

BER NOTE | DECEMBER 2025

# Powerless to Procure?

## Understanding municipal power procurement

Robert Botha

The 2020 electricity regulatory reforms, intended to allow municipalities to procure from independent power producers (IPPs), were seen as a breakthrough for energy security. However, by early 2025, not a single municipality had successfully added any new kilowatt-hours to the grid from IPPs for long-term use.

While the energy landscape has since shifted – for example, as a result of Eskom’s move to take over distressed municipal grids through distribution agency agreements (DAAs) – the lessons from this reform process remain critical to guide future energy reforms and underscore the need to rethink municipal funding models.

*This note is based on a longer research paper, “WHAT STOPS MUNICIPALITIES PROCURING THEIR OWN POWER?” released earlier in 2025, with slight updates.<sup>1</sup>*

### POLICY DISCONNECT

**For more than a decade, South Africa has experienced electricity generation shortages (load-shedding), with significant consequences for the country’s economy.** One element of the reforms to address this situation has been to allow municipalities in good financial standing to procure power from IPPs.

**Despite Eskom’s monopolistic position in the South African energy sector, municipalities also hold a critical position.** They are responsible for approximately 40 per cent of electricity distribution and electricity sales make up about 25 per cent of municipal revenue. (According to the Constitution, municipalities are responsible for the provision of services, including electricity, to communities in a sustainable manner.)

**On 16 October 2020, South Africa’s electricity regulations were amended to enable municipalities in “good financial standing” to procure power directly from IPPs.** This was

---

<sup>1</sup> The original paper is available at: <https://sa-tied.wider.unu.edu/sites/default/files/What%20stops%20municipalities%20procuring%20theri%20own%20power.pdf>

a flagship intervention of the Economic Reconstruction and Recovery Plan (ERRP), and later Operation Vulindlela.

**There was premature communication that the reform was completed.** In May 2024, Operation Vulindlela and the Presidency publicly communicated that the reform of “enabling municipalities to procure power from IPPs” was “completed; no further work required”. Yet by early 2025, no municipality had successfully added new kilowatt-hours to the grid from IPPs for long-term use.

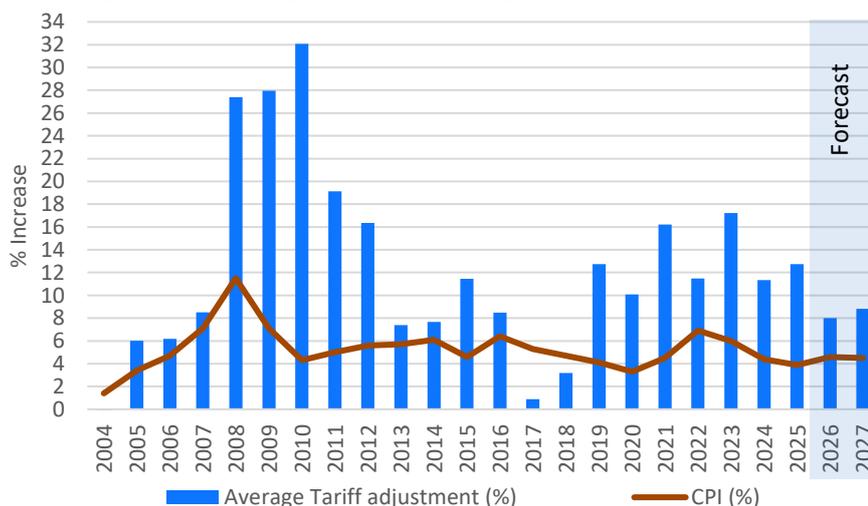
**A significant gap exists between regulatory amendments and practical implementation and enablement.** While the October 2020 amendment to the electricity regulations was a first step, the complexity of the process and the lack of municipal readiness meant that the expected surge in municipal IPP projects never materialised. It is questionable whether municipalities were in fact enabled.

## THE RATIONALE FOR REFORM

**Load-shedding has had a significant cost on a macro and micro level, not least to municipalities.** Beyond the macroeconomic damage, estimated at over R223 billion in lost GDP between 2020 and 2023<sup>2</sup>, load-shedding devastated municipal infrastructure. In 2023 alone, municipalities spent an estimated R3 billion repairing infrastructure damaged or vandalised during power cuts.

**Eskom’s cost path is unsustainable for municipalities, and IPPs could provide an alternative.** As depicted in Figure 1, between 2004 and 2024, there were only three years when the average tariff increase from Eskom did not exceed inflation as measured by the consumer price index (CPI). In fact, over this period, average tariffs increased by a total of 1 027 per cent, whereas CPI increased by a total of 191 per cent.

