

## **CLOSING REMARKS – JOHANNESBURG, GAUTENG HEARINGS**

P M Makwana, Interim Chairman & Chief Executive, Eskom

### **GALLAGHER ESTATE, 22 JANUARY 2010**

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*Mmago rena Mohlomphegi Mohumagadi Cecilia Khuzwayo Modulasetulo wa Lekgotla Phethiši la NERSA, Mohlomphegi Morena Smunda Mokoena Molaodi Kakaretso e lego Gomangkanna wa NERSA, Mohlomphegi Morena Thembani Bukula Molaodi yo a okametšego thulaganyo ye ya tša mohlakase, maloko a Tshepedišo Phethiši ya NERSA yeo e lebanego le go sekaseka kgopelo ya rena re le ba ga ESKOM, mabapi le kgopelo ya MYPD2 ya tthatlošo ya Theko ya Motlakasi.*

*Bahlomphegi, Baetapele le Maapara Nkwe ka moka ao a lego fa, re sa bowa gape re le tamiša. Mohlang wola re kgaogana kua gaVanriebeck motse Kapa, ke ile ka re loku ha ne re timpyana, ha ne to bona hi mitjila loku e ku pulupulu. The Tsonga people of Limpopo, Chairperson have brokered wisdom to their fellow Africans through their remarkable observation of human behaviour.*

When a dog is happy it tends to wiggle its tail. When a dog is unhappy it sticks its tail between its legs.

*Se manje Chairperson ntjila ya hina eku pulupulu. He tsakili, he tsake ngopfu! Hi tele nkateko hi burhangeri ba ku tsatseka ka wena Chairperson, na ndlela ya ku tsatseka le imiendlele yona le swaku mi tirisana kahle na hina. Ha nkhentsa, hi tele ko kateka. Hi ku kwa ba Mmaane, ba Manana Etel Teljeur, Kanimambo Manana! Swibutiso swa n'wina ha ko ri swibutiso swa matimba sbywa ku tika! Really tough and challenging questions indeed Manana Teljeur, mi hi babisili, hai le swa ku tlanga nie, mara ha nkhensa. Swibutiso sbywa ngwina sbywa ko tika, sbywi hi nyike matimba, sbwi e entla le swako hina kwa Eskom hi ba na buhlarhi. Die proses warmee ons besig is kan net ten beste belange van Eskom en die land wees deur middel van sulke belangrike vrae. Want as ons nie antwoorde soek vir sulke moeilike vrae nie dan raak 'n mens mos nie oogerus nie. Ons sê vir u hartlik baie dankie vir u bydrae, daarmee kan ons hoë standarde handhaaf and groei.*

Mr Smunda Mokoena, Chief Executive Officer at NERSA, thank you

very much, Sir, for the constructive role you too played during this journey. *Ke tseba boMokoena ba Basotho, boKwena ya mafula' thekwana.* However, there are other Mokoenas that I also know from within my extended family who speak isiNdebele *sakwaMahlangu, bathi masekunje, bathi ....regge reg nina ba kwaNERSA ni ragela kuhle lo mragelo wo ku laula inkhgambiso ye ntengo yogesi. Sithokoze stereke mfo ka Mokoena.*

Dr Rod Crompton, ever so diligent, ever so thorough, we thank you for some of your difficult questions. It is human nature to push-back as I did on one occasion, please accept it from whence it came. Most importantly, please accept that we did appreciate where you were coming from and accepted the tough questions as best as you intended in that spirit of diligence and technical depth.

Mr Bukula, the university I did my undergraduate studies at, lies juxtaposed across the Ongoye mountains on the banks of the Mhlathuze and Mhlathuzana rivers. They have the University's motto as *dilligentia cresco* – through diligence we grow. Such is the overall work ethic I experienced under your leadership during these hearings. You are to be commended on the professional manner in which you managed this process. Your sense of humour is also infectious, in spite of dealing with tough matters; we had lots of fun and laughter in the hearings process.

To the support staff at NERSA, thank you! We have been through the depth and breadth of the provincial capital towns of our country with you. You provided us with brilliant support and hospitality. Please, may you have an added spring in your steps, knowing that your efforts did not go unnoticed.

*Rre Modulasetilo le maloko a NERSA panel, re le eletsa masego, ka gore le tshotse phaga ka dingana. Rere e ka Modimo o ka le fa botlhale le manonthlotlho tota le botswerere botlhe bo kgonagalang gore tiro e le lebaneng le yona le falole sentle heela mo go yone, e masisi tota, mme nna ke a le tshepa gore le digatlamela masisi e le tota. Jaanong nte ke retologe ke lebise dintlha di se kae go araba dibui tse farologaneng tse ntseng di tla di beya mahoko mabapi le kgang ena ya theko le tlhwatlhwa e siyameng ya motlakase.*

Chairperson, Eskom's MYPD2 application is good for SA. Let me, at the outset of this closing statement, also declare that as Eskom we hope that henceforth, none shall dare stand on a podium and proclaim that Eskom never shouted loud enough about the real and challenging picture of security of electricity supply in South Africa.

