



2015/16 POLICY AND BUDGET SPEECH

Minister of Energy, Ms Tina Joemat-Pettersson, MP

NATIONAL ASSEMBLY, PARLIAMENT

Cape Town, 10:00, 19th May 2015

Honourable Chairperson and Members of the Extended Parliamentary Committee

Honourable Deputy Minister of Energy, Ambassador Thembisile Majola

Honourable Cabinet Colleagues

Honourable Chairperson, Mr Fikile Majola and Members of the Portfolio Committee of Energy

Members of the Diplomatic Corps

The DoE, its SoE's and the Energy Regulators

Fellow South Africans

On the 24th of May 2015, President Jacob Zuma will lead the Africa Day celebrations under the theme *“We are Africa – Opening the doors of Learning and Culture from Cape to Cairo.”*

South Africa will also host the 25th Ordinary Session of the Assembly of the AU Summit. As part of this programme, the Heads of State and Government of the AU will visit the Safari 1 Research Reactor at NECSA in Pelindaba. This is part of South Africa's celebration of the 50th Anniversary of the SAFARI 1 Reactor.

This visit will further serve to highlight South Africa's successes and efforts to harness the peaceful uses of nuclear energy for broader developmental purposes.

Africa is grappling with the challenges of sustainable development. South Africa is in a unique position to contribute towards the energy security of our own country and our continent through our diversified energy mix in general and our renewable programme in particular.

However, South Africa's lack of timely coordination of our planning, alignment and implementation of our country's energy programmes has created serious challenges for us. I want to reassure South Africans that the load shedding which prevails is receiving our highest priority for urgent resolution. Partnerships have been established between government, labour, business and civil society to find solutions to our problems, in keeping with the great spirit of our country. The 5 Point Plan was adopted by Cabinet as a blueprint for addressing our challenges.

Our government's urgent response to load shedding has accelerated the finalisation of the much awaited Integrated Energy Plan. Once approved by Cabinet, the Integrated Energy Plan will be published as a policy document. This Plan will inform our future energy mix and prioritize policy interventions for future programmes within the energy sector.

Whilst energy policy development continues, we announced a package of energy supply and demand options last month. This will increase the independent power producer energy supply to the grid by means of renewable energy, coal, gas and co-generation by 17,000 Megawatts towards the end of 2022. An annual increase of 2,400 Megawatts of additional energy capacity will be added to the grid. Our current circumstances compel us to add a significant amount of electricity generation to the grid in a very short time.

The REIPPP programme has added to the energy supply capacity and electricity diversity in South Africa over a period of only three and a half years. Competitive energy prices have been achieved, with a distinct and meaningful possibility to make a real socio-economic difference in the communities where they are located.

From 2011, the department procured 5 243 MWs of Renewable Electricity in Bid Windows 1 to 4 and connected 37 projects, with a capacity of 1 827 Megawatt to the national grid. On average, 15% of this energy was delivered to the power system during system peak periods, alleviating pressure on the power system. The energy contribution should grow to approximately 7 000 Gigawatt hours per annum with the first 47 Renewable Energy IPPs fully operational and producing at full capacity by mid 2016.

Through the competitive procurement approach, the average per kilowatt hour tariff, in April 2014 terms, for onshore wind has declined by 55% to an average of 62 cents per unit and for solar PV by 76% to 79 cents per unit.

This programme has secured a commitment of about R170 billion in capital investment to the South African economy. South Africans own an average of 48% in all IPPs, with Black South Africans owning 28% of these projects.

We are pleased to inform you about progress in this regard.

Pursuant to our earlier announcements, we have already submitted for concurrence to NERSA new determinations for an additional 6,300 Megawatts for the Renewable Energy IPP Procurement Programme, as well as 1,800 Megawatts for co-generation.

Co-generation supply of about 720 Megawatts has been secured through ESKOM. In addition, we have revised the approach in relation to the procurement of co-generation in line with the IRP to assist with the current electricity challenges. The RFP for the revised co-generation approach, totalling 1800 MW's is on track for release to the market.

The announcement of the preferred bidders is expected in the third quarter of 2015. The new approach will ensure that the approval process is expedited and financial close accelerated.

The REIPPP Request for Proposals for an additional 1800 MWs from existing Bid Submissions is on course for release to the market by June 2015. As previously indicated, this bidding process would be open to all unsuccessful Bidders from all previous Bid Windows which are ready for re-submission.

We will also announce the appointment of additional preferred bidders from Bid Window 4 in early June.

Projects under this programme have started to spend on their socio-economic development and enterprise development commitments. A spending pattern is unfolding, with most spending being allocated for education and skills development, health care, infrastructure, social housing improvements, amongst others.

