PORTFOLIO COMMITTEE ON ELECTRICITY AND ENERGY (PCEE)

Municipal Debt & Load Reduction

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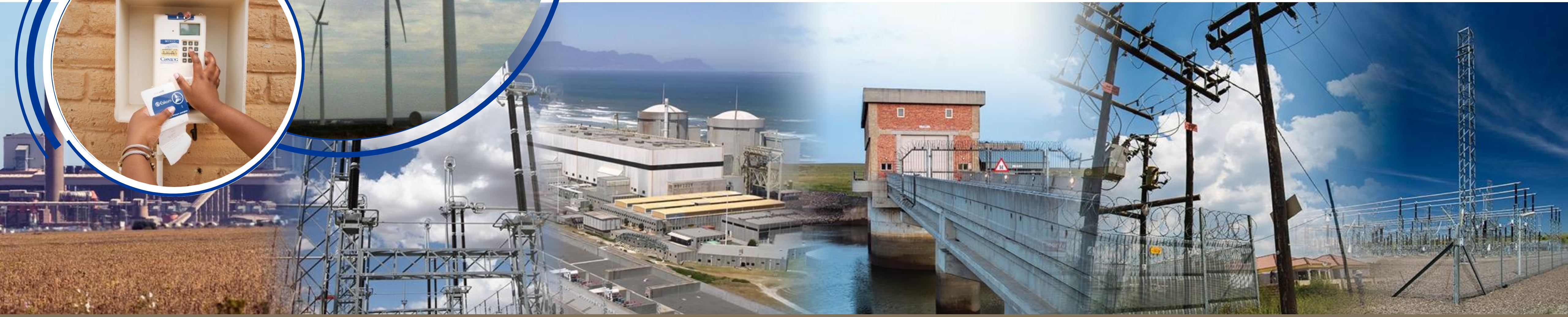
May 2026



Municipal debt requires structural intervention to protect service delivery and energy distribution industry sustainability

Eskom

The growing municipal and metro arrear poses significant risks

1. Left unresolved, **municipal debt will undo the gains** of the **Debt Relief Programme**

2. Eskom is **unable to put a date on the unbundling of the Distribution Division** due to the municipal debt owed to Eskom - seeking support from the government.

Measures to address municipal arrears announced by the Minister of Finance during the Medium-Term Budget Policy Statement on 12 November 2025

- **Defaulting municipalities will transition**, where appropriate, to Eskom's **Distribution Agency Agreements (DAAs).**
- Most municipal **debt is caused by a combined result of weak collections, excessive electricity and water losses** due primarily to a lack of maintenance, and inadequate credit control.
- **Under the DAA agreements, Eskom will operate the municipal electricity services temporarily for a defined period**, support cost-reflective tariff setting and loss reduction, and assist with collections.
- **Measures are being taken to help municipalities raise revenue**, including expanding smart metering.

The municipal and metro arrear debt continues to grow at unsustainable levels - the implementation of the Distribution Agency Agreement is critical

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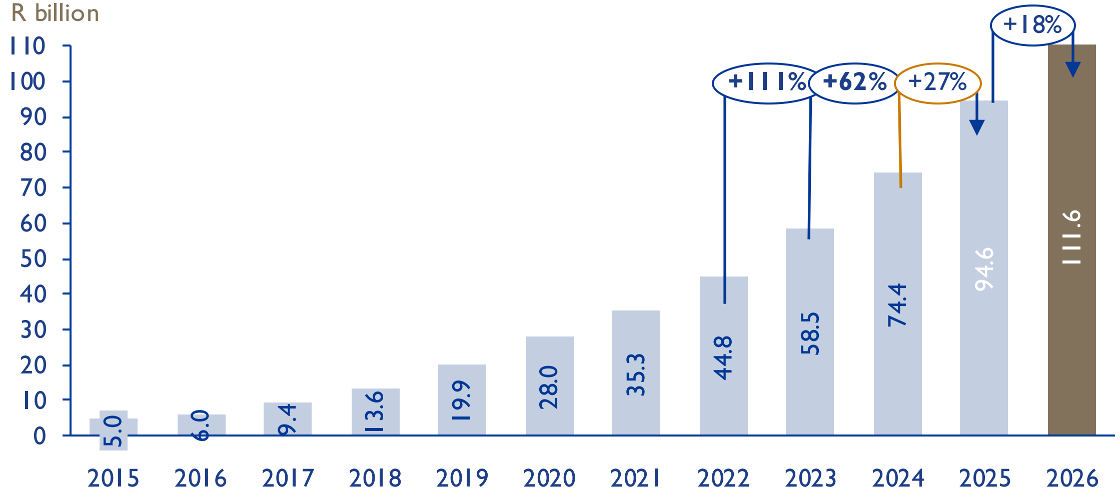
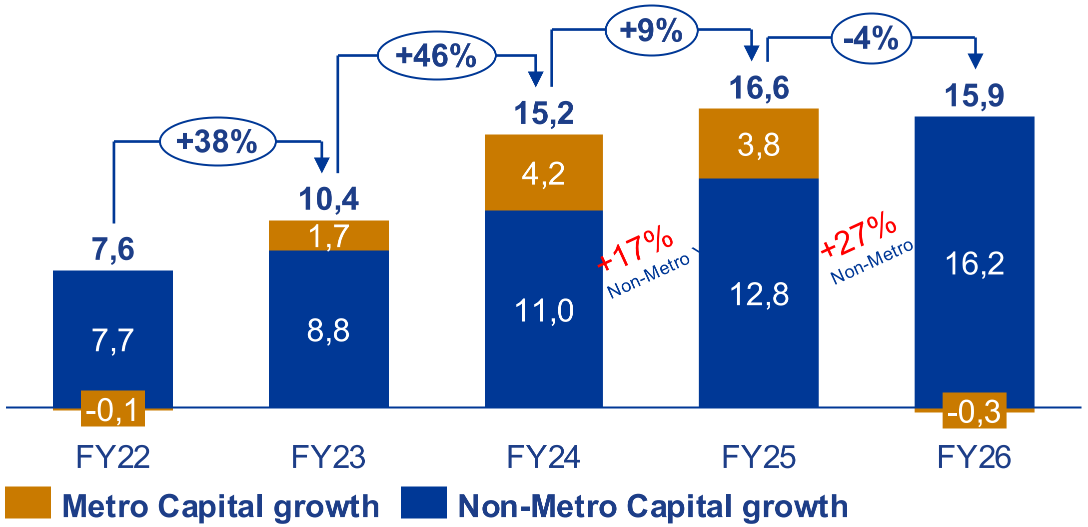
Municipal debt growth poses a risk to the electricity industry