The tariff application got South Africans to have the right conversations about electricity. Chairperson, the conversations we have had throughout these hearings will prove to be time well spent if they are followed by correct choices and action on the part of all South Africans.

We hope we got South Africans to think on an on-going basis about appropriate energy mixtures for their homes, factories, mines and manufacturing plants. We have a shared appreciation that the root cause of many problems within the electricity sector is that the cost of generating electricity is incorrect. This is the fundamental correction that has to be made as we transform the sector.

If we break down the tariff into its substantial parts we see a lot of commonality among the presentations.

There has been a call for greater engagement and broader dialogue. SALGA, COSATU and organised business punctuated this call. This is a call we welcome in line with our own call for a national compact on electricity supply. We welcome this with open arms and will do our fare share in ensuring that this call is responded to.

There's been mixed reactions to the 30% or more equity stake in Kusile where even SALGA, organised business and analysts stretched this idea to include private sector participation in other existing power stations. Naturally, COSATU advanced equally compelling opposing arguments in this regard. We advise all key stakeholders to make formal representation to the Eskom Holdings Board and to the shareholder in this regard,

Dialogue to be meaningful requires the absence of dogma from all players across the board. There's definite acknowledgment that our primary energy and operation costs must be recovered. We acknowledge that there are on-going opportunities to seek and achieve efficiencies and savings. There's a real need to have funds available to either replace our current asset base at the end of its life or replace such with other renewable energies. There has also been acknowledgement that the costs of these technologies are more expensive currently.

Regarding yielding returns on assets employed, there is appreciation that

- a) current funding obligations (loans and interest) need to be repaid.
- (b) private equity holders would require meaningful returns and upside on economic profit or EBIDTA.

We can debate all of these at length but there is no doubt that in the short term of the current MYPD2 period, Eskom's solution is the only viable one.

This MYPD2 application, provides a platform for:

- Moving towards a cleaner future as it starts to incorporate the renewable supply options as outlined in the first draft of the IRP;
- Ensuring security of supply through the funding for the required short- and medium-term capacity expansion programme in a balanced and sustainable manner;
- Moving towards cost reflective tariffs that will open up opportunities for the establishment of IPPs and the sustainability of the industry; and
- Supporting the country drive for energy efficiency through DSM programmes.

Chairperson it was evident to us that the quality of assumptions of most presentations could have been more robust. We will look for opportunities to empower stakeholders in this regard. Stakeholders also have a personal duty to visit the NERSA and Eskom's websites to really understand the rules that define the business of electricity,

Finally Chairperson, the impact of tariff increases is not a one size fit all. Its impact is of a different magnitude to different sectors. Gold Fields is also right: if Eskom fails South Africa fails.

These are key tenets that I think we should all take away from the NERSA hearings. We have more common ground than some stakeholders choose to acknowledge or recognise.

*S'hlalo, eEskom siye sithi xa sithetha sithethe ngento ebizwa iCompany Coat of Arms. Lel Company Coat of Arms esithetha ngayo, mhlekazi ithetha intokubana abantu bathi xa sebejongene ne ngxaki baphambanise izandla.*

In many respects, we have seen the Company Coat of Arms syndrome at play here.

What we heard from some of the presenters is that everybody points elsewhere other than to him or herself for personal and other forms of accountability for providing solutions to our national challenge of securing continuity of supply of electricity.

A few people point at everyone else and Eskom to change rather than to say: as matters stand, what can I do to help make things better? What can I contribute to this challenge, which we all agree is about what needs to be done to fund a sustainable funding model that will enable continuous supply of the energy and electricity needs of our country?

Chairperson, it starts with everyone getting on their bicycles and heading for Megawatt Park, *batle ba tlo botsa hore, beso ha Eskom le ha seemo se le tjhenana ho etsiwa jwang? Le rona Megawatt Park kwana re fehelwa re khutsitse re phehelletse ntho e le nngoe ya bohlokwa hore na re ka etsa jwang hore Sechaba sa Afrika Borwa se fumane motlakase o lekaneng ka seelo se tshwanetseng le bona boleng bo lekaneng*. It is in that spirit Chairperson, that we are on our bicycles on a daily basis, and are also foot soldiers on the ground, engaging communities and customers on a regular basis.

Chair, Eskom Holdings Limited is mandated by the South African Government to ensure the provision of reliable and affordable power to South Africa. Electricity cannot be stored and must be used as it is generated. Therefore, electricity must be generated in accordance with supply-demand requirements. Eskom's core business is in the generation, transmission (transport), trading and retail of electricity. In terms of the energy policy of South Africa "energy is the life-blood of development". Eskom currently generates approximately 95% of the electricity used in South Africa.

Chairperson, I stand here on behalf of 33 000 South Africans who call Eskom their place of work. On a ratio of 1:4, I am also speaking for the roughly 120 000 members of their families and members of their households. They rise every morning before the crack of dawn with one objective in mind, to keep the lights on for South Africa and its people.

