



**National Economic Development
and Labour Council**




**FRAMEWORK AGREEMENT FOR A SOCIAL COMPACT
ON SUPPORTING ESKOM FOR INCLUSIVE
ECONOMIC GROWTH**

Framework Agreement for a Social Compact on Supporting Eskom
for Inclusive Economic Growth

1.Preamble

- 1 .1 . The parties to this Framework Agreement agree that the resolution of the energy crisis is one of the most important challenges to be addressed in South Africa. They recognize the positive and concrete steps that have been taken by social partners and commit to this Agreement to support and give impetus to these efforts.
- 1 .2. The parties agree to the following key principles that underpin a pact on energy security:
 - 1 .2.1 . The centrality of a secure and affordable electricity supply as a social and economic enabler to ensure that the national goals of inclusive growth, job creation and a better life for all are advanced, investment is attracted and consumers, including communities and businesses, have access to electricity on reliable and competitive terms.
 - 1 .2.2. The urgency of addressing the challenges and fixing the operational problems in Eskom, as well as addressing inefficiencies in its supply chain and cost structures, including its bloated management structure and associated costs. The parties recognize the need for publicly articulated support by constituencies for the Eskom management and its key stakeholders as Eskom undertakes a reform of its operational model and improves its skills base.
 - 1 .2.3. The requirement for Eskom to review all material contracts entered into by Eskom with private and public sector providers, with the intention of addressing over-payment, corruption and other irregularities in contracts, must be undertaken within the confines of the law. In the event that contracts are identified as corrupt or irregular, there is public support by constituencies for the cancellation of contracts, the recovery of funds lost as a result and the prosecution of guilty parties.
 - 1 .2.4. The need to reduce Eskom's debt burden which has had significant negative implications for the country's fiscus, for the sovereign debt, for consumers and the broader economy.
 - 1 .2.5. These reforms will be undertaken in a manner that ensures that Eskom remains an efficient, reliable and effective public utility able to fulfill its developmental mandate.
 - 1 .2.6. These measures will also be undertaken in a manner that recognises the need to balance two objectives: cost-reflective tariffs to ensure Eskom's sustainability, and affordable tariffs to meet the needs of communities and industry.
 - 1 .2.7. The role of measures such as renewable energy generation and self-generation as means of both addressing climate change and diversifying



the sources of energy feeding into the national grid to enable energy security coupled with concrete and clear measures to ensure a just transition that takes account of the concerns of affected workers and communities.

1 .2.8. A social compact between government, business, labour and community, in which each constituency has identified steps to be taken through which all contribute to resolving the energy crisis, promote labour stability in Eskom to ensure an efficient, reliable and affordable supply of electricity and address the concerns of workers, including the stabilization of Eskom to support job maximisation across the South African economy, whilst enabling inclusive economic growth. These steps will enable an efficient, productive and fit-for-purpose Eskom to contribute to electricity supply that enables increased access and affordable prices to consumers, including communities, and allows industries to support sustainable job creation and inclusive economic growth.

1 .2.9. The identification of resource mobilization mechanisms and initiatives that will reduce Eskom's debt, access fresh capital where required and preserve the integrity of the financial system, including institutional investment. Social partners will work together to identify and support innovative funding mechanisms to contribute to addressing funding gaps.

1.3. The situation requires extraordinary measures, including immediate interventions that will show results in the short, medium and long term.

2. Interventions in the short, medium and long term

Immediate interventions (to be implemented within the next three months)

2.1 . Managing current load shedding / electricity shortages:

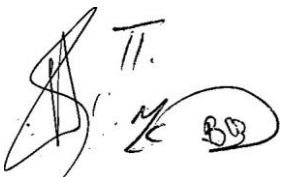
2.1 .1 . This requires adequate communication and transparency to reduce uncertainty, and a review of the load shedding schedule to minimize disruption to firms and households and bring about predictability. This will be coupled with a clear maintenance and operational recovery plan and an adherence to agreed-upon quality standards to reduce load shedding.

2.1 .2. Mechanisms for engagement must be established between NERSA, affected businesses, municipalities, Eskom and all other social partners to review load shedding schedules regularly.

2.2 Procurement of additional energy generation:

2.2.1 . In line with the Integrated Resource Plan 2019 (IRP), which provides for the least cost generation of electricity, 2200 MW has already been procured through bid windows 3.5 and 4 of REIPPPP and will be connected to the grid within the next 18 months.

