



MINISTRY
COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS
REPUBLIC OF SOUTH AFRICA

**ADDRESS BY THE MINISTER OF COOPERATIVE GOVERNANCE AND
TRADITIONAL AFFAIRS,
DR ZWELINI MKHIZE, at the
SALGA LOCAL GOVERNMENT ENERGY SUMMIT, on
“The Role of Local Government in the Energy Landscape,”
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Johannesburg**

Programme Director,
Minister and Deputy Ministers,
SALGA and UCLG President, Councillor Parks Tau,
Mayors, Councillors and local government representatives,
Distinguished guests,
Members of the Media,
Ladies and Gentlemen,

Introduction

Good Morning,

It's wonderful to be here.

It is difficult not to be swept away by the mood of optimism flooding the country.

Just this week Stats SA stated that the economy grew by 1,3 percent, exceeding the 1 percent growth rate predicted by National Treasury.

Gross domestic product (GDP) increased by 1.5 percent in the fourth quarter of 2017, compared to the previous year's figures.

The Standard Bank purchasing managers' index, which measures the whole economy, also indicated an improvement in the health of the South African private sector – this for the first time in seven months.

These economic indicators are mirrored in the social fabric of South Africa as citizens welcome the era of hope, change and renewal.

Wherever I go, I come across citizens, from business people to ordinary public servants, who have adopted the 'Thuma Mina' motto as their own.

So indeed a new dawn is upon us.

I am particularly glad to be here at the SALGA (South African Local Government Association) Local Government Energy Summit.

While the media have tended to focus on the few public institutions that are failing, there are ten times as many that are performing their functions without much fuss and simply getting on with the job.

SALGA is one such institutions.

We commend SALGA for the initiative they have shown in tackling issues facing the local government sector.

Cogta as the responsible ministry in the local government sector is grateful for their inputs.

This Summit comes at an opportune time.

Just this week the Standing Committee on Public Accounts heard that municipal debt owed to Eskom stands at R30 billion.

With the aim of redefining the role of local government in the energy sector, the Summit brings to the forefront the question of how to best achieve the goals set out in the National Development Plan.

The energy sector tells the story of one of the successes of democratic South Africa – the provision of electricity to over 86 percent of the population.

Our gathering here is a testimony to our belief that we will meet the energy challenges of the 21st century and continue to expand services to our citizens and deliver on the promise of a better life for all.

How best to deliver efficient energy solutions cannot be addressed without taking note of the technological advances in the sector.

South African-born entrepreneur Elon Musk is busy turning a number of sectors on their heads. From his initial foray into the money transfer industry with Paypal, to the motor industry with Tesla Motors, and space travel with Space X.

However, his foray into the energy industry with the renamed Tesla brand, is of specific interest to us. Musk plans for a world in which almost all homes will have a solar roof. The Tesla Powerwall home battery that utilises and stores solar energy will compel electricity utility companies to rethink their offering.

To quote Musk:

“I think that’s the single best piece of advice: constantly think about how you could be doing things better and questioning yourself.”

Which is exactly why this Summit is of great importance, as it affords us the opportunity to rethink our future energy needs.

And how we move from a reliance largely on fossil fuels, to one predicated on our natural resources, such as wind, water and solar energy.

In 1994 the introduction of cellphones in South Africa was viewed as an extravagant luxury, something for the chosen few.

Today South Africa's cellphone penetration rate stands at 68 percent, with over 37,5 million unique mobile subscribers (GSMA Mobile Economy Sub-Saharan Africa 2017).

So it is not difficult to imagine a world in which every home is powered by a home battery.

What would this mean for utilities such as Eskom and indeed municipalities, where revenue from electricity is often the largest source of income?

The National Development Plan (NDP) is clear about the objectives of the energy sector.

NPC Discussion Paper on Energy

The NDP 2030 stipulates that South Africa's energy sector will promote economic growth and development, social equity and environmental sustainability.

The National Planning Commission's (NPC) Discussion Paper on Energy, released in February this year, mentions two notable changes in the energy sector since the adoption of the NDP in 2012.

The first is South Africa's commitment to the Nationally Determined Contribution as part of the Paris Agreement, emanating from COP21 in 2015.

The second is the huge cost reduction in the cost of power generation technologies in the electricity sector.

Both of these have an impact on future investments in the energy sector as we seek to reduce our greenhouse gas emissions and work towards changing the primary means of delivering energy.

You will remember that the Minister of Finance in his Budget Speech last month stated that the Carbon Tax Bill is before Parliament, and will be implemented in January 2019.

The NPC Discussion paper makes a number of proposals with regard to the role of coal, natural gas, renewable energy and electricity.

With regard to the Integrated National Electrification Programme (INEP) it identifies a need for a shift from on-grid electrification to off-grid electrification.

These proposals should be further considered.

Distinguished guests,

Current status of Local Government Revenue and Energy

The South African constitution guarantees every citizen access to services such as refuse removal, electricity, housing and water.

This places pressure on municipalities to generate their own revenue to supplement the often inadequate funds they receive from the national government.

Electricity is one of the major sources of revenue for municipalities.

In recent years that revenue source has seen a decline in municipal profit margins due to higher cost of bulk electricity.

In addition to this, over the past few years, municipal debt has been increasing at an alarming rate.

A major financial problem is ensuing in many municipalities in the country due to inadequate collection of revenue as a result of the runaway non-payment for municipal services.

