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The cost of

**BBBEE**

as reflected in South African energy costs

Theuns du Buisson



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## Introduction and Overview

South Africa has been plagued by persistent electricity shortages and high electricity costs for more than a decade. The purpose of this report is to calculate by how much prices are increased by prioritising transformation targets and the application of Broad-Based Black Economic Empowerment (BBBEE/BEE) over performance and efficiency.

This report gives an overview of the effects of BBBEE that South Africans have suffered in terms of opening the gates to state capture, leading to inefficiency and driving up energy costs. One of the major reasons for this is that all producers of coal were forced to become BBBEE compliant in order to do business with Eskom. This often included handing over a stake in such businesses over to ANC-aligned companies.

In the past, Eskom produced electricity at costs similar to those of other power companies such as NTPC in India. In 2011, Eskom chose to prioritise transformation and BBBEE objectives, leading to a spike of 42% in costs, as illustrated by their 2012 financial report. Later, they produced electricity at an average of 27% more than comparable entities. This is the minimum excess cost brought about by BBBEE. These inflated cost prices ultimately lead to higher electricity retail prices and make much-needed expansion of South Africa's generating capacity unfeasible.

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## Salient Effects of BBBEE

A 2011 study published in the *Southern African Business Review*<sup>1</sup> found that of the 500 individual managers surveyed, the majority agreed that BEE would be detrimental to the companies they worked for. This is despite the fact that 70% of respondents, mostly black women according to the author, felt that they would personally benefit from BBBEE if their employers were to become compliant. Although such a decrease in competitiveness, service excellence and client satisfaction, quality, productivity, sales and access to markets, as well as the other aspects surveyed, would lead to a loss in overall efficiency and profitability, it is difficult to quantify by how much. The difficulty in quantification does not at all mean that it does not lead to negative outcomes. The question that remains is what the negative and values of these outcomes are.

According to the BEE Commission Report of 2001<sup>2</sup>, chaired by Cyril Ramaphosa, "A central objective of the RDP (Reconstruction and Development Programme) is to deracialise business ownership and control completely through focused policies of Black Economic Empowerment. These policies must aim to make it easier for black people to gain access to capital for business development." The report also emphasises training and equal access to entrepreneurial opportunities, especially by means of business ownership.

The 2001 report<sup>3</sup> notes that "BEE must be a people-centred strategy, in word and in deed. BEE must impact on the lives of those purposefully and systematically excluded from the economy. It must influence the life of a woman running a spaza shop in an outlying rural area, a worker in a factory in Germiston and the black manager in the corporate head office in Sandton." It is, however, doubtful that they envisioned the consequence of BEE, and later BBBEE, to impoverish the nation under the pretence of providing opportunities to the marginalised.

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## Coal, Preferential Procurement and State Capture

Even though the coal procurement process is an open one, as stipulated by Eskom<sup>4</sup>, and the suppliers of coal are public knowledge, the agreed upon prices of individual coal contracts are kept secret as this is deemed “commercially sensitive ... and is subject to standard confidentiality clauses in the agreements with suppliers ...”<sup>5</sup>

This lack of transparency opens the door for suppliers to negotiate contracts at rates far above market values. In 2019, *Mail & Guardian*<sup>6</sup> reported that Eskom had been losing an estimated R1.4 billion on two contracts alone, stating that they had been paying Glencore double the price that they were paying Stuart’s Coal for similar coal. The article continues by stating:

Had Eskom contracted Glencore at the same price as Stuart’s Coal for 2.7 million tonnes over 18 months, it could have made a saving of R927-million on that contract alone. Eskom could have saved a further R550-million on another Glencore contract, for the same quality coal, which was priced at R518.45/tonne. The analysis also revealed Eskom has been paying five different prices to five different companies, including Glencore and Stuart’s Coal, for the same quality coal. In another example, Eskom contracted Glencore to deliver 21.50CV coal to Kriel power station at R665.85/tonne, but it also contracted Welgemeend Colliery to deliver the same quality coal to Matla power station at R342.28/tonne. The saving on this transaction, had Eskom paid the same, would have been R291-million. It is critical to note that the prices listed here do not include transportation costs, which, depending on mode of transport and distance between the mine and the power station, could easily add a further R90-R300 per tonne. Several current and former Eskom employees have labelled this discrepancy as irresponsible, but the state-owned company has refused to discuss individual contracts.