Arrear municipal and metro debt growth



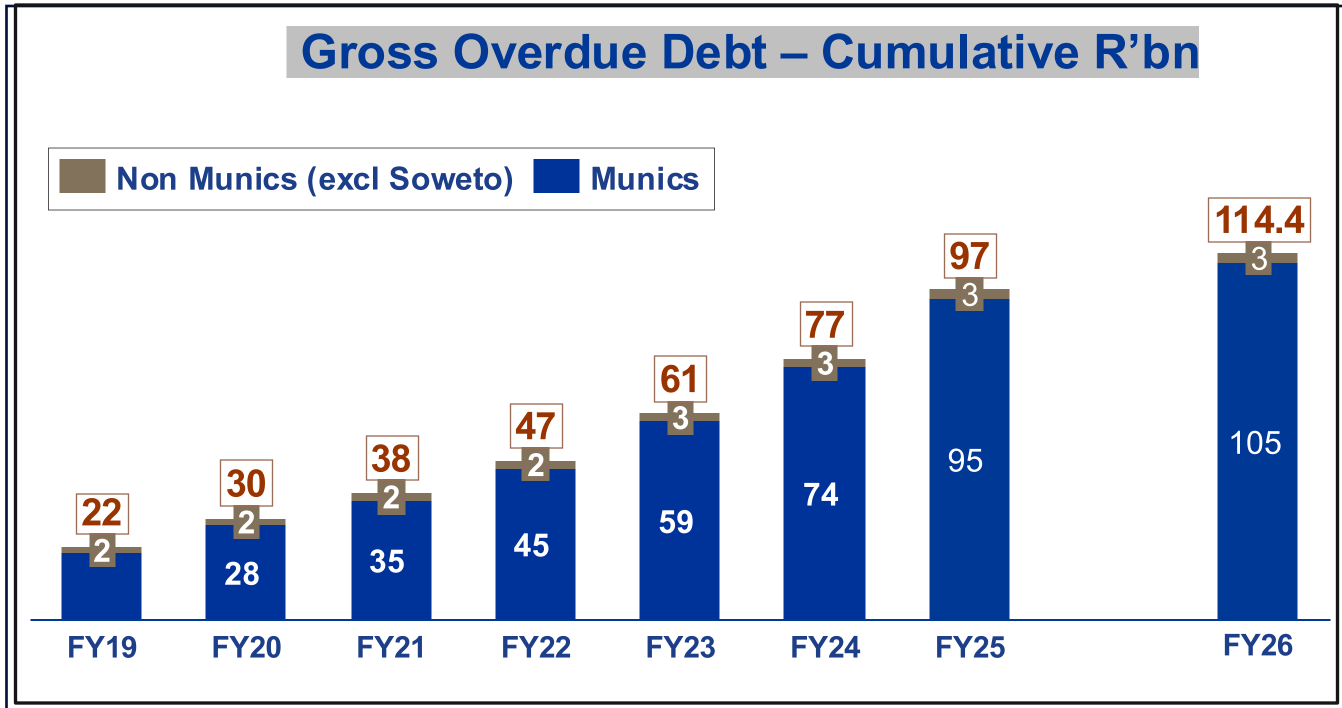


Recent developments in arresting further growth

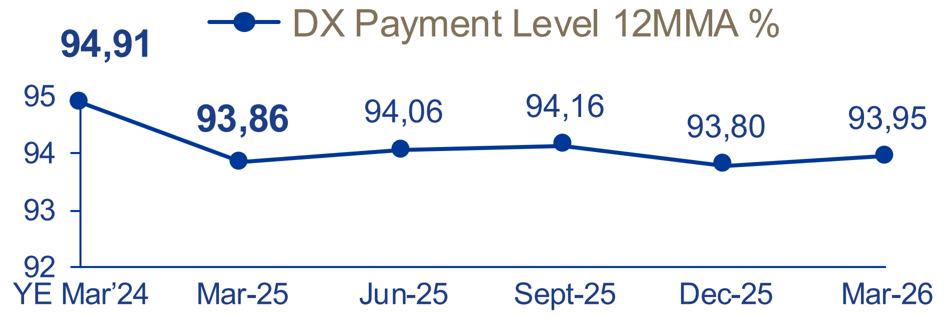
1. **71 municipalities on the NT** debt relief programme, **with 11 Municipalities compliant** paying current account
2. Payment Arrangements from Metro has stabilized Metro Debt Growth however there is a risk with COJ's non-compliance
3. DEE/NT/COGTA/SALGA has **endorsed DAA as the primary enforcement intervention**
4. **DAA to be integrated into the Debt Relief Programme**, with targeted write-offs of up to R62.6 bn for compliant municipalities.
5. **DAA provision - equitable share funds for FBE to be** quantified per munic and transferred to Eskom by the municipality.
6. Eskom **may cancel DAA for non-compliance** with payment obligations.
7. Learnings on Emfuleni and Maluti DAAs used to improve revised DAA
8. R4bn write-offs – FY 26 NT Debt Relief

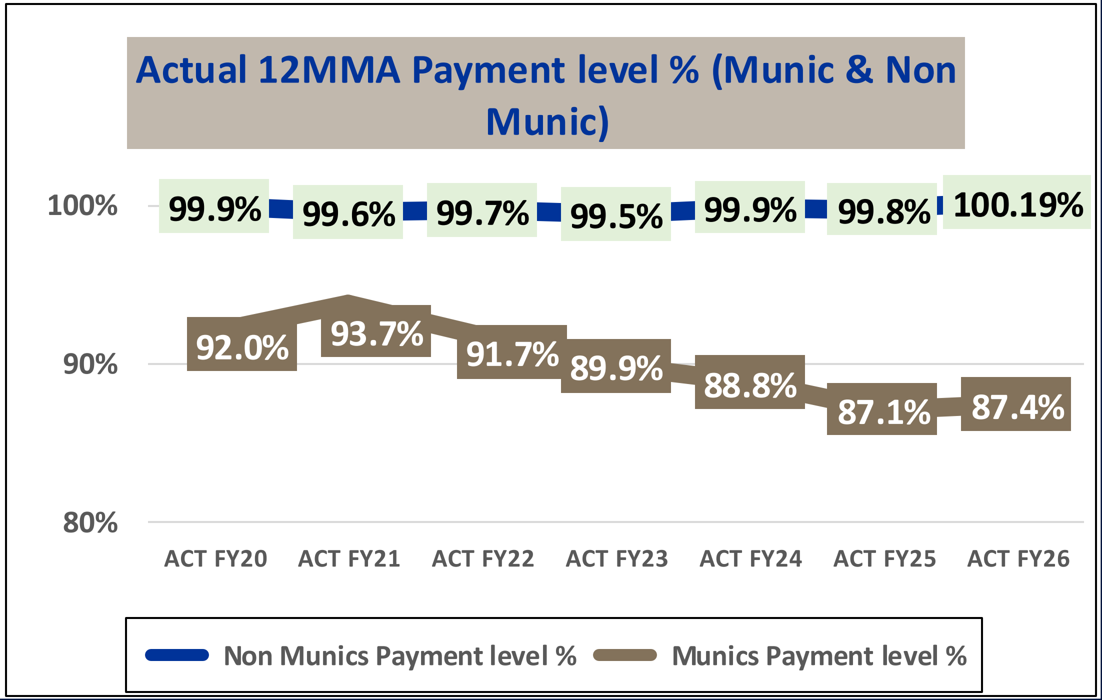
Solutions to the municipal debt growth are critical to the financial sustainability of Eskom, the electricity distribution industry and the legal separation timelines of Eskom's Distribution business

Eskom Payment levels are at ~94% and the gross cumulative overdue debt increased to R 114bn in FY2026 (Munic 111.6bn)



Overdue Debt Cumulative R'bn	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Munics (Metro's & Non Metro's)	20	28	35	45	59	74	95	111.6
Non- Munic customers incl Residential customers	2	2	2	2	3	3	3	2.8
Total Cumulative	22	30	38	47	61	77	97	114.4





