

ALTERNATIVES TO UNBUNDLING ESKOM: ORGANISED LABOUR POSITION

FEB 2019



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PRESENTATION OUTLINE

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- EXPLAINING UNBUNDLING
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- INTERNATIONAL EXPERIENCES TO UNBUNDLING
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INTRODUCTION

- It is undeniable that Eskom faces a number of problems and it is in financial distress. Something has to change at the entity.
- This change, however, has to take into consideration Eskom's mandate and its development role:
 - *Eskom's Mandate: providing electricity in an efficient and sustainable manner*
 - *Eskom's Developmental Role: Promoting transformation, economic development and BBBEE in line with the National Development Plan*
- Government's proposal of unbundling put emphasis on Eskom's mandate. Less focus is put on Eskom's development role.
- Considering Eskom's mandate together with the its development role is at the heart of organised labour position that Eskom should not be unbundled

PROBLEMS AT ESKOM

- To appreciate why unbundling Eskom is a wrong solution to turning around the entity it is useful to consider explicitly the specific problems.
- These problems can be broadly categorised into 2: – those that are responsible for increase in the entity's operation costs and those are limiting revenue side.
- Major problems at Eskom and comments thereon are summarised in the following table:

PROBLEMS FACING ESKOM

	Generation	Transmission	Distribution	Operations & other	
Problems					Comments
Input Cost					
a) Price of coal	X			X	Eskom suppliers of coal have been increasing the price they charge ESKOM. The coal supply costs with tied collieries have sometimes been inflated.
b) Quality of coal	X			X	There has been deterioration in the reliability of supply and in the quality of coal; Sub-standard coal has to be upgraded and that comes at a cost. The quality of coal has also been responsible for high equipment break down with the plants.

PROBLEMS FACING ESKOM Contd

c) Coal Supplier contracts	X			X	Eskom traditionally had favourable contracts with major coal suppliers. These contracts gave Eskom a reliable supply of very cheap coal. Eskom's decision in the early 2000s to increase procurement from small BEE contractors exposed the company to a higher price of coal
d) Logistics for coal delivery	X			X	Coal delivery as required by Eskom has been unreliable.
d) Buying and price guarantees to IPPs				X	Eskom is paying substantially more than it recoups from selling electricity. The contractual obligations between IPPs and ESKOM requires ESKOM to purchase electricity from IPPs at a high price even if ESKOM has a surplus
e) Expansion of transmission networks		X		X	The expenses from extending the transmission network to often far flung renewable projects can prove costly.

PROBLEMS FACING ESKOM Contd

Old Infrastructure	X	X		X	Maintenance plans at Eskom have not been adhered to affecting sufficient generation of electricity.
Maladministration				X	High salary advances, overstaffing, creation of many directorates, excessive annual bonuses and irregular payments to management consultant company have been prevalent.
Corruption	X	X	X	X	Allegations pertaining to corrupt tendencies especially in contracts awards have been documented.
Revenue Deficit					
a) Non payment by municipalities				X	A significant number of municipalities still owe Eskom a significant amount of money
b) Loss of revenue	X	X	X	X	Illegal connections as well as refusal to pay for electricity by consumers leads to loss of revenue to municipalities and subsequently to ESKOM

SOLUTIONS TO ESKOM PROBLEMS

- Each of the problem identified at Eskom requires a specific solution! – Some of the potential solutions are included in later slides
- **Unbundling** of Eskom as proposed by government is **Not a solution** to Eskom problems - In fact unbundling only **Changes the environment\setup** under which solutions can be sought.
- Hence, the organised labour position – Look for solutions at Eskom without creating an environment where a key strategic national assets may be transferred into private hands
- Global experience indicate that unbundling SOEs has often been accompanied by privatisation, although government denies that the unbundling Eskom will not lead to privatisation

SOLUTIONS TO ESKOM PROBLEMS

Motivation and the reasons given by government to unbundle are questionable:

- Increase efficiencies by giving each entity its own balance sheets and accounts – **What will happen to the existing debt? Which entity will be responsible for the repayments?**
- Enable the 3 entities (generation, transmission and distribution) to independently raise funds – **Will these guarantee that the existing problems at Eskom will be solved?**
- Open the way to increased competition (establishing an independent owner and operator of transmission grid that would contract with power producers, completely independent of generation, enabling it to buy power from cheapest sources, meaning it will be cheaper for consumers however it also means it will need its own board – **How will this be done without privatization?**

Labours Concern: Consequences of Privatisation

Based on international experience, if Eskom ends up being privatized through back-door unbundling the following are likely:

Variable	Measure	Trends	Observations
Output	Number of customers	No significant change in the rate of new connections before and after the transition.	Performance seems to be firm specific, which would suggest that the rate of new connections should be written into the contract targets.
Labour	Number of employees	Average reduction of the labour force by about 38% during the transition. Changes after the transition weren't significant.	Most SOEs were oversized in personnel. In some cases, the governments reduced the number of employees to try improve the value of the firms. Investors discounted these attempts, considering that the selection policies may have resulted in good employees leaving and bad ones staying.