Chairperson, this after we stand here before you ever so tall because we stand as we do on the shoulders of giants. Chairperson, one of the best document source of institutional memory is a publication called the Symphony of Power. In there is the remarkable story of 87 years of the history of Eskom and industrialisation in South Africa. The development of Eskom since 1923 owes its success to visionaries, whose passion

and leadership as truly remarkable South Africans are outstanding. Among these is Dr Hendrik van der Bijl. Dr van der Bijl was the founder chairman of Eskom, from 1923 to 1948, and was instrumental in shaping the industrial development of South Africa.

In 1948, Dr Hendrik van der Bijl wrote the following words in a foreword to a book celebrating the first 25 years of Eskom: *"...There lies before the Electricity Supply Commission a great task and great opportunity. It will be our endeavour to play our part not as those who follow, where others lead, but as pioneers, to foresee the needs of a country fast developing, and by wise anticipation be ever ready to provide power wherever it may be required..."*

Chairperson we at Eskom have a spring in our step every morning in the knowledge that we operate a world-class operation. That we are a learning organisation; that like our pioneering founding fathers, we constantly seek to learn and do better, that we have national and international networks that respect us as engineers, scientist, technologists, apprentices, technicians and above all, world-class managers.

Chairperson, our staff have a spring in their step knowing that in a landscape of world energy utilities; that provide energy or electricity among 200 nation states, Eskom is the 10<sup>th</sup> largest electricity utility in the world. The first nine utilities ahead of Eskom are EDF (France), ENEL (Italy), GDF SUEZ (France), KEPCO (South Korea), Tokyo Electric (Japan), EON (Germany), ENDESA (Spain), RWE (Germany) and AES (US). The build programme that we are talking about is the 5th largest build programme in the world. The top four are Yangtze Power (China - 19 000MW), China Power Investment Corporation (China - 19 000MW), NTPC (India - 12 000MW), Datang Power (China - 12 000MW) by the end of the MYPD2 cycle, the build programme will have created 40 000 construction jobs and will indirectly and positively impact the lives of 160 000 South Africans.

Chairperson, our capital expansion programme constitutes a major economic stimulus. Consider that the Medupi project alone is four times bigger than the Gautrain project and even bigger than the five-year capital spend on all rail, port and pipeline upgrades in South Africa.

As matters currently stand, the Medupi project in Lephalale is set to create 8 000 jobs directly at the peak of construction and up to 1 000 jobs in ultimately running the station. Over and above this, the town of Lephalale is already growing exponentially in terms of housing (1 850 needed), infrastructure (services and education), commerce (increase in guest houses and hotels, catering for workforce), and much more.

Our staff have a spring in their step every day; on a bright and sunny day, on cold winter mornings and nights; they brave the cold of our frost and soldier on keeping the lights on. Chairperson, that which they have in common in shared inspiration are the noble goals of service, serving a cause bigger than themselves; and most significantly, making a difference in the daily lives of their fellow South Africans. They are an embodiment of the South African way of life.

They are my unsung heroes and heroines. Chairperson, fellow South Africans, I challenge you to make them your heroes and heroines too. They are guardians of our modern civilisation; they are custodians of our national interests.

We thank the Energy Intensive Users Group (EIUG) as represented by Mr Ian Langridge. We would like to commend the EIUG on the positive leadership role they have played in the discussions to date on the security of supply and the cost of supply in our country.

We welcome the positive pressure that the EIUG is placing on us for improved operational efficiencies. We are pleased that they have noted the results of our current operational cost cuts to date. Members of the EIUG and Business Unity South Africa (BUSA) should equally emulate or improve on this good trend and similarly engage on operational improvement plans to ensure that the fundamental competitiveness of the South African industry is changed. Big energy users and big business should help us build a future less reliant on unrealistically priced input costs such as the current price of electricity.

In addition, we agree with the EIUG that two key challenges facing us in the near future is the creation of a conducive environment for public private participation in the electricity sector and a step change in the management of demand side management. We look forward to continuing our regular engagements with the EIUG to drive these two challenges to conclusion.

Eskom values the long-standing constructive relationship with the EIUG and appreciates the recognition given to efforts by Eskom to improve business efficiency and operations. Trade-offs between the competing priorities of job creation, energy security and electricity price increase mitigation need to be made as the EIUG has indicated.

The need for Independent Power Producers (IPPs) within the framework of a finalised Integrated Resource Plan (IRP) is fully supported. Over the past five years, approximately R1 billion has been spent by Eskom on Demand Side Management (DSM) projects which have been implemented with the support of industrial customers. We

will continue to identify and implement additional DSM projects with EIUG members.

From COSATU thank you, Dumisani Dakile, Faku, for the patriotic and responsible manner in which you articulated COSATU's position this morning. It is in line with the spirit of partnership we reconfirmed and recommitted to at NEDLAC on Friday 15 January 2010. *Faku*, it is regrettable that you experience the opportunistic acts that you site of employers giving notices of retrenchments purporting to do so due to electricity tariff increases. Herein lies the problem that we should not allow those that espouse the worst of employment practices to inform our worldview or paradigm when we now have to cast our vision to the future in search of long lasting electricity supply solutions.