The DoE is engaged in the re-design of the IPP Request for Proposals, paying particular attention to early, efficient and equitable benefits to communities; as well as to a greater local content approach that will strengthen industrialization in South Africa.

Honourable Members, we are joined in the House today by:

Ms Gail Cleophas from the Hopefield Home Improvement Project, who has trained as an artisan to work on an IPP wind project;

Ms Theresa Jaars, a beneficiary and member of the maintenance team of the Solar Systems projects in the Bokpoort project;

Ms Kate Serunye from Rustenburg, who was provided with training opportunities in the security sector in the RustMo 1 project; and,

We are honoured to have been joined by nine year old **Banele**, who through displaying true entrepreneurial acumen, collected plastic waste around the Jeffrey's Bay Wind Farm and sold this to the project, raising enough funds to purchase his own bicycle.

In the iKheis Municipality, **Mrs Hilda Scheepers** is part of the Duineveld community who has never had basic services. Candle light and paraffin stoves made it impossible for her children to do their homework at night. This situation has changed. Every house in Duineveld now has electricity due to the installation of a 75 watt solar panel.

We have amended the Small Projects RFP to provide for a simpler, less costly and less complex bidding process. Additionally, this will include stringent economic development criteria that will focus on the target bidders, being local Black Economic Development compliant SME entities.

In April, we indicated that we will provide more information on collaboration by DFIs for designing an innovative, sustainable funding mechanism for small IPP projects. This funding mechanism will also include a technical assistance facility for project development, funding of advisory costs and the achievement of financial close for small renewable project bidders.

The Development Bank of Southern Africa and the German KfW has joined forces and they will launch the “Facility for Investment in Renewable Small Transactions” in the next few weeks.

In line with our vision of an expanded natural gas sector, the Gas Utilization Master Plan is in the final stage of internal approval and will be released for public comment during the second Quarter of the 2015 financial year.

The Request for Information for Gas fired generation will be released to the market today. This outcome of this RFI will guide us in the design of the Gas to Power Procurement Programme for a combined 3,126 Megawatts allocation. This is a significant step forward in the diversification of our energy mix. We expect the Request for Proposals to be released to the market in September 2015, with a Bid Submission phase planned for the First Quarter in 2016.

Furthermore, the Request for Proposals in relation to new coal fired generation was released to the market in December 2014, with the Bid Submission initially scheduled for June 2015. Given ongoing engagement with the market, and the need to ensure a successful procurement phase with firm results, we will extend this period by about two months, to end August 2015. Preferred bidders for this programme will be announced before the end of this calendar year.

Honourable Members,

As part of our regional energy collaboration and in pursuit of our climate change mitigation objectives, we are partnering with the Democratic Republic of the Congo in developing the Grand Inga project. Potentially this project

could be the largest hydro-electric power project in the world, with the potential to power half the continent. There are huge economic spin-offs to be harnessed from this project, including industrialization due to supplying goods and services, skills development relating to various aspects of hydropower development, and job creation. We are negotiating a preferential procurement status for companies domiciled within South Africa and the Southern African Development Community so that they could take advantage of this economic opportunity.

South Africa and the DRC are formalizing the structure of the business model. Private sector investors will have an opportunity for collaborating with government on this massive project.

Grand Inga provides a valuable opportunity for South Africa to duplicate the success factors of the Renewable Energy Independent Power Producer Programme. A number of countries on our continent will work with South Africa to explore business opportunities regarding the essential growth necessary in countries where the government and private sector players are committed to renewable energy.

Various small hydro projects have also been allocated under the IPP programme. In addition to this, the Department in collaboration with other Departments and entities are looking into the potential to develop micro hydro projects. Hydro IPP's from our neighbouring Mozambique and other SADC countries will be encouraged.

A generation license is not required for own generation. The Department is considering all applications with a view of assisting developers to fast track potential projects that will further alleviate the current supply challenges.

Similarly, we will improve third party access to the network and the wheeling of power. NERSA has commenced with the process of developing the necessary rules pertaining to this. We implore NERSA to fast track its process of public consultation for for tariff adjustments to assist Eskom to stabilise its balance sheet.

Honourable members,

Energy Security is a pre-requisite for achieving the 5.5% economic growth target as envisaged by the National Development Plan. The development of our electricity infrastructure, through amongst others, IPP's, the nuclear build programme, gas to power by exploiting the indigenous shale gas resources and other interventions will contribute towards ensuring our countries economic growth and development

Our government approved the Nuclear Energy Policy in 2008, which provides for the expansion of the nuclear build programme in a coordinated manner to address our socio-economic needs and to bolster the economy.

The Cabinet approved IRP 2010 provides for 9,600 Megawatts of electricity to be generated through nuclear power, with the first unit commissioned by 2023.

