Joint Meeting of Public Enterprises PC and SC

Briefing by the Minister on the latest developments in SOCs

06 May 2020

18:00

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ESKOM

Impact of Additional Short-term Opportunistic Maintenance During Covid-19 Lockdown and Outlook For Winter 2020

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Overview

1. Covid Impact on Demand
2. Impact on Revenue
3. Approach to Maintenance
   1. Short-term
   2. Reliable / Major Maintenance
   3. E.g. Medupi 3
4. Progress on Additional Energy?
5. Implementation of Eskom Roadmap

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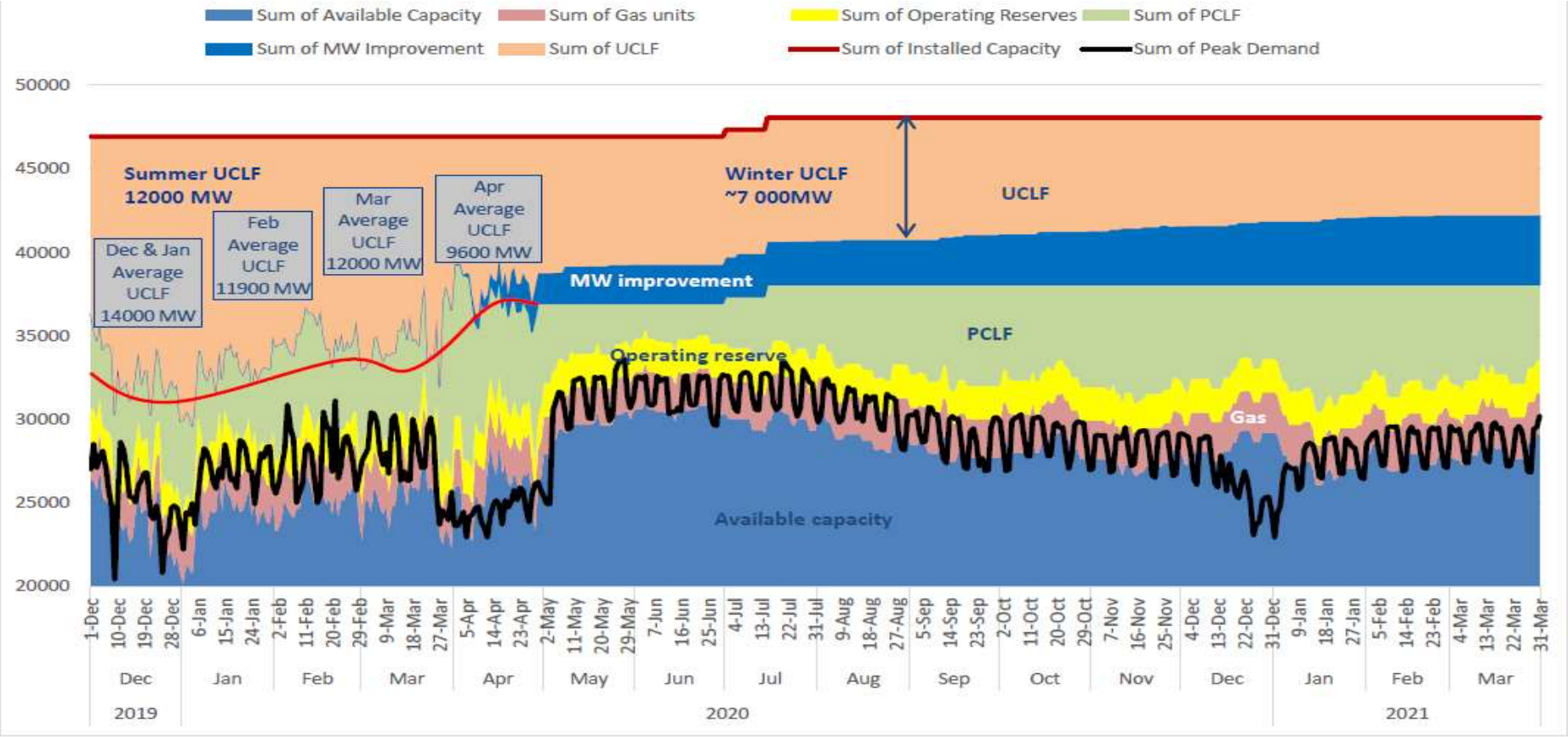
COVID impact on Eskom Business

- Demand reduced by avg. 7500 MW (peaked at 9000MW)
- 11 units had to be taken out of service to keep system stable; opportunity maintenance was done
- Impact is the reduction of sales with industries shutting down
- For April the loss in net loss in cash is estimated at R2,5 bn
- Full financial impact of the COVID and restrictions is still being fully assessed
- On operations, Some philosophy maintenance was moved out due to the restrictions on people and spares while some short term opportunity was done, particularly to reduce partial load loss.

