emphasise that I do not agree that tariffs must rise rapidly, as this will lead to unintended consequences, not least of which would be adverse economic impact in the face of the recession we are currently experiencing. As indicated previously, we have started a process to provide a cushion for the indigent, through the elaboration of the pricing policy framework to structure tariffs such that the indigent are insulated from increasing electricity tariffs.

As I have also indicated, this strategy requires that we must work together with municipalities so that we do not undermine our efforts.

Municipalities cannot continue simply applying inflation adjustments to their existing tariffs, but they must restructure them to shield the indigent as suggested in the Electricity Pricing Policy. Consequently charges to non-domestic consumers must be adjusted concomitantly with the marginal cost of providing electricity.

My appeal to all municipalities is that we should communicate clearly how the tariff is structured and what informs the percentage they charge.

Ladies and gentlemen

My address would be incomplete if I did not update you regarding the REDS process. As you might be aware, the Constitution 17th Amendment Bill is now in the parliamentary process.

Parliament will communicate the process that must be followed to engage with stakeholders as rigorously as required under our Constitution.

At the political level, I must indicate that our intention is not to dismantle the current setup insofar as it applies to municipalities and provincial government. There have been concerns about our intentions, and I will go on record that we are merely seeking to better facilitate work relating to the electricity distribution industry consolidation, nothing more.

We are all aware that there is a approximately 2000 different tariffs in this country and we need to consolidate that. You cannot have this many price structures for the same service in one country.

As we do this, the need for consolidation in the distribution sector must not undermine either municipal viability or their mandate.

Our point of departure is that municipal undertakings are not viable in the current dispensation. We must address municipal concerns where they are raised, and common ground must be sought to move forward.

Chairperson, Ladies and Gentlemen,

In conclusion, the electricity sector faces challenges that need our urgent collaborative efforts to address. The consequences are dire and far-reaching and we do not meet these head-on.

Municipalities occupy a very critical part of the electricity value chain, and in my opinion the electricity distribution function needs to be executed in a consolidated manner with improved regulatory oversight.

To the leadership of the AMEU, I want to pose a number of challenges as you assume your new role:

- Will you be able to ensure that even the most remote of municipal electricity undertakings has the critical mass of skills necessary for prudent service provision?
- Is it possible for you to ensure that you exert your influence in ensuring that energy efficiency becomes an integral part of your programme of action and what will you do to avert supply shortages in the short term?

- Will you ensure that the indigent are protected and cushioned from the vagaries of the electricity industry, through deliberate tariff structuring that is consistent with the electricity pricing policy?
- What will you do to support efforts to eradicate maintenance backlogs in the sector, so that we could improve the quality of service to the electricity user?
- Is it your intention to work closely with my department on issues of common concern?

The participation of the AMEU in NERT(National Electricity Response Team) structures and various other electricity related forums is critical as we jointly seek answers to the problems that South Africa faces.

I want to invite you to use the first opportunity to engage with my department on any issue that seeks my attention, and I remain open to any suggestions that will improve service delivery and the creation of a better life for all our people.

I wish you success in your deliberations. Let us demonstrate in very practical terms that, together, we really can and will do more and better.

I thank you.