

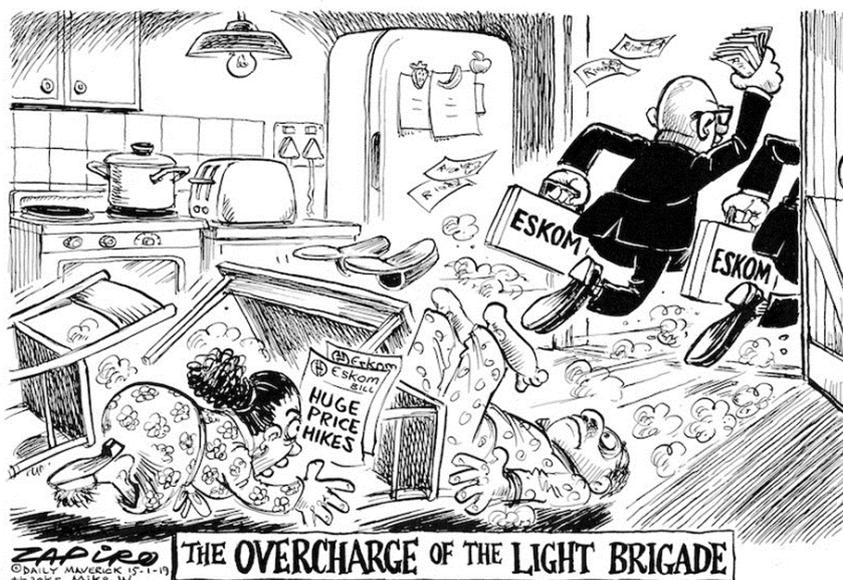


Environment Digest
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Shedding Light on Eskom's Unbundling

Eskom is the largest producer of electricity on the African continent, and is amongst the world's top utilities in terms of power generation capacity. It owns and operates a number of coal-fired, gas-fired, hydro-electric and pumped-storage power stations, and one nuclear power station. Through these it generates, transmits and distributes electricity to millions of customers in the industrial, mining, commercial, agricultural and residential sectors. Eskom distributes electricity both directly to its consumers, and indirectly through redistribution centres such as municipalities and retailers. The utility plays a central role in South Africa's economic growth and development by helping to create and maintain jobs in various sectors of the economy, enabling businesses to grow, and improving basic public services.

Eskom has operated as a monopoly structure for a long time, and continues to function as such. This has led to operational inefficiencies, bloated costs and poor governance, exacerbated by corruption and maladministration under former President Jacob Zuma. It was during this administration that efficient leaders and managers were replaced with inefficient people who helped run down most of the country's state owned enterprises (SOEs), including Eskom. In its case, this led to the neglect of power station maintenance, to the manipulation of coal supply contracts for the benefit of Gupta-owned companies, to the mismanagement of funds, to flaws in newly built power stations, to overstaffing, and to a delay in the implementation of suitable energy policies. As a result, Eskom is currently burdened with a debt of over R400 billion; it has to embark on regular load-shedding; and it constantly has to apply for increased tariffs to avoid complete collapse.



During the state of the Nation Address (SONA) on 7th February, President Cyril Ramaphosa announced the government's plan to unbundle Eskom into three separate entities. Operating under Eskom Holdings, these three entities would consist of generation, transmission and distribution. In this Budget speech a few days later, the Minister of Finance gave further details about the restructuring plan and mentioned that government would not be bearing Eskom's debt of R419 billion, but would instead provide resources and support to reform the utility.

Government believes that the unbundling process will assist in improving oversight and accountability, isolating costs, and enabling each entity to independently raise funds. This will, in turn, increase reliability and efficiency through competition within the energy sector. According to Treasury's initial overview, Eskom would migrate its assets, debts, people and licences to the three subsidiaries, which would each have its own board. In time, each subsidiary would have to provide separate audited financial results. The entity which will deal with transmission is set to be established first, and it is expected that its board will be appointed in 2019 to get the process underway.

The following links provide details on the unbundling of Eskom:

- <https://www.msn.com/en-za/money/financenewsitaly/eskom-is-in-a-deep-hole-it-will-take-decades-and-serious-financial-wizardry-to-dig-it-out/ar-BBTyG5F?li=BBqfP3n&%3Bocid=UP21DHP>
- <https://www.businesslive.co.za/bd/opinion/2019-02-15-unbundling-eskom-is-code-for-privatisation/>
- <http://www.engineeringnews.co.za/article/battle-lines-drawn-as-opposition-parties-contest-ramaphosas-eskom-unbundling-plan-2019-02-12>
- <http://www.polity.org.za/article/load-shedding-this-is-an-emergency-gordhan-2019-02-13>
- <https://www.fin24.com/Economy/eskom-starts-shutting-down-old-coal-power-plants-20190301-2>
- <https://www.news24.com/SouthAfrica/News/state-capture-inquiry-eskom-forced-to-conclude-multibillion-rand-tegeta-coal-supply-deal-in-just-48-hours-20190226>
- <https://m.fin24.com/Budget/treasury-if-eskoms-turnaround-plan-is-credible-sa-can-maintain-its-credit-rating-20190301>

Lovedonia Mkansi
Project Co-ordinator