In this regard South Africa has signed various Inter-Governmental Agreements or IGAs, laying the foundation for cooperation, trade and exchange for nuclear technology as well as procurement. These agreements describe broad areas of nuclear cooperation and they differ on emphasis, based on the unique needs of each country.

Completed IGA's will be submitted to Cabinet for discussion and endorsement in the coming weeks. The requisite parliamentary processes for ratification of these agreements will follow.

Vendor Parades have been completed with all nuclear vendor countries that have shown interest to participate in the nuclear new build programme. South African professionals from government departments, State Owned Entities and Universities were part of this process.

Honourable Members,

We will commence with the actual nuclear procurement process in the second quarter of this financial year to select a Strategic Partner or Partners in a competitive, fair, transparent and cost effective manner. We expect to present the outcome of this procurement process to Cabinet by year end.

We will finalize the business model for the re-establishment of the Nuclear Fuel Cycle Facilities to take advantage of our mineral resources and the beneficiation strategy of our government.

In preparation for the rollout the nuclear build programme, we have commenced with a Nuclear Skills Development and Training programme. We will be sending students to attend focussed training in various countries. In this regard, 50 trainees from Government nuclear industry entities were sent to China in April 2015 for Phase 1 nuclear training, and plans are underway to send an additional 250 trainees to China. The Russian Federation has offered 5 new Nuclear Scholarships at Master's Degree level in Nuclear Physics this year, while South Korea has a standing programme to train South African students in Masters Programmes in Nuclear Engineering.

Honourable Chairperson and Honourable Members,

We wish to acknowledge the presence of two young men, whose innovative and entrepreneurial spirit has proven that indeed, we can all make a difference to society. Harald Oswin and Evan Creamer own a company, Geysersflicker. They have developed an ultra-low cost load controller that enables LSM 4-7 households to easily automate their current cumbersome, manual energy routines. It also enables municipalities to shift expensive residential peak loads to less constrained hours of the day. This *Proudly South African* project is set to be piloted in Johannesburg and Tshwane over the next few weeks. It promises to be an innovative game-changer for the country and other emerging market energy grids looking to rapidly offset residential demand. We will continue to support this and other similar initiatives.

We will finalize the National Energy Efficiency Strategy and Action Plan. Draft regulations have already been published for compulsory energy management plans to be put in place by targeted end users. We call on all interested parties to engage with and enrich this process.

SANEDI continues to play a leading role with respect to a variety of energy efficiency initiatives. The Cool Surfaces pilot programme, with a particular focus on schools and low-income households will mobilize our youth to form part of energy efficiency initiatives.

The municipal energy efficiency and demand side management programme will continue. Already savings to the extent of 500 Gigawatt hours have been achieved by various municipalities, primarily by retrofitting lighting in

buildings, LED street-lighting, the installation of smart meters, water and sewage pumps. This incentive scheme has proven to be effective in reducing losses associated with inefficient technologies.

Our focus this year will be on reducing the energy consumption associated with street-lighting. We have completed a pilot project with the Nelson Mandela Bay Municipality, and we intend to embark on a national rollout as a sub-programme of the municipal Energy Efficiency and Demand Side Management Programme.

Honourable Members,

The solar water heater programme will change effective from this budget year, with implementation led by the Department of Energy. The planned new contracting model has been submitted for Cabinet approval. In order to drive the localization effort, the installation programme will be rolled out by local municipalities.

In keeping with the inter-governmental relations framework, national and local government will collaborate in ensuring that the programme delivers on local enterprise and skills development. Maintenance and life cycle management of installed products and the creation of employment opportunities targeting the youth, women and military veterans will be prioritized.

In partnership with the Department of Labour and the Energy and Water SETA, a comprehensive training programme will be implemented. The Department of Labour has allocated R 38 million for this. The DoE has allocated R500 million. We are confident that once in full implementation mode, additional funding will be solicited from the fiscus.

The Integrated National Electrification Programme is responsible for planning, project management and funding the bulk infrastructure grid and non-grid new connections for households. R4.2 billion has been appropriated in the last financial year and we are on track to deliver 265 000 connections from grid and non-grid technologies by June 2015.

The non-grid programme will be implemented in urban areas to increase basic services in informal settlements. The EU is assisting us to develop a sustainable delivery model for this initiative

The National Electrification Programme receives an allocation of R5.7 billion for the 2015/16 financial year. Eskom and Municipalities will receive R3.6 billion and R2.0 billion respectively. We will deliver 280 000 new grid and non-grid connections in this budget cycle

Honourable Members

We are currently dealing with concerns regarding the proposed Biofuel Subsidy Models and the risks posed to the fiscus and the National Revenue Fund, as well as concerns regarding food security.