What Has Been Done During The Lockdown

- Some outages have been moved out to take account of spares and contractors availability
  - Koeberg 2, Matla 2, Majuba 5, Drakensberg 2
- Kusile 1, Majuba 4 and Medupi 6 brought forward to take advantage of the low demand
- 6 776 MW capacity being maintained in addition to pre-lockdown plan by short term maintenance intervention
- Partial load losses (PLLs) to be reduced from 7 858 MW to 4 434 MW, an improvement of 3 424 MW in available capacity – for the year 2020/21
  - Commitments signed by power station managers, cluster mangers and GE: Gx
- Base scenario (P80) after lockdown maintenance results in improvement from 31 days of Stage 1 load-shedding for the next quarter to 3 days, assuming PLLs reduced by 2 000MW. Demand post lockdown being remodeled.

Capacity Outlook



*The planned 'Summer 2019' UCLF was projected as12000 MW, 'Winter 2020' is projected at 10 000 MW and the 'Summer 2020' at 10000 MW considerate of the higher risk of PLL over summer months

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System Outlook Status

Scenario	UCLF range	System Outlook
Scenario 1	<11 000 MW	Days of stage 1 load shedding: 3 Days of Stage 2 load shedding: 0 Days of Stage 3 load shedding: 0 Average monthly diesel usage: R 334 m
Scenario 2	11 000 MW – 12 000 MW	Days of stage 1 load shedding: 49 Days of Stage 2 load shedding: 3 Days of Stage 3 load shedding: 0 Average monthly diesel usage: R 644 m
Scenario 3	12 000 MW – 13 000 MW	Days of stage 1 load shedding: 21 Days of Stage 2 load shedding: 49 Days of Stage 3 load shedding: 3 Average monthly diesel usage: R 1 140 m

Outlook Pre And Post Lockdown

Plan of 1 April 2020	Plan of 27 April 2020
• 31 days of Stage 1 load shedding • R490m average diesel spend per month	• 3 days of Stage 1 load shedding • R338m average diesel spend per month **Note: Plan very optimistic and in the process of being reworked to have a more realistic view.**

Plan at P80 level of confidence, some upside to avoid loadshedding

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Reliability Maintenance Program (1/2)

Reliability Maintenance Recovery Steering Committee (RMRSC)

- Terms Off Reference approved in April 2020 Steering Committee
- Eleven Power Station's Implementation Committee's approved in April 2020 Steering Committee
- Implementation Committee's kick off in May 2020 after TOR approval at RMRSC

Power Station Visits

- All eleven Power Stations in scope visited – including the RMDC
- No delay in progress during the "LOCK DOWN" period

Project Office's Roll Out (Eleven Power Stations)

- Cluster and Power Station Managers approval obtained
- Risk review to be conducted in May 2020 at all Power Stations

Reliability Maintenance Schedule

- Outage schedule updated weekly in line with lockdown
- The outage scope will be locked down for twelve months to execute the outages
- Risk review in progress to address possible mitigation factors

Original Equipment Manufacturers (OEM's)

- Contracts concluded in May 2020

Reliability Maintenance Program (2/2)

HR Appointment Progress Project Offices

- HR manages this process as a project to be completed in July 2020
- Sixty Retired Eskom Engineers included in possible placing at each power station
- Group Technology and Group Capital resources to be identified first for possible placements
- Re grouping the PMO Structure to support Project Offices at each Power Station
- External FTC's to be awarded to maximum of 15 specialized resources for 3 years

D-Day – 30 on 01 June 2020

- All resource allocations for project structure to have identified names
- All risk reviews to be completed to start final preparation for Day 1
- All Implementation Committees at Power Stations to be active bi-weekly

