

# Africa Infrastructure Conference

## South Africa's State Owned Enterprises Capital Expenditure Programme

Washington, DC  
27<sup>th</sup> - 28<sup>th</sup> September 2006



**public enterprises**

Department:  
Public Enterprises  
REPUBLIC OF SOUTH AFRICA

**Elvin Harris**

**Chief Director: Transport**

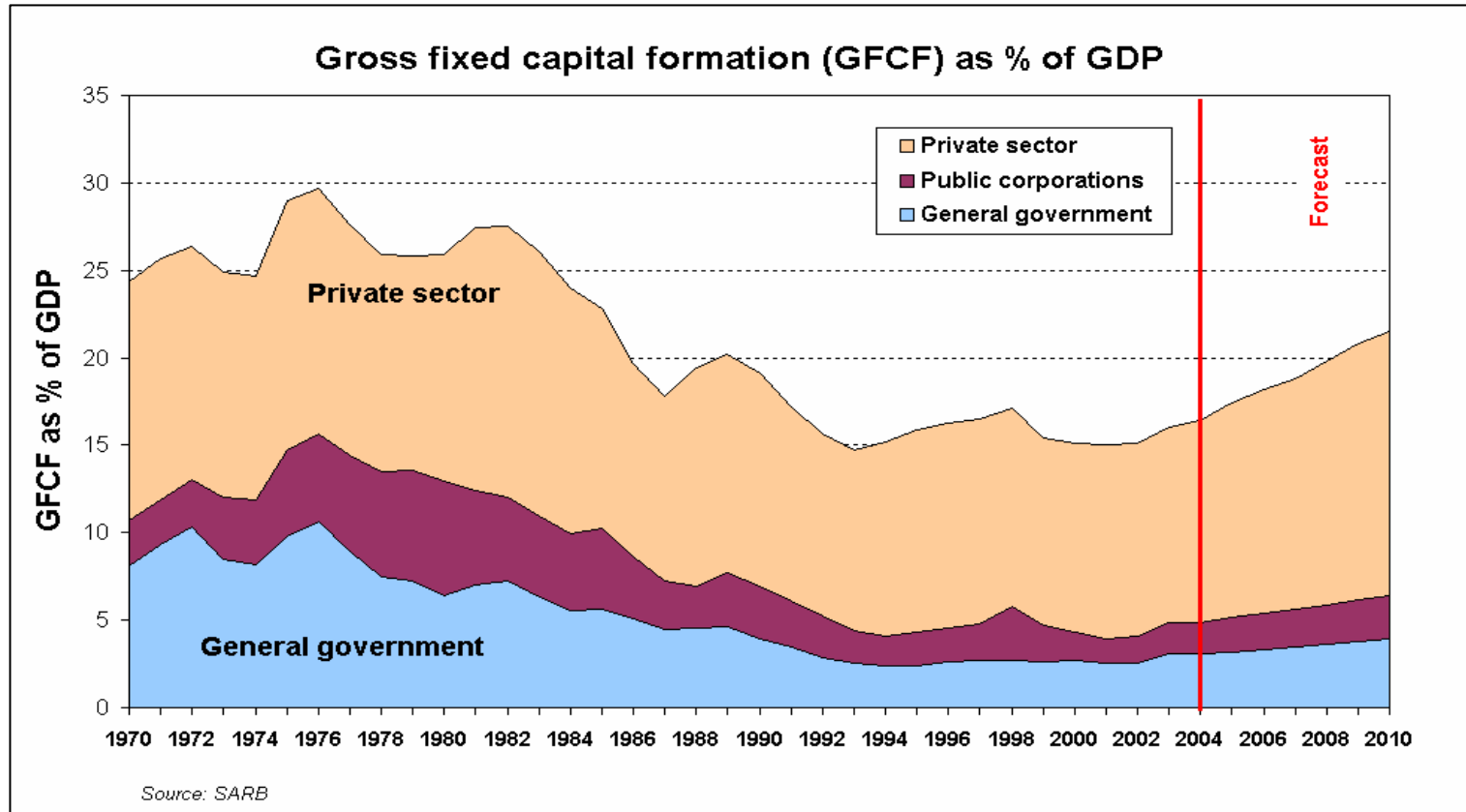
**Department of Public Enterprises: South Africa**

# Overview

- GFCF TRENDLINES
- ASGISA (ACCELERATED AND SHARED GROWTH INITIATIVE FOR SOUTH AFRICA)
- ESKOM AND TRANSNET INVESTMENT PLANS
- ESKOM
- TRANSNET
- KEY RISKS
- WAY FORWARD

