

# The political, economic, institutional, and legal dimensions of power sector reform in South Africa

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# Overview

- Historical development of ESI in SA
- Key features of ESI in SA
- Political-economy of SA
- Drivers for reform
- Key reform episodes since 1990
- Linkages between political-economy and ESI reform

# Historical development of the power sector in South Africa ->1990

- 1882 First electric street lights  
Development of municipal and mine power stations
- 1922 Electricity Act, creation of ESCOM  
Electricity Control Board
- 1948 ESCOM buys out last major private generator,  
competition extinguished
- 1973 National grid integrated, increased scale-economies
- 70-80s Over-investment
- 1983/7 Government commission and new Electricity Act
- 1980s New governance, commercialisation, reduced investment

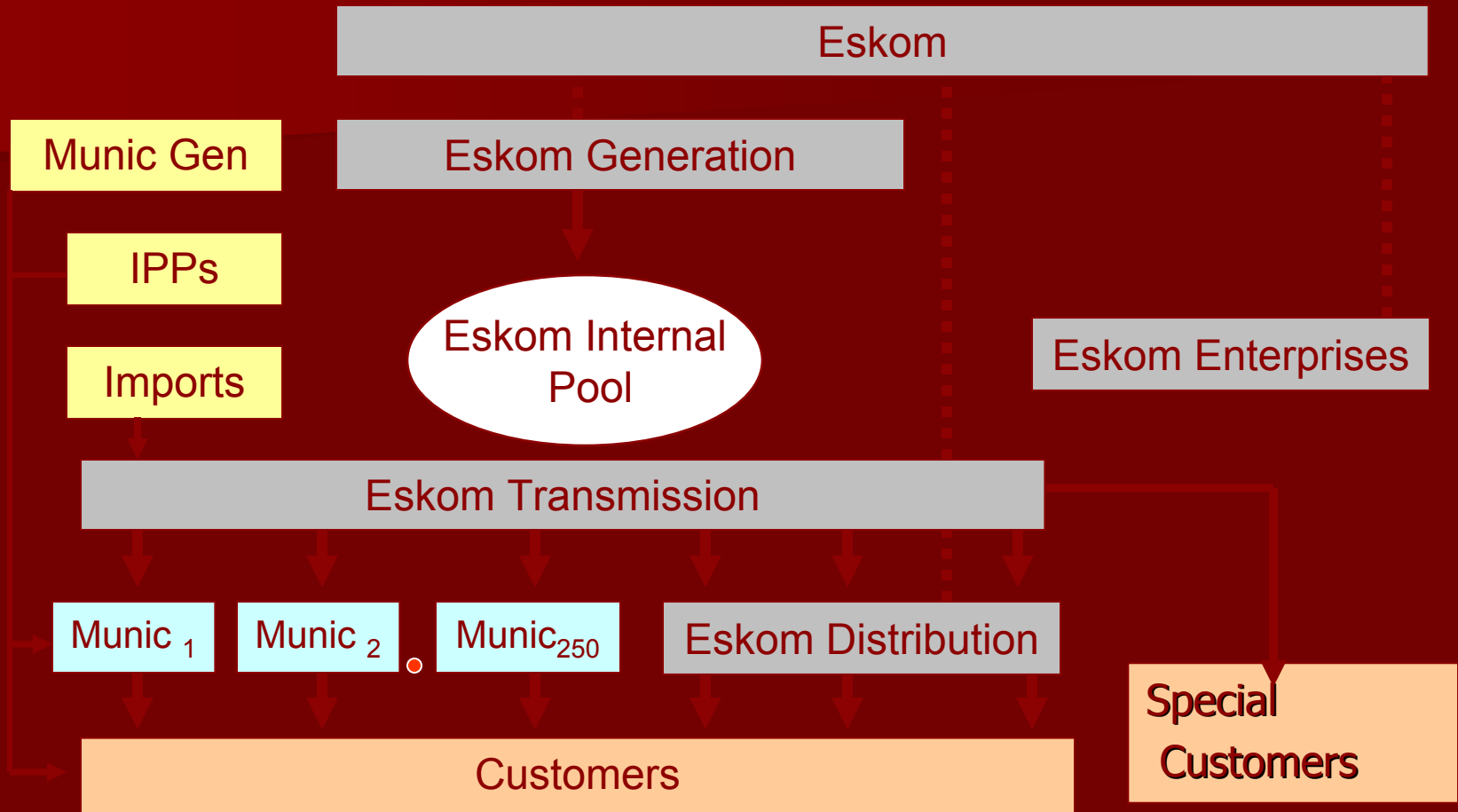
# Historical development of the power sector in South Africa

