

**Address by Ms Dipuo Peters, Minister of Energy on the occasion of
Budget Vote 28: Minerals and Energy**

**National Assembly Extended Public Committee, Cape Town, 23 June
2009**

Mr Speaker,

Ministers

Deputy Ministers

Chairpersons of Committees

Honourable Members

On 22nd April 2009, millions of South Africans renewed the mandate of the African National Congress to continue with its popular programme for the reconstruction and development of our country. Our people did so, conscious of the fact that the ANC remains the only choice for a progressive advance towards the vision of a better life for all. In the words of the President of the Republic, the honourable Jacob Zuma; ***‘the people were attracted by our policies and the delivery of services in the past fifteen years, as well as the track record of this movement in working to build a better South Africa since 1912. We do not take the mandate lightly; we know the responsibility that comes with it.’***

The outcome of the elections clearly demonstrate that the people’s confidence in the ANC remains unshaken, and our constant endeavour, in whatever we do, shall be to work very hard to earn that confidence!

Mister Speaker,

Members will recall the challenges we faced in the energy sector which manifested themselves in the form of liquid fuels shortages in 2005 and electricity supply disruptions.

In addition, there is now a greater need to be responsive to the climate change imperatives as we embark on the biggest energy infrastructure investment programme the country has ever seen. In recognition of these challenges, it was a prudent response by the President of the Republic to separate Energy and Mineral Resources so as to allow greater focus on the energy challenges. Furthermore the outcomes of the 52nd National Conference of the ruling party provide a clear and unambiguous framework for our interventions in the energy sector. Amongst others, Polokwane directed that we should ***“ensure a security of supply of energy resources, and pursuing an energy mix that includes clean and renewable resources to meet the needs of our fast growing economy without compromising our commitment to sustainable development.”***

This work must include escalating our efforts towards a greater contribution of renewable energy sources, including solar and wind power, as well as harnessing the hydroelectric potential of the SADC Region. These must be accompanied by a clear programme of incentives for investment, as well as the development of the requisite human resource capacity to take full advantage of the opportunities presented due to the growth in this sector.

We are further charged to rapidly move towards an energy efficient economy by mobilizing the collective participation of communities, the public and private sectors to realise energy savings, and further to actively work towards integrating our efforts with regards to energy planning with the science and technology agenda, transport policy and the evolving industrial policy.

The delivery of this address comes during a period in history when this country and the rest of the world are facing a set of challenges far greater than any we have seen in generations. Our economy is in recession after more than 48 quarters of successive positive economic growth; our families are struggling with rising costs and falling incomes.

South Africa's liquid fuel energy needs depend, largely, on the product produced in the crude oil refineries owned by international oil companies. South Africa's healthy economic growth has resulted in the capacities of these refineries being exceeded and the country now has to rely on imported finished product to meet its liquid energy requirements.

Future growth forecasts indicate that, without increased local refining capability, South Africa will be importing up to 20% of its total refined fuels by 2015 and doubling that by 2025. That is not the road to independent, self-sustaining nationhood.

Government is concerned about having our fuels security of supply dependent on imports, with none of the local refineries having indicated expansion plans. Therefore, in line with our previously announced Energy Security Master Plan, we support the proposal of PetroSA, our national oil company, to build a mega crude refinery at Coega (Ngqurha) in the Eastern Cape.

Known as Project Mthombo, this modern world-class refinery will provide the lowest-cost refined products sufficient to cater for the country's shortfall needs until 2030. Importantly, Mthombo will enable the economic introduction of globally competitive clean fuels, ensuring that South Africa meets new, best-practice standards that improve our environment and

contribute towards maintaining the competitiveness of our vehicle manufacturing industry.

The new refinery project will have a major positive impact on Government's stated objectives of skills training and transfer, creating thousands of jobs associated with supporting and operating this mega refinery. The project will further:

- attract much needed foreign direct investment,
- generate a significant and sustainable improvement in the economy of the Eastern Cape, and;
- provide considerable prospects for BBBEE and SMME participation .

In addition to this, being a coastal facility with export capability, the opportunity to secure international partnerships is self evident.

Our National Strategic Fuel Stocks Policy is one of the most important aspects of the implementation of the Energy Security Master Plan, which is specifically designed to ensure continuity during fuel supply disruptions.

The aim of this policy is to outline a framework for the storage of fuel stocks by the government as well as industry in order to guide the necessary investment decisions and to improve security of supply for the liquid fuels sector.