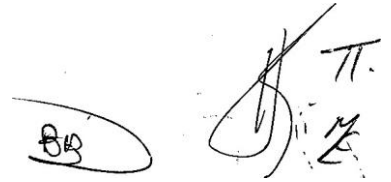
2.2.2 Kusile and Medupi units will come online within the next 24 months, adding an additional 2 400 MW to the grid.



- 2.2.3 Despite this additional power supply, customers and the economy will experience load-shedding over the short to medium term horizon. To help address this gap, social partners will identify and address obstacles to the efficient implementation of the IRP and the determinations for the procurement of new generation.
- 2.2.4 Government must enable self-generation by finalizing all necessary legislation and regulations expeditiously, and removing any barriers to implementation, including those in respect of wheeling for self-generation / own use, subject to licensing conditions.
- 2.2.5 Subject to enabling legislation being finalized to facilitate embedded / self-generation, Business commits to expedite the implementation of 2500 MW of self-generation capacity within the next 18 - 24 months. Capacity of a further 2500 MW will be procured through the DMRE emergency procurement process.

2.3 Managing tariffs:

- 2.3.1 The cost-reflective tariffs principle provides for the recovery of prudently incurred costs and an appropriate provision for future capital investment. Eskom's cost-structures need to be reviewed and costs must be reduced, as the principle cannot be applied to a bloated cost-structure and inefficiencies in operations. Tariff adjustments under the Regulatory Clearing Account methodology should be limited to a recovery of prudently incurred costs.
- 2.3.2 This compact recognizes that costs can be decreased through internal reforms in Eskom. This includes the review by Eskom of all material contracts entered into by Eskom with private and public sector providers. In the event that contracts are identified as corrupt or irregular, there is public support by constituencies for the cancellation of such contracts, the recovery of funds lost as a result and the prosecution of guilty parties.
- 2.3.3 In the event that contracts are identified as onerous, there is public support by constituencies for the renegotiation of such contracts within the confines of the law.
- 2.3.4. In the spirit of reducing costs, the process underway of engaging on renegotiating Independent Power Producer (IPP) contracts and the reduction in the price of coal supplied to Eskom must be finalized as soon as practicably possible. This will be undertaken with support by social partners for an outcome that is sustainable for suppliers, ensures a fair return, is affordable to Eskom and is within the confines of the law.
- 2.3.5. Government commits to reviewing the adequacy of the free basic electricity grant in light of the high cost of electricity.
- 2.3.6. The management of tariffs is seen as critical to ensure affordability, to sustain prudently incurred costs by Eskom and to arrest and reverse a utility death spiral.

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2.4 Debt recovery and illegal connections:

- 2.4.1 . The parties agree that the current debt that is outstanding to Eskom severely impacts on the sustainability of its financial model. Consumers who use electricity (other than the provision for free basic electricity) must pay for it; industrial and public sector users must pay timeously for electricity consumed; and municipalities must forward monies collected for sale of electricity to Eskom within the contractual periods. The parties will use all their efforts to ensure that the debt owing to Eskom is addressed, including through facilitating appropriate phase-in periods for past debt.
- 2.4.2 All consumers must make a commitment to repay debts on agreed terms with the relevant municipality and/or Eskom. The Community .. constituency will lead the revival of the Masakhane campaign, which will be implemented in communities across the country. These efforts must be undertaken in a manner that is consistent with policies for indigent households, which must be effectively implemented. To this end, all social partners commit to supporting a debt recovery plan which will ensure that business, government, households, neighboring states and municipalities pay their Eskom debt and that swift action is taken against defaulters.
- 2.4.3 A review must be undertaken of municipal electricity revenue collection and payment systems in order to assess whether reform of these systems is necessary.
- 2.4.4. Social partners will support dedicated unit/s to remove illegal connections and prosecute offenders. The Community constituency must commit to working with law enforcement agencies to combat and remove illegal connections, and support the installation of pre-paid meters in all dwellings.
- 2.4.5. The installation of pre-paid meters must be implemented for all consumers across the country and the Masakhane campaign must be broadened to facilitate this. Pre-paid meter equipment should be designated and manufactured locally. Social partners agree to expedite the building of a local pre-paid meter equipment manufacturing industry.

2.5 Clean governance and management:

- 2.5.1 Successful interventions to support clean governance require an accountable, competent, experienced and capable Board and Executive Management with integrity in order to instill confidence and certainty. Clear mechanisms must be developed and implemented to hold executives accountable. Government commits to appointing a competent board and management to be filled by candidates with the requisite skills, capacity, experience and integrity. The shareholder department will consider labour representation on the board.

