

A decorative graphic on the left side of the slide, consisting of three overlapping circular frames. The top frame shows a close-up of solar panels. The middle frame shows a large industrial facility with several tall, white cooling towers and a body of water in the foreground. The bottom frame shows a worker in a safety harness and hard hat working on a high-voltage electrical transmission tower, with a helicopter visible in the background.

## **Eskom Presentation to SCOPA**

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

Date: 31 December 2022

## 1. Recommendations: 6.1 – 6.8

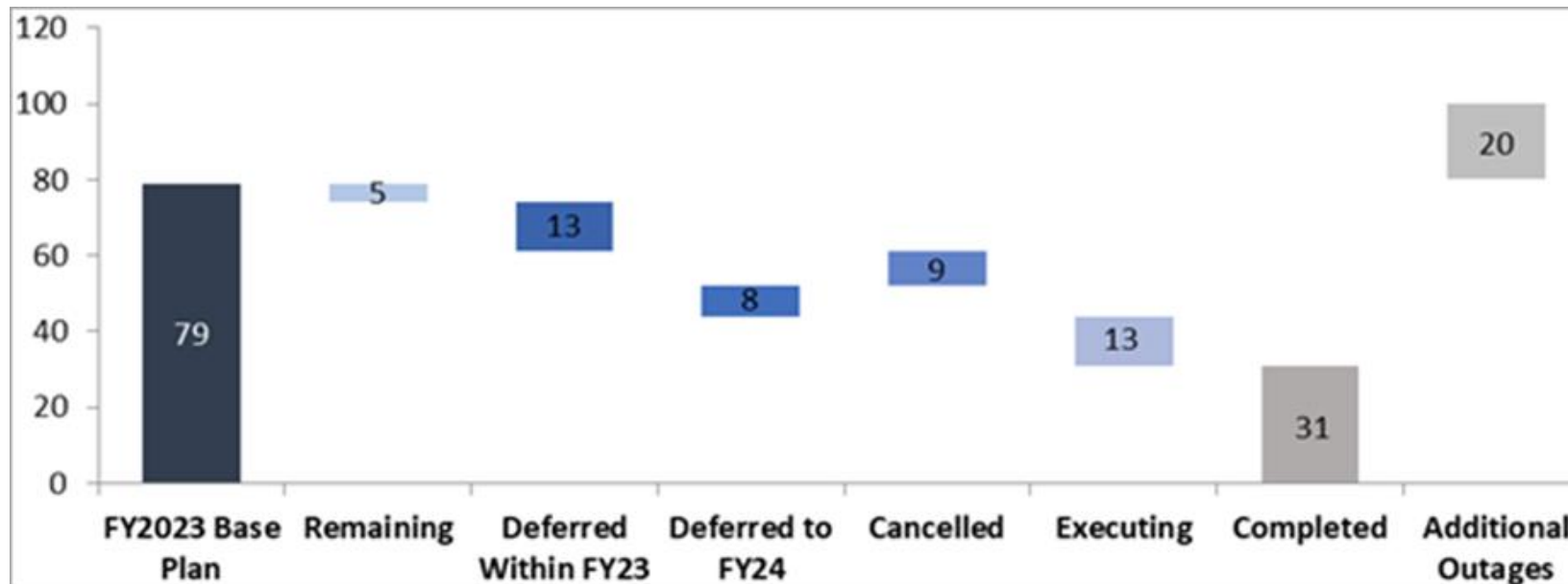
- ❑ Since FY2021, the **Reliability Maintenance Recovery (RMR) Plan** has focused on improving the general performance of **11 targeted fossil-fired power stations**.
  - The first 6 months of the programme **particularly focused on 9 specific outages**, with the aim of making a step change in outage readiness.
  - Due to the critical need to enhance outage performance, the **focus was extended to all outages since March 2021**
- ❑ Challenges continue to be experienced with the **funding of the Reliability Maintenance Recovery Plan**.
- ❑ Reliability maintenance must also **be sacrificed correctly to ensure that statutory maintenance receives priority** to minimise the negative impact on the energy availability factor (EAF).
- ❑ The current system constraints during late FY2022 to present, **which led to load shedding**, are also **challenging the business' ability to release outages for execution as planned**
- ❑ The inability to secure funds **at least 24 months prior to an outage** and the **fluidity of the outage plan** (movements of Outages) compromises proper planning, hence execution of outages, and this manifests in outages being executed with reduced scopes and/or compromised quality

# Recommendation 6.1: Carry out regular maintenance of units

(2/5)

## FY2023 Maintenance Status:

- ❑ At the start of the financial year, 79 outages were scheduled from 1 April 2022 to 31 March 2023. As at 31 March 2021, **52 of the 73 outages had been completed**, with only one outage having been completed with RMR involvement
- ❑ As at 31 December 2022:
  - **31** of those outages had been completed,
  - **13** were in execution,
  - **9** had been cancelled,
  - **5** remained, and
  - **21** had been deferred (the majority to the next financial year)
- ❑ Furthermore, an additional 20 short-term outages had been completed. Short-term outage refers to corrective maintenance to avoid an increased risk of availability loss, and does not depend on the duration of the outage.



