

Cabinet approves further funding for Eskom

National Treasury has announced the approval of a package to support Eskom to ensure that the energy security of the country is maintained and GDP growth supported.



The National Treasury will provide a further R50bn to Eskom to assist with its build programme and ensure that energy tariffs are maintained at reasonable levels. Image: Nirnots [Free Digital Photos](#)

The package is based on recommendations from an Inter-Ministerial Committee, which reviewed an extensive set of options available to ensure energy security.

"Eskom is facing significant challenges that threaten its sustainability. These include a funding gap that requires closing to ensure security of supply. The main contributors to this gap include the fact that Eskom will not be generating enough revenue to cover the costs of electricity supply," the Treasury said in a statement.

"Further, Eskom has been incurring additional costs to keep the lights on by running the more expensive power plants - open cycle gas turbines - excessively due to a deterioration of performance of some of its coal plants and delays in the build programme," said the statement.

Treasury said as a result of these factors, a package of solutions was required to ensure a sustainable electricity supply industry, which focuses both on improving efficiency of operations, as well as funding.

Tariff increases

The allocation of funding will be given to Eskom to help relieve the impact on electricity consumers, as well as add additional support for Eskom's balance sheet, which needs to be strengthened.

According to the Treasury this will be funded from leveraging non-strategic government assets, adding that the details of this will be provided by the Minister of Finance as part of his budget announcements.

"Eskom will be raising additional debt in the region of R50bn, over and above its original plan of R200bn during the third Multi Year Determination Period (MYPD 3).

"While higher debt levels do have a negative impact on Eskom's balance sheet, it is necessary to reduce the immediate impact on electricity consumers.

"Raising more debt is supported by the substantial guarantee facility available to Eskom from government, which will be used to reduce Eskom's cost of debt, but also needs to be supported by a sustainable industry, relying on managing costs and raising sufficient revenue to cover these," said Treasury.



Eskom needs to keep generating electricity to support GDP growth but does not make enough money from its electricity generation and needs some government funding to assist its build programme. Image: [Green Business Guide](#)

Demand management

Cabinet approved the acceleration of demand management measures that do not undermine economic growth, which will also help to improve the electricity supply and demand balance.

The package includes a refinement of energy policy and regulatory governance mechanisms to help keep the lights on and give certainty regarding the energy industry.



Alternative power suppliers will be encouraged and supported to try and reduce the burden on Eskom to provide South Africa with all the power it needs.
Image: [Darling Wind Farm](#)

Also, Cabinet approved interventions to ensure that free basic electricity allocations are used effectively to cushion poor households from the impact of higher tariffs.

"Government will therefore assist municipalities address the current weaknesses in the use of free basic electricity allocations. In addition, government will implement a programme to improve the efficiency of municipal electricity operations," said Treasury.

Independent Power Producers

Government will also support the expansion of the Independent Power Producer Programme to complement Eskom's build programme.

Further to this, significant savings have been identified and agreed to with Eskom and will form part of the package that will be implemented over the MYPD period.

As a result, Eskom will need to improve the efficiency of its operations through more effective maintenance of existing power stations, limiting cost overruns in the new build programme, improving procurement outcomes and management of working capital.

Treasury said Cabinet decided on the package to ensure a balanced solution to the industry's challenges, and taking into account any potential socio-economic impact on business and households as well as ensuring that a sound fiscal framework is maintained.

Further to these interventions, government will support Eskom's application to the National Energy Regulator of SA (Nersa) for tariff adjustments in line with the regulatory process.

This was because tariff adjustments remain the key mechanism that will provide the electricity supply industry with a sustainable solution, meaning that it will provide Eskom with the revenue and cash flows the utility needs to complete the current programme of building power stations, repaying debt and interest.

"Nersa will still apply its regulatory oversight and prudence tests to ensure that costs across the industry have been efficiently incurred," said Treasury.

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