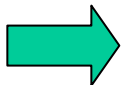
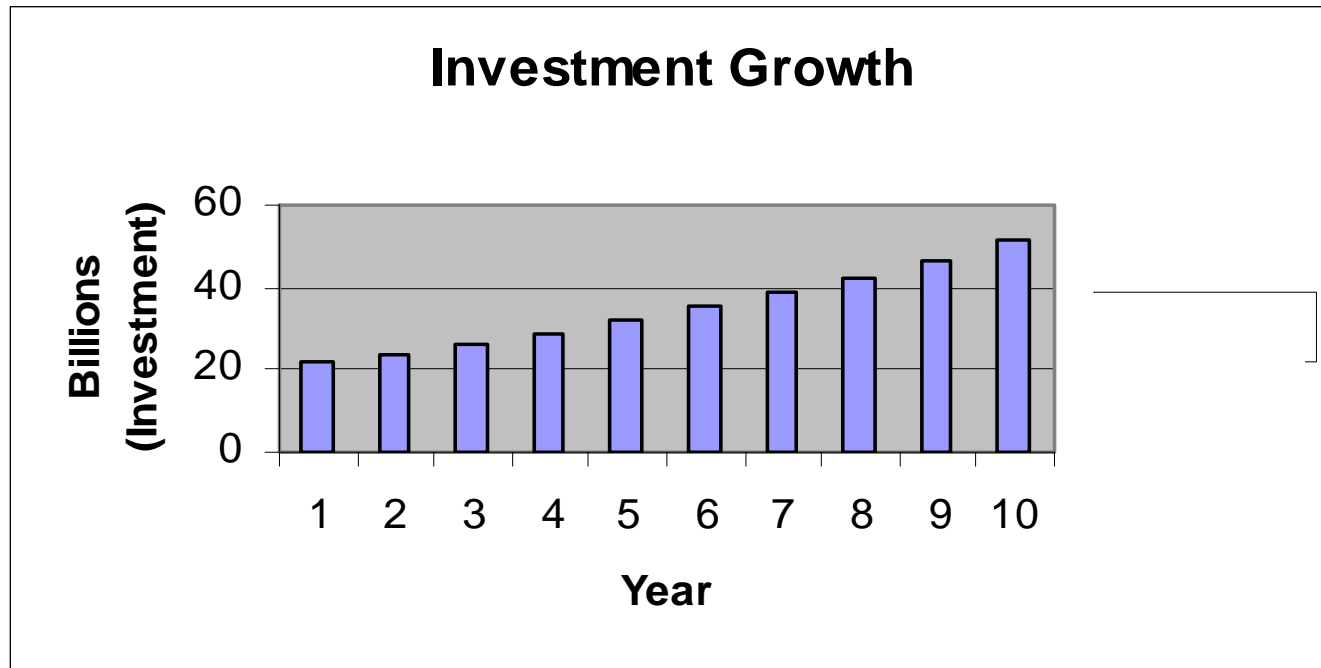
# Infrastructure Investment - History

**After a protracted decline in investment spend, government plans to increase infrastructure investment significantly**



# Increased Investment Required

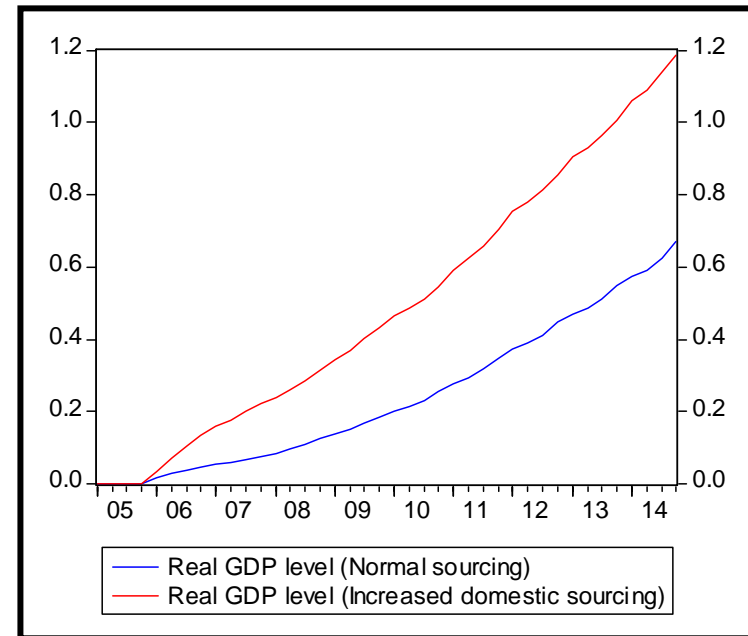
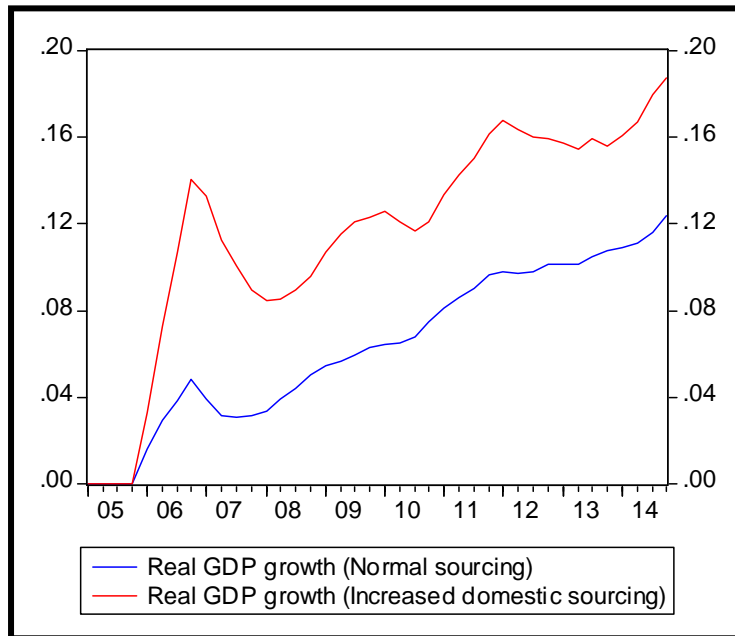
**In order to achieve the growth targets, gross fixed capital formation will need to comprise 25% of GDP per year by 2014 – this will require growth in investment by about 10% per year.**



Starting the present Transnet / Eskom investment spend at R22.8 billion (based on an average of R26.6 billion per year for five years), would need to grow to R51,4 billion by year ten if all government spending increased proportionately by 10%.