The Eskom municipal debt recovery strategy aims to stop current default, prevent future defaulting and reduce and eliminate the municipal debt

Our approach is multi-pronged

	Government Intervention	Distribution Agency Agreement (DAA)	PAJA & Other Legal Interventions	Credit Management	Limit Service Provision
▪ Key/ Priority Strategic Elements	▪ Withholding of Equitable Share ▪ Engagement with National Treasury ▪ Nation Treasury Debt Relief Program & other solutions ▪ Standardised DAAs ▪ Continue to engage at various intergovernmental platforms	▪ Municipal capacity support ▪ Retail Services ▪ Annual Tariff Compilation ▪ Electrical Asset Creation, ▪ Maintenance and Operations ▪ Financial Services ▪ Support Services	▪ Interrupt / terminate supply (PAJA) ▪ Implement Eskom Revenue Policy & Procedure (inc. IRFA) ▪ Attach assets and direct payment by customers License revocation ▪ Implement prepayment solutions	▪ Focus on payment of current accounts ▪ Incentivise payment arrangements ▪ Implement effective revenue management process ▪ Strengthen relationship management	▪ Strengthen contract management ▪ Restrict maximum demand to contracted value ▪ Prioritise paying customers for provision of services and repairs

Detailed in the slides to follow

The implementation of the DAA is expected to arrest future debt, ensure sustainable services, and build municipal capacity

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Non-Exhaustive

Objectives

What does this help Dx & Munics achieve?