**Figure 1: Percentage increase in average tariffs VS CPI 2004-27**



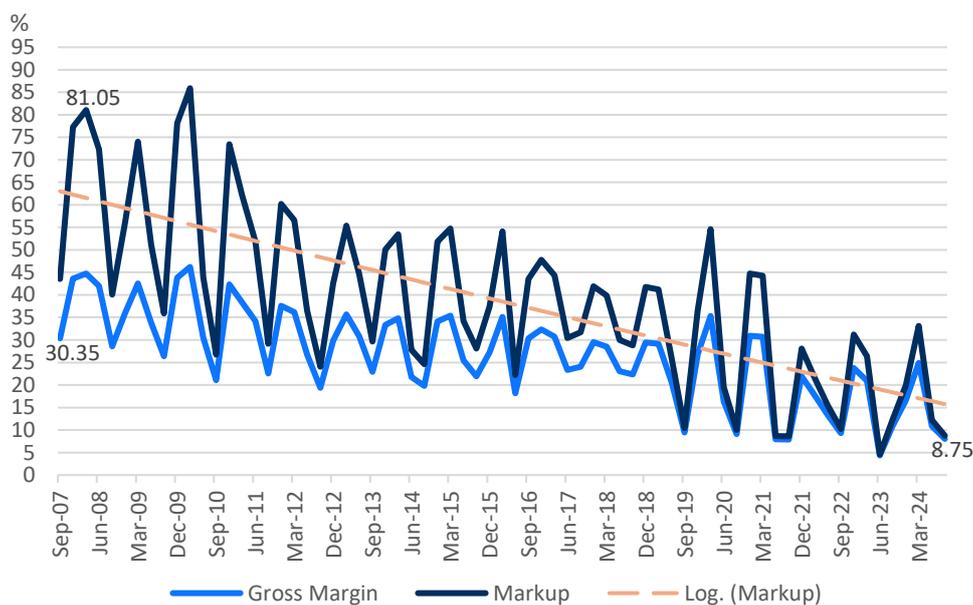
Source: Eskom and Stats SA.

<sup>2</sup> This figure is based on a study originally commissioned by Eskom and conducted by NOVA Economics. Reference: Walsh, K., J. Nel, and J. Kiln (2023). ‘Re-estimating the Economic Cost of Load Shedding in South Africa’. Stellenbosch: Nova Economics. Available at: [https://cms.novaeconomics.co.za/wp-content/uploads/2023/10/Updated\\_Eskom\\_CoLS\\_ESSA\\_presentation\\_2024.pdf](https://cms.novaeconomics.co.za/wp-content/uploads/2023/10/Updated_Eskom_CoLS_ESSA_presentation_2024.pdf)

**Eskom’s cost path squeezes margins on municipal sales of electricity.** In addition to the negative impact on consumers, Eskom’s steep tariff hikes have reduced the room for municipalities to markup their electricity sales. This has reduced their gross margins. Electricity distribution forms the largest part of municipal trading services and traditionally, surpluses were used to cross-subsidise other services and indigent households.

**As shown in Figure 2, both markups and gross margins on municipal electricity have been on a downward trend since at least 2007.** Moreover, gross margins decreased from around 37 per cent in 2007 to around 14 per cent in 2024, reaching a low of 8 per cent in the third quarter of 2024. Markups decreased from around 60 per cent in 2007 to around 18 per cent in 2024 and reached a low of 8.7 per cent in the third quarter of 2024.

**Figure 2: Gross margins and markups on municipal electricity sales, 2007–2024**



Source: Author’s calculation based on data from Stats SA.

**Municipal revenues are lost by unserved energy, which cost municipalities R24.2 billion in the 2023 financial year.** In addition, the unreliability and cost of electricity are motivating people to defect from the grid.

**Grid defection leads to further revenue loss for municipalities and Eskom.** Grid defection refers to when households and businesses go completely off grid, however, this is not very common, but partial defection is. Partial defection is when households and businesses remain connected to the grid but instal their own generation capacity, i.e. small-scale embedded generation.

**Between March 2022 and the first quarter of 2023, the uptake of small-scale embedded generation in South Africa increased by 350%.** This had a significant impact on municipal revenue. For example, over this period, Buffalo City Metropolitan Municipality lost R350 million in electricity sales as a result of small-scale embedded generation.