# The CAPEX Program – Local Content

**•42% of the CAPEX is projected to be imported: Growth impact of local content development is extremely significant**



**➔ What will it take for local industry to aggressively respond to the opportunities created by the Capex program ?**

# Importance of Investment Programme To ASGISA

- **The infrastructure investment and capital expenditure program is core to the achievement of ASGISA goals:**
  - **Failure to roll out the Capex program efficiently will result in failure to achieve the 6% growth target as the ASGISA growth rate assumes that the infrastructure expenditure will take place to stimulate local investment.**
  - **Failure to roll-out the Capex program efficiently could result in infrastructure bottlenecks (insufficient electricity, port capacity) that will inhibit investment and thus growth.**
  - **Failure to plan infrastructure investment adequately could also result in infrastructure shortages and bottlenecks.**
  - **It is critical that infrastructure productivity (e.g. port and rail operations) is enhanced as this will decrease the costs of doing business and increase investment which will further ASGISA goals.**
  - **The building of a national infrastructure supplier industry will both catalyse greater investment within the economy (thus increasing growth) and result in the more competitive provision of infrastructure – this contributes to accelerating economic growth.**

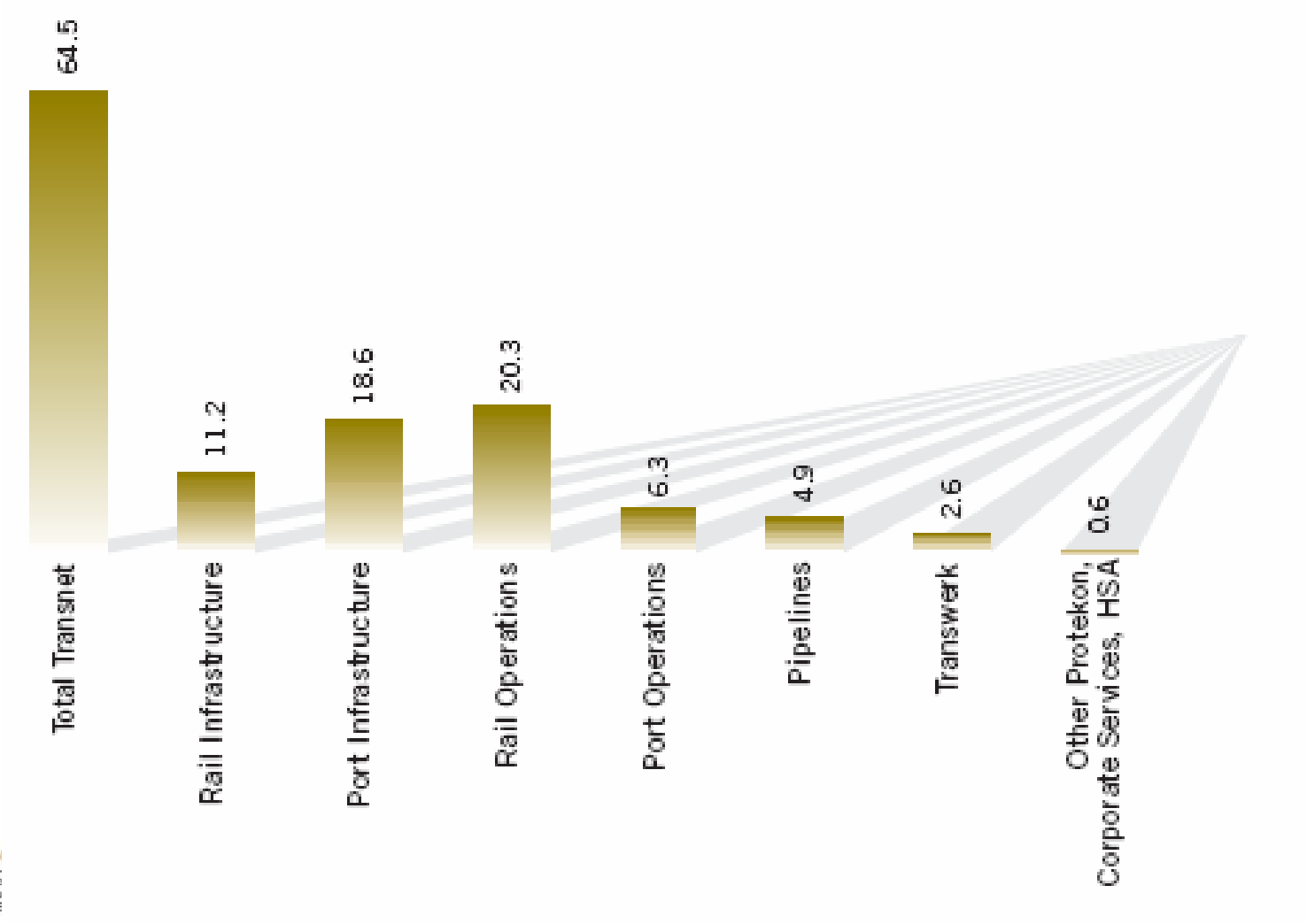
# Initial Versus Revised Investment Plan

<b>CATEGORY</b>	<b>INITIAL PLAN</b>	<b>REVISED PLAN</b>	<b>DIFFERENCE</b>
ESKOM	R84 billion	R97 billion	R13 billion
TRANSNET	R37 billion	R65 billion	R28 billion
<b>TOTAL</b>	<b>R121 billion</b>	<b>R162 billion</b>	<b>R41 billion</b>