“Electricity in South Africa is as cheap as anywhere in the world, because wasteful competition has been eliminated...There will always be a very large field for private capital...but there are certain industries which...can be driven better by government without loss through wasteful competition”

- Prime Minister Smuts 1939

# Current structure of the electricity market in SA

- Near monopoly in generation – Eskom 96%
- Eskom monopoly in transmission
- All of distribution in state ownership – Eskom & munics
- No competition
- National Electricity Regulator licences market access and approves all tariffs
- Prices amongst lowest in world
- Supply quality good



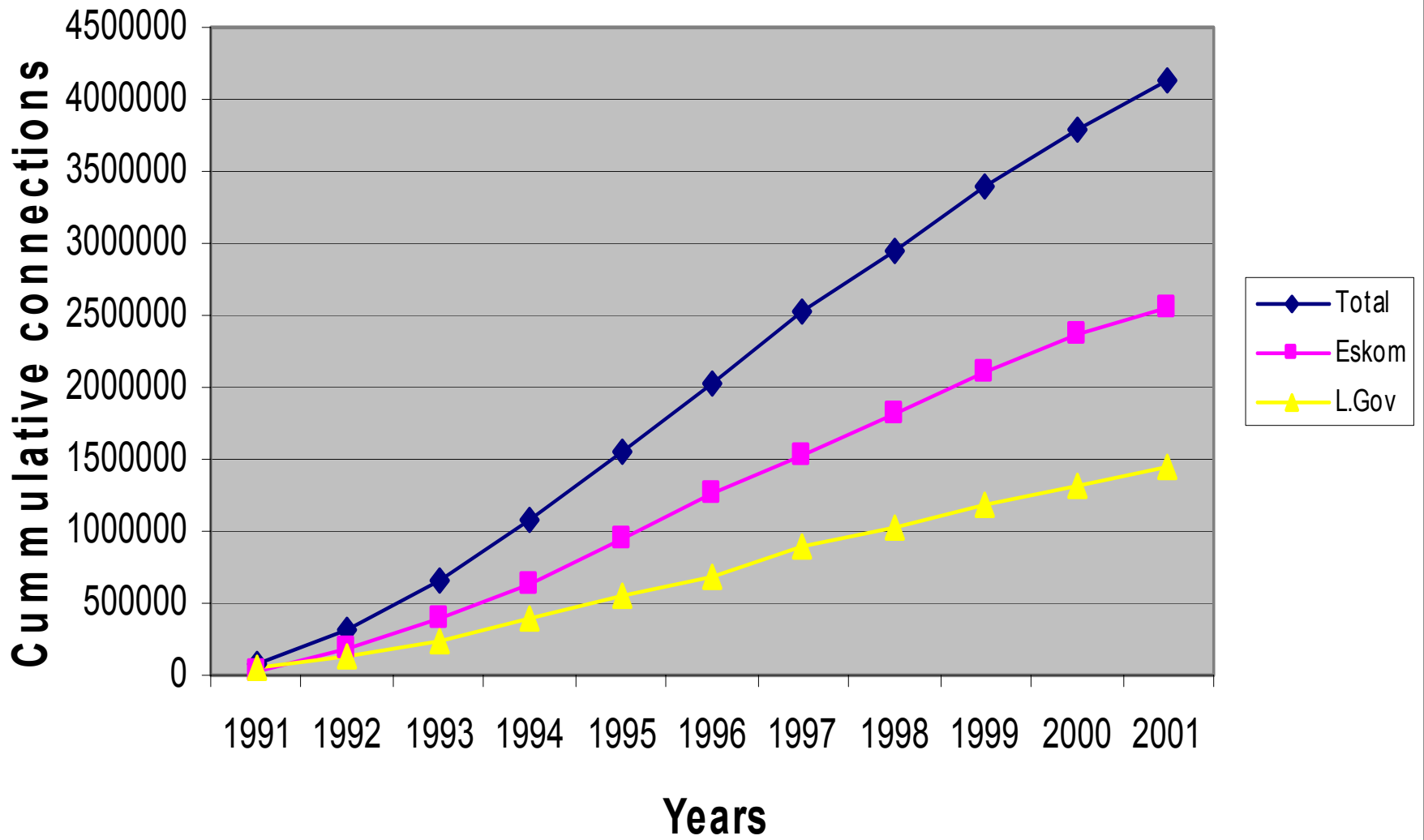
**Existing industry structure**

# Political and economic context in 1990s

- 1990, ANC un-banned, Mandela released
- 1994, democratic elections
- Reconstruction and Development Programme (RDP)
- Growth, Employment and Redistribution (GEAR) Policy
- From socialism to self-imposed structural adjustment
- Reform of SOEs

# Tackling the legacy of apartheid - widening access to affordable electricity services

- 30% had access before 1990
- Key RDP goal – 2.5 million new connections
- Goals exceeded – now 67% have access
- Capital costs are subsidised \$300 average
- Significant ongoing cross-subsidy
- Initially funded by Eskom – internal cross-subsidies
- Now funded through Fiscus
- Off-grid concessions
- Poverty programmes possible in any power sector structure provided policies and regulatory instruments in place



