The avoidable risks Eskom assumes on behalf of all South Africans.

Brian Kantor

11th August 2017

The owners of Eskom (all South Africans) should be aware of the grave risks their managers and directors have taken on their behalf. The risks that is to the value of the many billions of rands they have been deployed on their behalf adding to Eskom's capacity.

The new Medupi station was originally estimated to cost R69.1b. in April 2007. The latest estimate puts this at over R135b and still rising. The Kusile project was estimated to cost R80b. The revised estimate in July 2016 was R160b – and will also be revised still higher.

The danger is that all this additional capacity may be worth much less than it cost. Or even capable of servicing and repaying the extra R300b plus debt that has been incurred funding these developments, much of it tax payer guaranteed.

The further danger is that the burden of these overruns and servicing the debt incurred will be passed on to the consumers of electricity in SA in the form of further increases in the prices charged by Eskom. But Eskom's monopoly applies only the electricity delivered over its grid. Thus increases in electricity prices may prove self- defeating for Eskom as well as highly damaging to the competitiveness of the SA economy. Higher prices lead to lower levels of demand – perhaps the point where sales revenues decline rather than increase as key customers become more energy-conserving and turn to alternative supplies off-grid.

Potential customers can shut down operations or not start new projects when the economic case for their operations make much less sense, given higher real electricity prices. Investing in solar panels, small wind turbines or increasingly efficient gas turbines installed on-site can make good sense as drawing on the grid becomes ever more expensive. And who knows what the opportunities innovation and invention may bring for the generation of electricity on a small scale in the near future?

There is no good reason for all South Africans to have to carry these risks to the supply of and demand for electricity in South Africa. Such risks could be readily absorbed by willing new owners of the plant – at the right price. Owners perfectly capable of raising their own sources of debt and equity capital to the purpose. The capital market has a proven taste for highly predictable income streams that electric utilities can deliver.

The Eskom assets could be divided up sensibly and auctioned off to a number of independent and capable operators who would carry the risks of any failure to operate successfully. Hopefully the prices realized for the assets would be sufficient to pay off the Eskom debts. But even if not enough, it would be better to realise as much as possible, as soon as possible for these assets, than to incur still more debt to keep Eskom on its present destructive path.

One advantage of perhaps lower than replacement cost prices paid for the Eskom assets is that it might enable its new owners to offer much more competitive electricity -while still providing an adequate return on the capital they have invested. Prices for energy that could then prove very encouraging to miners and manufacturers made more internationally competitive by lower energy costs. Highly competitive electricity by international standards could prove a stimulus for a strong revival of SA manufacturing and mining and accompanying employment.

The SA economy stands to benefit from a much more competitive market for energy. From additional generators and distributors of electricity who would be required to compete for customers. Indeed a system much more like those that apply in the US or UK. A system well designed to spread the risks of failure and rewards for success in the energy markets.

Rather than one that concentrates all these risks in one team of managers that can prove so highly fallible.