



energy

Department:
Energy
REPUBLIC OF SOUTH AFRICA

Speech by Minister of Energy during the Department of Energy Budget Vote for 2017/18 financial year at Parliament of RSA on 19 May 2017

Hon Chairperson

Ministers and Deputy Ministers

**Members of the Portfolio Committee under the leadership of Chairperson
Majola**

Members of Parliament

Ladies and Gentlemen

I am accompanied by Deputy Minister of Energy Amb Thembi Majola

Chairperson of Boards and CEO Present today

The entire Team Energy under the leadership of DG Zulu

Special guests Hosi Mhinga and Hosi Nwamita

Hon Members, it's a great privilege for me today to present the department of energy budget priorities for 2017/18 financial year. Let me first acknowledge that we are tabling our budget during the energy month under the theme: **Promoting Affordable and Sustainable Energy Mix in support of radical socio-economic transformation.**

This creates an opportunity for us to look at how best can we deliver upon our mandate as a department and to ensure acceleration of radical socio economic transformation through working together with all stakeholders in contributing to

growing the economy, preserving & creating jobs and most importantly assist in addressing the inequalities that exist in the sector.

Hon members, as we celebrate the year of OR Tambo. The collective responsibility as the leaders in the society is to ensure that the values and inspiration of OR are lived and we transform the society in ensuring that the dream of our fallen hero is realized.

Hon members we deliver this year's budget vote with a commemoration of the fallen heroes and heroines. It is on this day in 1986 that the then SADF carried raids on the ANC in Botswana, Zambia and Zimbabwe. Comrades were brutally killed and others left injured to die on this sad day. It is on days like this where we need to be reminded of where we come from and how we should shape and transform the society for a better South Africa

Hon members, this call for a reflection on our leadership values and how we bring the society closer to our work and to ensure strategic impact in transforming the lives of South African, in particular ensuring that access to basic services such as electricity and energy services.

Understanding the broader concept of radical socio-economic transformation require adequate and pragmatic reflection on broader micro and macro-economic complexities. Policy consideration should also be pragmatic to the economic and socio contradiction created by transitional economic fundamental which were to a larger extend delayed by inconsistent economic growth over time. Of importance in the bigger picture is unpacking the political and economic contradictions that seem to be hampering inclusion of marginalized communities and individuals in the mainstream economy.

Underpinning the radical economic transformation are the following,

- **Changing the economic landscape in unblocking exclusivist approach to ownership and distribution of income and wealth,**

- **Creating a sustainable mechanism of transforming the bias inequalities that perpetuate poverty, inequality and unemployment,**
- **Reduce high unemployment rate and**
- **Develop an industrious skill base to ensure changing face of economic ownership**

It is our duty to ensure that radical economic transformation does not become a slogan but a reality. We need to ensure that transformation happens in the sector as well as ownership patterns reflect demographics of this beautiful country. In this way we will be ensuring that we secure the future of the indigenous people of this beautiful land.

Modula Setulo ke rata go Leboga boeteledipele bja Mme Tina Joemat-Pettersson mmamohla re mo ka gore ba kgonne go beya motheo wa moshomo wa rena.

The Department of Energy has a critical role to play in ensuring that we secure the supply of energy and petroleum in the country. The sector currently contributes R300bn towards the GDP of the country and accounts for 90 000 jobs. Hon Members it is our considered view that this sector has potential to contribute more towards GDP and can be able to create more jobs. It is against this view that in the coming few months we will embark on reengineering our business model to create capacity, ensure we operate efficiently and effectively. We will seek to achieve is a highly professional department that operates in a transparent manner and is accountable to the public.

