

Eskom Presentation

Briefing Meeting with SCOPA
18h30 to 21h00

23 February 2021



CONTENTS

- **Deviations and Expansion for FY 2019/20**
- South32 (tied colliery for Duvha Power Station) FY 2020/21

- Procurement through deviations **compromises the principles** of fairness, equitability, transparency, competitiveness and cost-efficiency.
- National Treasury **introduced instructions on procuring** through deviations because some organs of state were abusing this mode of procurement.
- **Single source procurement** may occur when more than one supplier exists in the market that can perform the contract, but a particular supplier is identified as the preferred supplier for various reasons, e.g. continuation of service. **Prior approval is required from National Treasury** for single source procurement.
- **Sole source supplier** is where one supplier possesses the unique and singularly available capacity to meet Eskom's requirements. **National Treasury approval is not required** for sole source procurement.
- **Motivations must also be provided** as to why procurement should be done through deviation as opposed to testing the market and concluding a new contract.
- **Ministerial Equity Conditions require Eskom to monitor deviations, expansions, tender cancellation, procurement plans and management of budget performance** .
- **Roadmap deliverables are reported** on a monthly basis in a forum that is attended by DPE, Eskom.& NT.

Deviations Not Approved - Quarter 1

NT Ref. No	Project Description	Reason for Deviation	NT Response
31	Appointment of ABB for the Maintenance Services of Oil Flame Scanners At a contract value: R8,5m	ABB was the only successful tenderer	Not Supported for 3 years – but supported for two years.
NT Recommendation: That the contract be awarded for 24 months		Eskom's Action: The contract was placed for two years	

Expansions Not Approved - Quarter 1

(1/2)

NT Ref. No	Project Description	Reason for Deviation	NT Response
23	<p>Request to modify a contract with Actom (Pty) LTD to continue providing Unit Transformer System and Earthing Equipment For Kusile Power Station.</p> <p>Original Value: R215m Time extension only. No increase in value</p>	To maintain business continuity	Not Supported
<p>NT Recommendation: The contract had expired at the time of the request.</p>		<p>Eskom's Action: The condonation process has been initiated.</p>	

Expansions Not Approved - Quarter 1

(2/2)

NT Ref. No	Project Description	Reason for Deviation	NT Response
30	<p>Modification of a contract with Tlakula Occupational Health Services (Pty) Ltd to continue providing the Occupational Health and Professional Services</p> <p>Original Con Value: R3m Expansion by: R1.8m</p>	To maintain business continuity	Not Supported
NT Recommendation: That a new contract be established		Eskom's Action: the contract expired in December 2019. Employees are being serviced by using internal occupational health resources at Megawatt Park and Generation sites.	

Expansions Not Approved - Quarter 2

(1/4)

NT Ref. No	Project Description	Reason for Deviation	NT Response
17	<p>Modification of a contract for the Construction of Majuba Rail Lines 1 and 2 at Majuba Power Station with SS4P Joint Venture</p> <p>Original Con Value: R83,3m Expansion by: R17,6m</p>	Deferment of outage	Not Supported
NT Recommendation: That the market be tested		Eskom's Action: An enquiry was issued to the market.	

Expansions Not Approved - Quarter 2

(2/4)



NT Ref. No	Project Description	Reason for Deviation	NT Response
22	<p>Modification of a contract for the Provision of Physical Security Guarding Services for the Ankerlig Transmission Secondary Supply (ATKSS) Project Site, National Key Point – with Analytical Risk Management (Pty) Ltd t/a 2RM Security</p> <p>Original Value: R886,116.24 Expansion value: R443,028.12</p>	Continuity of service	Not Supported
<p>NT Recommendation: That the market be tested</p>		<p>Eskom's Action: utilising the new contract that was established effective September 2019.</p>	

Expansions Not Approved - Quarter 2

(3/4)

NT Ref. No	Project Description	Reason for Deviation	NT Response
23	<p>Modification of a contracts for the Provision of Physical Security Guarding Services at Permanent Sites, Ad hoc Security Services, Crime Prevention Patrols and Security Escorting Services at Identified Sites within Eskom Divisions and National Key Point with various security service providers</p> <p>Original Value: R 80,7m Expansion value: R76m</p>	Continuity of service	Not Supported

NT Recommendation: contingency was not approved. The recommendation is that Eskom should finalise the new procurement process

Eskom's Action: the rejection was appealed; however, the current contract is coming to an end on 31 March 2021. The establishment of new contracts will then be managed and handled at divisional level.

