



EDI Reform Consultation

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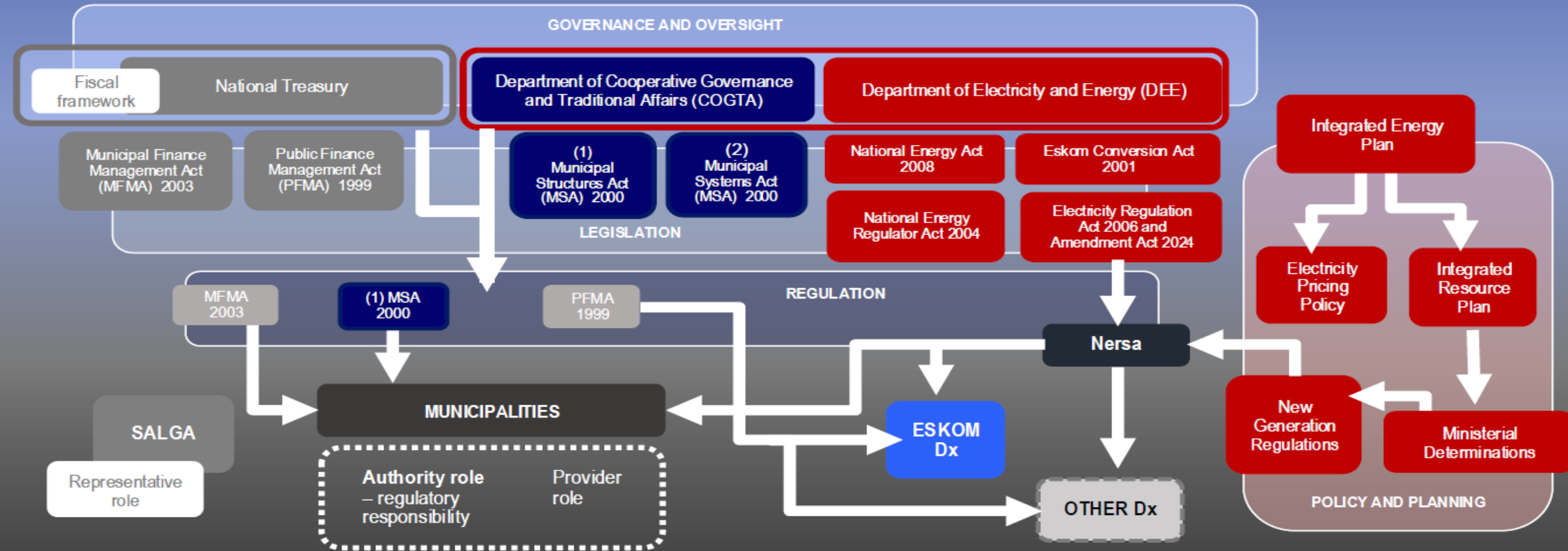


- 1 Legislative Framework, Reform Approach and Context**
- 2 Vision & Objectives**
- 3 Guiding Principles & Boundaries**
- 4 Municipal Options for participation**
- 5 Implementation Roadmap**
- 6 What is emerging in the National Process (NECOM) and Conclusion**

Legislative Framework of the EDI

EDI LEGISLATIVE FRAMEWORK AND STAKEHOLDER MAP

The EDI operates within a layered framework of legislation, policy and regulation that underpins reform and involves governance, oversight and coordination between national departments, the sector regulator, the national electricity utility and municipalities. Collectively, this forms and enables the EDI.



SALGA EDI Reform Initiatives

Phase 1

- Analyse the **current performance** of the South African EDI
- **Potential future impacts** of the energy transition and power sector reform on the municipal business model. Present suitable **international best practice examples** for possible adaptation and transition strategies of (municipal) distributors.
- Conduct strategy seminars and discuss the findings of the study above with the objective of **developing a shared perspective of the status quo and a vision** for the potential future structure of the South African EDI.
- Prepare a final position paper and report with **recommendations** for the **further development of the South African EDI towards sustainability**, including its potential future structure, business models and revenue streams for municipalities, including the results from the above.

Completed 2023

Phase 2

- Develop a **strategy for reform of the EDI** which clearly spells out the **vision and objectives** of the reform process and the approach to be taken to achieve the vision.
- Draft an **overall phased implementation plan** which translates the strategy into action with milestones, timeframes, activities and roles and responsibilities.

Approved by NEC March 2025



National Reform Initiatives

Energy Wholesale Market

Transition to Competitive Trading: move South Africa away from the traditional single-buyer model (Eskom monopoly) towards a competitive electricity market.

Market-Based Price Discovery: Electricity prices will increasingly be set by market dynamics (supply and demand) instead of being centrally determined. This is expected to encourage cost-reflective tariffs, efficiency in generation,

Phased Implementation under Market Reform: broader Electricity Market Reform Roadmap led by the DEE and Eskom's unbundling. Initially, it will start with a transitional market (bilateral contracts and day-ahead trading) before evolving into a fully-fledged competitive wholesale market aligned with global best practice.

Metro Trading Services Reform

Shift to Independent Trading Entities: restructure electricity trading functions into ring-fenced or corporatised trading entities.

Enhanced Market Participation: enable metros to participate more actively in the Wholesale Energy Market, allowing them to buy electricity from multiple generators (not only Eskom) and sell to customers.

Improved Governance and Financial Sustainability: strengthen governance, billing, and revenue collection systems. The reforms are designed to reduce cross-subsidisation risks, improve creditworthiness, and ensure municipalities remain viable

NECOM EDI Reform Roadmap

Context: NECOM's reform roadmap seeks to stabilise, restructure, and modernise the EDI to align with the broader electricity supply industry (ESI) reforms

Key Pillars

- **Industry Restructuring & Consolidation** Move towards a fewer, stronger distribution entities
- **Financial & Governance** Reform Address municipal debt to Eskom through structured repayment, incentives, and revenue protection.
- **Strengthen governance, billing systems, and creditworthiness** of distributors to ensure long-term financial sustainability.
- **Market Integration** Prepare distributors (especially metros) to buy power through the WEM from multiple generators,
- **Investment & Modernisation** Mobilise funding for refurbishment of ageing networks, digitisation etc.

Phased Implementation Approach

- Pathway and voluntary approach

National Reform Initiatives..2

Just Energy Transition

Shift from Coal to Renewables:

South Africa is gradually moving away from coal towards clean energy sources like wind, solar, and green hydrogen to meet climate commitments.

Protecting Jobs and Communities:

The transition is designed to be “just” by supporting coal workers, vulnerable communities, and coal-dependent municipalities through retraining, social support, and local economic diversification.

International Climate Finance:

South Africa has secured global funding (JETP – \$8.5 billion) to support renewable energy projects, grid upgrades, and community development while ensuring energy security.

Customer Transition **(Not National but Organic)**

From Passive Consumers to Active Participants

Customers are no longer just buying electricity; they are becoming “prosumers” who can generate (e.g., rooftop solar), store (batteries), and sell back power into the grid or market.

Adoption of New Technologies & Choices

Households, businesses, and industries are transitioning to renewable energy, smart meters, electric vehicles, and energy efficiency solutions, giving them more control over usage and costs.