The review process that includes the National Treasury and Department of Agriculture, Forestry and Fisheries is underway. Government recognises that clear government policy, regulations and incentives are a pre-requisite for the development of the biofuels industry.

Chairperson

We call on oil companies to do more in changing the landscape of ownership in the petroleum space, with a particular emphasis on women and youth.

The Department will be conducting an audit of retail ownership by each company to establish a baseline, which should change demonstrably between now and the next budget vote.

Codes of good practice for black economic empowerment must be supported by all and be given a chance for implementation this year. Working together with Trade and Industry, as well as Industry stakeholders, we will then identify those areas that require a sector specific dispensation once the codes have been allowed at least 12 months of implementation. There is no need to have duplicated regulatory dispensations addressing the same goal.

Over the recent period, major strides were made towards the licensing of fuel import capacity. NERSA licensed import facilities in Richards Bay, Saldanha, Cape Town and Coega, which in our view will enhance competition in the liquid fuels sector whilst ensuring a more robust energy security regime. Government will align the regulatory dispensation by the different organs of state to aid efficiencies in this area.

The cleaner fuels initiative should not be used to entrench positions of some of the companies that operate in the sector to the exclusion of new entrants. We believe that now is an opportune time for revisiting the cleaner fuels programme, as well as investment in new refining capacity. These go hand in hand. The Task Team working on the cleaner fuels has already begun its deliberations. We will soon announce a Task Team that will prepare the ground for a decision on new refining capacity, focussing on Coega as the preferred site for such a refinery and also clarifying state participation in such an investment.

The workers in the petroleum sector constitute a key stakeholder. We will continue to work with organised labour and the employer organisations to improve the working conditions in this sector, with a particular emphasis on safety and health.

The uptake of Liquid Petroleum Gas in our country remains disappointing, in the main due to infrastructure impediments. On the positive side, NERSA has licensed three import installations that will be able to bring in LPG. Proposals on how to deal with other identified regulatory shortcomings that are hampering increased LPG usage will be developed by the Department, including the Draft LPG Fuel Switching Strategy, which provides a framework for the expansion of the use of LPG in South Africa with special emphasis on the household sector.

Prospects of a settlement between Iran and the US, China, Russia and some EU countries should benefit crude oil price stability. We are looking to use the opportunity of lower crude oil prices to bolster our emergency crude oil stocks. The Strategic Fuel Fund will look at modalities for increasing the strategic stocks of crude oil. You will be informed of the details of this intervention in due course.

We will build the Department and the State's ability to negotiate government to government agreements on crude oil. South Africa will offer producing countries security of demand in exchange for negotiated crude oil prices.

Working together with Minister of Mineral Resources, we will accelerate efforts that will result in exploration for oil and gas within our territorial waters. The Department of Energy and the SOEs reporting to it are already an

integral part of Operation Phakisa. Alignment between the amendment process of the Mineral and Petroleum Resources Development Act and Energy Policy will be critical for the development of the oil and gas potential in the country.

We have now finalized all processes to introduce legislative amendments pertaining to the Electricity Regulation Second Amendment Bill and the National Energy Regulator Amendment Bill to Parliament after Cabinet approval. The public consultation process in this regard has taken over 2 years and we have incorporated the public comments.

Other Bills that are in process and will be released during this financial year for comments include the Gas Amendment Bill, the Electricity Industry Structure Bill and the Strategic Fuel Fund Bill.

In 2014/15, the DoE was appropriated R7.4 billion and has spent 84% of the allocated budget. A budget balance of 16% remained at the end of the financial year representing, a major portion being under transfer payments. This is mainly due to the underspending in the SWH Programme.

The total appropriation to the Department of Energy for 2015/16 is R7.5 billion, with 93% being earmarked for transfer to Municipalities and State Owned Entities, while the remaining 7% is to be utilized for the Department's operational and capital expenditure.

Honourable Chairperson

South Africa will host the International Renewable Energy Conference from 3 to 7 October 2015 in Cape Town. Led by the South African National Energy

Development Institute in partnership with REN 21, preparations for this Conference are well underway. Africa is hosting this landmark Conference for the first time, and we expect more than 6000 delegates, including over 100 Ministers responsible for energy and environmental affairs.

We want to encourage the energy sector to assist the DoE and SANEDI in making this conference a success. Your full support is required to make this a broad based international renewable energy event, with a distinct focus on Africa and its development.

Honourable Members, it is clear that energy security and access is directly linked to socio-economic development of our country.

We need to collectively and in a spirit of partnership join hands as South Africans to chart our energy future.

I wish to thank the Deputy Minister for her tireless efforts and the leadership she gave in the War Room.

We also wish to thank Team Energy, and all energy sector stakeholders for their ongoing engagement and support.

I commend the 2015/16 Budget of the DoE to this House.

I thank you.