



# **Eskom Presentation to SCOPA**

## **Update on April 2022 Oversight Visit Recommendations**

Date: 19 October 2022

## 1. Recommendations: 6.1 – 6.8

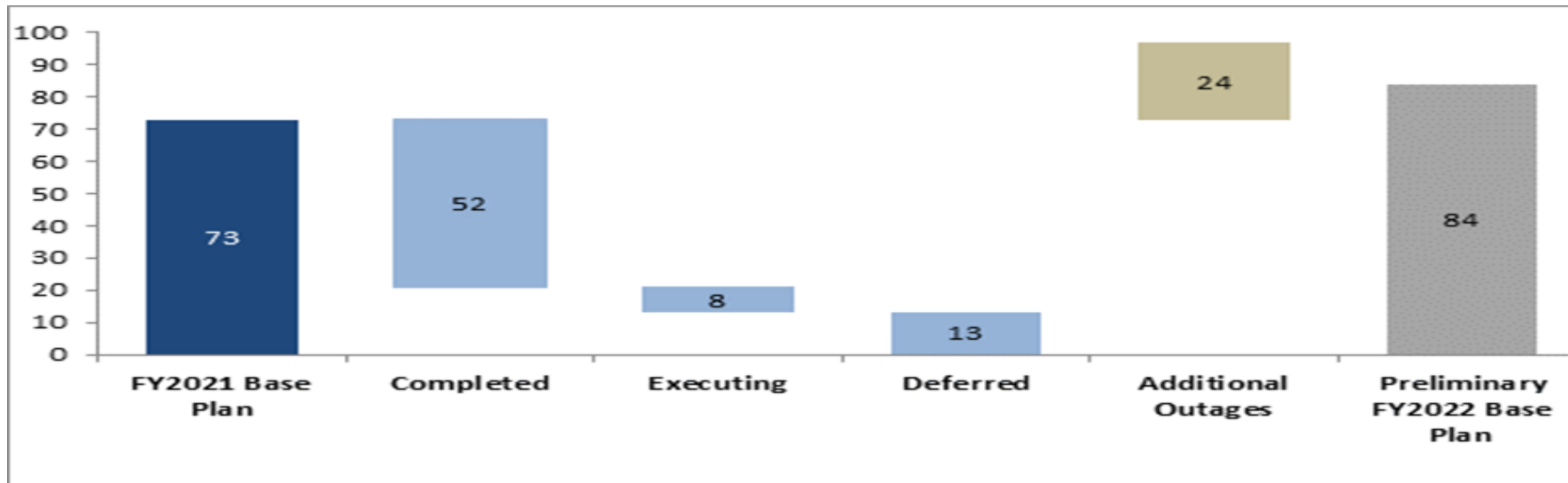
# Recommendation 6.1: Carry out regular maintenance of units

(1/5)

- During the FY2021, the **Reliability Maintenance Recovery (RMR) Plan** was embarked on, with the aim of **improving the general performance of 11 targeted fossil-fired power stations**
  - The first 6 months of the programme **particularly focused on nine specific outages**, with the aim of making a step change in outage readiness.
  - Due to the critical need to enhance outage performance, the **focus was extended to all outages in March 2021**
- Challenges were experienced with the **funding of the RMR Plan during FY2022**. Reliability maintenance was sacrificed to ensure that **statutory maintenance received priority to minimise the negative impact on the EAF**.

## FY2021 Maintenance Status:

- **A total of 73 outages were accommodated in the FY2021 RMR Plan**. As at 31 March 2021, **52 of the 73 outages had been completed**, with only one outage having been completed with RMR involvement

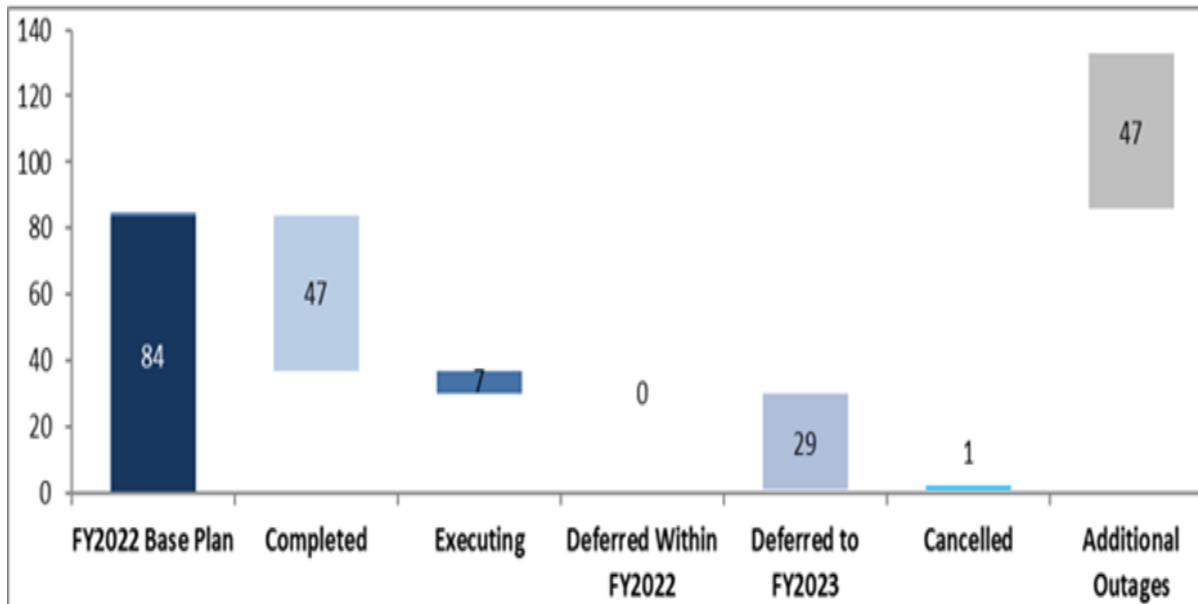


# Recommendation 6.1: Carry out regular maintenance of units

(2/5)

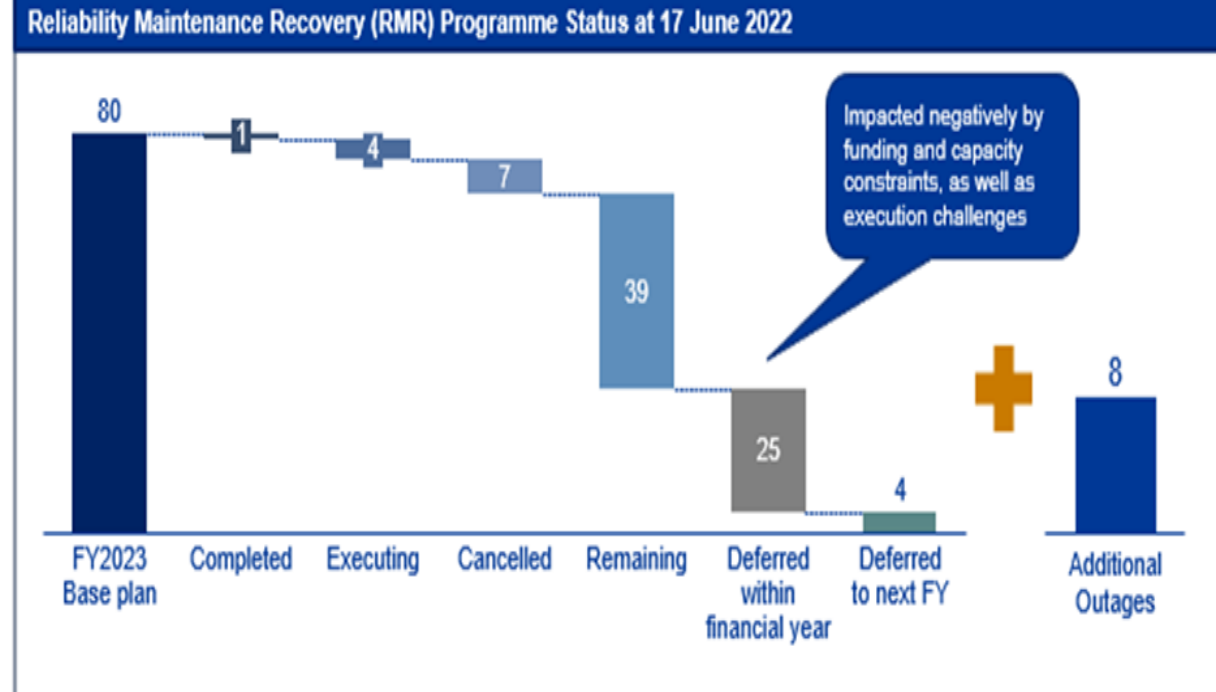
## FY2022 Maintenance Status

- ❑ As of the beginning of April 2021, **84 outages** were accommodated in the FY2022 RMR Plan. As of 31 March 2022, **54 of the 84 outages** had been **completed**, while **1** had been cancelled. **29 outages** had been deferred to the FY2023 financial year.
- ❑ An additional **47 short-term outages** were executed in FY2022 (additional to the 84 planned outages).
- ❑ These Outages include **General Overhauls** (86 days); **Mini General Overhauls** (70 days); **Interim Repairs** (30 – 50 days) and **Opportunity Maintenance**.



## FY2023 Maintenance Status

- ❑ The FY2023 RMR Plan **base line is 80 Outages**, of the 80 outages (as at 17 June 2022) **1** is complete, **4** are in execution, **25** have been deferred within this financial year and **39** remaining, **7** have been cancelled, and **4** outages have been deferred to the next financial year with an additional eight short-term outages having been executed.



## Performance of completed outages

- ❑ The main work affecting plant reliability and predictability is **carried out during mini general overhauls (MGOs) and general overhauls (GOs)**. There are currently **16 MGOs and GOs completed** in FY2022 with RMR involvement, with results as shown in the next slide.
- ❑ The **underfunding of outages** due to severe financial constraints has **severely limited the ability of the site** to drive outage excellence. The **constraint will remain over the next five years**, arising from the National Energy Regulator of South Africa's (NERSA) determination of the Multi-Year Price Determination 5 (MYPD5), which will require support from the National Treasury (NT) to expand guarantees.
- ❑ **Outage readiness is hugely dependent on timely funds releases**. Inadequate outage preparation is manifested in outage slips and poor outage performance, as seen in the table below, thereby having a knock-on effect on EAF.

# Recommendation 6.1: Carry out regular maintenance of units

(4/5)

## Performance of completed outages

Outage ID	Site	Unit	Start	End	Planned Duration	Funding (T-6)	Total Capex Spend	ORI (T-3)	Slip (days)	UCLF 6M prior to Outage	UCLF 6M post Outage
13435	Lethabo MO	1	2021/01/12	2021/04/17	95	Partially funded	275 041 007,93	57.9%	0.6	6.73%	9.53%
24408	Matla GO	2	2021/09/14	2021/12/13	90	Partially funded	667 350 850,07	91.8%	0	57.55%	32.14%
17922	Arnot GO	2	2021/07/03	2021/10/06	95	Partially funded	402 902 038,56	71.1%	14.1	43.92%	30.77%
15082	Matimba MO	6	2021/01/29	2021/04/09	70	Partially funded	347 969 578,95	46.8%	0	7.13%	8.58%
38069	Camden GO	6	2021/04/26	2021/06/28	65	Partially funded	457 294 128,66	No record	0	39.01%	15.6%
13884	Kriel GO	1	2021/08/07	2021/11/13	98	Partially funded	641 002 778,46	62.9%	0	24.73%	18.59%
30084	Kriel MO	2	2021/01/21	2021/03/18	56	Partially funded	292 715 548,61	47.6%	0	11.01%	14.7%
13879	Kriel MO	4	2021/04/26	2021/06/21	56	Partially funded	323 319 777,80	54.3%	0	34.85%	27.7%
19085	Majuba MO	4	2021/08/05	2021/10/19	68	Partially funded	543 618 062,04	51.0%	2.1	31.36%	35.49%
21161	Duvha MO	4	2021/06/20	2022/02/18	163	Partially funded	720 919 733,50	37.0%	67.6	56.83%	45.73%
17998	Camden MO	2	2021/12/27	2022/02/20	56	Partially funded	148 708 794,79	59.0%	1.3	19.54%	32.7%
38117	Grootvlei GO	2	2021/10/15	2022/01/25	103	Partially funded	139 313 898,10	No record	40.4	15.70%	47.63%
17610	Duvha MO	2	2022/01/07	2022/06/13	90	Not funded	709 689 485,57	47.20%	67.3	42.15%	99.49% (1 month)
13834	Kendal GO	2	2022/01/08	2022/06/13	120	Fully funded	303 178 259,50	65.40%	36.6	56.5%	44.94% (1 month)
13881	Kriel GO	6	2022/02/03	2022/05/12	98	Partially Funded	586 345 885,38	40%	0.0	39.49%	24.36% (2 month)
17947	Arnot MO	3	2022/01/15	2022/04/27	85	Partially funded	405 563 547,59	43.20%	8.4	38.43%	20.62% (3 months)

## Funding impact on upcoming outages

- ❑ Currently, the **affordability limit for FY2023 to FY2027 is below the base budget** required (by R4,9 billion).
- ❑ In **managing the current budget shortfall**, a priority ranking model is being utilised to allocate capital funding for outages.
  - The priority model is used to categorise the outages **as must-do (Priority 1, or P1), should-do (P2), and discretionary (P3)** to stay as close to the affordability limit as possible.
  - Must-do outages **are those that are typically statutory** (that is, GOs and mini overhauls (MOs)), while should-do outages are those that **will substantially affect station reliability** (mostly interim repairs (IRs)), and discretionary outages **are inspection outages**.
  - In FY2023, **29 planned outages are Priority 1, 19 planned outages are Priority 2, and three planned outages are Priority 3**.
- ❑ The Corporate Plan of **R8,171 billion will not fully fund all P1, P2, and P3 outages**. Without additional funding, **deferral of outages becomes necessary** – and possibly the **shutting down of units that have reached statutory hours**. This will also have an **impact on the production plan and will lead to load shedding**.
- ❑ **Units reaching their dead-stop dates will require shutdown**. All lower-priority outages (P2 and P3) will be affected, resulting in poor reliability.