Shifts in Tariffs and Market Access

As South Africa reforms its energy market, customers will gain direct access to multiple suppliers (not just Eskom/municipality), but must also adapt to cost-reflective tariffs and new billing models.

EDI Reform issues formed part of Workstream 9 under NECOM 1.0

- Eskom and SALGA motivated that EDI Reform should receive dedicated attention in NECOM 2.0 owing to the urgency of the situation

Workstream 5: EDI Reform was subsequently established, co-chaired by SALGA and Eskom

- It includes a dedicated Workgroup 5.1: EDI Reform Roadmap (also co-chaired by Eskom and SALGA)
- The following have been actively participating in the NECOM process: DEE, Eskom, SALGA, NERSA, COGTA, National Treasury, JET PMU, SANEDI, MISA, and AMEU



Context



Infrastructure Decay
and Technical Losses

Eskom monopoly and
financial crisis



Municipal
Inefficiencies and Debt



Corruption, Theft, and
culture of Non-Payment



Load Shedding's Devastating Effect on
Businesses



. Rising Electricity Costs



Unreliable Supply Affects Essential Services

South Africa Inc...



Reform = Reliable Power + Economic
Growth + Sustainable Future

Recent developments in the EDI demonstrate that reform is urgent



Eskom and munic utilities are in financial crisis

- Customer debt to Eskom and municipalities is growing
- Munic debt to Eskom is spiralling out of control: R94.8bn (Dec 2024)
- Munics are losing money on electricity provision



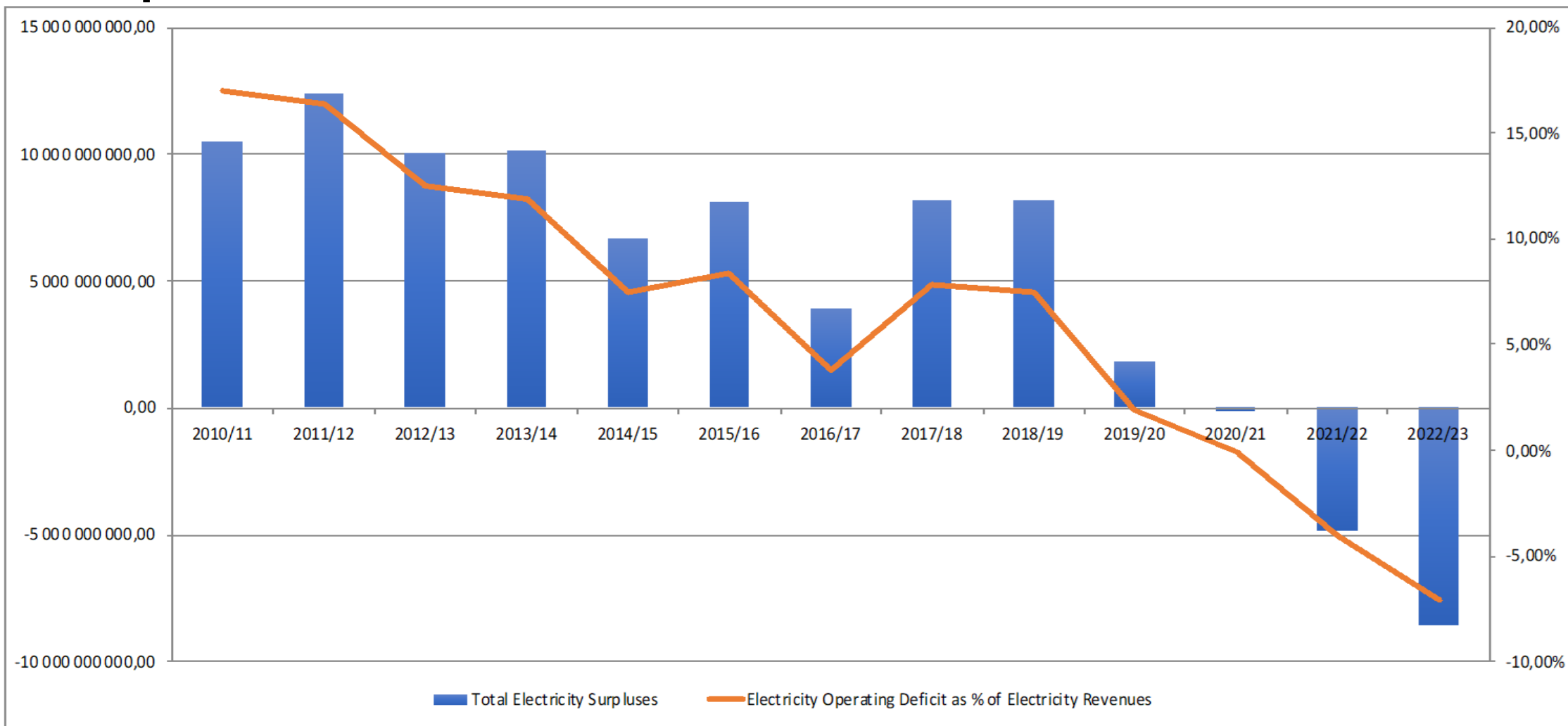
Technology and market reforms require urgent upgrading of grids to enable SSEG, wheeling, trading, etc



There is a decline in service delivery

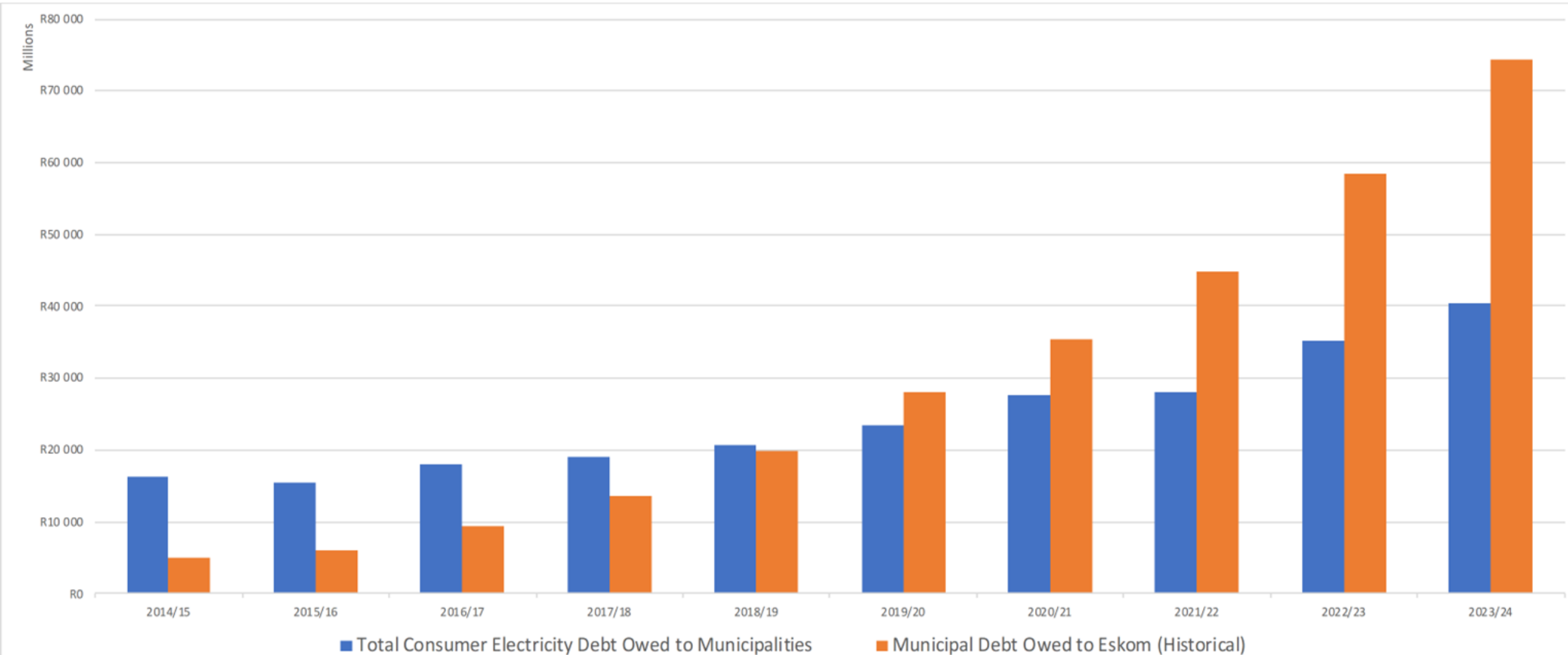
- Grid breakdowns are contributing to regular power outages – Consumers are experiencing “Loadshedding 2.0” in many places
- The backlog in infrastructure maintenance and refurbishment is huge