Expansions Not Approved - Quarter 2

(4/4)

NT Ref. No	Project Description	Reason for Deviation	NT Response
25	<p>Modification of a contract for the Provision of Catering Services at Hendrina Power Station with Duduza Hospitality Solutions (Pty) Ltd</p> <p>Original Value: R 31m Expansion value: R15,2m Value of prev. expansion: R4,1m</p>	Funds depleted on contract	Not Supported
<p>NT Recommendation: Eskom must test the market.</p>		<p>Eskom's Action: the market was tested and awarded.</p>	

Deviations Not Approved - Quarter 3

(1/3)

NT Ref. No	Project Description	Reason for Deviation	NT Response
55	<p>Establish contract for Manufacture, Supply and Delivery of Pulse Jet Fabric Filter Bags for Various Power Stations with Beier Envirotec (Pty) Ltd & Filtafelt (Pty) Ltd</p> <p>At a contract value: R1bn</p>	Two Dti approved suppliers for Fabric Filter Bags	Not Supported
<p>NT Recommendation: That the market be tested</p>		<p>Eskom's Action: an enquiry was issued to the market, and the process is being finalised.</p>	

Deviations Not Approved - Quarter 3

(2/3)

NT Ref. No	Project Description	Reason for Deviation	NT Response
57	Establish a contract for Design Monitoring and Construction Supervision at Majuba Power Station with Jones and Wagner (Pty) Ltd At a contract value: R42m	Holds full liability for designs	Not Supported
NT Recommendation: that the market be tested		Eskom's Action: an enquiry was issued to the market, and the process is being finalised.	

Deviations Not Approved - Quarter 3

(3/3)

NT Ref. No	Project Description	Reason for Deviation	NT Response
59	<p>Establish a contract with SAP for Licences, Cloud Subscription services, MAX attention, SAP OEM Accredited Professional Training Services of African User Group Membership Fees</p> <p>At a contract value: R298,7m</p>	Continuity of service	Not Supported
<p>NT Recommendation: concern about the exclusion of other potential bidders.</p>		<p>Eskom's Action: the rejection was appealed, and conditional approval was granted.</p>	

Expansions Not Approved - Quarter 3

NT Ref. No	Project Description	Reason for Deviation	NT Response
54	Modification of a coal supply contract with South32 Original Value: R11,4bn Expansion value: R1.1bn Previous Expansions: R28bn	Continuity of service	Not Supported
NT Recommendation – concern on the reasons for the expansion not being justifiable		Eskom's Action: another appeal letter was sent to the NT; subsequently, approval was obtained.	

In June 2019 South32/SAEC contractually declared hardship on the long term coal supply agreement to Duvha Power Station. In 5th November 2019, Eskom applied for a request to modify the contract to provide an interim price relief to South32/SAEC for 6 months coal supply while the parties engage on the Hardship matter. This application was rejected on 14th November. Another application was made on the 6th of February for the same amount and duration which was then approved by NT on the 28th of February 2020. Eskom made a further application in June 2020 to extend the interim relief by a further 7.5 Mtons from 1 November 2020 to 31 July 2021 which was granted by NT for 9 months.

Expansions Not Approved - Quarter 4

(1/2)

NT Ref. No	Project Description	Reason for Deviation	NT Response
53	Provision of Telco WAN (Data link) Original Value: R 2, 5m Expansion value: R23m Previous Expansions: R0.00	Additional Scope of Work	Not Supported
NT Recommendation – concern about the reasons for the expansion not being justifiable. Eskom should retest the market on a closed enquiry.		Eskom's Action: the application was withdrawn, as an enquiry was reissued to test the market. The tender process is at the evaluation stage. Parallel to this, the condonation process is underway.	