D-Day 1 July 2020

- Take over all outage scopes to be executed as per locked down plan for twelve months
- Do risk review to determine the load shedding impact for 3 months

Reliability Maintenance Scope (Power Stations)

- Lethabo, Tutuka, Matimba, Kendal, Majuba, Duvha, Kriel, Arnot, Kusile, Medupi and Matla

Communication Plan

- Communication plan being drafted to address day one of recovery Programme
- Organized labor communication to be approved in May 2020 Steering Committee
- External communication plan to be approved in April 2020 Steering Committee

Procurement of Additional Capacity

		MW DELIVERY (CUMULATIVE)													
Initiative	**Stream**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**	**Jul-20**	**Aug-20**	**Sep-20**	**Oct-20**	**Nov-20**	**Dec-20**	**Jan-21**	**Feb-21**	**Mar-21**
Load Management before and during Load Shedding	**Demand**			**100**	**100**	**100**	**150**	**150**	**150**	**150**	**150**	**150**	**200**	**200**	**200**
Target Communication and Marketing	**Demand**	**0**	**0**	**0**	**0**	**0**	**80**	**80**	**80**	**190**	**190**	**190**	**210**	**210**	**210**
- Power Alert	Demand						50	50	50	110	110	110	110	110	110
- Immediate Communications	Demand						10	10	10	20	20	20	20	20	20
- Targeted Communication Campaign	Demand						20	20	20	60	60	60	80	80	80
NMD and Power Factor Compliance	**Demand**						**5**	**5**	**5**	**8**	**8**	**8**	**11**	**11**	**11**
Leverage Unauthorised PV Systems	**Demand**						**0.2**	**0.2**	**0.2**	**0.6**	**0.6**	**0.6**	**1**	**1**	**1**
Customer Load Management	**Demand**	**0**	**0**	**0**	**0**	**0**	**22**	**22**	**22**	**69**	**69**	**69**	**188**	**188**	**188**
- Municipal Ripple	Demand						22	22	22	44	44	44	88	88	88
- Load Shifting	Demand												50	50	50
- Industrial/Commercial Energy Efficiency	Demand									25	25	25	50	50	50
Critical Peak Day Pricing	**Demand**									**5**	**5**	**5**	**11**	**11**	**11**
Wholesale Electricity Pricing Scheme (WEPS)*	**Supply**					**10**	**30**	**50**	**50**	**50**	**50**	**50**	**50**	**50**	**50**
Short Term Options (STPPP)*	**Supply**						**50**	**90**	**129**	**129**	**129**	**129**	**129**	**129**	**129**
Existing REIPPP Projects - Additional Capacity*	**Supply**						**60**	**128**	**128**	**128**	**128**	**128**	**128**	**128**	**128**
TOTAL		**0**	**0**	**100**	**100**	**110**	**397**	**525**	**564**	**725**	**725**	**725**	**917**	**917**	**917**

* Closest Estimate - Actual delivery will be based on Market Response

- Eskom will procure levers of 917 MW in the next 12 months
- The DMRE is in the process of procuring 2000 MW of emergency power with Eskom as the buyer

