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## IMPLEMENTATION OF EBSST OR FBE

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### 1.       **BACKGROUND**

In 2000 Government announced a policy intent to provide free basic services to poor households. Water, sanitation and energy were identified as basic services to be supported by government's programmes in respect of poor households.

An EBSST Task Team was established by the Department of Minerals and Energy (DME) in February 2001 to formulate policy guidelines for the free allocation of a basic amount of electricity to poor households.

On 5 December 2002, Cabinet approved the following principles of a national policy:

- The free allocation of electricity to qualifying households is set at 50 kWh per month;
- Recipients of the free allocation are to be identified by means of "self-targeting";
- Funds will be provided in the fiscus to pay for the operating cost of the free allocation.

The EBSST policy guideline document which was developed by the Task Team, was published in the Government Gazette no 25088 of 4 July 2003 (notice 1693 of 2003).

### 2.       **IMPLEMENTATION GUIDELINES**

Main issues influencing the implementation of the free basic electricity allocation to poor households were:

- i.    Level of the FBE allocation
  - ii.   Identification of recipients of the allocation
  - iii.   Cost implications of such an allocation
  - iv.   Sustainable source of funding
- i.    **Level of Free Electricity Allocation**
- Grid connected poor households should receive an allocation 50 kWh per month

**Motivation:**

- Of 6,8 million households in South Africa connected to the national grid, 3,1 million live in rural areas of which 56 % consume on average less than 50 kWh per month.
- 50 kWh per month is adequate for lighting, media access and basic water heating and ironing. Not sufficient for cooking and refrigeration, however.
- 50 kWh has achieved widespread political and community acceptance.

- **All non-grid households**

A subsidy of up to 80 % of the monthly service fee, which is currently R58 i.e.  
80 % of R58 = R46,40

ii. **Identification of Recipients**

**Broad based versus Targeted Approach****Broad based**

With this method of identification all legal connected households would receive a subsidy. This approach would ensure that the allocation reaches all the poor. However, to provide 50 kWh per month to all households in South Africa, would cost approximately R1,4 billion per annum.

**Targeted Approach**

An alternative to the Broad based approach would be to target the poor households in South Africa, thus supporting poverty alleviation.

Most municipalities, however, would not have resources to identify indigent households and monitor this status. Eskom definitely would not have such resources either.

It was therefore deemed more practical for the indigent to identify themselves by means of one of the following two self-targeting methods.

**Self-targeting with Current-Limiting**

A 10 Ampère current limited supply.

A household wishing to receive the 50 kWh per month free allocation would apply to the Service Provider to restrict the supply to 10 Ampère. Consumption in excess of 50 kWh per month would have to be paid for at the normal domestic tariff.

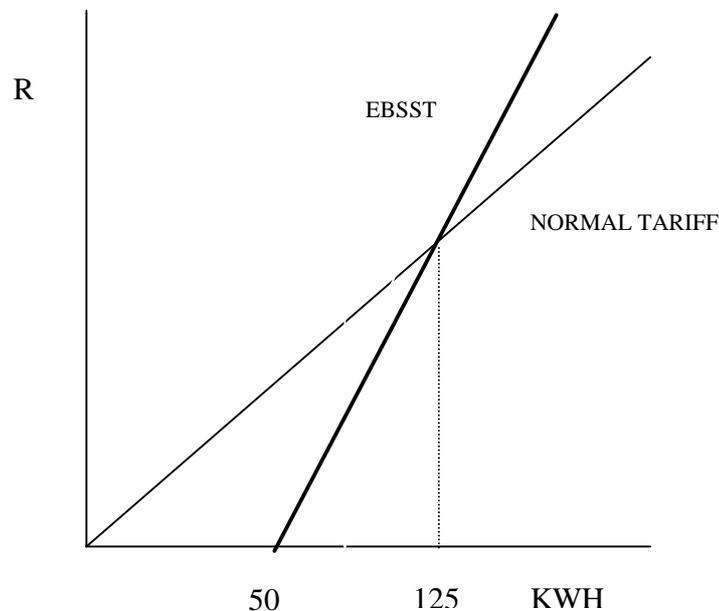
This is the ideal method for prepayment meters (Eskom's preference). The inconvenience of 10 Ampère restriction will deter the non-poor customer to take advantage of the allocation, which is meant for the poor only.

### Self-targeting without Current Limiting

This method involves households using on average, less than a pre-determined amount of electricity (up to 150 KWH) per month applying for the free basic electricity allocation.

This method is ideal for conventional credit meters and will probably be more suitable for implementation by municipal electricity distributors.

To deter non-indigent customers from receiving or applying for the allocation, a municipality can introduce a special tariff for qualifying EBSST customers. The tariff for these customers for each unit above the free allocation would be greater than the normal domestic tariff with the breakeven point occurring at the level of consumption used for identifying the indigent (say 125 KWH per month). Consumption in excess of this level would cost more, which factor should deter misusing of the EBSST. The tariff graph explains it better:



#### iii. Cost of Free Basic Electricity Allocation

Cost of the programme can be separated into

- Technical and administration cost
- Free basic energy cost

#### ➤ Technical and administration cost

In terms of the gazetted guidelines, Service Providers may receive limited capital support subject to the availability of capital grant. We are all aware that no capital support has been made available to cover technical and administration costs. Service Providers will

therefore have to carry the technical and administrative costs themselves. With self-targeting these costs are estimated at R200 million compared to about R600 million, had the broad-based approach been followed.

