

Petra Diamonds – Cullinan Diamond Mine

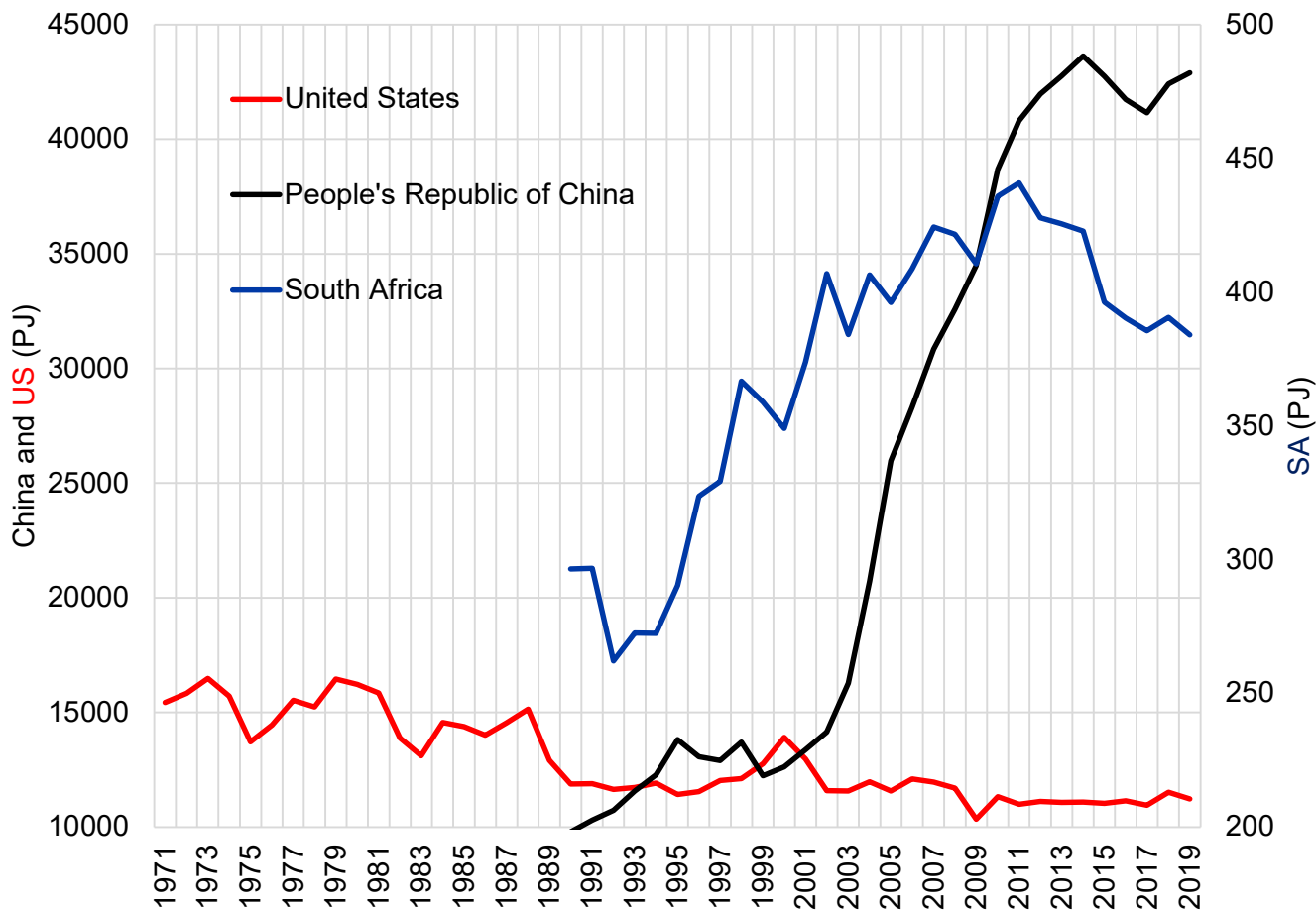
# MCSA COMMENTS ON 2023 ESKOM DEBT RELIEF BILL



**MINERALS COUNCIL**  
SOUTH AFRICA

# Industrial Sector - Energy consumption in China, SA and the US

Consumption of energy - Industrial sector (PJ)