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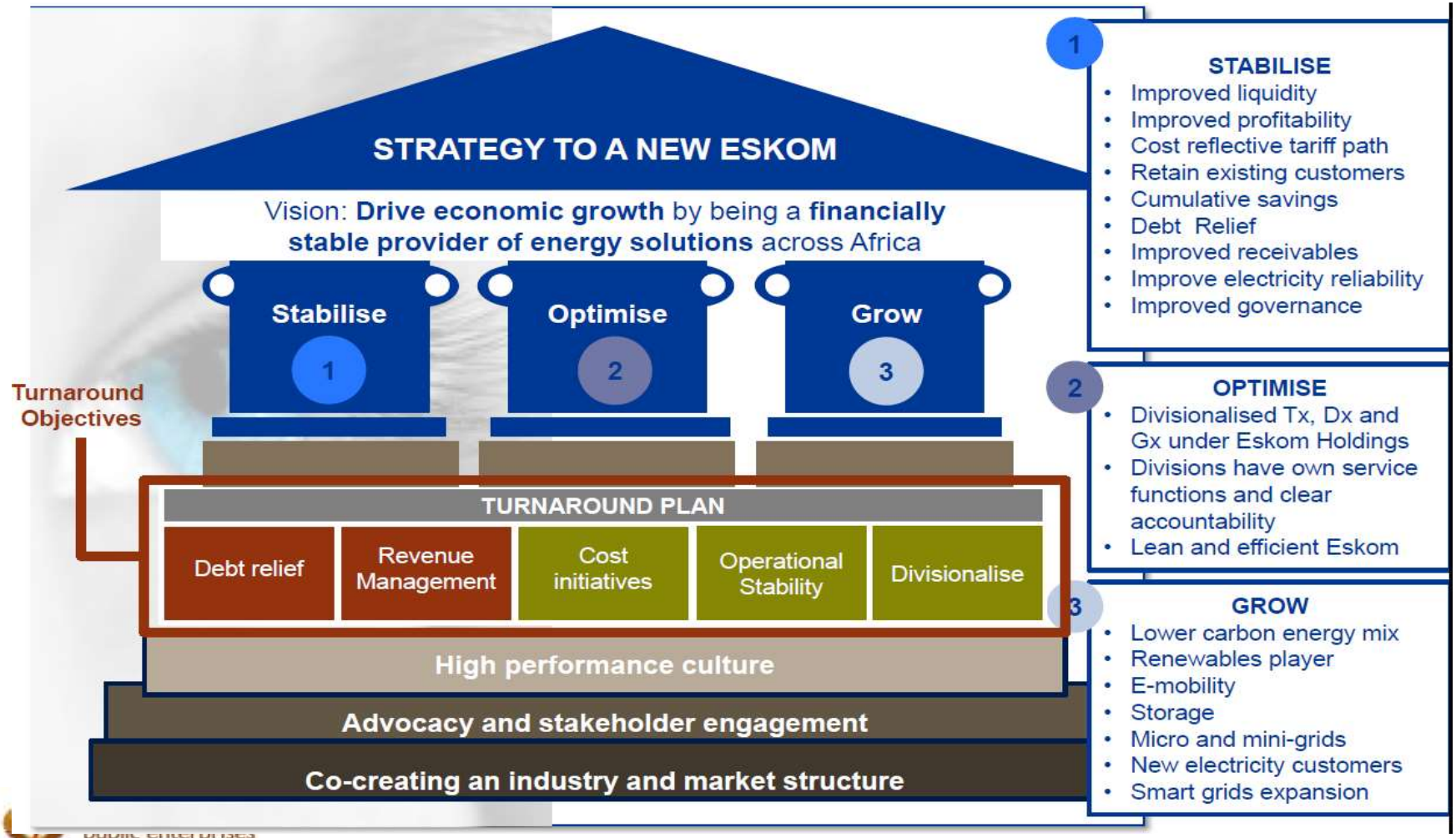
Progress with Eskom Roadmap



