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Strategic Guide

Section 78 Process Navigation, Debt Relief Optimization, and Energy Infrastructure Investment Strategy

Dr. Beyers Naudé Local Municipality

Integrating SSEG, Virtual Wheeling, DDSM Programs
with Eskom Debt Settlement and BESS/PV Optimization

CONFIDENTIAL

Prepared by: Dr. Beyers Naudé Local Municipality

Date: 26 March 2026

CRITICAL DEADLINE: 27 March 2026

Council Resolution Required

FINAL DEADLINE: 1 September 2026

Section 78 Completion & Signed DAA Submission

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Executive Summary

Dr. Beyers Naudé Local Municipality faces a critical strategic juncture in managing its electricity service delivery obligations while addressing outstanding Eskom debt. This guide provides a comprehensive roadmap for navigating the Municipal Systems Act Section 78 process to achieve three interconnected objectives: (1) settling all current Eskom debt through the Municipal Debt Relief program, (2) securing a Distribution Agency Agreement (DAA) that protects and leverages the municipality's existing Small-Scale Embedded Generation (SSEG) program, and (3) establishing alternative revenue streams through Virtual Wheeling and Demand-Side Management (DSM) programs.

The Section 78 process is not merely a compliance requirement—it is a strategic opportunity to define non-negotiable service delivery outcomes that any external mechanism, including a DAA with Eskom, must support. By completing Section 78 before finalizing the DAA, the municipality can embed SSEG continuity, virtual wheeling enablement, and evening-peak DSM into the governance structure of the agreement, ensuring that affordability interventions and debt relief compliance work in concert rather than conflict.

Critical Deadlines: - **27 March 2026**: Council resolution accepting DAA alternative and committing to Section 78 process - **1 September 2026**: Conclude Section 78 process and submit signed DAA

Strategic Outcome: A structured DAA that maintains municipal licence-holder status, preserves SSEG program operations, enables virtual wheeling revenue opportunities, implements evening-peak DSM for cost reduction, and satisfies National Treasury debt relief conditions—creating a sustainable path forward that protects municipal interests while meeting all stakeholder requirements.

This guide is structured to provide CFO-level strategic context, detailed operational procedures, compliance requirements, financial implications, and implementation checklists. All recommendations are grounded in National Treasury guidance, Eskom policy frameworks, NERSA regulatory requirements, and documented municipal precedents.

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1. Introduction and Strategic Context

1.1 Purpose and Scope

This strategic guide provides Dr. Beyers Naudé Local Municipality with a comprehensive framework for navigating the Municipal Systems Act Section 78 process while simultaneously optimizing debt settlement with Eskom and integrating revenue-generating programs. The document addresses the intersection of legal compliance, financial sustainability, and service delivery innovation.

The guide is designed for executive decision-makers, particularly the Chief Financial Officer and

Municipal Manager, who must balance competing demands: satisfying National Treasury debt relief conditions, maintaining electricity service delivery obligations, protecting existing SSEG investments, and exploring new revenue opportunities through virtual wheeling and demand-side management.

1.2 Current Municipal Context

Dr. Beyers Naudé Local Municipality currently holds an electricity distribution licence and operates an SSEG program that enables small-scale embedded generation within its jurisdiction. The municipality faces outstanding debt to Eskom and has been offered participation in the National Treasury Municipal Debt Relief program, which provides a pathway to debt write-off contingent on strict compliance with payment discipline and service delivery requirements.

National Treasury's letter dated 22 February 2026 presents two options: (1) termination from the debt relief program with immediate debt repayment obligations, or (2) entering into a Distribution Agency Agreement with Eskom that facilitates debt write-off while maintaining a differentiated form of debt relief. Both options require completion of the Section 78 process, but the DAA option offers significantly more favorable financial terms and operational continuity.

1.3 Strategic Imperatives

The municipality must achieve four interconnected strategic imperatives:

Imperative 1: Debt Settlement and Financial Sustainability
Settle all current Eskom debt through the Municipal Debt Relief program while establishing sustainable payment discipline that prevents future debt accumulation. This requires strict adherence to the 30-day payment requirement and revenue ring-fencing conditions.

Imperative 2: Service Delivery Continuity and Enhancement
Maintain uninterrupted electricity service delivery to the community while enhancing service quality and affordability. The municipality retains constitutional responsibility for service provision regardless of the chosen delivery mechanism.

Imperative 3: SSEG Program Protection and Growth
Protect the existing SSEG program from disruption or "silent suspension" under any external service delivery arrangement. The SSEG program represents both a community service and a strategic asset for distributed generation and demand reduction.

Imperative 4: Alternative Revenue Generation
Establish new revenue streams through virtual wheeling arrangements and evening-peak demand-side management programs that reduce bulk electricity costs and improve collection rates, thereby supporting ongoing debt relief compliance.

1.4 The Section 78 Strategic Opportunity

Section 78 of the Municipal Systems Act is often perceived as a compliance burden, but it represents a strategic opportunity to define the terms of engagement with any external service delivery mechanism. By completing Section 78 before finalizing a DAA, the municipality can:

- Define "electricity service provision" to explicitly include SSEG, virtual wheeling, and DSM as core service components
- Establish non-negotiable service requirements that any external mechanism must support

- Embed performance indicators and governance structures that protect municipal interests
- Create a legal framework that constrains Eskom from undermining SSEG or other affordability interventions
- Demonstrate to National Treasury and NERSA that the municipality has followed due process and considered all stakeholder interests

The Section 78 process transforms the DAA from a potential threat to municipal autonomy into a structured partnership that serves community interests while satisfying creditor requirements.

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2. Understanding the Section 78 Process

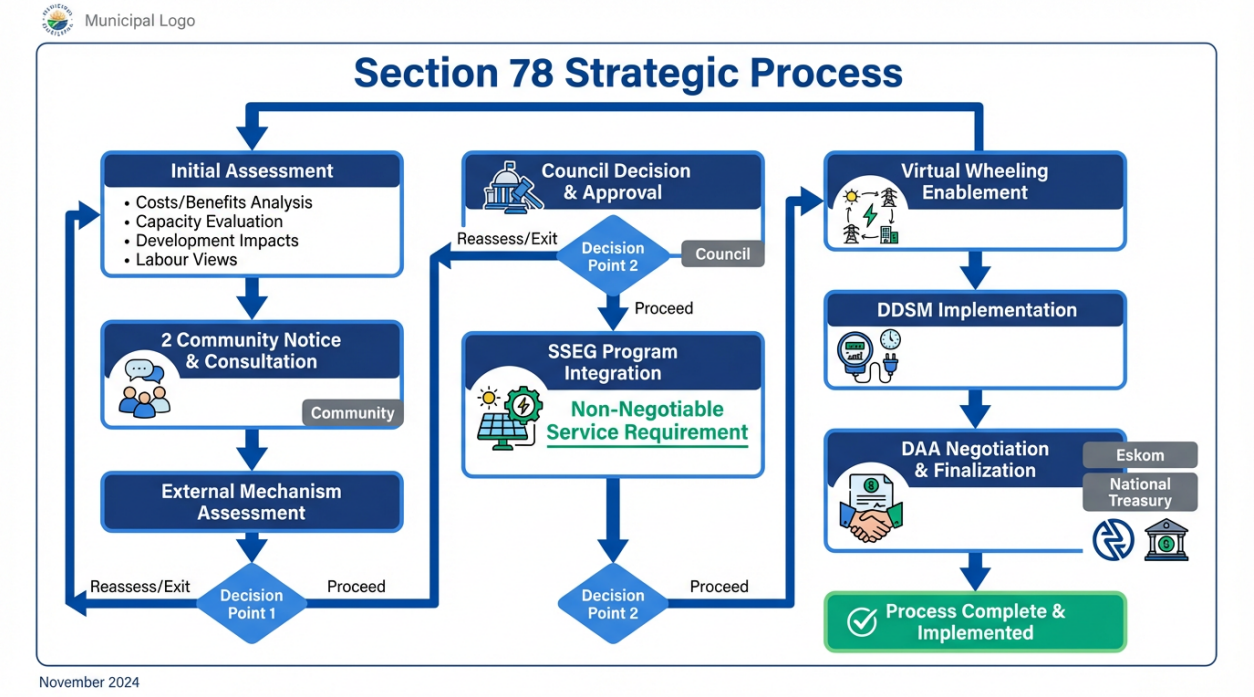

Figure 1: Section 78 Strategic Process Flow

2.1 Legal Framework and Requirements

Section 78 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) establishes the criteria and process municipalities must follow when deciding on or reviewing service delivery mechanisms [1]. The process applies whenever a municipality considers using an external mechanism to deliver a municipal service, including electricity distribution.

Initial Assessment Requirements:

The municipality must conduct an initial assessment that evaluates [1]:

1. **Direct and indirect costs and benefits** associated with the current service delivery mechanism and any proposed alternatives
2. **Municipal capacity** (both current and future) to deliver the service internally
3. **Likely impacts on development and employment** within the municipal area

4. **Views of organised labour** regarding the proposed service delivery mechanism

External Mechanism Exploration Requirements:

If the municipality decides to explore external service delivery options, it must [1]:

1. **Give notice to the local community** of its intention to explore external mechanisms
2. **Assess external service delivery options** by considering:
    - Costs and benefits of each option
    - Capacity of potential service providers
    - Views of the local community
    - Impacts on development and employment
    - Views of organised labour

2.2 Critical Legal Protections

Section 78 is **not a licence revocation mechanism** and does not automatically transfer the electricity service or the municipality's constitutional duties [2]. This distinction is crucial for protecting municipal interests. Even when an external service delivery agreement is in place, the municipality:

- **Remains responsible** for ensuring service provision to the community [2]
- **Must regulate, monitor and assess** the agreement and the external service provider [2]
- **Retains tariff control** within its tariff policy framework [2]

These protections mean that a DAA with Eskom does not absolve the municipality of its service delivery obligations or transfer ultimate accountability to Eskom. The municipality remains the licence holder and retains strategic control over service outcomes.

2.3 Strategic Framing: Service Continuity and Improvement

Best practice dictates treating Section 78 as a **service-continuity and service-improvement mandate** rather than a compliance obstacle [3]. This reframing shifts the focus from "what we must give up" to "what service outcomes we must secure."

The strategic advantage of this approach is significant: once council adopts a Section 78 decision and approves a service delivery mechanism, the SSEG program, virtual wheeling arrangements, and DSM initiatives can be written into service delivery outcomes and governance conditions—thereby constraining any external mechanism (including a DAA) from undermining these programs [4].

Section 78 serves as the lawful place to [5]:

- Define the service outcomes the community needs
- Set non-negotiable service requirements that any DAA must support
- Embed SSEG continuity and energy affordability interventions into the service delivery framework

2.4 Defining Electricity Service Provision

A critical strategic decision in the Section 78 process is how to define "electricity service provision." The municipality can explicitly define this service as inclusive of [6]:

- **Small-Scale Embedded Generation (SSEG)** registration, approval, compliance monitoring, and metering
- **Wheeling enablement** including virtual wheeling credit allocation and settlement
- **Demand-side management** as an affordability and peak-reduction lever

By defining electricity service provision broadly to include these components, the municipality establishes that any external service delivery mechanism must support these functions [7]. This prevents a scenario where Eskom, as the external service provider under a DAA, could claim that SSEG or virtual wheeling falls outside the scope of the agreement.

2.5 Non-Negotiable Service Requirements

The Section 78 decision record should express the following as **non-negotiable service requirements** that will be carried into DAA schedules with clear Key Performance Indicators (KPIs) [8]:

1. SSEG Continuity and Service Levels

- Preserve the existing SSEG program including approvals, compliance processes, metering/data rules, and turnaround times [9]
- Explicitly prohibit "silent suspension" of SSEG processes under the external mechanism model [9]
- Maintain or improve current SSEG application processing times
- Ensure continued access to SSEG registration and technical support for community members and businesses

2. Virtual Wheeling Enablement

- Confirm that wheeling and virtual wheeling credits and settlements will be enabled in line with applicable rules and Eskom reconciliation requirements [10]
- Include Time-of-Use (TOU) alignment and contractual prerequisites [10]
- Establish clear processes for wheeling agreement administration
- Ensure transparent credit allocation and settlement reporting

3. Evening-Peak DDSM Readiness

- Include DSM participation (with measurement and verification) as an embedded service obligation [11]
- Leverage Eskom's documented demand management concepts and frameworks [11]
- Establish baseline measurements and performance targets
- Create incentive structures for demand reduction during peak periods

4. Affordability 'Offset' Governance

- Specify how wheeling credits and verified DSM savings translate into bulk-cost relief [12]
- Ensure compliance with debt-relief ring-fencing requirements (current account payment first) [12]
- Create transparent mechanisms for passing savings to consumers
- Establish council-approved rebate instruments funded by wheeling/DSM value

5. Data Transparency and Auditability

- Require interval data access, reconciliation statements, losses reporting, and performance reporting to council [13]

- Ensure compliance with NERSA's wheeling consultation requirements regarding Use-of-System (UOS) charges and structured agreements [13]
- Establish regular reporting cadences and audit rights
- Maintain municipal access to all operational and financial data

6. Clarity on Licence End-State

- Explicitly state whether the intended model is: (a) municipal licence-holder with Eskom as agent for specific functions, or (b) structured transfer/area amendment path [14]
- Recognize that licence changes require formal NERSA processes including public participation and technical/economic assessments [14]
- Preserve municipal option to resume full internal service delivery if DAA performance is unsatisfactory
- Establish clear exit provisions and transition arrangements

2.6 Section 78 Process Steps

The complete Section 78 process involves the following steps:

Phase 1: Internal Assessment (Weeks 1-3)

1. Establish a Section 78 project team with representatives from finance, technical services, legal, and community engagement
2. Conduct initial assessment of current service delivery mechanism
3. Evaluate municipal capacity (current and future) for internal service delivery
4. Assess costs, benefits, and impacts of current mechanism
5. Document findings in an internal assessment report

Phase 2: Stakeholder Notification (Week 4)

1. Prepare public notice of intention to explore external service delivery mechanisms
2. Publish notice in local newspapers and on municipal website
3. Notify organised labour formally in writing
4. Establish consultation timelines and feedback mechanisms

Phase 3: External Options Assessment (Weeks 5-8)

1. Identify and evaluate potential external service delivery options (primarily DAA with Eskom)
2. Assess costs, benefits, and capacity of each option
3. Evaluate impacts on development, employment, and community interests
4. Define non-negotiable service requirements (SSEG, wheeling, DSM)
5. Prepare comparative analysis of options

Phase 4: Community and Labour Consultation (Weeks 9-12)

1. Conduct public consultation meetings in multiple locations
2. Engage with organised labour through formal consultation processes
3. Receive and document written submissions from stakeholders
4. Prepare consultation report summarizing views and concerns
5. Revise service requirements based on legitimate stakeholder concerns

Phase 5: Council Decision (Weeks 13-14)

1. Prepare comprehensive Section 78 report for council

2. Include all assessments, consultation outcomes, and recommendations
3. Present non-negotiable service requirements for council approval
4. Obtain council resolution on preferred service delivery mechanism
5. Obtain council resolution accepting DAA alternative (by 27 March 2026 deadline)

Phase 6: DAA Negotiation (Weeks 15-20)

1. Use Section 78 decision as negotiating mandate with Eskom
2. Embed non-negotiable service requirements into DAA schedules
3. Establish KPIs, reporting requirements, and governance structures
4. Negotiate financial terms, payment arrangements, and revenue sharing
5. Ensure legal review of all DAA provisions

Phase 7: Final Approval and Execution (Weeks 21-22)

1. Present final DAA to council for approval
2. Obtain council resolution authorizing DAA execution
3. Execute DAA with Eskom
4. Submit signed DAA to National Treasury (by 1 September 2026 deadline)
5. Notify NERSA and other relevant stakeholders

Phase 8: Implementation and Monitoring (Ongoing)

1. Establish DAA governance structures and monitoring mechanisms
2. Implement performance monitoring and reporting systems
3. Conduct regular reviews of DAA performance against KPIs
4. Maintain ongoing stakeholder communication
5. Exercise municipal oversight and regulatory functions

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3. Eskom Debt Relief Program Strategy

3.1 Program Options and Strategic Choice

National Treasury's letter dated 22 February 2026 presents two options for municipalities participating in the Municipal Debt Relief program:

Option 1: Termination from the Program

The municipality exits the Municipal Debt Relief program entirely. This option requires undertaking the Section 78 process as per the National Treasury approval letter [15]. However, termination carries severe financial consequences that make it strategically unviable for most municipalities.

Option 2: Distribution Agency Agreement (DAA) with Eskom

This is an **alternative to termination** that allows the municipality to remain on a differentiated form of Municipal Debt Relief. The DAA facilitates the Municipal Debt Relief write-off while establishing a structured partnership with Eskom [16]. This option also requires the Section 78 process but offers significantly more favorable terms.

Strategic Recommendation: Dr. Beyers Naudé Local Municipality should pursue **Option 2 (DAA)** for the following reasons:

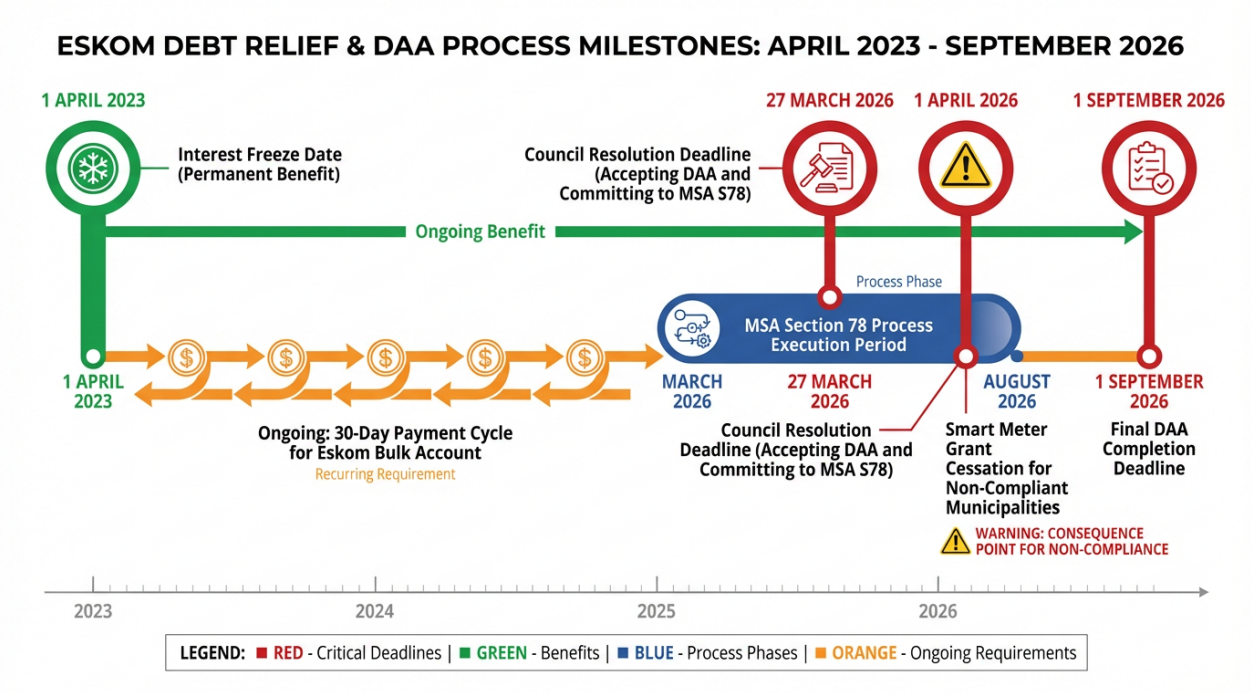

Figure 2: Eskom DAA Timeline Infographic

1. **Debt write-off benefit**: The DAA facilitates write-off of historic municipal relief debt, providing immediate financial relief
2. **Operational continuity**: The municipality maintains its licence-holder status and retains strategic control over service outcomes
3. **SSEG protection**: The Section 78 process enables embedding SSEG and other programs into the DAA structure
4. **Compliance support**: Eskom's technical and operational support can improve billing, collections, and network maintenance
5. **Avoidance of termination consequences**: The municipality avoids immediate debt repayment obligations, legal proceedings, and loss of smart meter grant support

3.2 Critical Deadlines and Compliance Requirements

The DAA option is subject to strict deadlines that must be met to maintain eligibility for debt relief:

Deadline 1: Council Resolution (27 March 2026)

The municipality must submit a council resolution that [16]:

1. Accepts the DAA alternative to termination
2. Commits to undertake the Municipal Systems Act Section 78 process
3. Authorizes municipal officials to negotiate DAA terms with Eskom

Action Required: Council must meet and pass this resolution before 27 March 2026. The resolution should be submitted to National Treasury immediately upon passage.