**Wealthier customers are more likely to defect.** The danger in this situation is that municipalities and Eskom are not only losing revenue but also losing customers who are

often responsible for cross-subsiding indigent households. Therefore, the current situation risks widening the gap between the energy-rich and energy-poor.

**Decarbonisation, carbon taxes and tariffs also form part of the motivation to move to IPPs.** Other than reducing emissions to reach targets, pressure is building from industries who wish to avoid the additional carbon taxes and tariffs associated with the European Union’s Carbon Border Adjustment Mechanism. Moreover, South Africa’s own carbon tax is set to increase from ZAR236 per tonne of carbon dioxide equivalent (tCO<sub>2</sub>e) now to ZAR462 per tCO<sub>2</sub>e by 2030/31. Procuring from IPPs is a way to diversify the municipal energy mix and green their energy supply.

## CHALLENGES

**Very few municipalities are in “good financial standing”.** The regulations’ intent was to enable municipalities in good financial standing to develop their own power or procure from IPPs. However, the number of municipalities considered to be in financial distress increased from 157 in 2021/22 to 168 in 2022/23, which is 65% of all 257 municipalities. It is thus reasonable to assume that more than 60% of municipalities would have been automatically disqualified from procuring from IPPs.

**Policy uncertainty and opposing views on key legislation have hindered reform.** Section 34 of the Electricity Regulation Act has long been contested on constitutional grounds, and the matter is still not resolved.<sup>3</sup> This has contributed to delays and uncertainty. Regardless of its constitutionality, there have also been significant delays in processing Section 34 applications by the Department of Mineral Resources and Energy.

**Parallel to Section 34 disputes, there have also been disputes over Schedule 4B of the Constitution.** This dispute relates to whether Schedule 4B gives municipalities the exclusive right to reticulate electricity in the relevant jurisdiction. In the current context, it is important to note that Schedule 4B is being used to oppose Eskom’s use of distribution agency agreements (DAAs) to take over grids from municipalities that owe it money.

These disputes create uncertainty in the energy sector and hinder additional IPP investments.

**The establishment of the National Transmission Company of South Africa and the adoption of the Electricity Regulation Amendment Act 38 of 2024 signify a move towards a more competitive market.** The National Transmission Company of South Africa, which will later be replaced by the Transmission System Operator, will play a critical role in providing open, fair, and transparent access to the national grid. However, at the time of writing, grid capacity remains a significant constraint.

**The lack of grid capacity also significantly affects IPP projects.** The grid was not set up to accommodate significant amounts of generation in the western part of South Africa. This historic under-design, paired with the fact that the western parts of the country are very

---

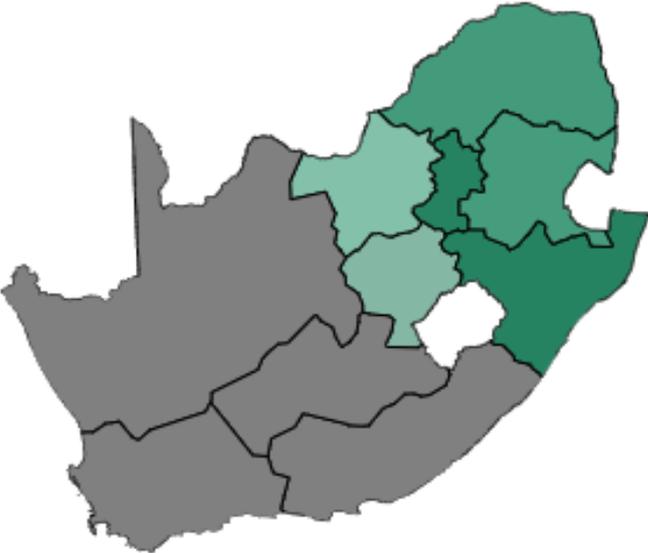
<sup>3</sup> Section 34 of Electricity Regulation Act 4 2006 determines that new generation capacity needs to be approved by the relevant minister after consultation with the regulator. However, municipalities argue that Section 34 undermines their constitutional duties and powers.

suitable for the generation of renewable energy, has resulted in significant grid constraints.

**Connection capacity in the western parts of South Africa has been fully utilised.** As shown in Table 1, the Eastern Cape, Hydra Central, the Northern Cape, and the Western Cape have entirely depleted their grid capacity.

