



**MINISTER: FINANCE
REPUBLIC OF SOUTH AFRICA**

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Ref. M4/1/5 (2179/16)

Ms LL Brown, MP
Minister of Public Enterprises
Private Bag X15
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0028

Dear Minister Brown

**ESKOM APPLICATION FOR THE APPROVAL FOR THE AVAILABILITY PERIOD
EXTENSION FROM 31 MARCH 2017 TO 31 MARCH 2023**

I refer to your letter dated 13 December 2016 regarding Eskom's submission in terms of Section 4.5 of the Amended and Restated Government Framework Agreement (GFA) applying for approval to extend the Availability Period under GFA between Eskom and Government until 31 March 2023.

The successful completion of Eskom's new build programme is necessary to ensure that the country has a reliable and sustained supply of electricity. I am aware that the amended GFA extended the period of the Guarantee Availability period to cover Eskom's capital expenditure programme up to 31 March 2017.

However, I have noted the challenges that Eskom experienced over the years which led to delays in the delivery of the capital expenditure programme and resulted in cost overruns. The continued delays in the delivery of the new build programme are concerning as they negatively impact the entity's financial position and the country's electricity supply and consequently, economic growth.

It is also worth noting that notwithstanding the number of milestones achieved on the path for the delivery of the capital expenditure programme based on the recent Board approved P80 schedule, delays and project cost overruns remain a high risk to Eskom's already constrained power system and financial stability.

Furthermore, Standard and Poor's (S&P) concerns over uncertainty around Government's decision to extend the current GFA availability period which led to the lowering of Eskom's long-term corporate credit rating to 'BB+' with the outlook remaining negative has been noted. Therefore, I am aware that Eskom's credit rating is dependent, amongst others, on its explicit Government support. Failure to demonstrate this support by cancelling available Government Guarantees would weaken Eskom's credit rating further.

Moreover, the recent High Court decision to set aside the National energy Regulator of South Africa's (NERSA) decision to grant the Eskom a 9.4% tariff increase for the 2016/17 financial year is concerning. My concern is that if the appeal by NERSA is unsuccessful, Eskom's revenues will be lower than anticipated which will negatively impact the company's sustainability. In addition, the reduction in tariff could also compromise the entity's capital investment plans (and maintenance plans) and impact the security of supply for the country which may lead to load shedding. This could have negative consequences for the economy and also for the fiscus.

Therefore, in light of the challenges Eskom is facing, non-extension of the Guarantee availability period would severely affect the company's ability to borrow money to finance the capital expenditure programme and to remain financially sustainable.

Therefore, due to the strategic role that Eskom plays in the economy, I concur with your decision to grant approval to Eskom's request to extend the GFA Availability Period from 31 March 2017 to 31 March 2023. However, this approval is subject to the amendments of the current existing conditions that are contained in the amended GFA.

The amended conditions are as follows:

- Any transaction undertaken in terms of Section 54 of the PFMA must be subject to approval by the Ministers of Public Enterprises and Finance;
- Eskom must officially inform Government of any further delays in the capital expenditure programme prior to communicating such changes to the public;
- The guarantees on each of the different instruments / loans will have to be structured separately in order to meet the specific legal requirements;
- Before accessing the market for a guaranteed instrument, Eskom will need to obtain the National Treasury's agreement in terms of timing market access;
- Prior to committing on each issuance, the National Treasury's approval on the terms and conditions and in particular the pricing will have to be obtained;
- All guarantees must be linked to funding the current capital expenditure programme which comprises of Medupi, Kusile and Ingula;
- Should Eskom embark on another capital expenditure programme, a new application for Government support should be submitted. Therefore, any expenditure on nuclear power stations is excluded under these guarantees;
- Annual limits and the conditions attached to the guarantees should be reviewed each year; and
- Linked to these guarantees is a requirement for Eskom to report regularly to National Treasury and Department of Public Enterprises (DPE).

That said, it is also important that the National Treasury and DPE officials continue to meet with Eskom on a regular basis to discuss the reports that Eskom submits on the performance of the entity in achieving its targets. These on-going engagements with Eskom are important in ensuring that government maintains a good understanding of Eskom's current challenges and the steps that Eskom is taking to respond to these issues.

Moreover, in future, it is important that when undertaking mega projects, government and Eskom ensure that the abovementioned problems are avoided through, inter alia, ensuring that there is sufficient upfront time for planning before commencing with implementation and that adequate mitigation strategies are put in place.

I trust that you will find the above in order.

Kind regards

A handwritten signature in black ink, appearing to read 'Pravin J Gordhan', written over a large, light-colored scribble or mark.

PRAVIN J GORDHAN, MP
MINISTER OF FINANCE

Date: 22 - 03 - 2017.