### Enablers required for improved outage performance currently receiving internal focus

- Additional support is required from **Exco, the Board, and the National Treasury on ensuring timeous and adequate outage funding**.
- **Human capital** requires focus with regard to complement, competence/proficiency, contractor capacity, and capability.
- **Disciplined execution is necessary**, particularly in the planning and execution of routine maintenance and outages.
- **A motivated workforce is critical in the turnaround of Outage performance**: an automated system has been developed and implemented in Generation Division to generate and send customized birthday and anniversary messages, to uplift the demotivated workforce and improve communication. The system send a customized emails from the Group Executive: Generation to the employees, congratulating them on critical milestones.

*“Develop a clean-up operation plan, identify teams that may be resisting internal controls where the application of a turnaround strategy is hampered, and put together a report detailing consequence management should there be any officials who are contributing to the delay in addressing the committee’s recommendations”*

## Organisation-wide processes to detect and monitor fraud, embezzlement, and malfeasance

- Lifestyle audits
- **Independent whistle-blower reporting** portal and case management
- Compulsory **annual declaration** of interest
- **Private management and authorisation** process
- Independent **proactive assurance of high-value procurement transactions** by competent audit firms
- Compulsory **annual fraud awareness** training
- **Transaction-specific interest declarations** by Eskom and tender bidders
- **Non-disclosure agreements** by Eskom procurement cross-functional teams

## Generation Division has also implemented the following:

- **Established Compliance office** to provide support to generation plants to improve adherence to the regulatory compliance requirements and, by extension, plant technical performance
  - ✓ Compliance management plans/programmes, policies, and standards **are in place to achieve consistency and standardisation across generation fleet.**
- **Progress tracking and monitoring of contract procurement transactions at Cluster Management Committees.** There is a standard reporting item to migrate away from once-off purchase orders
- **Monthly productivity tracking of procurement practitioners:** a disciplinary process is followed in case of non-performance
- **Reporting of informal tendering transactions,** that is, transactions **below R1 million:** these are reported to the local Procurement and Tender Committees



*“Develop a clean-up operation plan, identify teams that may be resisting internal controls where the application of a turnaround strategy is hampered, and put together a report detailing consequence management should there be any officials who are contributing to the delay in addressing the committee’s recommendations”*

## Other measures under consideration

- ❑ **Two-yearly retraining** and re-accreditation of buyers
- ❑ Compulsory training of users on the **Preferential Procurement Policy Framework Act (PPPFA)** and Eskom Procurement Procedure

## Generation-specific initiatives to curb malfeasance

- ❑ **Installation of smart closed-circuit television (CCTV)** in vulnerable areas, for example, warehouses, coal offloading facilities, fuel offloading facilities, critical plant areas, workshops, access points, and peripheral infrastructure outside the national key point (NKP) perimeter fence
- ❑ Power station **sourcing of own capability for continuous fraud and criminal investigators**
- ❑ **Vetting** of all Eskom and contractor employees

## Recommendation 6.3: Employ adequately skilled personnel in the Supply Chain Management Unit at head office and at different projects where procurement takes place


(1/2)



- ❑ **New Chief Procurement Officer** has been appointed together with the two (2) **Executive Managers** with one being the head of the **Supplier Development, Localisation and Industrialisation (SDL&I)** Unit and the other being in **core procurement**.
- ❑ Subsequent to the analysis of skills gaps and approval of the Head Office structures, recruitments commenced with **40 employees** have been appointed within the Supply Chain Management Department and **25 placements in the pipeline**.
- ❑ Parallel to this, trainings on various legislative frameworks are being offered in response to the skills gap outcome particularly on the recently enacted **PFMA Instruction Note No. 03 of 2021/2022** to ensure alignment across P&SCM sphere.
- ❑ Forged partnerships with various government institutes and departments namely, **BEE Commission, Competition Commission, Dtic, CIDB, et.** to upskill the existing P&SCM cohort within the Head Office and Divisional Procurement departments
- ❑ In Generation Procurement, a **procurement augmentation project is under way**, which will ensure that the Generation Procurement Department **has skilled personnel in the Procurement space across all the Generation sites**
- ❑ This is accompanied by a **warehouse augmentation project** that is aimed at **improvement of the warehousing function, removal of stock obsolescence, and implementation of different stock management approaches such as consignment stock management**.
  - These two projects will lead to an **effective and streamlined Supply Chain Management**. Over and above the two augmentation projects, there is continued upskilling of existing P&SCM staff.
- ❑ Leveraging on the **World Bank expertise** in terms of world-class procurement practices and cascading the **lessons learnt/best practices across the respective project teams and other interested parties**.

## Recommendation 6.4: Action plan to address poor procurement planning and poor governance structures

(2/2)

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- ❑ In accordance with **Ministerial Equity Conditions**, procurement planning is being entrenched across the divisions as well as the monitoring of compliance to the plans.
  - ❑ Interventions have started yielding some **improvements in comparison to prior years**. However, it is still premature to flag improvement due to execution timelines that do not always coincide with those that were envisaged at the time of formulating the **annual procurement plans** for a variety of unforeseen circumstances.
  - ❑ Due to **unplanned breakdowns**, there will always be several unforeseen items that are required outside the **approved annual procurement plans** which should not be **equated to poor procurement planning**.
  - ❑ Part of the internal controls to **mitigate poor procurement planning** is the embedded functionality that triggers **alerts six months in advance** for the respective owner of a project/contract to commence with the process in order not to compromise the operations.
  - ❑ To enhance the **governance structures**, Eskom has amended the **Delegation of Authority (DoA)** to expedite the approval of the submissions in order not to have an impact on projects.
  - ❑ Furthermore, Eskom has embarked on an **Audit Recovery plan** to address reported irregularities as per the **Annual Financial Statements of 2017/2018, 2018/2019, 2019/2020 and 2020/2021** financial years respectively.
  - ❑ **Audit Recovery Plan is inclusive of the detailed Divisional Audit Recovery Plans** with a Reporting rhythm being on monthly basis to the External Audit Committee chaired by the CFO then, quarterly at ARC and DPE.
  - ❑ Focus has been on closing the previous audit findings, assessing the effectiveness of the **Compliance monitoring and Procurement systems** and implementation of other internal controls namely **SAP system enhancement, Market Price Tool, e-Auction, Cataloguing and Digital Procurement**.
  - ❑ In accordance with the **National Treasury Instruction Note 2 of 2019/2020 and the Irregular Expenditure (IE) Framework**, all IE items are logged onto the Central Condonation Register for preliminary investigation and determination subsequently submitted to National Treasury for approval..

## Recommendation 6.5: Establish, document, and implement a fraud prevention plan (1/2)

- ❑ **Eskom established a fraud prevention plan** as contemplated in Regulations 27.2.1 and 29.1.1 of the Public Finance Management Act (PFMA). The **FY2023 Fraud Prevention Plan includes** the following key activities to prevent fraud
  - **Conducting preliminary and forensic investigations** into reported incidents in a timely manner, with due focus on **reducing the backlog**
    - **Forensic conducts preliminary assessments of incidents received and conducts investigations.** Since the beginning of FY2023, **1 007 preliminary assessment of incidents and 54 investigations** have been completed.
  - **Development and publishing of monthly fraud awareness publications:** monthly and ad hoc newsletters on various fraud and corruption topics are published for all employees to create awareness.
    - Since the beginning of FY2023, **four newsletters have been published**, including a special edition to commemorate African Anti-Corruption Day.
  - **Establishment and implementation of the Boots on the Fraud and Corruption Grounds Project:** the project involves **visiting power stations** with the purpose of engaging with management to understand concerns and to **identify possible fraud red flags** as well as opportunities for further fraud detection and response activities.
    - **To date, 16 of the stations have been visited**, and four forensic investigations linked directly to these visits have been registered.
  - **Maintenance of the Fraud Hotline to encourage whistle-blowing:** Eskom is in the process of finalising the appointment of an independent service provider to manage the hotline to preserve the integrity of the whistle-blowing process.
    - **Monthly and ad hoc fraud awareness publications encourage whistle-blowing** and share all contact details. A separate communication was shared to encourage reporting **through the DPE hotline**.

- **Eskom established a fraud prevention plan** as contemplated in Regulations 27.2.1 and 29.1.1 of the Public Finance Management Act (PFMA). The **FY2023 Fraud Prevention Plan includes** the following key activities to prevent fraud
  - **Performance of fraud deep dives on high-risk procurement items/commodities:** Forensic conducts fraud deep dives related to the procurement of goods and services and identifies exceptions **such as inflated prices and splitting of orders** to circumvent the requirement for a higher level of authority.
    - Forensic has **registered four incidents for investigation** based on the data analysis reports.
  - **The enhancement of working relationships with various agencies:** Forensic Department is tasked with the co-ordination of all interactions with the law enforcement agencies, including SIU, DPCI (or Hawks), and NPA, as well as Eskom's internal stakeholders. Eskom holds regular meetings with stakeholders and provides support when required.
    - Forensic Department **hosted a workshop on Eskom's Supply Chain Management processes** for the Hawks officials assigned to Eskom cases. A **Safety and Security Work Stream (SSWS)** was recently set up under the auspices of the **Energy National Joint Operational and Intelligence Structure (NatJoints)** chaired by the National Commissioner of Police, as directed by the President, and will focus on Eskom.
  - **Referral of criminal conduct to the law enforcement agencies** for further investigation: Forensic continues to refer criminal cases to the law enforcement agencies and follows up on progress.
    - **Currently, 131 cases have been registered with the South African Police Service.** The SSWS will also ensure focus on all Eskom reported criminal cases.
  - **Review of the Anti-Fraud and Corruption Strategy:** the Anti-Fraud and Corruption Strategy has been drafted and is going through the approval process.
  - **Review of the fraud awareness training:** Forensic has reviewed the e-learning fraud awareness material for relevance and effectiveness. **The material will be rolled out once approved**

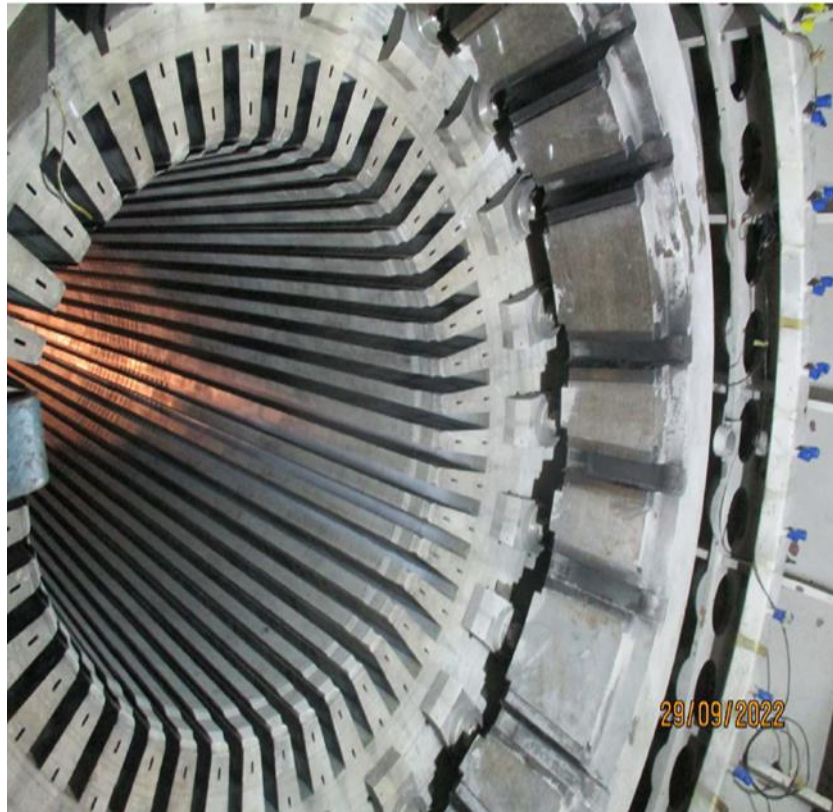
## Recommendation 6.6: Ensure that concrete measures are in place to deal with the implementation of consequence management of officials who cause irregular expenditure



- ❑ **The Loss Control Function, independently conducts PFMA determinations** with regard to allegations of irregular expenditure. The **determination report provides details** regarding the employees involved and their respective roles.
  - If the determination report confirms that there is an **employee who is responsible for the irregular expenditure**, the line manager **must consult with Human Resources** (People/Employee Relations) **within 30 calendar days** to assist in instituting disciplinary processes. This is done in accordance with the relevant human resource processes.
  - If, in consultation with the relevant HR functionary, the **line manager decides that disciplinary action is not appropriate in the circumstances**, then such decision and rationale are **communicated to the Loss Control Function**, together with all supporting documents.
    - The line manager must **also indicate what alternative consequence management measure has been instituted**, for example, training. It is worth noting that consequence management is not limited to disciplinary action.
- ❑ **All occurrences of irregular expenditure are recorded in the Loss Control Register.** An incident or occurrence may not be removed from the register if effective and appropriate disciplinary measures have not been instituted against the employees concerned. **These registers are reported to the Board Audit and Risk Committee on a quarterly basis.**
- ❑ The disciplinary procedure states that **Eskom will endeavour to institute disciplinary action within three months** from the date that it becomes aware of any misconduct.
- ❑ Once concluded, **the outcome of the disciplinary action is reported to the executive authority and the National Treasury** as well as to the Auditor-General in accordance with PFMA Treasury Regulation 33.3.