Expansions Not Approved - Quarter 4

(2/2)

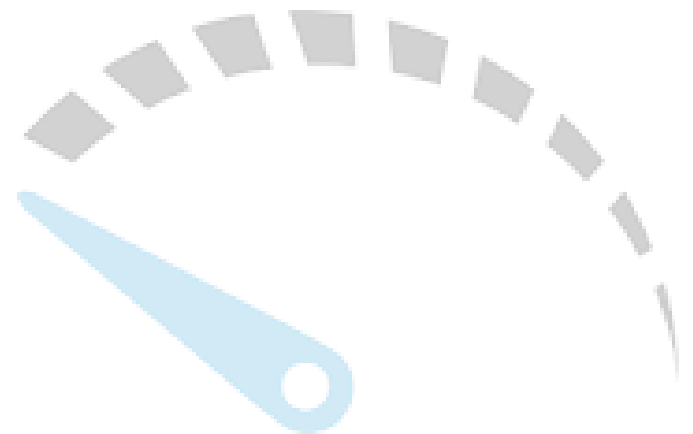


NT Ref. No	Project Description	Reason for Deviation	NT Response
54	Procurement of strip, assess and repair CO2 analyzer gas. Original Value: R 206 863.93 Expansion value: R621 595.27 Previous Expansions: R0.00	Additional Scope of Work	Not Supported
NT Recommendation – concern on the reasonableness of the prices for the expansion is not being justifiable.		Eskom's Action: issued a tender to the market, waiting for the process to unfold	

Deviation Not Approved - Quarter 4

NT Ref. No	Project Description	Reason for Deviation	NT Response
88	<p>Surplus energy for the supply of Short Term Generation Capacity, under the SEPPP (Various Independent Power Producers (IPPs))</p> <p>Original Value: R 513,2m</p>	Continuation of service	Not Supported
<p>NT Recommendation – concern about the process followed to appoint multiple service providers by the Department of Mineral Resources and Energy as well as the value that will be derived by Eskom.</p>		<p>Eskom's Action: the project has been suspended.</p>	

- Eskom and National Treasury are engaging at higher level to agree on the **acceptable turnaround time to process the applications**.
- Divisional Procurement Heads are tasked with the **responsibility to monitor** compliance to the requirements of the Ministerial Equity Conditions which include *inter alia* deviations and expansions.





- Deviations and Expansion for FY 2019/20

- **South32 (tied colliery for Duvha Power Station) FY 2020/21**

Expansions Not Approved – FY2021 Quarter 2

South32 (tied colliery for Duvha Power Station)



Project Description	Reason for Deviation	NT Response
<p>Deviation to negotiate coal supply with a single source - contract with South32 (tied colliery for Duvha Power Station). Power Station life estimated to be 2034. Current contract is a 10 Mton per annum agreement ending in 2024 with an option to extend to 2034.</p> <p>Estimated value of the deviation for 14 years at 10 Mtons per annum (incl Vat) R66.98bn</p>	<p>Continuity of service – Power Station was built with an adjacent long term tied colliery as the anchor supplier.</p> <p>South32 has contractually declared hardship. Eskom appointed consultants to perform a hardship review. The deviation was to negotiate with the tied colliery to continue supply to Duvha Power Station until the end of Duvha Power Station's life. Duvha Power Station's reclaim capability is limited to only 3 units of the productive 5 units of the Power Station because the power station was designed to receive coal from the adjacent mine. Therefore power station requires coal supply from the adjacent mine and cannot rely completely on the stockyard reclaim capability on a full time basis to meet full production requirements. An application was therefore made for the existing contract volumes to the end of the power station life estimated to be 2034. The application was made on 23rd July 2020. NT declined Eskom's application on the 19th of October 2020.</p>	<p>Not Supported</p>
<p>NT Recommendation – Eskom should test the market. Allow other suppliers to compete.</p>	<p>Eskom's Action: Eskom has gone out to test the market via RFP. This will not solve the reclaim capability constraint at Duvha Power Station.</p> <p>Post NT not supporting Eskom's application and based on recent developments and the threat of the SAEC operations going into business rescue, Eskom is also in the process of reapplying to NT for a modification of the existing agreement based on the capability of the mine. At this point and based on the assessment conducted at the mine by Eskom's consultants, the mine will only be able to produce coal for the next 4 years at an internally benchmarked assessment price. Eskom is thus in a process of getting this business case through its governance structures. Thereafter Eskom will reapply to NT for a modification of the Duvha coal supply agreement. The RFP will be used to determine the long term coal supply options/solutions for Duvha Power Station. This will potentially include the upgrading of the stockyard reclaim capability as well.</p>	

Conclusion

