PRESENTATION TO
AMEU 59th CONVENTION
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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

National RED
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

&

PROGRESS UPDATE
Financial

- 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
**Financial**

- **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).
Operations

- 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
Labour Relations

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
Labour Relations

- **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
Labour Relations

- 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