



STATEMENT BY ESKOM CHAIRMAN DR BALDWIN (BEN) NGUBANE

Eskom's tactical sourcing of coal saves billions of rands and avoids load shedding

Saturday, 11 June 2016: I am advised that a few media houses have been asking questions insinuating that Eskom's coal contracts were not concluded in accordance with the procurement procedure.

I am concerned about the recent media speculation and sensationalism around the procurement of coal. Eskom stands firm by its process undertaken to conclude extensions of its coal supply agreements with its suppliers. I am satisfied that due process has been followed and we can be proud of the savings achieved by the executive team to date.

Eskom regularly engages all its coal suppliers on the required volumes and qualities as the demand varies from time to time and contracting relationships are concluded on sound commercial principles and considerations.

In emergency situations, Eskom has utilised the prepayment mechanism to ensure security of supply. Furthermore, it is important to note that prepayment is a common commercial practice that is used widely and not unique to Eskom. The principle of prepayment is prevalent in Eskom's cost-plus supply contracts with the large mining houses such as Anglo American, BECSA and Exxaro. These mining houses supply approximately 80% of Eskom's coal while Tegeta supplies less than 5% of the coal volume required by Eskom.

The coal supply market is in need of major transformation as it has and continues to benefit a small monopoly of companies. This phenomenon is now under review as requested by the Minister of Public Enterprises in her recent budget speech and Eskom is determined to ensure that emerging black miners also benefit from Eskom's buying power.

More pertinently, Eskom's supply mix changed in April 2016 leaving Eskom with a deficit of 2.1 million tonnes which was required to meet the winter supply plan. Eskom approached its existing suppliers to source additional supply to mitigate this shortfall.

It must be noted that the Exxaro Arnot Colliery had a contract with Eskom to supply coal to Arnot Power Station for 40 years. This contract expired in December 2015. The cost of coal at date of expiry was R1132/ton.



I am advised that Tegeta now supplies Arnot at an average price of R500/ton. The unit cost of coal supplied under this contract is at a discounted rate of 3%, resulting in a further saving to Eskom of billions of rand in an eight month period and ultimately, the consumer.

Tegeta was one of the suppliers able to meet Eskom's need for this additional coal supply at the required coal quality. You will recall that this company also stepped in to avert a crisis at the Hendrina Power Station by offering to take the Optimum Coal Mine out of business rescue from Glencore thereby saving thousands of jobs and continuing the supply to Eskom.

Eskom rejects any insinuation of favouritism towards suppliers such as Tegeta who are willing to step in to avert the coal supply crisis and allow Eskom to meet the winter demand.

The Board's position can be summarised as follows:

- It is concerned at the recent media speculation and sensationalism.
- It must be noted that Eskom was paying R1132/ton to Exxaro and this was on a cost plus basis.
- Tegeta supplies Arnot at an average price of R500/ton, leading to savings of over a billion rand in the 8 months of supplier leading to direct savings to Eskom customers.
- Tegeta is a 51% black owned emerging miner which meets Eskom's requirements.
- Eskom has no issue doing business with the company based on sound commercial considerations and is not driven by unsubstantiated media issues.
- Tegeta stepped in to avert a crisis at Hendrina Power Station by saving jobs and continues to supply Eskom at the original contracted price.
- All due process has been followed and Eskom is proud of the savings achieved by its executives.
- Prepayment is a common practice in coal purchasing and Eskom has used this mechanism previously. In fact, the cost plus mines have been the recipients of an average amount of R38 billion to date this year to companies such as Anglo American, BHP Billiton and Exxarro.
- Eskom firmly rejects the suggestion that Tegeta is favoured or that due process was not followed.

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