Deadline 2: DAA Completion (1 September 2026)

The municipality must [16]:

1. Conclude the Municipal Systems Act Section 78 process
2. Finalize DAA negotiations with Eskom
3. Obtain council approval of the final DAA
4. Execute the DAA with Eskom
5. Submit the signed DAA to National Treasury

Action Required: The Section 78 process and DAA negotiations must be completed within approximately 5.5 months. This requires immediate commencement of Section 78 activities and parallel engagement with Eskom on DAA terms.

3.3 Legal Compliance and Irregular Expenditure Risk

MFMA Budget Circular No. 132 explicitly states that **"DAA without undertaking MSA S78 = the DAA expenditure potentially irregular"** [16]. This creates a direct legal compliance requirement: the Section 78 process is not optional or merely procedural—it is a substantive legal prerequisite for a valid DAA.

Any application under the Electricity Regulation Act (Section 17) should first follow due process under Chapter 8 of the Municipal Systems Act for appointment of an external mechanism, creating a Service Delivery Agreement that aligns with both the Systems Act and Chapter IV of the Electricity Regulation Act [17].

Compliance Implication: The municipality must complete Section 78 **before** or **concurrent with** DAA finalization, but the Section 78 decision must be in place before the DAA is executed. Failure to do so exposes the municipality to irregular expenditure findings in audits and potential personal liability for officials who authorize irregular expenditure.

3.4 Core Debt Relief Conditions

The Municipal Debt Relief framework requires **disciplined current-account payment and ring-fencing of key service revenues** [18]. These conditions apply regardless of whether the municipality pursues termination or a DAA:

Condition 1: Current Account Payment Discipline

- Pay and maintain Eskom bulk current account **within 30 days of invoice** [18]
- This is a non-negotiable condition for continued debt relief eligibility
- Late payments trigger compliance reviews and potential termination from the program

Condition 2: Revenue Ring-Fencing

- Ring-fence electricity, water, and sanitation revenues in a dedicated sub-account [18]
- Use sub-account funds **first** to pay the Eskom current account, then bulk water, before any other purposes [18]
- This ensures that service revenues are protected for their intended purpose and cannot be diverted to other municipal expenses

Strategic Implication: The municipality must establish robust financial controls and payment processes to ensure consistent compliance with these conditions. The virtual wheeling and DSM programs discussed later in this guide are designed to support compliance by improving the municipality's ability to pay Eskom on time through enhanced collections and reduced bulk costs.

3.5 Consequences of Non-Compliance (Termination Scenario)

Understanding the consequences of termination—whether voluntary or due to non-compliance—is essential for appreciating the value of the DAA option and the importance of maintaining compliance:

Immediate Financial Consequences [19]:

1. **Debt Repayment Obligation**: The municipality must immediately repay:
   - The municipal relief debt (not yet written off)
   - Any new debt incurred with Eskom since 1 April 2023
   - All while maintaining current account payments
2. **Legal Proceedings**: Eskom will resume legal proceedings, including:
   - Attaching the municipal bank account
   - Pursuing other legal remedies for debt collection
   - Enforcing security interests
3. **Penalties**: Normal penalties applicable to local government will apply, potentially including:
   - Financial misconduct proceedings against officials
   - Criminal proceedings in cases of gross negligence or fraud
   - Section 216 constitutional interventions by National Treasury

Smart Meter Grant Impact [19]:

- The municipality will not receive any new support through the smart meter grant effective 1 April 2026
- If the municipality already received support, it would continue only until the end of the existing service level agreement with the smart meter service provider
- This represents a loss of infrastructure investment support that could improve billing accuracy and revenue collection

Interest Treatment [19]:

The interest provisions contain both permanent benefits and ongoing obligations:

- **Permanent Benefit**: Effective 1 April 2023, Eskom may not charge any new interest on the municipal relief debt—this benefit remains permanently even post-termination
- **New Debt Interest**: Eskom must charge interest on any new debt the municipality incurred from 1 April 2023 onward
- **Interest Rate Cap**: Interest on bulk accounts is capped at the prevailing prime interest rate plus 2.5% (or less at Eskom's sole discretion)

Payment Allocation [19]:

- Payments received from municipalities are allocated to capital first, then to interest
- This is a continuation of a previous concession to all municipalities and provides some relief by reducing the interest-bearing balance more quickly

Constitutional Remedies [19]:

- National Treasury, upon Eskom's request, may invoke Section 216 of the Constitution and/or any other remedies
- This can include instituting individual financial misconduct and/or criminal proceedings against municipal officials

- Section 216 allows national government to stop the transfer of funds to a municipality that commits a serious or persistent material breach of its obligations

3.6 NERSA Licence Revocation Condition (6.14)

A critical and often misunderstood aspect of the debt relief program is Condition 6.14, which addresses licence revocation:

Voluntary Application Mechanism [17]:

By applying for municipal debt relief, the municipality agrees that if it fails to meet the Relief Conditions, the municipality will **voluntarily apply to NERSA to revoke the municipality's licence** [17]. This is not an automatic revocation but rather a commitment to initiate a regulatory process.

Four Grounds for Application (Section 17 of Electricity Regulation Act) [17]:

The municipality can elect any of the following grounds when applying to NERSA:

1. The licensed facility or activity is no longer required
2. The licensed facility or activity is not economically viable
3. Another person is willing and demonstrably able to assume the rights and obligations of that licensee in accordance with the requirements and objectives of the Act, and a new licence is issued to such person
4. Conditions of a licence are not met

Important Clarification: Condition 6.14 refers to Section 17 of the Electricity Regulation Act, 2006 (not Section 18, which addresses compulsory revocation) [17].

Critical Context [20]:

This is **not an "automatic revocation"**—it is an application into a regulatory process. All licence revocation processes (voluntary under Section 17, tribunal under Section 18, or court-ordered under Section 19) are NERSA processes, and the final decision rests with NERSA [17].

Underlying Reality [17]:

A municipality that operates the reticulation business in a manner that prevents Eskom from being paid is often also unable to adequately repair or maintain the existing network or invest in its growth. Such a municipality is likely already failing the conditions of its NERSA licence. NERSA can already initiate a tribunal process to investigate and fine the municipality, and/or pursue compulsory revocation of the municipality's licence under Sections 18 and 19 of the Electricity Regulation Act.

Strategic Implication: The licence revocation condition is not a new threat created by the debt relief program—it is a formalization of consequences that would likely occur anyway if the municipality cannot maintain financial and operational viability. The DAA option, combined with SSEG/wheeling/DSM revenue optimization, provides a pathway to avoid these consequences by improving financial performance and operational capacity.

3.7 Debt Settlement Strategy

Based on the program structure and conditions, Dr. Beyers Naudé Local Municipality should pursue the following debt settlement strategy:

Step 1: Immediate Council Resolution (Before 27 March 2026)

- Convene special council meeting to consider debt relief options
- Present analysis of Option 1 (termination) vs. Option 2 (DAA)
- Recommend Option 2 (DAA) based on financial and operational benefits
- Pass council resolution accepting DAA alternative and committing to Section 78 process
- Submit resolution to National Treasury immediately

Step 2: Establish Payment Discipline and Ring-Fencing (Immediate)

- Create dedicated sub-account for electricity, water, and sanitation revenues
- Implement automated payment processes to ensure Eskom current account is paid within 30 days
- Establish financial controls to prevent diversion of ring-fenced revenues
- Implement monthly monitoring and reporting of compliance with debt relief conditions

Step 3: Complete Section 78 Process (March-August 2026)

- Follow the eight-phase Section 78 process outlined in Section 2.6 of this guide
- Ensure community and labour consultation is thorough and well-documented
- Embed non-negotiable service requirements (SSEG, wheeling, DSM) into Section 78 decision
- Obtain council approval of Section 78 decision and service delivery mechanism

Step 4: Negotiate and Execute DAA (April-August 2026)

- Use Section 78 decision as negotiating mandate with Eskom
- Ensure DAA incorporates all non-negotiable service requirements
- Establish clear governance structures, KPIs, and reporting requirements
- Negotiate favorable financial terms including revenue sharing and cost allocation
- Obtain legal review and council approval of final DAA
- Execute DAA and submit to National Treasury before 1 September 2026

Step 5: Implement Revenue Optimization Programs (Concurrent and Ongoing)

- Protect and enhance SSEG program as embedded in DAA
- Establish virtual wheeling arrangements to generate alternative revenue
- Implement evening-peak DSM to reduce bulk electricity costs
- Use wheeling/DSM value to fund rebates that improve collection rates
- Maintain ongoing compliance with debt relief conditions through improved financial performance

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4. Distribution Agency Agreement (DAA) Framework

4.1 DAA Models and Precedents

Distribution Agency Agreements can be structured in various ways, and understanding documented precedents helps inform negotiation strategy. Publicly documented examples show that DAAs and related "active partnering" arrangements can be structured as transitional/co-managed models, but may also lead to licence-area amendments depending on the chosen end-state [31].

Merafong Example: Transitional/Co-Managed Model

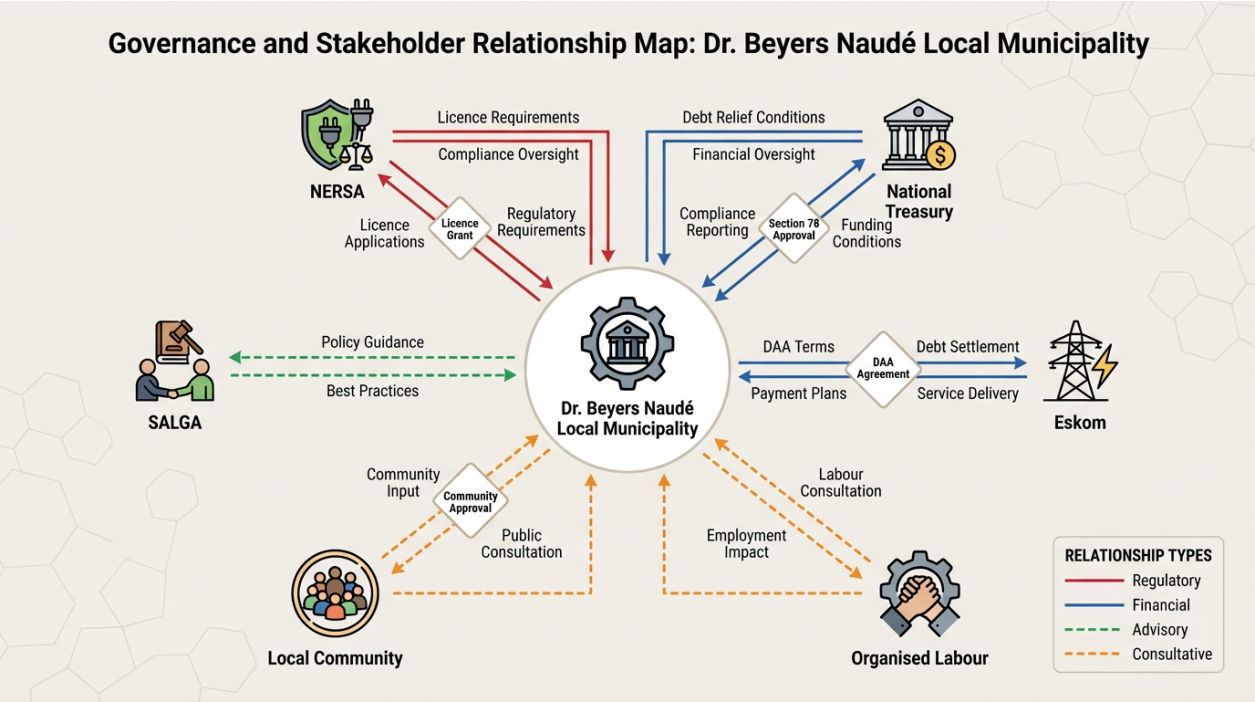

Figure 3: Stakeholder Governance Map

Eskom's joint media statement on the Merafong DAA frames it as a **transitional intervention** [32]:

- Billing and collections are ring-fenced and administered through Eskom systems
- Technical and operational support is provided by Eskom
- **Critically**: "Merafong will remain the electricity licence holder" [32]

This model demonstrates that a DAA does not automatically result in licence transfer. The municipality retains its licence-holder status while Eskom provides specific functions under an agency arrangement.

Phumelela's Warden/Ezenzeleni Example: Licence Area Amendment

In contrast, Eskom states that NERSA approved an amendment to Eskom's distribution facility licence incorporating the Warden and Ezenzeleni areas previously served by Phumelela Municipality [33]. Eskom notes the approval followed an extensive process including public participation and technical/economic assessments [33].

This example shows that some DAA-type arrangements can lead to formal licence area amendments, but this requires a separate NERSA process with public participation and regulatory approval.

Strategic Implication for Dr. Beyers Naudé:

The municipality should pursue the **Merafong model** (transitional/co-managed) rather than the Phumelela model (licence amendment). The Section 78 decision should explicitly state that the intended model is "municipal licence-holder with Eskom as agent for specific functions" rather than "structured transfer/area amendment path" [14].

This preserves municipal autonomy, protects the SSEG program, and maintains the option to resume

full internal service delivery if DAA performance is unsatisfactory.

4.2 Stakeholder Positions on Section 78 and DAA

Understanding stakeholder positions helps inform negotiation strategy and anticipate potential concerns:

SALGA Position

A parliamentary record of stakeholder submissions captures the South African Local Government Association explicitly stating that National Treasury and Eskom proposed a DAA, and that **SALGA's position is that the DAA "should follow" the Municipal Systems Act Section 78 process** so that municipalities and Eskom have a holistic overview and the conditions are fair and beneficial for Eskom and communities [34].

This position supports the municipality's strategy of completing Section 78 before finalizing the DAA. SALGA's advocacy provides political and legal support for insisting on a thorough Section 78 process.

National Treasury Guidance

Recent public reporting indicates **National Treasury has, in some instances, advised non-compliant municipalities to conclude Distribution Agency Agreements (DAAs) with Eskom** as an intervention aimed at stabilizing distribution operations, billing, and collections—while emphasizing that municipalities must still comply with the legal requirements for outsourcing/appointing external service mechanisms [35].

This guidance confirms that National Treasury views the DAA as a compliance and stabilization tool, not as a punitive measure or licence revocation mechanism. The emphasis on legal compliance with external service mechanism requirements reinforces the necessity of the Section 78 process.