The national strategic fuel stocks policy will be revised to include the holding of commercial stocks as well as emergency stocks.

Since assuming this position of responsibility, I have come to appreciate the need and value of coordination and integration within the energy sector. We need to do more to enhance the coordination within the sector, develop a shared vision and integrate our various energy planning efforts. In

pursuance of this, we will spend considerable effort and time on the development of an Integrated Energy Plan. This would inevitably entail an intensive process of stakeholder engagement and consultation over the coming period.

I have recently approved regulations which will make it possible to use payment cards to purchase petrol and diesel at fuel retail service stations. This is a major milestone for us as we move to modernize our petroleum industry and to reduce the risk associated with large quantities of cash at service stations.

It was agreed, in 2006 that the South African fuel specifications and standards would have to be revised.

The new fuel specifications and standards will assist in ensuring that the South African economy benefits from the latest engine technologies, which in the main are more fuel efficient.

The new specifications will also reduce the maximum allowable amounts of benzene in fuel thereby contributing to a reduction of this known carcinogen in the atmosphere, and the protection of workers against the fumes from benzene.

We will work with the departments of Environmental and Water Affairs, Transport and Trade and Industry to ensure that the roadmap for the new fuel standards and specifications is developed and that the stakeholder engagement process is completed by June 2010. The new fuel specifications will then be promulgated to enable companies to make investment decisions in line with recommended specifications.

As you are aware, the prices of petrol, diesel and paraffin are currently regulated and benchmarked according to the international pricing system

and this is expected to remain so in the medium term. In order to give more certainty, I would like to indicate that I do not intend to start any form of deregulation of the liquid fuels industry in the next 5 years.

However, we will monitor, on an ongoing basis, the international developments of the liquid fuel sector and continuously evaluate the appropriateness of the pricing framework.

With rising and volatile oil and liquid fuel prices Government will, in conjunction with relevant stakeholders, extend the energy saving campaign to cover transport fuels.

This year we will establish South African National Energy Development Institute to conduct energy research and development as well as implement, more aggressively, energy efficiency and renewable energy programmes on behalf of Government.

Next year will mark 10 years since the inception of the Liquid Fuels Charter. We will, during the course of this year, initiate a process of reviewing the progress made in the last 9 years. Initial indications are that the industry still has a lot of work to do if they are to meet their obligations as stated in the Liquid Fuels Charter. I will be intensively engaging the liquid fuels industry in order to ensure that we assist them in complying with the law as the Liquid Fuels Charter is now part of the Petroleum Products Amendment Act.

Honourable Speaker,

We will continuously work on finding safer ways to use nuclear power and store nuclear waste. I want to state categorically that there can be no future for expanded nuclear usage without simultaneously addressing four key issues:

- the public's right to know,
- security of nuclear fuel supply,
- waste management, and;
- nuclear security and non - proliferation.

Accordingly, we are pressing ahead with the implementation of the Waste Management Policy and Strategy and will, during this calendar year, establish the National Radioactive Waste Disposal Institute in order to manage and regulate radioactive waste material in accordance with international standards to ensure the protection of people, property and the environment. We will implement our nuclear energy policy that seeks to firmly place nuclear energy as one of the solutions to mitigate against greenhouse gas emissions. In line with our non – proliferation initiatives, NECSA will complete the conversion of the SAFARI reactor from using Highly Enriched Uranium to Low Enriched Uranium.

As part of the diversification of energy sources government plans to expand the use of nuclear energy for electricity generation.

Our work in this regard will include intensified engagement within the government system and outside, in order to ensure that we take emphatic decisions with regard to ESKOM's nuclear build programme.

Honourable Members, we must be the generation that leaves to our children the legacy of a planet that is not in decline. We need to leave them a world that is clean, safe and prosperous. Accordingly, clean energy will be one of the key components of our energy mix during the next five years.

In this regard, I intend, in the next few weeks, to pronounce on the energy mix going forward, particularly with regard to the role and responsibilities of

Eskom in relation to the Independent Power Producers. As you are already aware, NERSA has promulgated renewable energy feed-in tariffs for a number of clean energy technologies.

This is an opportunity not only to meet our policy objectives in the clean energy space such as the 10 000GWh by 2013, but also to open opportunities for rural and local economic development where the biggest need for employment and infrastructure development is located. This tallies very well with the priorities outlined in the ANC electoral platform.