Our budget allocation as department for this financial year is R8.1bn, of which R7.5bn is for transfers to our entities and R244 million is for the department to embark on its operations and its projects. In breaking down the transfers;

INEP Implementation by Eskom is allocated R3.8b

Transfers to municipalities for INEP programmes R2b

INEP non-grid is allocated R189m

National Solar Water Heater Programme has been allocated R411m

EEDSM Municipalities is allocated R203.2m

National Radioactive Waste Disposal Institute is allocated R30m

SANEDI has been allocated R59.8m

NECSA has been allocated R664.2m

NNR has been allocated R38.6m

We would have loved to receive more in light of our work, however we understand the constraints of the fiscal capability. **We have to reprioritize where necessary and be creative enough to do more with less.**

Fellow South African we have a task on building a country that all of us can be proud to call our home. A country of men and women who are prepared to roll up their sleeves and do their part in building this country. We commit ourselves as team energy to rolling our sleeves and doing our part together with our entities. Following the report on Strategic Fuel Fund (SFF) and challenges at PetroSA, we have looked at best ways to improve governance and accountability by the subsidiaries within Central Energy Fund. In order to achieve this we will in the coming months be embarking on restructuring of the CEF group and create a model that makes it easy for accountability and ensures the entity operates efficiently and in a professional manner.

The restructuring of CEF group will see within this financial year the transfer of African Exploration Mining and Finance Corporation (SOC) Ltd (AEMFC) and the Petroleum Agency of South Africa to the department of Mineral resources.

I have further requested the Director General of the department Mr Zulu to go and act as the CEO of SFF on a secondment basis. This is to ensure that we are able to implement the recommendations in light of the report on the selling of strategic fuel reserves for the country. Deputy Director General Maqubela will then act as the Director General for the said period.

In terms of PetroSA, I will await the report from Central Energy Fund on their matter and will therefore provide direction on the way forward.

As part of our Energy mix policy, renewables remain one of the key areas to achieve our mandate of energy security. We need to acknowledge that there was uncertainty around the IPP program. We will need to evaluate whether or not the program is assisting us to achieve our objective as initially outlined. We need to reflect what are the lessons learned so far and what needs to be improved. We will look at the final report from the two teams of DPE and DOE and will therefore act accordingly

Ladies and Gentlemen the IPP remains one of the critical tools for us to achieve radical economic transformation by ensuring that we don't discuss shareholding by black business but ensure ownership patterns changes. **We need to look at how best to assist SMMEs who are interested in participating in this program. We will need to ensure that conducive conditions are created to see them grow and not condemned them to debt. We will engage NT to ensure that the guarantee we sign are for securing and supporting participation of SMMEs.**

It is against this vision Hon members that we see the IPP program's future being critical to our developmental goals and that we will move this office to operate under the CEF group as part of the restructuring process announced earlier.

Fellow South Africans, we will be concluding our work within this financial year on IEP and IRP to ensure that there is policy certainty. These energy plans will outline how we intend to meet our energy policy objectives, including to increasing energy access, energy efficiency, localization and skills development and increase energy security, diversify our energy mix, reduce water usage and reduce greenhouse gas emissions.

One of the areas that investors evaluate a country on is whether there policy certainties conducive for investment in regulatory and policy environment. We appreciate the role played by our regulators and assure our support for them to do their work as stipulated by the laws of our country. We will be reviewing NERA Act within this financial year and will be engaging parliament and the public on our proposed amendments. We assure South Africans that ours is not to weaken the regulator but to strengthen its legal framework to ensure they are able to operate efficiently.

The audit on the transformation in the petroleum retail sector that we announced last year is in full swing. There have been challenges in terms of submission of accurate information by some industry players. Initial indications however confirm the appalling low participation of black women in the petroleum retail. When the final report is published it will show that women account for less than 10% in the retail sector by volume and number of service stations. I cannot allow this to continue. I would want to see this figure double to at least a realistic 20% by 2020. We intend hosting an Economic Transformation Lekgotla with a specific focus on women during August of this year.

The National, Provincial and Local spheres of government must take economic transformation into account when they make fuel purchases. We expect transformation to be a key factor in deciding where fire trucks, state owned ambulances and police vehicles fill up. I will be approaching my colleagues in Cooperative Governance and Traditional Affairs, Public Enterprises and Mineral Resources as well as SALGA to ensure that Municipalities, State Owned Companies and indeed Mining Companies act as catalysts to the transformation in the petroleum sector. We also will ensure that Defence and the Police Service as major users also join the transformation drive.