## Recommendation 6.7: Ensure that the components of Unit 4 required to get the unit running again are in safe keeping.



- ❑ **Medupi Unit 4 components will not be removed** (undamaged property), as the **plant is being preserved** according to Eskom's Preservation of Power Plants During Shutdowns Guideline (240-57127944) for Coal-Fired Power Stations.
- ❑ In addition, **Medupi Unit 4 has been declared a limited-access areas and fenced off**, with security guards deployed at all entrance points and transitions from adjacent units.
- ❑ **The Medupi Unit 4 Spares and Equipment Removal Procedure (241-202224)** is used to obtain the necessary **clearance and approval for removal of spares and equipment** from the plant, management of the process to ensure return of the borrowed spares and equipment, and close-out of the process after installation of the borrowed spares and equipment, including completion of testing and commissioning requirements.

**Recommendation 6.8:** Develop and follow a plan designed to ensure that there is some degree of skills transfer every time the original equipment manufacturer (OEM) is called on to carry out repairs.

(1/2)

- ❑ **Most OEM contracts have skills transfer obligations** for Eskom employees and broader skills development and localisation obligations for local communities.
  - A case in point is the **obligations for the transfer of skills and on-the-job training of the recently concluded turbine and generator engineering services contracts.**
  
- ❑ **A programme of works is being developed to effect the obligation**, which will be established as a template for standard skills transfer. The elements of skills transfer include the following:
  - Sabbaticals to OEM design and manufacturing works, local and overseas
  - Participation of Eskom employees in the training programmes of the OEMs
  - Development of training manuals for Eskom employees
  - Mandatory on-site training for operating, maintenance, and engineering staff
  - Competency assessment of Eskom employees on programmes of OEMs
  - Refresher training
  - Inclusion of OEM training programmes in Eskom employees' training manuals
  - Progress tracking of the skills transfer programmes at the monthly contractual meetings
  - Inclusion of measurable mandatory capacity skills and skills transfer obligations in all future contract scopes of OEMs
  - Amendment of all Eskom standard contracting templates and bespoke contracts to include measurable skills transfer obligations



**Recommendation 6.8:** Develop and follow a plan designed to ensure that there is some degree of skills transfer every time the original equipment manufacturer (OEM) is called on to carry out repairs

(2/2)

### **Tools for Skills Transfer from OEM:**

- ❖ The committed training on OEM contracts will be registered on database for execution.
- ❖ The required skills transfer will be registered on the employee individual development plan (IDP)
- ❖ The employee committed skills transfer will be registered or executed in line with IDP.
- ❖ The record of the completed training will be loaded on training system.
- ❖ The 4IR process and digital transformation can only stand to serve and improve Eskom's performance and the lives of 60 million South Africans.
- ❖ Process Control Manuals (PCM) will be developed to map various solutions/monitoring/maintaining/etc, and or for knowledge management.
- ❖ The effectiveness of skills transfer will be measured by evaluation of independent execution of skill ( learn by doing).
- ❖ Maintain the database of skilled employees on critical functions.



# Conclusion



## **Development of the New Largo Coal Mine for Conveyor Coal Supply to Kusile Power Station**

**(Follow-up Submission)**

Updated 14 Sept 2022

# Eskom approval obtained at inception in 2007

On 26 March 2007 the Eskom Board gave approval for Eskom to negotiate and conclude a Coal Supply Agreement (CSA) with Anglo Coal SA (“Anglo”) for the supply to Kusile Power Station

Terms and Conditions	Resolution
<b>Duration</b>	<ul style="list-style-type: none"><li>• 40 years after the commissioning of the last unit</li></ul>
<b>Volumes</b>	<ul style="list-style-type: none"><li>• Estimated at 19.6 Mtpa</li></ul>
<b>Source</b>	<ul style="list-style-type: none"><li>• New Largo 85% 40 years</li><li>• Zibulo 15% first 20 years</li><li>• Zondagsfontein 15% (to replace Zibulo supply when exhausted)</li></ul>
<b>Quality</b>	<ul style="list-style-type: none"><li>• Anglo proposed using the higher quality middling's product from its new Zibulo export mine (previously Zondagsfontein) to make up the volumes and quality requirements</li></ul>
<b>Contracting strategy</b>	<ul style="list-style-type: none"><li>• Risk Sharing Agreement as opposed to a cost-plus agreement or arms length fixed price agreement</li></ul>
<b>Pricing strategy</b>	<ul style="list-style-type: none"><li>• Prices to be based on efficient costs and fair returns and being supported by underlying documentation</li></ul>

# National Treasury's conditional approval obtained in 2012

On 20 November 2012, the National Treasury gave conditional approval for Eskom's capital sharing agreement with Anglo

#	Condition
1.	<ul style="list-style-type: none"><li>• Ring fencing of the New Largo Colliery Project</li></ul>
2.	<ul style="list-style-type: none"><li>• Increase in the B-BBEE ownership of the New Largo project by:<ul style="list-style-type: none"><li>• Community members near the Projects</li><li>• B-BBEE owned companies including junior B-BBEE mining companies</li></ul></li></ul>
3.	<ul style="list-style-type: none"><li>• A detailed funding model that minimizes Eskom risk and ensures Projects' viability</li></ul>
4.	<ul style="list-style-type: none"><li>• Provide for localisation of technology and equipment to be used in coal blending and if possible, blending is undertaken by a B-BBEE controlled or level 1 B-BBEE company</li></ul>
5.	<ul style="list-style-type: none"><li>• Ensure that 50% of mining services contract is to be performed by a company wholly owned by previously disadvantaged persons or a level 1 B-BBEE accredited company</li></ul>

*After a delay of >2 years to align on DPE's PFMA conditions, Eskom and AAIC signed an MoU on 21 November 2014 to start negotiation of the commercial and technical aspects of the projects, while engaging on DPE's PFMA conditions*

# Failure to conclude a CSA with Anglo led Eskom to pursue alternatives, including going to the open market in 2017

- For a variety of reasons including but not limited to Eskom being unable to fund the 66.7% of the capital required, the Parties failed to conclude a definitive CSA
- As risk mitigation, in the interim, Eskom entered into the following medium term coal contracts to supply Kusile:

Supplier	Duration (years)	CSA Start Date	Volume (t/m)	Total Contracted Volume (Mt)
1	15	01 Dec 2014	250 000	40.86
2	12	01 Dec 2017	272 072*	38.10
3	10	01 Feb 2018	80 000	9.00
4	5	01 Oct 2018	240 000	17.28
5	5	01 Jan 2019	45 000	2.70
6	3	01 Nov 2019	97 000	3.55
7	10	01 Jan 2020	250 000	28.18
8	4	01 Apr 2020	208 333	10.00

\*Will deliver 345 709 for 5 years and the remainder of the 6 years at 210 709 averaging 272 072 over a period.

*In about April 2018 Anglo advised that it had sold its New Largo asset to a consortium consisting of amongst other Seriti Resources Holdings (Pty) Ltd*

# Eskom approval of the Kusile tender evaluation obtained in 2018

On 20 June 2018, the Eskom Board approved a mandate for Eskom to negotiate and conclude a coal supply agreement (“CSA”) for the supply to Kusile Power Station

Terms and Conditions	Resolution
<b>Duration</b>	Mandate period is up to 10 years, negotiate for the life of plant where applicable
<b>Volumes</b>	994 000 000 tons
<b>Source</b>	Various successful tender respondents, inclusive of New Largo Mine
<b>Quality</b>	RFP Coal Specification (AD): CV >18.1 MJ/kg; Ash <36.0%; Volatiles > 18.5% and Sulphur <1.30% Subsequently adjusted Coal Specification (AD) 12 June 2019: CV >18.8 MJ/kg; Ash <34.0%; Volatiles > 18.5% and Sulphur <1.4%
<b>Contracting strategy</b>	Fixed price CSA with conveyor option for New Largo
<b>Pricing strategy</b>	Mandate Parameters: <ul style="list-style-type: none"> <li>• Negotiate and conclude with suppliers offering a Total Delivered Price of <b>R500.00/t and less and the contract duration to be 10 years and less;</b></li> <li>• Negotiate but not conclude with suppliers offering <b>above</b> Total Delivered Price of &gt; <b>R500.00/t (all above exclude VAT, Contract Price Adjustment and quality adjustments)</b></li> </ul>
<b>Conveyor strategy</b>	Mandate Parameters: Negotiate with new owners of New Largo for possible supply of coal over a conveyor belt; including an option of negotiations with the interested third party to Build, Own, Operate and Maintain the conveyor



# Development of the conveyor and associated infrastructure

**Signing of a Pit D CSA for the supply of coal from New Largo to Kusile will trigger the development of the associated conveyor infrastructure**

<b>Project view</b>	<b>High level Project Description</b>
<b>Conveyor description</b>	At New Largo, the critical conveyor belt infrastructure is a 980m belt installation (CVY 615) which runs from the New Largo side of the fence down and across to Kusile’s side of the fence to the east. The belt is lifted above the ground and one of the roads runs beneath it. Around 80% of the installation is on New Largo’s side of the fence whilst 20% is on the Kusile Power Station side.
<b>Funding</b>	Seriti will fund 100% of the capital and operating cost of the installation which Seriti requests will be available for New Largo use only.
<b>Capacity</b>	According to Seriti, this installation has been specified to Eskom’s design requirements and the belt is designed to batch coal across at 4000 tph.
<b>Project timeline</b>	Seriti assures Eskom that the belt will be operational within 18 months of the signing of the binding term sheet for New Largo supply to Kusile.
<b>Indicative costs</b>	The project will cost in the region of R 500 M and which costs are being reviewed by Eskom
<b>Pit D and Pit H</b>	As soon as CV615 is commissioned, it is envisaged that Seriti will internally truck #4 seam coal from Pit D and Pit H and then feed it in through the infrastructure and into the Kusile yard. Once the main mine plant is built (which will be situated adjacent to the head of the conveyor infrastructure), then Seriti will feed middlings coal from the New Largo main mine plant across the infrastructure into the Kusile stockyard.

*A draft Pit D conveyor CSA was availed in Aug 2022 for further discussion by the parties*



# Eskom supplied the Coal Quality range below to the boiler designers for consideration in their boiler design

Coal qualities ranges provided as a guideline for Coal Supply Agreements (“**CSAs**”) in Table 1 below.

Table 1: Coal Quality Range (Eskom)

Quality (Unit)	Design	Reject	Basis
CV (MJ/kg)	18.8	<16.7	Air Dried
Total Moisture (%)	8.0	>12.0	As received
Ash (%)	35.8	>38	Air Dried
Sulphur (%)	0.9	>1.3	Air Dried

# Kusile Coal Quality Envelope Progression over the years

Qualities on Air Dried Basis		Calorific Value (MJ/kg)	Volatiles (%)	Ash (%)	Total Moisture (%)	Sulphur (%)
2011(OEM)	Expected	18.8	19.2	35.8	7.0	0.9
	Rejection	17.9	17.3	38.0	8.0	1.5
2016 (Station)	Expected	18.8	19.4	34.2	7.0	1.1
	Rejection	18.1	18.5	36.0	8.0	1.1
2019 (240 rev 2)	Expected	18.1	18.9	35.6	8.0	1.5
	Rejection	17.1	18.5	38.0	8.0	1.5
2019 (Interim June 2019)	Expected	22.0	19.0	32.0	7.0	1.0
	Rejection	18.8	18.5	34.0	8.0	1.4

## Changes in the Coal Qualities (continues)

Narrowing of the coal quality range is based on the following:

- ❑ The **Original Equipment Manufacturer (OEM)** could not meet their **guaranteed performance and the life expectancy of the plant components in the coal chain**, which resulted in the OEM blaming the inconsistent coal quality;
- ❑ Kusile then **requested to adjust the minimum level of CV 16.7 MJ/kg to the design level of CV 18,8 MJ/kg** to mitigate against the OEM claim;
- ❑ The OEM **introduced design enhancements in order to improve the unit's overall performance** after the challenges experienced during the commissioning of Medupi and Kusile units;

An extract of the report submitted to SCOPA on the 10 June 2020 – *“The Kusile coal quality envelope has been narrowed to the upper corridor of the plant design performance guarantee thresholds for an estimated five-year interim period. The changes are for boiler performance improvement and performance acceptance tests. The interim technical evaluation of the New Largo reserve indicates that it will be difficult for New Largo to meet the revised specification.....”*

# Kusile required Primary Energy to source a particular coal quality until design deficiencies are resolved

## Changes in the Coal Qualities (continues)

- ❑ The recommendation received from Kusile required Primary Energy to source as per the coal quality specification shown in Table 2, in order to improve plant reliability until the design deficiencies are resolved; and
- ❑ The coal quality specification will be reviewed after all the design efficiencies have been resolved.
- ❑ Primary Energy received formal request and approval on the 4<sup>th</sup> of June 2019 to narrow the Kusile coal quality specification.

