Nersa hearing on Eskom: 2019

Presentation to the National Energy Regulator of South Africa

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Presentation by the Fiscal Cliff Study Group represented by:

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Overview of presentation:

• Eskom as a State-owned enterprise

• Eskom’s shrinking market

• Cost cutting:
  – Bonus payments
  – Regular updates of employment figures
  – Austerity Budget Specialist

• Eskom requires oversight by the public
  – Public insight into board meetings
  – Public insight into Board Committee meetings

• Findings and recommendations
Eskom as a State-owned enterprise:

• Eskom is a State-owned enterprise serving the public from a monopoly position

• The increase requested amounts to **52 per cent** (15 per cent per annum cumulatively over three years)

• Eskom should engage in a serious cost-cutting exercise owing to changed market dynamics
Eskom’s shrinking market:

• Despite being a monopoly, Eskom is pricing itself out of the market

• Supply and demand dynamics indicate that excessive price increases will lead to a decline in demand owing to the use of alternative power supply (solar, wind, new technologies)

• Eskom is therefore operating in a (self sustained!) shrinking market

• This prescribes drastic action
Eskom’s shrinking market:

• “Eskom has a R350 billion government guarantee facility, of which R255 billion has been used and R35 billion has been approved for specific funding instruments, but not yet borrowed” (National Treasury, 2018: 48)

• Eskom’s debt reached R419 billion in 2018, and it is estimated to exceed R600 billion in the foreseeable future

• Should Eskom become obsolete, it will have a detrimental impact on South Africa’s state finances and economy

• This will increase the risk of a fiscal cliff occurring, sooner rather than later (see Rossouw, et al.: 2014, 2016; and Mbeki, et al., 2018, for details)
Cost cutting into bonus payments:

- All bonus payments at Eskom should be stopped immediately.
- Bonuses drive behaviour and are underpinned by exorbitant demands for tariff increases.
- It is disingenuous to claim that bonuses will only be paid if targets are being met.
Cost cutting into bonus payments:

• The management of any monopoly can and will continue to meet their “bonus targets” (bogus targets??) if their tariffs are increased by 52 per cent over three years

• Eskom executive management seems to threaten the South African public with load shedding every year to set the scene for bonus demands

• Once load shedding stops, executives demand bonuses on this basis

• Award fair and reasonable remuneration without bonuses
Cost cutting into employment numbers:

- Eskom is complete overstaffed (staff complement including fixed term contractors estimated at 48,628 in 2018)

- Annual general remuneration increases at Eskom must in the future be contained to the rate of inflation

- Headcount should urgently be reduced by means of natural attrition. The process must be overseen by independent energy professionals

- This must also include structural re-organisation

- To achieve this latter objective, Eskom should in the future publish weekly its employment numbers according to job level to ensure public scrutiny
Public oversight: Board activities:

- Eskom is a monopoly owned by the government and operating for the benefit of the general public.

- Other than coal costing contracts, Eskom therefore has **NO business confidential information**, except when hiding something from the authorities and the public, such as Gupta contracts.

- The Board should establish a Coal Purchasing Sub-Committee to approve coal contracts. This Committee should include outside experts (non-Eskom Board or employees) and should report all contracts to the Board.
Public oversight: Board activities:

• Eskom’s Board meetings and Board Committee meetings (with the exception of the Coal Purchasing Board Sub-Committee) should be open to the media and the public:
  – Eskom trade for the account of the public and the taxpayers of South Africa
  – Given its monopoly position and government ownership, there cannot be any information under discussion that cannot be made public
  – If Eskom directors and management argue that matters discussed cannot be made public, it follows that Eskom is not serving the best interests of the general public
  – However, this will likely require legislative amendment

• This approach will ensure that Eskom does not fall into the trap of State Capture again
Public oversight: Board activities:

• Eskom should immediately disclose all details of the R33.4bn loan from the China Development Bank

• A state-owned monopoly has no business reasons for confidentiality of a loan agreement

• The South African public is contracted to repay Eskom’s loan from the China Development Bank

• We, the public are entitled to know what we have to repay
Findings and recommendations:

- All bonus payments at Eskom should be stopped immediately.
- Eskom should reduce its number of employees as part of its cost-cutting exercise.
- Eskom’s Board meetings and Board Committee meetings (with the exception of the Coal Purchasing Board Sub-Committee) should be open to the media and the public.
Findings and recommendations:

- Weekly updates on employment figures should be provided

- Eskom clearly needs an Austerity Budget Specialist to cut wastage from its budget

- Eskom is operating in a shrinking market - Sink or swim through serious readjustment
Feedback/Questions/Discussion

Selected references


