



Address by Ms Dipuo Peters, MP, Minister of Energy to the South African Chamber Of Commerce and Industry (SACCI) Electricity Dialogue

IDC Auditorium, Sandton, 02 February 2010

Programme Director, Mbi Mbapeh

Honourable Ministers, Barbara Hogan,

Leaders of the Chamber, Professor Alwyn Louw (President) and Neren Rau (Chief Executive Officer),

The Business Community,

Distinguished Guests,

Ladies and Gentlemen.

Good morning to you all, and thank you for inviting us to be a part of this important gathering.

The Ministry and Department of Energy recognizes the importance and value of ongoing dialogue between stakeholders, and appreciate the opportunity to participate in this forum created by the South African Chamber of Commerce and Industry.

Ruel Khoza, one of the leading business architects of the project for the renewal of the African continent recently published a book, “*Africa’s Leadership Imperative*”, where he made comments that are particularly poignant to us the peoples of the African continent. He wrote: I quote:

“If not us, then who?

If not from Africa, then whence?

If not now then, then when?

If not for Africa and humanity, why not?

Let Africa rise to this the quintessential challenge.

It is our date with destiny!”

These words were even more poignant to me as I was preparing for this meeting. While the economists bombard us with the news of the possible end to the recession, the energy sector faces a challenge; a challenge of energy sufficiency not only for South Africa but also for our neighbours.

It is important that the sector rises to the challenge by making clear and bold decisions about the long term sustainability of energy and empowerment of the continent.

Ladies and Gentlemen,

South Africa’s economic history shows that the State has played a continuous, fundamental, and yet changing role in the political economy of energy. As South Africa was on a gradual ascend to becoming an industrial economy, it was logical that electricity was seen as an essential ingredient of government’s industrial strategy.

At that stage, government was assuming a dominant role in other key infrastructure industries, like rail, air, sea transport, telecommunications, water, coal-based synthetic fuels, nuclear energy, also the iron and steel industry.

Due to active participation by the State in these strategic industries, competition and private-ownership in these sectors was viewed as non-optimal, the State viewed these industries as key instruments for industrialization, employment creation and economic development.

With time, political economies of countries have evolved with States shedding particular practices, in particularly the ones viewed as not being helpful to governments's development plans, whilst keeping those that are viewed as progressive. It is within this context that our own political economy of energy, and in particular electricity generation and supply, has evolved.

It is imperative for all of us to acknowledge that South Africa's early industrialization was anchored around energy-intensive consumption practices. As a result, our energy consumption paradigm is still premised on energy intensiveness, primarily due to extraction of minerals, and in particular gold, coal and platinum mining, with mineral extraction being the primary driver of the South African economy.

As we gradually move away from an energy intensive energy consumption paradigm, our primary task is to transform South Africa energy consumption architecture from an energy intensive consumption paradigm, towards that of high value-added manufacturing and services.

Programme Director,

As you are aware, despite South Africa enjoying certain strategic advantages relating to our endowment with indigenous coal, uranium, high solar radiation levels and biomass, the balance of energy forces are heavily stacked against us as a country.

Over the past few years we have seen the decline in our ability to ensure energy security, with frequent electricity and liquid fuel supply disruptions and near misses. We are still a heavily coal reliant power producing country, with all its environmental issues relating to greenhouse gas emissions.

On the electricity distribution side, municipal networks continue to present the most critical risk to the distribution supply chain, as networks deteriorate due to lack of adequate maintenance and refurbishment. The poor state of distribution networks is accompanied by increasing costs due to tariff increases as we make capital investments, threatening the competitiveness of industry and the livelihoods of the poor and indigent.

We continue to use electricity to heat water, to cook and to heat space. Some rural areas and informal settlements in urban areas still do not have access to electricity, and to be exact, this represents 25% of our households. To compound the challenge, we continue to waste our energy with estimates indicating that as much as 30% of our input energy goes to waste.

Going forward, it is therefore imperative that we forge a balance between exploiting fossil fuels and maintenance of acceptable environmental requirements.

As government, we have shown our proactiveness in this regard with the introduction of the Integrated Resource Plan 1.

IRP1 provides a framework which will guide South Africa on its quest to reduce the disproportionate reliance on coal for the production of energy and it underpins our capital investment program.

Fundamentally, IRP1 provides a blueprint to guide government's resolve on ensuring security of supply of energy resources, and pursue an energy mix that includes clean and renewable resources, and this is consistent with the 52nd Conference of the ANC in Polokwane.