Your input this morning Mr Dakile, m'takaFaku, Nyawuza made me reflect on a critical mindset shift I believe South African business boardrooms need to reflect upon. This is the difference in mindset between being competitive and being pioneering.

A competitive mindset is useful but limited. It is best understood when one observes people on a treadmill at the gym. You will observe individuals running on the same spot and sweating but not moving anywhere. A pioneering mindset is different in that it is about a bold quest for a better way.

A quest to seek and create new rules of play, to discover new frontiers rather than merely raising the bar. Pioneers innovate in a manner that creates new offerings, markets and often new industries. The times we are in require more pioneering leaders rather than competitors, because Chairperson, one could be the best of a worst bunch in that mindset and still be deemed competitive.

As we respond to the input from BUSA as articulated by Mr Jerry Vilakazi, Mphephethwa! We appeal for this pioneering mindset and leadership from BUSA and its members. Mphephethwa, Eskom has been blamed for many things, as it is a hobby horse to do so.

However, it is rather rich for BUSA to suggest that DSM initiatives emanating out of the unfortunate 2008 load-shedding, precipitated South Africa's recession.

The recession we are grappling with and hopefully coming out of, must be reflected upon in earnest and in its proper global context. It is also a pity that BUSA missed our opening presentation where we demonstrated that a mere 1 500MW out of 43 500 MW come from energy imported out of Cahora Bassa.

This and many incorrect assumptions in the BUSA presentation point to an urgent need for information exchange between BUSA and Eskom. Leadership is impossible and compromised if it is driven without the benefit of accurate facts and data. Mphephethwa let's meet as soon as possible regarding those monies in private hands that you mentioned. Let's also meet urgently on Demand Side Management, especially to discuss how BUSA members can contribute tangibly and meaningfully their share of the national energy accord target of 12%.

Eskom's current application calls for about a 5% (just over 8TWh) reduction in energy usage through DSM in the next 5 years. Business through the energy accord has signed up to a 12% savings by 2012. Research conducted in 2008 pointed to huge potential to save between 8% and 15% overall based on appropriate investment in technology and behaviour change.

As stated in our opening presentation, the more bankable solutions we are provided with, the better for Eskom and our country.

Eskom wishes to extend an invitation to BUSA to have a bilateral exchange on the operational business framework and assumptions within which Eskom operates.

We have highlighted in our application the need for a national dialogue on our energy future. This involves making choices as a country regarding the capacity needs for the future, the capacity mix, who would build the required capacity, what it would cost and how it would be funded. These policy choices will culminate in the long-term Integrated Resource Plan to be developed and published by the Minister of Energy.

Our regulatory environment is underpinned by the interplay between policy, legislation and regulation. Due to our current realities, Eskom believes that it is prudent to take steps to set the foundation for our future whilst the critical policy decisions are being addressed. Of course, this is only possible if flexibility is retained to empower the future without pre-empting that future.

This is what we have done in our MYPD 2 application which we see as a stepping stone towards the achievement of these national long-term goals. We will be running out of capacity in the near future (as early as 2011 onwards) and there is therefore a need to proceed with the current Eskom build programme. This includes the Medupi, Kusile and Ingula projects and to return the mothballed power stations to service, and introduce IPPs in terms of the Medium Term Power Purchase Programme.

In this regard it should be pointed out that there is by and large alignment with the published IRP, and hence government policy. Eskom has suggested certain variations to the published IRP to achieve a smoother price path – and this is subject to approval by government.

Beyond these projects additional capacity is still required for the country and these choices will be informed by the country choices to be made and the final IRP. Decisions relating to nuclear capacity, the next power station and whether Eskom or an IPP would build that power station are, for example, open to further dialogue - led by government as policy maker.

As we undertook at NEDLAC last week Friday, let me state here this afternoon that Eskom is committed to building and nurturing this partnership with Organised Labour, Organised Business, Government and formations of Civil Society within NEDLAC.

We thank Earthlife Africa's challenging insights and the warmth of human spirit through the voice of Tristen Taylor. We plan to engage in a roundtable of discussions with all Non-Profit Organisations and or NGOs engaged with green and renewable energy matters.

In that roundtable discussion, Mr Tristen, we will also make sure to factor in an in-depth presentation of Embedded Derivatives. I am delighted that as stated in your presentation that in relation to the MYPD2 tariff application you confirm in one of your slides that the electricity tariffs need to be aligned with the cost of producing electricity.

I was at Copenhagen on behalf of Eskom and as part of the South African delegation. Eskom is a member of long and good standing of the World Business Council on Sustainable Development.

I have found that when we did share our plans on renewable energy people were amazed at how far advanced our thinking is in terms of renewable energy. Our plans, moving forward, include an extensive roll-out of a balanced energy mix.

Eskom's business is fundamentally built on the 3 pillars of sustainability. In this regard we aim to maximise the economic, environmental and social returns. Our annual report comprehensively addresses our performance in all of these areas (see [www.eskom.co.za](http://www.eskom.co.za) for details).