Table 2: Kusile recommended coal quality specifications

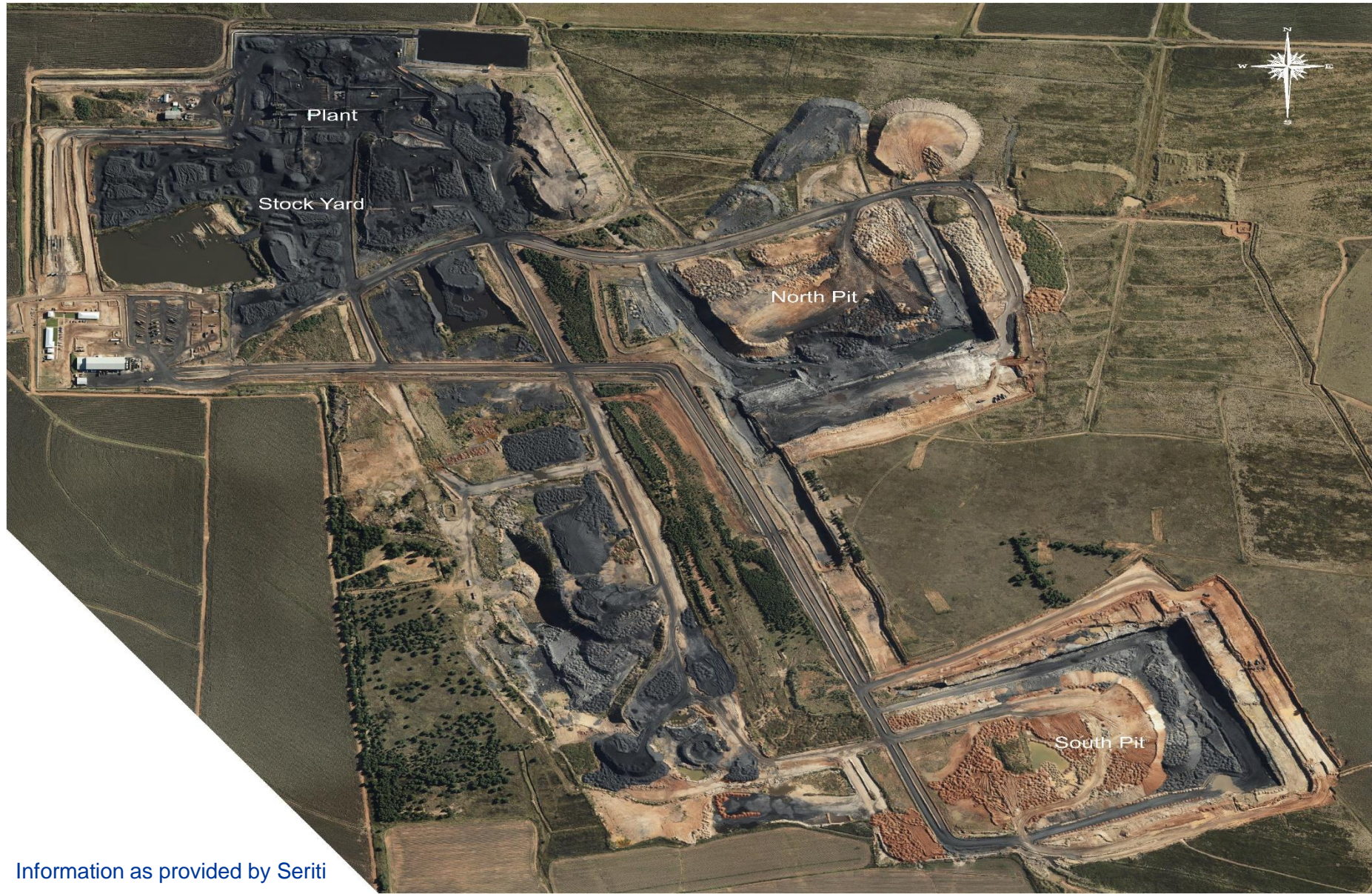
Quality (Unit)	Coal Specification	Basis
CV (MJ/kg)	≥18.8	Air Dried
Total Moisture (%)	≤8.0	As received
Ash (%)	≤34.0	Air Dried
Sulphur (%)	≤1.4	Air Dried

# The conveyor belt will be operational within 15 - 18 months of the signing of the Pit D CSA

Project view	High level Project Description	Timeline for conclusion
<b>Divert coal from Kusile to enable conveyor supply</b>	About 630ktpm of truck deliveries to be initially diverted away from Kusile to enable conveyor delivery	Jun – Jul 2022 (revised to Dec 2022 due to the current need for coal at Kusile)
<b>Pit D coal (4-seam) supply</b>	Draft CSA for Pit D <i>inter alia</i> for the construction of the conveyor agreed  Conclude Pit D coal supply (4 seam) to Kusile for delivery by Truck	31 Oct 2022  31 Dec 2022
<b>Conclusion of a Off-take agreement for the Main Mine</b>	Draft CSA for Main Mine agreed  Contract in place for Main Mine subject to Board approval if required.	31 Jan 2024  28 Feb 2024
<b>Final Commissioning of Conveyor</b>	Within 15-18 months of the signing of the Pit D CSA.	1 Apr - 30 Jun 2024
<b>First coal</b>	Q1 2023: Pit D  Q3 2025: Main Mine	31 Dec 2022  31 Dec 2024



# Aerial photo of mining activities at the New Largo Pit D area received from Seriti





# Action plan for Parliamentary presentation for the conclusion of New Largo conveyor supply to Kusile Power Station

*Eskom has undertaken to Scopa to present a detailed action plan to Parliament of RSA for the conclusion of the New Largo conveyor supply to Kusile Power Station*

Item	Action	Comment	Timeline	
1	Kusile's burn plan	Obtain sign-off of Kusile's new long term burn plan as a basis for contracting	20 May 2022	✓
2	Kusile's coal quality	Obtain sign-off of Kusile's updated coal quality envelop for contracting purposes	31 May 2022	✓
3	New Largo coal quality	Obtain Seriti's confirmation of anticipated coal quality from Pit D, Main Mine, Pit F, Pit H	31 May 2022	✓
4	New Largo coal volumes	Obtain Seriti's confirmation of anticipated coal volumes from Pit D, Main Mine, Pit F, Pit H	31 May 2022	✓
5	New Largo/ Kusile Conveyor	Confirm Conveyor construction start date, funding plan, maintenance plan, ownership plan, commercial operation, with Seriti	31 May 2022	✓
6	First coal from New Largo	Confirm first coal start dates from various Pits with Seriti	15 June 2022	✓
7	Project Plan	Develop detailed project plan	30 June 2022	✓
8	Internal review of presentation to Parliament	Internal review of presentation to Parliament	15 July 2022 (updated in Sep 2022)	
9	Presentation to Parliament	Presentation ready for submission to Parliament	31 July 2022 (new date to be set)	

# Status update on contracting for New Largo mine for Eskom




*New Largo will be developed as a multi-pit and multi-product open-cast operation to deliver coal into diverse markets including Eskom*

- New Largo Complex is located on the east of Kusile Power Station in Mpumalanga;
- New Largo is a substantial reserve which is estimated at 551 Mt (ROM) (31 Mar 2022)
- The criticality of its location was the main reason of the siting of Kusile Power Station;
- The current owners of New Largo have revised its initial design as a dedicated mega mine to one that will be mined through a multi-pit & multi-product open-cast approach underpinned by conveyor supply into Kusile Power Station supplying ~6-8Mt to Eskom.
- This strategy had seen New Largo open its first pit (Pit D) to supply coal to Eskom with others to follow in a sequential approach.
- Pit D is already opened and includes a FX beneficiation plant onsite to produce coal qualities that meet a number of Eskom power stations

<b>Description</b>	<b>Pit D</b>	<b>Pit F</b>	<b>Pit H</b>	<b>Main Mine</b>
Duration (years)	5 - 18	17	8	20
Proposed Saleable Tonnes (Mt) to Eskom	13 - 34	20	23	47
Proposed Logistics	Initial road transportation and then conveyor	Initial road transportation and then conveyor	Initial road transportation and then conveyor	Conveyor
Status	Operational	Greenfield	Greenfield	Greenfield
Timelines	2 Seam: 1 June 2022 4 Seam (3yr):30 Sept 2022 4 Seam (10yr):31 Dec 2022 (This will initiate conveyor)	1 Sept 2023	1 July 2023	1 Mar 2024

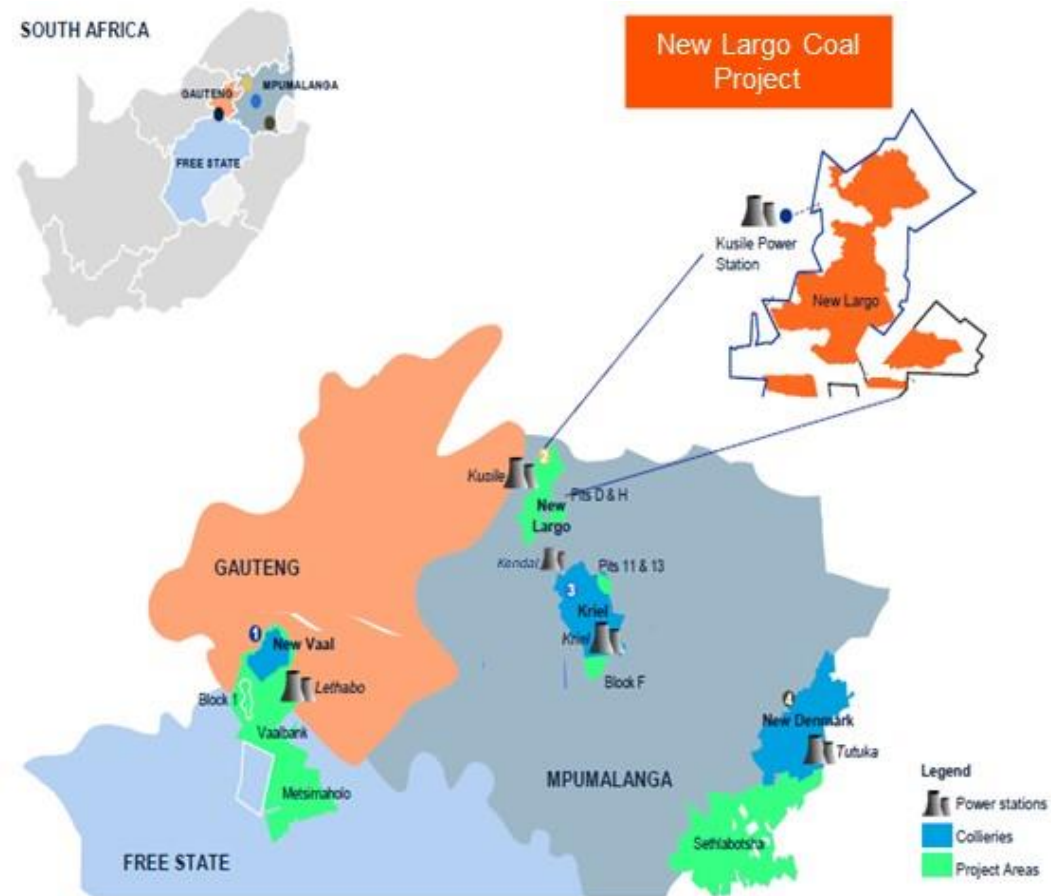


A decorative graphic on the left side of the slide. It features a large, light blue circular area containing two smaller circular images. The top image shows a large solar power plant with many blue solar panels. The bottom image shows a white wind turbine on a green field under a cloudy sky. The entire graphic is framed by a blue and white curved border.

Project Plans for various New Largo Pits for coal supply to Kusile or any other Eskom power station

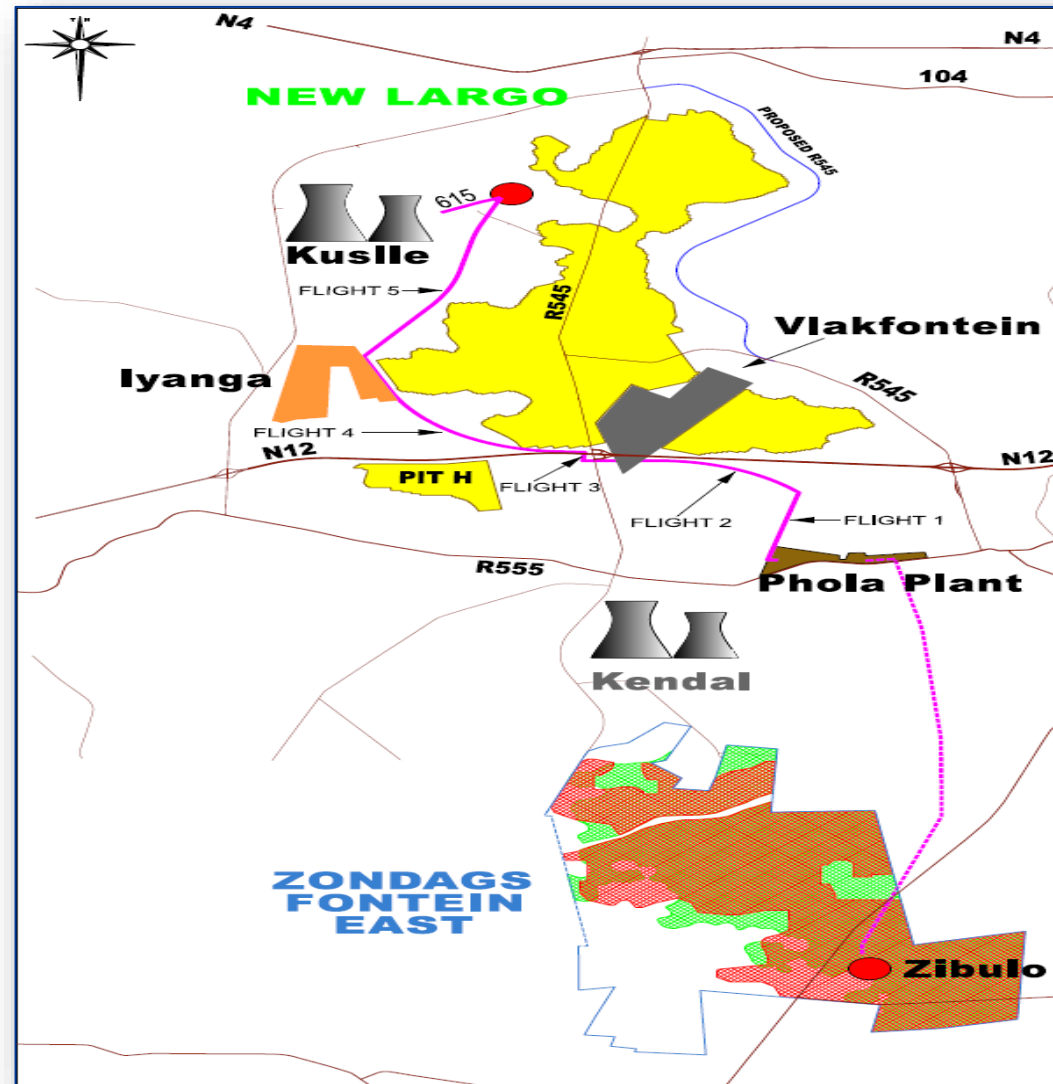
# Map showing location of New Largo and Kusile