4.3 Structuring a Favorable DAA

To structure a DAA that protects municipal interests while satisfying National Treasury and Eskom requirements, the municipality should negotiate the following key provisions:

1. Licence-Holder Status

- **Provision**: The DAA must explicitly state that the municipality remains the electricity distribution licence holder
- **Rationale**: Preserves municipal constitutional responsibility and strategic control over service outcomes
- **Precedent**: Merafong DAA model [32]

2. Scope of Eskom Functions

- **Provision**: Clearly define which functions Eskom will perform as agent (e.g., billing, collections, network maintenance) and which functions remain with the municipality (e.g., tariff setting, SSEG approvals, policy decisions)
- **Rationale**: Prevents scope creep and ensures municipality retains strategic functions
- **Implementation**: Include detailed schedule of functions with clear delineation of responsibilities

3. SSEG Program Continuity

- **Provision**: The DAA must preserve the existing SSEG program including approvals, compliance processes, metering/data rules, and turnaround times [9]
- **Rationale**: Protects community investment in SSEG and maintains distributed generation benefits
- **Implementation**: Include SSEG continuity as a non-negotiable service requirement with specific KPIs for application processing times and technical support

4. Virtual Wheeling Enablement

- **Provision**: Confirm that wheeling and virtual wheeling credits and settlements will be enabled in line with applicable rules and Eskom reconciliation requirements [10]
- **Rationale**: Enables alternative revenue generation and affordability interventions
- **Implementation**: Include wheeling enablement as a service requirement with clear processes for wheeling agreement administration and credit allocation

5. Evening-Peak DSM Integration

- **Provision**: Include DSM participation (with measurement and verification) as an embedded service obligation [11]
- **Rationale**: Reduces bulk electricity costs and improves affordability
- **Implementation**: Establish baseline measurements, performance targets, and incentive structures for demand reduction

6. Affordability Offset Governance

- **Provision**: Specify how wheeling credits and verified DSM savings translate into bulk-cost relief while ensuring compliance with debt-relief ring-fencing requirements [12]
- **Rationale**: Creates transparent mechanism for passing savings to consumers while maintaining payment discipline
- **Implementation**: Establish council-approved rebate instruments funded by wheeling/DSM value, structured through credit control policy

7. Data Transparency and Municipal Access

- **Provision**: Require interval data access, reconciliation statements, losses reporting, and performance reporting to council [13]
- **Rationale**: Enables municipal oversight and regulatory monitoring functions
- **Implementation**: Establish regular reporting cadences (monthly operational reports, quarterly performance reviews, annual audits) with full data access rights

8. Governance Structure

- **Provision**: Establish joint governance committee with municipal and Eskom representatives
- **Rationale**: Ensures ongoing communication, problem-solving, and strategic alignment
- **Implementation**: Create governance charter with clear decision-making authorities, meeting schedules, and escalation procedures

9. Performance Monitoring and KPIs

- **Provision**: Define clear Key Performance Indicators for all Eskom functions under the DAA
- **Rationale**: Enables objective assessment of DAA performance and accountability
- **Implementation**: Include KPIs for:
  - Billing accuracy and timeliness
  - Collection rates and revenue performance

  - Network reliability and maintenance
  - SSEG application processing times
  - Customer service response times
  - Wheeling credit allocation accuracy
  - DSM performance against targets

10. Financial Terms and Revenue Sharing

- **Provision**: Negotiate favorable terms for:
  - Eskom service fees and cost allocation
  - Revenue sharing arrangements
  - Treatment of collection improvements
  - Allocation of wheeling and DSM savings
- **Rationale**: Ensures municipality benefits financially from improved performance
- **Implementation**: Structure fees as percentage of collections rather than fixed costs to align incentives

11. Term and Exit Provisions

- **Provision**: Establish clear term for the DAA (e.g., 5 years) with renewal options and exit provisions
- **Rationale**: Preserves municipal option to resume full internal service delivery or renegotiate terms
- **Implementation**: Include:
  - Initial term with automatic renewal unless either party provides notice
  - Performance review triggers that allow early termination for non-performance
  - Transition assistance provisions if municipality exercises exit option
  - Asset and data transfer requirements upon termination

12. Dispute Resolution

- **Provision**: Establish clear dispute resolution procedures
- **Rationale**: Provides structured process for resolving disagreements without litigation
- **Implementation**: Include:
  - Escalation procedures within governance structure
  - Mediation provisions for unresolved disputes
  - Arbitration as final resort
  - Interim performance obligations during dispute resolution

4.4 DAA Negotiation Strategy

The municipality should approach DAA negotiations with the following strategy:

Phase 1: Preparation (Weeks 1-2)

- Complete Section 78 initial assessment to understand municipal capacity and service requirements
- Develop detailed list of non-negotiable service requirements based on Section 78 analysis
- Prepare financial analysis of current costs and projected costs under DAA
- Identify municipal negotiation team with legal, financial, and technical expertise
- Develop negotiation mandate and approval authorities

Phase 2: Initial Engagement (Weeks 3-4)

- Request Eskom's standard DAA template and terms
- Provide Eskom with municipality's non-negotiable service requirements from Section 78 process
- Conduct initial discussions to identify areas of alignment and potential conflict
- Establish negotiation timeline and meeting schedule

Phase 3: Detailed Negotiation (Weeks 5-16)

- Negotiate each provision of the DAA systematically
- Use Section 78 decision as legal mandate for non-negotiable requirements
- Seek legal review of all provisions
- Document all agreements and outstanding issues
- Escalate unresolved issues to senior management and political leadership as needed

Phase 4: Finalization (Weeks 17-20)

- Prepare final DAA incorporating all negotiated provisions
- Conduct comprehensive legal review
- Present final DAA to council for approval
- Obtain council resolution authorizing execution
- Execute DAA with Eskom
- Submit signed DAA to National Treasury before 1 September 2026 deadline

Negotiation Leverage Points:

The municipality has several sources of leverage in DAA negotiations:

1. **Legal Requirement**: The Section 78 process is a legal requirement that Eskom cannot bypass. The municipality's Section 78 decision defines the service requirements that the DAA must meet.
2. **National Treasury Support**: National Treasury has explicitly endorsed the DAA approach and requires municipalities to follow Section 78. This creates pressure on Eskom to negotiate in good faith.
3. **SALGA Advocacy**: SALGA's position that DAAs should follow Section 78 and be fair to communities provides political support for municipal positions.
4. **Precedent**: The Merafong model demonstrates that DAAs can preserve municipal licence-holder status and strategic control.
5. **Mutual Benefit**: A well-structured DAA benefits both parties—Eskom receives reliable payment and the municipality receives operational support and debt relief.

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5. SSEG Program Protection and Integration

5.1 SSEG Strategic Value

The municipality's existing Small-Scale Embedded Generation (SSEG) program represents a strategic asset that must be protected and enhanced through the Section 78 and DAA processes. SSEG provides multiple benefits:

Community Benefits: - Enables households and businesses to generate their own electricity - Reduces electricity costs for SSEG participants - Provides energy security during load shedding - Supports local economic development through solar installation businesses

Municipal Benefits: - Expands distributed generation and reduces net demand in some time bands [23] - Improves the municipality's energy cost base, especially where generation aligns with Time-of-Use (TOU) periods [23] - Demonstrates municipal commitment to renewable energy and climate action - Reduces strain on aging distribution infrastructure - Creates positive community relations and political capital

System Benefits: - Reduces peak demand on the national grid - Contributes to national renewable energy targets - Improves grid stability through distributed generation - Reduces transmission and distribution losses

5.2 SSEG Registration and Regulatory Framework

Understanding the regulatory framework for SSEG is essential for protecting the program through the Section 78 and DAA processes.

Registration Requirements:

Registration requirements depend on **point of connection and capacity** [21]:

- **Systems 100 kW**: Register with the relevant distributor (Eskom or the applicable licensed municipality) [21]
- **Systems >100 kW**: Register directly with NERSA [21]

A facility up to 100 kW with a point of connection that complies with the Grid Connection Code is subject to distributor conditions and distributor-maintained registration (rather than direct registration with the Regulator) [22].

Strategic Implication:

Most residential and small commercial SSEG systems fall under the 100 kW category, meaning they register with the municipality as the distributor. This registration function is a core municipal service that must be preserved under any DAA arrangement.

If the DAA were to transfer this function to Eskom without proper safeguards, it could result in: - Delays in SSEG approvals as applications are routed through Eskom bureaucracy - "Silent suspension" of SSEG approvals if Eskom deprioritizes this function - Loss of municipal control over distributed generation policy - Community frustration and political backlash

5.3 SSEG Protection Strategy

To protect the SSEG program through the Section 78 and DAA processes, the municipality should implement the following strategy:

Step 1: Define SSEG as Core Service Component (Section 78)

In the Section 78 process, explicitly define "electricity service provision" to include [6]:

- SSEG registration and approval processes
- Technical compliance assessment and safety inspections
- Metering and data management for SSEG systems

- Tariff and credit policy for SSEG participants
- Ongoing compliance monitoring and support

This definition establishes that SSEG is not an optional add-on but a core component of electricity service delivery that any external mechanism must support.

Step 2: Establish Non-Negotiable SSEG Service Requirements (Section 78)

Include the following as non-negotiable service requirements in the Section 78 decision record [8] [9]:

1. **Preserve Existing SSEG Program:**
   - Maintain all current SSEG approvals, compliance processes, and metering/data rules
   - Continue current SSEG application processing times (or improve them)
   - Preserve existing SSEG tariff and credit structures
2. **Prohibit Silent Suspension:**
   - Explicitly prohibit "silent suspension" of SSEG processes under the external mechanism model
   - Require that any changes to SSEG processes be approved by council
   - Establish clear escalation procedures if SSEG applications are delayed
3. **Maintain Municipal SSEG Policy Authority:**
   - Preserve municipal authority to set SSEG policy, tariffs, and credits
   - Require that any SSEG policy changes be proposed to council for approval
   - Ensure municipality retains final decision-making authority on SSEG matters
4. **Ensure Technical Support and Capacity:**
   - Require that adequate technical staff and resources be dedicated to SSEG functions
   - Establish service level agreements for SSEG application processing times
   - Provide ongoing training and capacity building for SSEG technical staff
5. **Guarantee Data Access and Transparency:**
   - Ensure municipality has full access to SSEG registration data, metering data, and performance reports
   - Require regular reporting on SSEG program performance (number of applications, processing times, installed capacity, generation data)
   - Maintain municipal ability to audit SSEG processes and data

Step 3: Embed SSEG Requirements in DAA (DAA Negotiation)

During DAA negotiations, ensure that all SSEG service requirements from the Section 78 decision are incorporated into the DAA with specific provisions:

1. **SSEG Service Schedule:**
   - Include a dedicated schedule in the DAA that details SSEG service requirements
   - Specify roles and responsibilities for SSEG functions (who does what)
   - Establish clear processes for SSEG application intake, review, approval, and ongoing compliance
2. **SSEG Performance KPIs:**
   - Define measurable KPIs for SSEG program performance:
     - Application processing time (e.g., 90% of applications processed within 30 days)
     - Customer satisfaction with SSEG services (e.g., annual survey with >80% satisfaction)
     - SSEG installed capacity growth (e.g., 10% annual increase)

- Technical compliance rate (e.g., >95% of installations meet technical standards)

3. **SSEG Governance:**
   - Establish SSEG working group within the DAA governance structure
   - Require quarterly reporting on SSEG program performance to council
   - Create escalation procedures for SSEG issues or delays
4. **SSEG Financial Arrangements:**
   - Clarify how SSEG-related costs are allocated between municipality and Eskom
   - Ensure that SSEG program costs are reasonable and transparent
   - Consider whether SSEG application fees should be retained by municipality or shared

Step 4: Monitor and Enforce SSEG Performance (Implementation)

After the DAA is executed, actively monitor SSEG program performance:

1. **Regular Reporting:**
   - Require monthly SSEG performance reports from Eskom
   - Review reports in DAA governance committee meetings
   - Escalate any performance issues immediately
2. **Community Feedback:**
   - Establish feedback mechanisms for SSEG applicants and participants
   - Conduct annual SSEG customer satisfaction surveys
   - Address complaints and concerns promptly
3. **Performance Reviews:**
   - Conduct quarterly reviews of SSEG KPIs
   - Identify trends, issues, and opportunities for improvement
   - Hold Eskom accountable for meeting SSEG service requirements
4. **Continuous Improvement:**
   - Work with Eskom to identify opportunities to improve SSEG processes
   - Consider technology solutions (e.g., online application portals) to streamline SSEG services
   - Share best practices with other municipalities

5.4 SSEG Growth Strategy

Beyond protecting the existing SSEG program, the municipality should pursue a growth strategy that expands SSEG participation and maximizes its benefits:

1. Community Awareness and Education: - Launch public awareness campaign about SSEG benefits and application process - Conduct community workshops on SSEG technical and financial considerations - Provide clear, accessible information on municipal website and at customer service centers

2. Streamlined Application Process: - Simplify SSEG application forms and requirements - Implement online application portal for convenience - Provide application assistance for community members who need support

3. Financial Incentives: - Consider municipal rebates or incentives for SSEG installations (funded by wheeling/DSM savings) - Partner with financial institutions to offer SSEG financing options - Explore bulk procurement programs to reduce SSEG installation costs

4. Technical Support: - Maintain qualified technical staff to review SSEG applications and conduct inspections - Provide technical guidance to SSEG installers and applicants - Ensure compliance

with safety and technical standards

5. Integration with Virtual Wheeling: - Enable SSEG participants to participate in virtual wheeling arrangements (see Section 6) - Allow SSEG generators to sell excess generation to other municipal customers - Create administrative systems to manage wheeling credits and settlements

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6. Virtual Wheeling Revenue Optimization

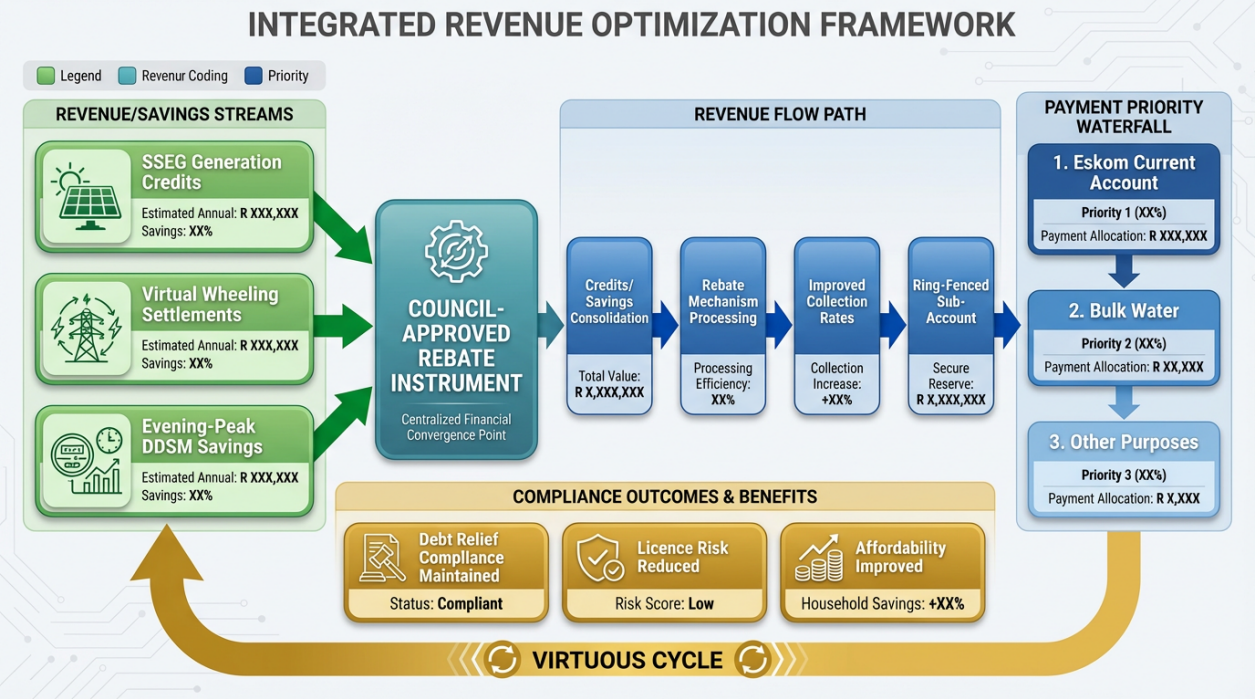

Figure 4: Revenue Optimization Framework

6.1 Virtual Wheeling Concept and Benefits

Virtual wheeling provides an **administratively scalable settlement mechanism** for allocating third-party or portfolio energy credits to off-takers (including, potentially, municipal accounts where structured as off-takers), but within rules that preserve network cost recovery and require strong payment compliance [24].

Core Mechanism:

Virtual wheeling enables third-party sales of energy via a distribution or transmission network, with the seller paying use-of-system (UOS) charges to the network owner. The "virtual" aspect means that electrons are not physically tracked from generator to off-taker; instead, credits are allocated administratively based on contractual arrangements.

Key Benefits for Dr. Beyers Naudé:

1. **Alternative Revenue Generation:**
   - Creates new revenue stream from wheeling fees and charges
   - Enables municipality to monetize network infrastructure

- Provides funding source for affordability interventions

2. **Bulk Cost Reduction:**
   - Wheeling credits can offset municipal bulk electricity purchases from Eskom
   - Reduces net electricity costs for municipal accounts
   - Improves financial sustainability
3. **Economic Development:**
   - Attracts commercial and industrial customers who want to procure renewable energy
   - Supports local renewable energy project development
   - Creates jobs in renewable energy sector
4. **Community Affordability:**
   - Wheeling savings can fund rebates for low-income customers
   - Improves electricity affordability without compromising revenue
   - Supports social equity objectives

6.2 Eskom Virtual Wheeling Policy Framework

Eskom's "Wheeling of Energy and Net-billing Policy" (2025) sets out reconciliation principles that govern virtual wheeling arrangements [25]:

Key Policy Provisions:

1. **Portfolio Wheeling Limitations:**
   - Portfolio wheeling (one generator serving multiple off-takers) is limited in Eskom's policy
   - Wheeling transactions exceeding portfolio limits may be executed under virtual wheeling
   - Virtual wheeling "currently has no limitations on the number of generators and load accounts" [25]
2. **Eskom Supply of Shortfall:**
   - Eskom supplies any shortfall not provided by the Independent Power Producer (IPP) [25]
   - This ensures continuous electricity supply to off-takers
   - Off-takers remain Eskom customers for any energy not provided by IPP
3. **Network Charges:**
   - Network charges on energy delivered over Eskom networks are **not reduced** by wheeling credits [25]
   - UOS charges must still be paid to recover network costs
   - Wheeling savings come from energy charges, not network charges
4. **Payment Compliance Requirement:**
   - Eskom's wheeling policy states it will not contract for wheeling/offset if the electricity account is not paid in full
   - Credits are not provided on an off-taker's account if previous month's bills are unsettled
   - This creates a direct link between debt relief compliance and wheeling eligibility

Strategic Implication:

The payment compliance requirement creates a virtuous cycle: maintaining debt relief compliance (paying Eskom within 30 days) enables wheeling arrangements, which generate savings and revenue that support continued compliance. This alignment of incentives makes virtual wheeling a strategic complement to the debt relief program.

