

NEVA MAKGETLA: Superheroics are not the way to fix Eskom

There is a danger in taking hasty action at the state power utility

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Eskom's coal-fired Duvha power station in Mpumalanga. Picture: SIMON MATHEBULA

There's an easy solution for Eskom: let's bring in Superman. He'll make that villainous load-shedding take to its heels.

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Of course, there's a risk. Unless someone has Superman's phone number to hand, we could end up terminating a competent leadership team at Eskom because it doesn't have a miracle cure. Moreover, bringing in new executives would inevitably delay much-needed reforms to the electricity system, resulting in even more prolonged load-shedding and tariff hikes.

In the event, the present Eskom leadership has done far more to deal with its real structural challenges than any others in the parade of senior managers since 2010. The problems are rooted in Eskom's business model, which is focused on building gargantuan coal plants to supply the mines and, increasingly, metals refineries.

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In 2007, when Eskom initiated Medupi and Kusile, it already operated seven of the 90 largest coal plants in the world. This business model grew increasingly disconnected from the economic realities of the 2010s. Other kinds of electricity generation became far more competitive, while global mining grew more volatile.

As a result, from the 2010s Eskom faced a classic utility death spiral, giving rise to

the paradoxical combination of soaring electricity tariffs, falling demand and load-shedding. Corruption and mismanagement aggravated these outcomes, but were not their root cause.

Utility death spirals result when companies respond to falling demand, and the consequent higher unit costs, by raising tariffs rather than improving efficiency — a long-standing tradition at Eskom, unfortunately bolstered by the regulations on electricity pricing. In response, Eskom's customers through the 2010s found ways to reduce their electricity use and sometimes simply stopped paying. Because Eskom considered most of its costs fixed in the medium term, locked into its behemoth coal plants, it responded by raising its tariffs even further, in turn accelerating the loss of demand.

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Technical faults and delays at Eskom's new plants aggravated its difficulties. Medupi began production in 2019, but is still generating well below capacity. Kusile is not operational yet, but already displays big defects. The delays mean Eskom has long run its older plants too hard, leading to escalating breakdowns. Five of Eskom's 15 big coal plants should have retired by 2021, but they are still in operation. As a result, SA faces the paradox of falling electricity demand but an increasingly unreliable supply.

The delays have also pushed up Eskom's financing costs, mostly by delaying earnings from its investments in Medupi and Kusile. From 2008 to 2020 the value of Eskom's liabilities more than doubled in constant rand, while its sales of electricity fell 4%. Medupi and Kusile had cost R300bn by 2019, about 10% higher than the original estimates in constant rand. Eskom estimated that at least R4bn was lost to corruption or fraud. In addition, in 2020 the annual yield on Eskom bonds climbed to 8% above inflation, compared to an average of 3.5% from 2002 to 2014.

The current leadership team at Eskom has embarked on the hard task of changing the business model and corporate culture. Most importantly, it has faced up to the long-term shortcomings and challenges of its coal plants. In consequence, new producers are encouraged to meet the shortfall in electricity supply, even though that means Eskom giving up market share.

Over the coming year these reforms should go a long way towards reducing both load-shedding and prices. In the longer term, the Eskom leadership has accepted the imperative of shifting to more efficient and cleaner energy, despite substantial transitional costs. The expense arises mostly from decommissioning some coal plants ahead of time as well as investments in transmission from new generation areas.

These solutions are hard, and still a work in progress. It is not clear who should pay off Eskom's debt and fund the transition to more efficient, cleaner and flexible generation technologies. Still, in the absence of a superhero, we are unlikely to find better or faster solutions.

• *Makgetla is a senior researcher with Trade & Industrial Policy Strategies.*

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Lindsay Wanliss • 4 days ago

You mentioned Medupi and Kusile without mentioning Chancellor House.

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William Currie • 4 days ago

This is all so obvious that it makes one wonder at the attenuated propensity for magical thinking exhibited by those baying for the blood of de Ruyter and his management team: the Black Business Council, the NUM and the general secretary of SAFTU. Are they acting as surrogates for one or other faction of the ANC? Playing at the fine art of scapegoating for

its election fiasco. There is one word in the South African political lexicon to describe such folks: mischievous. And it is totally boring.

1 ^ | v • Reply • Share ›

Alain Leger • 2 days ago

Great to see great solutions being proposed by all and sundries: load shedding should not be a problem, given political will as the powers that be are urged to OUTLAW LOAD SHEDDING, end of story! Except that one false move in overloading the grid would switch the whole country off, and possibly take weeks to restore. Balancing a grid is a major challenge in all parts of the world, and one of the main considerations when moving to alternative power as there are no easy or cheap solutions at present for this.

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Hanief Haider • 4 days ago

Author says the problems of loadshedding maybe over within a year under new management. But De Ruyter been telling us it could take years to sort out Eskom. The running the plants hard argument also is doubtful if one understands how planned and sequential maintenance works. This was done under Brian Molefe and Matshela Koko. I think De Ruyter is under political pressure to move to renewables where Eskom focus is and not maintenance.

Though De Ruyter has complaint how difficult it is to source money from National Treasury for this important function and the procurement thereof using the Mercedes Benz car as an example.

Molefe and Koko were not stonewalled here but on nuclear which was a direct competitor to the renewables which Treasury favoured.

Thus bolstering my argument above from where De Ruyter's pressure is really coming from. As well as powerful financial/political/media interests behind the lobbying of these renewables contracts.

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Thinus Marais • 4 days ago

"From 2008 to 2020 the value of Eskom's liabilities more than doubled in constant rand, while its sales of electricity fell 4%. Medupi and Kusile had cost R300bn by 2019, about 10% higher than the original estimates in constant rand. Eskom estimated that at least R4bn was lost to corruption or fraud."

R4 Billion is low-balling in the extreme, but of course Eskom would say that, even R40 billion is too low.

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