Honourable Members, we are of the view that black wholesalers have enough experience to begin to import a certain quantity of crude oil working together with their counterparts in the countries of crude oil origin. We believe that the immediate focus should be the facilitation of BEE companies by the Department to enable them

to import the sizeable of West African crude oil which accounts for 50% of our crude oil imports. The modalities of this strategic approach will be finalized after consultation with the Major oil companies in this financial year. The Financial Institutions in the country will need to be ready to back up such transactions. We envisage this approach extending to the transportation of crude oil through joint chartering of vessels. This will require discipline and sustained competence on the part of all those that will participate in this effort.

I have come to the conclusion that our country and indeed the sub-region is ready for a new refinery investment. By the time any new refinery is completed, the country will be importing in excess of a third of its fuel requirements. This high dependence on import of finished product by a major economy like ours located at the southern-most tip of the continent is not in the interest of energy security and does not advance local industrialization. I will therefore, in the third quarter of this financial year be approaching Cabinet for a firm decision in this regard. A Public Private Partnership (PPP) approach is preferred with a strong participation of a crude oil producing partner. We need to ensure that there is opportunity for Black business to participate in this new refinery as part of our transformation drive. The refinery must be majority South African owned.

The Nuclear Regulator NECSA, the National Radioactive Waste Disposal Institute (NRWDI), SANEDI all requires more support from us through funding and we hope going forward the National Treasury will allocate more resources for this critical areas of our work.

NECSA remains one of the critical entities and can be able to function optimally. We need to zoom into the work of Phelcem and NTP within NECSA and ensure that they are enabled to achieve their optimal objectives.

On 18 March 2015 a milestone was reached when the SAFARI-1 research reactor, operated by South African Nuclear Energy Corporation (Necsa), turned 50. This is

an important South African achievement that cements our place among nations that utilize advanced nuclear technology for peaceful uses and socio economic development.

Following the court judgement and our decision not to appeal the judgement, we will proceed with the signing of the new Inter Governmental Agreements with the five countries and submit to parliament within reasonable time. We will review all the determinations to ensure compliance with the judgement. We continue to reiterate our commitment to an open dialogue about nuclear as well as demonstrating transparency and accountability during the process.

In contributing to the creation of more jobs and in improving the Quality of Education, Training and Innovation, Necsa has in the 2016/17 financial year, trained 150 apprentices in various technical skills, coordinated and facilitated trade tests for 66 artisans and 77 trade test preparations. During 2016/17 Necsa hosted 5 Graduate-in-training students, and 76 students in its Internship program. In addition Necsa supported 26 post-graduates and post-doctoral fellows with research projects.

Priority infrastructure projects identified are the Security of supply of Low Enriched Uranium (LEU) fuel target plates and the construction of a new Multi-purpose research reactor. One of the major achievements for Necsa is the attainment of ASME III and ASME VIII certification for the design and manufacture of nuclear components and equipment so that local content can be realised progressively over the life of SA's Nuclear New Build Program.

Solar water heaters

The solar water heater program embodies the collaborative spirit of intergovernmental cooperation, with various stakeholders from the 3 spheres of government working together. National departments responsible for human settlement, small business, training, industrial development, local government work closely with respective municipalities and provincial authorities to make the program a success. We are alive to concerns from communities about the challenges related

to the previous implementation model, and we are very careful not to repeat those mistakes.

It is our intention to continue with the solar water heater rollout program in various municipalities as we strive to find an environmentally benign thermal solution for households. To date we have procured about 60 000 baseline systems from manufacturers who have complied with the 70% local content requirement we have imposed. This bodes well for the creation of a local industrial base and jobs in the manufacturing sector

Jengoba sesingena esikhathini sobusika; sibhekene nengozi yokwenyuka kwemililo engalawuleki egcina icekela phansi imijondolo yabantu. Ngesikhathi sobusika abantu basebenzisa konke abangase bakuthole ukufudumeza imijondolo yabo nokupheka. I must reassure those South Africans that the provision of modern thermal energy carriers and finding solutions to their energy needs will be my preoccupation as Minister of Energy. The one option we are considering is providing a combination a solar home system and liquefied petroleum gas for applications like space heating and cooking, side by side with solar water heaters for water heating. We are mindful of the need for safety education and training, to ensure that this does not create even bigger safety problems in our communities. Close collaboration with the LP Gas Safety Association is necessary.

