

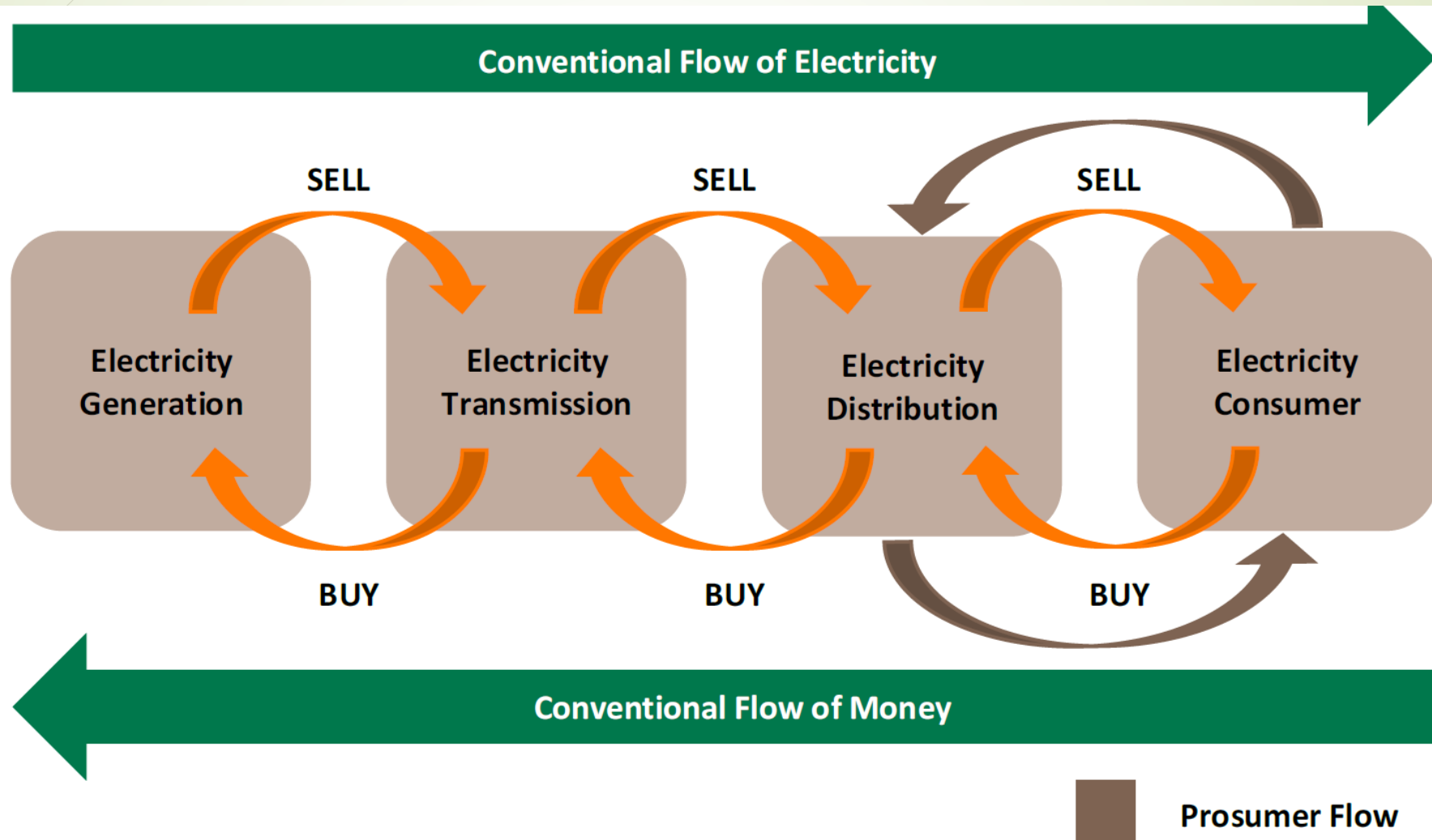
SATRI Response to Eskom Roadmap – Unbundling



What is being proposed by Eskom



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Response \ Concerns on the model from labour perspective

- ▶ **Multiple Suppliers and Modern Systems are proposed under the new structure: These do not guarantee efficient outcomes.** *There have been different outcomes in terms of energy availability, energy access and affordability from countries on the participation of multiple suppliers from industry. Often these outcomes have negatively affected labour and consumers the most.*
- ▶ **In articulating Eskom problems it is mentioned that declining demand is one of the problems:** *Unbundling Eskom will further decline the demand from Eskom through skimming away some of the current Eskom customers.*
- ▶ **A value chain for the reformed electricity supply industry under which generation sells to transmission, transmission then sells to distribution and finally distribution sells to consumption is proposed:** *This model complicates coordination of energy generation and supply in the country. It further introduces inter-company information flow difficulties. It introduces multi-level company profit taking. This is likely to increase energy prices payable by consumers.*

Response \ Concerns from labour perspective

- ▶ **The reformed electricity supply structure that separates and allocates functions to, generation, transmission and distribution structures of Eskom is proposed:** *The model is based on the assumption that each entity will be able to pay the other. But:*
- ▶ *There is a high possibility that consumption will not be able to pay distribution resulting in distribution failing to pay transmission, risking a collapse of the entire model.*
- ▶ *The model being proposed does not address the core problem of Eskom debt and therefore, until a clear indication of where the debt will be located and who will be responsible for it.*
- ▶ *Secondly the model is also silent on the broader National Development context which by implication makes it counter to the national development agenda as espoused in the National Development Plan of 2030*

Summary concerns

- ▶ The unbundling model being proposed is complex, untested and the human aspect is not properly accounted for. The challenge labour has is that accepting the Transmission Entity is accepting the entire business model.
- ▶ The model indicates that energy will be sourced based on Least Cost consideration: It is not clear how this will be determined. Moreover, existing power stations with slightly higher operation costs due to maintenance wear and tear are likely to be disadvantaged in the allocation of energy generation. This is likely to affect their ability to maintain employment.
- ▶ Too much power has been allocated to the transmission entity (Tx). The entity will determine from whom to purchase, and under what conditions to purchase energy, and to further determine whom to sell, and under what conditions. What is critically important to take note of is that the entity will not be responsible of what happens after the sale to downstream entities. With the culture of non-payment, Eskom Dx is likely to remain with bad apples of the market.

Conclusion

The unbundled model should be contested by labour because:

- ▶ The solution proposed (unbundling) does not match problems faced at Eskom.
- ▶ It will be practically hard to implement the new structure/model. The model is very complex and the consequences of implementing it are likely to be anti-workers and mining communities interests (antisocial).
- ▶ The proposed unbundling equates to indirect privatisation of Eskom in the long-run. Space is created for private actors to participate in energy generation and distribution but with having signed binding agreements with Eskom transmission. Although this does not seem bad at the outset, it will reduce the energy demand from Eskom, loss of its economies of scale, and further decline in its revenues.
- ▶ With the provision that energy will be sourced from the cheapest producer, Eskom generation and transmission will be further disadvantaged as they already have sunk cost and debt hanging over them. The likely result is a slow choreographed death of Eskom as we know it today!!! And guess what? Full privatisation of the entire Eskom will be proposed as the solution to the pre-determined business trouble set up by unbundling. With privatisation, government will be stripped of the means to use energy and energy policy to direct its national development agenda.