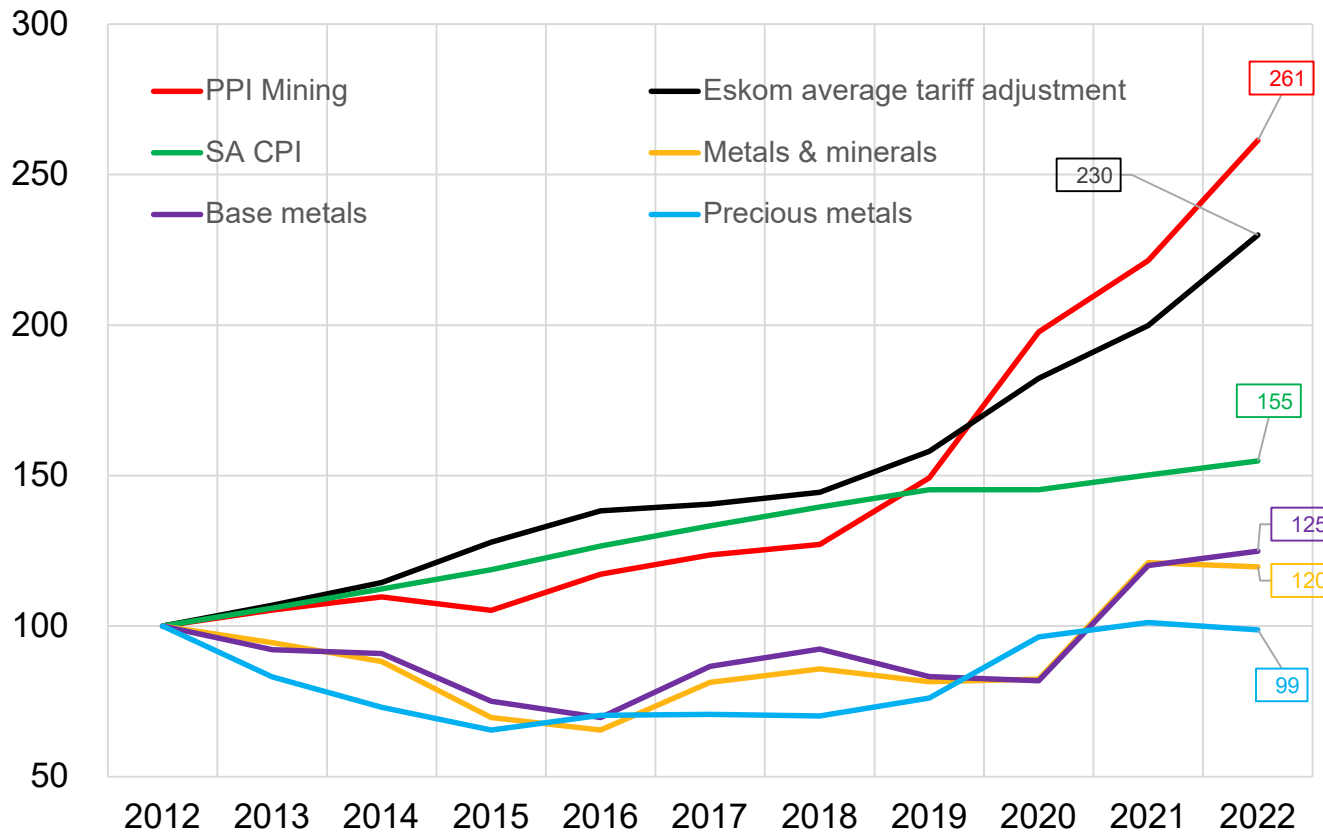


1. Reason China has become the global manufacturing factory → availability of energy and its affordability.
2. The US has become a services-driven economy as shown by its industrial sector's decline in energy consumption. This is a natural process as countries develop.

So, it is not about efficiency in energy use. It's literally a decline in the US' industrial sector. South Africa's sector decline is due to a lack of energy and higher tariffs.

