

LEARNING NOTES

METRO ENGAGEMENT ON ELECTRICITY AND ENERGY

28 AUGUST 2017

SALGA HOUSE, CAPE TOWN

INTRODUCTION AND BACKGROUND

The electricity distribution and generation sector is exposed to rapid change which creates an opportunity for municipalities to be proactive and informed regarding technologies and policy trends. Furthermore, municipalities play a central role in the distribution and supply of electricity to their respective jurisdictions. The landscape in which this role is played by municipalities is both dynamic and challenging, and requires constant peer engagements.

Against this backdrop, on 28 August 2017, the South African Local Government Association (SALGA) hosted a Metropolitan Engagement to discuss electricity and energy related topics. In attendance were portfolio Members of Technical Committees related to Electricity and Energy, Managers practicing in the field, personnel with Legal backgrounds, as well as other key stakeholders. Participants used the platform to share on experiences, challenges and practical steps taken with regards to innovative approaches on policy and technology.

PURPOSE OF THE METRO ENGAGEMENT

The purpose of the engagement was as follows:

- Knowledge sharing on experiences, challenges and practical steps taken with regards to innovative approaches on policy and technology.
- To deliberate on key Metro challenges related to Electricity and Energy.

THE ENERGY TRANSITION: RESIST OR EMBRACE

Energy transition is gaining traction in various discourses on electricity and energy. In attaining a coherent understanding of the phenomenon, it is crucial to appreciate its features, risks, benefits and costs. There have been various efforts, particularly by well-established institutions, to capture the essence of this notion. It can be deduced that terms such as “megatrends and disruptions” are viewed as synonymous to it. In essence, the energy transition is to a large extent inclusive of decentralisation, democratisation, digitisation, decarbonisation, electric vehicles and energy access, with them being individually transformative. South African electricity and energy institutions more especially municipalities, are faced with the effects of the “death spiral” whereby high income customers and businesses are gradually “pushed out” of the grid, which reduces the availability of cross subsidies that subsidise tariffs for low income households.

Consequently, the regulatory environment created by legislation such as the Electricity Regulation Act that restricts municipal innovation as policy and innovation refer to an old and more static energy sector. In comparison with South Africa, despite poor sunlight, Germany’s solar PV is now close to cost competitiveness with new coal and gas. This is unfortunate, as South Africa is headed in the opposite direction. In essence, a decision to either resist, ignore or embrace energy transition could be made by metro municipalities after careful consideration.

KEY LEARNING POINTS....

□ **IRP and Decentralisation**

The Integrated Resource Plan (IRP) as it stands, is not decentralised as it is based on the old centralised model. It does not address distributed and small scale electricity generation, as well as energy efficiency; which is an area of research. Thus, the IRP is not inclusive of the energy transition and doesn't address its reality.

□ **Death spiral effects**

The death spiral not only affects the municipalities, but also ESKOM as their tariffs are on the rise. The reality is that cross-subsidisation also occurs with commercial industries to the lower income residents. As a result, the electricity bills of these businesses become exorbitant which might lead to the economy being damaged. In addressing this challenge, big industries resort to alternative measures for the supply of electricity.

□ **Building a case for the Ministry of Energy**

Implementing innovation outside the scope of the IRP is a challenge in a regulated environment. Accordingly, the Ministry ensures the IRP is upheld and there is an expectation on all municipalities to abide to it. However, in order to lobby for change, local government needs to undertake a study entailing issues surrounding tariffs, demand and supply, and a root cause analysis. Thereafter, the Ministry can be engaged meaningfully, as evidence-based research would assist in shifting policy. In essence, there is an opportunity for local government to be the driver of “disruptive engagement” to avoid stagnancy.

□ **Regulatory improvements**

The South African constitutional dispensation as well as the Electricity Regulation Act of 2006 make provision for regulator amendments and improvements. In undertaking this task, strong individuals are required to not only show national government the consequences of the current policy direction, but also propose recommendations.