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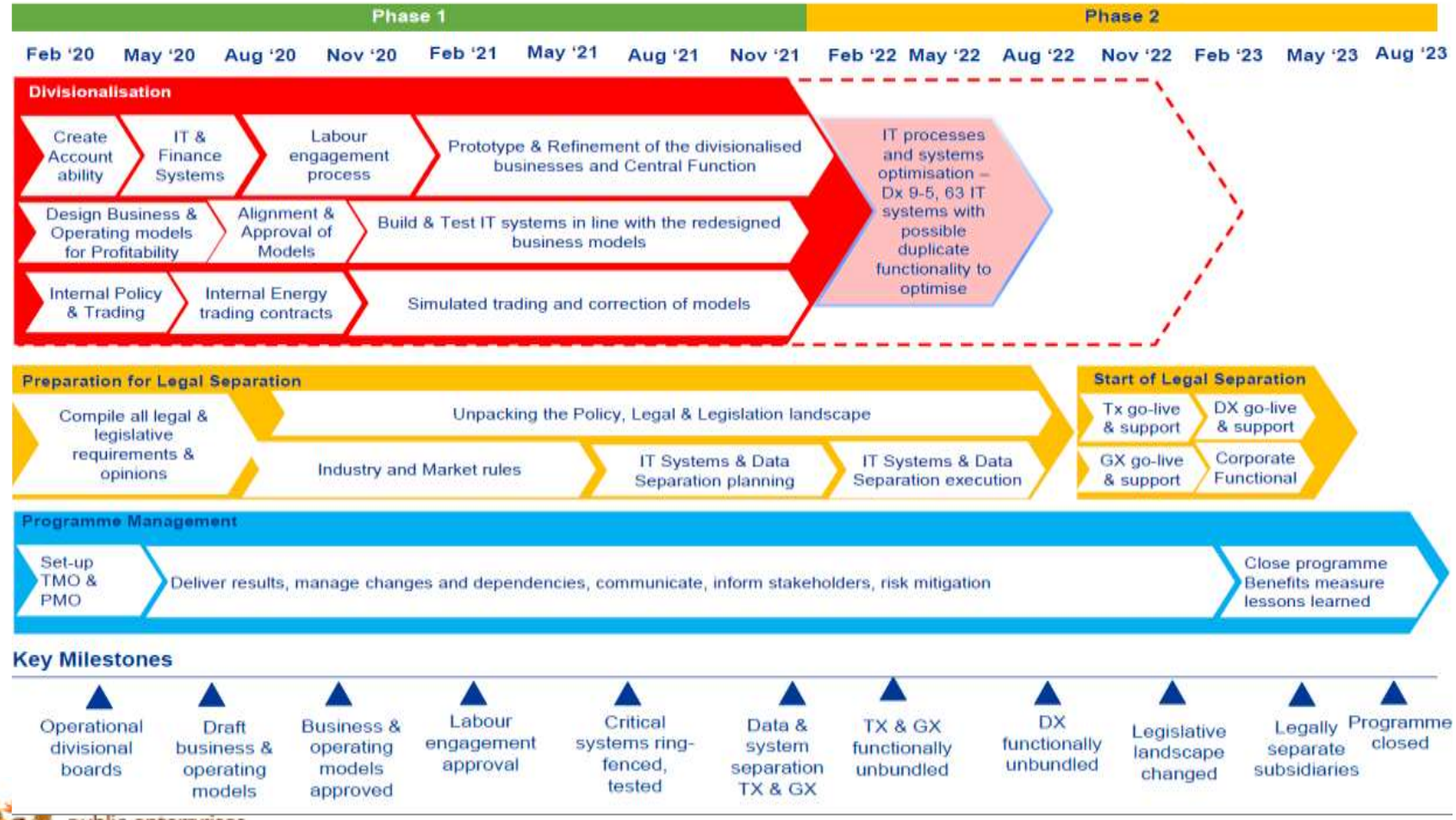
Roadmap to Legal Unbundling



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Progress to date

Complete | In progress | Delayed | Not started

Milestone	When	Progress	Status
Divisional Re-linked Structures in place	End Mar 20	– All relevant head office (HR, Finance, Procurement) re-linked. – Southern Africa Energy and PDD will be done by 01 Apr 20 – Group Capital date to be confirmed – Re-linked structures defined – Business and operating models design underway (Functional leader model for the centre at advanced stage). – Key positions in HR, Fin, IT, Proc to be appointed	
Divisional Financial reporting in place	End Mar 20	– Income statement and Balance sheet done for all divisions – Cash Flow statement in progress for end March, with a completion risk – All statements based on financial allocations, system changes to reflect financials in ERP due end August.	
Divisional Boards & Governance in place	End Mar 20	– Divisional Board members appointed – Dx & Tx Board convened, Gx scheduled for mid April – Divisional board charters draft discussed by members (Tx & Dx) – DOA in process of being disseminated to Divisional level. (Completion risk)	

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SAA

Context

1. **SAA historically**
   - The decline
   - The wrecking

2. **STRUCTURAL ISSUES**
   - End of hemisphere
   - Narrow profit margins
   - “open skies”
   - “ why is a national airline needed”

3. **COVID 19**
   - Virtually total grounding
   - Loss of staff
   - Spread of infection by air travel
   - Recovery :
     - Domestic, regional : slow; social distancing; lower load factors
     - International : even slower; a year / more
     - Some remain in “ HIBERNATION” until market improves
   - Post-COVID government support – different countries, different responses?

