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Zondo Commission – Eskom execs, including Molefe, refused to listen to reason in Optimum case

The Eskom board may have rejected a negotiated review in 2015 of the pricing structure for coal supplied by Optimum mine to its Hendrina power station, forcing the mine to go into business rescue in the process, but it was not for lack of motivation and persuasion from former general manager for fuel spend, Johan Bester.

A dismissive Brian Molefe, new in the position of CEO at the time, wanted to hear nothing of a proposed price hike by Eskom to Optimum, on the basis that the mine had for some time been supplying coal at a higher cost than what they were getting from Eskom for it. At the time that the negotiations began, Eskom was paying R150 per ton on a monthly basis, a rate that had essentially bankrupted Optimum to the point where the mine declared hardship. According to Bester, Optimum wanted this increased to R300 per ton, which was considered reasonable as it would be enough for the mine to continue in its operations.

A motivator for Eskom, explained Bester, was that the contract with Optimum would come to an end in December 2018, and no viable alternative plan had been explored. His team had engaged other potential suppliers, but on considering the costs involving transporting the coal from these sources, among other factors, thought it best to rather negotiate with Optimum. Optimum was right next to Hendrina, and coal was supplied to the power station via a conveyor belt, with no need for additional transportation. When he presented the upside of remaining with Optimum as opposed to moving to another mine from which the Hendrina coal would have to be transported, Bester was told by Molefe that Eskom would build a rail line then. This was not helpful input, he said, because Eskom had to consider that Hendrina's projected life span was until 2023, so a long-term investment in the form of a rail line for such a short span was not a good idea.

While Eskom leadership pushed back on the idea of continuing its contract with Optimum beyond 2018, Gupta-owned Tegeta was advancing on an offer to buy the now struggling mine. According to earlier evidence from former Optimum CEO Clinton Ephron, such were the mine's financial difficulties that parent-company Glencore Minerals had to make a cash injection of over R400-million during the course of 2015, just to keep operations going.

Tegeta made several offers to Glencore for Optimum, until the company submitted in December 2015 to let the mine go for R2.1-billion. Interestingly, it was for this same amount that Eskom wanted Optimum to settle penalties it owed the power utility just months before.

Prior to testifying on the Optimum dealings, Bester had been led by advocate Kate Hofmeyr to discuss his role in another contract that Tegeta struck with Eskom in March 2015, for supply of coal from Brakfontein mine. The circumstances around which the contract was finalised were the subject of an investigation by National Treasury, for which a report was published late last year. The Fundudzi report, as it is known, found Bester guilty of irregular conduct, for allowing Tegeta to dictate the terms of that contract.

Bester told the inquiry that he received a letter from Tegeta in June, some months after the initial coal supply agreement was signed, proposing an additional supply of coal from Brakfontein Extension, a second colliery linked to the main Brakfontein one, and located across the road from it. The agreed amount of coal between the two parties was 100 000 tonnes per month, and the proposed amendment was for an additional 100 000 tonnes, to be supplied from October onwards. In another amendment Eskom, through Bester, ended up agreeing to a 10-year term contract, that did not seem to have financial benefit for Eskom. The original agreed-upon term for the contract was five years.

Hofmeyr spent some time debating with Bester the contents of a letter, signed by him, that agreed to these terms. Bester's position is that he was under immense pressure at the time, and he was also grappling with members of his team being directed by Eskom's executive to carry out certain tasks that he would otherwise have run. He suspects that several of Eskom's leadership wanted him out of the way, so that he could be replaced with someone more pliable to their interests. He told the inquiry that he did everything in his power to ensure that Tegeta did not bully his team into making hard decisions, but conceded that it may appear on the face of the evidence presented that he went soft.

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