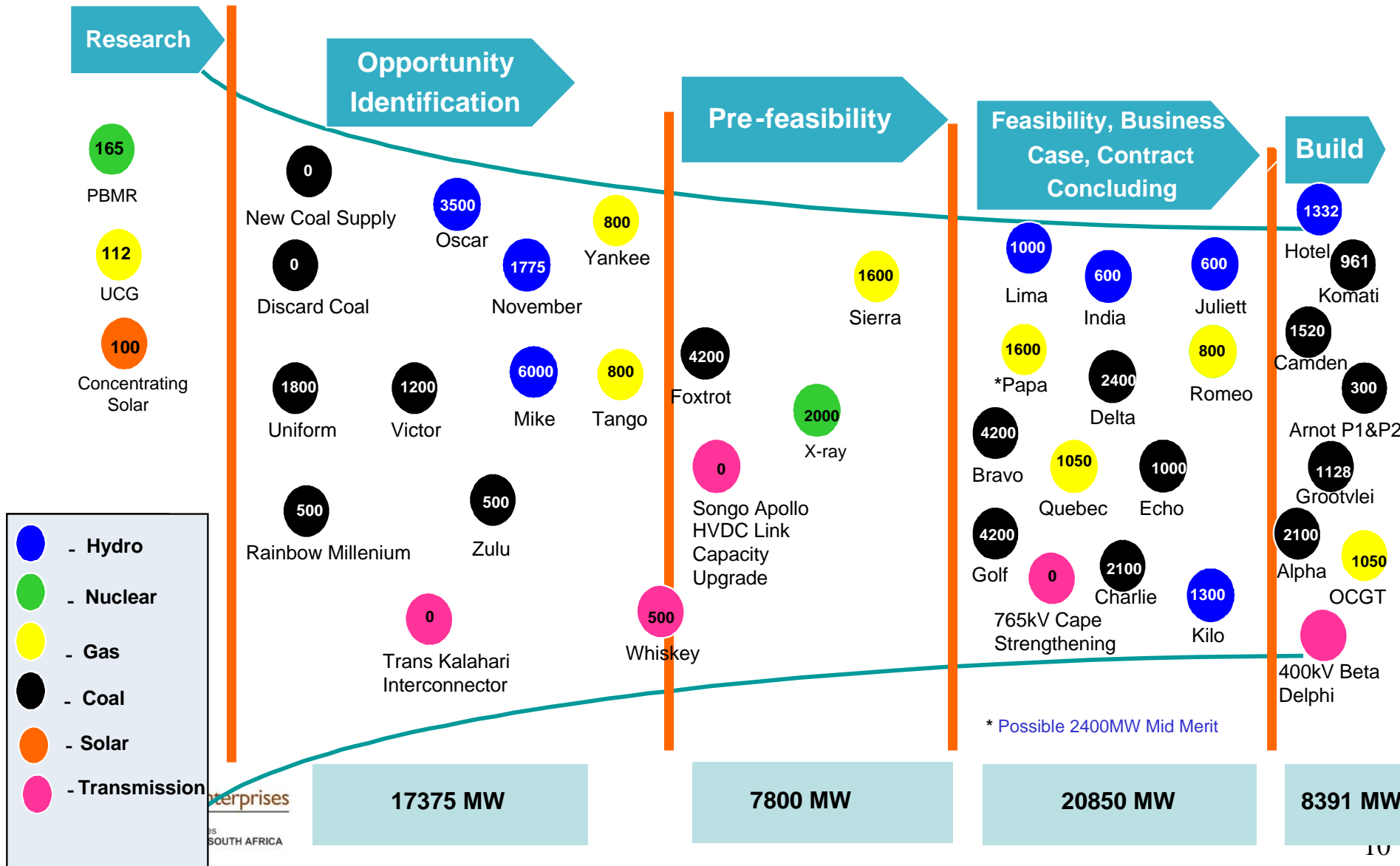
# Eskom Plan

<b>ESKOM Rmillion</b>	<b>2006/7</b>	<b>2007/8</b>	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>	<b>TOTAL</b>
GENERATION	9,474	8,191	12,167	16,700	18,956	65,488
TRANSMISSION	1,566	2,634	2,736	2,717	1,306	10,959
DISTRIBUTION	2,935	3,257	3,051	3,037	3,131	15,412
CORPORATE	389	318	317	290	275	1,589
OTHER	34	52	317	1,065	2,116	3,584
<b>TOTAL</b>	<b>14,397</b>	<b>14,452</b>	<b>18,588</b>	<b>23,809</b>	<b>25,785</b>	<b>97,031</b>

