

Is Service Delivery for Sale?

By Theo Boshoff, Agbiz CEO

In case you missed it, the South African Local Government Association (SALGA) is taking ESKOM, the Ministers of Mineral Resources and Energy and Co-operative Government and Traditional Affairs (COGTA) and others to court. Why? Because they want municipalities to be the only lawful distributor of electricity to consumers within their municipal area. It is not often that you see government departments or state entities litigating against each other in a formal court process. This is more than just a gentleman's agreement; the Intergovernmental Relations Framework Act requires state entities to follow every possible avenue to resolve an issue before it goes to court. This issue must therefore be serious, and it is.

According to the court papers, SALGA argues that the Electricity Reticulation Act provides the exclusive right for municipalities to reticulate electricity. Likewise, it is argued that the Constitution puts the obligation on municipalities and municipalities alone. Is this then all about service delivery? Not quite. In the court papers, SALGA asks the court to either rule that municipalities are the only entities allowed to distribute electricity or compel ESKOM to enter into service delivery agreements with the municipalities. The latter would mean that ESKOM still delivers the service, but an additional surcharge is levied on the consumer that goes to the municipality. In essence, then, money lies at the heart of the argument. The surcharge levied on electricity reticulation is the second biggest source of revenue for municipalities, just behind the equitable share received from the national fiscus and ahead of municipal property taxes.

The purpose of this article is not to go into the legal arguments, the court will decide on that, but indeed there are several common-sense considerations that need to be highlighted?

The first and perhaps most important consideration is the impact this will have on consumers. Many primary producers source their electricity directly from ESKOM and pay ESKOM directly, minus the surcharge fee. Aside from household consumption, which is a fairly small aspect, electricity is used for irrigation, keep packhouses cool, and run various machinery. Depending on the type of farming operation, electricity can make up a significant portion of the total costs of production and consequently determines whether farming operations are profitable or not. Our agricultural sector is integrated into the global economy and the only way we can maintain our international competitiveness is to remain cost effective.

The significance must also be understood within the context of an overall rise in agricultural input costs. Just in the last year, fuel costs increased dramatically on the back of higher Brent Crude Oil prices, the minimum wage increased by 16.1%, and fertilizer and agrochemicals costs increased by over 50% from the previous year due to international supply and logistics constraints, as well as rising demand from other agricultural producing countries. We can do little to cushion ourselves against these rising inputs as they are dictated by international factors beyond South Africa's control. However, if electricity costs were to increase based solely on a surcharge to municipalities, we would be scoring an 'own-goal' as a country.

We also cannot ignore the inability of some municipalities to actually render this service. Throughout the past ten years, the proportion of ESKOM's bad debt attributed to municipalities soared. Whilst clients paid the municipalities for their consumption; some municipalities failed to pay ESKOM fully for the bulk supply. As a result, ESKOM cut off the supply to several municipalities leaving agribusiness in small towns embedded in the grid with no power. In a bid to remedy the situation, many obtained court orders that allowed them to pay Eskom directly in exchange for Eskom keeping the municipality's lights on. If this simple fact is not considered, then more and more agribusinesses and agro-processors will be forced to relocate to areas where service delivery is more predictable. One can only imagine what this would do to the rural economy.

Because of these supply-side issues, many companies have invested in self-generation capacities or even independent power producers (IPPs) to supply surrounding clients through 'wheeling'. These IPPs account for the bulk of South Africa's renewable energy infrastructure and is critical if South Africa is to meet its climate change and greenhouse gas emission reduction targets.

Finally, perhaps the most important point that should not be overlooked is the reason why electricity reticulation often rests with the municipalities. Our Constitution is a transformative document that provides the roadmap to improve the lives of all South Africans. Service delivery is one way to achieve this, and it places a responsibility on all levels of government to achieve this. Therefore, a municipality should play the role of a servant-leader to guide us towards better service delivery. It should not be viewed solely as a right to extract an income. Perhaps a paradigm shift is needed.