- **Improve revenue collection and prevent future arrear debt**
- Deliver on **skills transfer & capacitation** of the munic. to ensure a sustainable **distribution & reticulation function within** the **municipality.**
- **Support municipalities** to provide **sustainable local services** whilst also contributing to the **sustainability of Eskom**

Principles

How does this process work?

- Electricity business is **fully ring-fenced**
- **Capital investment** provided via **municipal funding mechanisms**
- **Billing & revenue collection done by Eskom**
- **Customers are supplied at Municipal tariffs**
- **FBE**[1] **grant and provision directly** via **Eskom** to ensure disbursement to indigents

Government Support

What is needed to enable this?

- Eskom recommends National Treasury issue a **new circular** with conditions that **mandatory DAAs are to be concluded for all defaulting municipalities OR**
- **Move unsustainable municipalities** to **Prepaid** or **Credit Limited Electricity Supply** Agreements (ESA)

Initial focus will be placed on the **top 14 defaulting municipalities**, representing **~58% of the arrear debt**,

Footnote: 1. FBE: Free Basic Electricity

The Intergovernmental collaboration has been supportive in addressing the municipal debt, but more needs to be done

1 Currently there are **only three signed DAAs** (Maluti-a-Phofung, Emfuleni and Merafong)

2 **National Treasury sent termination letters to 13 Municipalities:**

- These municipalities had failed to meet Debt Relief Programme conditions, including payment of current accounts over an extended period. Eskom also issued PAJA notices to these munics.
- 10 Municipalities to date have signed Council resolutions.
- Municipalities that have adopted Council resolutions are required to complete Section 78 processes by September 2026 to remain within the programme.

3 **National Treasury issued Circular 132:**

- Municipalities on debt relief programme to consider DAA, follow S78 processes and potential debt write-offs of NT Debt Relief debt
- Aligned with PCEE request to consider options where munics still retains **benefits and retail licence**

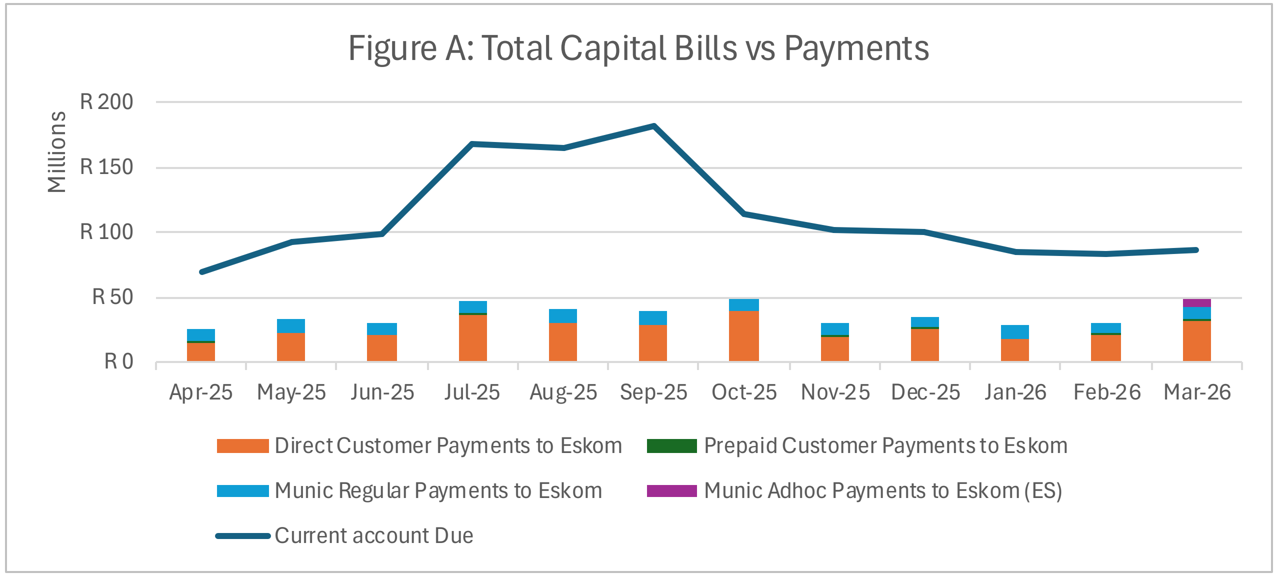
4 In Mpumalanga **four Councils resolutions** have been received to conclude DAAs