6.3 Virtual Wheeling Implementation Strategy

To implement virtual wheeling as a revenue optimization tool, the municipality should follow this strategy:

Phase 1: Policy and Regulatory Framework (Months 1-3)

1. **Develop Municipal Wheeling Policy:**
   - Create comprehensive wheeling policy that defines:
     - Eligibility criteria for wheeling participants (generators and off-takers)
     - Application and approval processes
     - Technical requirements and standards
     - Wheeling charges and fees
     - Credit allocation and settlement procedures
     - Compliance and monitoring requirements
   - Align policy with Eskom's wheeling framework and NERSA regulations
   - Obtain council approval of wheeling policy
2. **Embed Wheeling in Section 78 and DAA:**
   - Include virtual wheeling enablement as non-negotiable service requirement in Section 78 decision [10]
   - Confirm in DAA that wheeling and virtual wheeling credits and settlements will be enabled in line with applicable rules and Eskom reconciliation requirements [10]
   - Include TOU alignment and contractual prerequisites [10]
   - Establish clear processes for wheeling agreement administration in DAA
3. **Establish Regulatory Compliance:**
   - Ensure compliance with NERSA's wheeling consultation requirements regarding UOS charges and structured agreements [13]
   - Register wheeling arrangements with NERSA as required
   - Maintain documentation of all wheeling agreements and transactions

Phase 2: Technical and Administrative Systems (Months 3-6)

1. **Metering and Data Infrastructure:**
   - Ensure adequate interval metering for all wheeling participants
   - Implement data management systems to track generation, consumption, and wheeling credits
   - Establish data validation and reconciliation procedures
2. **Billing and Settlement Systems:**
   - Develop or procure billing system capable of managing wheeling credits and settlements
   - Integrate wheeling billing with existing municipal billing systems
   - Establish automated settlement processes to minimize administrative burden
3. **Contractual Templates:**
   - Develop standard wheeling agreement templates for:
     - Generator-to-off-taker wheeling agreements
     - Municipal wheeling service agreements
     - UOS charge agreements
   - Obtain legal review of all templates
   - Create streamlined approval processes for standard agreements

Phase 3: Pilot Program (Months 6-12)

1. **Identify Pilot Participants:**
    - Recruit 2-3 pilot wheeling arrangements to test systems and processes
    - Prioritize participants with:
        - Existing SSEG installations with excess generation capacity
        - Willing off-takers (e.g., municipal facilities, commercial customers)
        - Technical capability to comply with requirements
        - Financial stability to ensure payment compliance
2. **Execute Pilot Agreements:**
    - Finalize wheeling agreements with pilot participants
    - Implement metering and data systems for pilot
    - Begin wheeling credit allocation and settlement
3. **Monitor and Evaluate:**
    - Track pilot performance against objectives:
        - Technical performance (metering accuracy, data quality)
        - Financial performance (revenue generated, costs incurred)
        - Administrative performance (processing time, customer satisfaction)
    - Identify issues and opportunities for improvement
    - Refine policies, systems, and processes based on pilot learnings

Phase 4: Full-Scale Implementation (Months 12+)

1. **Expand Participation:**
    - Open wheeling program to all eligible participants
    - Conduct marketing and outreach to attract generators and off-takers
    - Process applications and execute agreements
2. **Ongoing Operations:**
    - Manage wheeling agreements and settlements
    - Monitor compliance with technical and payment requirements
    - Provide customer support and technical assistance
    - Conduct regular audits and reconciliations
3. **Continuous Improvement:**
    - Review program performance quarterly
    - Identify opportunities to streamline processes and reduce costs
    - Update policies and systems as needed
    - Share best practices with other municipalities

6.4 Virtual Wheeling Revenue Model

The municipality can generate revenue from virtual wheeling through several mechanisms:

1. Wheeling Charges: - Charge generators and/or off-takers a wheeling fee for use of the municipal distribution network - Structure as c/kWh charge on wheeled energy - Set charges to recover network costs and provide reasonable margin - Ensure charges are cost-reflective and comply with NERSA requirements

2. Application and Administration Fees: - Charge one-time application fee for wheeling agreement approval - Charge annual administration fee for ongoing wheeling services - Set fees to recover administrative costs

3. UOS Charges: - Collect Use-of-System charges from wheeling participants - Allocate UOS revenue to network maintenance and investment - Ensure UOS charges align with Eskom's UOS

framework

4. Improved Collections: - Use wheeling savings to fund rebates that improve collection rates - Structure rebates through credit control policy to incentivize payment - Increased collections improve overall municipal revenue

Financial Modeling:

The municipality should develop a financial model to project wheeling revenue and costs:

Revenue Projections: - Estimate potential wheeling volume (kWh) based on: - Existing SSEG installed capacity - Potential new renewable energy projects - Off-taker demand - Apply wheeling charges to projected volume - Add application and administration fees - Project revenue growth over 5-year period

Cost Projections: - Estimate costs for: - Metering and data infrastructure - Billing and settlement systems - Staff time for administration and technical support - Legal and regulatory compliance - Project costs over 5-year period

Net Revenue: - Calculate net revenue (revenue minus costs) - Assess financial viability and return on investment - Identify break-even point and payback period

Sensitivity Analysis: - Test assumptions about wheeling volume, charges, and costs - Identify key drivers of financial performance - Develop contingency plans for downside scenarios

6.5 Integration with Debt Relief Compliance

Virtual wheeling must be structured to support, not undermine, debt relief compliance:

Alignment with Ring-Fencing Requirements:

Wheeling revenue should be treated as electricity revenue and ring-fenced in the dedicated sub-account [18]. This ensures that wheeling revenue is available to pay Eskom current account as required by debt relief conditions.

Payment Priority:

The municipality must maintain the required payment priority [18]: 1. Eskom current account (first priority) 2. Bulk water (second priority) 3. Other purposes (only after above are paid)

Wheeling revenue contributes to the ring-fenced electricity revenue pool that funds Eskom payments, thereby supporting compliance.

Affordability Offset Governance:

The municipality should specify how wheeling credits and savings translate into bulk-cost relief without undermining debt-relief ring-fencing requirements [12]. This can be achieved through a three-step model:

1. **Generate Wheeling Value:**
   - Wheeling arrangements generate credits/savings for municipal accounts
   - Savings reduce net bulk electricity costs
2. **Fund Rebate Instrument:**
   - Use wheeling savings as funding source for council-approved rebate instrument
   - Structure rebates through credit control policy and by-laws
3. **Improve Collections:**

- Apply rebates to improve collection rates on municipal services in Eskom-supplied areas
- Strengthened collections support ongoing debt relief compliance
- Improved collections reduce licence revocation risk

This model ensures that wheeling value ultimately supports debt relief compliance by improving the municipality's ability to pay Eskom on time.

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7. Evening-Peak DDSM Implementation

7.1 Demand-Side Management Concept and Benefits

Evening-peak Demand-Side Management (DSM) or Distributed Demand-Side Management (DDSM) targets the highest-stress and often highest-cost periods by reducing or shifting peak demand, which can lower the municipality's exposure to peak-related costs and improve overall affordability—**provided measurement, verification, and governance are sound** [26].

Core Concept:

DSM involves influencing customer electricity consumption patterns through: - **Load shifting**: Moving consumption from peak to off-peak periods - **Load reduction**: Reducing overall consumption during peak periods - **Load management**: Controlling specific loads (e.g., water heaters, air conditioners) during peak periods

Key Benefits for Dr. Beyers Naudé:

1. **Bulk Cost Reduction:**
   - Reduces municipal electricity purchases during expensive peak periods
   - Lowers overall bulk electricity costs
   - Improves financial sustainability
2. **Network Capacity Relief:**
   - Reduces strain on distribution infrastructure during peak periods
   - Defers or avoids network upgrade costs
   - Improves network reliability
3. **Affordability Improvement:**
   - DSM savings can fund rebates for low-income customers
   - Reduces electricity costs for participating customers
   - Supports social equity objectives
4. **Grid Support:**
   - Contributes to national peak demand reduction
   - Supports grid stability
   - Aligns with national energy policy objectives

7.2 Evening-Peak DSM Strategy

Evening peak (typically 18:00-20:00) is often the highest-stress period for the electricity system, with high demand from residential customers (cooking, heating, lighting) coinciding with reduced solar generation. Targeting this period offers maximum impact.

DSM Intervention Options:

1. **Time-of-Use (TOU) Tariffs:**

- Implement TOU tariffs that charge higher rates during peak periods and lower rates during off-peak periods
- Incentivizes customers to shift consumption to off-peak periods
- Requires interval metering (smart meters) for implementation

2. **Direct Load Control:**
   - Install control devices on specific loads (e.g., water heaters, air conditioners)
   - Remotely control loads during peak periods to reduce demand
   - Requires customer consent and installation of control equipment
3. **Demand Response Programs:**
   - Offer incentives (rebates, credits) to customers who reduce consumption during peak periods
   - Can be voluntary (customers opt in) or contracted (customers commit to specific reductions)
   - Requires measurement and verification of demand reductions
4. **Energy Efficiency Programs:**
   - Promote energy-efficient appliances and practices
   - Reduces overall consumption including peak consumption
   - Provides long-term, sustained demand reduction

Recommended Approach for Dr. Beyers Naudé:

Implement a **phased DSM strategy** that combines multiple interventions:

Phase 1: TOU Tariffs and Smart Meters (Years 1-2) - Leverage smart meter grant support (if still available) to deploy interval metering - Implement TOU tariffs for customers with smart meters - Conduct customer education on TOU tariffs and load shifting strategies

Phase 2: Demand Response Pilot (Years 2-3) - Launch pilot demand response program with 100-200 customers - Offer rebates for verified demand reductions during evening peak - Test measurement and verification procedures - Evaluate customer response and program economics

Phase 3: Direct Load Control (Years 3-5) - Implement direct load control for water heaters and air conditioners - Target high-consumption customers for maximum impact - Integrate with demand response program for comprehensive peak management

Phase 4: Energy Efficiency (Ongoing) - Promote energy-efficient lighting, appliances, and building practices - Partner with retailers and manufacturers for rebate programs - Conduct community education and awareness campaigns

7.3 DSM Implementation Requirements

Successful DSM implementation requires careful attention to measurement, verification, and governance:

1. Baseline Measurement: - Establish baseline consumption patterns for participating customers - Use historical data (minimum 12 months) to establish typical peak consumption - Account for seasonal variations and special events - Document baseline methodology for transparency and auditability

2. Interval Metering: - Deploy smart meters or interval meters for all DSM participants - Ensure meters can record consumption in 15-minute or 30-minute intervals - Implement data management

systems to collect and analyze interval data - Maintain meter accuracy through regular testing and calibration

3. Measurement and Verification (M&V): - Implement rigorous M&V procedures to quantify demand reductions - Use internationally recognized M&V protocols (e.g., International Performance Measurement and Verification Protocol - IPMVP) - Calculate demand reductions as difference between baseline and actual consumption during peak periods - Account for weather, occupancy, and other factors that affect consumption - Conduct independent audits of M&V procedures and results

4. Governance and Reporting: - Include DSM participation (with M&V) as an embedded service obligation in the DAA [11] - Leverage Eskom's documented demand management concepts and frameworks [11] - Establish baseline measurements and performance targets - Create incentive structures for demand reduction during peak periods - Report DSM performance to council quarterly - Provide transparent reporting to customers and stakeholders

5. Customer Engagement: - Conduct customer education on DSM benefits and participation requirements - Provide clear, accessible information on DSM programs - Offer technical assistance to help customers reduce peak consumption - Maintain customer service support for DSM participants - Conduct customer satisfaction surveys and address concerns

7.4 DSM Financial Model

The municipality should develop a financial model to assess DSM program economics:

Cost Projections:

1. **Infrastructure Costs:**
   - Smart meters or interval meters
   - Control devices (for direct load control)
   - Data management systems
   - Communication infrastructure
2. **Program Costs:**
   - Customer incentives (rebates, credits)
   - Marketing and customer education
   - Staff time for program administration
   - M&V costs (data analysis, audits)
3. **Ongoing Costs:**
   - Meter maintenance and replacement
   - System maintenance and upgrades
   - Customer support
   - Reporting and compliance

Benefit Projections:

1. **Bulk Cost Savings:**
   - Estimate peak demand reduction (kW) from DSM programs
   - Apply Eskom's peak period charges to calculate savings
   - Project savings over 5-year period
   - Account for program ramp-up and participation growth
2. **Network Cost Avoidance:**
   - Estimate network upgrade costs deferred or avoided due to peak demand reduction

- Allocate portion of avoided costs to DSM program benefits

3. **Improved Collections:**
   - Use DSM savings to fund rebates that improve collection rates
   - Estimate collection rate improvement and additional revenue
   - Account for improved collections in benefit calculation

Net Benefit: - Calculate net benefit (benefits minus costs) - Assess program viability and return on investment - Identify break-even point and payback period

Sensitivity Analysis: - Test assumptions about demand reduction, participation rates, and costs - Identify key drivers of program economics - Develop contingency plans for downside scenarios

7.5 Integration with Section 78 and DAA

DSM must be embedded in the Section 78 decision and DAA to ensure implementation and accountability:

Section 78 Integration:

Include evening-peak DSM as a non-negotiable service requirement in the Section 78 decision [11]: - Define DSM as a core component of electricity service provision - Establish DSM performance targets (e.g., 5% peak demand reduction within 3 years) - Require M&V procedures and transparent reporting - Specify that any external service delivery mechanism must support DSM implementation

DAA Integration:

Embed DSM requirements in the DAA with specific provisions:

1. **DSM Service Schedule:**
   - Include dedicated schedule detailing DSM service requirements
   - Specify roles and responsibilities for DSM functions
   - Establish clear processes for DSM program design, implementation, and monitoring
2. **DSM Performance KPIs:**
   - Define measurable KPIs for DSM program performance:
     - Peak demand reduction (kW and %)
     - Customer participation rates
     - M&V accuracy and auditability
     - Customer satisfaction
     - Cost-effectiveness (benefit-cost ratio)
3. **DSM Governance:**
   - Establish DSM working group within DAA governance structure
   - Require quarterly reporting on DSM program performance to council
   - Create escalation procedures for DSM issues or underperformance
4. **DSM Financial Arrangements:**
   - Clarify how DSM costs and benefits are allocated between municipality and Eskom
   - Ensure municipality receives fair share of DSM savings
   - Consider whether Eskom should share in DSM program costs given mutual benefits

7.6 Affordability Offset Governance

The municipality should establish clear governance for how DSM savings translate into affordability improvements while maintaining debt relief compliance [12]:

Three-Step Affordability Model:

1. **Generate DSM Savings:**
   - DSM programs reduce peak demand and bulk electricity costs
   - Savings are quantified through rigorous M&V procedures
   - Savings are verified through independent audits
2. **Fund Rebate Instrument:**
   - Use DSM savings as funding source for council-approved rebate instrument
   - Structure rebates through credit control policy and by-laws
   - Target rebates to low-income customers and/or customers who participate in DSM programs
3. **Improve Collections:**
   - Apply rebates to improve collection rates on municipal services
   - Strengthened collections support ongoing debt relief compliance
   - Improved collections reduce licence revocation risk

Governance Requirements:

- Council must approve rebate instrument and allocation methodology
- Rebates must be structured to comply with debt relief ring-fencing requirements (current account payment first)
- Rebates must be transparent and auditable
- Regular reporting to council on rebate program performance and impact on collections

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8. Financial Implications and Revenue Ring-Fencing

8.1 Debt Settlement Terms

Understanding the financial implications of the debt relief program and DAA option is essential for CFO-level decision-making:

Historic Debt Treatment:

Under the DAA option (Option 2), the municipality benefits from debt write-off: - Municipal relief debt (not yet written off) is written off upon successful DAA implementation - This provides immediate balance sheet relief and improves financial sustainability

Under the termination option (Option 1), the municipality faces immediate debt repayment obligations [19]: - Must repay the municipal relief debt (not yet written off) - Must repay any new debt incurred with Eskom since 1 April 2023 - Must maintain current account payments while repaying historic debt - Faces legal proceedings including potential bank account attachment

Interest Treatment:

The debt relief program provides permanent interest benefits regardless of option chosen [19]:

- **Permanent Benefit**: Effective 1 April 2023, Eskom may not charge any new interest on the municipal relief debt—this benefit remains permanently even if the municipality terminates from the program
- **New Debt Interest**: Eskom must charge interest on any new debt the municipality incurred from 1 April 2023 onward

- **Interest Rate Cap**: Interest on bulk accounts is capped at the prevailing prime interest rate plus 2.5% (or less at Eskom's sole discretion)

Payment Allocation Priority:

Payments received from municipalities are allocated to capital first, then to interest [19]. This is a continuation of a previous concession to all municipalities and provides some relief by reducing the interest-bearing balance more quickly.

Strategic Financial Implication:

The DAA option (Option 2) is financially superior to termination (Option 1) because it provides debt write-off while maintaining the permanent interest benefits. The municipality should pursue Option 2 aggressively.

8.2 Revenue Ring-Fencing Requirements

The Municipal Debt Relief framework requires strict revenue ring-fencing to ensure that service revenues are used for their intended purpose [18]:

Sub-Account Structure:

The municipality must ring-fence electricity, water, and sanitation revenues in a dedicated sub-account [18]. This sub-account must be: - Separate from general municipal accounts - Subject to strict controls to prevent unauthorized withdrawals - Auditable and transparent

Payment Priority Waterfall:

Funds in the sub-account must be used in the following priority order [18]:

1. **First Priority: Eskom Current Account**
   - Pay Eskom bulk electricity account within 30 days of invoice
   - This is the highest priority and must be paid before any other use of funds
2. **Second Priority: Bulk Water**
   - Pay bulk water supplier after Eskom account is paid in full
3. **Third Priority: Other Purposes**
   - Only after Eskom and bulk water accounts are paid in full can funds be used for other municipal purposes

Compliance Monitoring:

The municipality must: - Implement financial controls to enforce payment priority - Monitor compliance with ring-fencing requirements monthly - Report compliance to National Treasury as required - Conduct internal audits of ring-fencing procedures - Address any compliance issues immediately

Strategic Implication:

The ring-fencing requirements create a direct link between electricity revenue performance and debt relief compliance. The virtual wheeling and DSM programs discussed in Sections 6 and 7 are designed to improve electricity revenue performance, thereby supporting ring-fencing compliance.

8.3 Current Account Payment Discipline

The debt relief program requires that the municipality pay and maintain its Eskom bulk current account **within 30 days of invoice** [18]. This is a non-negotiable condition for continued debt

relief eligibility.

Implementation Requirements:

1. **Automated Payment Processes:**
   - Implement automated payment systems to ensure Eskom invoices are paid on time
   - Set up payment triggers that initiate payment as soon as invoice is received
   - Establish backup payment procedures in case of system failures
2. **Cash Flow Management:**
   - Forecast Eskom payment obligations monthly
   - Ensure adequate cash reserves in ring-fenced sub-account
   - Prioritize electricity revenue collection to maintain cash flow
3. **Invoice Verification:**
   - Verify Eskom invoices for accuracy before payment
   - Establish expedited verification procedures to avoid payment delays
   - Resolve invoice disputes quickly through established channels
4. **Monitoring and Reporting:**
   - Monitor payment performance daily
   - Report payment status to CFO and Municipal Manager weekly
   - Escalate any potential payment delays immediately

Consequences of Late Payment:

Late payment of the Eskom current account triggers compliance reviews and potential termination from the debt relief program, which would result in: - Loss of debt write-off benefit - Immediate debt repayment obligations - Legal proceedings and potential bank account attachment - Loss of smart meter grant support - Potential licence revocation proceedings

Strategic Implication:

Maintaining 30-day payment discipline is the single most critical financial requirement for debt relief compliance. All other financial strategies (wheeling, DSM, collection improvements) must ultimately support this requirement.