In the case of a contract with McKinsey, BBBEE requirements, replacing SD&L requirements, were the cause of fraudulently diverting money to Regiments Capital and Trillian Capital, as Eskom required McKinsey to subcontract “30% of the contract value to a black owned supplier.”<sup>7</sup> Later, in April 2016 after McKinsey rejected the partnership with Trillian, Eskom made a fraudulent payment of R30.6 million to Trillian “under the guise that it was McKinsey’s BBBEE partner.”<sup>8</sup> The State Capture Commission Report further describes the extent of BBBEE corruption in paragraph 2306.2:

On the “Generation” work stream, Trillian brought in E-Gateway, a company that consisted of a few individuals brought in from abroad (UAE Emirates and India) that worked on the ‘generation work stream’. 1904 This was peculiar, not least because Trillian was posing as the SDL partner to McKinsey, but clearly this team had no BBBEE credentials.

The South African Coal Sector Report<sup>9</sup> cites the following paragraph from Eskom’s 2016 integrated report:

Eskom transports coal in Mpumalanga over a road network of about 3 200 km using a fleet of more than 2 000 trucks. The average distance travelled by these coal transportation trucks is 600 000 km/day and about 124kt of coal is moved on South Africa’s roads each day through a network of 30 to 40 haulage routes. Eskom has 58 transport contracts in place with logistics companies to transport coal from mines to its power stations.

The report<sup>10</sup> notes that 80% of South African coal is produced by five mining companies, being Anglo American Thermal Coal, Exxaro Resources, Sasol Mining, BHP Billiton Energy Coal South Africa (Becs) and Glencore.

Kilambo<sup>11</sup> notes that most black-owned mining companies are in the coal sector, due to, amongst other things, Eskom’s preferential procurement policies. This also had the effect of concentrating the coal market, to the point where only those companies who were BBBEE compliant were viable, as others would be unable to deliver their products to the largest consumer of coal, being Eskom.

In 2019, the B-BBEE Commission found Eskom “guilty” of awarding a tender to Dongfang Electric Corporation, a Chinese company, for the boiler at Duvha Power Station. The commission recommended that the contract be cancelled and that Eskom review all other contracts with a value of more than R1 billion for BBBEE compliance.<sup>12</sup> Eskom was reported to have accepted the commission’s findings.<sup>13</sup> Such sustained pressure to award contracts based on race rather than proven track records in the provision of services would also create extra costs, as well as inefficiencies or even drive projects to a complete standstill. The manufacturing of boilers of the scale used at Eskom, for instance, is a specialised endeavour that not many manufacturers in the world are able to complete. Besides forcing third parties, who are BBBEE compliant, into transactions, the legal costs of having to defend the tender process should also be factored in when deciding whether transformation at all costs is a worthy pursuit.



In his analysis of the causes of South Africa's electricity crisis, David Hemson<sup>14</sup> summarises one of the causes as follows:

Former president Thabo Mbeki was warned in the late 1990s that massive investment in power generation was needed. He delayed as he wanted to see Black companies and the elite benefit. In anticipation of the mega-deal, the ANC set up an investment company, Chancellor House, which then formed a consortium with Hitachi.

He continues by elaborating on Hitachi's construction of Medupi and Kusile, which was completed, with major construction and design flaws, at more than three times the projected costs. It is estimated to have cost at least R450 billion.

In September 2015, it was revealed<sup>15</sup> that the ANC, by means of Chancellor House's 25% ownership of Hitachi Power Africa (HPA), had a stake of R3 billion in the contract. Amidst speculation about bribes paid by HPA to the ANC, as well as them paying a fine of R266 million, the ANC treasurer, then Zweli Mkhize, denied any ANC involvement in corruption. The United States' SEC, however, came to a different conclusion, directly linked to BBBEE:

The SEC, which has powers of subpoena and investigation, cites a 2005 Hitachi document that indicates Chancellor House was "politically preferred" when the foreign company was looking for an empowerment partner – with handwritten notes in the margin from an executive "recommendation by Escom [sic]" as well as "ANC treasury".<sup>16</sup>

The SEC investigation, which ended with the voluntary fine of R266 million paid by HPA, was undertaken despite no local investigations into the ANC and HPA at the time. The lack of action or investigations, as well as the ANC's sustained denials, came despite numerous media reports, as well as the SEC's Andrew J Ceresney saying: "Hitachi's lax internal control environment enabled its subsidiary to pay millions of dollars to a politically-connected front company for the ANC to win contracts with the South African government."<sup>17</sup>

Shortly thereafter it was reported<sup>18</sup> that Chancellor House Holdings, referred to in the article as an "ANC front company" made a 5 000% return on its investment in the local Hitachi unit.