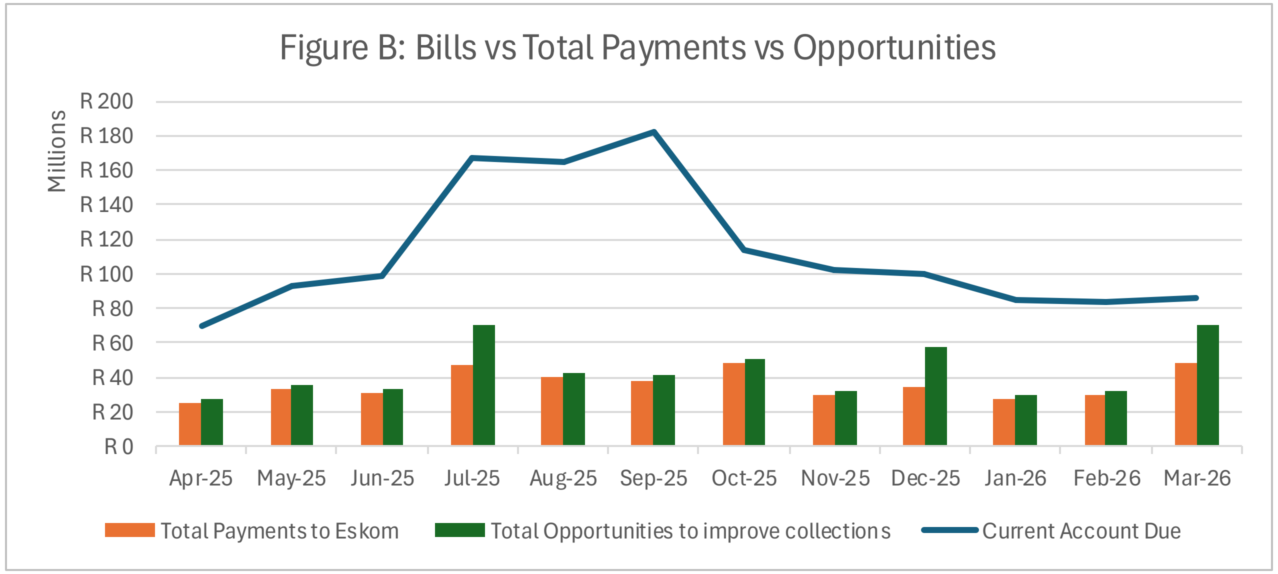
5 **NT/COGTA/SALGA/Eskom collaboration**:

- Aligned support for the DAA as the key vehicle to address municipal debt and improve Municipal Financial discipline

Eskom has continue to engage with defaulting municipalities to socialise and implement the DAA framework

We are seeing promising progress with the implementation of the DAA in the Maluti-A-Phofung municipality





39% payment recovery rate – 12 month moving average (increase from 25% in FY25)

~R18m Tariff correction opportunity- Industrial sector low tariffs

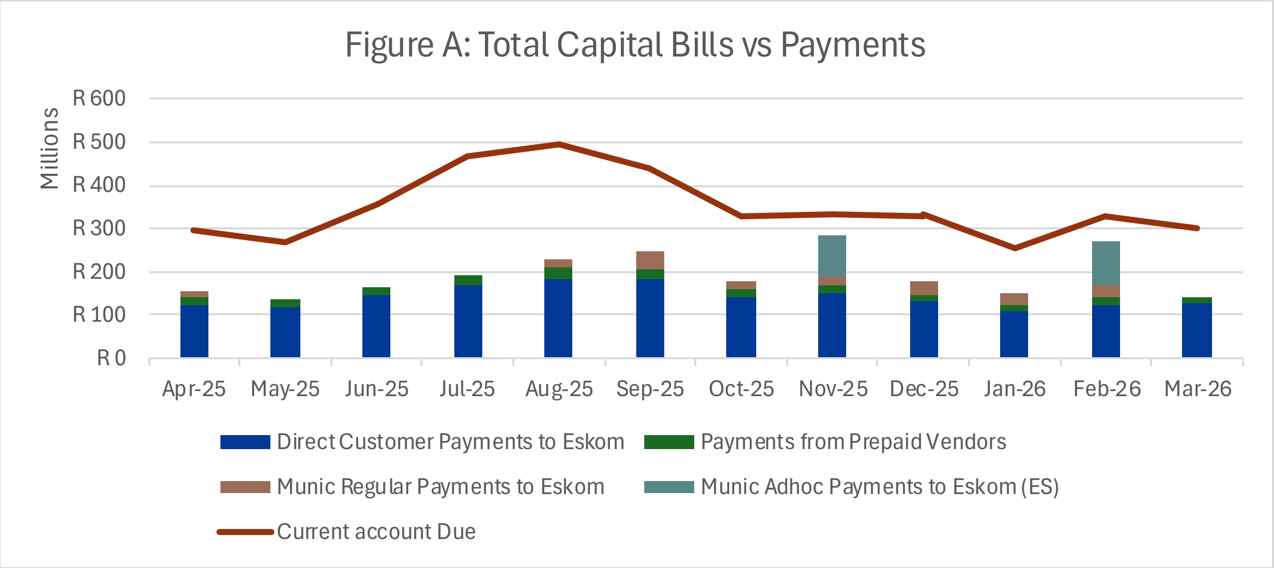
~R60m FBE Transfer opportunity – Equitable share transfer