- 2.5.2 Recommendations emerging from forensic audit reports must be implemented with immediate effect to tackle corruption and wasteful expenditure. This must begin with the immediate vetting of senior officials and the completion of lifestyle audits. Those who refuse will be immediately disciplined.

2.6 Tackling corruption:

- 2.6.1 . The current management at Eskom is addressing the severe damage done to electricity infrastructure and institutions including neglect of and/or lack of proper maintenance of power stations, deployment of inadequately trained operational staff, corruption in procurement processes and the erosion of work ethics and a disciplined engineering culture.
- 2.6.2. There must be zero tolerance with respect to corruption. The essential inputs to Eskom's production process including coal, diesel, parts, services and maintenance contract services as well as capital costs must be provided on an efficient and competitive basis with no scope for irregularities. We will hold our respective constituencies accountable to this ethos and practice.
- 2.6.3. Labour and Eskom management must report corruption within Eskom to entrench a zero-tolerance culture towards corruption among all employees of Eskom.
- 2.6.4. Members of communities and contractors must equally report corruption within Eskom to entrench a zero-tolerance culture towards corruption among Eskom employees.
- 2.6.5. Eskom management must put in place the necessary systems and capacity to enable this, including effective protection for whistle blowers. Disciplinary processes must be initiated and completed against anyone alleged to be involved in corruption. All stolen assets must be recovered.
- 26.6. Law enforcement agencies must be capacitated by the state to expedite prosecution of cases. Updates will be provided on a quarterly basis with respect to progress on dealing with corruption to ensure transparency. Furthermore, contracts for supply of goods and services will be comprehensively audited to determine the legality of the contract and to identify instances of overpricing. These will be reviewed to enable improvements in supply chain management and to ensure that terms and conditions are market related and that obligations are being met (including, for example, the quality of coal). Where these are not being fully met, actions must be taken.

2.7 Eskom's operating model:

- 2.7.1 A review of Eskom's operating model will be conducted, including a review of its bloated management structure, and associated costs. Recommendations from this review will be expeditiously implemented. Based on information regarding capacity requirements and the outcome of the skills audit, the staff needs of Eskom will be determined. This will allow for engagement on either re-skilling or appropriate deployment

BB TT. E

where necessary in consultation with labour and the bargaining unit at Eskom.

- 2.7.2 Partnerships will be encouraged with the private sector to support the reskilling of staff at Eskom.

Medium term interventions: (to be initiated immediately and realised within the next 12 months)

2.8 Eskom's financial viability:

2.8.1 All social partners are committed to Eskom becoming a financially viable and sustainable State-Owned Enterprise. The social partners also acknowledge that the debt burden of Eskom is unsustainable and that it must be reduced. Addressing these imperatives will require the development of a revised business model, as an integral part of a turnaround strategy and the restructuring of Eskom's balance sheet.

2.8.2. There is a need for a strategy to reduce Eskom's debt level; to maximise Eskom's revenue; to collect all outstanding debt; to fundamentally change and reduce the cost structure of Eskom and to ensure that all suppliers to Eskom commit to absolute integrity including in negotiated prices for all goods and services supplied to Eskom, including, inter alia, coal and diesel.

2.8.3. In addition to the measures listed above, social partners are committed jointly to mobilizing adequate financial resources for Eskom. The precise financing mechanisms will be evaluated taking into account all options available.

2.8.4. The constituencies recognize that an effective Eskom, providing energy at competitive prices, will help to stimulate economic growth and accordingly will help the aggregate return on investment in the SA economy. Low costs of capital and secure access to capital can assist to achieve this.

2.8.5. Finance mobilized will provide investors with appropriate long-term, stable and reliable social and financial returns, recognizing that workers rely on retirement funds for their sustenance upon retirement.

2.8.6. This resource mobilisation must be undertaken in a financially sustainable manner to ensure the country's fiscal resilience and in a way that does not compromise the integrity of the financial system, including institutional investment. In particular the following factors must be taken into account:

- a) Funding must comply with mandates of financial institutions;
- b) Fiduciary duties of the institutions;
- c) The principle of risk adjusted returns; and
- d) Risk management processes cannot be weakened.

2.8.7. There needs to be a schedule of funding requirements with disbursement tranches linked to the attainment of predetermined milestones

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2.8.8. Social Partners will be consulted on Eskom's revised business model as an integral part of a turnaround strategy that:

- a) Is premised on the future sustainability of the South African energy supply industry (ESI);
- b) Includes the restructuring of Eskom within the context of the future ESI with due regard to structure, timing and processes; and
- c) Includes the relevant funding mechanism.