Municipalities are, on the whole, no longer generating electricity surpluses

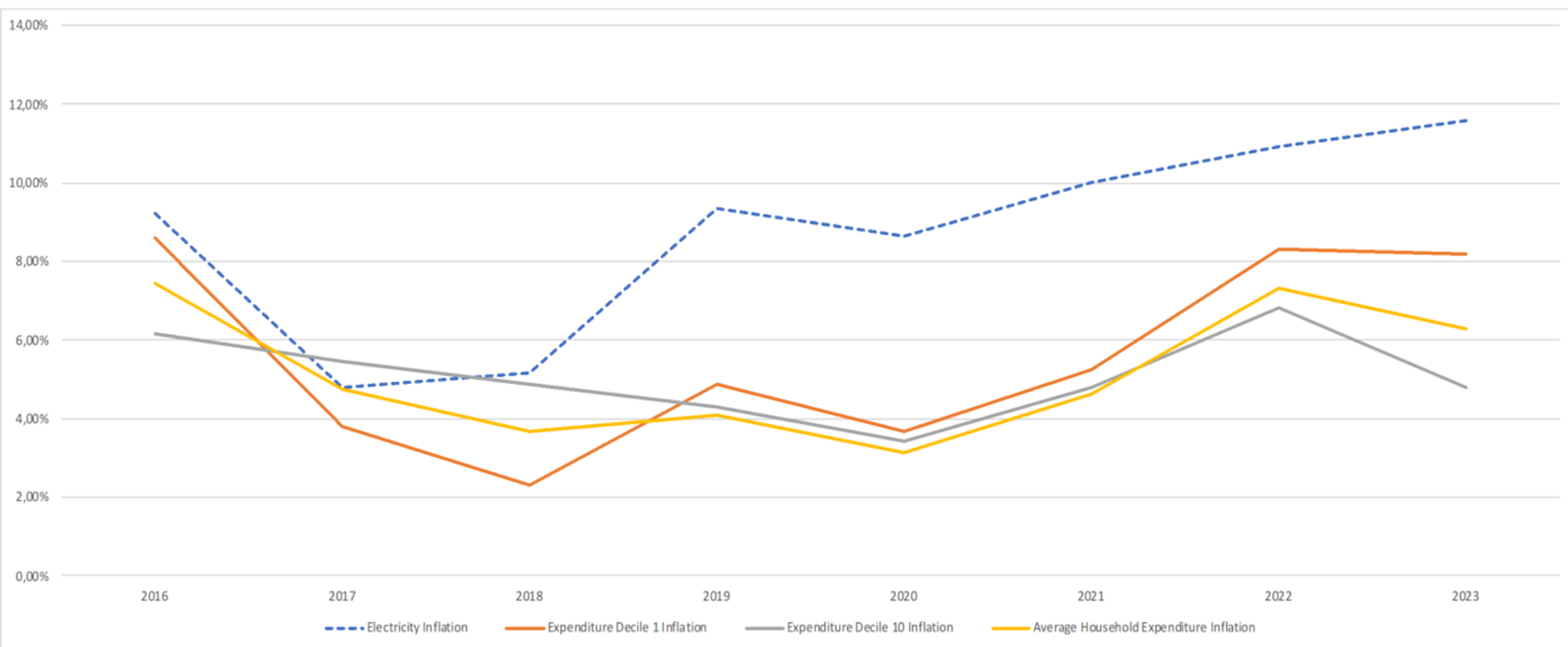


Source: National Treasury Section 71 report: revenues minus operating expenditures

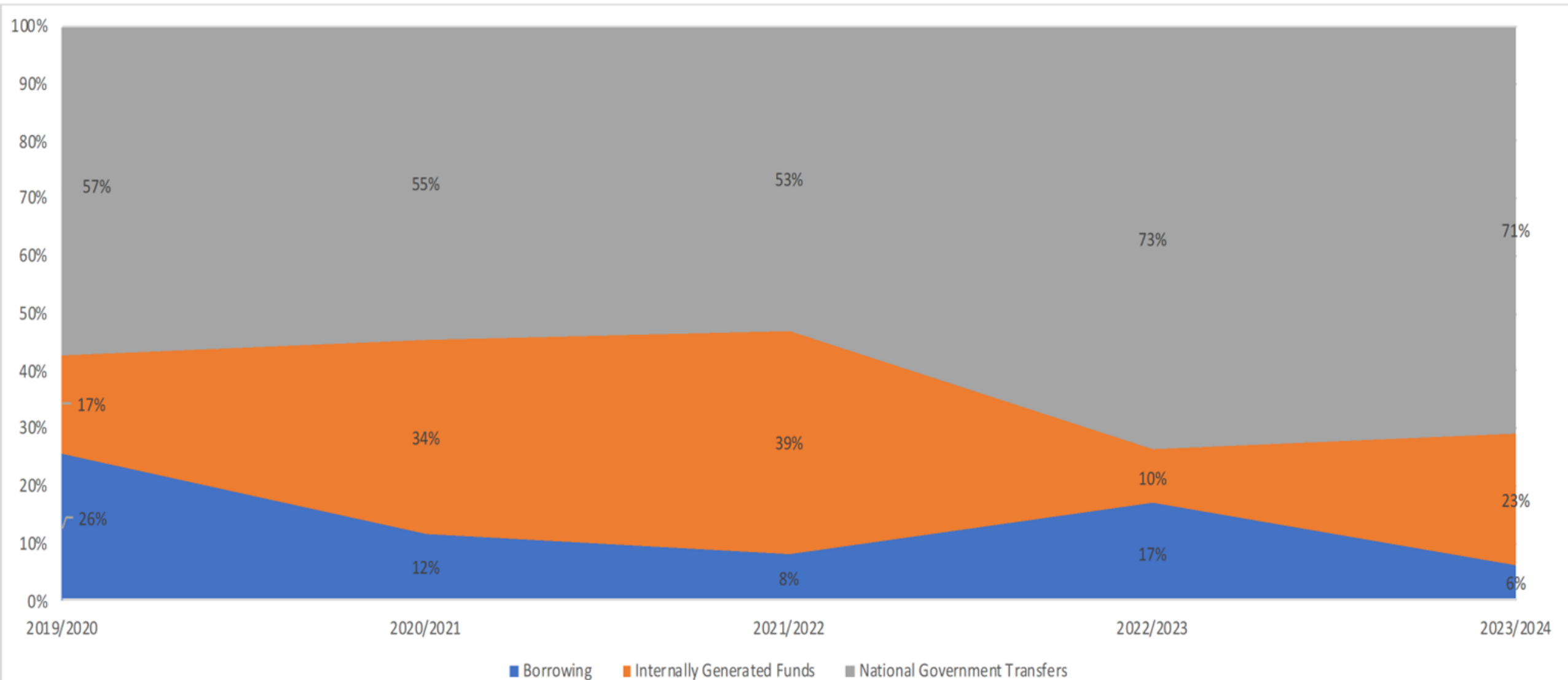
Growth in Debt Owed to Municipalities and Municipal Debt Owed to Eskom