Labour productivity	Number of customers per employee Energy sold per employee	Labour productivity showed significant improvements of about 18% during the transition, reducing to about 5% per year thereafter.	Continued improvements after the transition speaks to continually improving skills levels of the remaining employees.
Efficiency	Energy lost in distribution (technical losses & illegal connections)	The average reduction in losses was 5,5% per year during the transition, flattening out thereafter.	One might assume that the firms perform better maintenance and investments in the networks and the results would improve in time.
Quality	Frequency and duration of interruptions	Both the frequency and duration of interruptions improved by about 10% each per year during the transition.	After the transition, the estimates show additional improvements of about 25% each.

A key away from international experience of privatization of an Energy SOEs: Moderate efficiency gains can be achieved BUT without increased output or service reach and a high cost to employment

INTERNATIONAL EXPERIENCES TO UNBUNDLING

Efficiency benefits of unbundling energy SOEs may not be achieved. In fact there are a number of countries that unbundled their energy SOEs but ended re-bundling them: Reservations on unbundling Eskom not unfounded

Country	Reasons for Unbundling	Re-Bundling Reasons
Russia	Power utility liquidated in 2008 and mandatory ownership unbundling was put into effect	Inefficiency, electricity costs, high operating costs (When did this happen or after how long?)
UK	To improve energy efficiency	High Costs as power systems are privately owned
Australia	Liberalizing energy systems	Renationalisation due to high energy costs
Germany	Aimed to improve energy efficiency and lower the cost	Municipalisation due to pressure from unions and civil society on high energy costs

POTENTIAL SOLUTIONS FOR ESKOMS PROBLEMS WITHOUT UNBUNDLING

- **Request for government bail-out of Eskom** – Some of the financial problems Eskom is facing are historical and can only be passed on the government balance sheet (This request has already been done and a budget allocated by government)
- **Review coal supply contracts** – Particularly clauses that talk to price increases, quality of coal to be supplied and prioritising supply to Eskom rather than export
- **Manage better executive pay and management posts:** This can save costs and allow more resources to be channelled to plant based technical staff.
- **Ensure Good Governance:** Board selection should be based on competence, capacity and diversity. Tightened accountability through re-instatement of Electricity Council.

POTENTIAL SOLUTIONS Contd

- **Put in place efficient procurement systems:** Eskom can strike a deal with Transnet for efficient coal transportation. Penalties should be imposed on non adherence to contractual obligations by suppliers. This may also include renegotiating terms in coal supply contracts
- **Enterprise Development:** with a specific focus on Black Emerging Miners should be encouraged as well as easy access to funding. Moreover it should be a requirement that large scale mines support small scale mines in respect of expertise and skills development.
- **Renegotiation with IPP's:** Energy from IPP's should be transmitted from power stations. Eskom should negotiate cheaper prices with IPP's with a long term focus of producing its own renewable energy.

POTENTIAL SOLUTIONS Contd

- **Re-introduce robust stakeholders participation in key decision making processes** – Government, business and labour
- **Ensure effective usage of maintenance budget:** Maintenance and replacement of old infrastructure should always be budgeted for and not diverted to other aspects
- **Improve Revenue Collection:** Non-paying consumers should be forced to pay their debts. Arrangements should be made with national or provincial government to directly pay Eskom for electricity provided to the poor communities
- **Ring-fencing of costs** of riskier sections of Eskom should be considered in the future once Eskom has sorted its current problems

CONCLUDING REMARKS

- Interventions rescue Eskom should take into account the mandate and the development role of entity.
- The development role of Eskom should be broadly considered to include job preservation, access to electricity by poor communities and as key tool that government can use to influence economic activity in the country.
- There should be clear mechanisms and activism to guard against indirect or direct privatisation of Eskom through the proposed unbundling. From international experience, it is clear that that unbundling of SOEs creates opportunity for privatisation

THE END...

DISCUSSIONS and SUPPLEMENTING