



**PRESENTATION TO
AMEU 59th CONVENTION
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CHIEF EXECUTIVE OFFICER
28 SEPTEMBER 2005**

Objectives of Restructuring



- * Objectives of Restructuring as per the 2001 Blueprint on EDI Restructuring:
 - Universal access to electricity for all South Africans
 - Acceptable and sustainable levels of supply security and quality
 - Achievement of government's electrification programme
 - Sustainable electricity supply to low-income consumers, regardless of location, at affordable prices
 - Future REDs to operate on a sustained financially viable basis as independent businesses
 - Future REDs to provide secure employment to their employees, provide skills development and training consistent with a high technology, modern distribution business
 - Planned and managed transition.
 - Transition to be done within the context of a comprehensive human resources strategy and an agreed social plan

Revised Approach



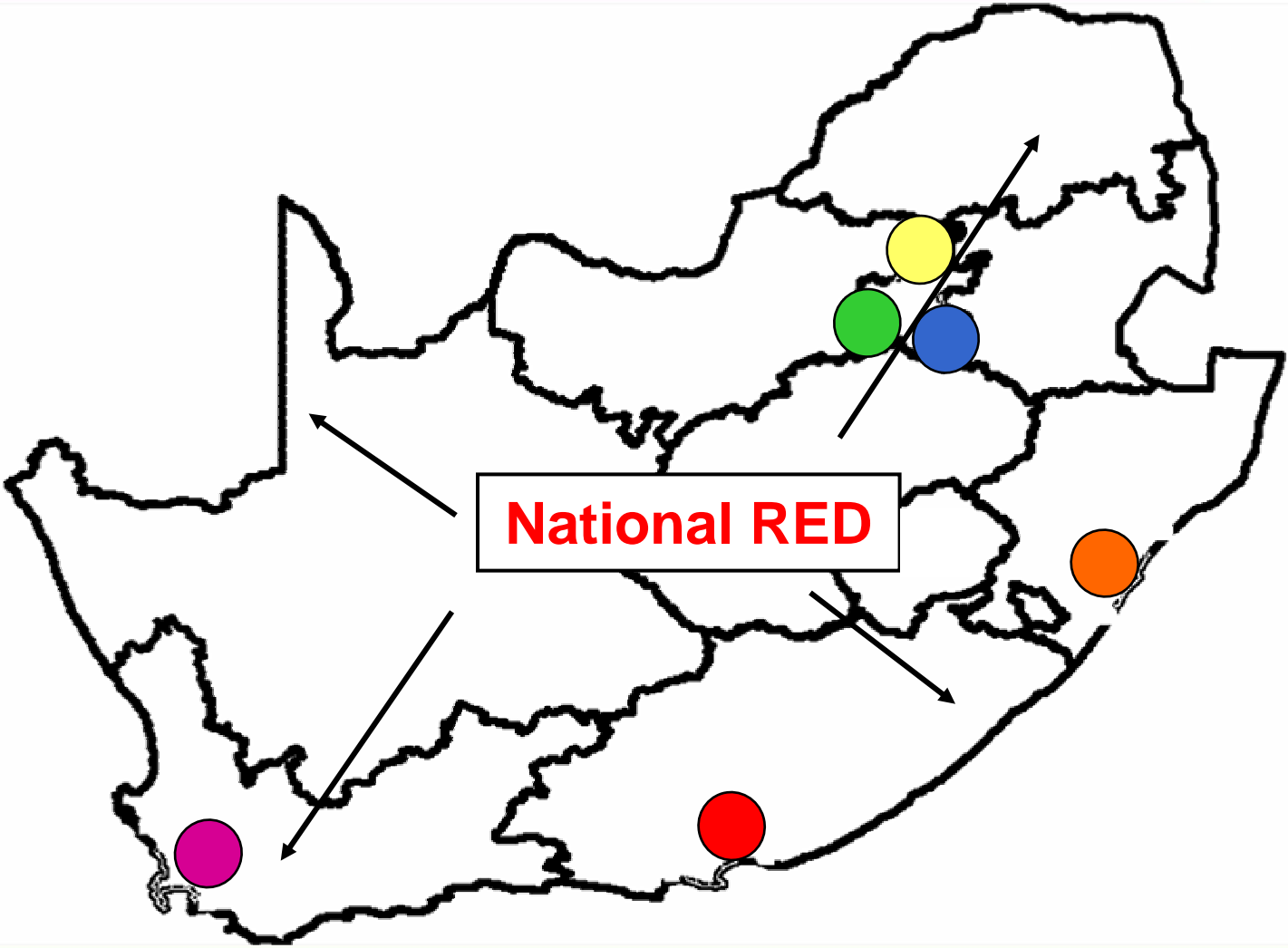
- * Key concerns raised over original boundaries/approach:
 - Fiscal and financial risks of transferring Eskom and Municipalities electricity businesses to the REDs
 - Financial impact on municipalities and Eskom
 - Credit rating impact
 - Credit control implications
 - Cost and liabilities implications of transferring Eskom and Municipalities staff to the REDs
 - Impact on personnel benefits – Pensions, medical aid, etc.
 - Salary harmonisation
 - Definition of reticulation to eliminate possibility of constitutional challenge