# Erosion of Global Competitiveness: Electricity Affordability

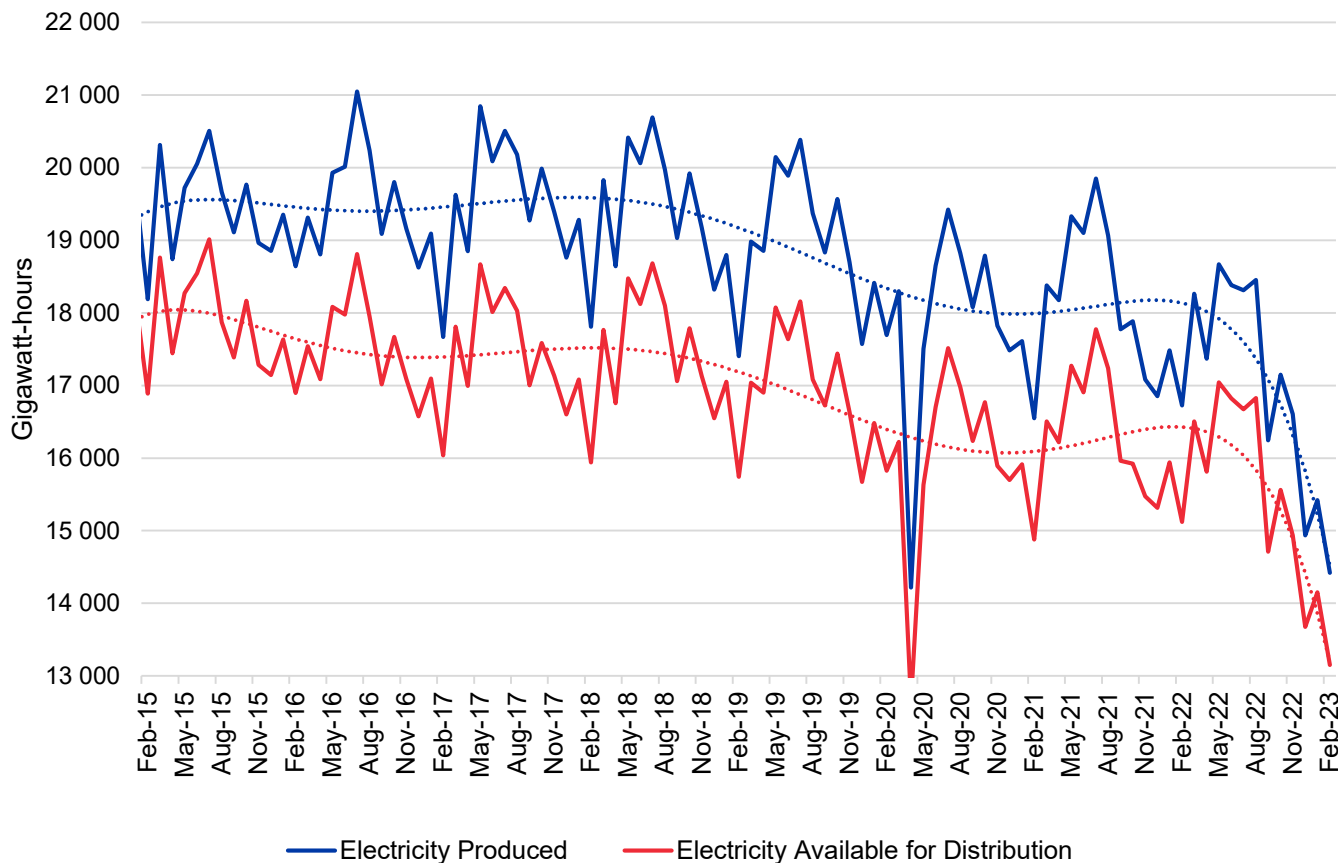
Comparison: Eskom tariffs, SA CPI, Mining PPI, and Metal Prices (2012 = 100)



1. Cost indices indicate an erosion of global competitiveness. They (mining PPI, SA CPI, and Eskom average tariffs) have grown much more than commodity price indices (base metals, metals and minerals, and precious metals).
2. To remain competitive mining firms have had to cut jobs. In other instances, they've had to limit investment in greenfield projects.

# Erosion of Global Competitiveness: Electricity Availability

Electricity Produced and Available for Distribution - Eskom



1. There is a clear decline in electricity generated and available for distribution in South Africa - mostly due to Eskom's underperformance.
2. Eskom averaged 19 500 GW/h of production in 2015 compared to 17 400 GW/h of production in 2022. In February 2023 Eskom was only able to generate 14 420 GW/h of electricity.

The lack of electricity leads to de-industrialisation and weak growth while higher tariffs reinforce the erosion of competitiveness.

Source: Statistics South Africa, Minerals Council.

Note: The difference between electricity produced and available for distribution can mainly be attributed to the electricity consumed in power stations and auxiliary systems.

# ISSUE: Eskom debt relief general principles

## RECOMMENDATIONS #1

- Optimal: The coal power plants must be sold or concessioned to the private sector.

## RECOMMENDATION #2

- Sub-optimal: Coal power plants to be operated by public-private partnerships.



# ISSUE: Unbundling of Eskom

## RECOMMENDATION #3

- Unbundling of Eskom into three entities, namely, generation, transmission and some parts of distribution will not solve the country's electricity woes because they will still be wholly owned by government. Governments, because of competing objectives and at times on account of corruption, eventually run out of money to recapitalize the enterprises they own.
- Transmission must be concessioned to the private sector for a period of at least 15 to 20 years.
- Distribution assets must be sold to the private sector.

# ISSUE: Eskom staff morale

## RECOMMENDATION #4

- The Just Energy Transition from coal to clean energy sources must be well managed. Anecdotal evidence suggests that a major reason some of the coal-fired power plants are not performing – with abysmal EAFs – is because of worryingly low staff morale. This is because employees have been told that the power stations they work for will be decommissioned.
- The national and social/labour narrative surrounding the Just Energy Transition needs to be well managed to ensure worker productivity and optimism about the future.

# ISSUE: Municipal debt

## RECOMMENDATION #5

- Writing-off municipal debt owed to Eskom presents a moral hazard which will most likely worsen the problem of non-payment in future.
- Other measures should be explored to ensure that municipalities service their debt with Eskom in future. A free pass will, without a doubt, create a bad precedent.