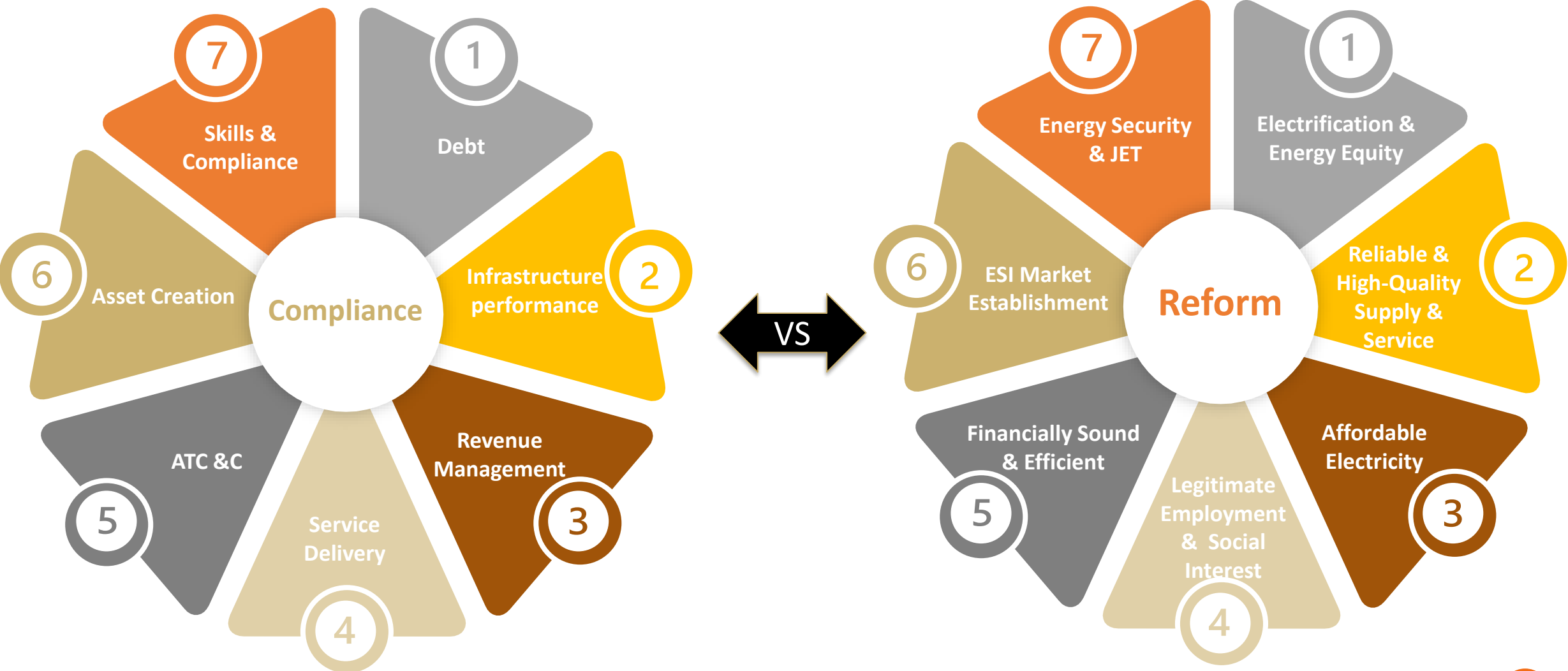
Affordability – Growth in Electricity CPI vs Household Expenditures



CAPEX Source - Municipal

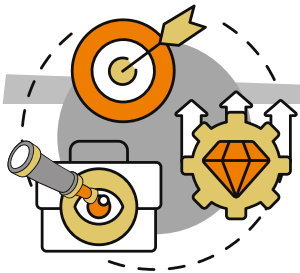


The challenges experienced in the industry can be grouped in **Compliance** and **Reform** challenges



The Vision and Objectives were agreed upon by the Stakeholders

A vision is an inspiring picture of a preferred future. It is not time-bound and serves as a foundation for all policy development and planning.



Vision

*"A **sustainable**, **well-resourced** and **managed EDI** that delivers sustainable, **affordable**, **reliable** electricity distribution **services for all**, that adhere to **JET** and is able to function effectively within the **energy market**."*

Objectives are defined as the longer-term outcomes that Municipalities want to achieve with the EDI Reform. Objectives guide actions and decisions

01

Sustainable, efficient, well-resourced and compliant electricity distribution industry.

02

Improved service delivery to unlock economic growth

03

Market reform & access to all forms of energy for the benefit of the customers.

04

Access to the market on a fair and competitive basis.

05

Enhanced business "line of sight".

06

Increased flexibility and adaptability to the changing ESI.

07

Enrich the governance & capacitate the Municipality with new skills to ensure survival.

Objectives



What outcomes are we aiming to achieve?

Workstream 5 stakeholders have identified the characteristics of the Utility of the Future. This utility:

1. Is financially and operationally sustainable
2. Is cost-efficient
3. Provides reliable, high quality electricity
4. Provides affordable and inclusive access to low-income households
5. Adapts to and mitigates climate change
6. Is customer-centred
7. Deploys modern, smart technologies that respond to market reforms
8. Is innovative
9. Is aligned with South Africa's policy and regulatory environment



Guiding Principles

Stakeholders have identified the following as the guiding principles that should underpin the Reform Roadmap (Minister's priorities in red):

Leadership recognises the long-term sustainability of the EDI as strategically important to SA Inc and acknowledges that achieving sustainability requires mandated reforms. (Assert SA, continental, and global energy leadership)

The EDI reform must address the energy trilemma of affordability, access, and sustainability. (Achieve universal access, availability, affordability and quality)

Fairness and equity should characterise EDI reform solutions for all sector participants.

The successful reform of the EDI requires regulatory capacitation to enable the consistent compliance and enforcement of a sound and future-fit regulatory framework.

The EDI must be modernised and digitalised in a structured and phased manner to ensure a robust, effective and sustained response to a changing sector structure. (Drive industrialisation and lead innovation)

The underlying funding and revenue model of the EDI must be addressed to enable EDI sustainability.