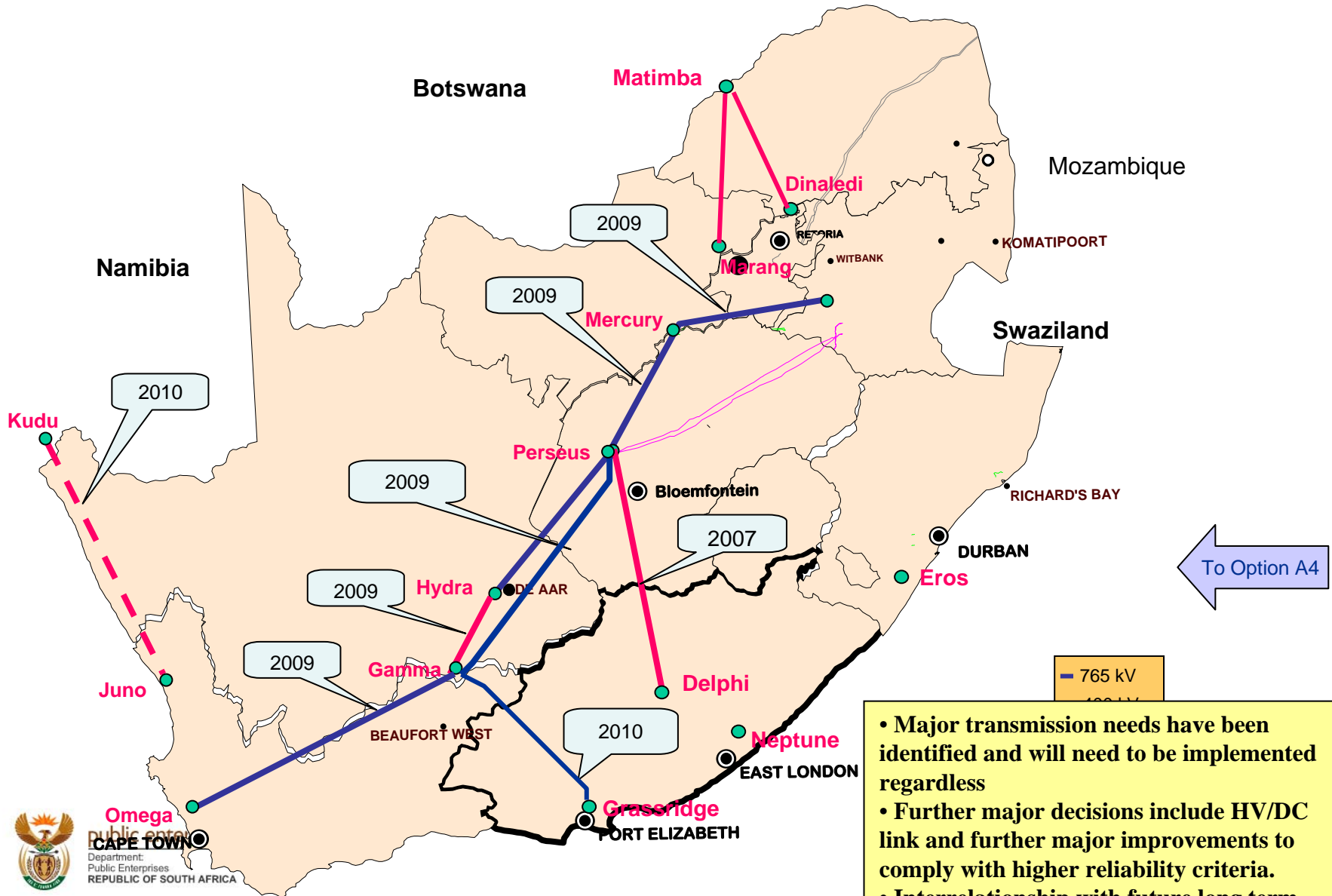
# Transnet Plan



# ESKOM: Capacity Project Funnel



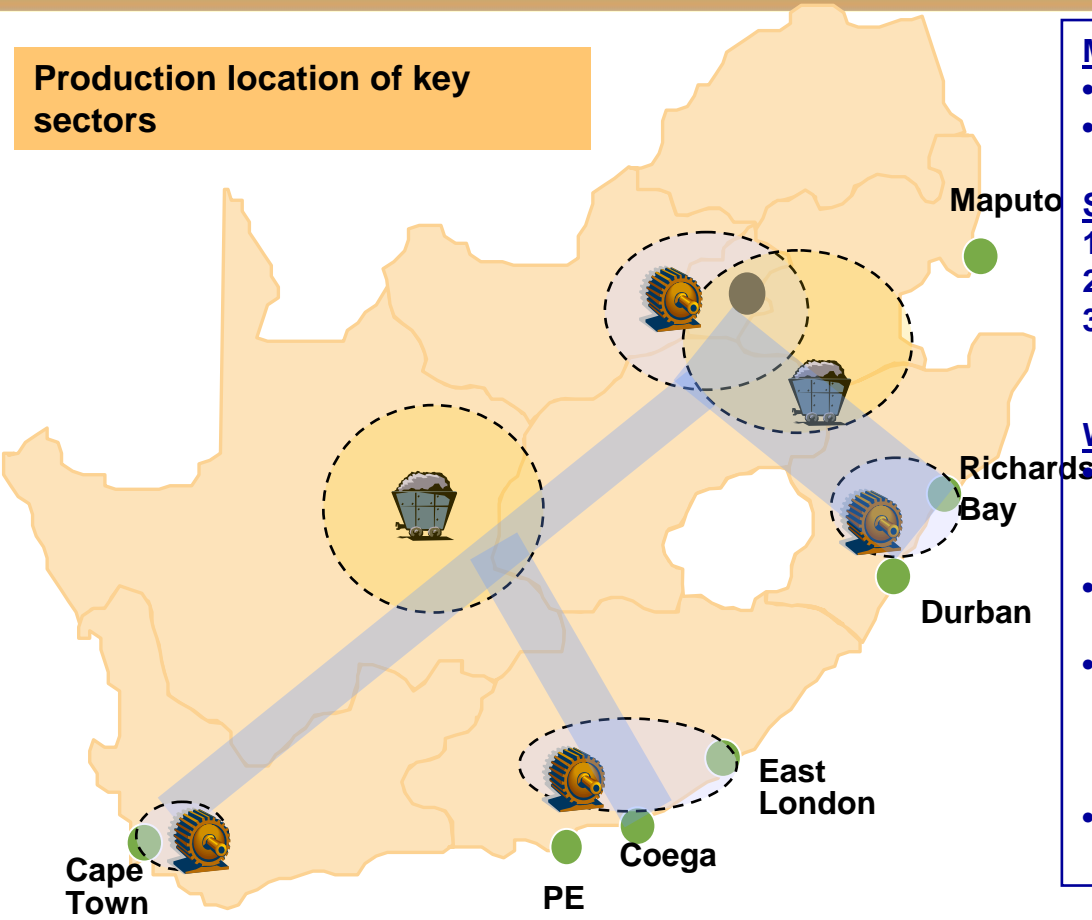
# Reflection on Transmission



• Major transmission needs have been identified and will need to be implemented regardless  
 • Further major decisions include HV/DC link and further major improvements to comply with higher reliability criteria.  
 • Interrelationship with future long term generation options is key

# TRANSNET: Aligning Strategic Focus with the Economy

Production location of key sectors



## Micro-economic strategy:

- Support SA's export-led growth strategy
- Reduce the cost of doing business

## SA's economy:

- |                     |     |
|---------------------|-----|
| 1. Mining (6%)      | 49% |
| 2. Manuf. (20%)     | 45% |
| 3. Agriculture (4%) | 6%  |

## Freight Typology:

Up to 70% of economy is bulk, heavy-haul, long distance and low to medium value traffic

## Why Strategic corridors?

- Majority of export/ import traffic (excl. containers) is typically bulk and heavy manufacturing on rail
- Majority of road haulage is for domestic distribution
- To support the export strategy and economic growth for current key sectors, connectivity between inland transportation systems and ports are critical
- Create efficient export systems for growing sectors