In September of 2021, six years after the denials by Mkhize, Chancellor House admitted that they were funders of the ANC.<sup>19</sup> Although Chancellor House claims that the beneficiaries of their proceeds are "black 'natural' persons classified into groups such as youth, women, rural citizens and the disabled" in order to hold their BEE status, it was confirmed that the ANC is a beneficiary of the trust.

After the enactment of the Political Party Funding Act in 2021, it was revealed that the ANC had received R15 million from Chancellor House in 2021 alone.

It was also revealed<sup>20</sup> that Chancellor House owned a 10% stake in Tenova Mining and Minerals, which was awarded a R2 billion contract by Eskom. "In recent months, News24 has exposed how Tenova was overpaid by an estimated R500 million on these contracts, which ballooned to over R4 billion. The company has said it was cooperating with Eskom and a group of international experts who were examining the claims paid to Tenova."

In 2021 News24<sup>21</sup> came into possession of an affidavit made by André de Ruyter, in which the following examples, inter alia, of inflated expenditure were exposed:

He revealed systemic corruption and a lack of financial controls at Eskom. He repeated examples of contracts he found when he arrived at Eskom, where a litre of milk was bought for R21, single-ply toilet paper for R26 a roll and black refuse bags purchased for R51 each. But financial controls were further subverted, De Ruyter explained, including a purchase of bearings for the Matla power station for R408 770 each in February 2019, where the same bearings were previously purchased for R110 632 each.

Also at Matla, a hydraulic oil pump was purchased for R650 044 in February 2019, a pump which three years earlier had cost R294 669. At Kendal power station in March 2019, R368 550 was paid for the refurbishment of two compressors – a job that was twice subcontracted and completed for R41 400, while the cost of a new compressor amounted to R56 000.

These allegations are examples of inflated prices that are made possible by means of BBBEE and tender processes that make it impossible for Eskom to purchase such products and services from major retailers or more affordable service providers. In November of last year, the FF Plus also directly blamed BEE for the crisis at Eskom, citing expenditure such as Eskom paying R280 000 per broom, purchasing fluorescent lights which generally cost R63, for R900 and purchasing milk for R56 per litre. "That is how BEE is implemented in practice. South Africa cannot afford this type of institutionalised fraud and corruption under the smokescreen of BEE," the FF Plus said.<sup>22</sup>

Also when tenders are awarded, the BBBEE status of companies counts for more than, for instance, a proven track record in the provision of services to Eskom. In a recent court case, Siemens challenged their disqualification from a tender to provide maintenance to the Camden power plant. It was then ruled that the awarding of the tender to Senta Square was indeed unlawful.



It was also mentioned in the ruling that Siemens did not in fact have the correct BBBEE status, but that they would have been able to compensate for this by subcontracting 30% of the contract to black-owned service providers.<sup>23</sup>

The 2020 Eskom Transformation report<sup>24</sup> notes that the era of cheap electricity in South Africa has come to an end. The report notes that over a ten year period the cost of electricity rose by 356%, whereas compound inflation over the same period was 74%. The report continues by stating that:

Part of the explanation for the decay of the MEC also lies in the political side of political economy, namely in the struggle between an emerging black capitalist class dependent on the state for accumulation and the internationalised corporations that have traditionally dominated the South African economy. This struggle took on a more combative phase after the transition of the ANC presidency from Thabo Mbeki to Jacob Zuma in Polokwane in 2007, and the subsequent recall of Mbeki as South African President in 2008. Frustration had grown with the slow pace of so-called economic transformation - more accurately, the economic transfer of wealth and positions exclusively to those who Mbeki called the *black bourgeoisie*.

Under the guise of a 'radical economic transformation' and a more radical version of African nationalism, several factions and patronage networks united to drive a more aggressive programme to gain greater control of the economy for black capital. Their focus was on the government's R800 billion procurement budget, as well as the expenditure of state-owned enterprises (SOEs), especially the more significant ones such as Eskom, Transnet, Prasa and SAA, and the big capital-spending departments, such as the Department of Water Affairs. This drive was led by Zuma and his allies for control of key state institutions, including Treasury, the revenue services and key security and intelligence services.

