A submission prepared for the Portfolio Committee on Public Enterprises

Prepared by Erica Johnson

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I Erica Johnson, state that everything in this written statement is factual and correct, to the best of my knowledge and recollection.

I joined Eskom as an Engineer-in-training in 1994. I had a very stimulating career in Eskom, moving into system operations in the “wires” side (Transmission and Distribution divisions) of the company. The highlights of this period include running the country’s Systems Operator, managing a constrained power system and being responsible for all of Eskom’s transmission and distribution “wires” – totalling 360,000km at that time with 5,000,000 customers and 20,000 employees. Operational highlights from my Eskom career include leading the recovery of SA’s power system in 2008 following significant supply-side constraints and leading the energy security focus during the 2010 World cup period. From 2008 to my departure in 2014, I continued to lead the emergency crises management and resilience response in the company and I continued to drive the organisational learning’s, from these crises, through the Board and Executive governance committees. The last 7 years of my Eskom career was spent filling various leadership roles where I had group executive responsibilities for the following portfolios: Operations, Planning, Risk, Strategy, IT, Legal & Regulatory, Stakeholder Management, and Customer Service.

Last month, I was approached by Advocate Vanara to come and talk about my experiences in an Eskom Leadership role. In terms of this request, I shared my observations and my general reasons for leaving the company after nearly 21 years of service.

In accordance with the summons by the Public Enterprises Portfolio committee, I will focus on the following three incidents as requested by the Acting Secretary of Parliament. They are:

* The New Age Deal that was later declared to be an irregular expenditure
* The IT procurement process that could have saved Eskom a R1bn but was abandoned by Eskom and the contract with T-systems was extended
* The procurement process on the Koeberg Steam Generator
* Any other related matters

The New Age Deal

* In April 2014, Colin Matjila became the Interim CEO of Eskom, moving from his board role to an executive role. Within that month, he requested a sponsorship contract for 1 year with the NEW AGE at the cost of R1.2million per breakfast event. The Head of Corporate Affairs and the Head of Legal were dealing with the contract.
* I was involved in terms of the rationale for the contract. We tried very hard to meet the Interim CEO’s request – despite it being a difficult time financially, we tried to justify the contract on the grounds that we needed to engage key decision-makers and opinion-shapers and shift the understanding around Eskoms’ long-term sustainability. If a series of breakfasts with key decision-makers and opinion-shapers could achieve that, it was considered well worth the investment.
* However, as the month of April progressed, the Interim CEO, changed the request from 1 year to 3 years and removed the standard exit clause in the contract. As the corporate team, we wanted an exit clause to ensure that the new permanent CE, expected in October 2014, could have the space to drive their own conversation on the company’s strategic priorities without being constrained by a three-year binding breakfast program. Despite attempts to persuade Mr Matjila, he was adamant about the three year time period and the removal of the exit clause in the contract.
* At R43 million this contract required two signatories for authorization. The FD refused to sign the contract and Interim CEO signed it on his own.
* This was picked up as an irregular expense by the auditors in September 2017 and the Board Audit and Risk committee dealt with it and it was reported to IRBA.

