Eskom’s monopoly is coming to an end

South Africa will hire advisers in the coming weeks to begin negotiations with lenders on a plan to spin off state-owned power utility Eskom’s transmission subsidiary, according to the head of the National Treasury.

President Cyril Ramaphosa has endorsed the creation of an independent transmission system operator, or TSO, outside Eskom as part of efforts to open the electricity market to greater private-sector participation.

But carving out the utility’s most profitable division has raised concerns about Eskom’s long-term financial viability and the treatment of government guarantees backing its debt.

“The transaction is being carefully designed to ensure that Eskom is left no worse off, and that Eskom remains sustainable,” Treasury Director General Duncan Pieterse said in an interview in Cape Town on Tuesday. “The TSO itself also has to be sustainable.”

Pieterse, whom Ramaphosa appointed this year to head a team overseeing Eskom’s restructuring, faces a complex balancing act to ensure that all the company’s units remain viable after the split and that Eskom’s bondholders accept the changes.

“There are ways of designing this transaction to achieve all of that,” he said. “We have no interest in running a process where lenders are not brought along.”

The process will require engaging the market and careful planning with transparency playing a key role, said Raphi Rootshtain, lead portfolio manager at Otto1890 Asset Management in Johannesburg.

“There’s a whole lot of covenants that exist currently and agreements in place with current existing debt,” he said by phone on Wednesday.

“From what I understand, there will be need to somehow restructure that debt in order to be able to move ahead.”

The government has guaranteed about R330 billion of Eskom’s debt, according to Pieterse.

Eskom itself this week warned that the process will have to be managed carefully as establishing the transmission operator as a separate business would entail a material event — a significant development that fundamentally alters the risk profile of its credit.

Pieterse declined to say whether Eskom or the government may need to secure bondholder consent for the split, saying the first step would be hiring a transaction adviser.

“Of course the process will be managed properly,” he said.