



DRAFT NEDLAC AGREEMENT ON THE ELECTRICITY EMERGENCY RESPONSE

**NATIONAL STAKEHOLDER SUMMIT
ON ELECTRICITY**

16 MAY 2008

AREAS COVERED IN THE AGREEMENT

Context

Preamble

Pricing

Balancing supply and demand

Savings Plan

Role of Local Government



CONTEXT



Since January 2008, South Africa has been going through a period of an unprecedented electricity challenge manifesting in electricity shortage.

This situation has resulted in the significant reduction of the electricity supply reserve margin which in turn brought about unprecedented load shedding.

“The national emergency represented by the current power outages poses the challenge and presents the opportunity to the entirety of our nation to give concrete expression to the call we have just made for all of us to unite in action and act in unity to keep our country on course”. ***State of the Nation Address in February 2008.***

On 29 February 2008, the President of the Republic of South Africa convened a Special Presidential Joint Working Group to discuss and come up with a plan to address the electricity emergency.

Followed by a call by the African National Congress to convene a National Summit



Mediac social partners agreed that;

The current electricity emergency imposes on all stakeholders the need to reduce electricity use and may include increases in the price of electricity supply.

To work together to minimise the social and economic cost of all measures to address the electricity emergency

To identify ways of avoiding adding to the burden on poor households as well as ensuring the least possible impact on growth, employment, investment and exports.



Recognising that the proposed increase in the Eskom tariff could have significant negative socio-economic consequences, particularly on the poor, the constituencies agreed on the following:

- ◆ Spreading the necessary tariff adjustment over five years is aimed at achieving stability going forward.
- ◆ To effect the phasing, Eskom will be encouraged to submit a revised application to the National Energy Regulator of South Africa (NERSA).
- ◆ It is recognised that the final increases granted for this five-year period will be subject to the NERSA regulatory processes and may require some changes in the rules surrounding its multi-year price determination framework.
- ◆ It is accepted that substantial fiscal injections will be necessary to ensure that financial ratios crucial to the retention of Eskom's credit rating and its financial health are maintained.

The constituencies will engage further on specific tariff increases for the

PRINCIPLES

Constituencies agreed that:

Funding for demand side management (DSM) should not be included in Eskom's electricity tariff allocation over the five-year period in order to ease the burden of tariff increases in the short term.

in evaluating the socio-economic impact of an increase in the price of electricity, NERSA should take into account the 2c/kwH levy on non-renewable electricity proposed by the National Treasury

Special arrangements must be made to protect low-income households from the negative impacts of any increase.

Tariff directives to all licensees (Eskom and municipalities) must give practical direction on how to ensure protection of the poor and



The constituencies request that SALGA commit to implementing the tariff directive.

Nedlac will urgently commission a study to identify the cost of electricity by income level and type of community, and the effectiveness of current measures aimed at providing affordable electricity to poor households including free basic services.

Based on the study, the constituencies will develop and seek agreement on measures to enhance the access of poor households to affordable electricity.

The draft Electricity Pricing Policy will be tabled in Nedlac for consideration and will include a review of the developmental pricing policy for industry.

Constituencies acknowledged that NERSA is undertaking an audit of the events leading up to the emergency, including Eskom operations, and that it will make the findings public.

The National Stakeholder Advisory Council will engage on the report.



An overarching strategy to address the current crisis will rely on a hierarchy of approaches as follows:

- ★ **Increasing energy efficiency**
- ★ **Increasing supply**
- ★ **Pricing**
- ★ **Rationing**
- ★ **Load shedding.**

Energy efficiency and savings will be aggressively pursued and adequate

budget should be provided for this. Import tariffs for energy-efficient equipment should be reviewed.

While maintaining public sector leadership in electricity provision, and recognizing that the Eskom build programme is the long-term solution, implementation of cogeneration will be accelerated.

BALANCING SUPPLY AND DEMAND



Measures to that end will include publishing the prices to be paid and streamlining the contract and approval processes.

The parties commit to fast-tracking the proposals arising from NERT.

Mechanisms to facilitate connections for new investments and expansions should be fast and cost effective, and should be developed urgently.

These mechanisms to be agreed by the proposed National Stakeholder Advisory Council on Electricity

Funding will be made available to support initial audits for energy efficiency in some major industrial and commercial sectors.



Load shedding will be applied only in emergencies and on the basis of a national load-shedding policy that has been negotiated with stakeholders.

The policy should endeavour to minimise the impact of load shedding on industry and commerce as well as essential services, by exempting them as far as possible and, where not possible, by ensuring agreement on timing, duration and notice periods.

Government will develop a policy on mandatory rationing, including under the Power Conservation Programme, which will ensure that negative impacts are minimized and refer the policy to the Stakeholder Council for discussion

The policy should include the possibility of trading quotas and should rely on punitive pricing rather than shut offs which should be a last resort.

BALANCING SUPPLY AND DEMAND



The need to minimize unplanned outages of generation capacity must be addressed urgently by the Stakeholder Council

Constituencies will support any efforts required to achieve this end, including the deployment of additional technical resources if necessary, and continuing the current constructive engagement with primary energy suppliers.

The new build program of Eskom should be supported.

Every effort must be made to ensure that it is not delayed and that Eskom's financial capability in this regard is not jeopardized.



Progress to be monitored by the Stakeholder Council.

All regulatory instruments contemplated in terms of National Electricity Response Plan must be subject to a regulatory impact assessment before implementation.

Constituencies agree that duplication of regulatory requirements should be avoided.

The Energy Bill will be tabled in Nedlac for consideration.

SAVINGS CAMPAIGN



Constituencies commit to supporting a range of savings initiatives within their constituencies and amongst the public in general, and to monitoring their success through the Stakeholder Council;

Core messages will include how to reduce electricity consumption through:

- ★ **Switching off geysers during the day,**
- ★ **Changing to compact fluorescent lamps, and**
- ★ **Using electric heaters only as a last resort**

Business commits to intensifying efforts to further improve energy efficiency. the communications campaign to encourage electricity savings be constructive, effective and widespread. It must ensure a co-ordinated message across society, with alignment of messages from the state, Eskom and other parties.

Explore innovative mechanisms to encourage energy efficiency and savings and encourage the media to provide more consistent support



Constituencies recognise the crucial role that local government needs to play in the implementation of a range of measures and agree that as far as possible, national harmonised (coordinated, common) approaches need to be carried out by all local authorities.

All measures to address the energy emergency must take into account the challenges to local government arising out of the existing technologies, state of infrastructure and capacity as well as resource availability.

Decisions that affect local government must be consulted consistently with SALGA.

The parties support the work by EDI Holdings to audit the distribution system and identify maintenance, refurbishment and upgrading needs.

Local government must ensure consistent and effective consultation with stakeholders at local level on measures to address the electricity emergency, including around load shedding and tariffs, in line with the