The report<sup>25</sup> notes that the end result of these policies and their effect came to be known as "state capture" and that the costs thereof have been estimated at between R500 billion and R1 trillion.

The cost of electricity produced by Independent Power Producers far exceeds that of coal and nuclear power plants. One of the reasons for this is set forth in the South African Renewable Energy IPP Procurement Programme report<sup>26</sup>:

The ED criteria carry a maximum of 30 points. This 70:30 split between price and ED objectives represented a significant shift from government's usual 90:10 split (towards price) as stipulated by the Preferential Procurement Policy Framework Act (2000), and was only made possible through an exemption. This heavy weighting of non-price objectives in a competitive tender was also unique globally and set the REIPPPP apart. There has been controversy over perceived trade-offs between lowering bid prices and meeting ED criteria, with some arguing that the latter adds complexity and therefore cost. However the underlying objectives of ED criteria are to facilitate and expedite local job creation, community development and Black commercial interests, as well as growth in emerging and smaller enterprises for inclusive growth within the energy sector, in line with the government's objectives as articulated in the National Development Plan etc. Therefore this component was a key factor behind government support of the REIPPPP and crucial to the success of the programme.

It is worrying that such a skewed prioritisation of transformation at the cost of affordability is deemed necessary in order to get government approval for such an undertaking as the REIPPPP. The economic and social benefit of providing affordable energy to the more than 60 million people of South Africa would far outweigh the benefits it would have to those who are directly involved in power production.

Current draft regulations by National Treasury aim to set the BEE preference point system at 80/20, with the 80% consideration going to price. For goods valued at R50 million or more, the ratio is to be set at 90/10, with only 10% of consideration factors going to the bidder's BEE level.<sup>27</sup>

Transnet has set a clear precedent by suspending BEE criteria for its tenders, in order to "meet immediate operational requirements and economic objectives."<sup>28</sup> Treasury was recently found to have exceeded its powers when the finance minister made regulations that excluded businesses that were not black-owned from tendering. A Constitutional Court ruling in this regard is being awaited at the time of writing this report.<sup>29</sup>

The excuse of "insufficient transformation" was also used to pressure Eskom into awarding contracts to corrupt entities such as Regiments Capital.<sup>30</sup> The State Capture Commission Report is also rife with examples of negotiations for corrupt contracts in which BBBEE targets are prioritised over actual quality control. The 2015 contract with Tegeta Brakfontein Colliery, for instance, contained details on BBBEE compliance etc. rather than product details, even though the product that was being procured was incompatible with the relevant Eskom power station.<sup>31</sup>



In 2017 it was reported that Eskom had been warned to step away from its policy of only purchasing coal from suppliers who are at least 50% black owned. It was then extremely controversial when Exxaro, one such supplier, decided to only deliberate on getting 30% black ownership instead of 50%. Eskom was warned that they could face shortages. An example cited was that Kusile was to be supplied by Anglo American Coal's New Largo mine, but that construction of the mine had not yet begun, as New Largo did not meet the ownership requirements.<sup>32</sup> Nonetheless, after the then acting CEO of Eskom, Matshela Koko, took to Twitter in anger, the EFF joined in by calling for Eskom to strictly implement the 51% black ownership rule. The EFF's Mbuyeseni Ndlozi, however, proposed a new scheme to replace BEE. "BEE has for many years been used as a vehicle to empower a few black individuals who are in actual fact, gatekeepers of white monopoly capital. BEE ownership must never mean empowerment of few black individuals ... instruct Exxaro and all its other suppliers to have 51% black ownership through workers ownership schemes, and must never retreat on the demand that Exxaro must be empowered at minimum of 51%."

The previous paragraph illustrates the inefficacy of BBEE in transforming the economy for the sake of the people of South Africa. If anything, all it achieves is to drive up costs for the benefit of a few well-connected individuals, and in the case of coal specifically, for the benefit of ANC front companies such as Chancellor House and Thebe Investment Corporation.

A recent Bloomberg analysis<sup>33</sup> noted that not all coal deals are corrupt, but that it is highly political:

While not all the coal deals are tainted by corruption, the industry is nevertheless deeply entwined with politics.