Transnet Focus



Heavy Manufacturing zones

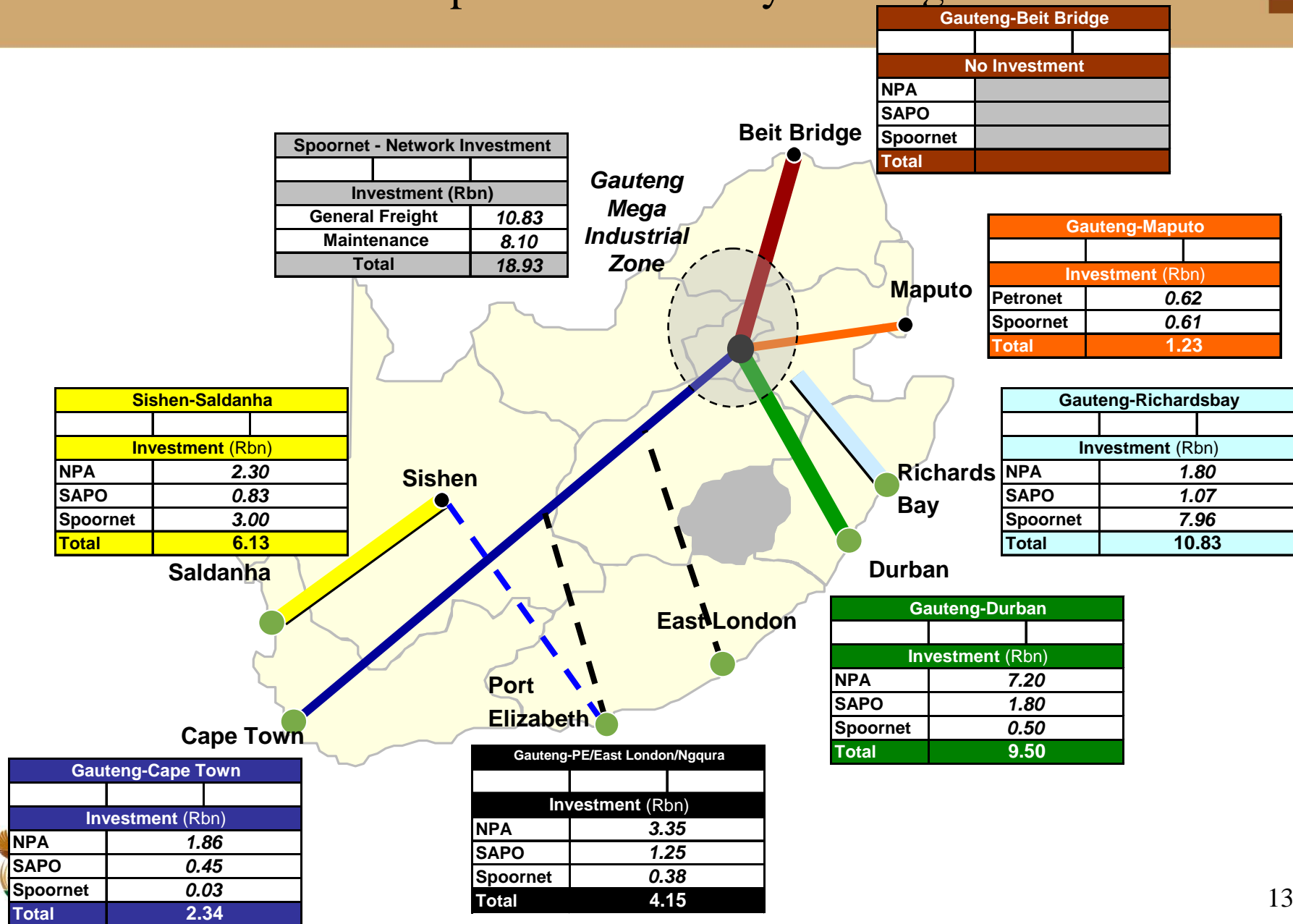
Mining zones



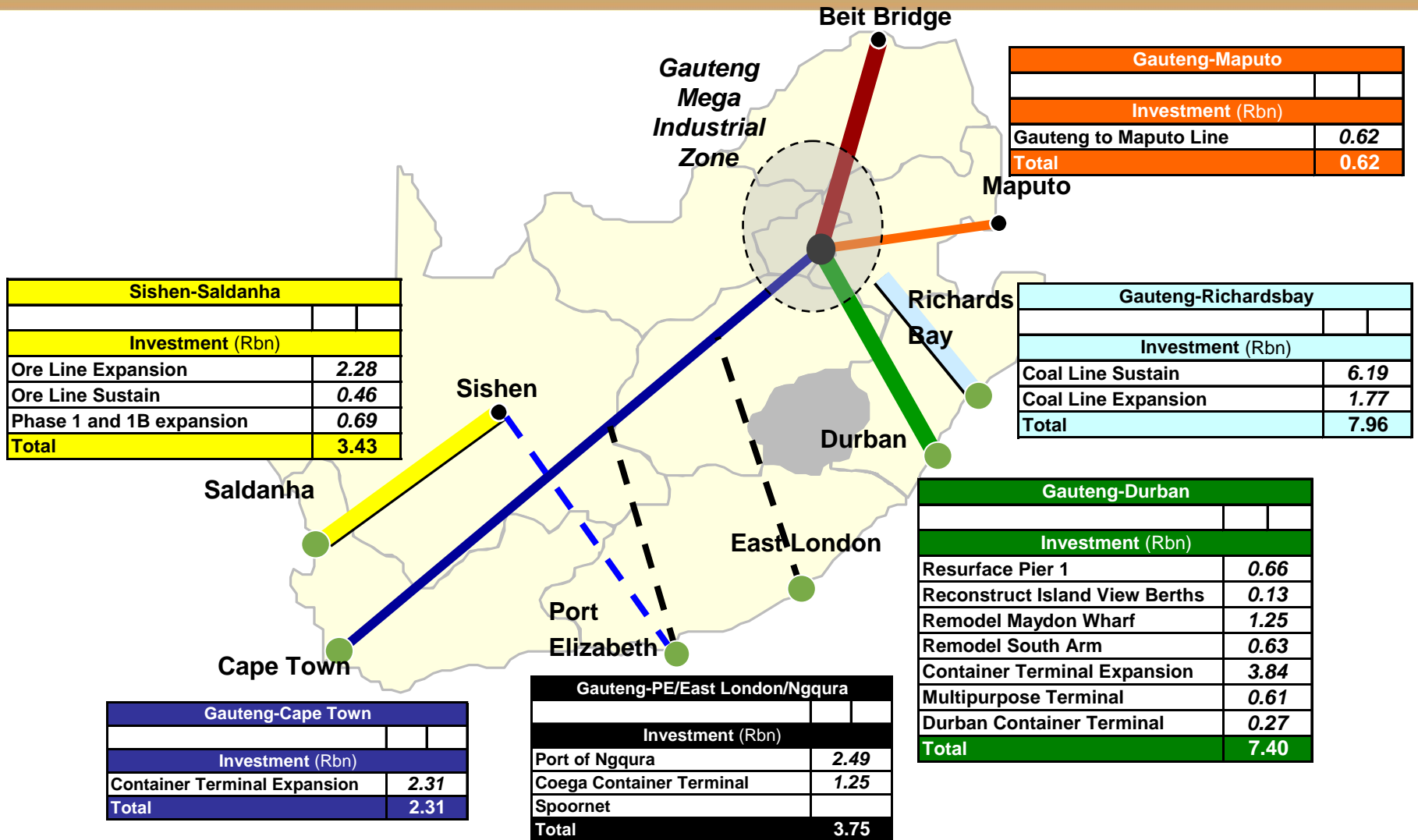
## Transnet Strategic Direction

- Focus on