National Interest/ Objectives

1. New airline : viable, competitive, restructured
2. Save as many jobs
3. No dependence on Fiscus
4. SEP – where appropriate

Business Rescue Process

1. Role : restructure a business to rescue and operate normally
2. Still in charge : including day to day management
3. Spent R5,5b in 5 months
4. But, but BRP announced drop dead day : 8 May
5. Not advancing national interest ie (a)
6. Project plan: “wind down”

Business Rescue Process

7. DPE letters

- Access to information
- Reduction in fees
- Management accounts -SCOPA
- Meetings with BRP

  – Examine finances
  – Stop move towards “ fire sale” and liquidation
  – Discuss alternative
  – Continue repatriations; cargo – earn revenue

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Legal Issues

1. Key issues
   - BR Plan
   - Migration from current to new airline
   - S189 – labour
   - Whether shareholder adequately consulted

2. DPE legal advice – alternate transition process

3. APPROVAL OF BR Plan: creditors. (?shareholder)

Consultative Forum with Labour

1. All recognized unions
2. Build consensus on new airline
3. Design workshop
4. Future of s189
5. Social plan

NewCo Model

MODEL

- Transfer of assets
- Seabury
- Union input

CONSOLIDATION

- In aviation sector
- Comair

TRANSITION TO NEWCO - Which legal route the best

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Finance

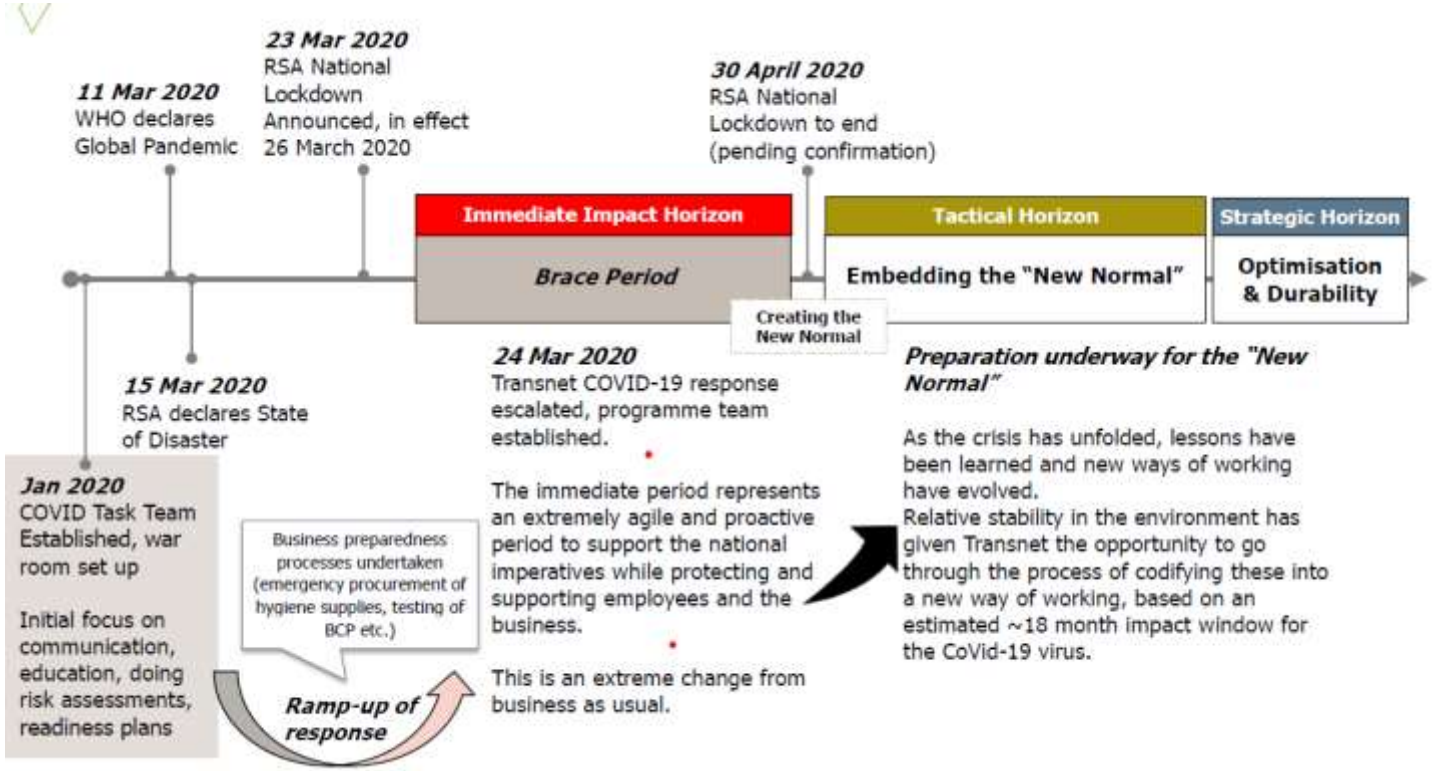
1. Spend R5,5b
2. Payments to consultants
3. Cost savings - inadequate
4. MAY

