Eskom

MEMORANDUM

To:	Ms. Jainthree Sankar, Chief Procurement Officer	Reference:	
From:	Mr Ngoako Huma, Finance GM: Generation	Version:	01
Date:	07 October 2024		

SUBJECT:DEVIATION FROM THE PROCUREMENT PROCESS: ERI INCENTIVE PAYMENT

PURPOSE

1. The purpose of this memorandum is to request approval to deviate from the standard single source procurement process in relation to Generation incentive program (Summer/Winter challenges) which Eskom Rotek Industries (ERI) is eligible for payments above the existing contractual agreements across Generation business units.

DISCUSSION

2. The Group Chief Executive approved Generation beat the demand summer challenge 2024-2025 performance incentive which Generation, System Operator, Generation assigned RT&D employees and Eskom Rotek Industries are eligible for incentive payments on a differentiated performance target-based system.

3. The incentive is designed as a performance motivator to the employees in implementing Generation recovery plan which was approved by the board with an aim to achieve 70% Energy Availability Factor (EAF) in March 2025. This incentive is a continuation of previous incentives implemented since 01 May 2023.

4. The maintenance challenge initiative paid to ERI are linked to various services offered to Generation power stations on the existing commercial contracts with ERI. The incentive has

proven to be instrumental in mobilising and rallying the Generation community and related support behind shared goal of beating the demand challenge and ultimately significantly reducing load shedding. Currently, there is no contractual agreement in place between Generation and ERI to establish a binding agreement for these payments.

5. During FY23 statutory audits, external auditors raised an accounting finding due to the nonexistence of a contract between Generation and ERI. ERI being a subsidiary of Eskom requires a contractual agreement for any payments, including recovery of the incentive schemes initiated by Generation. Currently, these payments are made through the adobe process.

6. A single source procurement mechanism has been recommended as a practical process to establish a contract with ERI to enable these payments through a contract. However, this process requires a number of steps which management is of the view that they are not relevant nor applicable on this transaction since the nature of the contract is to recover costs from Generation.

7. It is recommended that the Chief Procurement Officer (CPO) exempts Eskom Gx Finance Department from the following SSJF contract establishment, as per the procedure Rev 5, 32-1034, page 137 to 138.

   7.1. The CFT, led by the Procurement Practitioner, develops the Commercial Strategy based on the SSJF and the outcome of the market analysis.
   7.2. The ITT and RFQ enquiries may be used for Single Source procurement.
   7.3. The relevant DAA is identified with reference to the estimated value of the transactions including all applicable taxes. The CFT presents the Commercial Strategy to the DAA for its approval and requests the DAA's approval to issue the Enquiry to the prospective supplier.
   7.4. To issue an Enquiry and need not await receipt of an offer from the supplier.
   7.5. After the DAA has approved the issuing of the Enquiry, the Procurement Practitioner engages the prospective supplier by issuing the Enquiry. Single Source Enquiries may be issued and closed through the Procurement Practitioner and need not be administered through the Tender Office.
   7.6. Once an offer is received from the prospective supplier, the Procurement Practitioner and CFT commence with evaluations.

7.7. Where evaluation results do not require negotiations, the CFT presents the evaluation report to the DAA for award.

7.8. The relevant subject matter experts must form part of the negotiation team. If the terms of the mandate are met in negotiations, feedback on the outcome of negotiations must be submitted to the DAA for its approval and award. Signed minutes of negotiations must be attached to the feedback report. Should negotiations fail.

8. Due to the nature of the Single Source scope of work, it is recommended that the team submit a mandate to conclude a contract to the relevant DAA for approval. Procurement Practitioner to issue NEC Term Service Contract via email to the supplier for review and acceptance and to be closed through the Procurement Practitioner and need not be administered through the Tender Office.

   Based on the supplier response, a contract will be awarded and feedback report to be submitted to the DAA for noting and completion of procurement process.

FINANCIAL IMPLICATIONS

9. Estimated pay out scenarios have been developed based on set target. It is estimated that ERI will be paid around R300 000 000 should Generation achieve all targets.

BUDGET IMPLICATIONS

10. Budget provision will be made available for this payment. Achievement of the targets will significantly reduce dispatch of the OCGT.

RECOMMENDATION

11. It is recommended that the Chief Procurement Officer (CPO) approve the request to deviate from the single source procurement process to enable finalisation of a contract with ERI to facilitate summer challenge incentive payments.

DEVIATION FROM THE PROCUREMENT PROCESS: ERI INCENTIVE PAYMENT

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07 October 2024

Recommended/ ~~Not Recommended~~

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07 October 2024

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Approved/ ~~Not Approved~~

p.p.
Jainthree Sankar
CHIEF PROCUREMENT OFFICER
Date: 2024-10-09