NATIONAL COUNCIL OF PROVINCES
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 37 [CW43E]

37. Ms C Labuschagne (Northern Cape: DA) to ask the Minister of Finance:

With reference to Eskom's borrowings which has escalated to unsustainable levels (despite NTs purpose "sustainable management of public finances"), why did the National Treasury not raise the alarms timeously or step in to limit exposure?

CW43E

REPLY:

When Eskom started its current Capital Expansion programme, National Treasury understood that for Eskom to finance this programme, it will have to rely on internally generated funds through the tariff increases that are granted by the National Energy Regulator of South Africa (NERSA), borrowings from the capital markets and Shareholder support based on the financial position of the entity at the time. Hence, National Treasury initiated the shareholder support through the R60 billion subordinated loan, R23 billion equity allocation and the R350 billion in Government Guarantees that Government granted to Eskom. However, the tariffs that have been granted by NERSA as an independent Regulator have been consistently lower than what Eskom requested, along with inefficiencies within the business which resulted in Eskom relying more on borrowings to fund its capital expenditure programme.

Furthermore, Eskom has also been negatively impacted by lower sales volumes and non-payment by municipalities and Soweto which reduced its revenues. When the Government support package of R350 billion was granted to Eskom in 2015, the former Minister of Finance imposed stringent conditions that Eskom had to adhere to, which were meant to manage the entity's exposure. When Eskom received an audit qualification in 2016, National Treasury led by its Director-General in consultation with the Department of Public Enterprises Director-General engaged Eskom lenders on their concerns to avert a call on Eskom debt which would have triggered a call on the guarantees. In addition, the Directors-General and Eskom Group Chief Executive provided a plan to the external auditors that detailed the measures that would be implemented to address the issues that the external auditors had raised.

Therefore, National Treasury has been making timeous interventions to limit Eskom's exposure regarding the challenges that the entity has been experiencing which includes governance, financial, operational and the malfeasance that has been plaguing the entity. However, the continued delays in the delivery of Eskom's capital expenditure programme is further exacerbating the situation that Eskom finds itself in. Hence, National Treasury and the Department of Public Enterprises officials continue to work closely with Eskom to manage its daily cash flow requirements to ensure that the entity's i) financial position does not negatively impact Government cash management, ii) implements an orderly separation of the business into three entities and iii) undertakes a path of just transition (i.e. move from coal to clean energy generation and mitigating the socio-economic impact on workers and communities).