The level of municipal debt is growing on a monthly basis from all the categories, namely organs of state, business and households.

Aggregate municipal consumer debts were R143,6 billion as at 30 September 2017.

Government's share of the outstanding debtors was 5,7 % at R 8,2 billion.

The largest component relates to households which accounts for 70.8 percent or R101,6 billion followed by commercial or business for 16.8% or R24,1 billion and other category of debtors for 6.7% or R9.6 billion.

This culture, coupled with ever-escalating costs of providing municipal services, has a great impact on the availability and quality of municipal services, which could spiral into local government unrest if it is not managed well.

Municipalities are also experiencing cash flow problems which have resulted in them defaulting on their bulk electricity account with Eskom. As mentioned municipalities currently owe Eskom about R30 billion in unpaid fees.

The reasons for non-payment have also been compounded by a number of factors.

IMTT on Electricity Reticulation

The Inter-Ministerial Task Team (IMTT) was established to deal with Constitutional, Systemic and Structural Challenges in electricity distribution

and reticulation based on the principles of the Intergovernmental Relations Framework Act, 2005 (Act No 13 of 2005).

The IMTT comprises of the Ministers for Cooperative Governance and Traditional Affairs (as Chairperson), Finance, Energy and Public Enterprises, the President of SALGA; and Chairperson of the Eskom Board.

The constitutional matter relates to the contracting and regulatory mechanism (Service Delivery Agreements) between Eskom and municipalities, where municipalities experience some of the following challenges:

- There are conflicts over supply areas
- Municipalities are unable to levy surcharges in Eskom supply areas;
- Municipalities are unable to exercise credit control in Eskom supply areas;
- There is a lack of tariff parity between municipal supply areas and Eskom supply areas, meaning simply that, for example, Eskom reticulates electricity to the Sandton elite at a cheaper rate than Johannesburg's City Power does to Alexandra, a much poorer area.

The IMTT is in the process of finding a solution to the constitutional matter in order to resolve it as a matter of priority, as well as addressing the other challenges encountered.

Role of Municipalities in Energy Supply

In South Africa, there are 257 Local Municipalities of which 188 are licensed through NERSA (National Electricity Regulator of South Africa) to distribute electricity to consumers.

They are the institutions that interact between the combination of generation and transmission feeding electricity to the consumers.

This space occupied by Local Municipalities is becoming more complex as other forms of electricity generation are becoming effective.

Renewable energy is changing the face of the energy game and municipalities are responding, simply to provide affordable services to citizens.

South Africa's only independent electricity trader PowerX, provides a possible model for a post-Eskom era.

PowerX trades in renewable energy in South Africa with the ability to purchase clean and green power from generators and sell it on to consumers.

It currently operates in Nelson Mandela Bay, Umjindi Local Municipality and Mandeni Local Municipality.

It is also working with the Tshwane Metro for the provision of renewable energy to the industrial area of Rosslyn, where manufacturers like BMW have to comply with environmental standards.

Renewable energy is also providing other opportunities in the energy sector in municipalities.

Solar farms are being erected within the borders of a municipality and could be fed into the municipal network as part of the generation and transmission combination.

This challenge will have to be managed well so that the total effect on the national grid is not compromised.

Small embedded generation also affects the distribution network.

More and more businesses and private individuals are installing solar arrays on their rooftops.

The drive is then from that individual to become independent of the national grid and as a bonus to sell back to the “Grid” some of the surplus energy thus generated.

This surplus can be distributed through to the national grid to a consumer in another town.

The municipality of the future will have to play a major role in this regard since these installations should comply to safety standards and the quality of the generated energy should be equal to that received from Eskom.

Further to that when this energy is fed back into the grid, that the correct metering and accounting is in place to accommodate this embedded energy.

In the short-term though, “grid-defection” will have a negative effect on municipal revenue generation.

In addition to that municipal by-laws have to be adopted for this embedded generation and wheeling of power through the network.

Here local government will have to interact with National Government in the process of modifying the current legislation, by-laws, policies and procedures.

The future also holds opportunities for up-and-coming small businesses and entrepreneurial orientated persons where they can become active in the processes of installation of embedded plants, the maintenance thereof and the assistance in the controlling of metering and billing on behalf of the generator of energy.

Considering that we have adopted Local Economic Development (LED) as the sixth pillar of the Back to Basics programme, it is vital that municipalities

identify and embark upon programmes in the Renewable Energy sector to stimulate LED.

Conclusion

Ladies and Gentlemen,

The aim of National Government is to provide all citizens with access to basic services.

This will mean that all forms of energy generation should be employed.

This includes traditional coal-fired generation plants through to hydro plants, solar farms, wind turbines and small embedded generation.

The future of the generation, transmission and distribution of energy is changing rapidly and it is vital that municipalities stay ahead of the curve.

This is the only way to extract the most benefits, whether it be through legislative, economic or other initiatives.

I welcome the report by the Department of Energy to the Portfolio Committee on Energy that it will give urgent attention to the long-awaited signing of the 27, independent power producer (IPP) projects.

This is expected to unlock R59.8 billion in infrastructure investment.

It is vital that municipalities are alive to the opportunities in the Renewable Energy sector.

I look forward to the Summit report and Cogta will take it into consideration in further developing policy that will ensure a better life for all citizens.

Let us ride the wave of optimism engulfing our country and ensure that we deliver an energy efficient sector that meets the objectives of providing economic growth and development, social equity and environmental sustainability.

I thank you.