# International drivers for reform of the power sector

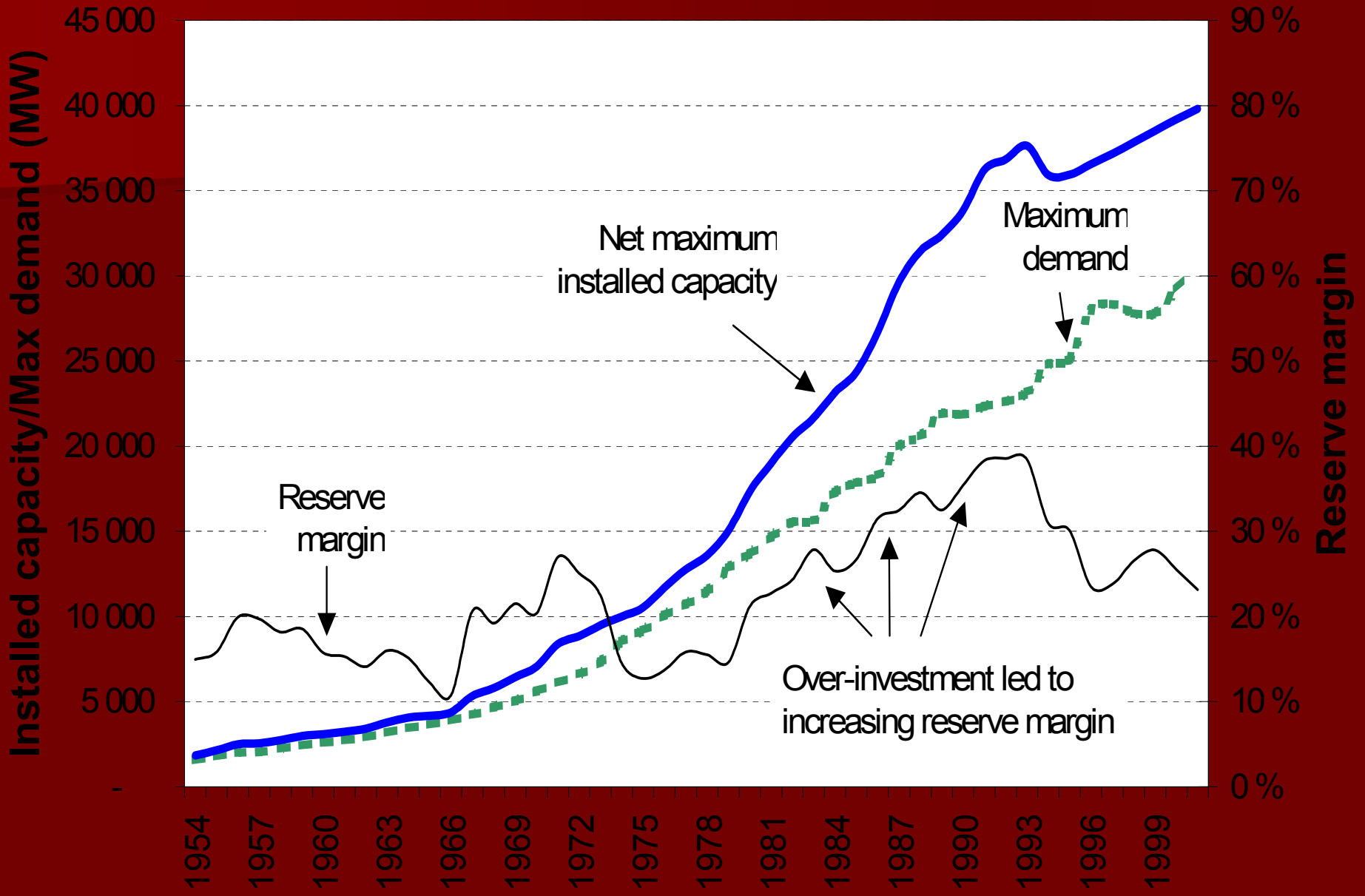
- Inefficiencies in investment and operations
- Financing for capacity expansion
  - Public resources insufficient -> private
- Part of overall economic restructuring
  - State redefines relationship to SOE's
- Opportunity to unlock and redistribute economic value
- Power sector reform as a fad?
  - International role models

