

Before Eskom Becomes The

Problem *With so much on its plate, the South African electricity monopoly may become unwieldy and inefficient*



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Eskom has returned to the news headlines, not for all the right reasons.

In late June 2009, South Africa's power utility won a 31.5% increase in tariff from the country's National Energy Regulator. This comes on top of the 27% increase it won in 2008. The hike has generated a buzz, largely negative, among business and labour activists, who are concerned that the slowing economy has ensured lower income for the majority of the people.

Several unlikely allies, including the South African Chamber of Commerce and Industry (SACCI), Business Unity South Africa (BUSA) and the Congress of South African Trade Unions (COSATU), are united against the increase in payment for use of electricity.

Even so, the expected revenue addition will hardly cover the capital cost of the expansion programme of Africa's largest electricity supplier.

But amid the conversation around tariff hike and public anger at perceived poor management of the utility, the unstructured pace of growth of the company is overlooked. The tendency for Eskom to take on more and more is not being debated. Nor is the focus on Eskom as being the once and future provider of all of South Africa's electricity needs being subjected to the robust interrogation it merits.

Eskom is growing unwieldy before our very eyes. In the past one year, its staff strength-not on contract-increased by 2,000. It has had salary adjustments for skilled staff, its publicists explain, "in order to retain top quality personnel". The immediate and future programme of expansion is dependent largely on construction of coal-fired plants, the surest way to pollute the environment. Eskom has shelved plans for Nuclear power plants and is not keen on using gas resources, supposedly for cost reasons. A 5% rise in South African coal consumption in 2008, caused Africa's total consumption to jump by 4%, despite drops elsewhere on the continent. Even so, the jury is still out as to whether the cost of coal that Eskom uses for its power plants couldn't be much cheaper.

Eskom's continued hike in tariffs gradually hacks away at its reputation as the world's lowest cost producer. In spite of what Sacci, Busa and Cosatu might think, this is probably good.

So far, there hasn't been much room in the national conversation for a strong opinion against Eskom's monopoly of the continent's largest electricity supply industry.

The official reason for the massive power failure that occurred in January 2008-during which some 8,500MW,

or 24% of available capacity were shut out of the grid-is that the ANC government underestimated the likely rate of economic growth and wrongly ignored Eskom's warnings that it needed to start building new capacity. The public understands better now that some ill advised procurement policy on coal supply was as important to the systemic collapse, the worst in modern South African history, than extant plant capacity. Now, as Eskom scrambles up and dusts off the dirt from its jacket, we should reconsider the collective desire to place all the country's energy requirements in its hands.

No matter how hard it is, we must revive



Eskom: Ankerlig and Gourikwa power plants

discussions about private power producers and private power distributors, taking far more significant part in South Africa's electricity supply industry. Eskom must share responsibility in delivering electricity with other stakeholders. The shorthand explanation for keeping them out-that Eskom's tariff is too low for other companies to compete- is lazy. A comprehensive review of incentives for electricity production and distribution ought to happen.

We must also look at some of the things that Eskom is doing, that are probably best left to others. Eskom is at the moment carrying out multi year price determination. The monopoly is also developing a programme to procure power from the private sector, in which case it becomes like a licensing authority.

Price determination by Eskom, will be based on Eskom's own notion of manpower costs, equipment and feedstock prices. This is a

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role that, in some places, is played by the electricity regulatory agency itself and in which government can use tools that ensure fairness to all. In certain countries, a multi-year tariff order allows government to allocate money for subsidy, reducing the subsidy over a period of time during which a privately run electricity supply industry firmly takes hold and electricity prices become market driven. This route is certainly unpopular in South Africa

currently, but government can find a way to make the price of a feedstock to be cheaper for generating power than it is for other uses. These are issues that should be subjected to thorough debate. Instead, we are all united under the agreement that Eskom must build more, employ more people, procure feedstock the way it best feels even if it turns out-as it has once been-against the national interest and license opportunities for power production to companies it judges can do it.

The closest thing to widening the debate on Eskom's chokehold on

South Africa's electricity sector came from a surprisingly close quarter. NERSA CEO Smunda Mokoena told a conference a few months ago, that "The procurement of new private power generation capacity, including independent power producers (IPPs) and cogeneration, should be managed and co-ordinated centrally, by a professional entity independent from Eskom"

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I thought that Mr Mokoena's statement would be followed up by a robust discussion on diversity of contributions in the sector. Instead, everyone went back to agreeing that Eskom was the be all and end all to South Africa's power needs. This needn't be so.

I'd rather we move away from merely responding to Eskom's incessant tariff hikes and look at the bigger picture. Should we not widen the field of participants? ■