Mike Teke, CEO of [Seriti Resources Holdings Ltd.](#), which supplies 32% of Eskom's coal, said he gave Ramaphosa's 2017 campaign for the ANC presidency 600,000 rand (\$40,000) as he, and other business leaders, supported the president against a rival backed by Zuma.

One of Seriti's biggest shareholders, Thebe Investment Corp., was established in 1992 by a company whose chairman was Nelson Mandela. Former ANC Finance Minister Nhlanhla Nene sits on its board.

Besides noting that "Eskom procured coal in terms of contracts at non-competitive prices for an unjustifiably extended period. Given that over R30 billion was spent by Eskom on coal alone in 2015, there is no doubt that this questionable procurement practice placed an already struggling parastatal under further pressure," a report<sup>34</sup> by the Helen Suzman Foundation expressed its worry about the occurrence of "middle people" that are black owned, who then procure coal on behalf of

Eskom as a form of BEE fronting. This undoubtedly leads to further inflated prices.

A 2019 report by the Foundation for European Progressive Studies<sup>35</sup> also noted the involvement of Chancellor House in allowing Hitachi Power Africa to attain the required BBEE levels and to then build Kusile and Medupi at "probably inflated prices." The report comes to the conclusion that:

After decades of suppression under apartheid it is understandable and obvious that the new black elite must attempt to correct the imbalances of the past. Positive discrimination through Black Economic Empowerment and Affirmative Action are accepted vehicles to achieve this goal, similar to women quotas in Western countries. But they have been too often misused to facilitate corruption and patronage networks. And too often a rushed implementation of these measures has prevented the smooth transmission from minority to majority leadership. People with years of experience cannot be replaced easily. Shortcomings and bad management in public administrations can be tolerated for a long time without causing collapse; where technical components are a main factor of the operation, shortcomings and bad management can lead to disaster: the lights go out. At this stage South Africa needs an open discourse about empowerment policies without "holy cows".

Even after De Ruyter took over as CEO, there has been allegations of corruption against Eskom.<sup>36</sup> Although these new contracts are seemingly above board, it remains ethically questionable, and may open the doors to corruption, to have investment arms of the ANC, Batho Batho Trust and Thebe Investment, as shareholders in coal suppliers. In this case, they are shareholders in Seriti, which supplies coal to the Duvha power station. This new deal also came with a 33% price increase, amounting to an extra R4 billion expenditure.<sup>37</sup> ANC involvement in the coal supply chain also goes a long way in explaining Minister Mantashe's sustained insistence that coal should remain an important part of South Africa's energy future.<sup>38</sup> Mantashe insists that jobs will be lost if South Africa was to step away from coal. This fear has been addressed in the United States of America, where similar fears existed. To the contrary, however, more jobs were created in the transition to green energy than were lost in the US coal sector.<sup>39</sup>

When it comes to cost, the clear winner in South Africa would be nuclear, as illustrated by the following tables published by Eskom, according to which a MWh of nuclear energy is produced at less than a quarter of the cost compared to electricity from coal:



	COST	PRODUCTION	UNIT COST		
BASE-LOAD	COAL <sup>1</sup>	R39 929 million (Sep 2020: R36 227 million)	99 658GWh (Sep 2020: 94 047GWh)	R401/MWh (Sep 2020: R385/MWh)	4% ▲
	NUCLEAR	R616 million (Sep 2020: R461 million)	6 205GWh (Sep 2020: 4 374GWh)	R99/MWh (Sep 2020: R105/MWh)	6% ▼
DIESEL	ESKOM OCGTs <sup>2</sup>	R2 464 million (Sep 2020: R1 391 million)	772GWh (Sep 2020: 496GWh)	R3 118/MWh (Sep 2020: R2 722/MWh)	15% ▲
	IPP OCGTs <sup>3</sup>	R2 102 million (Sep 2020: R1 259 million)	463GWh (Sep 2020: 291GWh)	R4 107/MWh (Sep 2020: R3 648/MWh)	13% ▲
	RENEWABLE IPPs	R1 4205 million (Sep 2020: R1 2456 million)	6 998GWh (Sep 2020: 5 551GWh)	R2 030/MWh (Sep 2020: R2 244/MWh)	10% ▼
	IMPORTS	R2 450 million (Sep 2020: R2 524 million)	4 061GWh (Sep 2020: 4 474GWh)	R603/MWh (Sep 2020: R564/MWh)	7% ▲
	<b>TOTAL</b>	<b>R61 766 million</b> (Sep 2020: R54 318 million)	<b>118 157GWh</b> (Sep 2020: 109 233GWh)	<b>R523/MWh</b> (Sep 2020: R497/MWh)	<b>5% ▲</b>