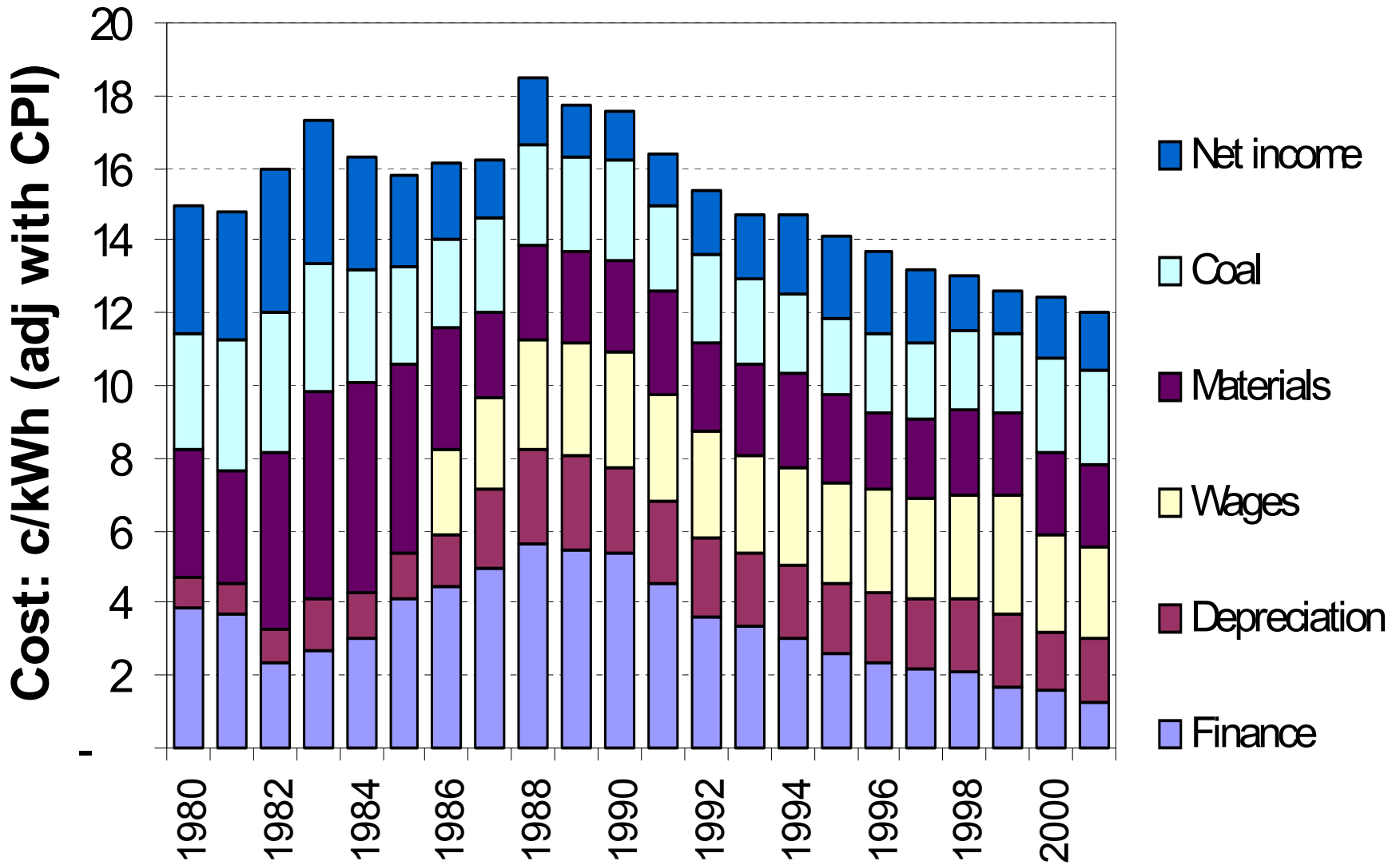
How strongly are these drivers experienced in SA?

# Drivers for reform in South Africa

- Inefficiencies in distribution
- Black economic empowerment
- Poor investment efficiencies

Within context of macro-economic reforms & perceptions of international trends in ESI reform

