

Crunch time at Eskom

In an uncompromising manner, and to some extent reflecting how he engineered the Telkom turnaround, Eskom Chairman Jabu Mabuza gave a candid account of the moves that he and the new Eskom board have instigated to restore order at the power utility.



The Eskom briefing took place as part of a joint meeting of the Portfolio Committees on Public Enterprises and Energy with the new Eskom CEO, Phakamani Hadebe attending together with Minister of Public Enterprises, Pravin Gordhan.

Giant theft

The meeting was encouraging in a number of ways. Whilst the extent of indebtedness at Eskom was of deep concern to all MPs, the debt burden will also weigh heavily on the consumer for the foreseeable future. Jabu Mabuza covered both financial and operational aspects in his analysis of what went wrong at Eskom; the new course that was being set; and how the recovery, already started, was to be followed up upon.

Coming on top of the news that Minister Jeff Radebe will shortly give a full briefing to Parliament on the recently released Integrated Resources Plan (IRP), a new spirit seemed to some extent to have arrived amongst parliamentarians dealing with the many aspects of the energy sector, from electricity supplies to oil and gas, from renewables to creating a better face to investors.

Tightening the noose

Mabuza, who clearly has established control of the situation at Eskom, did however mention the fact that an element of the so-called “fightback campaign” still existed at the power utility but nevertheless, the new team had already exposed 1049 cases of corruption and fraud; proven 628 of them and 75 employees associated with the cases had “exited”.



Of the 230 whistle-blower reports so far received, 122 had been concluded with 67 “cases” resulting. He also said that 25 Eskom staff had been found doing business with the utility and currently 7 of them had “exited”.

A free hand needed

Quite clearly, he said, a connection existed in the “fightback campaign” between those who had left Eskom under a cloud and those still employed who are part of corrupt rings. It was a daily task, Mabuza said, to identify these people and break down their networking.

The “fightback campaign” is a term coined by Blade Nzimande of the SACP, now Minister of Transport, by those implicated in allegations of corruption but this was not essentially directed at President Cyril Ramaphosa or Public Enterprises Minister Pravin Gordhan.

Nzimande said at the time of his remark to the media that “The clean-up endeavour is only just beginning, but as can be expected and given the huge stakes at play, there is now a fightback campaign led by recalcitrant elements within our movement and implicated senior SOE managers who are reacting under the false flag of black nationalism.”

Debit Side

Chairman Jabu Mabuza said that Eskom faced three problems, namely, people costs, debt servicing costs and input coal costs.

On people costs, he said that Eskom had done international studies on similar power utilities and found that overstaffing at Eskom stood at about 50% more than the norm. In an exercise of re-sizing at Eskom, he said, "I don't know if it will be down-sizing or right-sizing but whatever it is, after LIFO exercises and early retirement, we will be left with a 30% overstaffing figure."



Slimming down

Sadly, a reduction in staffing had to take place, he told MPs. "It is going to be a painful and difficult exercise", he said, "and the trick will be to not lose valuable skills." Steve Swart (ACDP) asked if the Western Cape was safe and were there enough skills at the moment to keep Eskom running and the lights on.

Mabuza said that an exercise had been conducted and whilst they certainly could do with more skilled persons, the answer was that there were sufficient skills to run Eskom professionally. Many staff with technical backgrounds had been shifted from Eskom headquarters into the field.

Mabuza said the lights would stay on whatever happened. An example of this determination had been that during the strike, Eskom had turned to diesel generated backup once again at a cost of R200m. They had no choice but do this, he said, thus putting more strain on the recovery process.

Perfect storm

He gave a comprehensive review of strike events, saying that for most of the time Eskom's hands had been tied inasmuch that the work stoppages took place in winter; when the finances were in poor shape; coal was in short supply and any load shedding would have compromised the national investment drive.



On strike process, Mabuza was explicit both in his initial briefing and in answers to MPs questions. He said Eskom went into the negotiations offering no increase, no bonuses and the fact that Eskom was financially constrained. He said, "We started negotiations from a zero base."

Against a background of demands of full work stoppages affecting essential services, Mabuza said Eskom had to give ground but he said he would not comment whether in his opinion wage negotiations had been conducted well or not.

"In retrospect the result was 1.5% above the standard 6% in good times and a bonus, as always, paid." But importantly to him, he said, Eskom had walked away from the table with wages fixed for three years and with some sort of security in labour relationships.