The feed – in tariffs will enable greater use of Solar Water Heating, Wind Energy as well as Mini hydro schemes. The Department will ensure that one million solar water heaters are installed in households and commercial buildings over a period of five years. This major programme has the potential to create up to one hundred thousand jobs across the value chain that will include manufacturing, installation and maintenance.

We will be engaging with the Clinton Foundation, whose objective is climate change mitigation, for the development of an Industrial Energy Park concept, focussing on concentrated solar power. In addition, we intend to ensure that, through independent power producers, 400 MW of wind power is commissioned in the next three years.

We are aware that our country is literally festooned with a variety of initiatives particularly in the field of solar energy.

These initiatives require a coordinated response. During the course of this year, we shall be convening a conference of all stakeholders organised in this industry so that, together, we develop a clear action plan going forward

Honourable Members,

The responsibility for electricity security of supply previously was the domain of Eskom, which was left with the responsibility to decide on the supply options that the country would introduce in the form of power stations.

This function now rests firmly under the control of the Ministry of Energy, as provided for in the Electricity Regulation Act. Accordingly, in order to align the building of new power stations with government policy the Department will be promulgating new regulations relating to the planning framework for new power stations, procurement process as well as the roles and responsibilities of the respective players.

The integrated resource plan or country plan will be gazetted within the next two months. This plan will indicate both the supply side options such as power stations of various technologies, and demand side options, particularly energy efficiency interventions.

Mister Speaker

On bio-fuels, a 19 million litre ethanol project is being developed by the Central Energy Fund Group of Companies, the Industrial Development Corporation and the Eastern Cape Government, giving effect to the government's bio-fuels strategy. The project has been under development for the past three years and is expected to be commissioned in December 2011. The project has a potential to create a viable fuel grade ethanol business based on sugar beet grown in the Eastern Cape centred in the Great Fish River Valley. The agricultural activities will create 1 500 jobs over and above 1 000 temporary jobs that will be created during the construction of the ethanol processing plant.

This is one of the many projects that will be developed over the next five years. It is our goal to displace at least 5% of crude oil based fuels with bio-fuels.

Our energy security imperatives should not only be based on the supply side options. We believe that the demand side options present the best opportunity for our country to claw its way out of the supply-demand imbalance, through accelerated energy efficiency interventions.

It is my belief that we have a 30% upside in energy efficiency potential, which could be extricated purely from the electricity sector.

We have always been able to enthuse the masses of our people to respond to challenges facing our communities with vigour, and our challenge is to make energy efficiency a way of life for all our people, rather than the relatively easy and readily available option of building more power stations. We must embark on a mass-based, community centred programme that would see the critical matter of energy efficiency being part of the daily life of our communities and people. In this regard, we will continue to engage the Department of Basic Education that energy efficiency will form part of the school curriculum.

In addition, we intend to introduce, under the auspices of the National Electricity Response Team (NERT), a framework for power conservation in the commercial and industrial sectors.

In terms of this plan, certain incentives would become available for users who introduce energy efficiency measures that are measurable and independently verifiable. The corollary holds true for those who are not energy efficient - they would be faced with the reality of disincentives. It is through the combination of this stick and carrot approach that we believe

will assist us to achieve our target of a 10% aggregate saving on current electricity consumption levels.

Mister Speaker, let me remind this House that we are far from being out of the woods. In fact was it not for the economic downturn, we would be load shedding.

I therefore appeal to all of you to PLEASE not to be lulled into complacency. Fa o sa e dirisi motlakasi, e time, Uma ungawusebenzisi ugesi, ucime!

It is our intention to enhance the attractiveness of our energy space as an investment destination for renewable and non-renewable energy by Independent Power Producers as well as for the increased use of energy efficiency technologies. This is important given the reality that Eskom is not in a position exclusively to meet our power needs going into the future.

One of the most critical interventions I will introduce is the separation of the Independent System Operator from Eskom. This entity will be responsible for planning, procurement and the scheduling of generators to balance the system demand-supply equation on a daily basis. The difference brought by this initiative is that it enhances the extent to which NERSA regulates Eskom and it will lead to improved efficiency within Eskom generators.

It is our intention initially for the ISO to be independently licensed, with the ultimate intention of establishing it as a separate legal persona owned by the state.