Furthermore, over the next 6 months, we will conclude the development of the Integrated Resource Plan 2, which will for energy security reasons, emphasize a strategy to diversify away from being coal dominated, with the introduction of nuclear, gas and renewable energies.

The use of appropriate carriers for the appropriate application will be incentivized, including the use of solar technology for heating water, liquefied petroleum gas for cooking and space heating.

Programme Director,

It is our view that South Africa's ongoing problems in the energy sector require comprehensive solutions. The problems concerning energy are broader than the huge tariff increases we have to bear. There are issues of our energy mix, environmental sustainability, distribution mechanisms, surcharges by local municipalities and the role of private producers to address.

Currently, energy contributes about 15% of GDP and creates jobs for about 250 000 people. The energy sector is a critical vehicle in ensuring that the growth trajectory that we have set for ourselves as a country is achievable and it is also critical to the betterment of the lives of poor South Africans.

To this effect, we have set ourselves focus areas in support of government's five strategic development priorities for speeding up growth and development, which includes;

- creating more jobs and decent work,
- building sustainable livelihoods,
- rural development and land reform.
- Contributing positively to health and education,
- combating crime and corruption.

In acknowledging the significance of the energy sector in economic growth and development, for the next four years up to 2013, more than R340 billion has been set aside to be spent on the capital expansion programme, especially within the context of seeking to increase on the current electricity reserve margins. Generation and transmission investment will utilize about 86% of budget, whilst the remaining budget will fund improvements to the distribution network and the diversification of energy source.

Consistent with the commitments of government, as a department we are geared towards ensuring that there is an increased access to affordable energy sources, improvement in energy governance, contribution to economic development, and ensuring energy security for the country.

The current scenario in terms of electricity supply is characterized by marginal electricity reserves, which resulted in rolling brown-outs in 2007 and 2008, and had a negative impact on the country's economy.

Consequently, this reality stifles economic development and the provision of essential services.

Our commitment to integrated development and also to the provision of reliable energy services in all areas, thus ensuring efficient services to communities, and this will stimulate economic development even in the remote rural areas.

This seeks to gradually undo the effects of apartheid spatial planning on our communities, as peri-urban and rural areas (particularly those areas that are inhabited by black people) are worst affected by this reality.

It is the view of government that the diversification of our energy sources provides a business opportunity for both aspiring and established business entities. We urge businesses, in particular small and medium BEE companies, to seize the opportunity.

- On the immediate, we are confident that we will make the target of 10 000GWh of clean energy by 2013, and in this regard we have introduced one of the most attractive financial incentive schemes for clean energy in the world. The renewable energy feed-in tariff scheme will support grid-based technologies, side by side with the introduction of 1 million solar water heaters over the next 4.5 years. Solar panels and waste recycling are crucial for climate change mitigation and adaptation initiatives.

- Government is clear in its support for renewable energy technologies for application in specific markets on the basis of researched priorities.

The opportunity that is being availed by the roll-out of solar water heaters, should be seized by local businesses. The project of installation of solar water heaters seeks to mitigate the burden on the electricity grid, but also serves as an opportunity for empowerment and meaningful localization.

Furthermore, business should assume a more active role on energy matters, especially on the South African Power Projects.

- As we have stated before, we remain committed to increase nuclear power generation capacity in the South Africa, as part of our energy mix.
- Our focus remains on ensuring that we do our part to facilitate the entry of independent players into the industry, but doing so in manner that is underpinned by our own growth projections and planning priorities.

Ladies and Gentlemen,

We will continue to promote access to affordable energy services for disadvantaged households, small businesses, small farms and community services. Government will also determine a minimum standard for basic

household energy services, against which progress can be monitored over time.

We also remain committed to the promotion of energy efficiency awareness in households and universal access to household electrification by 2014 to all formal settlement while providing Free Basic Electricity to the indigent.

We also support institutional arrangements for transformation, as well as effective regulation of the energy sector and regulatory independence.

This is reflected on the present process of independent approval process by NERSA of Eskom MYPD 2 application. There is a clear separation between the Department and the Regulator. Regulatory independence, regulatory discretion and regulatory certainty are guaranteed.

One of the fundamental principles that the Regulator must uphold, is the protection of consumers by avoiding non competitive prices, providing for the industry viability allowing regulated companies the opportunity to recoup their costs and obtain a reasonable return and implement government policies. We have to appreciate the good work done by NERSA, especially on the economic regulation of the electricity sector. The credibility and independence of the Regulator augurs well for investor confidence in the country's energy sector.