- **Location** – east of Eskom Kusile Power Station, Mpumalanga
- **Reserve Size** – ~551Mt ROM (as at 31 March 2022)
- **Type of Operation** - Multi-Pits Open Cast Operation
- **Mining Philosophy** – Contract Mining and Processing
- **Coal Quality** – Domestic and Export Markets
- **Regulatory Permits** – – IWUL, EMP, Waste licenses in place from 2014 including Mining Right.
- **Current Status** – Only Pit D in operation and Pit F expected in FY23. Surface rights to mining right area substantially owned with Pit F surface right currently being acquired
- **Opportunity** – ramp up production in Pit D, develop Pits H, F and Main Pit for both the Domestic and Export markets
- **Key Enablers** – obtain necessary amendments for regulatory permits, and servitudes for surface infrastructure



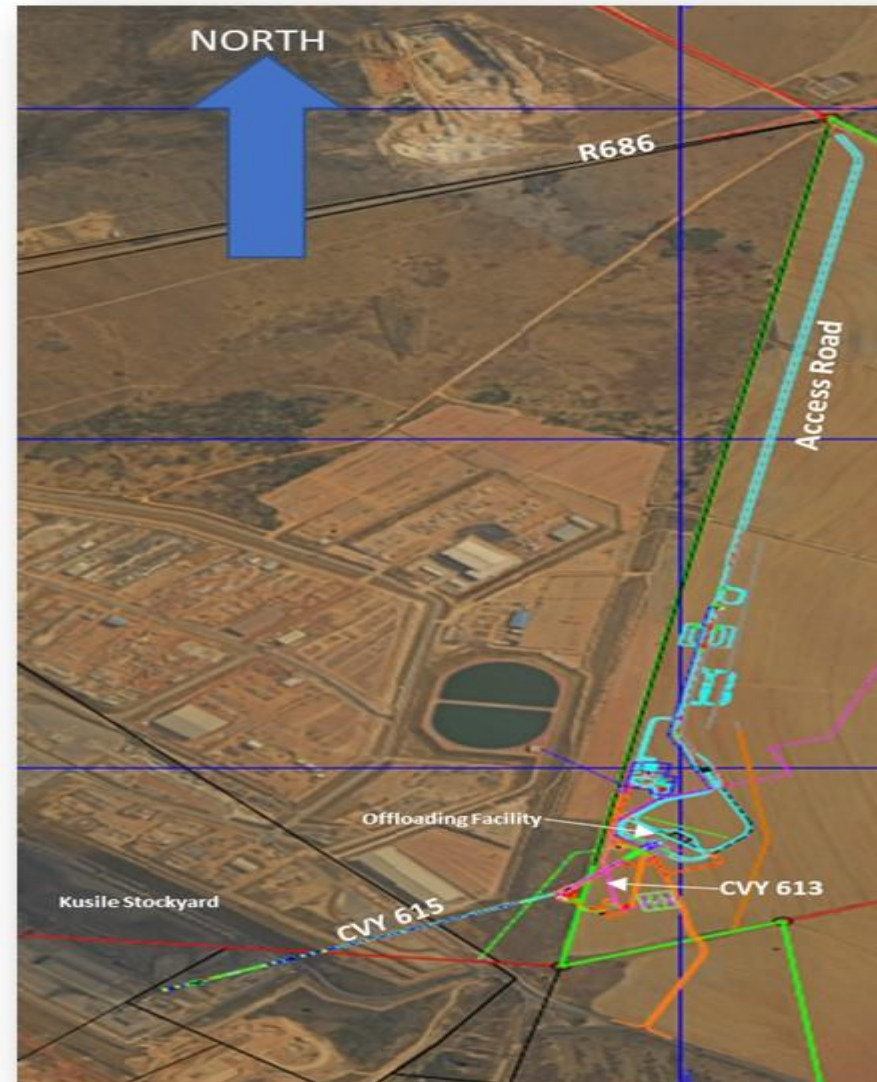
# Original concept of the overland conveyor system

- Five flight overland conveyor from Phola Plant to Kusile –conveying Zibulo Middlings coal (Phola Plant) and coal from other sources along the conveyor system (Vlakfontein, Iyanga etc)
- Zibulo Middings will be replaced with Zibulo 4-seam coal during LOM (Year 14 onwards) in order to maintain the overall coal supply to Kusile



# Current conveyor solution

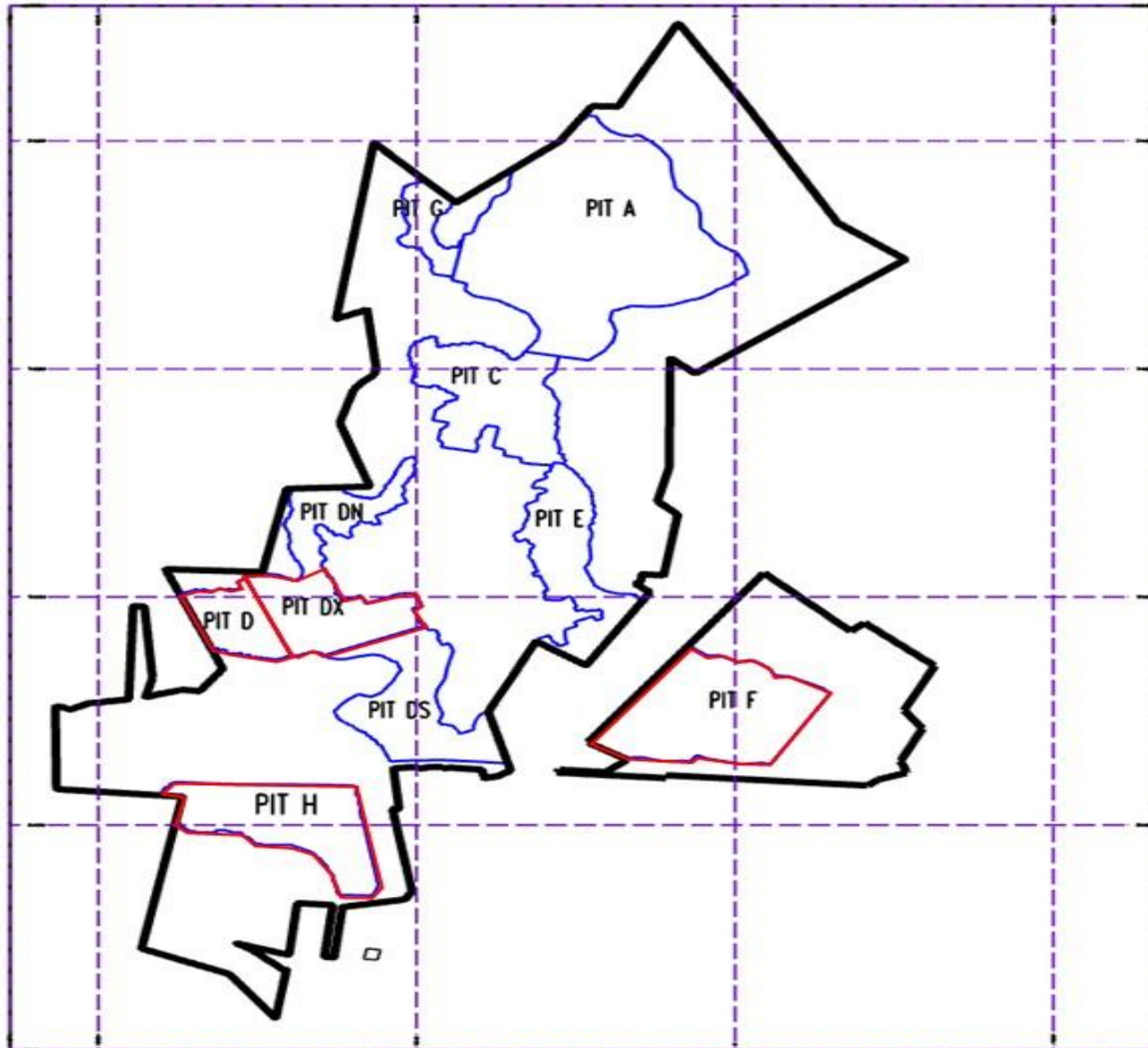
- Zibulo did not form part of the assets acquired by Seriti Resources therefore Zibulo Middlings from Phola plant is no longer an option.
- Kusile's stockyard was never designed to receive coal by road truck
- New solution capable of handling +-4.5Mtpa
- Facility features include:
  - CVY 615 (fit for purpose)
  - Weighbridge (2 in, 2 out)
  - Tarpaulin handling area
  - Operations infrastructure (offices, workshops, parking, etc)
  - Emergency stockpile handling facility
- Capital of ~ R500M (including CVY 615) –Jan 2021 money values
- Facility provisionally dedicated to bring in New Largo tonnage to Kusile
- Kusile's is also building a six-unit protection system on the northern side to receive coal trucks and convey coal into Kusile's stockyard



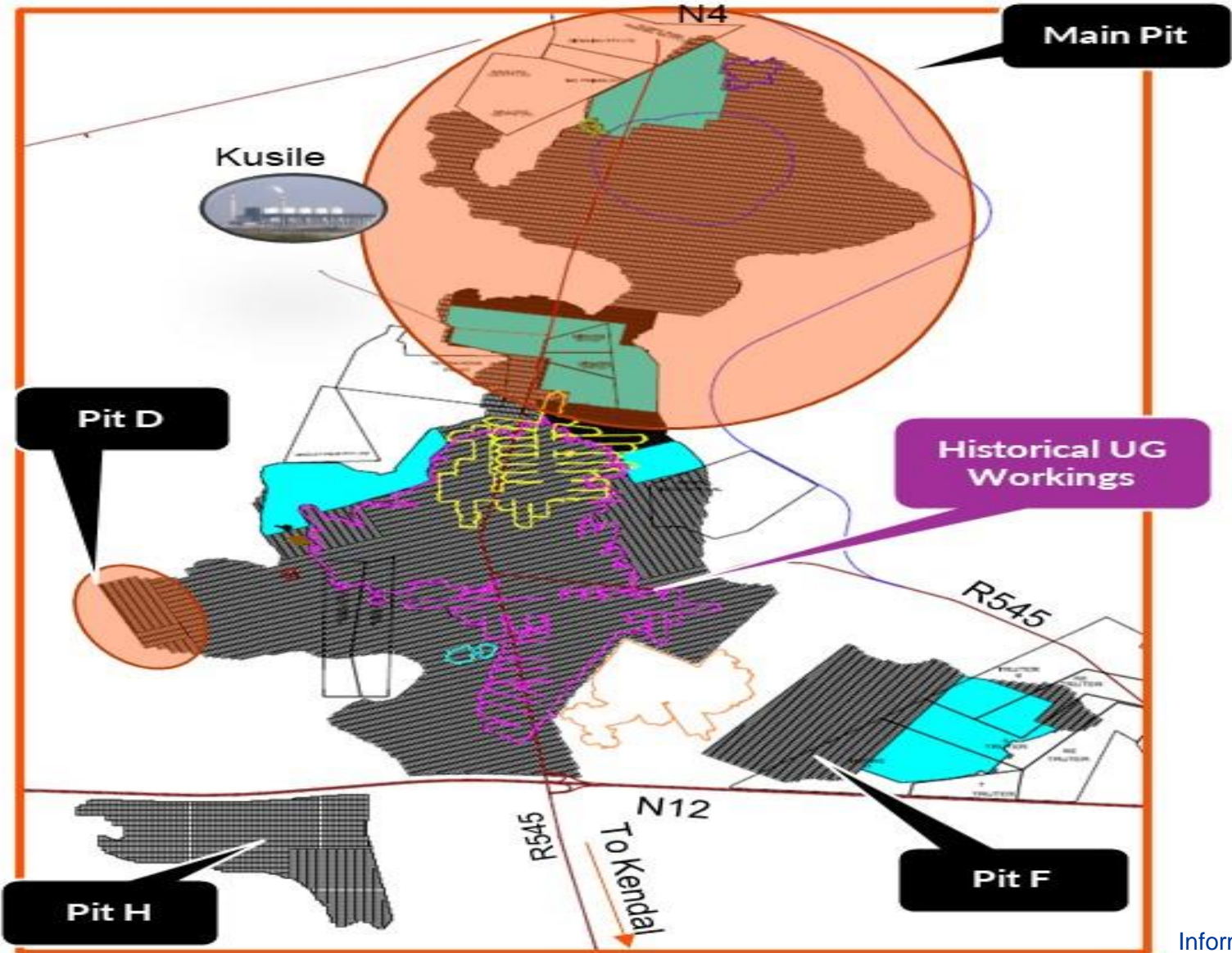
Information as provided by Seriti



# Map showing layout of the various New Largo Mining Pits



# Map showing various New Largo Mining Pits in relation to Kusile



Information as provided by Seriti

- The Main mine comprises various sub-pits. Pit A, Pit G & Pit C mining volume (150Mt) can be processed through central DMS plant (position already licensed)
- Fit-for-purpose infrastructure (contractor owned and managed)
- Interface designed with Phase Truck off-loading and conveyor infrastructure
- Maximizing location of infrastructure already permitted.
- Includes coal in Honingkrantz Pan (Pit A) for which IWUL approval outstanding

