Eskom's performance shows light at the end of the tunnel

With no load shedding for almost a year and a considerably improved balance sheet, Eskom seems to have got its ducks in a row under Brian Molefe's command.

Compared to a year ago, the power utility is on a sound financial and operational footing, Molefe said on releasing the company's financial results for the year ended 31 March 2016. The stability at both board and executive management levels of the company was a launch pad to drive accountability and better manage the business.

Maintaining the old and delivering on the new

"With new leadership and intensified staff engagements, we have stabilised the organisation. Despite the challenges we face, we continue making progress in the technical and operational areas of the business. Through our robust improvement plan, we have risen to the challenge of completing necessary maintenance of our ageing power stations, while delivering on our new build projects, which will add capacity to the grid in the future," Molefe explained.

Financials up due to stringent cost measures

Earnings before interest, taxes, depreciation and amortisation (EBITDA), which is a measure of a company's operating performance, surged 37,4% to R32bn compared to R23,3bn in same period last year. The EBITDA margin for the period under review improved to 19,8% compared with 15,9% in the same corresponding period.

Revenue rose 10,6% to R163,4bn (2015: R147,7bn), and net profit for the year was R4,6bn (March 2015: R200m).

"Financial performance improved against the previous year, and all financial ratios showed improvement due to better operating results, as well as the conversion to equity of the subordinated government loan and equity injection of R23bn," Molefe said, adding that: "Operating results also improved due to stringent cost containment measures."

Corporate plan

Eskom chairperson, Dr Baldwin Ngubane said the power utility would no longer be a constraint to South Africa's economic growth. He said the company's corporate plan for the five years to 2020/21 aims to re-establish Eskom as a catalyst for growth.

"Our corporate plan will drive ongoing improvement in our operational and financial sustainability, while stimulating economic growth and driving socio-economic development. We recognise the need for fundamental operational change if we are to provide an affordable, sustainable electricity supply to all South Africans," Ngubane said.

Shifting to renewables

Eskom's new-build programme would add 8,600MW of new capacity by 2020/21. In addition, Eskom has signed 65 power purchase agreements with independent power producers (IPPs) for RE-IPP bid windows 1 to 4,5, which would add 4,900MW of IPP capacity to the grid by 2020/21.

"South Africa's energy mix is expected to shift considerably towards renewables over the next two decades. Although coal will remain a core part of the country's energy mix for the foreseeable future, South Africa will have to diversify toward lower carbon emitting energy sources under its agreements at the United Nations COP 21 climate change conference in 2015," he said.

Turnaround in generation performance

There has been a turnaround in generation performance during the last six months of the financial year, with plant availability showing steady improvement. The plant availability averaged 73,5% in the fourth quarter. Unplanned outages improved from an average of 16,2% in April 2015 to 11,5% in March 2016. This is attributable to a focus on reducing partial load losses, as well as previous planned maintenance starting to bear fruit.

As a result of the improved performance of baseload power stations, spending on open cycle gas turbines (OCGTs) was reduced from about R1,2bn in April 2015 to R25m in March 2016.

Going forward

The national grid improved largely due to the commissioning of Medupi Unit 6, coupled with lower demand, improvement in plant performance and increased production from the IPPs. Strategies are in place to address system constraints; further easing is expected as Ingula, Medupi and Kusile are progressively commissioned, coupled with further increased production from the IPPs.

"Going forward, we remain focused on minimising load shedding, increasing maintenance, accelerating the new build programme, energising our workforce, and implementing key safety improvements, as well as operational efficiencies and cost containment measures," said Molefe.