IT procurement process

* The board tender committee requested sourcing strategies for all commodities when they were constituted as a committee in 2011. In this context, the IT sourcing strategy was developed. There was a very clear expectation from the board we would be changing suppliers. In line with the IT vision and sourcing strategy, there was a shift in the IT priorities, hence the in-sourcing of amongst other things, cyber network security and the decision to outsource other elements of the IT application and maintenance service.
* In 2013 the contract for the outsourced elements part of the IT services was put out to tender. As we were approaching adjudication, the questions around components of the IT service, the processes followed, and the veracity of the savings increased. A number of audits were requested and completed around these questions.
* In July 2014, I received a Letter from interim CE, questioning specifically the integrity of the CIO and raising a number of allegations. Four of these allegations I could answer immediately, the other two I could not. The interim CEO, Mr Matjila, specifically pointed out the last sentence in the letter written to me, indicating that I should consider suspending the CIO, to protect the integrity of the investigation that he wanted me to initiate.
* I consulted HR and Legal regarding the rules applying to suspensions. The advice that I received is that for a suspension to be appropriate while an investigation is taking place, there has to be reasonable basis to believe the investigation process may be interfered with. In addition, the impact of a suspension on an individual’s reputation should then be weighed against the risk of the investigation being tampered with.
* Given this legal advice and after consulting my colleagues on previous precedent in Eskom, I spoke to the CIO and informed him of the investigation. I asked for his full co-operation with the investigators. He assured me of his full co-operation with the investigation.
* He also provided me with feedback on the remaining two of the six issues I had not been able to explain to the Interim CEO that morning.
* I wrote to the Interim CEO in the evening, explaining my reasons for not suspending the CIO.
* I initiated the audit to investigate the six allegations and I included it in my close out report with the permanent CEO, Mr Tsedison Matona.
* The findings of the report were that there was no evidence of wrongdoing on all six accusations.
* In October 2014 at my last board tender committee meeting, the board chose three suppliers to enter into final negotiations with.
* I left the company at the end of October 2014.
* In November 2014, Eskom consolidated IT and Technology division under the leadership of Mr Matshela Koko.
* In this month the company had very deep loadshedding periods due to a shortage of generation after losing the entire output from Majuba power station with the collapse of a silo.
* At the beginning of December 2014, the CIO had the same six accusations leveled against him with one additional one accusation. The executive decision was taken to suspend him pending the investigation.
* Due to the intensity and pressure in the organization caused by the loadshedding, a decision was taken to cancel the IT applications and maintenance procurement process and extend the contract with T-systems. It was reported publicly in May 2015 that the contract had been extended for 2 years under a disengagement clause. To the best of my knowledge to date, the IT suppliers are still unchanged.

Koeberg steam generator

* In early 2014, I became aware of the anxiety of the team leading the procurement process to replace the six Koeberg steam generators. This team was anxious that they would not replace the steam generators by 2016/2017, in line with the power stations operating principles and to ensure equipment alignment with other nuclear operators managing fleet of a similar age.
* I became aware that for 1 entire year, the team regularly placed their item on the board tender committee agenda and that whilst it was accepted on the agenda, the team never had a chance to present to the Board Tender Committee. Instead the committee members would discuss this matter by themselves (“in committee discussions”).
* The implications of this delay in adjudicating the refurbishment contract were very concerning to me and we reported it to the Board Audit and Risk Committee.
* At the time, in 2014, there were three risk implications of concern.
	+ If the Koeberg steam generators were not replaced in time, the risk of a progressive shutdown could not be avoided. If the plant refurbishment outages occurred out of synch with other general outage requirements, the transmission corridor would not be adequate to support the entire Cape Demand, potentially resulting in a need to operate the diesel generators in Cape Town extensively and significantly increasing the operational costs of the company.
	+ If the equipment alignment with other nuclear operators managing similarly aged plant was not maintained, our regulatory and nuclear safety assessments could be impacted.
	+ The reputational impact of not refurbishing in time could potentially be severe.

Any other related matters

There were two other related matters that I felt were significant at the time and which was raised with the Board Audit and Risk Committee and in direct conversation with the permanent CEO, Mr Tsediso Matona.

* I was deeply concerned that no long-term coal contract had yet been established for Kusile Power station and that the only short-term five year contracts had been established with coal being trucked in from the surroundings. This was and still is a major road safety issue in addition to being highly inefficient and very expensive.
* From my perspective, as the Group Executive accountable for strategy and risk amongst others, I felt there were two divergent conversations unfolding in the company – one was around the power system and the other was around the procurement system. As executives, one could raise concerns on power system reliability issues, but they were not getting the attention it deserved.
* The tone within the company had also changed significantly with the Head of Primary Energy suspended and many executives too scared to raise their voices or concerns. This was not a healthy situation and meant that significant risks would not be brought to the attention of the leadership, an essential requirement in managing a complex power system and organization.

Yours sincerely

Erica Johnson