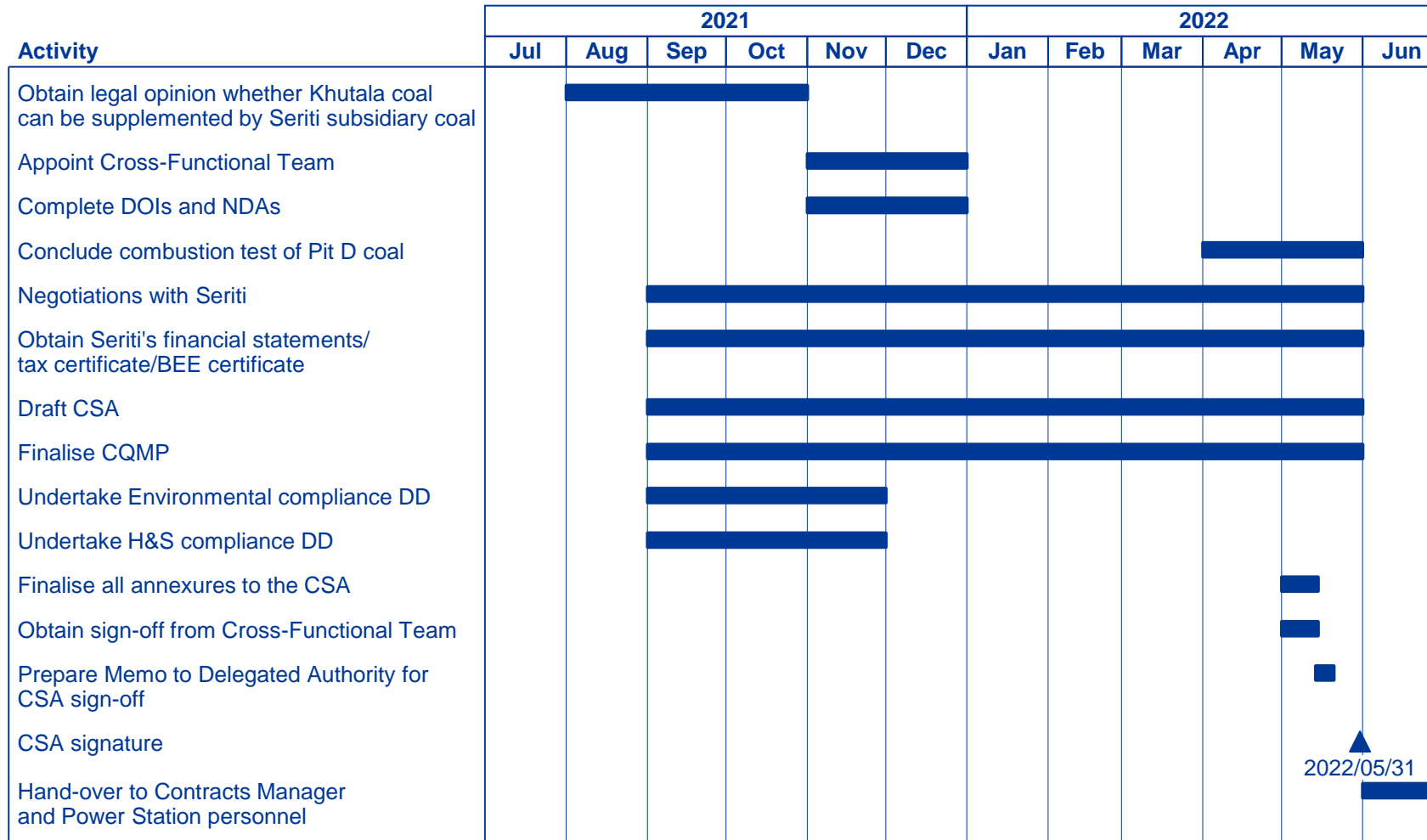


Source: Seriti company information



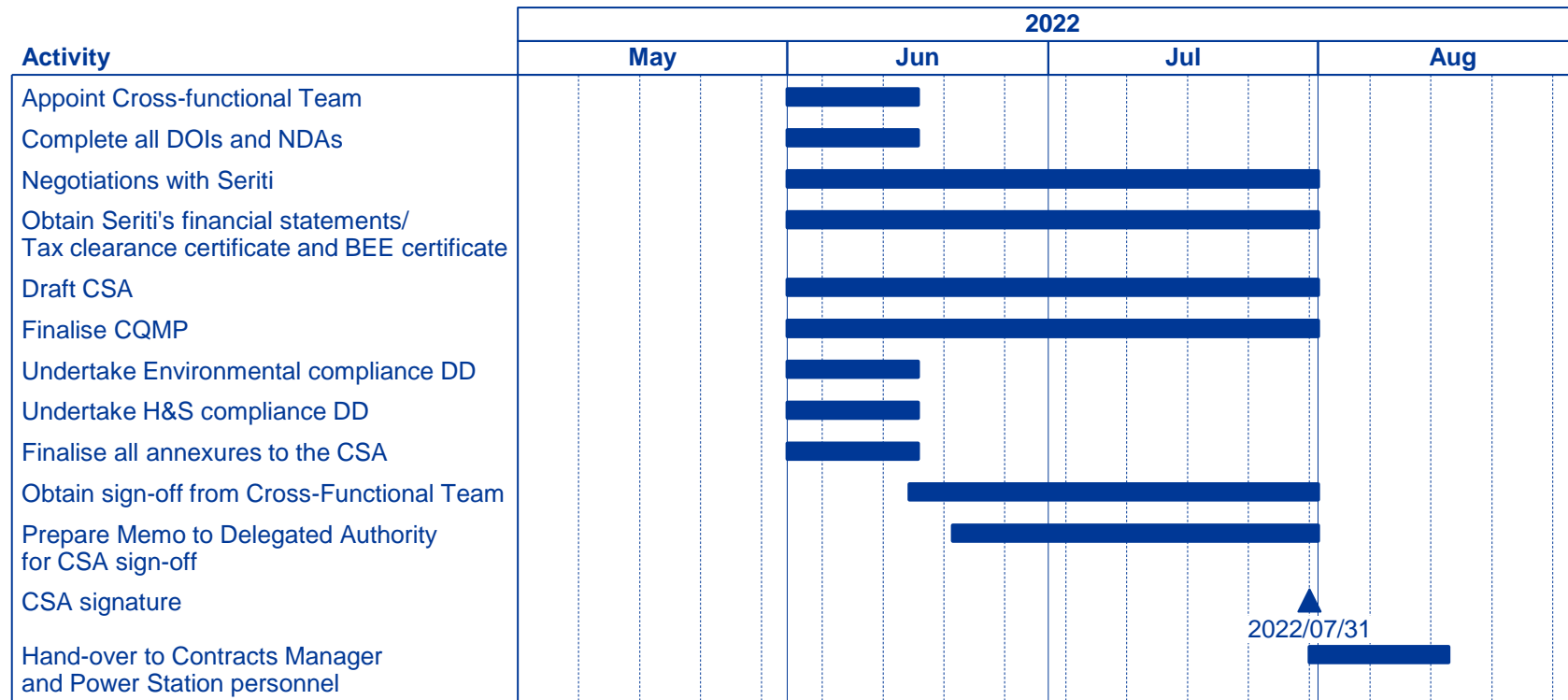
# Pit D 2-seam low sulphur coal

## Pit D 2-seam low sulphur coal for 5 years 9Mt



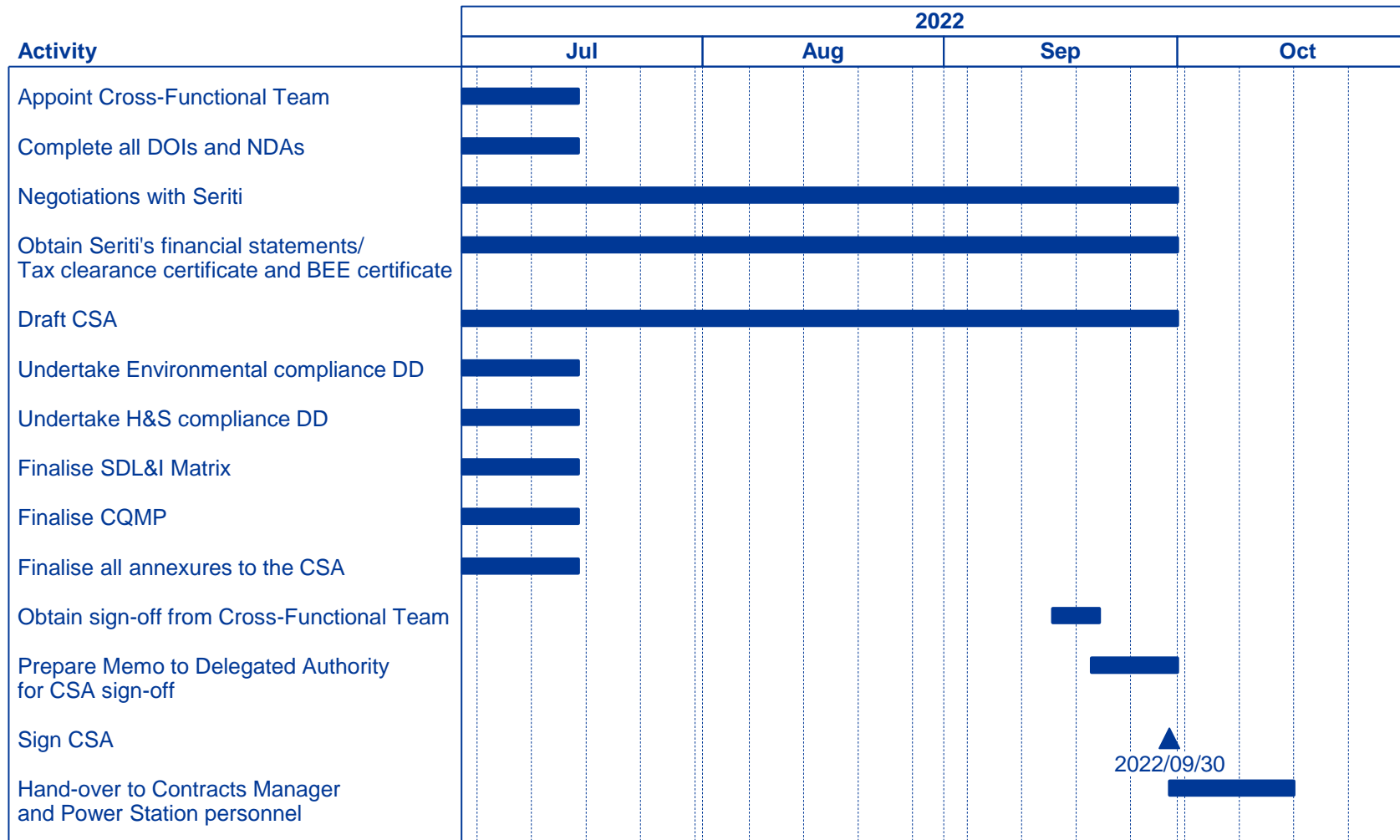


## Pit D short term coal 2 months 120kt



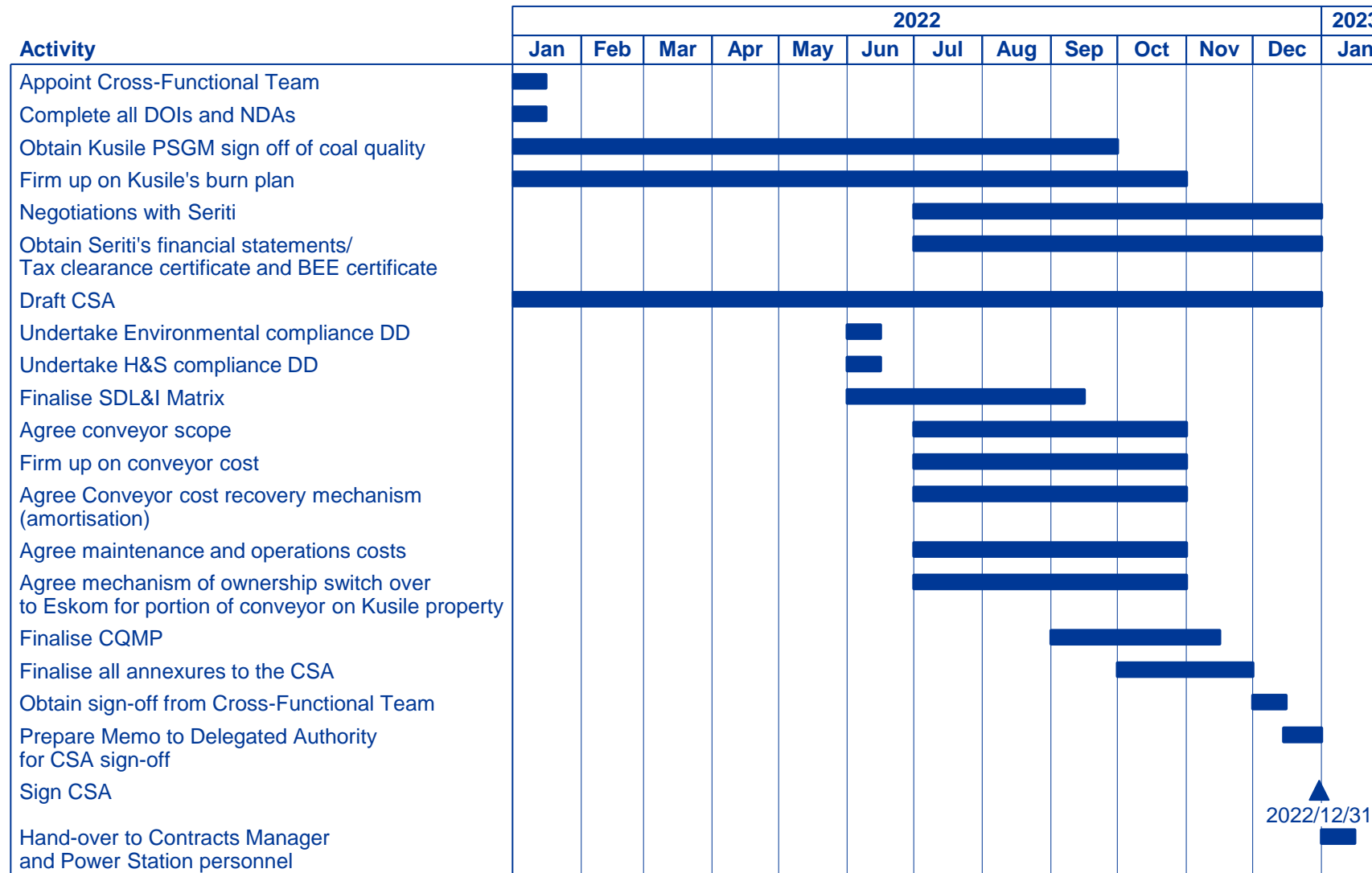
# Pit D 3 year CSA

## Pit D 3 year CSA (Majuba Spec) 2Mt



# Pit D Long Term

Pit D Long Term anticipated 10 years for estimated 10Mt -30Mt



# Conveyor contracting principles and progress 1/2

Principle	Progress
<p>On conclusion of the long term Pit D CSA for the delivery of Kusile 240 spec coal volumes, New Largo Coal (Pty) Ltd (“New Largo”) will construct a 4mtpa truck off-loading and the associated conveyor infrastructure (CV614 + CV615).</p>	<ul style="list-style-type: none"><li>• Contractual coal quality letter circulating for sign-off</li><li>• CSA is in draft</li><li>• Conveyor design standards sent to New Largo</li><li>• Internal meeting with Kusile team on 8 Sept</li><li>• Site visit to Kusile by New Largo thereafter</li></ul>
<p>Estimated total cost of infrastructure +- R500m with capital (and interest cost) to be recovered by New Largo over an agreed period (New Largo preference 5 – 10 years to be negotiated and agreed) through an agreed Rand per feed ton charge across the infrastructure.</p>	<ul style="list-style-type: none"><li>• Eskom PED finance to review the estimated infrastructure cost</li></ul>
<p>Construction period estimated at 15 months;</p>	<ul style="list-style-type: none"><li>• CSA estimated to be signed off by 31 Dec 2022</li><li>• Conveyor constructed by 1 April 2024</li></ul>
<p>Truck off-loading and conveyor belt to be operated by New Largo which will appoint a 3rd party contractor under an SLA to operate and maintain the infrastructure. Transparent costing will be provided to Eskom and Eskom shall pay for such O&amp;M costs on a cost recovery, Rand per feed ton basis</p>	<ul style="list-style-type: none"><li>• Cost breakdown for operating and maintenance to be reviewed by PED Finance</li><li>• KPI’s for conveyor performance including availability to be agreed with New Largo</li></ul>

# Conveyor contracting principles and progress 2/2

Principle	Progress
<p>Ownership of the infrastructure shall remain New Largo's until such time as the total capital cost (and interest thereon) has been settled in full, whereafter New Largo shall transfer ownership of the Eskom infrastructure (defined as those portions of the conveyor and related infrastructure which are situated on Eskom's land) to Eskom. For the sake of clarity, infrastructure situated on the New Largo land shall remain the property of New Largo.</p>	<ul style="list-style-type: none"><li>• Amortisation period to be agreed with New Largo<ul style="list-style-type: none"><li>◦ Eskom to propose amortisation over all volumes from the various Pits estimated at ~ 50Mt</li></ul></li></ul>