The National Energy Regulator of South Africa will be making an announcement on the Eskom's application for an increase in the wholesale electricity tariffs. It is an important matter that needs to be put into proper

perspective, particularly as it relates to the latent concerns about the impact on the indigent.

At the outset, I must state categorically that we do not agree that the tariffs must rise rapidly. It is our view that this will lead to unintended consequences, not least of which would be an adverse economic impact in the face of the recession we are currently experiencing.

We have started a process that will enable us to provide a cushion for the indigent, and will develop an appropriate pricing policy framework to structure our tariff regime such that the indigent sections of our communities are insulated from increasing electricity tariffs.

This would be over and above the Free Basic Electricity allocation, which municipalities are responsible for implementing with varying levels of success. This work is being undertaken with the social partners in business, labour and civil society. We are hoping to complete this process by September this year.

Equally, there is a need for electricity tariffs to be structured in such a way that key industrial users continue to subsidize in particular the domestic users, and not vice versa. We have to be careful that our pricing framework does not undermine this strategy, by inadvertently selling electricity to key users below cost and to the detriment of a financially sustainable electricity sector. As we speak, our tariffs are 70% cheaper than the next cheapest country, which does not make sense when we have such low reserve margins and our need to build more power plants.

We are concerned about the backlog of almost R 27 billion on maintenance and investment in the distribution chain of our electricity infrastructure, and we will accordingly give this issue the urgent attention it requires.

We are therefore pleased that on the 15th of April this year, Cabinet resolved to effect the 17th Constitutional Amendment and similarly to accelerate the process of the enactment of the RED establishment legislation through Parliament. This will strengthen the ability of national government to assist other spheres of government, especially local government to accelerate service delivery.

We are committed to work with SALGA and municipalities in order to deal with all the challenges facing this sector.

We will continue to engage with the global community on multilateral arrangements to reduce the impact of climate change through negotiated protocols and conventions. To this end, our participation in regional and continental structures will be improved to ensure mutual benefit and optimum impact.

We will endeavour to encourage all possible projects with climate change mitigation potential to be registered with our Designated National Authority (DNA) office to ensure that South Africa derives maximum benefits from climate change mitigation instruments.

The largest item in the Budget we are presenting today is that of the Integrated National Electrification Programme, commonly known as INEP. This is one of the major projects which we are executing, and it combines service delivery and poverty reduction through the creation of jobs mainly in the rural areas of our country.

By the end of September this year, we will be launching the Engcobo, Inxuba Yethemba, Umhlonhlo rural electrification projects that will see an investment of R 170 million in the infrastructure development of Chris Hani

and Alfred Nzo District municipalities. As part of the Nationwide Rural Development Strategy that was announced in the State of the Nation Address, we will be supporting this initiative through provision of energy infrastructure. Our contribution to the pilot project in Giyani will be R10 million for rural electrification and exploring the possibility for local electricity generation.

While the process of separating the Departments of Mineral Resources and Energy and its budget is still underway, the preliminary budget for the Department of Energy is R3, 7 billion for the 2009/10 financial year. This amount includes R2,5 billion earmarked for transfers to Eskom and Municipalities for the electrification programme and R600 million for transfers to entities reporting to the Minister of Energy.

The Department managed to spend 99% of its final appropriation for the 2008/09 financial year, and this year, again, the department have received an unqualified audit report with no emphasis of matter for the 2007/08 financial year. I am confident that the audit report for 2008/09, which we are expecting later this year, will be in line with the higher bar that we have set for ourselves.

Honourable Members,

In conclusion, I wish to thank my predecessors for the solid foundation laid in this Department. I also want to thank the Director General, Senior Management and the staff in the Department, as well as the leadership and staff of associated institutions for the excellent manner in which they received us in the Department.

Allow me also to thank the Chairperson and members of the portfolio committee for their progressive engagement with the Department thus far. We value these interactions and anticipate a mutually enriching relationship

between the Department of Energy and Parliament during this term of office.

Honourable Members, we present this budget during the month dedicated to our young people, whose past and present contributions continue to shape our fledgling democracy. We salute the scores of our youth who daily contribute their sweat and toil to ensure that South Africa remains a country alive with possibilities, and we also commit our Department to work with the newly established National Youth Development Agency to realise comprehensive, holistic and integrated youth development. We owe this to the proud generations of valiant youth.

Mister Speaker, we commend to this House the budget of the Department of Energy.

Together we will do more!

Thank You

End.