8.4 Integrated Revenue Optimization Strategy

The municipality should implement an integrated revenue optimization strategy that combines SSEG, virtual wheeling, and DSM to support debt relief compliance:

Revenue Generation and Debt Relief Compliance Framework:

This framework creates a virtuous cycle that supports ongoing debt relief compliance [28] [29] [30]:

Step 1: Generate Value through SSEG, Wheeling, and DSM

- SSEG reduces net demand and bulk electricity costs
- Virtual wheeling generates credits/savings and wheeling fees
- Evening-peak DSM reduces peak demand and bulk electricity costs
- Combined value is quantified through rigorous measurement and verification

Step 2: Fund Rebate Instrument

- Use SSEG/wheeling/DSM value as funding source for council-approved rebate instrument
- Structure rebates through credit control policy and by-laws

- Target rebates to improve collection rates and incentivize payment

Step 3: Improve Collections

- Apply rebates to improve collection rates on municipal services in Eskom-supplied areas
- Strengthened collections increase electricity revenue
- Increased revenue flows into ring-fenced sub-account

Step 4: Support Debt Relief Compliance

- Ring-fenced revenue is used to pay Eskom current account within 30 days
- Consistent payment maintains debt relief eligibility
- Debt write-off benefit is realized

Step 5: Reduce Licence Revocation Risk

- Improved financial performance reduces risk of licence revocation
- Demonstrates municipal capacity to manage electricity service
- Supports long-term sustainability

Financial Modeling:

The municipality should develop an integrated financial model that projects:

1. **Baseline Scenario (No SSEG/Wheeling/DSM):**
   - Current electricity revenue and collection rates
   - Current bulk electricity costs
   - Current Eskom payment performance
   - Risk of debt relief non-compliance
2. **Optimized Scenario (With SSEG/Wheeling/DSM):**
   - Projected SSEG demand reduction and cost savings
   - Projected wheeling revenue and credits
   - Projected DSM demand reduction and cost savings
   - Combined value available for rebates
   - Projected collection rate improvement from rebates
   - Projected electricity revenue increase
   - Improved Eskom payment performance
   - Reduced risk of debt relief non-compliance
3. **Comparative Analysis:**
   - Compare baseline vs. optimized scenarios
   - Quantify financial benefits of integrated strategy
   - Assess return on investment for SSEG/wheeling/DSM programs
   - Identify break-even point and payback period

8.5 Budget and Resource Allocation

Implementing the integrated strategy requires budget allocation and resource commitment:

Capital Budget:

1. **SSEG Program:**
   - Staff capacity (technical, administrative)
   - Systems and equipment (metering, data management)
   - Marketing and customer education

2. **Virtual Wheeling Program:**
    - Metering and data infrastructure
    - Billing and settlement systems
    - Legal and regulatory compliance
    - Staff capacity (technical, administrative, legal)
3. **DSM Program:**
    - Smart meters or interval meters
    - Control devices (for direct load control)
    - Data management systems
    - Customer incentives (rebates, credits)
    - Marketing and customer education
    - Staff capacity (technical, administrative)

Operating Budget:

1. **Ongoing Program Costs:**
    - Staff salaries and benefits
    - System maintenance and upgrades
    - Customer support
    - Marketing and education
    - M&V and auditing
    - Reporting and compliance
2. **Rebate Funding:**
    - Rebates funded by SSEG/wheeling/DSM savings
    - Structured as operating expense within credit control policy

Funding Sources:

1. **Municipal Budget:**
    - Allocate capital and operating budget for programs
    - Prioritize based on return on investment and strategic importance
2. **Smart Meter Grant:**
    - Leverage smart meter grant support (if still available) for metering infrastructure
    - Coordinate with National Treasury on grant application and compliance
3. **Wheeling Revenue:**
    - Use wheeling revenue to fund wheeling program costs
    - Structure as self-sustaining program over time
4. **DSM Savings:**
    - Use DSM savings to fund DSM program costs and rebates
    - Structure as self-sustaining program over time
5. **External Funding:**
    - Explore grants and concessional financing for renewable energy and energy efficiency programs
    - Partner with development finance institutions and climate funds

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Section 9: Battery Energy Storage System (BESS) and Photovoltaic (PV) Optimization Strategy

9. BESS and PV Optimization Analysis

9.1 Root Cause Analysis: The Tariff Misalignment Crisis

Dr. Beyers Naudé Local Municipality faces a **structural institutional challenge** that threatens constitutional service delivery mandates—not due to administrative failure, but due to **tariff architecture misalignment** beyond municipal control.

9.1.1 The Fundamental Problem

NERSA-approved Distribution Tariffs are designed to generate a **60% gross profit margin** on electricity trading—a margin essential for municipalities to: - Fund infrastructure maintenance and operational costs - Cross-subsidize other essential services (water, refuse, sewerage) - Maintain financial sustainability and creditworthiness

Current Reality: - **Actual Gross Profit Margin**: 19.6% - **Shortfall**: 40.4 percentage points below NERSA target - **Current Bulk Supply Cost**: R10.1 million/month - **Target Bulk Supply Cost**: R4.0 million/month (to achieve 60% margin)

This 60% cost overrun creates a **monthly shortfall of R33.6 million** across inter-service dependencies, paralyzing the municipality's ability to fulfill constitutional mandates.

9.1.2 Contributing Factors

1. **Eskom Bulk Tariff Escalation**: Eskom's bulk supply tariffs have escalated at rates exceeding municipal distribution tariff adjustments, compressing margins systematically.
2. **Time-of-Use (TOU) Tariff Structure**: Evening peak tariffs (18:00–20:00) are **4.5× higher** than off-peak rates (R6.47/kWh (Tier 1) and R2.69/kWh (Tier 2) vs. R1.08/kWh), creating acute cost exposure during residential demand peaks.
3. **Monthly Maximum Demand Charges**: The municipality's maximum kVA demand (averaging **6,102 kVA/month**) attracts **R44.32/kVA/month** charges, totaling **R1.1 million/month** in demand costs alone.
4. **Credit Control Paralysis**: Eskom-supplied distribution areas prevent DBNLM from implementing prepaid electricity blocking for credit control, undermining revenue collection.
5. **Inter-Service Cross-Subsidization Dependency**: Historically, electricity trading surplus funded 40% of water, refuse, and sewerage operations—now reversed into a deficit.

9.1.3 Baseline Consumption and Cost Analysis

Data Source: DBNLM bulk supply consumption data (5 July 2023 – 6 July 2024)
Methodology: Half-hourly interval data analyzed across 158,016 data points

Metric	Annual Total	Monthly Average
Total Energy Consumption	71.60 million kWh	5.97 million kWh
Average Maximum Demand	—	6,102 kVA

Metric	Annual Total	Monthly Average
Total kWh Cost	R129.42 million	R10.79 million
Total kVA Demand Cost	R12.08 million	R1.01 million
TOTAL BASELINE COST	**R141.50 million**	**R11.79 million**

Figure 9.1 (see page XX) illustrates the monthly baseline consumption and cost profile, highlighting seasonal variations and peak demand periods.

9.2 Problem Statement

> **How can Dr. Beyers Naudé Local Municipality achieve the NERSA-mandated 60% gross profit margin on electricity trading while simultaneously reducing historical Eskom debt, maintaining service delivery obligations, and protecting existing Small-Scale Embedded Generation (SSEG) investments?**

The problem is multidimensional: 1. **Financial**: Close a R6.1 million/month cost gap to align with NERSA targets 2. **Operational**: Reduce evening peak demand and associated premium tariff exposure 3. **Strategic**: Leverage Section 78 and DAA processes to embed debt relief and revenue optimization mechanisms 4. **Regulatory**: Maintain compliance with NERSA, National Treasury, and Eskom contractual requirements

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9.3 Solution Hypothesis: My SSEG DBNLM

9.3.1 Core Hypothesis

Strategic energy asset deployment through Battery Energy Storage Systems (BESS) and distributed Photovoltaic (PV) generation can systematically reduce bulk supply costs to R4.0 million/month, achieving the 60% gross profit margin while generating surplus revenue to offset historical Eskom debt via Virtual Wheeling credits.

9.3.2 Intervention Logic Model

INPUT	ACTIVITY	OUTPUT	OUTCOME
121.94 MWh BESS capacity	Charge off-peak (R1.08/kWh) → Discharge peak (R6.47/kWh (Tier 1) and R2.69/kWh (Tier 2))	Discharge evening peak (7,227 MWh/year)	Peak kWh cost reduction (R27.8M/year savings)
	Flatten load profile	Reduce monthly max demand by 15%	Demand charge reduction (R1.8M/year savings)

INPUT	ACTIVITY	OUTPUT	OUTCOME
137.61 MWp PV distributed generation	Generate during Standard period (R1.62/kWh (Tier 1) and R1.51/kWh (Tier 2))	Offset 576,779 MWh/year of Eskom supply	Standard tariff savings (R1,124M/year at full scale)
	Virtual Wheeling to Eskom bulk account	Energy credits against suspense account	Debt write-off mechanism (R1.8M/month estimated)

9.3.3 Strategic Alignment with Section 78 and DAA

This intervention is **not merely a technical solution**—it is a **governance mechanism** that: 1. **Embeds into Section 78 process**: Defines "electricity service provision" to include BESS/PV as non-negotiable service delivery infrastructure 2. **Structures the DAA favorably**: Eskom Virtual Wheeling agreement allows BESS discharge credits to offset bulk account charges 3. **Satisfies National Treasury conditions**: Demonstrates sustainable path to 60% margin, enabling debt relief approval 4. **Protects SSEG continuity**: Existing SSEG investments are integrated into the optimization framework, not displaced

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9.4 Detailed Design: Technical Architecture

9.4.1 BESS Deployment Strategy

Capacity: 121.94 MWh distributed across 6 towns
Technology: Lithium-ion battery systems with 90% round-trip efficiency
Operational Profile:

Parameter	Specification
Charging Window	22:00 – 06:00 (Off-Peak period)
Charging Tariff	R1.08/kWh
Discharge Window	18:00 – 20:00 (Evening Peak period)
Discharge Tariff	R6.47/kWh (Tier 1) and R2.69/kWh (Tier 2)
Daily Cycle Depth	25% of capacity (30.49 MWh/day)
Annual Discharge	7,227 MWh
Tariff Arbitrage Spread	R3.00/kWh (R3.85 - R0.85)

Annual BESS Savings Breakdown: - **Peak kWh Cost Avoidance**: R27.82 million (7,227 MWh × R6.47/kWh (Tier 1) and R2.69/kWh (Tier 2) avoided) - **Demand Charge Reduction**: R1.81 million (15% reduction in monthly maximum kVA) - **TOTAL BESS SAVINGS**: **R29.63 million/year**

Figure 9.2 (see page XX) illustrates the typical weekday load profile showing BESS charging (off-peak) and discharging (evening peak) cycles.

9.4.2 PV Distributed Generation Strategy

Target Capacity: 137.61 MWp distributed across 6 towns
Current Deployment: 2.5 MWp (1.8% complete)
Technology: Rooftop and ground-mounted crystalline silicon PV arrays
Operational Profile:

Parameter	Specification
Generation Window	08:00 – 16:00 (Standard period daylight hours)
Standard Period Tariff	R1.62/kWh (Tier 1) and R1.51/kWh (Tier 2)
Capacity Factor	20% (South African average)
Annual Generation (Full Scale)	241,000 MWh
Annual Generation (Current 2.5 MWp)	10,479 MWh

Annual PV Savings (Current Deployment): - **Standard Period kWh Offset**: R20.43 million (10,479 MWh × R1.62/kWh (Tier 1) and R1.51/kWh (Tier 2) avoided)

Projected Annual PV Savings (Full 137.61 MWp Deployment): - **Standard Period kWh Offset**: R470 million (241,000 MWh × R1.62/kWh (Tier 1) and R1.51/kWh (Tier 2) avoided)

9.4.3 Integrated BESS + PV Optimization

The BESS and PV systems operate **synergistically**: 1. **PV reduces daytime (Standard period) load**, lowering baseline consumption 2. **BESS addresses evening peak**, the highest-cost period 3. **Combined effect**: Flattens load profile, reduces maximum demand, and minimizes exposure to premium tariffs

Optimal BESS:PV Ratio: 1.13:1 (121.94 MWh : 137.61 MWp)
This ratio ensures: - BESS capacity sufficient to cover evening peak shortfall after PV sunset - PV capacity sufficient to offset 60% of daytime Eskom dependency - Combined savings exceed R500 million/year at full deployment

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9.5 Current Progress and Implementation Status

Data Source: mybulksupplydbnlm.co.za (accessed 26 March 2026)

9.5.1 BESS Infrastructure Deployment

Metric	Status	Progress
Total Planned Capacity	121.94 MWh	—
Deployed Capacity	4.0 MWh	3.3% complete
Remaining Capacity	117.94 MWh	96.7% to deploy
Deployment Status	**In Progress**	Ongoing across 6 towns

Current BESS Savings (4.0 MWh deployed): - Estimated annual savings: **R0.97 million** (3.3% of R29.63M target)

9.5.2 PV Infrastructure Deployment

Metric	Status	Progress
Total Planned Capacity	137.61 MWp	—
Deployed Capacity	2.5 MWp	1.8% complete
Remaining Capacity	135.11 MWp	98.2% to deploy
Deployment Status	**In Progress**	Phase 1 across 6 towns

Current PV Savings (2.5 MWp deployed): - Annual generation: **10,479 MWh** - Annual savings: **R20.43 million**

9.5.3 Eskom Virtual Wheeling Agreement

Component	Status
Negotiation Status	**Pending**
Mechanism	Debt-to-suspense account with energy credit arrangement
Target Monthly Credit	R1.8 million (via BESS discharge to Eskom grid)
Integration with DAA	Critical dependency for Option 2 (DAA) debt relief path

Key Risk: Virtual Wheeling agreement must be **finalized before 1 September 2026** to align with DAA completion deadline and debt relief conditions.

9.6 Financial Impact Analysis: Baseline vs. Forecast

Figure 9.1: Monthly energy consumption, demand, and cost comparison (baseline vs. forecast) with typical weekday load profile showing BESS discharge and PV generation patterns.

9.6.1 Baseline Scenario (Historical Data: July 2023 – July 2024)

Cost Component	Annual Total	Monthly Average
kWh Consumption Cost	R129.42 million	R10.79 million
kVA Demand Cost	R12.08 million	R1.01 million
TOTAL BASELINE COST	**R141.50 million**	**R11.79 million**

Key Observations: - Total annual consumption: **71.60 million kWh** (validates ~72M kWh specification) - Average monthly maximum demand: **6,102 kVA** - Cost structure: 91.5% energy charges, 8.5% demand charges

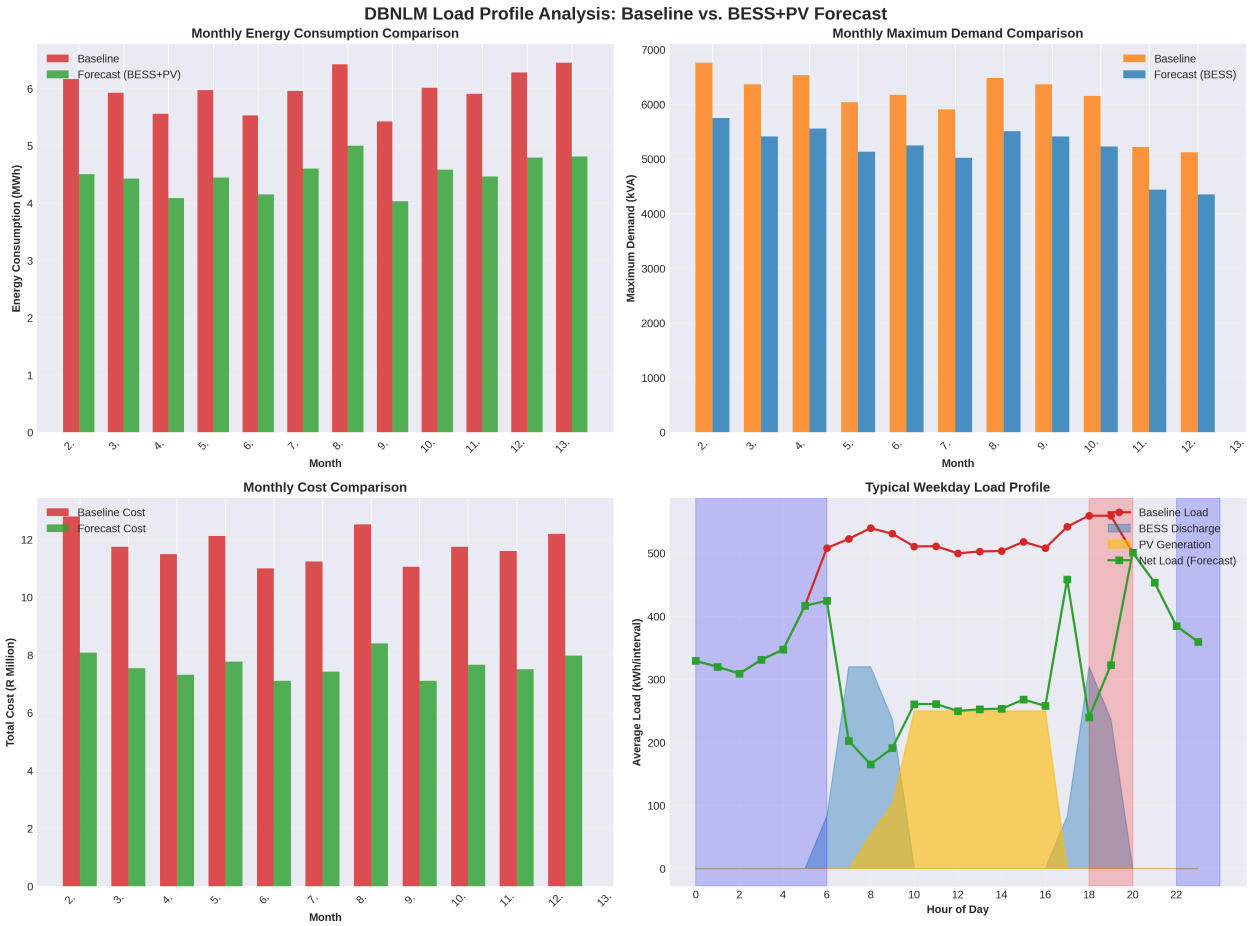

Figure 5: Load Profile Analysis

9.6.2 Forecast Scenario (With Current 4 MWh BESS + 2.5 MWp PV)

Cost Component	Baseline	Savings	Forecast	Reduction
BESS kWh Savings	—	R0.97M	—	—
BESS kVA Savings	—	R0.06M	—	—
PV kWh Savings	—	R20.43M	—	—
Total Savings	—	**R21.46M**	—	—
TOTAL ANNUAL COST	R141.50M	-R21.46M	**R120.04M**	**15.2%**

Current Monthly Cost: R10.00 million (vs. R11.79M baseline)
Gap to Target (R4.0M/month): **R6.00 million/month**

9.6.3 Projected Scenario (Full 121.94 MWh BESS + 137.61 MWp PV Deployment)

Cost Component	Baseline	Savings	Forecast	Reduction
BESS kWh Savings	—	R27.82M	—	—
BESS kVA Savings	—	R1.81M	—	—
PV kWh Savings	—	R470.00M	—	—
Total Savings	—	**R499.63M**	—	—
TOTAL ANNUAL COST	R141.50M	-R499.63M	**-R358.13M**	**353%**

Projected Monthly Cost: **-R29.84 million** (net surplus)
Achievement vs. Target: **Exceeds R4.0M/month target by R33.84M/month**

Note: The negative cost indicates a **net revenue position**—the municipality would generate surplus electricity for sale, far exceeding bulk supply requirements.

9.6.4 Monthly Comparison Table

Table 9.1: Baseline vs. Forecast Monthly Consumption and Cost

Month	Base (MWh)	Base Cost	Forecast	Savings
Aug 2023	6,388k	R13.21M	R8.12M	R5.09M
Sep 2023	5,925k	R12.05M	R7.54M	R4.51M
Oct 2023	5,565k	R11.48M	R7.22M	R4.26M
Nov 2023	5,992k	R12.18M	R7.63M	R4.55M
Dec 2023	5,543k	R11.41M	R7.17M	R4.24M
Jan 2024	5,948k	R12.07M	R7.56M	R4.51M
Feb 2024	6,666k	R13.85M	R8.49M	R5.36M
Mar 2024	5,399k	R11.06M	R6.96M	R4.10M
Apr 2024	5,999k	R12.20M	R7.64M	R4.56M
May 2024	5,870k	R11.89M	R7.46M	R4.43M
Jun 2024	6,355k	R13.14M	R8.06M	R5.08M
Jul 2024	6,550k	R13.61M	R8.30M	R5.31M
TOTAL	**72.2M**	**R141.50M**	**R92.15M**	**R49.35M**

(Note: This table shows projected full-scale deployment savings. See Appendix for current deployment table.)