<p>The use of the truck off-loading and related conveyor infrastructure shall be for New Largo's exclusive use for the delivery of New Largo coal under the CSA / CSA's to be entered into</p>	<ul style="list-style-type: none"><li>• 6 Unit protection project is far advanced</li><li>• The conveyor infrastructure to be constructed by New Largo is for New Largo's exclusive use</li></ul>
<p>New Largo require water and electricity supply from Kusile.</p>	<ul style="list-style-type: none"><li>• To be discussed with Kusile team on 8 Sept 2022</li></ul>
<p>New Largo will mine across current access road to Kusile from R545 to enable mining of Pit D and for PCDs.</p>	<ul style="list-style-type: none"><li>• Timing of moving of access road to be negotiated with New Largo. To be discussed on 8 Sept 2022</li></ul>
<p>A site visit to Kusile to be arranged to firm up New Largo's technical and related plans.</p>	<ul style="list-style-type: none"><li>• To be arranged after internal meeting of 8 Sept 2022</li></ul>

## Pit F Long Term anticipated 17 years for estimated 20 Mt

Activity	2023								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Appoint Cross-Functional Team	█								
Complete all DOIs and NDAs	█								
Combustion tests			█						
Negotiations with Seriti			█						
Obtain Seriti's financial statements/ Tax clearance certificate and BEE certificate			█						
Draft CSA			█						
Governance process for CSAs greater than 10 Years. Appoint Auditors/ BOD Submission			█						
Undertake Environmental compliance DD				█					
Undertake H&S compliance DD				█					
Finalise SDL&I Matrix				█					
Finalise all annexures to the CSA				█					
Finalise CQMP			█						
Obtain sign-off from Cross-Functional Team							█		
Prepare Memo to Delegated Authority for CSA sign-off							█		
Sign CSA									▲
Hand-over to Contracts Manager and Power Station personnel									█

2023/09/01

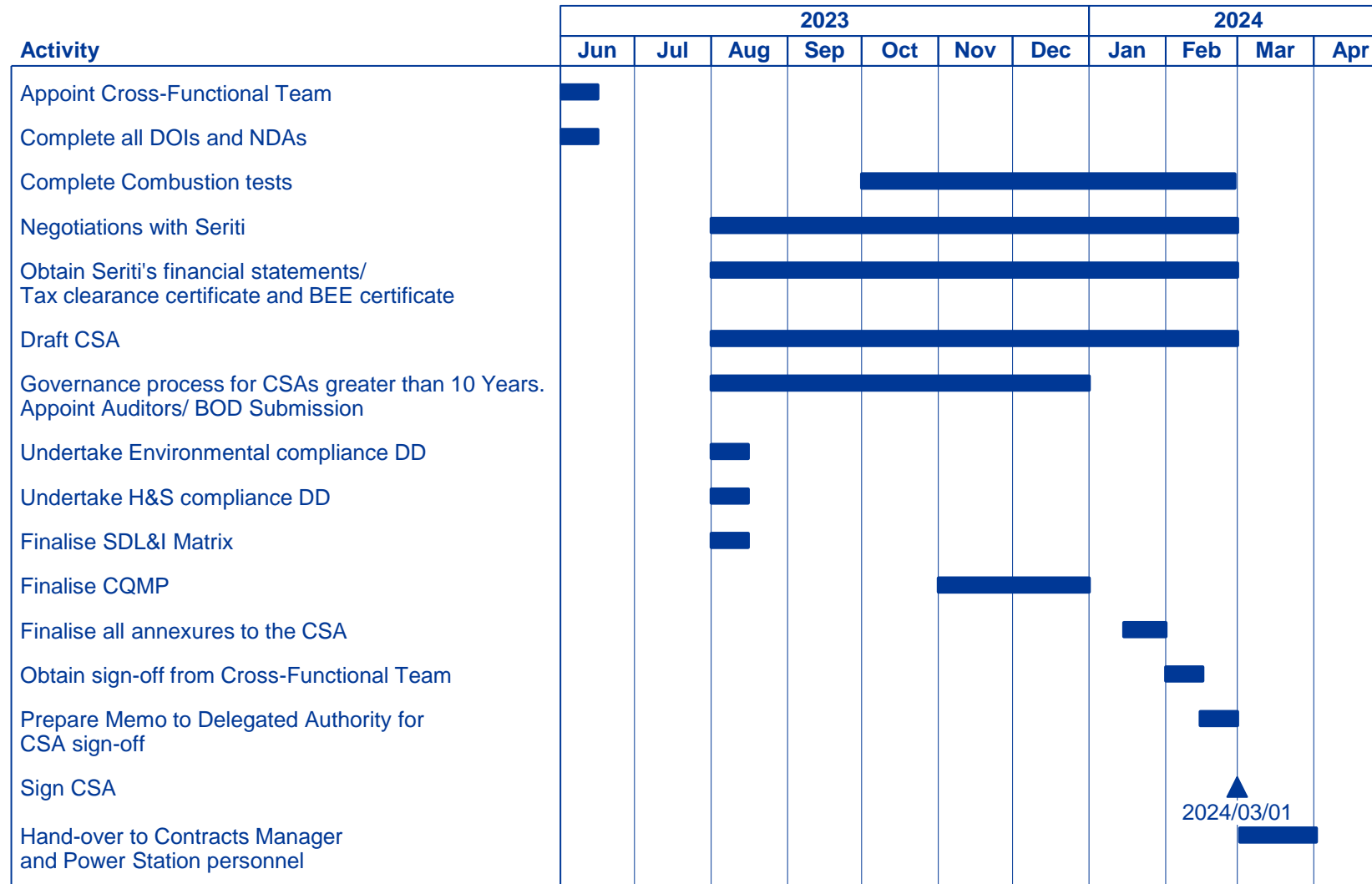




# Main Mine



Main Mine anticipated 20 years for estimated 25- 47Mt



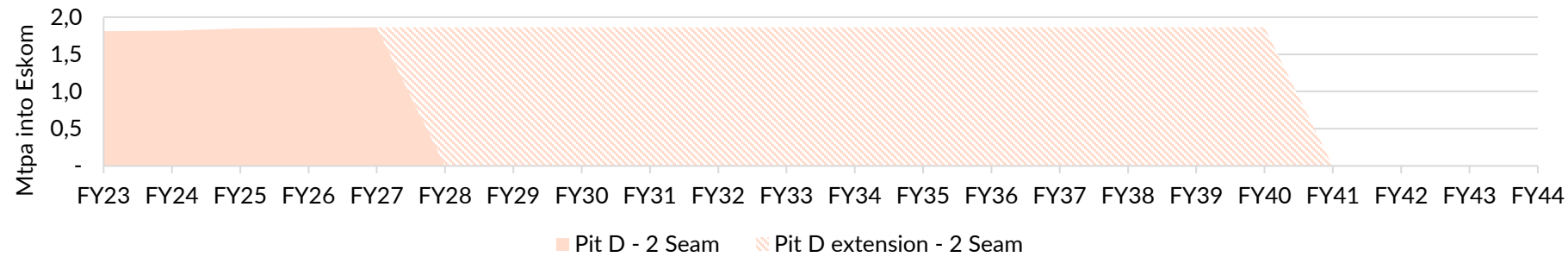


## New Largo Pit profiles and details

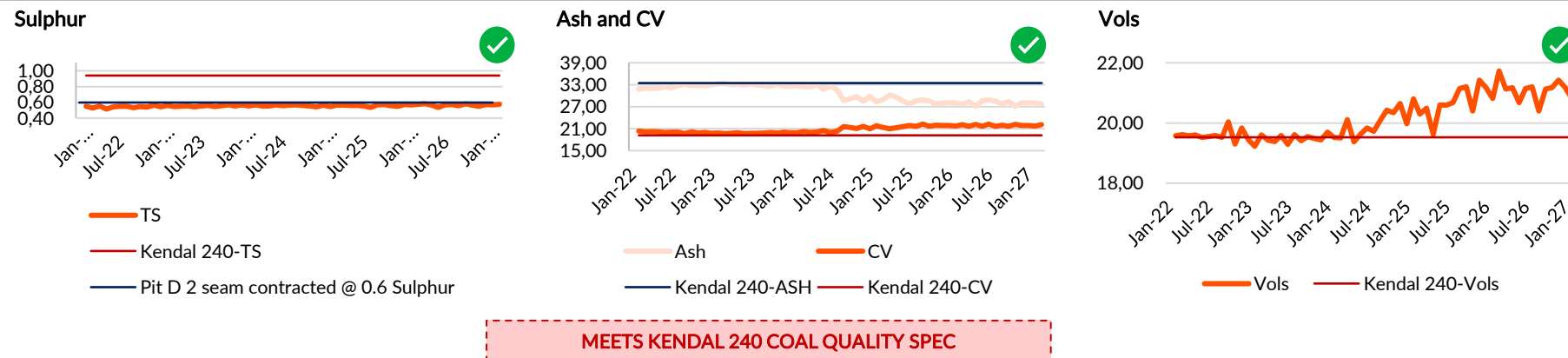
# Pit D 2 Seam – tonnage profile and coal qualities

Pit D 2 seam expected to produce ~1.8Mtpa in 5 contracted years (with a potential 13-year life extension) and meets the Kendal 240 coal quality specification

**Tonnage profile (Mtpa)<sup>1</sup>**



**Coal qualities (relative to Kendal 240 coal quality specification (air dried basis))<sup>1</sup>**



1: Information as provided by Seriti

# Pit D 4 Seam – tonnage profile and coal qualities

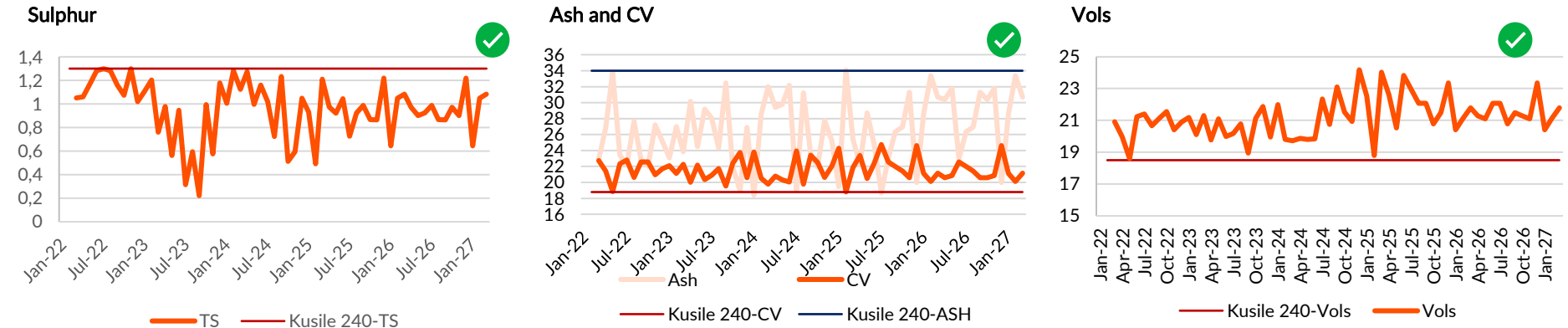


Pit D 4 seam expected to produce ~0.6Mtpa in first 3 years then ramp up to ~0.9Mtpa in last 2 years (with potential to extend for a further 13 years) and meets the Majuba 240 coal quality specification.