Eskom is seen as a key enabler of economic development. In addition to our requirement for financial sustainability we have a suite of

programmes aimed at maximising the benefits of our activities to the South African economy. This includes economic empowerment through procurement and leverage of capital projects, as well as programmes to localise manufacturing and build domestic industries and create jobs.

Eskom is an integral part of South African society. We have numerous programmes in place that invest in social development. These include projects run under the auspices of the Eskom Development Foundation. These focus on the empowerment of women and children in rural communities. In addition, Eskom has in the last week been recognised by the Department of Public Works for creating tens of thousands of jobs under the expanded public works programme. We also have a massive skills development programme and schools initiatives such as the Schools Environment programme and the Eskom Expo for Young Scientists.

Operationally Eskom has established a comprehensive environmental management programme which is aimed at continual improvement in performance over the lifecycle of our investments. This ranges from the inclusion of environmental factors in all planning processes to the quantification of environmental costs, including the internalisation of key externalities, in operations as well as investment decision-making.

We have a comprehensive climate change strategy in place, which is aimed at reducing our relative emissions until 2025 and thereafter reducing absolute emissions. This is in line with the South African government's long-term mitigation strategies which have been exceptionally well received by the international community and which were the basis of the country's undertakings made in December at the Copenhagen climate change negotiations.

Specific initiatives include:-

### **Energy efficiency activities**

Over and above the external Demand Side Management Programme our energy efficiency initiatives are aimed at assisting customers to reduce their electricity demand. Eskom has an internal efficiency programme which will reduce our energy usage by 15% by 2015. In addition we sponsor the *eta* Energy Efficiency Awards aimed at recognising excellence in energy efficiency in different sectors.

### **Renewable Energy activities**

These form part of the DSM programme. We are currently incentivising the uptake of solar water heating nationally. As far as the supply side is

concerned, Eskom is actively developing renewable energy investments. These include the 100MW Sere Wind Project and a 100MW solar thermal project in the Northern Cape. This project is seen as a seed project that will unlock the enormous solar potential in the country and, once piloted, we envisage the construction of thousands of MW capacity over the next 20 years – with funding support from mechanisms such as the Clean Technology Fund.

The NERSA Renewable Energy Feed-in Tariff (REFIT) has been supported by Eskom for several years. As such, it is welcomed as a key tool to facilitate the development of renewable energy projects by third party.

In addition to these initiatives, Eskom is evaluating the potential for further development of the hydro power in Southern African Development Community (SADC) as well as related support infrastructure.

### **Research Development and Demonstration**

Eskom is a national leader in energy sector research, development and demonstration. Its research portfolio includes studies on the application of technologies such as advanced energy efficiency, smart grids, ocean energy, bioenergy and carbon capture and storage.

Wind energy was successfully piloted by Eskom in 2002 and current pilots underway include Underground Coal Gasification - potentially the lowest cost and cleanest coal technology available globally. The Utility Load Manager is an initiative in the area of advanced metering aimed at empowering domestic consumers to take charge and control their demand. Some of the key drivers of this research include improving company efficiency and productivity, reducing emissions and resource use, increasing security of supply and maximising local content and employment in the region.

### **Lower Carbon Energy**

Over and above the renewable projects I have just mentioned, we have plans in place for the roll out of advanced clean coal technologies and nuclear energy. The current coal plants under construction use supercritical technology which increases efficiency while reducing emissions. In addition, dry cooling is being used which reduces water consumption.

### **Planning and decision-making processes**

In the realm of planning and decision-making processes, Eskom has a comprehensive multi-criteria decision-making process in place. This process is aligned with national policy, legislation and regulations. It ensures that investments are assessed on the basis of full life-cycle costs – including externalities – and taking into account the economic, social and environmental aspects of all investments. This is also applied in the very early stages of planning to ensure that capacity decisions are able to maximise returns to the economy, society and the environment.

Chairperson, we hope that we have set the record straight in terms of the broader Eskom universe. In the next three years we face clear and real risks of continuity of supply, our opening presentation was therefore limited to the task at hand – providing clarity regarding the tariff application within the parameters of the MYPD2 cycle.

Chairperson, I am a South African first before I am anything else. Eskom is a 100% South African company creating value for South Africa. At Copenhagen developing nations also brought the matter of a sustainable future and renewable energy to the fore. When we speak about renewable energy we must also do so in the proper developmental context of our country.

It will take four to seven years for any competitor to come into this market and establish a base load power station that can meaningfully generate and transmit at least 3 000MW. The entire Cape's electricity or energy requirement (Eastern Cape, Western Cape, including Namibia) is approximately 5 000MW. The largest wind turbine produces 2MW and 2 500 wind turbines would be required to supply the entire Cape. Such a plant would take about 4 years to build on a 900km<sup>2</sup> piece of land at an estimated cost of R100bn.

Lessons from countries like Germany are that when the wind does not blow consistently one then has to revert to more dependable energy sources like coal, nuclear and solar. Equally, a base load solar energy power station generating approximately 2 000MW would require CAPEX of about R100bn to R120bn, although it would take up to four years from construction to commissioning, its cost structure would be somewhat similar to that of a nuclear power plant. So Chairperson, there are really no easy answers or a panacea to these difficult questions.