Agreement on key issues

NECOM stakeholders agree on the following:

1. Reform is necessary!
2. The reform process recognises the constitutional authority of municipalities over electricity, while acknowledging that the “authority” and “provider” roles can be separated
3. The lack of compliance is a central problem in the EDI – regulatory enforcement is key
4. The Reform Roadmap should make recommendations on addressing both the current crises as well as the longer-term sustainability issues



The “Pathways” Approach

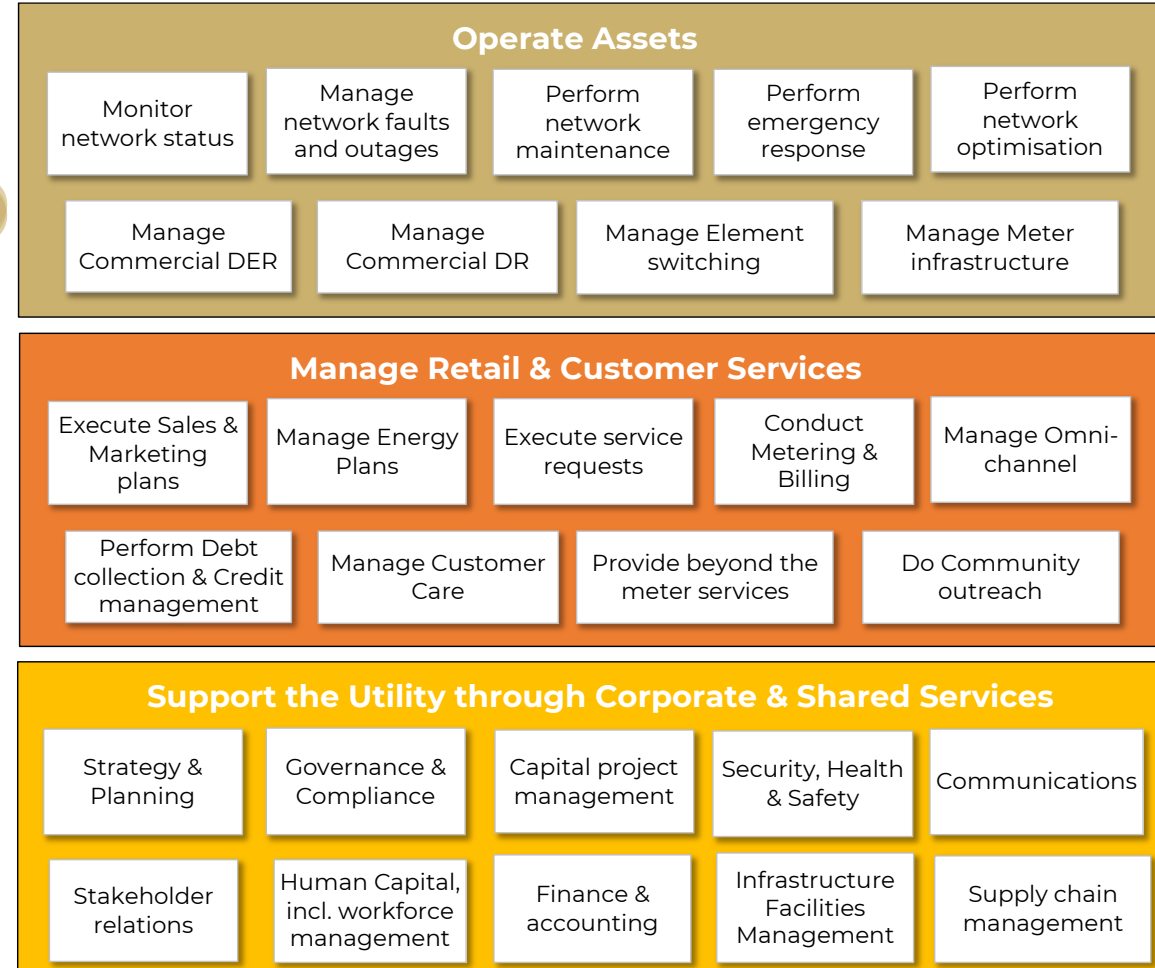
Stakeholders have converged on an approach for EDI Reform: the Pathways Approach

- Eskom and munics choose which pathway they are on, informed by robust assessments
- Each pathway requires the implementation of reforms
 - These reforms are voluntary for Pathways 1 and 2
 - For Pathway 3, if performance does not improve, it will trigger mandatory actions (including alternative service delivery mechanisms and consolidation)
- This reform process will likely result in significant consolidation of service provision
- This approach works within the existing constitutional and legislative framework

A critical question during the implementation: Is the Municipality capable to deliver its mandate?

The Question is answered by rating the capability against a generic Distribution Utility Business Capability Model

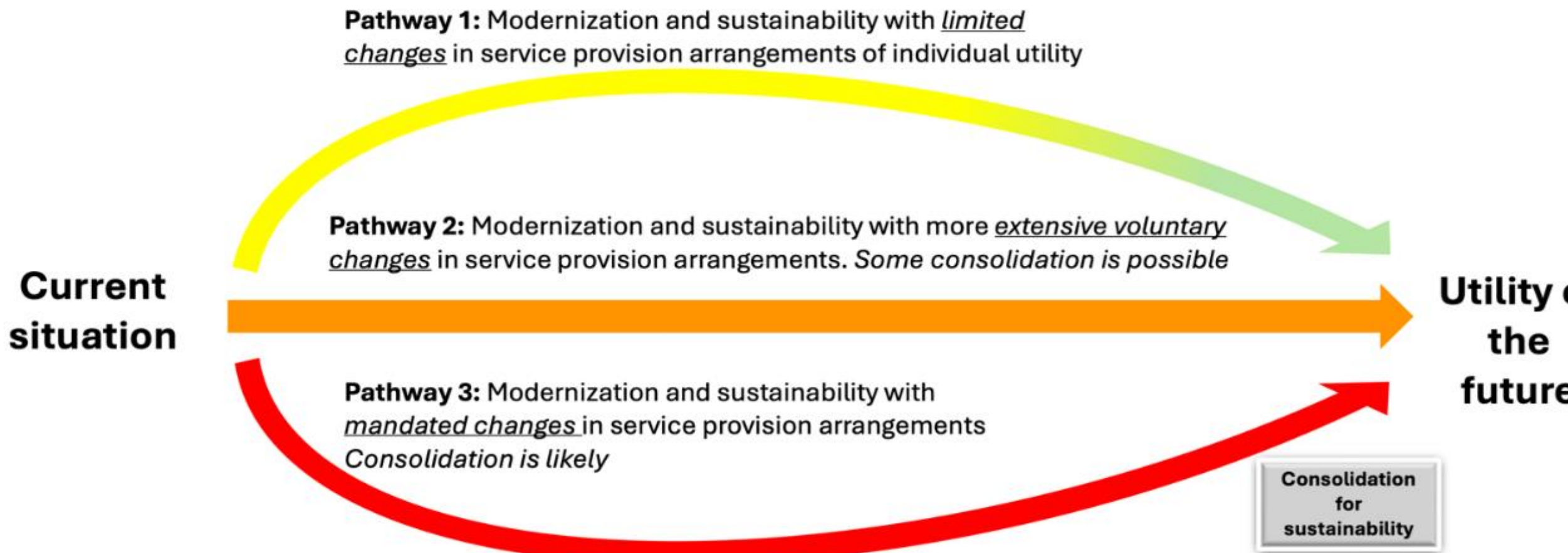
Rating	Description
Industry Leading (5) ●●●●●	- Meets all criteria for current business needs. - Displays characteristics observed by industry leaders. - Exhibits leading system-wide reliability performance. - Processes are well defined. - Improvement is pursued continuously and proactively
Outstanding (4) ●●●●○	- Key parameters are well defined, documented, understood and controlled throughout the Utility. - Roles and responsibilities for reliable improvement are defined and rolled out to the entire Utility. - Exhibits many industry leading attributes. - Targeted areas of improvement may exist to enhance overall performance and move towards best practices.
Proficient (3) ●●●○○	- Overall processes and management are in accordance with good industry practices and integrated across the Utility. - Improvement opportunities exist in a number of areas to move towards good or industry leading practices.
Managed (2) ●●○○○	Good principles and basis processes in place but not observed consistently throughout the Utility to translate principles and processes into key success factors observed in good industry practices.
Initial roll-out (1) ●○○○○	- Key parameters for good and industry leading performance are not observed. - Significant improvement required.