**Tonnage profile (Mtpa)<sup>1</sup>**



**Coal qualities (relative to Kusile 240 coal quality specification(air dried basis))<sup>1</sup>**



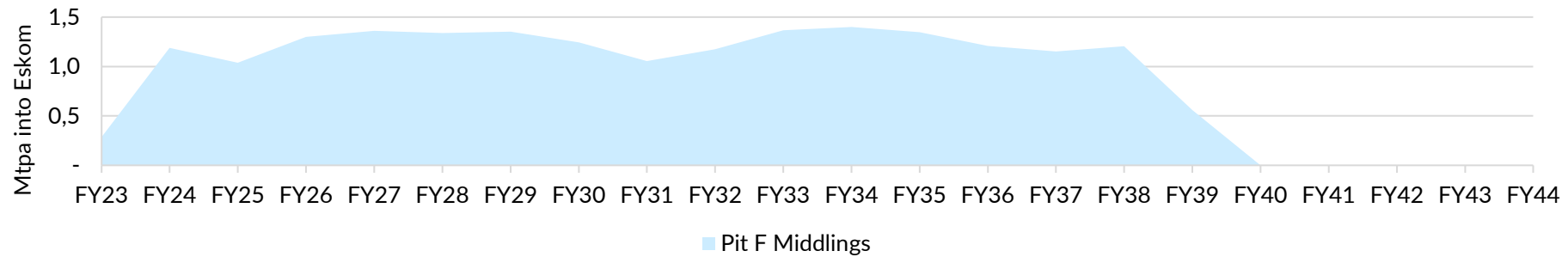
**MEETS KUSILE 240 COAL QUALITY SPECIFICATION**

1: Information as provided by Seriti

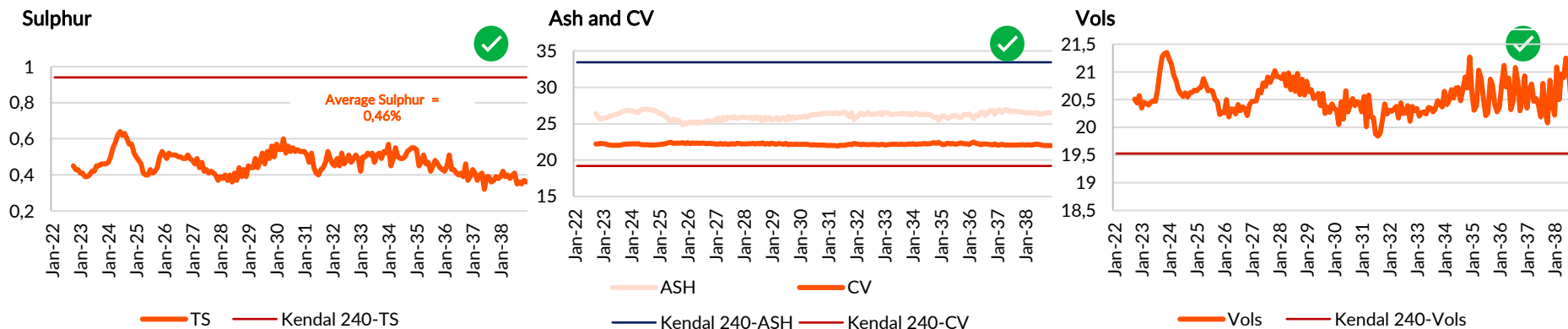
# Pit F middlings – tonnage profile and coal qualities

Pit F expected to produce ~1.2 – 1.4Mtpa of middlings and meets the Kendal 240 coal quality specification

**Middlings tonnage profile (Mtpa)<sup>1</sup>**



**Pit F middlings coal qualities (relative to Kendal 240 coal quality specification (air dried basis))<sup>1</sup>**



**MEETS KENDAL 240 COAL QUALITY SPECIFICATION**

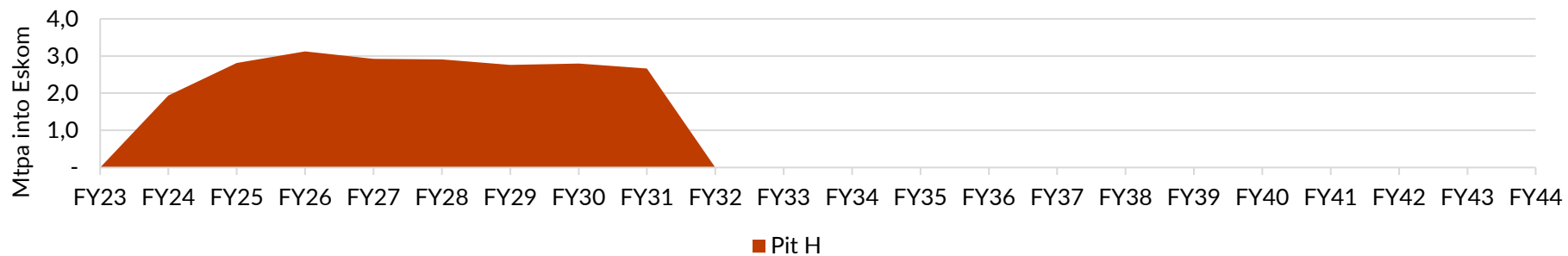
1: Information as provided by Seriti



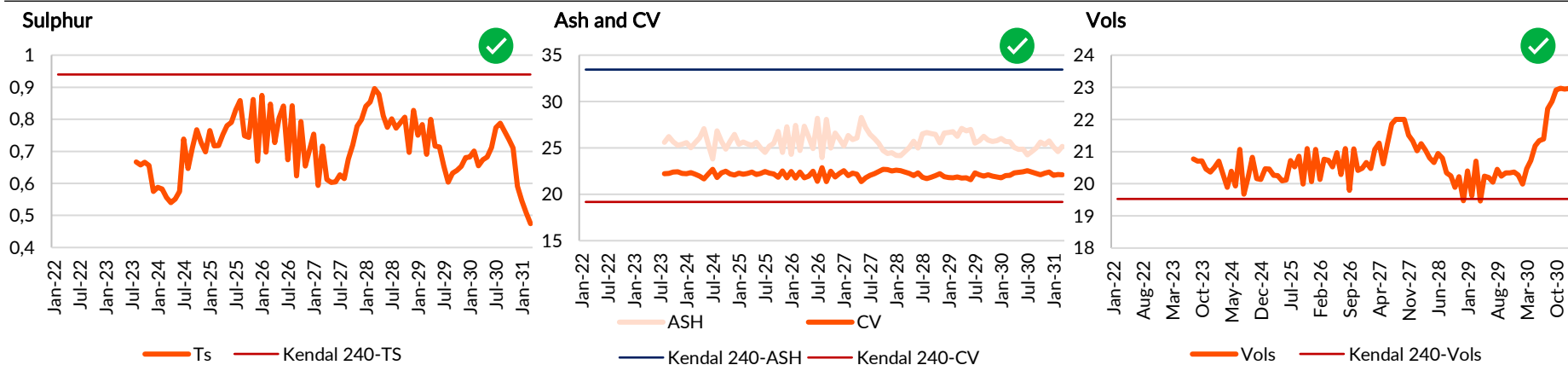
# Pit H– tonnage profile and coal qualities

Pit H expected to produce ~3Mtpa at steady state and meets the Kendal 240 coal quality specification

**Tonnage profile (Mtpa)<sup>1</sup>**



**Coal qualities (relative to Kendal 240 coal quality specification (air dried basis))<sup>1</sup>**



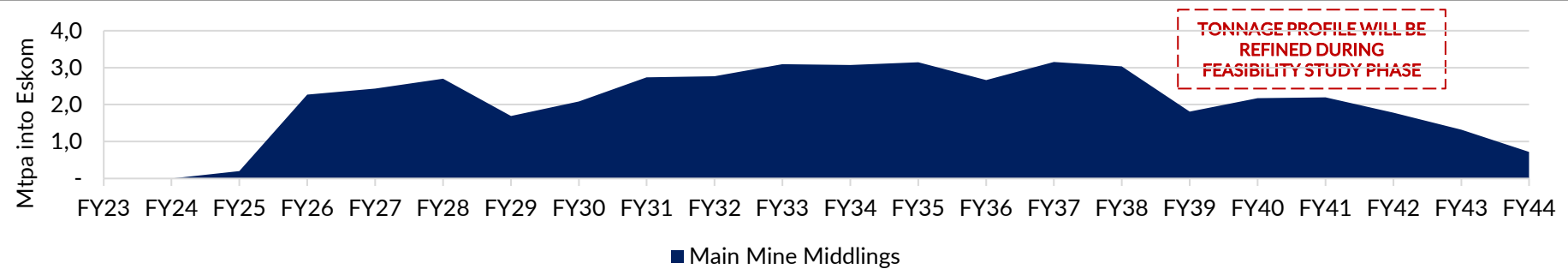
MEETS KENDAL 240 COAL QUALITY SPECIFICATION

1: Information as provided by Seriti

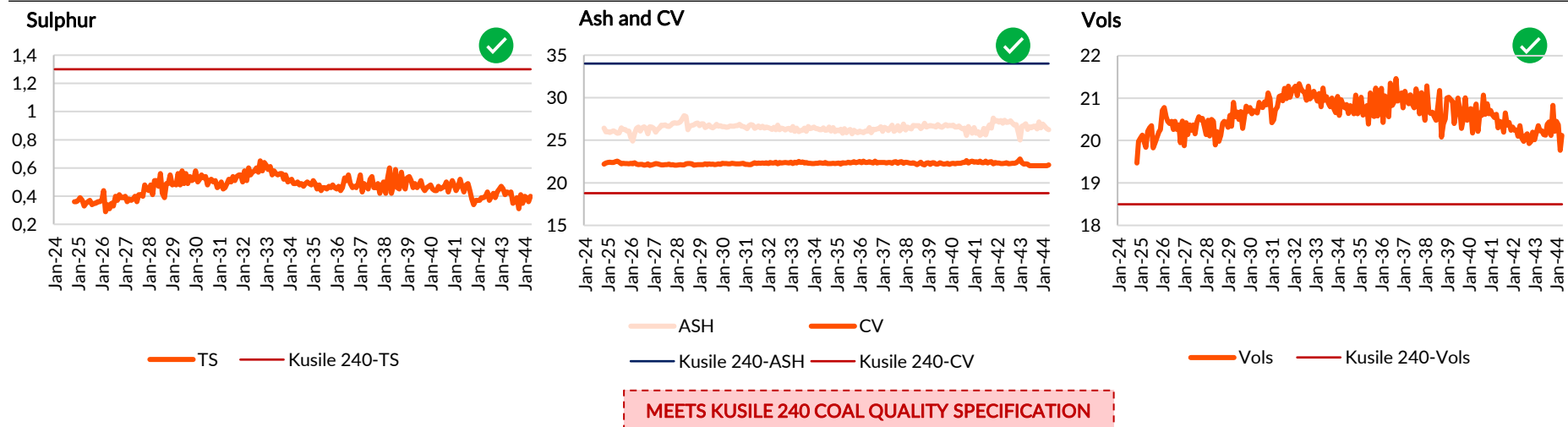
# Main Mine– tonnage profile and coal qualities

Main Mine expected to produce ~2 – 3Mtpa in middlings and meets the Kusile 240 coal quality specification

Middling tonnage profile (tonnes per month)<sup>1</sup>



Main Mine middling coal qualities (relative to Kusile 240 coal quality specification (air dried basis))<sup>1</sup>



1: Information as provided by Seriti



Top-up supply being considered for Kusile

- **Location** – Delmas, Mpumalanga
- **Distance** - 65.5 km
- **Reserve Size** – ~27 Mt ROM (as at August 2022)
- **Type of Operation** - Multi-Pits Open Cast Operation
- **Mining Philosophy** – Contract Mining and Processing
- **Beneficiation** – Crush & screen and Dense Medium Separation
- **Coal Quality** – Domestic and Export Markets
- **Regulatory Permits (Mining pits)** – Mining Right, NEMA and IWUL
- **Regulatory Permits (Beneficiation site)** – Mining Right, NEMA, waste license are in place. IWUL expired in 2021 – currently under renewal
- **Current Status** – Mine under Care and Maintenance since October 2021
- **Opportunity** – Mine can be start up in 2 to 3 months from contract signature date.
- **Key Enablers** – obtain IWUL for the processing site which is expected in the next 2 to 3 months.

# Future contract – Universal Coal Development IV (Eloff Coal Project Contract)

- **Location** – Delmas, Mpumalanga
- **Distance** - 65.5 km
- **Resource Size** – ~528 Mt ROM (as at Sep 2019) (further drilling underway to confirm confidence levels)
- **Type of Operation** - Multi-Pits Open Cast Operation
- **Mining Philosophy** – Contract Mining and Processing
- **Beneficiation** – Crush & screen and Dense Medium Separation
- **Coal Quality** – Domestic (>80%Eskom) and Export Markets (where there are seams availing themselves with higher quality)
- **Regulatory Permits** – Mining Right, Environmental Authorisations and IWUL pending
- **Current Status** – Project phase, to be accessed through the contiguous Kangala Colliery infrastructure
- **Opportunity** – Mine is designed as a high volume production mine with a phased approach to cater for any volume requirements (offer to Eskom at 400 ktpm subject to final negotiations). Can be a co-anchor supplier of reliable washed coal into Eskom power station requirements.
- **Key Enablers** – obtain IWUL.



A decorative graphic on the left side of the slide. It features two overlapping circular frames. The top frame shows a large solar power tower (CSP) plant with many heliostats reflecting light onto a central receiver. The bottom frame shows a white wind turbine on a green field under a cloudy sky. The frames are surrounded by several thin, concentric circular lines.

# Conclusion