Chairperson, a company driven by the profit motive would not even be standing here engaging NERSA and the public on a build programme, which is going to culminate in a loss. We are standing where we stand

today, guided by one thing and one thing only; how we keep the lights on for South Africa and in the best interests of South Africa.

Thank you once again for your participation, constructive criticism and feedback in this very important process. We welcome some of the useful ideas that emerged out of this process. Indeed, the *status quo* is not an option. We need to also debate these matters taking cognisance of the fact that we are the one and only national asset – Eskom.

With regard to local government and the electricity price that gets transferred to consumers by municipalities, the NERSA public hearings brought some opportunities to the fore.

Chairperson, *uBaba uAmos Masondo noTata umfo ka Kolisa sibazwile*. We will engage further with SALGA as we always do, and more extensively with the Institute of Municipal Managers, the Institute of Municipal Finance Officers. These bodies in partnership with Eskom can best serve South Africa by looking at opportunities for reducing the high mark-ups that their members transfer to the consumer, often at 4 times the wholesale price that municipalities pay to purchase electricity from Eskom.

It was quite evident to us in the Cape Town hearings that municipal finance officers have an important role to play in devising smarter pricing arrangements that would mitigate the impact of electricity tariffs on the poor.

In Polokwane, you would recall Chairperson, that municipalities were cited as a weak-link in the efforts of granting access to Free Basic Electricity for the poor. *Moswana ore ditaba di tšwa mahlong. Re leboga sebaka se NERSA e re diretšego sona, ka mosegare wa sekgalela gore re kgona lemošana le baetapele ba go fapafapana mmogo le sechaba, molomo ka molomo, sefahlego ka sefahlego. Ge swarišane re dirišana mmogo, ruri re tla kgereša le gona go šutiša dithaba ra fediša le byona bohloki.*

Mnr du Toit Grobler. *verteenwoordiger van SAPPI en SAIEE ons waardeer u terugvoer ook. Ons het 'n lang pad van Nelspruit en dwarsdeur die land saam met u geloop; u was baie goeie sport. Ons gaan u inset en bydrae ook in ag neem.*

It is indeed correct that we have a challenge with electricity theft. Appropriate changes have been proposed for Government to make suitable policy changes in this regard. *Hiermee will ons mede-Suid-Afrikaners herinder dat dit bly 'n belangrike feit en ons plig as Suid-*

*Afrikaanse burgers om misdaad aan die Polisie of enige staatsowerhede te rapporteer so dra ons daarvan bewis word.*

What is clear from most of the speakers, Chairperson, is that it is indeed correct that most of us want change for as long as it happens to the neighbour and not at our front door or backyard.

Chairperson, while listening to the Engineering Industries Federation of South Africa (SEIFSA) spokesperson, I wondered what SEIFSA's view were on the trading price of steel. I particularly wondered if there was a regulatory authority that I could engage with to fix the price of steel within the 7, 5 and 4 percent mark per annum?

So Chairperson SEIFSA, as a gesture of goodwill, is most welcome to commit their members to an annual fixed increase of electricity tariffs at 8%, 7% and 6% during this MYPD2 period.

With respect to the logic that we should get a tariff that purely covers our input costs, I am afraid, that oversimplifies our current position.

The logic fails to grapple with how our current interest burden (prior to new debt) would be funded and how our current debt position would be restructured or repaid, if no surplus funds are generated through our tariffs.

The discussion regarding tax rebates and relief for Eskom are noted, however, they do not fall within the competence of either NERSA's or Eskom's mandates. We advise Steel and (SEIFSA) to engage National Treasury and SARS in that regard.

As I stated in our opening remarks Chairperson, this is a defining moment not just for Eskom, but for all of us. Eskom welcomes an open and transparent engagement with stakeholders. We have had many bilateral stakeholder engagements during the process of the MYPD2 application. Many stakeholders took up our invitation to engage. We remain committed to further engagement in the spirit of openness. I should also caution against opportunistic engagements on the part of some stakeholders. We are genuinely looking for an opportunity to engage and culminate in a national electricity and related energy sources compact, for one reason and one reason only – to keep the lights burning for South Africa as a whole.

Chairperson, near Phalaborwa, there is a place called Bollanoto – translated to English – the place with the sound of a hammer. I wish to appeal to the various stakeholder and sector leaders not to let us turn South Africa into a Bollanoto.

In our public debates and discourse we must heed the wise words of Abraham Maslow, he who is good with a hammer thinks everything is a nail. We need to shift our mindsets and guard against hobby horses fuelled by negative energy.

For some, taking a public oath as well as standing on a podium and casting aspersions on the integrity of the men and women at Eskom may be a good pass time, but I must hasten to caution, it is very destructive. It demoralises a dedicated team of men and women I have come to work closely with, South Africans of substance and salt who neglect their families, make their career ambitions secondary to their service to their country. These are the 33 000 professional men and women I am proud to call my colleagues.

These are your neighbours, they are members of your spiritual or religious community, they too are citizens, they even are members of your local branch of your political party - they are your friends and family.