Revised Approach



- ❖ Restructuring approach
 - Create 6 Metro REDs after Local Government Elections
 - Conduct modelling, within 6 months, to determine feasibility of creating a National RED, its viability and sustainability
 - Based on modelling results, make recommendations on the best model and final boundaries to achieve the objectives of restructuring and to optimise service delivery
- ❖ Introduction of restructuring legislation to provide the legislative framework for RED formation and to remove the risk of the currently open-ended process
- ❖ EDI Restructuring is a critical part of the Government Programme of Action, as per the President's State of the Nation address of 21 May 2004

Revised Approach



Revised Approach



* Key Considerations

- Cross subsidy framework
- Clarity on definition of reticulation and municipal powers
- Regulation of municipal surcharges
- Impact on Eskom
 - Role
 - Contestable customers
 - Transfer of assets
- Competition

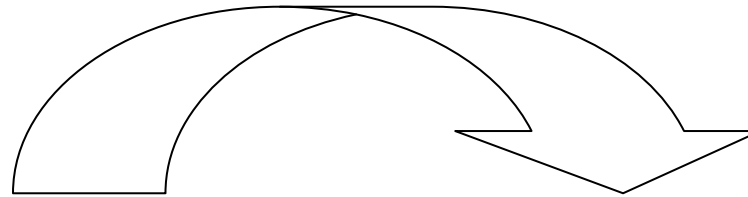
Revised Approach



- ❖ This approach is aimed at addressing concerns and managing implementation risks
- ❖ Modelling is aimed at providing optimal boundaries based on empirical evidence
- ❖ EDI Holdings committed to work with all stakeholders to:
 - Ensure completion of the modelling exercise
 - Provision of data
 - Consultation and agreement on key principles
 - Ensure that the Metro REDs are created taking into consideration lessons learnt in creating RED ONE in Cape Town
 - Ensure that the National RED is created
 - Facilitate the restructuring of the industry in order to achieve the objectives and benefits of restructuring

Benefits of Restructuring

- ❁ A consolidated industry
 - Economies of scales
 - Financially viable
 - Facilitation, through institutional alignment, of
 - Free Basic Electricity
 - Electrification
 - Rationalised and competitive tariffs



- ❁ Access to electricity for everyone
- ❁ Improved provision of service
- ❁ Improved reliability of supply
- ❁ Revenue enhancement for municipalities
 - Surpluses guaranteed
- ❁ Local Economic growth

KEY ISSUES

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PROGRESS UPDATE

Compensation

- All asset contributors to be compensated
- The compensation of existing owners is neither intended to generate windfall gains, nor should it result in unreasonable loss of income or security
- Impact on customers to be minimised
- Recommended approach is to use a weighted combination of asset value, revenue and net profit/surplus
- The contributing entity will receive shares in the newly formed RED, though it is not foreseen that dividends will be paid in the short to medium term

* Compensation

- Compensation will take the form of regular payments to cater for current audited surpluses
- Consideration would be made to compensate for overhead costs, possible stranded costs and VAT losses that will be incurred
- Adjustments of these amounts will take place depending on asset maintenance, customer debt and operational inefficiencies
- Eskom will receive subsidies in order to equalise tariffs in the country

* Introduction of Norms and Standards

- Compensation to business contributors should be 10% of sales. Greater surpluses must be phased out over a period of a fixed time, e.g. 2 years.
- Compensation for shared services rendered by municipalities and Eskom to the REDs should not be more than 3% of total sales
- Repair and maintenance cost allocation should not be less than 3% of revenue
- Refurbishment costs should not be less than 5% of the asset net book value
- Executive management cost should not be more than 2% of total salary costs (Including cost for the Board of Directors)