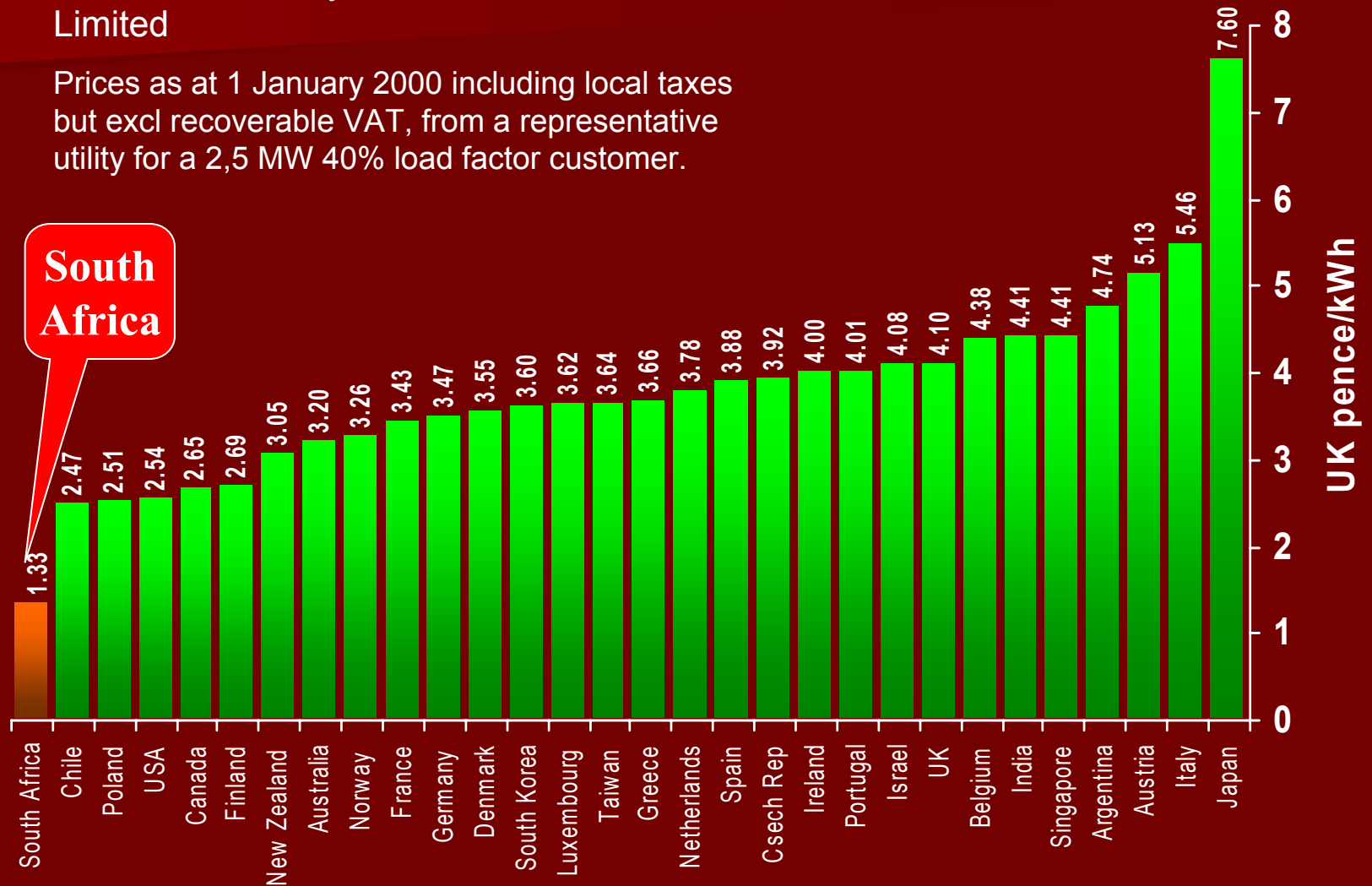


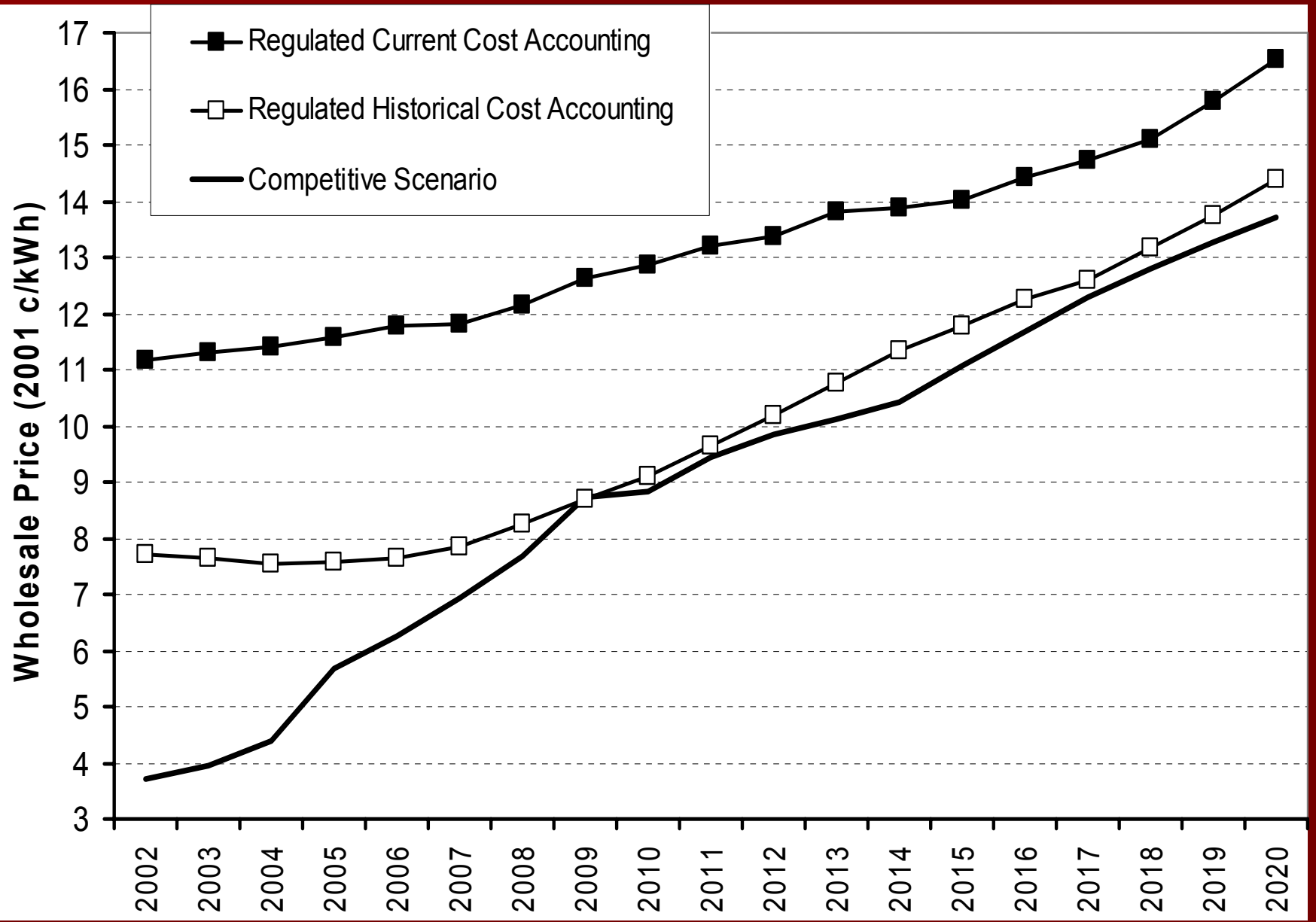


# World Industrial Electricity Prices

\*Source:Electricity Association Services Limited

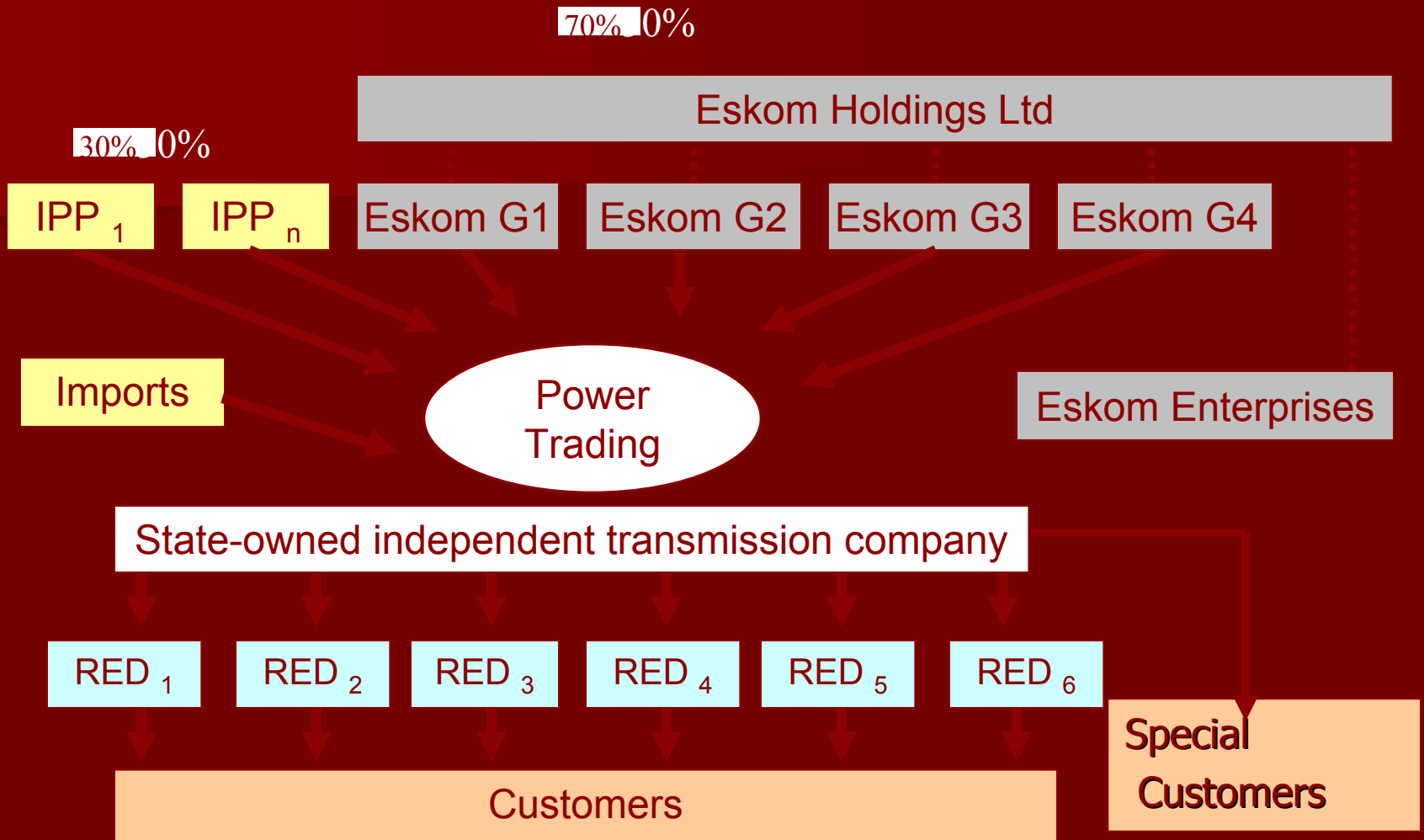
Prices as at 1 January 2000 including local taxes but excl recoverable VAT, from a representative utility for a 2,5 MW 40% load factor customer.





# Key reform steps in 1990s

- Paradigm shift in energy & electricity policy
- Establishment of independent regulator
- Rationalisation and commercialisation of distribution sector
- Corporatisation of Eskom
- Planning for managed liberalisation of electricity market



**Eskom generation subsidiaries with open access and trading**

# Conclusions

- Reform agenda influenced by immediate local problems and needs
  - distribution inefficiencies
  - black economic empowerment
- Also influenced by global economic environment
  - “Washington Consensus” and government’s broad macro-economic reform agenda
  - Reform of SOEs
- “Living on borrowed time” - > need for new investment framework and industry structure
  - Not widely appreciated. Impact of analysts / leadership? How is history made?

# Conclusions

- No simple transition from state-centred ESI to idealised World Bank ESI model; need to understand political-economy to understand nature and pace of reform
  - Finance
  - Governance
  - Industrial organisation
  - Policy
- Re-constituting the social contract
  - Independent of industry structure and ownership?
  - Example of electrification in SA
  - Main issue - appropriate policy & regulatory instruments must be in place