Unforgiveable

Mabuza confirmed in MPs question time that acts of sabotage had taken place in the final stages of negotiations and in one case a furnace safety device had been destroyed, imperilling the lives of all with massive explosions that could have brought down the national grid.



He told parliamentarians that fortunately patrolling maintenance staff, working extra shifts because of the strike, had found the damaged heat control valves and saved the day.

MPs were enraged and wanted to know if SAPS had been called in. Mabuza said in the light of the fact that the Eskom plant was a "key point", the Hawks had been called and were investigating. The

suspects were known, and a case had been opened. Eskom had provided all the necessary facts to SAPS, he said.

Coal shortages critical

Jabu Mabuza explained much of the reason for the acute coal shortages at Eskom. Natasha Mazzone (DA) brought up the question of the Tegeta contract and said she hoped that Eskom was not using Optimum coal.

Mabuza responded that Eskom was in a situation like any company where they had made their own decisions and had to own the signatures on any coal contract. The decisions had been made by Eskom with the Gupta-owned suppliers, now in business rescue, and Eskom had to honour what it had signed to do, as with all contracts.

Self-inflicted

Mabuza added that legally Eskom “took a conscious decision to enter into a contract with a preferred supplier and decided at board level to help the Guptas to buy Optimum mine.” There was no possibility that Eskom could hide this action, he said. “The regrettable fact, in plain business terms, is that our preferred supplier has now fallen over. They have not been able to meet the quality and the quantity needed over time”, he said.



Mabuza says that Eskom is now faced with having to pay the prices demanded by other coal suppliers with which it severed ties in order to deal with Optimum. At the same time, it had to restrain costs in the light of bad economic times for SA.

No option

In light of the fact that world coal prices had gone up, he said, and existing private sector coal mines were exporting massive quantities of South African coal, there is a domestic coal shortage. As a result of this and with coal stocks at their very lowest for years, Eskom would take quality coal from anybody that met specifications. “The past is the past”, he said, “and right now, staying alive is the issue.”



Mabuza said that nine of its fifteen coal-fired power stations have stockpiles below the company’s accepted minimum and six of those are below the National Energy Regulator of South Africa’s requirement.

Shining knight

He said one private sector coal mine had come up with a contract for R10bn of quality coal at a special price below what could be obtained at current world prices and this had helped the balance sheet. He was grateful for this.

Mabuza said that the real problem currently with low stocks was wet coal. With the rains, it was difficult to dig into small reserve stock dumps and thus avoid surface wet coal. He said he looked to Parliament to approach the international private sector mines on the issue of price in the national interest to hold exports back just for the reserve stocks Eskom needed.



Looking ahead

He said Eskom had supported many of the exporters as a major customer for some forty years and now was not the time for them to allocate everything for export and turn their backs on South African

needs. Minister Pravin Gordhan, who spoke later and answered questions, had much to say on this subject.

Jabu Mabuza concluded that his board was rather focusing on where Eskom was today rather than allocate too much of their very busy schedule on where Eskom had come from. He said, "There is still a long road ahead for Eskom to recover from the grand theft that had occurred, and this will take, I would estimate, two years at the best."

Money crunch

On debt and debt financing, a further summary came from CEO, Phakamani Hadebe, who confirmed that the debt burden was at the end of the financial period 31 March 2018 was standing at R387bn and likely to rise to about R600bn bearing in mind that the capital expansion plans at Medupi and Kusile are not complete.



Once they are on line, and this was now progressing satisfactorily with various units being 'fired up' on a regular basis, decommission costs will then arise at old coal plants such as Hendrina", he said.

On calls made, Eskom has a standing guarantee with Treasury for R350bn and had been able to obtain a further R78bn with Cabinet permission. R57bn in new debt had to be raised in the current financial year and slightly over 70% had so far been secured. A small percentage of this was merely on its good name without guarantee, which was good news, Hadebe said.

On CAPEX, he said, "Capital projects over the next four years has been reduced to 45bn, to which could be added R10bn saved so far on this year's annual costs, with a similar figure estimated each year for the next five years."