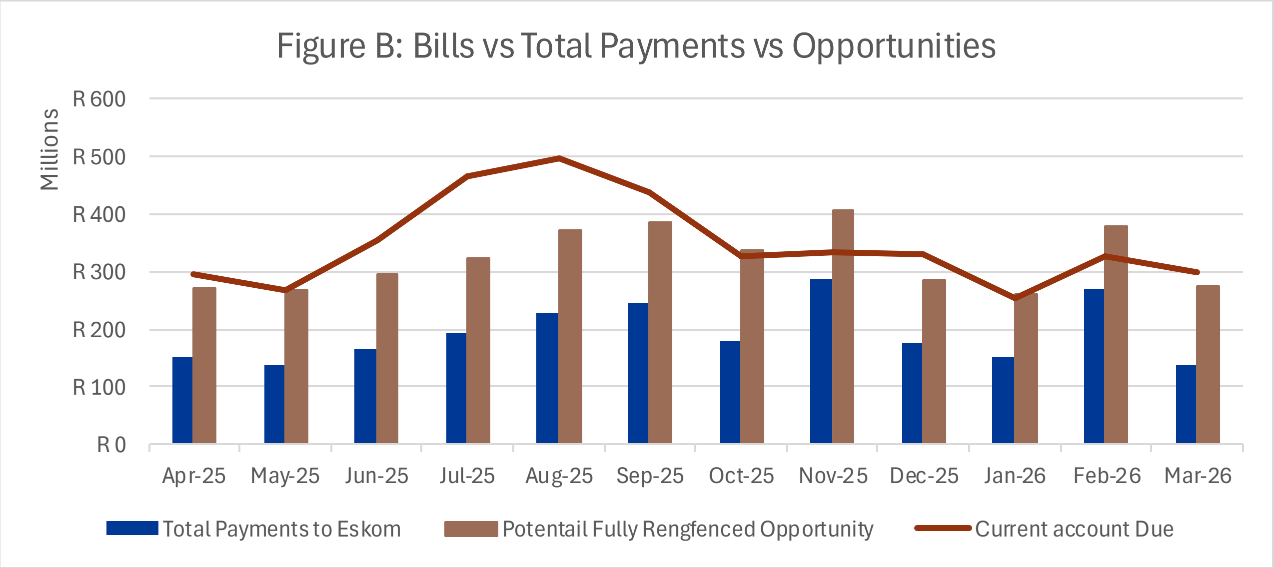
~R12m Billing gap opportunity – Unbilled customers

Insights:

- First cohort trained through Munic partnership
  - developed & deployed customer app, network diagrams, network development plans with associated investment plans
- R100m grant funding for smart metering to enhance load reduction
- Major maintenance on key substations executed

Similarly, our collaboration with Emfuleni municipality is showing greenshoots





R633m collected (bank attach) – without DAA, likely not received

~R1.5bn p/a credit control opportunity – Large non-paying customers

Rand Water – Negatively impacted payment - withheld payment due to disputes relating to municipal arrears

Insights:

- Direct customer payments to Eskom demonstrate ring-fencing and potential improved collection performance
- Resolving the opportunities and addressing losses would get Emfuleni to settle their full current accounts.
- DAA collaboration structurally improving payment discipline

The implementation of the DAA has great benefits, not only for Eskom but also for the municipalities and local communities

There are three DAA's - two municipalities are actively participating with one DAA the subject of a court process.

Receipt of the NT RT29 smart meter grant for Maluti that Eskom will assist the municipality with the rollout

Meter audits and replacements realizing additional revenue

Supported with credit control initiative with R3.9m recovered and resolved payment disputes with their customers

Technical skills development and training - 1st cohort completed with 2nd cohort of municipal employees in progress

The DAA has **promoted payment improvement with improved total payments to Eskom**

Improved restoration and turn around time in responding to faults thereby leading to improved customer service and ultimately leading to quality of supply

Facilitation of cost of supply calculations – leading to improved tariff design

Employment of community members - Fixed Term Contracts (FTCs) to assist with project execution – making the community to be part of improvements – e.g., Data Collection

The Distribution Agency Agreement will support South Africa through strengthened service delivery, financial discipline and institutional capacity

Eskom

Strengthened Service Delivery

- ✓ The DAA has enabled structured partnerships between Eskom, municipalities and National Treasury
- ✓ This significantly improves the reliability and quality of electricity distribution in historically under-served areas

Improved Financial Discipline

- ✓ The ringfencing of electricity revenues and enhanced governance mechanisms will provide for better revenue collection, reduced municipal debt growth, and strengthened local fiscal management

Enhanced Institutional Capacity

- ✓ Through secondment arrangements, focussed training and shared operations, the DAA will facilitate skills transfer and capacity building at the local level, promoting a more capable and responsive energy distribution system.

Alignment with Strategic Priorities

- ✓ The DAA supports Eskom's strategic objectives of strengthening its balance sheet, and the promotion of equitable, affordable, and sustainable electricity services across communities.

Assistance required from the Committee

- ✓ Support the proposed interventions.
- ✓ Support the implementatio n of DAA as key to service delivery.

Load Reduction Eradication Status Report

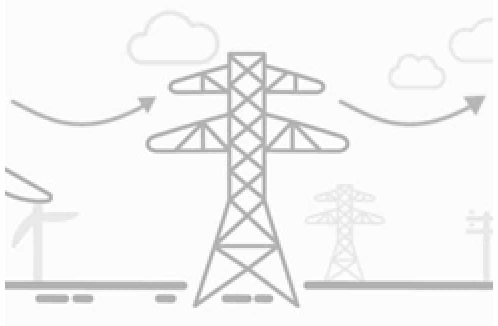
Despite supply exceeding demand, load reduction remains necessary at times to protect the network and people