Whist we have ambitions in regard to the increased utilization of gas in our energy mix, you might have read about the findings of the Competition Commission regarding the problems afflicting the LP Gas sector and its pricing. In consideration of the findings and the recommendations from the report, it is my intention to respond and to revamp the regulatory model for LP Gas. The abuse of market power and anti-competitive behaviour is unforgivable because it always prejudices the poor and works against our objectives of attacking the triple evils of inequality, joblessness and poverty.

Gas to power

Gas is an integral part our energy mix, notwithstanding that in the short to medium term, we do not have access to the indigenous gas promised by the shale gas exploitation program. Consequently, our gas program will be premised on:

- **In the short term, that is between 3-5 years, the importation of liquefied natural gas (LNG) from the international market, through Richards Bay in Kwazulu-Natal**
- **In the medium term, the development of pipeline infrastructure from Mozambique, given alignment of this approach with our regional development objectives and the possibility of it being a more attractive option than LNG**
- **In the long term, that is between 10-15 years, shale gas sourced from the Karoo**

In order to kick-start the gas program, power generation has been identified as the single biggest demand sector that would also meet the energy diversification objectives of the Integrated Resource Plan. Other demand sectors targeted under the gas programme include industrial, residential, transportation and chemicals.

This Tuesday I had the honour of addressing the World Gas to Power Conference at the Cape Town International Convention Centre. Some of the pressing questions on the minds of the guests were whether government policy in regard to the IPP program has changed, given my position as the new Minister of Energy, and whether the impasse would be resolved in relation to the signing of project agreements between Eskom and various independent power producers.

Legislative Amendments to facilitate gas infrastructure

The process of amending the Gas Act of 2004 has commenced, to the stage that this year a draft Gas Amendment Bill will be tabled in Cabinet. The amendments largely relate to a licensing framework for regasification infrastructure and mandating the Minister of Energy to make determinations regarding the required infrastructure.

Regional Development

In line with our regional integration strategy, we will negotiate with Mozambique regarding an energy collaboration agreement for the building of a pipeline from the Rovuma Basin into South Africa, among other things. This will not only enable us to have access to natural gas from a neighbor, but it will also improve the possibility of a relatively attractive gas pricing formula relative to sourcing gas from the international market.

Regulations on embedded generation

Numerous municipalities are already approving the installation of rooftop photovoltaic systems that generate power into their local distribution systems. In order to provide for orderly development, we will promulgate the embedded generation licensing framework this year. Whilst this will address the proliferation of rooftop solar technology installations, the regulations will also cover other distributed generation technologies with a proposed cap of 10 megawatts per site.

Regulations regarding clean fuels

As you might be aware, we had planned to introduce clean fuel standard by 1st of July 2017, and we have encountered challenges in regard to the funding of this initiative. We will therefore promulgate regulations this month to confirm the deferment of inception date of clean fuels to a later date. In this regard a new approach to facilitating the introduction of clean fuels will be outlined, and we believe that this will resolve the uncertainty regarding this initiative and its funding. I must express my appreciation to the patience demonstrated by the Petroleum Industry Association, as we grapple with this tricky program. I assure you that I will work closely with you, not only on clean fuels but in ensuring that our aspiration for transformation in the liquid fuels industry is accelerated beyond the currently shocking levels.

Hon members I hereby table budget vote number 26 to the house for your consideration

Thank you note

I would like to take this opportunity to thank my Deputy Minister Ambassador Majola for her support, further thank my office staff under the leadership of Mr Thabiso Thiti for their dedication and hard work, nha khensa. To the Director-General Mr Thabane Zulu and his entire executive team, thank you for a soft landing as well as the whole “Team Energy” ngiyabonga ngokungisekela kwenu. To my family, thank you for the patience and unconditional support. I am who I am because of you

I thank you

Ke a leboga

Ndiyabulela

Ngiyabonga

Ndho livhuha

Dankie.