Enable the Utility through Systems and Technologies

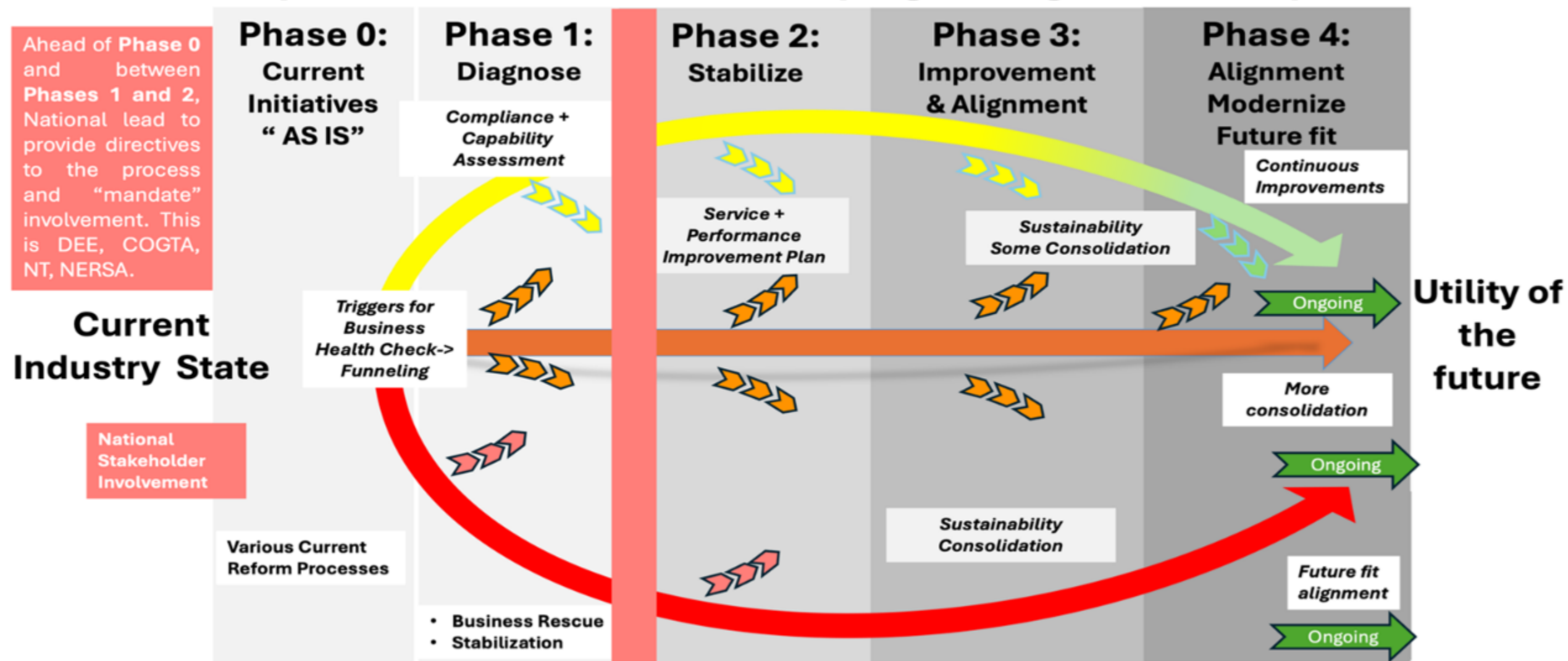


There are multiple possible pathways to the utility of the future



- Core reforms and operational efficiency improvements that are consistent across all pathways
- There may be overlapping between the different pathways & migration between the pathways
- Not all equally mature and will reach utility of future at same time - some consolidation will be required across current boundaries
- In voluntarily reform pathways, some may need fiscal & subsidy support

The application of phases provides a specific focus per process step, with minimum requirements to be met, before progressing to the next phase



Phases are not indicative of an end state but rather progress towards industry alignment, improvement and future fit

Alignment refers to increasing unbundling, consolidation and indicative of an institutional processes and business improvements of an end state of sustainability

Various transition options to move from any pathway to a different one depending on progress towards maturity or failure in service delivery over reform period

Unpacking the Pathways relative to the phases

	Phase 0: As Is	Phase 1: Diagnose	Phase 2: Stabilize for Sustainability		Phase 3: Improve and Sustain	Phase 4: Align, Modernize, Future Fit and Sustain
Pathway 1	Various current initiatives influencing the reform	Diagnostic assessment for performance & sets a minimum competency requirement. (funnel participants)	Normal performance improvement (sustainability) actions. For some, stabilization may not be needed. Pathway 1 may skip directly to Phase 3.		Once Stabilization Phase is complete, (some) utilities have institutional arrangements in place that place them on a path of improvement, sustainability and allow them to start modernizing For some, process will continue, some will move between paths & consolidation will be necessary Funding and subsidy model may be necessary	Further industry consolidation will be necessary (in grid assets and services / retail OR both)
Pathway 2		Business rescue (Pathway 3) or Stabilization (Pathway 2)	Various supporting actions from current supporting programs, e.g., CoS, revenue management, losses, etc. Performance Improvement Plans (PIPs) OR Section 78 or alternative service delivery mechanisms, e.g., Eskom DAA			
Pathway 3		<i>*Need regulatory capacity for this</i> <i>*NT Fiscal Support</i>	Section 78	Section 139 + s78 NERSA license withdrawal Court order Other, e.g., Eskom Curtailement / Load Reduction		

- Duration of phases may differ for each utility. Some may move quickly through the phases. Some may need to spend more time in a specific Phase.
- Propose that NERSA leads and be responsible (together with NT, COGTA, and DEE) for diagnostics and on-going oversight of PIPs and issuing licenses. That is, move from temporary licenses to permanent. This will require substantial improvements in NERSA's capacity. Note: Eskom license and its requirements are different to those of municipalities.
- National scale s78 implemented in close alignment with the licensing system.
- Some consolidation within current municipal boundaries and some across boundaries will be necessary.