Rail and Ports (Operations & Infrastructure)
- Focus on improving key corridors/ clusters

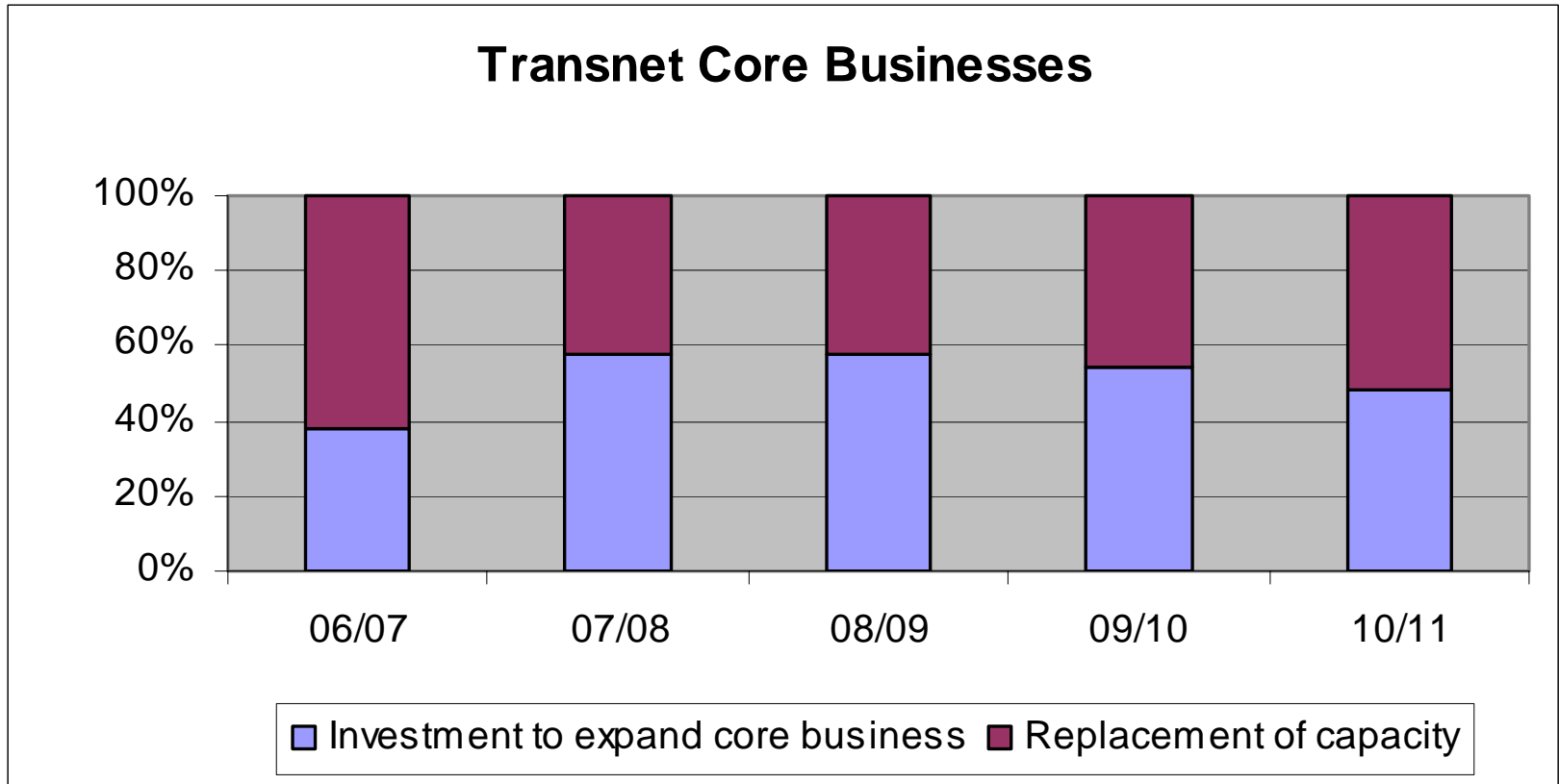
# Volumes and Investment per Corridor – 5 year budget