The Electricity Pricing Policy is being implemented with a greater degree at wholesale level. The permeation of the application of the EPP at retail level has not taken off the ground in the manner that we intended, and the challenges associated with this are being attended to at a number of levels.

The magnitude of the challenge suggests that it may take some time for the full effect of the EPP to take place at the retail level.

The policy emphasis the transparency and cost reflective tariffs are a must to provide the right economic signals.

The Department is currently reviewing options of the South African electricity market structure, a model for increased introduction of Independent Power Producers (IPPs) and mechanisms for ensuring equity.

The responsibility and accountability for the construction of power generation capacity will be coordinated and provide certainty to the potential independent power producers. My department will soon be introducing the Independent System and Market Operator (ISMO) Bill to the Cabinet for consideration.

The ISMO Bill will set the rules for introduction of the System and Market Operator independently from Eskom. Furthermore, the Department of Energy has introduced the Regulation of New Generation that empowers it to introduce Integrated Resource Planning (IRP) for the country. You are requested to vigorously partake in the consultation process to be outlined by the department.

As energy prices increase globally and locally, we need to revisit the current practice in the context of its impact on the poor.

The unregulated surcharges by municipalities tend to have an adverse impact on the poor and we need to collaborate as government departments

to ameliorate this impact. This brings into sharp focus the need to resolve the electricity distribution industry restructuring issue.

Our view is that a transformed electricity distribution will benefit consumers of electricity in our country.

Control of all distribution network assets must be passed to the REDs and appropriate mechanisms for achieving this must be determined soon.

- Approval of the 17th Constitutional Amendment currently serving before Parliament will facilitate the restructuring process while protecting the interest of all the stakeholders.
- The Electricity Distribution Industry (EDI) restructuring would ensure an equitable application of tariffs for each consumer segment and further enable the provision of quality supply and service, in support of economic and social development.
- It will also allow Government to meet its electrification targets in the most cost-effective manner while meeting the legitimate interests of all stakeholders in the industry. This development will enable the electricity distribution industry to operate in a financially sound and efficient manner, thus benefitting consumers.

Programme Director,

In utilizing international financial support on energy initiatives, the framework for tapping international funds via the Global Environment

Facility, as well as the Clean Development Mechanism (CDM) to reduce greenhouse gas emissions is available for utilisation.

The Designated National Authority (DNA), as required under the United Nations Framework Convention on Climate Change (UNFCCC) for countries to participate in Clean Development Mechanism, has been established in the Department of Energy to regulate the CDM market within South Africa.

Some of the developing countries such as China, India, Brazil and Mexico are to set targets for reduction of emissions. The recent Climate Change World Conference in Copenhagen did not yield much, but the Government will continue to participate in Climate Change negotiations in order to maximize the advantages arising from opportunities such as international funding, technology transfer, and energy efficiency, adaptation and mitigation measures.

This gives credence to President Jacob Zuma's commitment made in Copenhagen, 18 December 2009 when he said; *"Our view remains that all developed countries must commit to ambitious, legally binding emission reduction targets, in with historical responsibility and in line with needs of science. Developing countries should commit to nationally appropriate mitigation action, to achieve a decline in emissions relative to business as usual"*.

Support to market entrance of renewable energy, nuclear and energy efficiency initiatives remains key as these energy sources have a key role in climate change mitigation and the country's development.

I wish to also make use of this opportunity to call on all relevant stakeholders and players in the energy space to continue to engage with us and play a productive role, especially as we set out to reconfigure South Africa's energy architecture for the development of the country's future energy industry.

I will like to wish you a successful and progressive dialogue today, and wish to leave with you the word of Nicollo Machiavelli, when he said:

“do not let princes accuse fortune for the loss of their principalities after so many years possession, but rather their own sloth, because in quiet time they never thought that there could be a change (it is a common defect in man not to make any provision in the calm against the tempest), and when afterwards the bad times came they thought of flight and not of defending themselves...”

Our challenges with regard to energy broadly and electricity in particular allows us all to reflect, and collectively, as stakeholders, engage on a path that would see us avoiding the situation that Machiavelli spoke about. We all have a role to play to *“make provision in the calm”*, and let history not judge us for being complacent about the challenges we face.

As I said at the beginning, thank you for opportunity to share some thoughts with you.

I thank you.