The BIG Questions:

- Does the National Energy Vision propose a future in which municipalities could ensure sustainable service delivery to all?
- Should Metropolitan municipalities wait for National government to make changes?
- What must South Africa do to move towards the direction of energy transition? And why?

KEY SALGA INTERVENTION PROGRAMMES

Constitutional powers of municipalities and the Eskom bulk supply debt were the dominant areas of discussion in a meeting that was convened by SALGA, Eskom, the Treasury Ministry, and Department of Public Enterprises (DPE) on structural issues. Emanating from the discussions, it was resolved that a Cooperative Governance and Traditional Affairs (COGTA) led inter-ministerial task team comprising of all relevant stakeholders would be formed and make recommendations to the Inter-Ministerial Committee (IMC) However, an impasse was reached between SALGA and Eskom on the constitutional powers of municipalities.

With regards to the Eskom bulk supply debts, Eskom agreed to some concessions to resolve some of the systematic issues. Moreover, SALGA has convened a meeting with the Department of Energy regarding procurement of energy from Independent Power Producers (IPPs), Small Scale Embedded Generation (SSEGs) and Licencing Regulations. In the interest of advocating for a shift in the policy discourse, SALGA has participated on a number of energy engagements such as the Metro and Energy Forum (held in August 2016) and AMEU Convention (October 2016). These technical and dynamic engagements addressed a range of issues pertinent to the electricity and energy sector. Moreover, SALGA intends to convene an energy leadership summit to disrupt the sector and initiate a national conversation on the need to transform the energy sector.

KEY LEARNING POINTS.....

□ **The need for disruptive engagements**

There are a number of challenges experienced by local government that deserve immediate attention from decision-makers. Previously, there have been continuous engagements whereby issues are raised but have not been addressed. There is a gap for engagements which are disruptive and would radically challenge the status quo and encourage innovation and positive solutions that would be implemented. Firstly, buy-in must be sought and thereafter engagements of this nature can be undertaken where compelling issues such as exploring alternative power suppliers, reviewing applicable legislation, and the constitutional authority role of municipalities being recognised would be robustly discussed.

Exploring alternative power suppliers

There is a need for Local Government to have a united front in tackling issues pertaining to electricity and energy. In moving forward with disruptive engagements, all stakeholders must be prepared for a shift in the status quo.

- *Review of applicable legislation*

Currently, municipalities are functioning under a constraining legal environment. As new models of electricity and energy are rapidly emerging, municipalities might eventually resort to adopting them, in contravention of the legislation. Serious consideration must be dedicated to relaxing some of the restrictive laws in order to adopt new models that could bring about positive change.

- *Fair allocation of jurisdiction between municipalities and Eskom*

The point of contention between Eskom and municipalities revolves around service authority. Eskom usually pursues opportunistic areas for big revenue – usually where there are industries. Consequently, areas that comprise of infrastructure that requires servicing, are transferred to municipalities. Therefore, a balanced approach must be adopted in the allocation of areas.

□ **The need for a common ground**

Given the various dynamics to the relationship between Eskom and municipalities, it is worth appreciating that both entities are not privately-owned. Accordingly, a mindset shift is required to move away from the perception of one entity being more prominent than the other. Thus, it is crucial for the IMC to be mindful of this. Thus, it would be essential for DoE to lead the transformation of the sector, taking into account the various interests of customers, residents, companies, Eskom, etc.

MUNICIPAL SERVICES BENCHMARKING: ENERGY AND ELECTRICITY

SALGA, through the Water Research Council, partnered with EMANTI on an initiative referred to as the Municipal Services Benchmarking on Electricity and Energy. The benchmarking programme is still in a conceptual phase. It aims to share progress and identify areas of improvement in the electricity and energy sectors. Its importance lies in its ability to assist in identifying gaps, developing a roadmap and prioritizing actions that can move local government towards achieving world class status. It is worth noting that some of the metric benchmarking tools that would be utilised to monitor performance are referred to as the Municipal Strategic Self-Assessment of Energy-Electricity Services (MuSSA), and Performance Indicators (PIs) coupled with Context Information.