Subsidiaries: Status

1. SAAT
2. MANGO
3. AIRCHEFS

Transnet

Transnet's Response to COVID 19



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Impact of COVID-19

- In re-prioritizing maintenance related capital, the preliminary outcome of the Capital Optimisation process is a R2.4bn reduction in 2020/21 planned CAPEX. Further of optimisationis expected to yield limited results as most projects for 20/21 are committed and in execution.
- CoVid-19 impact modelling has focused on three (3) broad, evolving scenarios for simplicity. These scenarios take into account customer based supplier materials constraints, customer production constraints, global and local economic factors (unemployment, sales demand, etc.), legislative factors and forecast Transnet performance metrics (volumes) in order to arrive at current forecast revenue impact for the 2020/21 financial year, being:
- •Scenario 1 (Optimistic) –Quick bounce back with a revenue reduction of R 8.96bn*
- •Scenario 2 (Realistic) –Extended soft-lockdown with a revenue reduction of R 12.25bn
- •Scenario 3 (Pessimistic) –Recurring waves of infections and associated lockdown. Impact currently being quantified.

Operational Continuity

- Transnet has established the following operations at a limited capacity during the extended lockdown period:
  - The integrated container logistics system mainly around the Port of Durban and the link to the economic hub in Gauteng – ensuring that the complex system remains efficient and secure to enable the movement of priority and essential containerized goods; this includes the movement of non-essential cargo to City Deep, only for storage in order to decongest the Port of Durban;
  - Additional security measures in conjunction with NATJOC have been put in place along the NATCOR hotspots as well as City Deep;
  - The heavy haul rail and ports export system from the Northern Cape to the Port of Saldanha;
  - Chrome, Magnetite and Manganese exports coming on stream; and
  - Domestic and export Coal and other General Freight Business cargo through the Port of Richards Bay.

Ports: Equipment Added

Actions Completed

14th Waterside Gang available on demand at DCT Pier 2

6TH Gang at DCT Pier 1

7th Gang Available at NCT

Command Centre established - Deployment of TPT executive teams to operating terminals

International Operator Training at DCT (APMT)

NAVIS Planner Training

Internal Conditional Assessments completed to identify spares required (using internal resources).

Conditional Assessments by International Engineers to improve reliability and best practices (OEM optimizing repair process of the straddles) – DCT.

Straddle Carriers for DCT (45): Order placed for 23 – Arrival in May-June (3 SC per week). Delayed due to national lockdown. Revised delivery date is July - September 2020.

0. Aitken Spence international operator mentors / trainers arrived in PE – will commence work with NCT in Nov 2019

1. World Bank engaged by Department of Public Enterprises to perform diagnostics on port operator performance levels. Engagement with staff and observation of operating activities in progress.

2. Productivity Incentive – Transnet Group Exco, REMSEC and Transnet Board approval obtained. Alignment with formal labour structures. However, a number of concerns were raised during rollouts to terminals. 1st payment to be effected on 24 April 2020 for 2019/20 (Q3)

3. Mandatory Truck appointment system implemented (DCT Pier 2 – Automated ; DCT Pier 1 – Manual)

Actions In progress

1. Deployment of Continuous Improvement (CI) resources to terminals to drive operational improvements on the ground.

2. Teams deployed to operations to monitor performance post training interventions

3. Conditional Assessments by International Engineers to improve reliability and best practices (OEM optimising repair process of the straddle – in progress)

4. Additional Container operator Gangs:
   a) 14th Complete gang for DCT Pier 2
   b) 8th Gang at NCT

   Expected to be in place by May 2020 / June 2021

6. Continuation of NAVIS Planner Training rollout

7. Appointment of vacant Terminal Manager positions (Currently individuals acting in these roles)

8. Straddle Carriers for DCT
   a) Monitor the manufacture and delivery of 23 straddle carriers ordered (expected arrival in May / June – in batches of 3 per week). Delayed due to national lockdown. Revised delivery date is July - Sept 2020.
   b) Manage Tender process for the balance (22) – Delayed. Forensic review before award can be made.

