### Address by Honourable J. Mkhwanazi MP (ANC) during the Debate On Budget Vote 10: Public Enterprises

25 May 2021

**Introduction**

The 6th Parliament inherited a situation where the country faced many challenges with the different SOE’s. In the case of Eskom the country faced the challenge of load shedding due to greater demand than Eskom could supply which negatively impacted on the economic growth. This was coupled with state capture and corruption which weakened the entity in terms of corporate governance and financial control. The last budget vote was based on ensuring that state capture and corruption needs to be dealt with including the involvement of law enforcement agencies and the restoration of corporate governance and financial control need to occur in SOE’s like Eskom. This is characterised by the restructuring of Eskom in line with the DPE Roadmap.

However, this budget vote is based on progress made by the Department of Public Enterprises in the fight against state capture and corruption as well as the restoration of corporate governance and financial controls to the different SOE’s. It should be clear that there were clear policy differences between the DA and us on this matter. For the DA advocated for the discarding/abandonment or even starting afresh and privatise the SOE’s. The ANC Government when faced with challenges does not abandon entities or merely have a fire sale to sell the silver. Not being able to deal with a challenge shows political weakness to find the solutions no matter how difficult the problem. The old adage must apply that to every problem there is a solution.

Speaker Solutions for challenges facing large institutions which are capital intensive and that operate in strategic sectors of the economy do not have instant solutions and it is not like making instant coffee which occurs very quickly.

**The Role of Eskom**

Eskom is the sole and largest supplier of electricity in the country. It is a fully integrated company which operates throughout the value chain, namely, generation, transmission and distribution. Eskom generates electricity from different energy carriers such as coal, nuclear and hydro power and these carriers form an integrated system of supply of electricity. Its power stations supply the bulk of electricity demand to country complemented at this stage by a small volume generated by IPP’s. The country’s large electricity demand cannot be supplied by a single energy carrier. Eskom has some 47000 employees and indirectly creates some 188 000 more jobs in service of the electricity sector. This is from a national level to a municipal level. Eskom has a large asset base valued at some R823 billion. In the last financial year the revenue of Eskom was some R199 billion and this occurred under trying economic conditions given the effects of the pandemic. This is a significant economic contribution and value-add to the country.

This is not small operation and is not capacity that should be abandoned due to challenges in favour of something new that does not exist. In other words this capacity cannot merely be dismissed in any adventurist manner as it provides the country with security of supply for its baseload of electricity.

**Expanding generation capacity for Economic Reconstruction and Renewal**

In the SONA 2020 the President highlighted the problems of Eskom in terms of maintenance, unplanned shutdowns due to ageing power plants and the technical problems associated with Medupi and Kusile. The President committed to Eskom dealing with its challenges whilst at the same time ensuring the expansion of the generation capacity of the country. The President committed to the expansion of the electricity sector through IPP generated power from Renewable Energy. This was as a result of the growth in electricity demand in the country as we have an energy intensive economy. In order to maintain a supply/demand balance of electricity expansion of the generation capacity is necessary for inclusive economic growth and development. Simultaneously the President committed to restoring corporate governance, ensuring plant reliability including the optimal functioning of Medupi and Kusile. Moreover, the SONA also committed to the restructuring of Eskom in terms of the DPE Roadmap to ensure commercialisation of the utility to enhance plant reliability for optimisation of assets and enhancing efficiency.

The expansion of generation capacity through renewable energy is important as it also reduces greenhouse gas emissions.

**Progress made with Eskom**

In the past financial year Eskom has made progress in a number of areas and whilst this is not a claim that all problems are resolved but is a recognition of fact that the Department has made an important start and its plans and programmes are geared towards taking this progress to the next level.

The Department has ensured that corporate governance has improved through the new Board and changes in management. Corruption at the entity is being addressed and this has been extensively reported in conjunction with law enforcement agencies are being addressed and the law is taking its course. Financial recoveries have occurred in relation to Medupi which are not insignificant. There has been restructuring of the entity as outlined in the DPE Roadmap for the restructuring of Eskom.

Eskom has successfully commenced restructuring into three divisions under a holding company and the separation between generation, transmission and distribution has already occurred with separate income and cash flow statements. Executives responsible for the different divisions have already been appointed. This separation into operating divisions will also enable the supply of IPP generated electricity through the transmission grid. The legal separation requires legislation and solution to its debt liability.

The Eskom revenue of R199 billion was made under difficult economic conditions given the pandemic. There is an improvement in the pricing of coal to the power stations as this occurs on a cost plus basis and not on an import parity basis which is more expensive.

This cost plus system is a more transparent cost structure as Eskom is able to view the cost structure of the mines supplying it. Eskom has made great strides in reducing costs and exceeded their planned targets. There was improvement in Municipal debt reduction through the installation of prepaid meters and this need to be extended to other local areas. There have also been improvements in terms of maintenance of the power plants and correction of defects at Medupi and Kusile. Mosst units at Medupi are functional and Eskom is working on Kusile in the same manner. Half of the units at Kusile are alrady connected to the grid. This approach by Eskom is geared towards improving the entities Energy Availability Factor and increases its generation capacity. It is attempting a green refit of power stations which are nearing the end of its life cycle as part of the just transition. The power utility made a R9 billion profit, but this was drowned by its debt repayment of R30 billion which gave the utility a loss of R20 billion. Therefore the debt liability is the biggest problem facing the utility in terms of achieving financial stability and it is important that some attention is given to reducing the debt liability. Irregular expenditure was drastically reduced in the last financial year and the high value expressed in the financials of R1.1 billion of which nearly a billion was attributable to the flats which was part of the expenditure during the state capture period. Eskom also ensured consequence management to those responsible for a large cost overrun of the project.

This progress on the part of Eskom is certainly commendable and needs to be applauded. Speaker in simple English I am saying that we are moving towards a restructured electricity industry which is fit for purpose, namely the economic reconstruction and recovery of the country.

**Responding to the DA and other opposition**

Government is on a correct course to restore the operational viability of SOE’s like Eskom to make a positive contribution to economic reconstruction and renewal. Therefore it is difficult to find policy agreement with the approach which the DA has articulated in this house that Eskom is finished. This is a political narrative not based on the facts as it does not take into consideration Eskom’s role and the fact that no replacement actually exists. In any event the DA has not contributed a substantive idea on the development of energy security which is supportable.

The ANC supports the Budget Vote on Public Enterprises.