# Recommendation 6.1: Carry out regular maintenance of units

(3/5)

## Performance of completed outages

- ❑ The main work affecting plant reliability and predictability is **carried out during mini general overhauls (MGOs) and general overhauls (GOs)**.

➤ **A total 17 MGOs and GOs either commenced or were completed in FY2023 with RMR involvement**

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	GrootMei GO	2	2021/10/15	2022/01/25	103	Partially funded	139 313 898,10	No record	40.4	15.70%	47.63%



## 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
17610	Duvha MO	2	2022/01/07	2022/06/13	90	Not funded	709 689 485,57	47.20 %	67.3	42.15%	99.86% (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%	35.46% (1 month)
13881	Kriel GO	6	2022/02/03	2022/05/12	98	Partially Funded	586 345 865,38	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%	29.53% (3 months)
17875	Lethabo MO	5	2022/03/26	2022/07/22	110	Partially funded		32.70 %	8.2	17.22%	22.67% (25 days)

- ❑ 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 the timely release of funds**. 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 the EAF.

## Funding impact on upcoming outages

- Currently, all the **remaining outages in FY2023** are funded. However, for the FY2023 to FY2027 cycle, **adequate funding could not be approved.**

Original Outage targets	FY23	FY24	FY25	FY26	FY27	Total (R,Bn)
Original Corporate plan approved	8,171	5,300	9,675	9,053	9,615	41,814
Latest approved Corporate plan (Budget re-phased) – “A”	9,471	4,000	9,675	9,053	9,615	41,814
Budget requested for approval (IFC supported to Eskom BOARD) – “B”	9,471	9,529	8,500	8,500	8,000	44,000
Budget required by stations (F8 requirement) – “C”	9,471	9,929	9,000	9,000	8,385	45,785
Variance (A-C)	0,000	-5,529	+0,675	+0,053	+1,230	-3,571
Variance (B-C)	0,000	-0,400	-0,500	-0,500	-0,385	-1,335

- The **planning cycle** for FY2024 to FY2028 is **currently underway.**
- The requirement for Outages Capex in FY2024 is **R9,93 billion.**
- As the NERSA determination was announced, **Eskom is reviewing the impact on overall funding allocations.**

**Enablers required for improved outage performance currently receiving internal focus:**

- Additional support is required** from Exco, the Board, and National Treasury to ensure **timeous and adequate outage funding.**
- Human capital requires focus** with regard to complement, competence/proficiency, contractor capacity, and capability. **This need is evident along the entire value chain.**
- Disciplined execution is necessary**, particularly in the planning and execution of routine maintenance and outages.

# Recommendation 6.2: Clean-up Operation Plan

(1/2)



*“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)



- ❑ 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, **6 449** preliminary assessment of incidents and **195** 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, **6 newsletters have been published**, including a special edition to commemorate African Anti-Corruption Day and **2 global email messages** to employees.
  - **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 **4** forensic investigations **linked directly to these visits** have been registered.
  - **Maintenance of the Fraud Hotline to encourage whistle-blowing:** Eskom **finalised 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**.

- **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.
  - Eskom with the support of its external auditors, **conducted fraud risk procedures, fraud risk analytics and fraud indicators** and identified fraud red flags. **8** incidents have been registered for assessment and investigation.
- **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.
  - A second workshop with the Gauteng Province officials from the NPA and the Hawks was held on 29 and 30 November 2022.
- **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, **144 cases** have been registered with the **South African Police Service** and **41** of these cases have been disposed of through the criminal justice system process.
  - The court proceedings in respect of **7 of these cases** are in progress at various criminal courts. The **remaining 96 are still under investigation.**
- **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

- ❑ **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.

A decorative graphic on the left side of the slide. It consists of two overlapping circular frames. The top frame shows a large solar power plant with many heliostats reflecting light. The bottom frame shows a white wind turbine on a green field under a cloudy sky. The frames are surrounded by several concentric, slightly offset circles in a light brown color.

# Conclusion