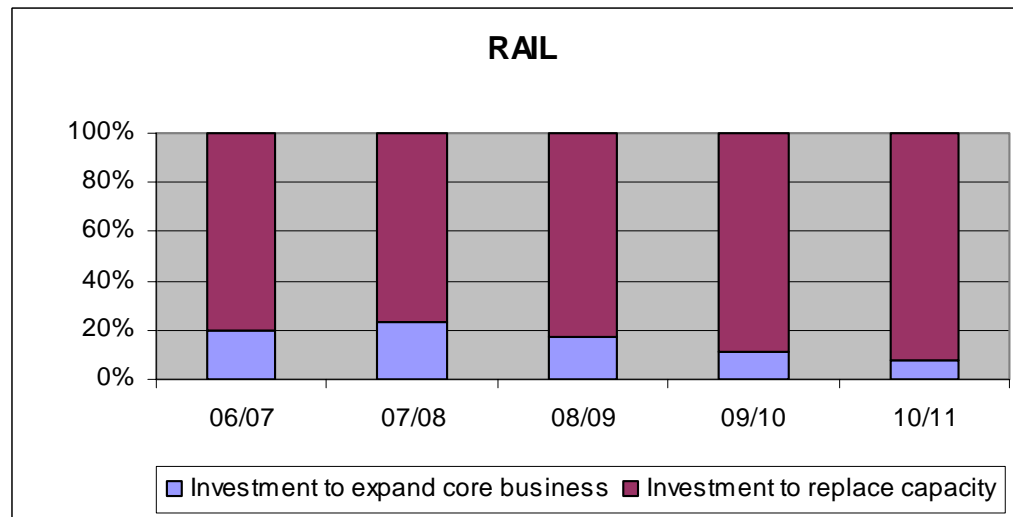
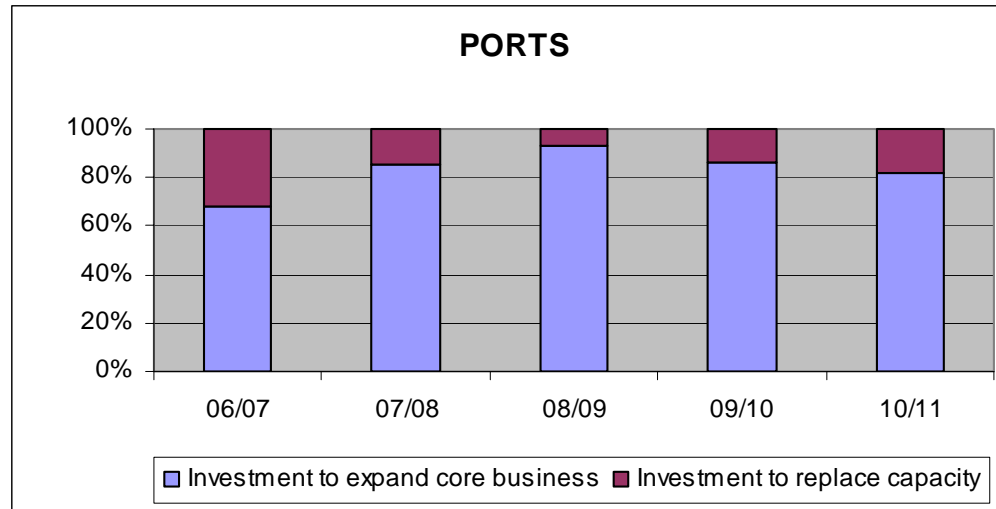
# Major Projects – Five Year Capital Budget



# Directing Capital Expenditure



# Directing Capital Expenditure



# CAPEX 5-Year Plan (Core)

**5 Year Capex Spend R 64bn**

**RAIL (R31.5bn)**

**Replacement:**

- Ore Line sustain (R460m)
- Coal Line sustain (R6192m)
- Capitalization of Maintenance (R8124m)
- General Freight (R10827m)
- Other smaller replacement projects (R1475m)

**Expansion:**

- Ore Line expansion (R2283m)
- Coal Line expansion (R1765m)
- Other smaller projects (R345m)

**Ports (R18.6bn)**

**Replacement:**

- Pier 1 resurfacing (R659m)
- Reconstruct Island View Berths (R134m)
- Remodel Maydon Wharf (R1249m)
- Remodel South Arm (R633m)
- Other smaller replacement projects (R836m)

**Expansion:**

- Construction of the Port of Ngqura (R2493m)
- Container Terminal Expansion-Salisbury and Bayhead (R3837m)
- Cape Town Capacity expansion (R1838m)
- Other smaller expansion projects (R6888m)

# CAPEX 5 Year Plan (Core)

## 5 Year Capex Spend R 64bn (continued)

### Port Operations (R6.3bn)

#### Replacement:

- Durban Container Terminal (R274m)
- MPT West (R614m)
- Refurbish 8 Noell cranes (R240m)
- 14 Gantry cranes & 78 Straddle carriers (R1167m)
- Other smaller replacement projects (R75m)

#### Expansion:

- Coega Container Terminal (R1254m)
- Saldanha Phase 1 & phase 1B expansion (R689m)
- Other smaller expansion projects (R1950m)

### Pipeline (R4.9bn)

#### Replacement:

- Upgrade of Gas Line - Lilly (R396m)

#### Expansion:

- New Multi-product pipeline (R2905m)
- Gauteng to Maputo line (R620m)
- Terminalling and logistics (R499m)
- Other smaller expansion projects (R1627m)

# CAPEX 5 Year Plan (Core)

**5 Year Capex Spend R 64bn (continued)**

**Transwerk  
(R2.5bn)**

**Replacement:**

- Equipment replacement (R1743m)
- Upgrade of facilities (R562m)
- Other smaller replacement projects (R2305m)



public enterprises

Amounts against projects are 5 year spending (not estimated total cost)

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# Key Risks

- Scarce Skills (Project Management, Engineering, Commercial and Finance), high demand for resources worldwide
- Capability of suppliers - SA not be highest priority
- Steel – demand, availability and price
- Commercial complexities associated with Primary Energy Sources
- Water constraints increasingly becoming a constraint to station positioning
- Environmental Processes – increasingly complex and difficult
- Timescales tight
- Project execution strategy
- Delays due to approval processes outside of Eskom

*THANK YOU FOR LISTENING!*



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