The revised draft MuSSA for Energy-Electricity will cover an array of pertinent aspects of the speciality such as Electrical Services Planning, Technical Management Capacity, Technical Staff, Regulations, Quality of Supply, ICT Components and Revenue Collection. Beyond that, focus areas of Metric Benchmarking have been conceptualised and are currently in draft format. In terms of PIs, strategic factors pertinent to the electricity and energy sector were taken into account, and culminated into a total of thirty two draft PIs ranging from Human Resources to Renewable and Clean Energy. In moving the process forward, a concerted effort from stakeholders is required in raising awareness in existing forums. This process could be led by identified Benchmarking Ambassadors in the respective municipalities. Moreover, the finalisation of the MuSSA and PIs would take the process to the next level of piloting and full implementation eventually.

KEY LEARNING POINTS....

□ Key Performance Indicators

It was noted that consideration should be put into further reducing the number of PIs. Electricity Departments of municipalities will be targeted in moving the process forward. Given that funding is usually a challenge, the Benchmarking Initiative is optimistic to receive assistance from the Municipal Standard Chart of Accounts (mSCOA) in that regard. Advanced technology such as wireless distribution can also be utilised in data collection.

□ Action Plans derived from MuSSA

Beyond developing MuSSA, the next step is to embark on a process to prepare a Municipal Priority Action Plan (MPAC) which would identify key vulnerabilities and strategies to address them. Thereafter it could be incorporated into broader services development plan which is linked to an IDP.

CITY OF CAPE TOWN COURT APPLICATION

The City's decision to embark on legal action followed an impasse with the Energy Ministry and the National Energy Regulator of South Africa (NERSA). The court application is seeking a declaratory order that permits the City to purchase power from IPPs. Throughout the process, the key piece of legislation that emerged was Section 34 of the Electricity Act as it was under careful scrutiny. Concurrent with legal proceedings, the City resorted to alternative measures such as increasing the SSEG rollout and elevated pumped storage scheme output.

LESSONS FROM ETHEKWINI MUNICIPALITY ON ELECTRICITY MANAGEMENT

From the perspective of the High Voltage (HV) Operations, a number of lessons emanating from the management of electricity have emerged. Energy and electricity provision is an essential service associated with huge social and economic impacts if mismanaged. It is a highly technical and asset intensive business that requires high competency proficiencies from

personnel to make effective decisions. EThekwini Municipality has invested in complex electrical assets that are strategically positioned throughout the City. In carrying out the mandate of electricity and energy provision, a significant amount of challenges have been experienced in the Municipal environment. However, appropriate measures as well as improvements and innovations were put in place to address them. Despite the major barriers curtails further progress, energy and electricity remains a cornerstone that supports economic development.

WAY FORWARD:

Key Actions:

- SALGA is to build a strong case and engage DoE. In building a strong case, metros and local municipalities must work together to strategize and assist SALGA in achieving this objective.
- SALGA must get a mandate from municipalities on how to meaningfully engage with DoE
- The Energy Forum (consisting of political and technical representation) must play a meaningful role in engaging the DoE

Recommendations for the Energy Leadership Summit

Date

It was proposed the Summit takes place during the following date:

- Tentatively the week of 12 November 2017
- If this is not possible, on the 2017/18 financial year
- Proposed duration of the Summit is two days

Content

The following burning issues were proposed to be addressed and incorporated in the programme:

- Policy issues around energy.
- Practical models and scenarios could be presented on Day 1
- Thereafter on Day 2, a localised policy derived from models presented the previous day and present them to national government
- Regulations vs mandate
- New business model – income generation

Format

The Summit was proposed to incorporate the following considerations in the format:

- Successful case studies supported by data
- Invite International speakers for best practice

Outcomes

Some of the anticipated outcomes of the Summit are as follows:

- Policy shifts