The big one

There was considerable discussion on municipal debt which was a serious detractor in the Eskom recovery programme, Hadebe said. Municipalities could be roughly divided in to those who could pay and paid regularly; those who wanted to pay immediate outstandings and but had to pay slowly in arrears; those who were in financial trouble and couldn't pay and, finally, those that were incapable of any payment and where investigations were underway.



On the broad issue of municipal debt, Hadebe explained, Eskom had appealed a year ago to Cabinet for assistance and guidance. As a direct result, negotiations were undertaken with municipalities by the Minister, Zweli Mkhize, Corporate Governance and Traditional Affairs (COGTA).

The COGTA report was still awaited and this overdue by months. He said he knew that discussions had taken place all over the country, but Eskom needed a result. Joint chairman of the meeting, Fikile Majola, said he would demand of GOGTA and the Minister that this be presented to Parliament immediately, if not, at the very earliest.

The PIC issue

Further on financing, shadow minister of Energy, Gordon Davis (DA), asked Eskom about articles in the media regarding a purported Eskom intention to sell equity to PIC with the intention of converting PIC loans into ownership at an agreed price.



Chairman Jabu Mabuza confirmed that indeed this had been a suggestion at one stage. However, on good advice, he and his board had decided against

this since it sent completely the wrong message to other loan creditors and the investment market generally. The matter would not be considered, he said.

Conclusions

Mabuza and Hadebe ended their presentation with Mabuza saying that “it was probably in 2004 that Eskom was producing some of the cheapest power in the world and an exercise had to be conducted at Eskom on how we used to achieve those sorts of prices and we must learn from this.”

Final comments also came from Sindi Mawbaso-Kyoma, well-known business woman of the year and appointed recently as internal auditor for Eskom as a non-executive board member. She said that Eskom was technically not a “going concern” and this had to be recognised by Eskom and all those that worked there.



Accordingly, it was the audit view that the whole management of Eskom had to “unpack its current operating model in each and every aspect and study ways to reduce costs and increase revenue.” There was no other choice but to re-build Eskom and all internal auditors had been briefed by her to follow up on this, she said.

Public Enterprises

Minister Gordhan Pravin made a short address. He said he was fully aware of what had happened at Eskom and confirmed the “fightback campaign”, which was very real, had to be countered at all levels of SOE management and that he was aware that the “old guard” was working inside and outside of SOEs to protect their way of life.

The extent of state capture at many levels of SOE management should not be under-estimated, he said. He congratulated the new board and employees at Eskom for their loyalty to the public at large.

Bad habits the norm

However, the Minister said that the problem of municipal debt worried him most, since it represented a culture that could destroy Eskom. The whole structure of municipal relationships with Eskom and the way electricity services worked in the country had to be understood better, dealt with strictly in some cases but accommodated in others. It cannot go on any longer, he said



“New models for delivering electricity had to be found because the systems from the past are just not working and some thinking outside

of the box is needed”.

He told parliamentarians that they should invite municipalities to come before them and explain their problems, their concerns and discuss their community issues for parliamentarians to better understand what was going on at grass roots level in order that MPs could assist properly in the debate.

It was no good just “sitting around and waiting for the COGTA report”, he told them. “A new look at the whole of municipal structures and relationships with the utility had to be undertaken”, he said.

The coalface

Another problem, Minister Pravin said, had to be dealt with urgently, was the ability of Eskom to secure good quality coal stocks.

In his view, now was not the time for the private sector to turn their backs on Eskom because of the lure of current high export prices for coal. He prevailed upon MPs to call upon the private sector coal industry to appear before them, hear their views as an industry “and for Parliament to explain to them that South Africa needed all industries to support their host country through good times and bad times.”



Prison time to reflect

“**It is in everybody’s** interest to get Eskom up and running efficiently as soon as possible”, he said. He agreed that it was important “for the public to see the guilty go into C-Max for their crimes and spend a long time alone thinking of what they did to our country”. However, he said, Eskom cannot answer MPs on such issues as the details of retribution for their crimes, or any SOE for that matter.



What all SOEs had to do was get back on track and uncover who did what, when and how and report this to the authorities. He said that “Parliament as a body should be calling upon the Hawks, the NPA and SAPS to explain why so few of those guilty of theft and corruption in SOEs generally were not being asked to answer for their crimes now uncovered.”

He said, “You know the names, so you must also ask them yourselves why charges have not been laid in so many cases and the guilty hauled before the courts and punished.”