Loadshedding

Generation

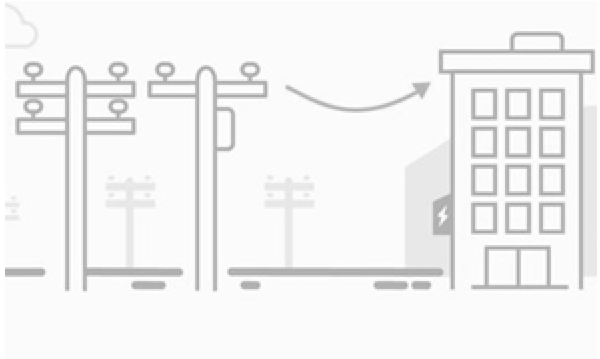
- When there is **insufficient generation capacity** to meet demand
- Loadshedding implemented to **protect the country** from a black out

Transmission



Load Reduction

Distribution



- When the **customer demand is higher than what the local equipment can withstand**
- Load reduction implemented to **protect equipment** (transformers) and **people** (explosions)

Eskom is working together with SALGA and the Ministries to resolve the structural challenges facing the distribution industry

WE NEED COMMUNITIES TO HELP US PROTECT OUR EQUIPMENT FROM CRIMINALITY

As of September 2025, there were 971 feeders with load reduction, of which 62% were located in the Gauteng Operating Unit

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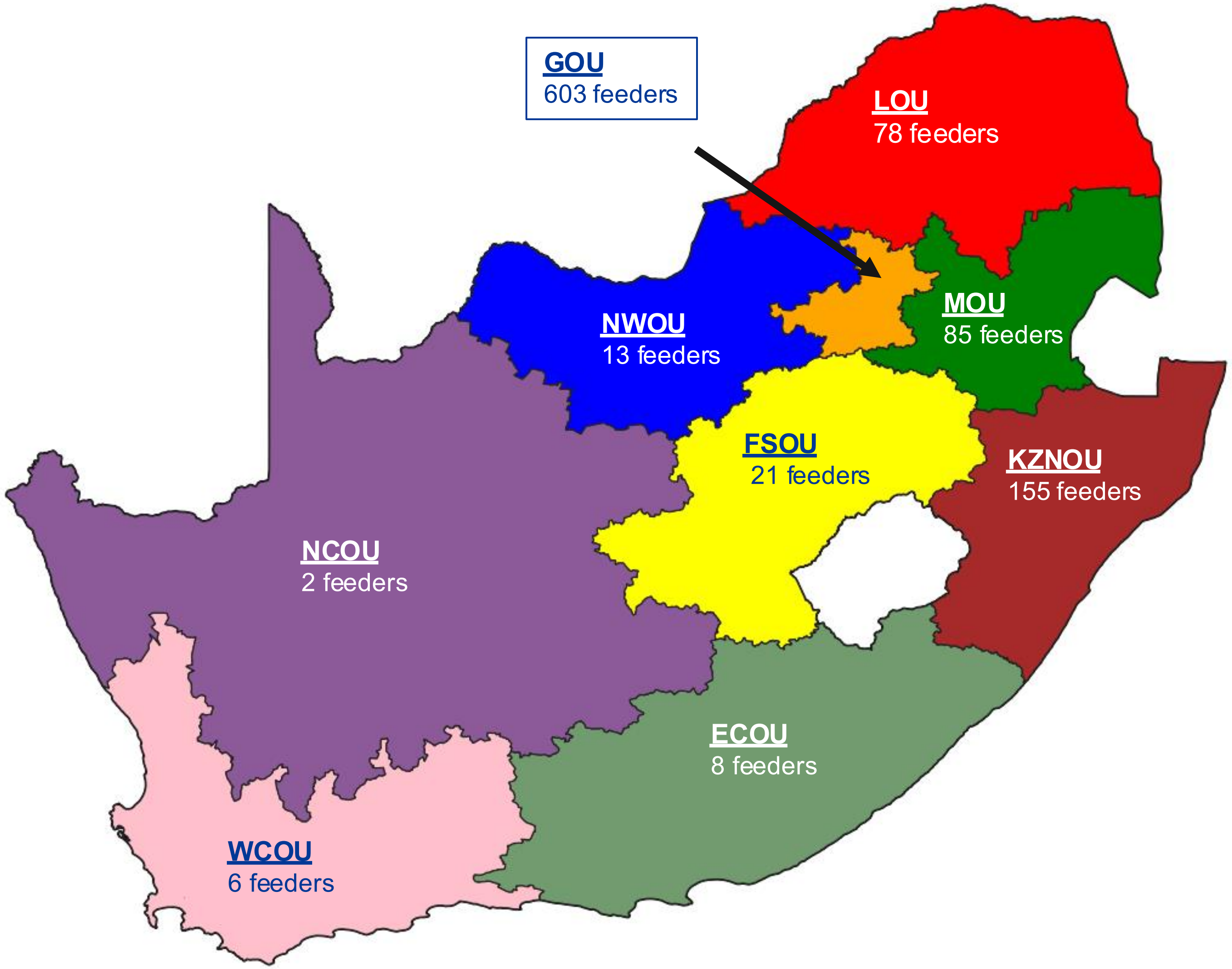
1 There was a total of **971 load reduction feeders**