9. Conclusion of World Bank Assignment. Feedback on data collected observations

10. Recruitment of Technical FTCs to focus on Long Term Outages. Commenced 1st week of April.

11. Full implementation of automated truck appointment system at DCT Pier 1 – Target 01 June 2020

Additional Actions

1. Additional Container operator Gangs:
   a) 15th Complete gang for DCT Pier 2
   b) 7th and 8th Gang at CTCT.

2. Contracts with OEM for Servicing / Maintaining Equipment. Continuously.

3. Commence Implementation of actions to address findings from World Bank engagement.

4. Business Case approval of LT contracts with Original Equipment manufacturers (OEMs). Supported by Group CAPIC and Group Exco. Next step is FIC..

5. Implementation of Operating and Planning Improvement initiatives, including:

   a) Yard Management and Preparation
   b) Dual Cycle Operations
   c) Optimize on Twin Lift Operations
   d) Expert Decking
   e) Prime Route
   f) Auto Stow

Freight Rail

- Freight has managed to achieve 60% of its planned volume for the month of April 2020 with a reasonable performance in the export of coal
- Successful Reduction in Temporary Speed Restrictions (TSRs). TSRs are imposed as a result of poor track condition. The reduction in TSRs were achieved through focused maintenance and network renewal interventions. Benefits include:
  - Improved Train Transit Time
  - Improved track condition
  - Unlocking volumes / tonnage capacity
- The Total Infrastructure Investment required for all TFR GFB lines over 9 years is approximately R39 billion. For 2020/21, approximately 74% of the approved R4.2 billion Infrastructure Maintenance Investment for 2020/21 will be allocated to GFB lines Challenges
  - Possible major constraints to execute the network renewal programme are procurement of major material contracts
  - Security concerns and vandalism

Corporatisation Of Ports Authority

- Firstly, Transnet National Ports Authority (TNPA) is a division of Transnet SOC Ltd ("the divisional phase")
- The Act recognised provides for a transitional measure for TNPA to operate as the deemed Authority to perform all the duties and functions in terms of the Act (Ports Act Section 3(1));
- Secondly, TNPA will then be incorporated (corporatisation) as a "subsidiary" of Transnet SOC Ltd (known as, the National Ports Authority (Pty) Ltd) ("the subsidiary phase") (Ports Act Section 3(2));
- Thirdly, the "subsidiary" of Transnet SOC Ltd may then be converted into a public company wholly-owned by the state
- Given the amount of work that needs to be done, the corporitisation is only possible by end of 2020/2021
- There are also matters of loan covenants that have material implication on Transnet's going cocern that have to be considered

Outlook

- With the prediction of a deep slump in the global economy will have negative impact in the transportation (export) of cargo.
- Manganese: The manganese market is oversupplied and under-consumed throughout 2019 and early 2020 is underpinned by the indicative high stockpiles at major Chinese ports. In January to February 2020, manganese ore imports were down 16% to 4.5Mt according China's General Administration of Customs
- Coal: The global coal demand is projected to fall by about 8% in 2020, the largest drop since World War II, with coal use declining in virtually every sector of every region in the world.
- Iron ore. The supply of iron ore is still trying to adjust to supply disruptions from other factors during 2019. However, the nationwide lockdowns and restrictions in the iron-ore producing economies could reduce the supply of iron ore in the seaborne market by around 18 million tonnes in 2020.
- Transnet Operating divisions (freight rail and the ports in particular) will be significantly impacted on the volume handled or transported due to the global slow growth.
- However, Transnet should continue with its CAPEX drive to improve its ailing infrastructure and equipment in order to be ready to support and take advantage of global economic recovery

THE END

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