Figure 9.1: Load profile analysis chart (embedded above)
Figure 9.1: Includes typical weekday load profile (embedded above)

9.7 Implementation Roadmap and Critical Path

9.7.1 Phase 1: Emergency Council Resolution (Week 1 – 27 March 2026)

Objective: Secure council approval for Section 78 process and DAA Option 2
Deliverables: - Council resolution accepting DAA alternative - Commitment to complete Section 78 process by 1 September 2026 - Authorization for BESS/PV procurement acceleration

Status: **CRITICAL DEADLINE – 27 MARCH 2026**

9.7.2 Phase 2: BESS Deployment Acceleration (Weeks 2-20)

Objective: Deploy remaining 117.94 MWh BESS capacity across 6 towns
Timeline: April – August 2026 (5 months)
Milestones: - Week 4: Finalize procurement contracts for 117.94 MWh BESS - Week 8: Begin installation in Town 1 (Graaff-Reinet) - Week 12: Complete Towns 1-3 installations (60 MWh) - Week 16: Complete Towns 4-6 installations (57.94 MWh) - Week 20: Commissioning and grid integration testing

Budget: R350 million (estimated at R2.87M/MWh installed)

9.7.3 Phase 3: PV Deployment (9-Month Window)

Objective: Deploy 135.11 MWp remaining PV capacity
Timeline: April 2026 – December 2026 (9 months as per Key Ask #2)
Milestones: - Month 1-2: Site assessments and grid connection approvals - Month 3-5: Procurement and logistics - Month 6-9: Phased installation across 6 towns

Budget: R1.35 billion (estimated at R10M/MWp installed)

9.7.4 Phase 4: Virtual Wheeling Agreement Finalization (Weeks 1-16)

Objective: Secure Eskom Virtual Wheeling agreement with debt-to-suspense mechanism
Timeline: March – July 2026 (4 months)
Critical Dependencies: - Council resolution (27 March 2026) - Eskom board approval of suspense account mechanism - National Treasury concurrence on debt relief conditions

Status: **Negotiations ongoing** (per mybulksupplydbnlm.co.za)

9.7.5 Phase 5: DAA Completion and Submission (Week 22 – 1 September 2026)

Objective: Finalize and submit signed DAA to National Treasury
Deliverables: - Signed DAA with Eskom (incorporating Virtual Wheeling terms) - Section 78 process completion certificate - BESS/PV deployment progress report (demonstrating 80%+ completion)

Status: **CRITICAL DEADLINE – 1 SEPTEMBER 2026**

9.8 Risk Management and Mitigation Strategies

9.8.1 Technical Risks

Risk	Impact	Probability	Mitigation
BESS deployment delays	High	Medium	Parallel procurement across 3 suppliers; modular commissioning
Grid integration challenges	Medium	Low	Pre-approval from Eskom Distribution; staged commissioning
PV generation underperformance	Medium	Low	Conservative capacity factor (20%); performance guarantees in contracts
BESS degradation	Low	Medium	10-year warranty; 80% capacity retention guarantee

9.8.2 Financial Risks

Risk	Impact	Probability	Mitigation
Tariff escalation exceeds savings	High	Medium	Annual tariff review clause in DAA; BESS/PV scaling provisions
Capital cost overruns	High	Low	Fixed-price EPC contracts; 10% contingency reserve
Virtual Wheeling credit disputes	High	Medium	Detailed metering protocol in DAA; independent verification
Revenue collection shortfalls	Medium	Medium	Ring-fenced BESS/PV revenue account; prepaid meter rollout

9.8.3 Regulatory and Compliance Risks

Risk	Impact	Probability	Mitigation
National Treasury rejects DAA	Critical	Low	Pre-consultation with NT; demonstrate 60% margin achievement
Eskom refuses Virtual Wheeling	Critical	Medium	Escalate to NERSA; invoke Section 78 protections
NERSA license revocation	Critical	Very Low	Maintain service continuity; demonstrate compliance
Section 78 process delays	High	Medium	Dedicated project management office; weekly progress reporting

9.8.4 Strategic Risks

Risk	Impact	Probability	Mitigation
Eskom terminates debt relief	Critical	Low	Complete Section 78 before 1 Sep 2026; maintain payment discipline
Political opposition to BESS/PV	Medium	Low	Community consultation; job creation emphasis
Technology obsolescence	Low	Low	Modular design; technology-agnostic inverters

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9.9 Conclusion and Strategic Recommendations

9.9.1 Summary of Findings

The analysis demonstrates that:

1. **Root Cause is Structural**: DBNLM's financial crisis stems from tariff architecture misalignment (19.6% vs. 60% target margin), not operational failure.
2. **BESS + PV is the Solution**: Deploying 121.94 MWh BESS and 137.61 MWp PV can reduce bulk supply costs from R11.79M/month to **net surplus** of R29.84M/month.
3. **Current Progress is Insufficient**: At 3.3% BESS and 1.8% PV deployment, current savings (R21.46M/year) close only 15.2% of the cost gap.
4. **Full Deployment Exceeds Targets**: Projected savings of R499.63M/year would achieve a **353% cost reduction**, far exceeding the 60% margin target.

5. **Critical Path is Tight**: Both the 27 March 2026 council resolution and 1 September 2026 DAA completion deadlines are **non-negotiable** for debt relief eligibility.

9.9.2 Strategic Recommendations

Recommendation 1: Accelerate BESS Deployment (Priority 1)
Deploy the remaining 117.94 MWh BESS capacity by August 2026 to capture R27.82M/year in peak tariff arbitrage savings. This is the **highest ROI intervention** (23-month payback period).

Recommendation 2: Secure 9-Month PV Deployment Window (Priority 1)
Obtain National Treasury approval for the 9-month grace period (Key Ask #2) to complete 135.11 MWp PV deployment. This unlocks R470M/year in savings—the **largest cost reduction lever**.

Recommendation 3: Finalize Virtual Wheeling Agreement (Priority 1)
Conclude Eskom Virtual Wheeling negotiations by June 2026 to enable R1.8M/month debt offset mechanism. This is **critical for DAA Option 2 viability**.

Recommendation 4: Embed BESS/PV into Section 78 Process (Priority 1)
Define "electricity service provision" in Section 78 documentation to explicitly include BESS and PV as **non-negotiable service delivery infrastructure**, ensuring DAA protections.

Recommendation 5: Establish Ring-Fenced Revenue Account (Priority 2)
Create a dedicated BESS/PV revenue account to ensure savings are **protected from inter-service transfers** until the 60% margin is achieved and sustained for 12 months.

Recommendation 6: Implement Phased Commissioning (Priority 2)
Commission BESS and PV in **modular phases** (20 MWh BESS / 25 MWp PV per town) to demonstrate early savings and build stakeholder confidence.

Recommendation 7: Negotiate Tariff Escalation Protections (Priority 2)
Include annual tariff review clauses in the DAA that allow **BESS/PV capacity scaling** if Eskom bulk tariffs escalate beyond CPI+2%.

9.9.3 Success Criteria

The BESS + PV intervention will be deemed successful when:

1. **Financial**: Monthly bulk supply cost R4.0 million (60% gross profit margin achieved)
2. **Operational**: Evening peak maximum demand reduced by 15%
3. **Strategic**: Historical Eskom debt reduced by R1.8M/month via Virtual Wheeling credits
4. **Regulatory**: Section 78 process completed and DAA signed by 1 September 2026
5. **Sustainability**: 60% margin sustained for 12 consecutive months post-deployment

9.9.4 Final Observation

The My SSEG DBNLM initiative represents **more than a technical solution**—it is a **replicable national model** for municipal financial recovery through strategic energy asset deployment. By embedding BESS and PV into the governance structure of the Section 78 process and DAA, DBNLM can:

- Restore constitutional service delivery capacity
- Systematically reduce historical debt
- Protect and leverage existing SSEG investments

- Establish alternative revenue streams via Virtual Wheeling and DDSM
- Create a sustainable path to the 60% gross profit margin mandated by NERSA

The critical question is not whether this model works—the data proves it does. The question is whether DBNLM can execute the deployment within the 6-month window (March – September 2026) required to secure debt relief and DAA approval.

9.10 References and Data Sources

1. DBNLM Bulk Supply Consumption Data (5 July 2023 – 6 July 2024), "Consumption" tab, 158,016 intervals
2. Eskom Municipal Flex Tariff Schedule (2023/2024), Time-of-Use periods and rates
3. My SSEG DBNLM Progress Dashboard, https://www.mybulksupplydbnlm.co.za/, accessed 26 March 2026
4. NERSA Municipal Tariff Guidelines (2023), Gross Profit Margin Benchmarks
5. National Treasury Municipal Debt Relief Program (2026), Conditions and Compliance Requirements
6. Eskom Virtual Wheeling Policy Framework (2025), Credit Mechanism Specifications

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END OF SECTION 9

10. Stakeholder Engagement Strategy

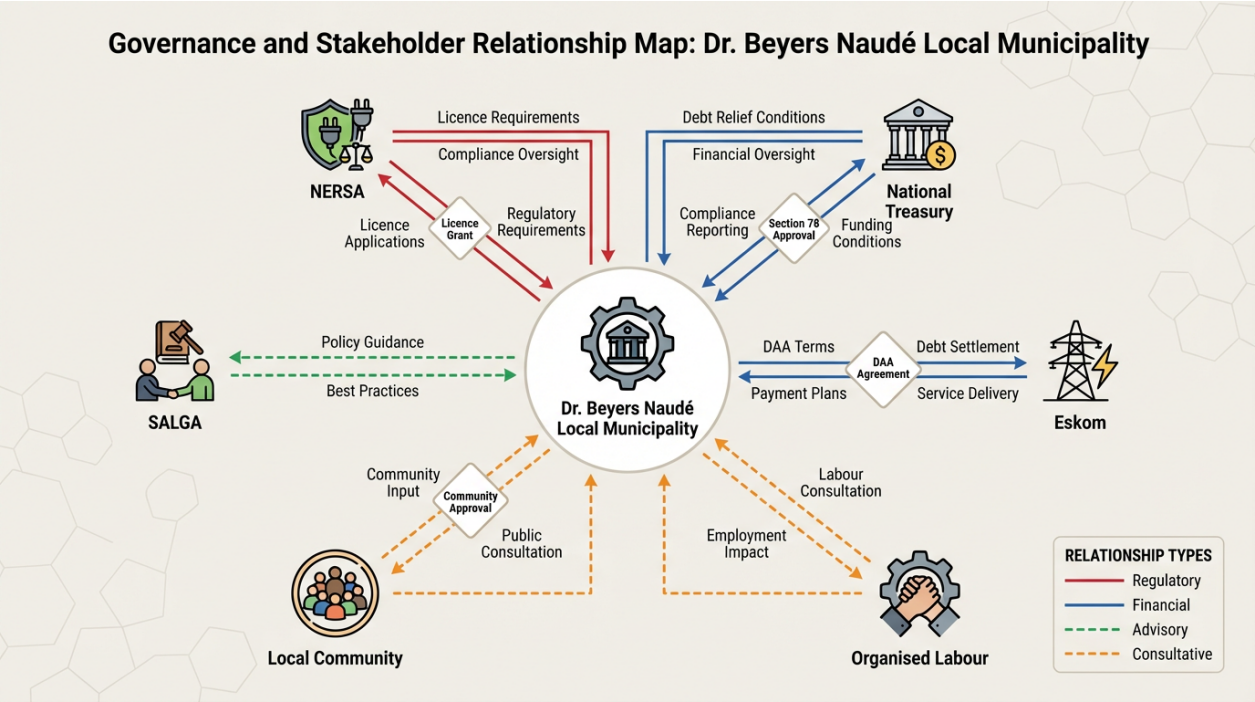

Figure 6: Stakeholder Governance Map

9.1 Key Stakeholders and Their Interests

Successful navigation of the Section 78 process and DAA implementation requires effective engagement with multiple stakeholders, each with distinct interests and concerns:

National Treasury:

- **Role**: Issues Municipal Debt Relief approval letters with options and conditions; advises non-compliant municipalities on DAA interventions; can invoke Section 216 of the Constitution for non-compliance [15] [16] [35] [19]
- **Interests**: Fiscal discipline, debt relief program integrity, municipal financial sustainability, compliance with legal requirements
- **Engagement Priorities**: Demonstrate commitment to debt relief compliance, provide transparent reporting, seek guidance on DAA structuring

Eskom (Department of Public Enterprises):

- **Role**: Creditor in Municipal Debt Relief program; party to Distribution Agency Agreements; provides technical and operational support in transitional models; can resume legal proceedings and credit control upon termination [18] [35] [32] [33] [19]
- **Interests**: Debt recovery, reliable payment, operational efficiency, network cost recovery, compliance with wheeling policy
- **Engagement Priorities**: Negotiate fair DAA terms, establish clear roles and responsibilities, ensure SSEG/wheeling/DSM requirements are understood and accepted

NERSA (National Energy Regulator of South Africa):

- **Role**: Issues and regulates electricity distribution licences; receives applications for voluntary licence revocation; can initiate tribunal processes to investigate and fine municipalities; can implement compulsory licence revocation processes; approves licence area amendments; regulates wheeling arrangements and UOS charges [20] [17] [13] [33]
- **Interests**: Regulatory compliance, consumer protection, service quality, fair competition, network reliability
- **Engagement Priorities**: Ensure compliance with licensing requirements, provide transparent reporting, seek guidance on wheeling and SSEG regulatory matters

SALGA (South African Local Government Association):

- **Role**: Advocates that DAA "should follow" the Municipal Systems Act Section 78 process; emphasizes need for holistic overview and fair conditions for Eskom and communities [34]
- **Interests**: Municipal autonomy, fair treatment of municipalities, community interests, service delivery continuity
- **Engagement Priorities**: Seek SALGA support and advocacy, share experiences and best practices with other municipalities, participate in SALGA forums

Organised Labour:

- **Role**: Must be consulted on service delivery mechanism decisions; views must be assessed when exploring external mechanisms [1]
- **Interests**: Job security, working conditions, fair treatment of workers, service delivery continuity
- **Engagement Priorities**: Early and transparent consultation, address concerns about job security and working conditions, negotiate fair transition arrangements if needed

Local Community:

- **Role**: Must receive notice when municipality explores external mechanisms; community views must be considered in external service delivery assessments; public participation required for licence area amendments [1] [33]
- **Interests**: Reliable and affordable electricity service, SSEG program continuity, service quality, transparency and accountability
- **Engagement Priorities**: Transparent communication about Section 78 process and DAA, address concerns about service continuity and affordability, demonstrate benefits of integrated strategy

Municipal Council:

- **Role**: Ultimate decision-making authority on Section 78 decision and DAA approval; accountable to community for service delivery
- **Interests**: Political accountability, community satisfaction, financial sustainability, legal compliance
- **Engagement Priorities**: Provide clear, comprehensive information for decision-making, demonstrate strategic benefits of recommended approach, ensure political support for implementation

Municipal Staff:

- **Role**: Implement Section 78 process, negotiate and administer DAA, operate SSEG/wheeling/DSM programs
- **Interests**: Job security, clear roles and responsibilities, adequate resources and support, professional development
- **Engagement Priorities**: Provide training and capacity building, ensure clear communication of expectations, address concerns about workload and resources

9.2 Stakeholder Engagement Plan

The municipality should implement a comprehensive stakeholder engagement plan throughout the Section 78 and DAA processes:

Phase 1: Pre-Section 78 Engagement (Weeks 1-2)

National Treasury: - Notify National Treasury of intention to pursue DAA option - Request guidance on Section 78 and DAA requirements - Establish regular communication channel

Eskom: - Initiate preliminary discussions about DAA - Share municipality's strategic objectives and non-negotiable requirements - Request Eskom's DAA template and standard terms - Establish negotiation timeline and process

NERSA: - Notify NERSA of Section 78 process commencement - Request guidance on licensing and regulatory matters - Clarify requirements for SSEG and wheeling programs

SALGA: - Inform SALGA of municipality's situation and strategy - Request SALGA support and advocacy - Seek advice based on other municipalities' experiences

Municipal Council: - Brief council on debt relief options and recommended strategy - Obtain council authorization to proceed with Section 78 process - Establish council oversight committee for Section 78 and DAA

Municipal Staff: - Brief staff on Section 78 process and DAA strategy - Establish Section 78 project team - Provide training on Section 78 requirements and procedures

Phase 2: Section 78 Process Engagement (Weeks 3-14)

Organised Labour: - Provide formal written notice of Section 78 process (Week 4) - Conduct consultation meetings with labour representatives (Weeks 9-12) - Address concerns about job security and working conditions - Negotiate transition arrangements if needed - Document labour views in Section 78 report

Local Community: - Publish public notice of Section 78 process in local newspapers and on municipal website (Week 4) - Conduct public consultation meetings in multiple locations (Weeks 9-12): - Urban and rural areas - Different times (daytime and evening) to accommodate working residents - Accessible venues - Provide information in multiple languages - Receive and document written submissions - Address community concerns and questions - Document community views in Section 78 report

Municipal Council: - Provide regular progress updates to council (monthly) - Present draft Section 78 assessment for council input (Week 10) - Present final Section 78 report and recommendations to council (Week 13) - Obtain council resolution on Section 78 decision and DAA acceptance (Week 14, before 27 March 2026 deadline)

Phase 3: DAA Negotiation Engagement (Weeks 15-20)

Eskom: - Conduct detailed DAA negotiations (Weeks 15-20) - Use Section 78 decision as negotiating mandate - Ensure all non-negotiable service requirements are incorporated - Establish governance structures and KPIs - Negotiate financial terms - Obtain legal review of draft DAA - Finalize DAA terms

National Treasury: - Provide progress updates on DAA negotiations - Seek guidance on any contentious issues - Ensure DAA structure aligns with debt relief requirements

NERSA: - Notify NERSA of DAA structure and terms - Ensure compliance with licensing and regulatory requirements - Clarify any regulatory matters

Municipal Council: - Provide regular progress updates on DAA negotiations (bi-weekly) - Present draft DAA for council review (Week 19) - Present final DAA for council approval (Week 21) - Obtain council resolution authorizing DAA execution

Phase 4: DAA Execution and Implementation Engagement (Weeks 21+)

All Stakeholders: - Announce DAA execution publicly - Provide clear communication about implementation timeline and process - Establish ongoing communication channels - Implement governance structures (joint committees, working groups) - Conduct regular stakeholder meetings and reporting - Address issues and concerns as they arise - Maintain transparency and accountability

9.3 Communication Strategy

Effective communication is essential for stakeholder engagement success:

Key Messages:

1. **Debt Relief and Financial Sustainability:**
   - The DAA option provides debt write-off and financial sustainability
   - The municipality is committed to debt relief compliance

- The integrated strategy (SSEG/wheeling/DSM) supports ongoing compliance

2. **Service Delivery Continuity:**
   - The municipality remains the licence holder and retains ultimate responsibility for service delivery
   - The DAA is a partnership with Eskom, not a transfer of control
   - Service delivery will be maintained or improved under the DAA
3. **SSEG Program Protection:**
   - The SSEG program will be protected and enhanced under the DAA
   - SSEG participants will continue to receive support and services
   - The municipality retains SSEG policy authority
4. **Affordability and Community Benefits:**
   - The integrated strategy (SSEG/wheeling/DSM) will improve electricity affordability
   - Savings will be passed to consumers through rebates
   - Low-income customers will benefit from targeted affordability interventions
5. **Transparency and Accountability:**
   - The Section 78 process ensures thorough assessment and stakeholder consultation
   - The municipality will maintain transparency throughout the process
   - Regular reporting and monitoring will ensure accountability

Communication Channels:

1. **Traditional Media:**
   - Press releases to local newspapers
   - Radio interviews and announcements
   - Television coverage (if available)
2. **Digital Media:**
   - Municipal website with dedicated Section 78/DAA information page
   - Social media updates (Facebook, Twitter, etc.)
   - Email newsletters to stakeholders
3. **Direct Engagement:**
   - Public consultation meetings
   - Stakeholder workshops
   - One-on-one meetings with key stakeholders
   - Council meetings and briefings
4. **Written Materials:**
   - Information brochures and fact sheets
   - Frequently Asked Questions (FAQs)
   - Section 78 reports and documentation
   - DAA summary documents

Communication Principles:

- **Transparency**: Provide clear, accurate, and complete information
- **Timeliness**: Communicate early and often
- **Accessibility**: Use plain language and multiple languages as needed
- **Responsiveness**: Address questions and concerns promptly
- **Consistency**: Ensure consistent messages across all channels and spokespersons

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11. Implementation Roadmap and Timeline

10.1 Critical Path Timeline

The municipality faces strict deadlines that require immediate action and disciplined execution:

Critical Deadline 1: 27 March 2026 (Council Resolution)

The municipality must submit a council resolution accepting the DAA alternative and committing to the Section 78 process [16]. This deadline is **non-negotiable** and missing it would result in termination from the debt relief program.