They are in every corner of South Africa, including the most remote Magapufontein. You can engage them over a cup tea and *koeksisters*, or over a meal of *mala mogodu*, *okanye* over a dish of *umngqusho negusha*. Eskom can be influenced in as much as we seek to influence you. Let's penetrate, cross penetrate and cross-pollinate each other. Let's choose to engage and lead more responsibly with facts and data as our guide rather than using unfounded anecdotes and innuendos.

Eskom is a proudly South African company. The majority of its employees are South African who operate mostly within the country and interface with all spheres of our society, including the poor. Eskom through the shareholder compact, is not only mandated to, but is also committed to driving the developmental agenda of South Africa. We are well aware of the plight of the poor and will do everything we can to assist with poverty alleviation. We are the same organisation that drove and continues to drive the electrification of millions of homes across the country. We have joined hands with Government in working towards alleviating poverty and we believe that Eskom's infrastructure development provides opportunity to do just that, and more importantly, we will ensure that those interventions, mostly job creation, are sustainable. In other words, we are investing in the future of the country.

In our application we have made what we believe is a workable recommendation regarding increasing the Free Basic Electricity allocation. It is to be noted that any solution will have to be funded in one form or the other. This is the reality. We did not create it, but we remain committed to continue working with Government, civil society,

business and other stakeholders to find solutions to mitigate the impact of increasing electricity prices on the poor. After all, Eskom supplies only 40% of end-users in South Africa and affordability is an issue that has to be resolved by various role players.

Chairperson, working together we can do more. The last time I checked the annual budget for South Africa for the financial year 2009/10 was R841bn and the revenue was R642bn. Eskom's total costs of the build programme will come to about R395bn by 2014 (during the MYPD2). This is about 47% of the country's annual budget in one year. This demonstrates the magnitude of the problem. It is exactly because of the size of this challenge that we must focus all of our minds. I am afraid nobody will have the last laugh should we not have the appropriate tariff increase moving forward.

Chairperson, ladies and gentlemen, there's a few options on the table, equally, there's a bitter pill to swallow. Eskom is the heart of the South African economy. It could be said that this country's heart has suffered cardiac arrest; we need to perform bypass surgery while in the meantime we find other means of maintaining a healthy blood circulation so that this body called South Africa lives a life of vitality and longevity for decades into the future.

So, I am afraid Chairperson, from an ESKOM vantage point, NERSA must also in the interests of our country swallow this bitter pill with fellow South Africans and grant a 35% tariff increase smoothed over the next three years.

I have at the outset made it clear that as Eskom we have NO mandate from the Board or the Shareholder to embark on a process of privatising Eskom. The mandate regarding Kusile is to find a Private-Public-Partnership solution to a pressing financial challenge. Other financially viable and bankable alternatives that COSATU or any other key stakeholder and strategic partner wishes to place on the table will be most welcome.

Chairperson, I would have failed in my duty today if I did not state here publicly and categorically that the management and the Board of Eskom are committed to ensuring that this public enterprise is a going concern at all times. An organisation is not deemed a going concern if it cannot meet its current and future liabilities over a financial year. Eskom is constantly juggling, balancing and managing this reality.

Our shareholder compact expects us to deliver against developmentally and economically sustainable outcomes. In other words our mandate is to contribute, in an efficient manner, to growth as well as yield returns

back into the national fiscus . We are governed by the Companies Act, the PFMA and aspire to live up to sound practices of good governance. All these come with requirements that we are constantly seeking to comply with and fulfil.

Chairperson, we must emphasise that there is a bigger price to be paid if we sit and maintain the *status quo*. We have a tough choice to make; between reliable electricity supply and steering the economy on a downward spiral of unrealistically cheapened electricity tariffs that deliver a climate of unreliable electricity supply.

Chairperson it is, I am sure an important lesson in history that the single most important contributor to the sinking of the Titanic was not necessarily poor technical capabilities nor poor engineering or design. Chairperson, the Titanic sank because firstly, those aboard the ship that stood on the temporarily dry side, said to those on the side of the ship engulfed in water – "...your side of the ship is sinking..."

Eskom and South Africa as we stand today can be likened to this experience. If sustainable electricity solutions are not found through national dialogue, aligned to the core interests that bind our shared destiny of a prosperous nation we will, I am afraid, all sink together.

The times we are in require a strong sense of *toenadering* from all of us; not finger pointing, we need to share; share knowledge, ideas, analysis and exposures. Indeed we should even look for opportunities to go to countries like Chile, Mexico and Brazil who have been where we are and look for lessons that we can amass on a multi-disciplinary and multi-stakeholder basis.

We need to go to Japan and ask how they achieved the rollout of solar energy on the mass base that they have done to the tune of 1 900MW by the end of 2007 and Spain with 2 600MW of solar energy. These are some of the conversations we must have now and beyond the NERSA public hearings and price application determination process.

We can't afford, like the Ostrich, to bury our heads in the sand. We can't wish our current reality away. Lamenting what Eskom and its shareholder could have done will not solve the situation. The Regulator must do what must be done in the best interest of South Africa. Parallel to that, we all as South Africans need to urgently go on a seek, search and adaptation quest for a lasting innovative solution.