Generic contracting options for service provision

Least
contracting

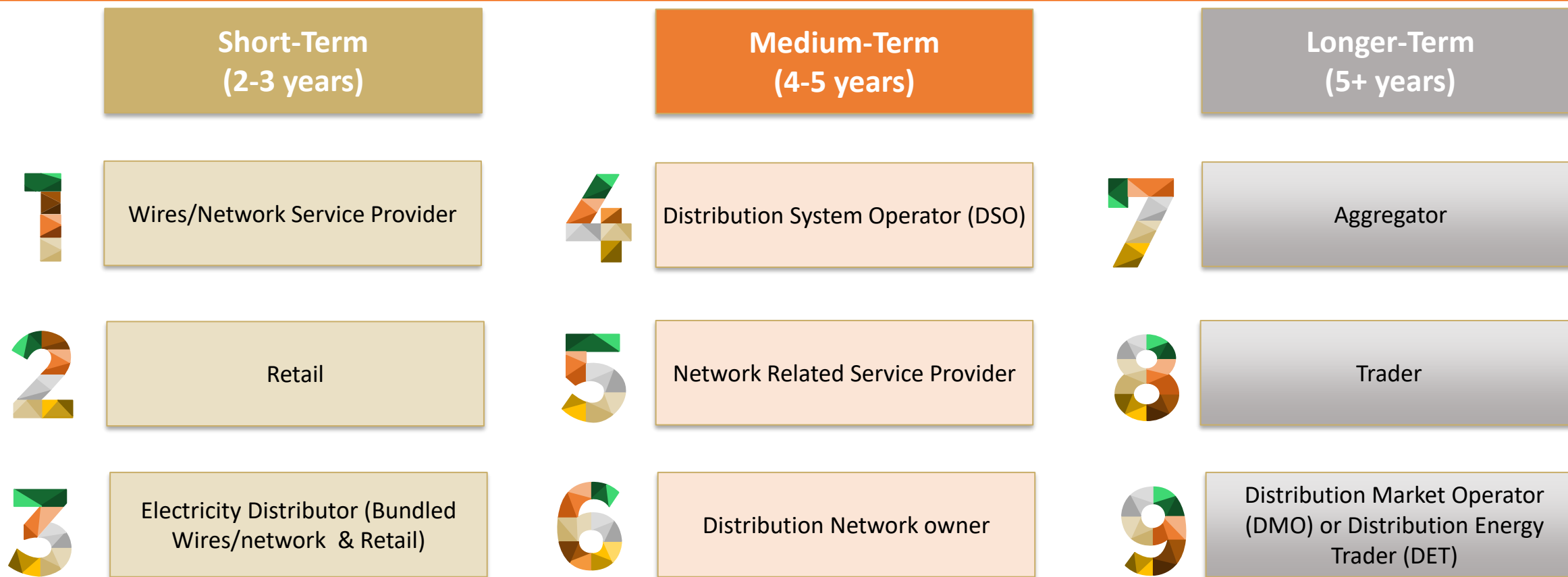


Most
contracting

- **Traditional (full) public distribution utility** – owned, operated, and managed by the public sector, with all functions performed internally.
- **Corporatised public distribution utility** – owned by the public sector as a ringfenced entity, operated and managed on an arms' length and commercially-oriented basis, with all functions performed internally.
- **Selective outsourcing** – specific non-core functions (e.g., IT support, registering customer complaints, etc.) are outsourced while the distribution company continues to retain control of core functions and strategy.
- **Service contract** – another entity is contracted to perform specific core functions / operational tasks (e.g., meter reading or debt collections) under close supervision, with a limited transfer of risks.
- **Management contract** – another entity is contracted to manage utility operations for a fixed fee, with no responsibility for capital investment or commercial risk.
- **Affermage / lease contract** – another entity manages and operates the utility, collects revenue, and pays a lease fee to the public owner, but does not invest in capital infrastructure.
- **Concession** – another entity operates and maintains the network, collects revenues, and is responsible for capital investment over a long-term contract

Note: These options are not mutually exclusive, but have been shown as separate options to avoid complexity.

Nine potential options were identified and grouped in short-medium-longer term based on viability



**Its important to note that Municipalities may participate at different levels as there is no “one size fit all”.
A hybrid approach is most likely.**

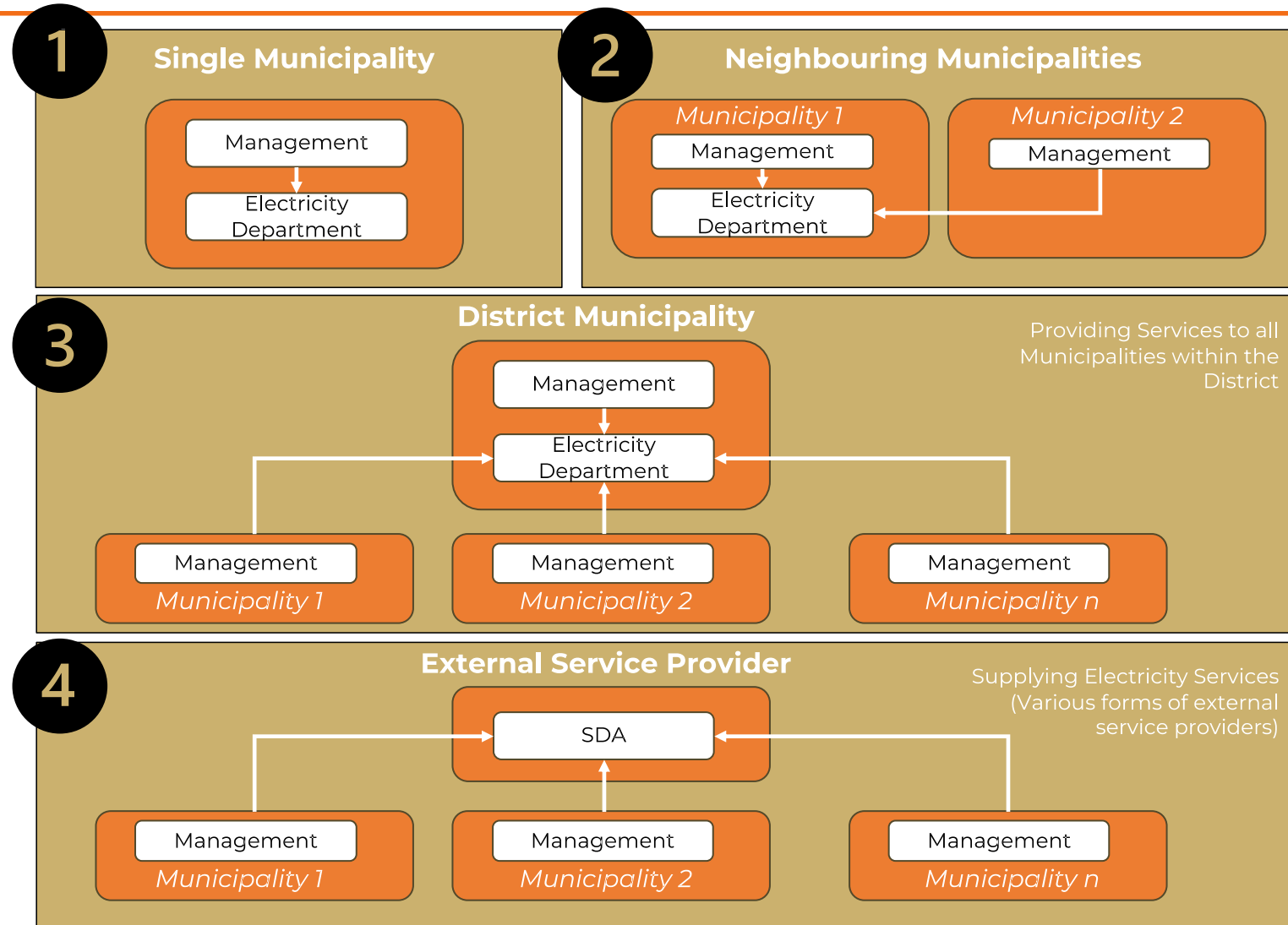


Refer to Annexure B detail for Option description
with enablers, benefits & risks