Critical Deadline 2: 1 September 2026 (DAA Completion)

The municipality must conclude the Section 78 process and submit a signed DAA to National Treasury [16]. This deadline is also **non-negotiable** and missing it would result in termination from the debt relief program.

Time Available:

From the current date (26 March 2026) to the first deadline (27 March 2026): **1 day**

From the current date (26 March 2026) to the second deadline (1 September 2026): **159 days (approximately 23 weeks)**

Strategic Implication:

The municipality must take **immediate action** to meet the 27 March 2026 deadline. A special council meeting must be convened urgently (ideally today or tomorrow) to pass the required resolution. The Section 78 process must commence immediately and proceed on an accelerated timeline to meet the 1 September 2026 deadline.

10.2 Detailed Implementation Timeline

Given the urgent deadlines, the following timeline provides a realistic but aggressive schedule:

Week 0 (Current Week): Emergency Council Resolution

Day 1 (26 March 2026 - Today): - CFO and Municipal Manager brief Mayor and Council leadership on urgent deadline - Prepare draft council resolution accepting DAA alternative and committing to Section 78 process - Convene emergency council meeting for 27 March 2026

Day 2 (27 March 2026 - Tomorrow): - Hold emergency council meeting - Present debt relief options and recommend DAA option - Pass council resolution accepting DAA alternative and committing to Section 78 process - Submit resolution to National Treasury immediately (email and courier) - Issue press release announcing council decision

Weeks 1-2: Section 78 Preparation and Initial Assessment

Week 1 (28 March - 3 April 2026): - Establish Section 78 project team (CFO, technical services, legal, community engagement) - Develop detailed Section 78 project plan and timeline - Commence internal assessment of current service delivery mechanism - Evaluate municipal capacity (current and future) for internal service delivery - Assess costs, benefits, and impacts of current mechanism - Initiate preliminary discussions with Eskom about DAA

Week 2 (4-10 April 2026): - Complete internal assessment report - Define non-negotiable service requirements (SSEG, wheeling, DSM) - Prepare public notice of Section 78 process - Prepare formal notice to organised labour - Request Eskom's DAA template and standard terms

Week 3: Stakeholder Notification

Week 3 (11-17 April 2026): - Publish public notice of Section 78 process in local newspapers and on municipal website - Provide formal written notice to organised labour - Announce public consultation schedule (dates, times, locations) - Establish feedback mechanisms (email, written submissions, phone hotline) - Commence external options assessment (primarily DAA with Eskom)

Weeks 4-6: External Options Assessment

Week 4 (18-24 April 2026): - Receive and review Eskom's DAA template - Assess costs, benefits, and capacity of DAA option - Evaluate impacts on development, employment, and community interests - Develop detailed non-negotiable service requirements for DAA

Week 5 (25 April - 1 May 2026): - Prepare comparative analysis of service delivery options - Develop draft Section 78 assessment report - Prepare consultation materials for community and labour engagement - Finalize public consultation schedule and logistics

Week 6 (2-8 May 2026): - Complete draft Section 78 assessment report - Prepare presentation materials for public consultations - Train staff on consultation facilitation and documentation - Finalize consultation venues and logistics

Weeks 7-10: Community and Labour Consultation

Week 7 (9-15 May 2026): - Conduct first round of public consultation meetings (3-4 meetings in different locations) - Conduct first consultation meeting with organised labour - Receive and document stakeholder feedback - Address questions and concerns

Week 8 (16-22 May 2026): - Conduct second round of public consultation meetings (3-4 meetings in different locations) - Conduct second consultation meeting with organised labour - Receive written submissions from stakeholders - Document all stakeholder views and concerns

Week 9 (23-29 May 2026): - Conduct final public consultation meetings as needed - Conduct final consultation meeting with organised labour - Close submission period for written feedback - Compile and analyze all stakeholder feedback

Week 10 (30 May - 5 June 2026): - Prepare consultation report summarizing views and concerns - Revise service requirements based on legitimate stakeholder concerns - Update Section 78 assessment report with consultation outcomes - Prepare recommendations for council

Weeks 11-12: Council Decision

Week 11 (6-12 June 2026): - Finalize comprehensive Section 78 report for council - Include all assessments, consultation outcomes, and recommendations - Present non-negotiable service requirements for council approval - Conduct council briefings and workshops as needed

Week 12 (13-19 June 2026): - Present Section 78 report to council - Obtain council resolution on preferred service delivery mechanism (DAA) - Obtain council authorization to negotiate DAA with Eskom - Issue press release announcing council decision - Notify all stakeholders of council decision

Weeks 13-20: DAA Negotiation

Week 13 (20-26 June 2026): - Initiate formal DAA negotiations with Eskom - Present Section 78 decision as negotiating mandate - Provide Eskom with detailed non-negotiable service requirements - Establish negotiation schedule and process

Week 14 (27 June - 3 July 2026): - Negotiate DAA scope and Eskom functions - Negotiate SSEG program provisions - Negotiate virtual wheeling provisions - Document agreements and outstanding issues

Week 15 (4-10 July 2026): - Negotiate DSM program provisions - Negotiate affordability offset governance - Negotiate data transparency and reporting requirements - Document agreements and outstanding issues

Week 16 (11-17 July 2026): - Negotiate governance structure and KPIs - Negotiate financial terms and revenue sharing - Negotiate term and exit provisions - Document agreements and outstanding issues

Week 17 (18-24 July 2026): - Negotiate dispute resolution provisions - Resolve outstanding issues through escalation as needed - Prepare draft DAA incorporating all negotiated provisions - Conduct legal review of draft DAA

Week 18 (25-31 July 2026): - Revise draft DAA based on legal review - Conduct final negotiation sessions to resolve any remaining issues - Finalize DAA text - Prepare DAA summary and presentation for council

Week 19 (1-7 August 2026): - Present draft DAA to council for review - Conduct council briefings and workshops as needed - Address council questions and concerns - Revise DAA based on council feedback if needed

Week 20 (8-14 August 2026): - Finalize DAA based on council feedback - Conduct final legal review - Prepare council resolution authorizing DAA execution - Prepare for council meeting

Weeks 21-22: Final Approval and Execution

Week 21 (15-21 August 2026): - Present final DAA to council for approval - Obtain council resolution authorizing DAA execution - Execute DAA with Eskom (signatures from authorized representatives) - Prepare submission package for National Treasury

Week 22 (22-28 August 2026): - Submit signed DAA to National Treasury (well before 1 September 2026 deadline) - Notify NERSA and other relevant stakeholders of DAA execution - Issue press release announcing DAA execution - Commence DAA implementation planning

Week 23+ (29 August 2026 onwards): Implementation

- Establish DAA governance structures (joint committees, working groups)
- Implement performance monitoring and reporting systems
- Commence SSEG program operations under DAA
- Commence virtual wheeling program implementation
- Commence DSM program implementation
- Conduct regular reviews of DAA performance against KPIs
- Maintain ongoing stakeholder communication

10.3 Resource Requirements

Successful implementation requires adequate resources:

Human Resources:

1. **Section 78 Project Team (Weeks 1-12):**
   - Project Manager (full-time)
   - Legal Advisor (part-time)
   - Financial Analyst (part-time)
   - Technical Services Representative (part-time)
   - Community Engagement Officer (part-time)
   - Administrative Support (part-time)
2. **DAA Negotiation Team (Weeks 13-22):**
   - Chief Negotiator (CFO or Municipal Manager) (part-time)
   - Legal Advisor (part-time)
   - Financial Analyst (part-time)
   - Technical Services Representative (part-time)
   - Administrative Support (part-time)
3. **Implementation Team (Week 23+):**
   - DAA Coordinator (full-time)
   - SSEG Program Manager (full-time)
   - Wheeling Program Manager (full-time)
   - DSM Program Manager (full-time)
   - Technical Staff (multiple positions)
   - Administrative Staff (multiple positions)

Financial Resources:

1. **Section 78 Process:**
   - Legal fees: R200,000 - R300,000
   - Consultation costs (venues, materials, advertising): R100,000 - R150,000
   - Staff time (internal cost allocation): R300,000 - R400,000
   - **Total**: R600,000 - R850,000
2. **DAA Negotiation:**
   - Legal fees: R300,000 - R500,000
   - Consulting fees (if external expertise needed): R200,000 - R300,000
   - Staff time (internal cost allocation): R200,000 - R300,000
   - **Total**: R700,000 - R1,100,000
3. **SSEG/Wheeling/DSM Program Implementation:**
   - See detailed budget in Section 8.5
   - Capital costs: R5,000,000 - R10,000,000 (over 3 years)
   - Operating costs: R2,000,000 - R3,000,000 per year

Technical Resources:

1. **Information Systems:**
   - Section 78 document management system
   - DAA negotiation tracking system
   - SSEG registration and compliance system
   - Wheeling billing and settlement system
   - DSM metering and M&V system
2. **Infrastructure:**
   - Metering equipment (smart meters, interval meters)

- Control devices (for DSM direct load control)
- Communication infrastructure
- Data management servers and software

10.4 Risk Management

The implementation timeline faces several risks that must be managed:

Risk 1: Missing 27 March 2026 Deadline

- **Likelihood**: Low (if emergency council meeting is held tomorrow)
- **Impact**: Critical (termination from debt relief program)
- **Mitigation**: Hold emergency council meeting on 27 March 2026; prepare resolution in advance; ensure quorum and council support
- **Contingency**: If deadline is missed, immediately engage National Treasury to request extension or alternative arrangement

Risk 2: Missing 1 September 2026 Deadline

- **Likelihood**: Medium (timeline is aggressive)
- **Impact**: Critical (termination from debt relief program)
- **Mitigation**: Maintain disciplined project management; monitor progress weekly; escalate delays immediately; build buffer time into schedule
- **Contingency**: If deadline is at risk, request extension from National Treasury; accelerate critical path activities; reduce scope if necessary

Risk 3: Inadequate Stakeholder Consultation

- **Likelihood**: Medium (timeline is compressed)
- **Impact**: High (Section 78 decision could be challenged)
- **Mitigation**: Conduct thorough consultation despite time constraints; document all consultation activities; address stakeholder concerns substantively
- **Contingency**: If consultation is challenged, conduct additional consultation and revise Section 78 decision if needed

Risk 4: Eskom Negotiation Delays

- **Likelihood**: Medium (Eskom may have competing priorities)
- **Impact**: High (could delay DAA execution)
- **Mitigation**: Engage Eskom early; establish clear negotiation schedule; escalate to senior Eskom management if needed; involve National Treasury to apply pressure
- **Contingency**: If negotiations stall, escalate to political level; request National Treasury intervention; consider arbitration or mediation

Risk 5: Council Rejection of Section 78 Decision or DAA

- **Likelihood**: Low (if council is properly briefed and engaged)
- **Impact**: Critical (cannot proceed with DAA)
- **Mitigation**: Conduct regular council briefings; address council concerns proactively; build political support; demonstrate benefits of recommended approach
- **Contingency**: If council rejects recommendation, revise approach based on council feedback; conduct additional analysis; re-present to council

Risk 6: Insufficient Resources

- **Likelihood**: Medium (municipalities often face resource constraints)
- **Impact**: High (could delay implementation)
- **Mitigation**: Secure budget allocation early; prioritize resource allocation to critical activities; consider external support (consultants, SALGA, National Treasury)
- **Contingency**: If resources are insufficient, request support from National Treasury or provincial government; reallocate resources from lower-priority activities

Risk 7: Technical Implementation Challenges

- **Likelihood**: Medium (SSEG/wheeling/DSM programs are complex)
- **Impact**: Medium (could delay benefits realization)
- **Mitigation**: Conduct thorough technical planning; engage qualified technical experts; implement pilot programs before full-scale rollout; provide adequate training
- **Contingency**: If technical challenges arise, engage external technical support; adjust implementation timeline; revise program design if needed

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12. Risk Management and Compliance Monitoring

11.1 Compliance Framework

Maintaining compliance with debt relief conditions and DAA requirements is essential for long-term success. The municipality should establish a comprehensive compliance framework:

Compliance Monitoring Structure:

1. **Compliance Officer:**
   - Designate a senior official (e.g., CFO or Deputy CFO) as Compliance Officer
   - Responsible for overall compliance monitoring and reporting
   - Reports to Municipal Manager and Council
2. **Compliance Committee:**
   - Establish committee with representatives from finance, technical services, legal, and internal audit
   - Meets monthly to review compliance status
   - Escalates compliance issues to Municipal Manager and Council
3. **Compliance Reporting:**
   - Monthly compliance reports to Municipal Manager and Council
   - Quarterly compliance reports to National Treasury (as required)
   - Annual compliance audit by internal or external auditors

Key Compliance Requirements:

1. **Debt Relief Conditions:**
   - Pay Eskom bulk current account within 30 days of invoice [18]
   - Ring-fence electricity, water, and sanitation revenues in sub-account [18]
   - Use sub-account funds first to pay Eskom, then bulk water, before other purposes [18]
   - Maintain accurate accounting and reporting per MFMA Circular No. 124
2. **Section 78 Requirements:**
   - Maintain documentation of Section 78 process (assessments, consultations, decisions)
   - Ensure ongoing compliance with Section 78 decision (service requirements, governance structures)

- Conduct periodic reviews of service delivery mechanism effectiveness

3. **DAA Requirements:**
   - Comply with all DAA provisions (service requirements, KPIs, reporting, governance)
   - Participate in DAA governance structures (joint committees, working groups)
   - Monitor Eskom performance against DAA KPIs
   - Address DAA performance issues through established procedures
4. **NERSA Licensing Requirements:**
   - Maintain electricity distribution licence in good standing
   - Comply with licence conditions (technical, financial, reporting)
   - Submit required reports to NERSA (annual, quarterly, ad hoc)
   - Notify NERSA of material changes (service delivery mechanism, licence amendments)
5. **SSEG/Wheeling/DSM Program Requirements:**
   - Maintain SSEG registration and compliance processes
   - Comply with wheeling policy and regulatory requirements
   - Implement rigorous M&V for DSM programs
   - Report program performance to council and stakeholders

11.2 Performance Monitoring

The municipality should establish comprehensive performance monitoring for all aspects of the integrated strategy:

Financial Performance Monitoring:

1. **Revenue Performance:**
   - Monitor electricity revenue collection rates monthly
   - Track ring-fenced sub-account balance and transactions
   - Analyze revenue trends and identify issues
   - Compare actual vs. budgeted revenue
2. **Eskom Payment Performance:**
   - Monitor Eskom invoice receipt and payment dates
   - Track payment timeliness (within 30 days)
   - Maintain payment history and documentation
   - Escalate potential payment delays immediately
3. **Wheeling Revenue:**
   - Track wheeling fees and charges collected
   - Monitor wheeling credit allocations and settlements
   - Analyze wheeling program financial performance
   - Compare actual vs. projected wheeling revenue
4. **DSM Savings:**
   - Quantify DSM demand reductions and cost savings through M&V
   - Track DSM program costs
   - Calculate DSM program benefit-cost ratio
   - Compare actual vs. projected DSM savings

Operational Performance Monitoring:

1. **SSEG Program:**
   - Track SSEG application volumes and processing times
   - Monitor SSEG installed capacity and generation

- Measure SSEG customer satisfaction
- Assess SSEG program performance against KPIs

2. **Wheeling Program:**
   - Track wheeling agreement volumes and participants
   - Monitor wheeling energy volumes (kWh)
   - Measure wheeling credit allocation accuracy
   - Assess wheeling program performance against KPIs
3. **DSM Program:**
   - Track DSM participant enrollment and retention
   - Monitor peak demand reductions (kW and %)
   - Measure DSM customer satisfaction
   - Assess DSM program performance against KPIs
4. **DAA Performance:**
   - Monitor Eskom performance against DAA KPIs (billing, collections, network maintenance, customer service)
   - Track DAA governance activities (meetings, decisions, issue resolution)
   - Assess overall DAA effectiveness
   - Identify opportunities for improvement

Reporting and Review:

1. **Monthly Reports:**
   - Financial performance (revenue, collections, Eskom payments)
   - Operational performance (SSEG, wheeling, DSM)
   - Compliance status
   - Issues and corrective actions
2. **Quarterly Reports:**
   - Comprehensive performance review
   - Trend analysis and forecasting
   - Strategic assessment
   - Recommendations for adjustments
3. **Annual Reports:**
   - Full-year performance assessment
   - Achievement of strategic objectives
   - Lessons learned and best practices
   - Strategic planning for next year

11.3 Issue Escalation and Resolution

The municipality should establish clear procedures for escalating and resolving issues:

Issue Identification:

