

De Ruyter's plan to fix Eskom - part 1

 By [Nicci Botha](#)

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Ten months into the job, Eskom's newish boss, André de Ruyter, jokes that he is a veteran compared to the longevity of CEOs past. And nobody envies him the task of putting a debt-ridden, plundered and neglected business back together again.



Andre de Ruyter, CEO, Eskom

The power utility's collective debt burden amounts to R488bn, of which R327bn is guaranteed by National Treasury. "If Eskom fails, the country will undoubtedly face very dire consequences in terms of a potential default. So this is a risk that we need to manage, we need to avoid and we need to mitigate," he said, at The Directors' Event webinar.

The country also needs to come to grips with the fact that electricity will have to cost more in future. "We have been advocating for cost-effective tariffs and this has been a significant adjustment to those in industry and mining who have become used to electricity being a tool of competitive advantage."

Then there is a legacy of capture and corruption. While it is difficult to estimate how much money stolen – but it is likely to be tens of billions of rands – he said, Eskom is on track to recover some of it. "We will not recover everything. People ask me is it worth it. Should we be spending money on lawyers to try to chase money that's probably been relocated to other shores? The answer is that it is a matter of principle. We've got to go after those who sort to enrich themselves at the expense of Eskom and of South Africa."

Another thing that is very much part of the national consciousness is the fact that electricity is unreliable in South Africa and imposes a very significant cost on the economy.

“It’s clear that unreliable electricity is far more expensive than cost-reflective tariffs. There are the costs of back-up generators and diesel, and investing in solar PV, which divert capital from where it could have been employed in a more productive way.

“Load shedding is disruptive and frustrating to everyone in South Africa. It’s not something we do easily or gladly. I’m personally involved in every load shedding decision and we really deliberate whether or not we implement load shedding. So it’s not a decision taken lightly.

“But more seriously, load shedding leads to a lack of investor confidence, a lack of investment and ultimately a lack of growth, which leads to the justified conclusion that because of the situation that we as Eskom and we as a country find ourselves are a drag on the economic situation,” he said.

So how do we fix it?

1. Operations

There has been significant neglect in maintaining Eskom’s infrastructure over the past 10 years. “Mid-life refurbishments weren’t done, basic maintenance practices weren’t followed, so we have to address that. Thus requires us to implement a programme called reliability maintenance, which we are currently doing,” he said.

Planned maintenance refers to 14.6 to 14.77% of the overall installed capacity, which is a substantial number and increases the short-term pressure on the system.

De Ruyter promises that the grid reliability will be considerably improved by April next year, and by September 2021, Eskom will have, significantly reduced, but not eliminated, the risk of load shedding.

“But there’s more to do on operational stability. We have addressed the availability of coal, and we are now focused on the quality of coal. We need to pay attention to our transmission and distribution network. When we were building Medupi and Kusile, we diverted capital away from those two very important businesses in order to fund our new builds, so there is a backlog of maintenance in transmission and distribution.

“We need to fix our new builds – Medupi and Kusile. We’ve identified what the design defects are, we’ve implemented the fixes and modifications and are now rolling that out. But it takes time and it takes money. It takes R300m per unit and 75-day consecutive outages. So we are making good progress, and at the end of this calendar year, Medupi should pretty much be done and then we can start on Kusile,” he said.

2. Income statement

Eskom needs to address its unit margins, implement cost-reflective tariffs and address its costs, which includes reducing its salary bill.

“We are slowly managing down our head count. Last year, Eskom had a head count of some 46,000 employees, this has since come down to about 44,000 employees. So 2,000 people have left the organisation through voluntary severance, through various interventions - such as a recruitment freeze, and through natural attrition. We have not implemented mandatory retrenchment which is very important from a labour perspective. So we have been able to maintain labour peace as we have been addressing our head count,” he said.

3. Balance sheet

Eskom's interest cost sitting at about R28bn to R30bn per annum, which De Ruyter says is clearly unsustainable because the power utility has to borrow the money to cover the cost. ,

“That’s a situation we need to get out of as quickly as we can. So we are exploring the opportunity of green financing. We are looking forward with interest and anticipation at negotiations at Nedlac that seek to address the option to restructure the Eskom balance sheet. That’s a very important intervention to address the systemic risk the Eskom debt poses to SA.

“We are reliant on continued equity injections from National Treasury, but ultimately that is not going to be enough. We will only be a sustainable enterprise if we have debt of R200bn or less.”

4. Restructuring

De Ruyter said Eskom has embarked on a programme called divisionalisation, which involves splitting Eskom into three entities – generation, transmission and distribution.

“We’re in the process of establishing those businesses. If you throw all your income statements together in one big pot, then what you find is that there is very little accountability, very little focus on profitability so the granularity that we have been able to achieve with divisionalisation has been of great assistance to driving a culture change to a greater focus on the business aspects of Eskom,” he said.

The legal separation of, in particular, the transmission business, is expected to be completed by the end of next year, and is seen as a key enabler to encourage private investment in generation.

“In this legal separation it is vital that we keep the interests of our lenders top of mind. Therefore we will drive towards the establishment of these three legal entities – generation transmission and distribution as wholly owned subsidiaries of Eskom. Section 66.3 of the Companies Act allow us to appoint an independent board to ensure we have sufficiently separate management and governance oversight of the transmission business. We believe that allows us to address the concerns of our lenders. That their security will not be diluted, and allows us to demonstrate independence to investors in generation,” De Ruyter said.

5. Culture change

“We need to face up to and address this legacy of capture and corruption. We need to recover a culture of excellence. It is ironic that 20 years ago, Eskom was voted the best utility by its global peers. We can’t claim that today, but a culture of excellence still resonates very strongly. We have some excellent people working for us. Young people who are incredibly well trained and are eager to make a contribution to the success of this business. So it is important we spend sufficient time on recognition and catching people doing things right to build on the competencies we have to create the aspiration and drive for a culture of excellence,” he said.

ABOUT NICCI BOTHA

Nicci Botha has been wordsmithing for more than 20 years, covering just about every subject under the sun and then some. She's strung together words on sustainable development, maritime matters, mining, marketing, medical, lifestyle... and that elixir of life - chocolate. Nicci has worked for local and international media houses including Primedia, Caxton, Lloyd's and Reuters. Her new passion is digital media.

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