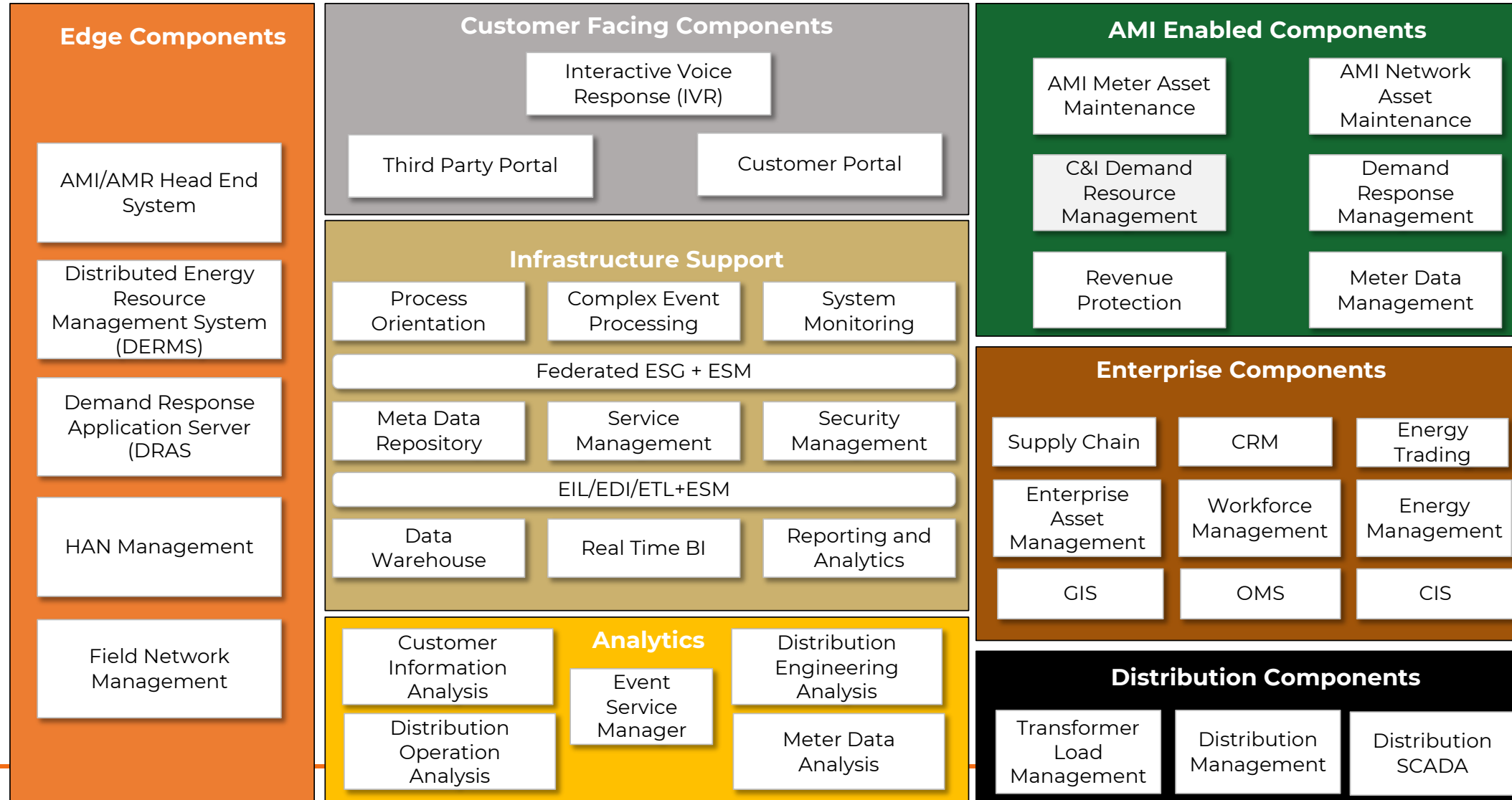


Service Delivery Options

1. Single Municipality through its own Utility as per normal internal department service delivery [MSA 76(a)].
2. Joint Municipal Utility which is an external alternative via a neighbouring Municipality [MSA 76(b)(ii)].
3. District Municipal Utility, which is an external alternative via a neighbouring Municipality [MSA 76(b)(ii)].
4. External service provider via a company or other institution through an SDA [MSA 80(1)(b) & MSA Chapter 8A].



A capable Municipality is supported by enabling systems and technologies





EDI Reform Roadmap Timeframes

Roadmap timeframes:

- Draft Roadmap in presentation format for consultation (April 30; completed)
- Draft Roadmap in Word format sent to stakeholders for comment (May 16)
- Roadmap signed off by NECOM for submission to Minister for approval: June 2025

Proposed process after Roadmap completed:

- Consultation on Draft Roadmap, led by Minister (June-July)
- Roadmap submitted into the Cabinet process (End July)

It is acknowledged that a **flexible approach** is required since there are:

- Utilities who are well positioned to leverage their current status and can participate in the envisaged reformed ESI.
- Utilities who are well positioned to leverage their current status, "expand their footprint" and participate in the envisaged reformed ESI.
- Utilities who require improvements towards meeting their "capable" Utility status, address their compliance gaps and to get ready for participation in the envisaged reformed ESI.
- A group of Utilities that will just not be able to meet the "capable" Utility or compliance status or be able to participate in the envisaged reformed ESI.

The **key elements of the EDI reform Roadmap** from a Municipal perspective can broadly be categorised as:

- Capable local governments retain the responsibility for electricity distribution, as provided in the Constitution, but have an obligation to ensure that the service is provided reliably and cost-effectively (in terms of national minimum standards and framework for a capable Utility).
- National Government, National Treasury, NERSA and SALGA to ensure that Municipalities are held accountability for performance in terms of clear operating licence conditions and with a credible threat of penalties or the withdrawal of the licence where licence conditions are not met.
- Municipalities continue to provide electricity related services themselves where they are capable to do so reliably and cost-effectively.
- Where Municipalities do not wish to or are not able to provide electricity reliably and cost-effectively, these Municipalities pursue alternative mechanisms e.g. enter into a service delivery agreement with a competent and efficient electricity distributor.



If a specific Municipality do not have the **capacity** or **competencies** to deliver the electricity distribution related services as per the Constitution, there must be a “sunset” clause for such a Municipality.

The non-performance or unsustainable EDI performance must not be allowed to continue.





Thank You



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