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 that later (see Rossouw, *et al.*: 2014, 2016; and Mbeki, *et al*., 2018, for details)

Cost cutting ito 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 ito 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 ito 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

- Mbeki, M, Rossouw, J, Joubert, F and Breytenbach, A. 2018. Fiscal Cliff Barometer. *New Agenda: South African Journal of Social and Economic Policy.* Volume 70. Third Quarter 2018.

- National Treasury, 2018. 2018 Medium term budget policy statement. Annexure A: Fiscal risk statement. Available at: http://www.treasury.gov.za/documents/mtbps/2018/mtbps.aspx [Accessed on 21 January 2019]

- Rossouw, J., Joubert, S. J. en Breytenbach, A. 2014. Suid-Afrika se fiskale afgrond: 'n Blik op die aanwending van owerheidshulpbronne. *Tydskrif vir Geesteswetenskappe*, 54 (1): pp. 144-162.

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