Wise Africans taught us that *Letsema le tiya ka beng ba lona*. In English – An expedition draws its strength from the quality of its leadership and sense of ownership. Armed with this sense of ownership and leadership

we need to go on a quest for a better way and a shared future in terms of security of supply.

Chairperson, ladies and gentlemen let's all rise to this occasion. History will judge us harshly for failing to fulfil our respective roles as leaders – it is said that the role or function of a leader is to find, recognise and secure the future. Let us not be bondaged by our current reality, but rather let's transcend our current circumstances, seek and find a lasting solution.

As we did together in the past with other growth and development objectives, for instance with the national electrification programme in the mid-90's, Chairperson, let us rise and step onto the plate now, a decade into the 21<sup>st</sup> Century and side-by-side emerge with a national compact on how we deal poverty a blow, while at the same time facilitating long-lasting economic growth and development. We have stated our commitment to supplying electricity and energy in the context of an Integrated Resources Plan (IRP), which we expect to be published in the public policy arena soon.

Honourable members of the press, let me also state here from this public podium that we will not be conducting interviews on the tariff application until after NERSA's public determination. We respect the rules of NERSA and appeal that you bear with us in that regard. NERSA has created the public hearings forum and we do not wish any public representations outside of this formal process. Once more, we wish to thank you all for your inputs.

*Chairperson, re ithutile go le gontsi go maAfrika bo Kgabo Mokgatla. Kwena Mokgatla letlalo makgwakgwa le Kubu Mokgatla 'batana tsa metsi boKubu e reng ba ethimola ebe nna e kete letsatsi le a tihaba. Ga go ntse jaana Mokgatla a re a le kgorong a ala taba, a bo a ripa a re bagaetsho, ke le motla pitso ke fetsa foo ka la motlapitso, ga nkitla ke sitwa ke kgomo ka bohlale gonne e nale bohlale bo kaalo ba go itse gore kgomo ga nke entsha boloko johle, Modulasetulo nte le nna ke dire jaalo ken ne bohlale jaaka boKgabo Mokgatla ke tsipe gone foo.*

*Mokgatla a re ruri bathong re tla re go ntse jaang fa go ntse jaana awo bathong. Tota Modulasetulo NERSA re a leboga gore ba be ba re tsamaisitse leeto le tle jaana go tloga Nelspruit go fihla haano ha Gouteng maboneng. Tota ke nnete re tswanetse go le utlwela botlhoko ka gore le tota le gahlametse masisi, tota le tsipaganetswe segolo setonna ga re lebisitse go tshoetso e le lebaganeng ke go e tsa.*

Chairperson Africa's time has come. *Ke Nako!* This year 2010 is the year we have been waiting for.

South Africa is justifiably proud for hosting the world during the 2010 FIFA World Cup™ 2010 and we are sure that our country will put on a party to be remembered. Eskom as a committed and critical member of “Team South Africa” has been preparing for this event since 2007. We created a dedicated project team under the leadership of one of our managing directors and are working very closely with the Local Organising Committee and the host cities.

We have taken several initiatives in consultation with our regional partners and large customers to ensure that the FIFA World Cup 2010 takes place without any incident, and the only thing a fan should worry about is getting to the game, fan park or TV lounge on time. These initiatives include amongst others; ensuring that we do all our generation maintenance prior to the event so that all our capacity is available during the World Cup; ensuring our large customers schedule their maintenance during the World Cup period to reduce demand; making arrangements for our regional partners to provide us with any excess power they may have during this period and working with municipalities to ensure that network infrastructure to the host cities is secure. We want to also use this opportunity to call on all our customers and all consumers of electricity to increase their personal contribution to conserving energy and making their contribution to a successful World Cup.

Eskom staff understand their responsibility to ensure an incident free World Cup and are excited to be playing a significant role in ensuring that South Africa hosts a successful event. We are ready! *Ke Nako!*

*Le ga gontse jaalo*, Chairperson, members of the Panel, we wish NERSA all the best pearls of wisdom in the remainder of its process. Together with all South Africans, we will patiently await the final outcome and announcement of the decision in February.

Until then Chairperson and members of the Panel, when you switch the lights on at home, when you take a shower every morning or that long bath after a hard day, Chairperson, when your PA places your favourite cup of tea or coffee on your desk, or when you have the cappuccino or espresso at your favourite point of sale, when you switch your laptops and desktops on and off, Chairperson, when you microwave that quick meal, when you charge that cellular phone, as I am sure you will tonight or at some point this weekend, please remember the most important thing - the appropriate tariff increase is 35%, 35%, 35%. *Mopedi wa kua ga-Sekhukhune o re Re lebogile 'o šoro, a be a tlatše a re, kakudu stereke. Siyabulela S'hlalo, Enkosi ka khulu, Hartlik baie dankie. Siyabonga. Rolivuha ka Maanda! Kani mambo! Sithokoze! Ndaa! Thobela!* Thank you ladies and gentlemen!