2 A total of **1 694 388 customers were impacted** by load reduction as the time

Number of load reduction feeders per province

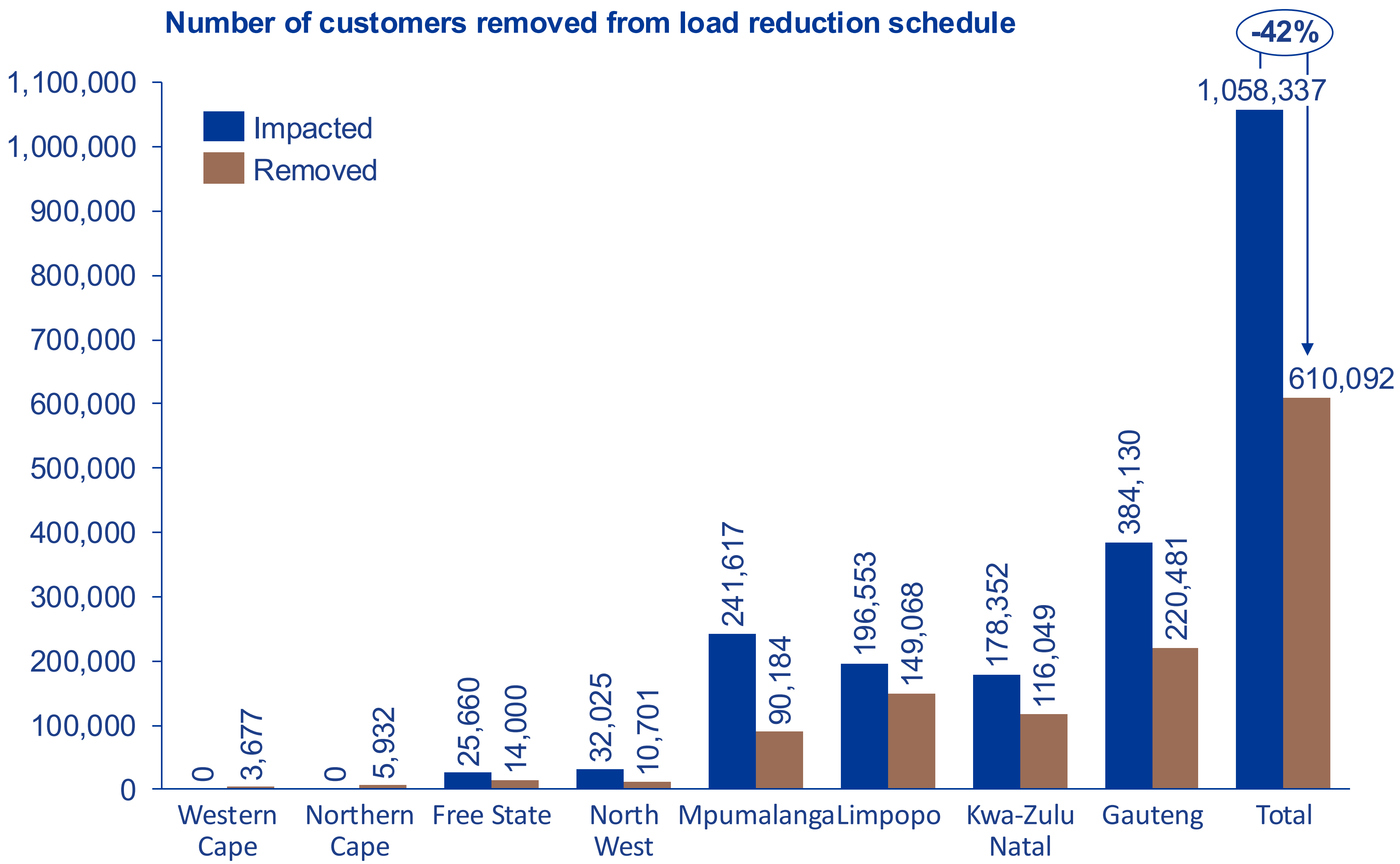


To date, 39% feeders have been achieved to eradicate load reduction

Cluster	OU	Load Reduction Feeders	ITD OU feeders taken off LR	% Performance towards LR Eradication target	Cluster feeders taken off LR	#Cust. removed from LR / OU
Cape Coastal	ECOU	8	4	50.00%	10	8,745
	WCOU	6	6	100.00%		3,677
Central East	FSOU	21	18	85.71%	113	25,667
	KZNOU	155	95	61.29%		116,049
Gauteng	GOU	603	172	28.52%	172	220,481
Gemma	NCOU	2	2	100.00%	12	5,932
	NWOU	13	10	76.92%		32,025
Limlanga	LOU	78	45	57.69%	69	149,068
	MOU	85	24	28.24%		90,184
Distribution		**971**	**376**	**38.72%**	**376**	**651,828**

- Western Cape and Northern Cape are **load reduction free** having achieved 100%
- North West, Free State, KwaZulu Natal, Limpopo and Eastern Cape provinces **vary between 50-77%** feeders removed respectively.
- Mpumalanga and Gauteng are **both sitting at 28%** with **Gauteng alone accounting for the biggest national variance (72%).**
- Overall, **only 39% (376) of LR feeders have been achieved**.

While 42% of customers have yet to be taken off the load reduction schedule



- Gauteng has the largest customer base removed from LR (220k+).
- Limpopo and KwaZulu Natal also show high customer impact (149k+ and 116k+ respectively).
- To date, there are 651k+ customers removed from load reduction schedules nationally.
- By October 2026, we estimate the number of customers relieved to increase to 1.1m

Thank You