➤ **Free basic energy cost**

When implementing the broad-based method of allocating 50 kWh per month to all of the 6,8 million grid-electrified households in South Africa, the energy cost would be approximately R1,4 million per annum.

With the self-targeting method, it is estimated that approximately 2,5 million households would qualify for the free allocation of 50 kWh/month, which would cost about R525 million per year.

iv. **Funding the FBE allocation**

For various reasons, funding of the EBSST will be funded through the national budget

- The Department of Provincial and Local Government (DPLG) shall be responsible for the EBSST funding through a conditional grant allocation from the fiscus to Service Authorities (municipalities). Such funds shall be disbursed to the Service Providers.
- The 2003/04 **conditional** grant for the EBSST was R300 million which leaves a shortage of about R225 million if the full 50 kWh per month allocation were to be implemented and funded from the **conditional** grant only. (R300 million will only cover 30 kWh per month).

The equitable share to municipalities has risen this year with 12,2 % in real terms, and also includes a Free Basic Services Grant of R822 million.

- Municipalities will have to respond to Government's request for full implementation of the EBSST (50 kWh per month) by funding the shortfall from their own resources or from the Free Basic Services Grant which they received this year.

3. **SERVICE DELIVERY AGREEMENT BETWEEN SERVICE AUTHORITIES AND SERVICE PROVIDERS**

Section 8 of DORA deals with transfers to entities

Funds from the Fiscus for municipal services may only be provided to relevant municipalities.

Municipalities, in turn, transfer funds to public entities, such as Eskom, where the entities render a service on behalf of municipalities.

The public entity must not later than 30 June 2003, or such other date determined by National Treasury (NT), certify to NT that it complies as an external mechanism as

contemplated in Chapter 8 of the Municipal Systems Act (MSA). NT has extended the deadline to 30 September 2003.

When a municipality provides a municipal service through an external mechanism (public entity), the municipality must enter into a **service delivery agreement** with such an entity (Section 76 of the MSA).

A pro-forma service delivery (funding) agreement which was drawn up by DPLG, have been supplied to all municipalities which can be used as a basis for municipalities to draw up their own agreements.

Paragraph 6 of the pro-forma agreement requires Service Authorities to compensate Service Providers for the **actual cost** of providing the free basic electricity. It is suggested that the paragraph be amended to make provision for the payment of the **actual cost** to provide the FBE **or** for the **loss of income** (forgone revenue) from the selling of 50 kWh to the now, recipients of the FBE, whichever is the smallest. (In most instances the cost of supplying electricity to a low consumption customer is more than the income received from such customers. The FBE allocation is surely not meant to balance Service Providers' books)

#### 4. **REPORTING IN TERMS OF DIVISION OF REVENUE ACT (DORA)**

National Treasury can delay or withhold installments of equitable share on the grounds of a municipality's breach of uniform treasury norms and standards.

A public entity that provides a municipal service on behalf of a municipality, must report to that municipality, on a monthly basis in order to access funds for the service rendered.

Municipalities must report their spending of funds in terms of the Quarterly Reporting Framework. The quarterly report consists of seven (7) sections which require details of the municipality, the Service Providers, the recipients of the free basic services and financial information.

#### 5. **COMMUNICATION**

Government departments DME, DPLG and NT held provincial workshops to inform Provincial departments and municipalities about the administrative requirements to implement the EBSST.

Municipalities together with Service Providers must take it on themselves to inform the wider community about the free basic electricity. The community have great expectations about the EBSST and they will have to be informed who will qualify to receive the free allocation and in particular how they will have to identify themselves for the allocation.

Service Providers on the other hand will have to inform qualifying customers about the process to be followed to be registered as a qualifying customer.

## 6. ROLL OUT OF EBSST

Roll out of the EBSST was discussed at a meeting of Ministers of DPLG and DME, MECs for Local Government and District and Metropolitan Mayors, on 16 July 2003.

At the meeting it was resolved that:

- The roll out of free basic electricity in the whole of South Africa, should be done by **30 September 2003**.
- Municipalities be urged to supply 50 kWh per month (even though the **conditional** equitable grant for free basic electricity is not enough)
- The **self-targeting** approach be followed to identify qualifying households to receive the FBE.

## 7. CONCLUSION

- Free basic electricity is a social service and is funded from the fiscus;
- The focus on FBE is to the poor;
- Implementation of the FBE is a multi-stakeholder engagement process;
- No cross-subsidation for the FBE is envisaged from the EDI, (which would have been in conflict with provisions of the Electricity Act).
- There will be a need for establishment of performance, monitoring and evaluation instruments to be put in place.
- Although there will be teething problems initially, the successful implementation of the EBSST is accepted by the EDI as a challenge.