* Ringfencing

- Ringfencing toolkit available to all municipalities from EDI Holdings
- City of Johannesburg & Mangaung have independent municipal electricity distribution businesses
- Municipalities currently in the process of ringfencing: 13 (January 2005: 4)

* Embedded generation position paper approved and submitted to the National Electricity Regulator

* Tariff harmonisation approach developed and being consulted upon

* Initial capacity building for tariff design using Cost of Supply methodology being conducted

- ✿ Key guiding principles on labour as per the 2001 Blueprint on EDI

Restructuring:

- Employees involved in electricity distribution businesses of municipalities and Eskom will be transferred to REDS in terms of section 197 of the Labour Relations Act
- No change to their current conditions of service unless collectively negotiated
- Conditions for redeployment will be collectively negotiated
- A National Bargaining Council will be established
- Focus on skills development and existing skills utilisation
- A mutually agreed social plan will minimise negative effects to employees as a result of the restructuring

Labour Relations



- * There is approximately 15 000 staff in Eskom and 15 000 staff in the municipalities
- * A Transitional Labour Relations Structure Establishment Agreement was signed on 29 October 2004, made up of the following members:
 - National Union of Mineworkers
 - National Union of Mineworkers of South Africa
 - Solidarity Trade Union
 - Independent Municipal and Allied Trade Union
 - South African Municipal Workers Union
 - Eskom and SALGA

❖ Purpose of TLRS

- To promote a sound relationship between the parties
- To endeavour to maintain and enhance industrial peace during the period of restructuring

❖ A Memorandum of Understanding has been agreed to in principle between EDI Holdings, Eskom and SALGA to regulate the way parties deal with one another and take decisions

- ✿ Conditions of Service
 - Analysis of Conditions of Service done
 - Harmonisation to be done over a period of time
 - Harmonisation calculations for entire industry under way
- ✿ Transfer and Migration
 - Strategy for transfer of staff to REDs complete
- ✿ Social Plan
 - Aimed to cater for any adversely affected employees
 - Social plan framework under development
- ✿ Bargaining Arrangements
 - Different bargaining council arrangements being evaluated

Stakeholders



❖ Government Departments

- Inter-Governmental Co-ordinating Committee in place
 - DME, DPE, DPLG, NT
- Inter-Ministerial Committee in place to finalise the restructuring model and boundaries

❖ Provincial and Local Government

- Provincial Summits: KZN Electricity Summit, Limpopo Energy Forum
- Engagement with different provinces and the dplg
- Engagement with different municipalities
- Co-Operative Agreements
 - Municipalities that have signed the agreement: 34 (January 2005: 7)
 - Municipalities in negotiations to sign the agreement: 25 (January 2005: 6)

Stakeholders



❖ Labour

- Transitional Labour Relations Structure established and functional
- NEDLAC kept informed – quarterly feedbacks

❖ Eskom

- Substantial progress made on migration from 7 to 6 regions to align with REDs establishment requirements

❖ SALGA

- Engagement at National and Regional levels
- Agreement on key issues:
 - Restructuring principles and norms, operating and transfer agreements, service delivery agreements, valuation and compensation & legislative issues
- Standardisation across all municipalities
- Assist in obtaining overall buy-in from municipalities

* First RED:

- RED ONE Commenced operations on 1 July 2005, in line with Presidential deadline
- Initial area of supply consists of the area of jurisdiction of the City of Cape Town
- SDA signed between the RED & CCT
- Operating agreements in place between the RED, City of Cape Town and Eskom whilst finalising transfer of business arrangements
- Issued with a license by the NER
- 6 Independent Board Members, CEO & COO appointed
- Incorporation of other municipalities

Conclusion



Way Forward

- EDI Holdings commitment to execute new government approach and work closely with all the stakeholders to achieve that
- Focus on accelerating and consolidating work towards the establishment of the six METRO REDs
- Modelling exercise for the envisaged national RED
- Ensure preparedness for the roll- out of the REDs post local government elections by giving attention to the acceleration of ringfencing and the consolidation of the engagement structures
- Support and enhance the acceleration of the EDI restructuring legislative process

Conclusion



* Way Forward Contd:

- Comprehensive Stakeholder Engagements
 - Government departments
 - Mayors, City Managers, Eskom & SALGA
 - Provincial Government structures
 - Various stakeholders including labour, business, media, professional associations, institutes, civil society,
- EDI Restructuring Indaba
- Need for all stakeholders including professional bodies to work together with EDI Holdings and other stakeholders towards a common national goal as defined in the Blueprint on EDIR

THANK YOU

