Despite challenges, Eskom improves operational performance

Eskom continued to deliver improved operational performance in the financial year ended 31 March 2018, despite the financial and governance challenges facing the company.

Medupi Unit 5 achieved commercial operation on 3 April 2017 after completing performance, reliability and compliance tests. This was followed by Kusile Unit 1 that achieved commercial operation on 30 August 2017, and Medupi Unit 4 on 28 November 2017.

The three units have added total installed capacity of 2,387MW to the national grid, said Eskom.

Furthermore, Kusile Unit 2 and Medupi Unit 3 have been synchronised to the national grid and are expected to become fully operational within six to nine months.

The power utility said it was confident the new build programme will be completed by 2022/23, barring delays as a result of contractor performance, industrial action or other issues outside its control.

Plant availability improved marginally to 78% compared to 77.3% in the same period last year. Planned and unplanned outages were also kept within the targeted range of 10% each.

Speaking at the announcement of Eskom's financial results, Group Chief Executive Phakamani Hadebe said: "Despite satisfactory progress being maintained on the new build programme, as well as improved operational performance for the current financial year, Eskom continues to face significant challenges in the short to medium term.

“Revenue levels remain unsatisfactory, and the tariff increase of 5.2% for the current financial year further compounds the impact of the 2.2% tariff we received last year, and is therefore not expected to lead to much improvement."

Hadebe said levels of arrears debt, especially from municipalities, remain unacceptably high. “In the short term, our focus will remain on cost efficiencies to support financial sustainability.”

Eskom is currently undertaking a strategy review, expected to be completed by September 2018.

The aim is to ensure the company has an integrated strategy that addresses not only its current challenges, but also ensures that the future direction is clear and focuses on stabilising the organisation.

Eskom’s Acting Chief Financial Officer Calib Cassim said the company’s financial health has deteriorated in recent years due to lower electricity demand, low tariff increases, and above-inflation cost increases.

The financial performance is further expected to deteriorate before improving.

Earnings before interest, taxes, depreciation, and amortisation (EBITDA) increased from R37.5bn to R45.4bn mainly due to containment of operating expenses.

Eskom posted a net loss of R2.3bn largely due to a substantial rise in depreciation and net finance cost. Depreciation increased to R23bn from R20bn as a result of new power plants being put into commercial operation.

Finance cost, after capitalisation, increased to R26bn compared to R19.6bn in the same period last year. This was mainly attributable to increased borrowings and a reduction in borrowing cost capitalised as new power plants being brought into commercial operation.

"Cost containment alone will unfortunately not solve Eskom's financial position. It is therefore important that the price of electricity should migrate towards cost reflectivity," said Cassim.

Eskom chairperson Jabu Mabuza said “despite achieving good operational performance, Eskom experienced a tumultuous year, characterised by liquidity issues coupled with a myriad of governance related challenges which mainly stemmed from the previous financial year’s qualified audit”.

“Eskom has suffered an absence of ethical leadership at the highest level for some time, but we aim to rectify that as a matter of urgency. We believe this is one of the principles underpinning the stabilisation of Eskom and to set it up for sustained success, while fulfilling both its commercial and developmental mandate," he said.

Eskom received a qualified audit opinion for the year under review as the external auditors could not rely on the process in place to ensure the completeness of irregular expenditure reported, fruitless and wasteful expenditure and losses due to criminal misconduct.

Irregular expenditure rose to R19.6bn from R3bn recorded previously due to the extension of the verification and clean-up scope to go as back as far as December 2012.

Mabuza said: “The qualified audit must be looked at within the perspective of our intensified efforts to clean up which has in the medium term surfaced further irregularities.

“While we are disappointed that a qualified audit could not be avoided, we are comfortable that great strides have been made in our key focus areas with a number of initiatives being set in motion to address our key challenges in a sustainable manner.

“Our challenges cannot be fixed overnight, as the damage was also not done overnight. We have to take some short-term pain to achieve the long-term gains and the Eskom of the future we all want to see,” Mabuza said.

Hadebe said: “We are committed to turning around this institution. A strategic review is being undertaken to re-energise, shift direction and set a firm foundation for Eskom’s growth by strengthening Eskom’s financial position and balance sheet, reviewing the business model to respond to global energy industry changes, growing the business into new markets and products, improving trust and restoring labour, investor and stakeholder confidence as well as reviewing the IPP and coal strategy.”