

POWER INQUIRY NEEDED

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The depth of the power crisis requires us to understand not simply immediate, but also root, causes. An evidence-based inquiry is now required that will provide the basis for sound policy, institutional and managerial reforms and action plans.

Government's national response plan is understandably focused on restoring security of supply. That is our first priority and key stakeholders from the coal industry and other mining and industrial sectors are working closely with government to facilitate Eskom's efforts to stabilise the national power system. However, we also need to develop a common understanding of how we got into this crisis and what needs to be done to minimise a recurrence of power shortages in the future.

The immediate causes of the failures are obvious: Eskom does not have enough generating capacity to meet current demand, its existing plant is not operating adequately and transmission and distribution networks are not reliable enough. But these are proximate causes: more interesting and revealing are ultimate causes.

Six reasons are generally given for why South Africa has not maintained an adequate generation reserve, not all of them valid. The most convenient excuse is that electricity growth has been higher than expected. But surely we planned for higher economic growth. I have also looked at the forecasts that Eskom has made over the years and while it is true that electricity demand growth has been high over the last two years, it is still at a level that fits within earlier planning scenarios.

Second, it is claimed that our generation planning has been inadequate. There has certainly not been a lack of planning and the Energy Policy White Paper published in 1998 stated quite explicitly that we would run out of generation capacity by 2007 and that investment decisions had to be taken by the end of 1999!

A third possible reason is that the regulator's low price increases prevented Eskom from investing in new plant. However, an examination of Eskom's financial statements indicates that the utility's profits increased markedly over this period and it was able to reduce its net debt to almost zero. Eskom was well positioned to finance new investment from retained earnings and bond issues.

A fourth reason given for current capacity shortages is the most convincing. Government prohibited Eskom from building new generators between 2001-2004 when a new competitive electricity market was being designed and private participation was expected. Critically, this moratorium has put us three to four years behind where we should be in terms of new investments.

Two further reasons have also contributed to power scarcities. Government's plans to procure Independent Power Producers have still not materialised. Finally, Eskom's new build programme has slipped beyond original target dates.

These are the reasons for inadequate generation capacity. But more important now is to understand the failures in existing generation plant and networks. Eskom has been

experiencing unprecedented breakdowns and there have been times when more than a quarter of its plant has been out of service. Extraordinarily, Eskom has allowed its coal stocks to decline to levels that have prejudiced power output. There is much anecdotal information on inadequate maintenance systems, skill shortages, etc. The seriousness of the blackouts and their consequent economic damage provide the imperative for understanding ultimate, root causes.

We need an independent inquiry (or at least a private sector peer review process) into these systemic investment and operational failures as well as the reasons we still have duplicate and contradictory power planning processes, why the single-buyer model has still not been designed and implemented, why IPPs have still not been contracted, how we can rapidly accelerate industrial cogeneration investments and whether the proposed power conservation programme will be properly targeted and make adequate use of market-based mechanisms.

Ultimately the power crisis is a reflection of a fundamental governance problem and the challenges of ensuring state-owned enterprises operate efficiently and effectively. While major institutional restructuring is probably inadvisable in the midst of power scarcities, the questions of market structure, institutional design, and effective governance remain pertinent in the future.

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