▼ Unit cost declined ▲ Unit cost increased

Source: Eskom Interim Results Presentation. 30 September 2021. P9

It was recently reported<sup>40</sup> by The Conversation that it is now more affordable for Eskom to purchase renewable energy from independent producers. The power companies' bids are scored mainly (90%) on the price at which they will sell electricity. The rest of the scoring (10%) is based on socio-economic development criteria. The prices are broken down in the report as follows:

The bid window 5 results announcement signals a renewed commitment. Prices of awarded projects are extremely competitive – as low as 34.4c/kWh (about US\$0.02) for onshore wind and 37.4c/kWh for solar PV. The average price for projects in the previous

bid window was R1.03/kWh (about US\$0.07) in April 2021 terms. The prices are now competitive with Eskom's average cost of buying coal in the past financial year: 42c/kWh. And, of course, Eskom has the additional cost of running coal plants.

Up until the latest bid window, however, energy purchased from renewable IPPs was still more than five times more expensive than energy generated from coal. It would therefore take many more IPP contracts such as was mentioned in the previous paragraph to drive down the average cost of electricity procured from renewable IPPs.

Unit cost, R/MWh	2021	2020	% change
Coal <sup>1</sup>	421	397	6.0
Nuclear	105	100	5.0
Eskom-owned OCGTs <sup>2</sup>	2 778	3 231	(14.0)
IPPs <sup>3</sup>	2 280	2 347	(2.9)
IPP OCGTs <sup>4</sup>	3 579	4 049	(11.6)
Renewable IPPs	2 178	2 206	(1.3)
International purchases <sup>5</sup>	567	550	3.1

Source: Eskom 2021 Integrated Report



## International Energy Cost Comparison

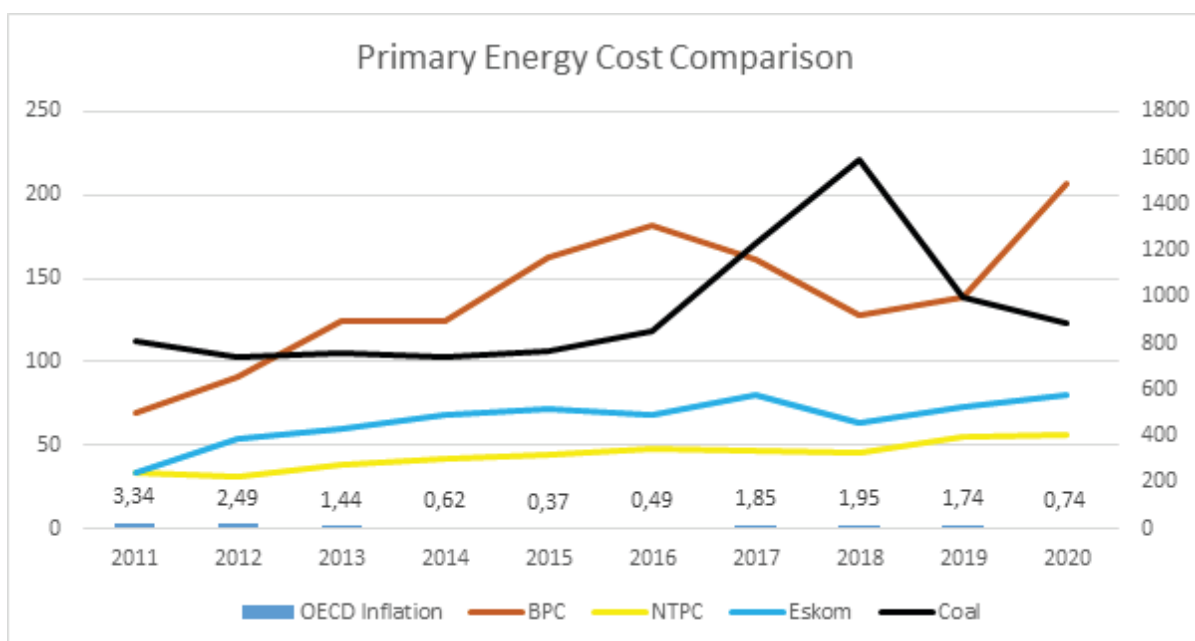
Comparing South Africa's electricity and energy costs with those of the rest of the world is a challenging endeavour, as the blend of generating methods differs vastly between countries. Other challenges, such as being landlocked, as in the case of Botswana, or being islands, also have to be factored in. Another factor is whether it is a regulated market or whether free market principles set the prices. The availability of financial reports which provide comparable data is another consideration. For these reasons, it becomes even more important to compare South Africa with countries that have a similar blend of primary energy sources, being largely coal driven. This report will compare the largest electricity suppliers of South Africa (Eskom), Botswana (Botswana Power Corporation) and India (NTPC).