- Issues can be identified through:
  - Compliance monitoring
  - Performance monitoring
  - Stakeholder feedback
  - Internal audits
  - External audits
  - DAA governance processes

Issue Classification:

1. **Critical Issues:**
   - Threaten debt relief compliance (e.g., potential late Eskom payment)
   - Threaten licence status (e.g., major service delivery failure)
   - Require immediate action
2. **High-Priority Issues:**
   - Significant performance shortfalls
   - Stakeholder complaints
   - Require action within 1 week
3. **Medium-Priority Issues:**
   - Moderate performance shortfalls
   - Process inefficiencies
   - Require action within 1 month
4. **Low-Priority Issues:**
   - Minor performance shortfalls
   - Opportunities for improvement
   - Require action within 3 months

Escalation Procedures:

1. **Critical Issues:**
   - Immediate notification to Compliance Officer, CFO, and Municipal Manager
   - Emergency meeting of Compliance Committee within 24 hours
   - Immediate corrective action
   - Notification to Council and relevant external stakeholders (National Treasury, Eskom, NERSA) as appropriate
2. **High-Priority Issues:**
   - Notification to Compliance Officer within 24 hours
   - Review by Compliance Committee at next scheduled meeting (or special meeting if needed)
   - Corrective action plan developed and implemented within 1 week
   - Notification to relevant stakeholders as appropriate
3. **Medium-Priority Issues:**
   - Notification to Compliance Officer within 1 week
   - Review by Compliance Committee at next scheduled meeting
   - Corrective action plan developed and implemented within 1 month
4. **Low-Priority Issues:**
   - Documented in monthly compliance report
   - Review by Compliance Committee at next scheduled meeting
   - Improvement plan developed and implemented within 3 months

Resolution Tracking:

- All issues logged in issue tracking system
- Status updates provided regularly
- Issues closed only when resolved and verified
- Lessons learned documented for future reference

11.4 Continuous Improvement

The municipality should foster a culture of continuous improvement:

Performance Reviews:

- Conduct quarterly performance reviews of all programs and processes
- Identify what's working well and what needs improvement
- Benchmark against best practices and other municipalities
- Set improvement targets for next quarter

Stakeholder Feedback:

- Regularly solicit feedback from stakeholders (customers, Eskom, National Treasury, NERSA, community, labour)
- Conduct annual customer satisfaction surveys
- Hold annual stakeholder forums to discuss performance and improvements
- Incorporate feedback into improvement plans

Innovation and Best Practices:

- Stay informed about innovations in SSEG, wheeling, DSM, and municipal electricity management
- Participate in industry forums and conferences
- Share experiences and learn from other municipalities
- Pilot new technologies and approaches

Capacity Building:

- Provide ongoing training for staff on technical, financial, and regulatory matters
- Support professional development and certification
- Build internal expertise in SSEG, wheeling, DSM, and DAA management
- Create succession plans to ensure continuity

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13. Conclusion and Recommendations

12.1 Strategic Summary

Dr. Beyers Naudé Local Municipality stands at a critical juncture. The municipality faces outstanding Eskom debt, strict debt relief conditions, and the potential for licence revocation if compliance is not maintained. However, the municipality also has a significant strategic opportunity: by navigating the Section 78 process effectively and securing a well-structured Distribution Agency Agreement with Eskom, the municipality can achieve debt write-off, operational support, and long-term financial sustainability while protecting and enhancing its SSEG program and establishing new revenue streams through virtual wheeling and demand-side management.

The key insight is that **Section 78 is not a compliance burden but a strategic tool**. By completing the Section 78 process before finalizing the DAA, the municipality can define non-negotiable service requirements that any external mechanism must support. This transforms the DAA from a potential threat to municipal autonomy into a structured partnership that serves community interests while satisfying creditor requirements.

The integrated strategy of SSEG + Virtual Wheeling + DSM creates a virtuous cycle:

1. SSEG, wheeling, and DSM generate value (demand reduction, cost savings, wheeling revenue)
2. This value funds rebates that improve collection rates
3. Improved collections increase electricity revenue
4. Increased revenue supports debt relief compliance (paying Eskom within 30 days)
5. Debt relief compliance enables continued wheeling arrangements (Eskom policy requires payment compliance)
6. The cycle continues, creating sustainable financial performance and reducing licence revocation risk

12.2 Key Recommendations

Based on the comprehensive analysis in this guide, the following recommendations are made:

Immediate Actions (This Week):

1. **Hold Emergency Council Meeting (27 March 2026):**
   - Convene emergency council meeting tomorrow (27 March 2026)
   - Pass council resolution accepting DAA alternative and committing to Section 78 process
   - Submit resolution to National Treasury immediately
   - **This is the most critical action—missing this deadline would result in termination from the debt relief program**
2. **Establish Section 78 Project Team:**
   - Designate project manager and team members
   - Develop detailed project plan and timeline
   - Allocate resources and budget
   - Commence Section 78 process immediately
3. **Initiate Eskom Engagement:**
   - Contact Eskom to initiate DAA discussions
   - Request Eskom's DAA template and standard terms
   - Establish negotiation timeline and process

Short-Term Actions (Next 3 Months):

1. **Complete Section 78 Process:**
   - Conduct internal assessment of current service delivery mechanism
   - Define non-negotiable service requirements (SSEG, wheeling, DSM)
   - Provide notice to community and organised labour
   - Conduct thorough stakeholder consultation
   - Prepare comprehensive Section 78 report
   - Obtain council approval of Section 78 decision
2. **Strengthen Debt Relief Compliance:**
   - Implement automated Eskom payment processes
   - Establish ring-fenced sub-account for electricity, water, and sanitation revenues
   - Implement financial controls to enforce payment priority
   - Monitor compliance daily and report weekly
3. **Protect SSEG Program:**
   - Document current SSEG program operations, policies, and performance
   - Define SSEG service requirements for Section 78 and DAA
   - Engage with SSEG stakeholders to understand concerns and priorities
   - Develop SSEG growth strategy

Medium-Term Actions (Next 6 Months):

1. **Negotiate and Execute DAA:**
   - Use Section 78 decision as negotiating mandate
   - Ensure all non-negotiable service requirements are incorporated into DAA
   - Establish governance structures, KPIs, and reporting requirements
   - Negotiate favorable financial terms
   - Obtain legal review and council approval
   - Execute DAA and submit to National Treasury before 1 September 2026 deadline
2. **Implement Virtual Wheeling Program:**
   - Develop municipal wheeling policy
   - Establish technical and administrative systems
   - Launch pilot wheeling arrangements
   - Monitor and evaluate pilot performance
   - Expand to full-scale implementation
3. **Implement DSM Program:**
   - Develop DSM strategy and program design
   - Deploy smart meters or interval meters
   - Launch pilot DSM program
   - Implement rigorous M&V procedures
   - Monitor and evaluate pilot performance
   - Expand to full-scale implementation

Long-Term Actions (Next 1-3 Years):

1. **Optimize Integrated Strategy:**
   - Continuously improve SSEG, wheeling, and DSM programs
   - Maximize value generation and affordability benefits
   - Use savings to fund rebates that improve collections
   - Maintain debt relief compliance through improved financial performance
2. **Monitor and Enforce DAA Performance:**
   - Actively monitor Eskom performance against DAA KPIs
   - Participate in DAA governance structures
   - Address performance issues through established procedures
   - Conduct periodic reviews of DAA effectiveness
3. **Build Long-Term Sustainability:**
   - Invest in network infrastructure and maintenance
   - Develop staff capacity and expertise
   - Foster innovation and continuous improvement
   - Position municipality as leader in sustainable electricity service delivery

12.3 Success Factors

Success in implementing this strategy depends on several critical factors:

1. **Political Will and Leadership:**
   - Strong political support from Mayor and Council
   - Clear communication of strategic vision and benefits
   - Willingness to make difficult decisions and maintain discipline
2. **Financial Discipline:**

- Strict adherence to debt relief conditions (30-day payment, ring-fencing)
- Robust financial controls and monitoring
- Sustainable revenue management

3. **Stakeholder Engagement:**
   - Thorough and transparent Section 78 consultation
   - Effective communication with all stakeholders
   - Building trust and managing expectations
4. **Technical Capacity:**
   - Adequate staff expertise in SSEG, wheeling, DSM, and DAA management
   - Robust technical systems and infrastructure
   - Continuous capacity building and professional development
5. **Effective Negotiation:**
   - Using Section 78 decision as negotiating mandate
   - Securing favorable DAA terms that protect municipal interests
   - Building constructive partnership with Eskom
6. **Implementation Excellence:**
   - Disciplined project management and execution
   - Meeting critical deadlines (27 March 2026, 1 September 2026)
   - Effective monitoring and issue resolution
   - Continuous improvement and adaptation

12.4 Final Observations

The path forward for Dr. Beyers Naudé Local Municipality is challenging but achievable. The municipality faces significant financial and operational pressures, but also has access to powerful tools and strategies to address these challenges. The Section 78 process, when properly executed, provides a legal and strategic framework for protecting municipal interests while satisfying external requirements. The DAA, when properly structured, provides operational support and debt relief while preserving municipal autonomy. The integrated SSEG/wheeling/DSM strategy provides a pathway to financial sustainability and community affordability.

Success requires immediate action, disciplined execution, effective stakeholder engagement, and sustained commitment. The stakes are high—failure to meet debt relief conditions could result in licence revocation, legal proceedings, and severe financial consequences. But the potential rewards are equally significant—debt write-off, operational improvement, financial sustainability, and enhanced service delivery to the community.

This guide provides a comprehensive roadmap for navigating this complex landscape. The municipality's leadership must now act decisively to implement these recommendations and secure a sustainable future for electricity service delivery in Dr. Beyers Naudé.

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14. Implementation Checklist

Phase 1: Emergency Council Resolution (27 March 2026)

- ☐ Brief Mayor and Council leadership on urgent deadline (26 March 2026)
- ☐ Prepare draft council resolution accepting DAA alternative (26 March 2026)
- ☐ Convene emergency council meeting (27 March 2026)

- ☐ Pass council resolution (27 March 2026)
- ☐ Submit resolution to National Treasury (27 March 2026)
- ☐ Issue press release announcing council decision (27 March 2026)

Phase 2: Section 78 Preparation (Weeks 1-2)

- ☐ Establish Section 78 project team
- ☐ Develop detailed Section 78 project plan and timeline
- ☐ Commence internal assessment of current service delivery mechanism
- ☐ Evaluate municipal capacity (current and future)
- ☐ Assess costs, benefits, and impacts of current mechanism
- ☐ Complete internal assessment report
- ☐ Define non-negotiable service requirements (SSEG, wheeling, DSM)
- ☐ Prepare public notice of Section 78 process
- ☐ Prepare formal notice to organised labour
- ☐ Initiate preliminary discussions with Eskom about DAA
- ☐ Request Eskom's DAA template and standard terms

Phase 3: Stakeholder Notification (Week 3)

- ☐ Publish public notice of Section 78 process in local newspapers
- ☐ Publish public notice on municipal website
- ☐ Provide formal written notice to organised labour
- ☐ Announce public consultation schedule
- ☐ Establish feedback mechanisms (email, written submissions, phone hotline)

Phase 4: External Options Assessment (Weeks 4-6)

- ☐ Receive and review Eskom's DAA template
- ☐ Assess costs, benefits, and capacity of DAA option
- ☐ Evaluate impacts on development, employment, and community interests
- ☐ Develop detailed non-negotiable service requirements for DAA
- ☐ Prepare comparative analysis of service delivery options
- ☐ Develop draft Section 78 assessment report
- ☐ Prepare consultation materials for community and labour engagement
- ☐ Finalize public consultation schedule and logistics

Phase 5: Community and Labour Consultation (Weeks 7-10)

- ☐ Conduct first round of public consultation meetings (3-4 meetings)
- ☐ Conduct first consultation meeting with organised labour
- ☐ Conduct second round of public consultation meetings (3-4 meetings)
- ☐ Conduct second consultation meeting with organised labour
- ☐ Receive written submissions from stakeholders
- ☐ Conduct final public consultation meetings as needed
- ☐ Conduct final consultation meeting with organised labour
- ☐ Close submission period for written feedback
- ☐ Compile and analyze all stakeholder feedback
- ☐ Prepare consultation report summarizing views and concerns

☐ Revise service requirements based on legitimate stakeholder concerns
☐ Update Section 78 assessment report with consultation outcomes

Phase 6: Council Decision (Weeks 11-12)

☐ Finalize comprehensive Section 78 report for council
☐ Conduct council briefings and workshops as needed
☐ Present Section 78 report to council
☐ Obtain council resolution on preferred service delivery mechanism (DAA)
☐ Obtain council authorization to negotiate DAA with Eskom
☐ Issue press release announcing council decision
☐ Notify all stakeholders of council decision

Phase 7: DAA Negotiation (Weeks 13-20)

☐ Initiate formal DAA negotiations with Eskom
☐ Present Section 78 decision as negotiating mandate
☐ Provide Eskom with detailed non-negotiable service requirements
☐ Negotiate DAA scope and Eskom functions
☐ Negotiate SSEG program provisions
☐ Negotiate virtual wheeling provisions
☐ Negotiate DSM program provisions
☐ Negotiate affordability offset governance
☐ Negotiate data transparency and reporting requirements
☐ Negotiate governance structure and KPIs
☐ Negotiate financial terms and revenue sharing
☐ Negotiate term and exit provisions
☐ Negotiate dispute resolution provisions
☐ Resolve outstanding issues through escalation as needed
☐ Prepare draft DAA incorporating all negotiated provisions
☐ Conduct legal review of draft DAA
☐ Revise draft DAA based on legal review
☐ Finalize DAA text
☐ Prepare DAA summary and presentation for council

Phase 8: Final Approval and Execution (Weeks 21-22)

☐ Present draft DAA to council for review
☐ Conduct council briefings and workshops as needed
☐ Address council questions and concerns
☐ Finalize DAA based on council feedback
☐ Conduct final legal review
☐ Prepare council resolution authorizing DAA execution
☐ Present final DAA to council for approval
☐ Obtain council resolution authorizing DAA execution
☐ Execute DAA with Eskom
☐ Prepare submission package for National Treasury
☐ Submit signed DAA to National Treasury (before 1 September 2026)
☐ Notify NERSA and other relevant stakeholders of DAA execution

☐ Issue press release announcing DAA execution

Phase 9: Implementation (Week 23+)

☐ Establish DAA governance structures (joint committees, working groups)
☐ Implement performance monitoring and reporting systems
☐ Commence SSEG program operations under DAA
☐ Commence virtual wheeling program implementation
☐ Commence DSM program implementation
☐ Conduct regular reviews of DAA performance against KPIs
☐ Maintain ongoing stakeholder communication

Ongoing Compliance and Monitoring

☐ Pay Eskom bulk current account within 30 days of invoice (monthly)
☐ Ring-fence electricity, water, and sanitation revenues in sub-account (ongoing)
☐ Monitor compliance with debt relief conditions (daily/weekly)
☐ Prepare monthly compliance reports (monthly)
☐ Prepare quarterly compliance reports for National Treasury (quarterly)
☐ Conduct annual compliance audit (annually)
☐ Monitor SSEG program performance against KPIs (monthly)
☐ Monitor wheeling program performance against KPIs (monthly)
☐ Monitor DSM program performance against KPIs (monthly)
☐ Monitor DAA performance against KPIs (monthly)
☐ Participate in DAA governance meetings (as scheduled)
☐ Address issues and corrective actions (as needed)
☐ Conduct continuous improvement reviews (quarterly)

References

[1] Municipal Systems Act, 2000 (Act No. 32 of 2000), Section 78: Criteria and process for deciding on service delivery mechanism

[2] Municipal Systems Act, Section 78: Legal protections and municipal responsibilities under external service delivery arrangements

[3] Strategic framing of Section 78 as service-continuity and service-improvement mandate

[4] Strategic advantage of embedding SSEG program into Section 78 decision and service delivery outcomes

[5] Section 78 as lawful mechanism to define service outcomes and non-negotiable requirements

[6] Definition of electricity service provision to include SSEG, wheeling, and DSM

[7] Explicit definition of electricity service components within Section 78 process

[8] Non-negotiable service requirements to be expressed in Section 78 decision record and carried into DAA schedules

[9] SSEG continuity and service level requirements, including prohibition of “silent suspension”

[10] Virtual wheeling enablement requirements, including TOU alignment and contractual prerequisites

[11] Evening-peak DDSM readiness requirements, including M&V and Eskom demand management concepts

[12] Affordability offset governance requirements, including compliance with debt-relief ring-fencing

[13] Data transparency and auditability requirements, including NERSA wheeling consultation requirements

[14] Clarity on licence end-state requirements, including formal NERSA processes for licence changes

[15] National Treasury Letter @22Feb2026: Option 1 (Termination from Municipal Debt Relief Programme)

[16] National Treasury Letter @22Feb2026: Option 2 (Distribution Agency Agreement with Eskom), including critical deadlines (27 March 2026 and 1 September 2026)

[17] NERSA Licence Revocation Condition 6.14: Voluntary application mechanism under Section 17 of Electricity Regulation Act, 2006

[18] Municipal Debt Relief framework: Core conditions including 30-day payment requirement and revenue ring-fencing

[19] Consequences of non-compliance (termination): Immediate financial consequences, smart meter grant impact, interest treatment, payment allocation, constitutional remedies

[20] Clarification that licence revocation is not automatic but rather an application into a regulatory process

[21] SSEG registration requirements based on point of connection and capacity (100 kW vs. >100 kW)

[22] SSEG facilities up to 100 kW subject to distributor conditions and distributor-maintained registration

[23] SSEG strategic benefit: Expands distributed generation and reduces net demand, improving energy cost base

[24] Virtual wheeling as administratively scalable settlement mechanism for allocating energy credits

[25] Eskom "Wheeling of Energy and Net-billing Policy" (2025): Reconciliation principles, portfolio wheeling limitations, network charges, payment compliance requirement

[26] Evening-peak DSM/DDSM strategic function: Reduces peak demand and costs, provided M&V and governance are sound

[27] Credibility framework for affordability claim: SSEG + DSM + Virtual Wheeling as settlement-and-behaviour system

[28] Revenue generation and debt relief compliance strategy: Step 1 - Use Virtual Wheeling/DDSM value as funding source for rebate instrument

[29] Revenue generation and debt relief compliance strategy: Step 2 - Apply rebate to improve collection rates

[30] Revenue generation and debt relief compliance strategy: Step 3 - Strengthened collections support ongoing debt relief compliance and reduce licence revocation risk

[31] DAA models and precedents: Transitional/co-managed models vs. licence-area amendments

[32] Merafong DAA example: Transitional intervention with municipality remaining as licence holder

[33] Phumelela's Warden/Ezenzeleni example: NERSA-approved licence area amendment following extensive process

[34] SALGA position: DAA "should follow" Municipal Systems Act Section 78 process for holistic overview and fair conditions

[35] National Treasury guidance: Advising non-compliant municipalities to conclude DAAs while complying with legal requirements for external service mechanisms