

EDI RESTRUCTURING
AMEU 59th CONVENTION
POLOKWANE – SOUTH AFRICA
28 SEPTEMBER 2005

INTRODUCTION

This document aims to give an update on the restructuring of the Electricity Distribution Industry (EDI) in South Africa.

This document is based on the presentation named *Presentation to AMEU 59th convention, Ms Phindile Nzimande, CEO – EDI Holdings, 28 September 2005*, prepared for the AMEU 59th Convention.

BACKGROUND

Objectives of Restructuring

In 2001, Cabinet approved the Blueprint report on EDI Restructuring. This document represented the official recommendations of the Department of Minerals and Energy on the framework for the restructuring of the Electricity Distribution Industry.

The Blueprint captured key objectives of the restructuring process. These objectives are:

- 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.

Furthermore, the Blueprint provided the broad principles and a roadmap for the process to be followed, made recommendations on the current REDs configuration and provided for the establishment of EDI Holdings.

REVISED RESTRUCTURING APPROACH

During the implementation of the Blueprint recommendations and addressing all outstanding issues, some of the stakeholders raised concerns about the originally envisaged set of REDs boundaries. The concerns raised were:

- Fiscal and financial risks of transferring Eskom and Municipalities electricity businesses to the REDs.

Financial impact on municipalities and Eskom, credit rating impact and credit control implications were highlighted as areas that could pose financial and fiscal risks if the original REDs boundaries model was implemented.

- Cost and liabilities implications of transferring Eskom and Municipalities staff to the REDs.

The following items require to be better understood before the REDs could be implemented:

- Impact on personnel benefits – Pensions, medical aid, etc.
- Salary harmonisation
- Definition of reticulation to eliminate possibility of constitutional challenge. It was deemed necessary to ensure that the constitutional right of municipalities to reticulate electricity is honoured and the possibility of a constitutional challenge needed to be minimized, if not eliminated.

Based on the above concerns, a submission was made to Cabinet to review the originally envisaged set of boundaries and to accelerate the establishment of the REDs.

Cabinet resolved, on the 14th of September 2005, that EDI restructuring approach must be revised as follows:

- Create 6 Metro REDs, after the Local Government elections
- Conduct modelling, within 6 months, to determine feasibility of creating a National RED, its viability and sustainability, governance and organizational structure.
- 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

Figure 1, below, represents the recommendations of Cabinet.

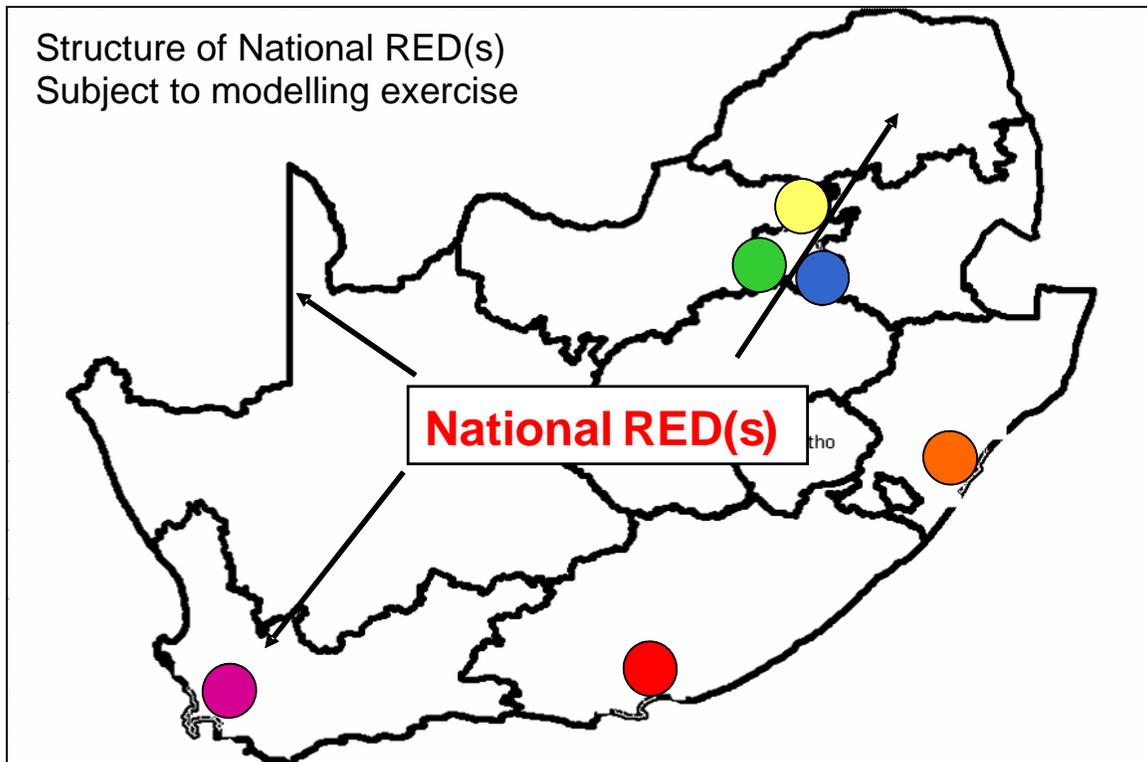


Figure 1: Revised Restructuring Approach

In addition to the above, Cabinet approved implementation principles to supplement the implementation of the revised restructuring approach. These principles are:

- Restructuring must be in accordance with the Constitution, taking into account that the responsibility of electricity reticulation is a municipal function.
- Financial state of municipalities currently performing the electricity function must not be adversely affected.
- Aggregate personnel costs must not increase in a way that undermines the objective of a single public service.
- No additional funds or taxes (fiscus and/or local government) without the approval of Cabinet.

Certain key policy assumptions are to be made when considering the revised restructuring approach. These assumptions are:

- National cross subsidy framework
- Constitutional powers of municipalities regarding “reticulation”
- Regulation of municipal surcharges
- Impact on Eskom
 - Role of Eskom in the National RED
 - Contestable customers
 - Transfer of assets
- Competition

CONCLUSION

The revised approach is aimed at addressing key concerns and managing implementation risks. The revised approach is also intended to ensure that EDI restructuring does not have any adverse impact on any of the key stakeholders including municipalities, Eskom and the fiscus

EDI Holdings is committed to work with all stakeholders to:

- Facilitate the restructuring of the industry in order to achieve the objectives and benefits of restructuring,
- Ensure completion of the modelling exercise through obtaining input from all key stakeholders,
- Ensure that the Metro REDs are created taking into consideration lessons learnt in creating RED ONE in Cape Town, and
- Ensure the creation of National RED(s).

WAY FORWARD

The 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 still remains.

To that end, EDI Holdings will be continuing with comprehensive stakeholder engagements. These stakeholder engagements will be focussed on implementing the Cabinet decision of the 14th of September 2005.

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