The following chart illustrates the cost price divergence between India's largest electricity producer, NTPC, the Botswana Power Corporation and Eskom. The international Newcastle Coal price is also included, as the three electricity companies are largely coal based. All prices are shown in ZAR for the cost price per kWh of electricity and in ZAR for the coal price per ton. In 2011, the cost of primary energy was the same for Eskom and NTPC, at 33c per kWh. Towards 2012, NTPC managed to bring down costs, whereas Eskom primary energy cost prices increased by 39%. From that point onwards, increase comparisons between Eskom and NTPC follow a similar pattern, although price swings are usually smaller for NTPC, as they operate on a much larger scale. Price differences are also much larger from year to year for BPC, as

they operate on a very small scale and therefore have much less capacity to absorb changes, for instance in the coal price.

The above graph illustrates the disparity in energy cost between Eskom and NTPC, which came about from 2012. The year before, 2011, was also the year when the Minister of Public Enterprises, Malusi Gigaba, made drastic changes to the Eskom Board, "as part of President Jacob Zuma's plea to reshape public policy and usher in a developmental state." 2011 was also the year when Zola Tsotsi became chairman of Eskom.<sup>41</sup> Tsotsi shifted the focus of Eskom towards objectives that would coincide with government objectives. These objectives undoubtedly also included BBBEE-related objectives, such as intensifying Eskom's preferred procurement processes.

From 2012, the year after Eskom management was "aligned with government objectives," the sudden price disparity between Eskom and NTPC was such that the Eskom cost price per kWh was 42% higher than that of NTPC. From 2012 to 2020, it was 34% higher on average than that of NTPC. Intensifying BBBEE objectives undoubtedly gave rise thereto, as NTPC consistently managed to keep their primary energy costs low, whereas Eskom energy costs maintained an upwards trajectory. From 2018 onwards, the cost price disparity seems to have stabilised at an average level of 27%.



Sources: Own Calculations, Trading Economics, BPC, NTPC and Eskom Financial Statements. Coal prices in ZAR and energy cost prices in ZAR, according to July exchange rates.



## Conclusion

It is clear that BBBEE has not only opened the door for state capture, but has also disrupted the South African coal sector to such an extent that only those who are black and politically connected have any chance of succeeding in the sector.

Besides the coal sector itself, Eskom's preferential procurement policies force so-called "middle people" into the mix. These role-players, which would have otherwise not been involved, then inflate prices by having to add their own profits into contracts. This applies to the entire coal supply chain as well as to all other procurement that is undertaken by Eskom. Examples include buying brooms, fluorescent tubes and milk at exorbitant prices, because Eskom's policies prohibit purchasing from general retailers.

Another factor to keep in mind is the lack of efficiency, as well as the lack of pressure to perform, that comes with appointing political connections rather than people with relevant experience. This, together with legal fees incurred to sustain such appointments, adds a lot of other costs that would be impossible to quantify. The compounding effect thereof is that capital is constrained and, besides inflating retail prices, it hinders the possibility of expansion to generating capacity.

One quantifiable expense is illustrated by the massive price increase that occurred between 2011 and 2012 and that has been sustained ever since. At the exact time that Eskom chose to give preference to transformation over performance, the cost of producing electricity increased by 42%. It has since stabilised at levels that are 27% higher than what one may expect in comparison to similar role-players. If we take into account that other, less quantifiable, expenses are incurred in the pursuit of transformation, we can safely conclude that BBBEE has been driving the prices of electricity up by much more, but also no less than 27%.

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Ashley ? Footnote 24

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