**Table 1: Connection capacity, MW (2025)**

Supply area	MW
Eastern Cape	0
Hydra Central	0
Northern Cape	0
Western Cape	0
Free State	1420
North West	1660
Mpumalanga	3320
Limpopo	3360
Gauteng	4680
KwaZulu-Natal	5500



*Source: Generation Connection Capacity Assessment 2025*

**Risk aversion has prevented (especially smaller) municipalities from procuring from IPPs.** This risk aversion often stems from significant skills shortages and general capacity constraints at the local government level. Thus, many municipalities, even some that are in relatively good positions to pursue procurement from IPPs, have taken the approach of waiting for a pioneering case to follow as a blueprint.

**Skills shortages have also held municipalities back.** As an indication of skills shortages at the municipal level, CoGTA's 2019/20 annual report stated that only 55 of South Africa's 257 municipalities had qualified engineers. Furthermore, in response to a written parliamentary question in 2021 it was revealed that out of 2 747 senior municipal officials, only 1 500 met minimum competency levels.

**The Municipal Finance Management Act (MFMA) requirements for procurement from IPPs are another constraint.** The procedures set out in the MFMA are seen as cumbersome, time-consuming and not well-suited to the contractual and financial requirements of developing Power Purchasing Agreements.

## EMERGING LESSONS

**There have been many developments and interventions from initiatives such as Operation Vulindlela and the National Energy Crisis Committee (NECOM) to attempt to resolve some of the challenges mentioned above. Nevertheless, there are several emerging lessons for future reforms. These include:**

**Accurate communication and evaluation of reforms.** The October 2020 reform was communicated as a step that would enable municipalities to procure power from IPPs. However, the target and its evaluation focused only on the regulatory amendment. While this was an important step, it did not necessarily speak to reform implementation.

While nothing precluded additional support being provided for implementation, because the target focused only on whether the regulatory amendment had been made, it led to an assessment and public communication that deemed the reform “completed; no further work required”, even though further work was required to give effect to it.

**Manage expectations.** At the time of the regulatory amendment, there were mixed expectations. On one hand, there was an expectation of a relatively strong uptake in terms of the speed and scale of municipal procurement from IPPs. Others understood that the procurement lead times for projects were long. Overall, it is possible that there were unrealistic expectations, especially considering the lack of capacity, the financial position of municipalities, and the complexity of procuring from IPPs.

**Capacity and standardised processes.** The amendments to the regulations were widely welcomed, but there was significant confusion in the system in terms of what the options were for municipalities and how to proceed. Although National Treasury issued MFMA Circular 118 to provide guidance to municipalities, there were still disputes and uncertainties in terms of the correct procedure. Furthermore, the circular was only issued 20 months after the amendments.

**Section 34 and Schedule 4B disputes.** Reforms, especially via delivery units such as Operation Vulindlela, often face problems with inertia and in aligning the motivation of stakeholders. This was a case in point. The upshot was resistance to change.

Resolutions to the disputes involving Section 34 and Schedule 4B of the Constitution have the potential to change the nature of South Africa’s energy sector. But regulating on the foundation of an unresolved issue is problematic. This is especially true if those involved in the dispute are also likely to be the main implementers of the reform.

**Grid capacity and Battery Energy Storage Systems (BESS).** There have been positive and significant developments to increase grid capacity in South Africa. Currently, there is a commitment to add an additional 14 000 kilometres of transmission lines between 2025 and 2034.

**However, it is argued that BESS have great potential, especially considering the lack of grid capacity.** The initial draft Integrated Resource Plan (IRP) 2023 made provision for too little BESS capacity (3.7 gigawatts). The 2025 IRP more the doubles this to 8.5GW by 2039.

Considering the potential of renewables and grid capacity, there may be even greater potential for BESS going forward.

**Financial position of municipalities.** The financial position and funding models of municipalities are under pressure, and the changing nature of the energy sector increases that pressure. As such, there is a pressing need to reassess municipal funding models and explore strategies for achieving financial sustainability at the local government level.

## CONTACT US

**Tel:** +27 (21) 808 9119

**Email:** [bisseker@sun.ac.za](mailto:bisseker@sun.ac.za)

Click [here](#) for previous editions of this publication.

Please refer to the glossary on the **BER website** for explanations of technical terms.

### Copyright & Disclaimer

This publication is confidential and only for the use of the intended recipient. Copyright for this publication is held by Stellenbosch University.

Although reasonable professional skill, care and diligence are exercised to record and interpret all information correctly, Stellenbosch University, its division BER and the author(s)/editor do not accept any liability for any direct or indirect loss whatsoever that might result from unintentional inaccurate data and interpretations provided by the BER as well as any interpretations by third parties. Stellenbosch University further accepts no liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this publication. The views, conclusions or opinions contained in this publication are those of the BER and do not necessarily reflect those of Stellenbosch University.

