

**DEPARTMENT: PUBLIC ENTERPRISES**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NO.: PQ 2259**

**QUESTION:**



**2259. The Leader of the Opposition (DA) to ask the Minister of Public Enterprises:**

What

1. Are the relevant details of the submissions made by his department to the Competition Commission regarding South32’s acquisition of 91,8% shares in SA Energy Coal by Seriti Resource Holdings and;
2. Is his department’s position on the deal that will result in nearly 72% of Eskom’s coal supply coming from only two companies? NW2831E

**REPLY:**

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| 1. The Department provided its views in terms of the potential impact that the merger between Seriti Resources Holdings and SA Energy Coal may likely have on the energy coal sector. Amongst others, these views included: (i) the potential impact the merger might have on security of coal supply, particularly on Eskom electricity generation requirements;(ii) the electricity pricing effects the merger might have on the economy given the current socio economic challenges the country is confronted with. |
| 1. Security of coal supply is of primary importance to ensure Eskom meets the demand for electricity. Eskom for the past three years embarked on coal procurement exercise to ensure that long term coal supply agreements are secured for the majority of the coal fired power stations.   Ownership and access to the state’s mineral assets is effective through the Mineral and Petroleum Resources Development Act, 2002 (MRPDA) and Mining  Charter. The DMRE is the authority in terms of determining effective ownership of these assets. The Department of Trade, Industry and Competition (DTIC) intervenes through the Competition Commission if there are likely effects of substantially lessening or prevention of competition in the sector. |

**Eskom on Managing Risk**

1. Eskom estimates that the Seriti supply share after the transaction would increase to approximately 28% from 17% based on FY2020 delivery volumes. It is estimated that the two largest suppliers will account for approximately 55% of Eskom’s coal supply based on FY2020 delivery volumes. However, this may vary slightly subject to changes in Eskom’s coal demand and the mines’ production profiles.
2. Approximately 28% of Eskom’s supply is supplied from the cost plus mines. Post the Seriti/South32 merger, this percentage will remain the same and is approximately half of the 55% of the post-merger supply. Under the cost plus arrangement, Eskom is responsible for the majority of the operating, capital and rehabilitation costs of these mines. The supply risk also resides with Eskom.
3. The remaining 27% of supply from the two largest suppliers (post-merger) would be from fixed price long term and medium term contracts. These are arm’s length contracts where, the mine is responsible for the capital and operational expenditure as well as all the associated mining risks. Should the supplier not deliver as per the contractual terms and conditions, there are contractual recourses including but not limited to the rectification of undersupply and penalties. Approximately 80% of the 27% mentioned above mainly relates to the coal supply to Medupi and Matimba Power Stations, which are supplied by Exxaro. There is an excess 16 Mton coal stockpile at Medupi which could cater for any short term coal supply risk at Medupi or Matimba.