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Republiek van Suid-Afrika



Republic of South Africa

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DEKBLAD · COVERING SHEET

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Datum Date 93-07-08 Tyd Time 14:20

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Merk die toepaslike blokkie met 'n X
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Aantal bladsye (dekblad ingesluit):
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5

Onderwerp Subject "Technical Committee on constitutional issues"

Boodskap Message soos telefonies bespreek.
Oppronklike memorandum word gepos.

MEMORANDUM**TO: TECHNICAL COMMITTEE ON CONSTITUTIONAL ISSUES****FROM: DR GPN VENTER
DEPARTMENT OF MINERAL AND ENERGY AFFAIRS
PRIVATE BAG X59
PRETORIA
0001****DATE: JULY 8, 1993****INTRODUCTION**

The effective supply and use of energy is an important consideration in the development and competitiveness of a country. In South Africa the energy policy, especially the institutions that were developed as a result of this policy, has generally focussed on the supply of energy to the developed sector of the community.

EXISTING INFRASTRUCTURE

The present infrastructure for energy in South Africa is given below, as stipulated by specific Acts and policies of the Ministries of Mineral and Energy Affairs and of State Enterprises, the latter relating to some of the activities of Eskom.

Energy Infrastructure

Coal: Free market, as handled by private coal companies.

Liquid fuels: Regulated by the Department of Mineral and Energy Affairs with oil companies supplying to the retail outlets. This also applies to paraffin and liquid petroleum gas.

Electricity generation and transmission: Eskom, under the control of its Council, as appointed by the Minister of State Enterprises.

Electricity distribution: Electricity Departments of Local Authorities, as regulated by local Councils. This sector is in part not operating effectively as is explained later.

Coal gas: Free market, but limited in competition as it is an unregulated monopoly.

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Firewood: This is extensively used in rural areas, the use far exceeds the supply and no institution is directly responsible for an appropriate balance between supply and demand. A Biomass Initiative was launched in 1992 under the leadership of the Department of Mineral and Energy Affairs to address the problems, which include deforestation and inadequate availability and also to demonstrate what needs to be done and to gain the necessary experience in handling the energy problems of the rural poor.

IMPORTANCE OF THE ENERGY SECTOR

It has been stated above that effective energy supply and use is essential for economic development although in itself it is not sufficient. At present South Africa uses more energy to produce a unit of economic output than its main trading partners and its major business competitors. In fact, the cost of energy, including energy taxes and levies, is about 13% of the GDP. This ratio is much higher than that of most countries, where the norm tends to be about 8%. This is partly caused by structural deficiencies and the lack of attention to the effective use of energy.

ENERGY ADVICE AND PLANNING

Given that one of the weak points in the South African energy system is the lack of attention to the effective use of energy, it can be seen that second tier government should include a small energy office with the primary responsibilities for

- rendering energy advice, especially at rural level; and
- integrated energy planning and planning advice at regional level.

ELECTRICITY SUPPLY

The present electricity distribution system has many weaknesses. It was investigated by a committee under the leadership of the Department of Mineral and Energy Affairs. The report of the committee, entitled

The development of the electricity distribution industry in the RSA was released in August 1992. Some of the main findings are that the retail industry suffer from

- excessive disaggregation, as more than 400 bodies are involved, each with own policies and pricing systems. The necessary skills and specialisation are in many cases lacking;
- uncoordinated regulation;

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- inability to support accelerated electrification as is required for the socio-economic development of the country;
- surplus income is generated on the electricity account to subsidise other services, but the cost allocation process is not transparent.

The electricity distribution industry (EDI) is an important sector nationally as it:

- employs about 30000 people;
- generated income of R 7 623 million in 1991/92;
- currently reaches about 40% of the population and therefore has the potential of an increase of about 250%.

It is clear that the structure of the EDI will have to change to a smaller number of larger bodies, preferably outside the local authority sector, although there are other issues to consider in this regard. It should be regulated by a national body so as to ensure consistent, uniform policies and pricing approaches. This matter is at present being investigated by the Working Group for Structure and Regulation of the National Electrification Forum.

REGIONAL IMPLICATIONS

The view of this Department and many other role players in the energy industry is that:

- Electricity distribution should be handled at regional level, with a region being defined as an economically viable entity. Distribution should either be undertaken by private or public bodies or as a mixture between these two.
- Electricity regulation should be handled by a national regulator, based on a process of incentive regulation.
- A regional energy office is required for energy advice, demonstration and planning, or more specifically: planning advice to local communities.

The implication of these issues to the boundaries of second tier government lies in the economic domain, where taxes flow to the state coffers and economic activity based on a region's comparative advantages determine its level of development and opportunities for advancement of the populace as a whole.

From the work within the Electrification Forum two schools of thought for the electricity industry are emerging. It is imperative that any constitutional decision on the functioning of second/third tier government or the demarcation of boundaries do not compromise this debate. Similar debates for the liquid fuels

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industry and for energy provision for the rural masses are in their infancy. Since energy forms a cornerstone of the economy, and the wrong decision now will have major continued impact into the future these debates should be allowed to go their natural course.

The two schools of thought essentially boil down to one national regulator for electricity (and by implication the same for the other energy carriers where required - the oil industry being regulated this way at present)

- 1) a vertically integrated electricity industry, starting from generation and ending with the final consumer and managed centrally at national level, with regional offices;
- 2) a central generation and transmission industry (Eskom) selling to regional distributors who retail to the final consumer - the regional distributor can be either publicly or privately managed, but will be publicly owned. This approach foresees inter alia a more dynamic role for Eskom in Southern African or even African context.

Given the important contribution of this industry to the local authority finances it is imperative that the best solution for the country as a whole be found.

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G.P.N. Kunderl.
8/7/93