2.9 Impact investment:

2.9.1 . There are significant funds that could be invested in viable large-scale infrastructure projects. Where there are suitable projects within the Eskom portfolio, these financial resources should be mobilised to provide an appropriate return.

2.9.2 Modalities to release public and private sector capital for other large-scale infrastructure projects will be developed. This will be accomplished through the design and implementation of viable large-scale projects in order to revive investment and inclusive economic growth to increase employment.

Longer term interventions (to be initiated immediately to ensure visible results within five years)

2.10 Just transition package:

2.10.1 . Interventions will be undertaken in a manner that will reduce carbon emissions in accordance with our international commitments. These measures will be put in place to support the transition to clean energy in ways that are inclusive and catalytic to stimulate new economic sectors, particularly in areas that will be affected by the energy transition.

2.10.2 Projects and processes will be put in place to mitigate any possible adverse effects of transitions that are undertaken within particular geographic areas. Means to support worker and community participation and social ownership within the renewable energy sector will be considered

2.10.3 Eskom must expand its portfolio of renewable energy sources, gas and other forms of clean energy, on an expedited basis, consistent with the IRP.

2.10.4. A study must be conducted in order to assess options for the repurposing of power stations infrastructure for other economic purposes.

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2.10.5. The establishment of the local renewable energy component manufacturing industry must be prioritized. This should include an expansion in the production of electric vehicles and stimulation of the green hydrogen

economy in South Africa. The use of locally produced solar energy panels in every public facility and private household must be encouraged and further research and development investment should be encouraged in battery-storage technologies. Communities will participate in pilot projects..

2.10.6. Efforts towards the just transition should be undertaken under the auspices of the Presidential Council on Climate Change.

2.11 Long term security of supply:

2.11.1 These combined efforts, as outlined above, will enable us to work towards a reliable and affordable supply of energy that improves the quality of life of all citizens and supports broader economic growth and development.

2.12. Requiator:

2.12.1. A review of NERSA's capacity and the electricity regulatory framework must be conducted in order to improve regulatory effectiveness and to ensure that the regulatory framework adapts to the changing energy market.

3. Commitments by each constituency

3.1 . In light of the common vision and agreement to utilize our respective resources and capacities, the parties will develop a detailed action plan that will indicate the commitments of each of the social partners.

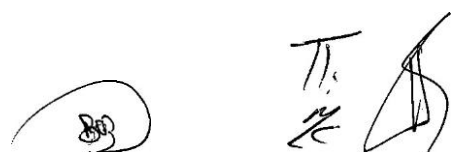
4. Institutional arrangements for implementation of this agreement

4.1 . The parties recognize that the governance protocol arrangements between Eskom and the Government must be scrupulously respected.

4.2. This compact is intended to identify the roles, responsibilities and commitments of all constituencies to support the effective implementation of the turn-around plan for Eskom and will be implemented and monitored through an Implementation Plan, with due regard for the potential short, medium and long term impact that the Corona virus and the credit downgrade may have on the South African economy and its electricity supply industry.

4.3. Implementation Plan reports will be provided to the Presidential Working Committee (PWC), which must identify gaps in implementation and the support committed by the particular constituencies.

4.4. The success of this agreement requires a "business unusual" approach. The delivery of these interventions is urgent and requires rapid and agile responses. Further, the success of this intervention will create a basis for social partners to work together to address challenges faced by other SOEs using a similar approach. This requires a collective approach to resolving problems that is mutually reinforcing..

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5. Conclusion

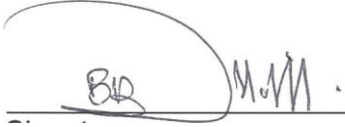
- 5.1. The parties to this agreement are committed to acting together in the national interest. They recognize that supporting Eskom is essential to ensuring energy security for South Africa, improving the quality of life of all citizens and communities, restoring economic growth and increasing employment.

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On behalf the Government of the Republic of South Africa:

P. J. GORDHAN  08-12-2020
Name Signature Date

On behalf of Organised Labour:

Bheki Ntshelintsho  _____
Name Signature Date

On behalf of Organised Business:

ML KINGDON  _____ -OF 29 Name
Signature Date

On behalf of Community Constituency:

THULANI TSHEFUTA  2020/12/08
Name Signature Date