



2011 BUDGET SPEECH
by the Minister of Energy, Ms. Dipuo Peters, MP
E249, National Assembly, Parliament, Cape Town
26th May 2011

Honourable Speaker
Deputy Minister of Energy, Ms. Barbara Thompson
Honourable Chairperson and Members of the Portfolio Committee on
Energy
Honourable Members of Cabinet present,
Honourable Members of Parliament,
Directors-General, Executive Management of the DoE and of Government
Invited Guests and Stakeholders
Ladies and Gentlemen,

Once again the people of South Africa have spoken, and have made bold their support for the path of development, redress and genuine empowerment. The people of South Africa have re-affirmed the correctness of the policies of the African National Congress.

As leaders in and outside of government, we have once again heard millions of country men and women, young and old assert that much has been achieved since the dawn of democracy, but importantly, also saying that they expect much more and better quality services.

This budget will therefore focus on those key deliverables and outputs that are aligned to the broader policy objectives of government as a whole and is also responsive to key instruments such as the New Growth Path and the Industrial Policy Action Plan.

Honourable Members, before I elaborate on our plans for the next financial year, do allow me to reflect on some of the key commitments made in the 2010 Budget Vote Speech. Key amongst these are:

- The success of our efforts to ensure energy adequacy, and working together with the liquid fuels industry and Municipalities during the FIFA Soccer World Cup 2010, laid a firm foundation for future coordinated planning.
- We have managed to eradicate the backlog on Petroleum Licensing and can indicate that all completed licence applications are now processed within the prescribed 90 days.
- We initiated and have now completed the compliance audit with regard to the liquid fuels charter.
- We published the roadmap for clean fuels or CF2 and have received comments from all stakeholders.
- The 20 year Integrated Resource Plan, which is the product of an extensive public consultation process, has been gazetted.

- We managed to institutionalise the South African National Energy Development Institute, setting the stage for coordinated research as well as energy efficiency and demand side management interventions.
- Through price regulation of LPG, we managed to save consumers R200 million the previous year, and through this we are setting the pace for the development of the necessary infrastructure for further savings.
- Work on the Integrated Energy Planning Strategy is progressing well, and is currently subject to further engagement with amongst others, the National Planning Commission, and,
- Responding to the injunction of the President in the State of the Nation address, the ISMO Bill was presented to and approved by Cabinet.

Honourable Chairperson,

The department has been allocated a total of R 15.9 billion over the MTEF period, with an allocation of R6.09 billion for 2011/12.

This house should note that 95% of the 2011/2012 budget or an amount of R 5.78 billion will be transferred to the following:

- Integrated National Electrification Programme which will receive R 3,2 billion for distribution to municipalities and Eskom to continue

with the very important task of electrification and the non-grid programme;

- NECSA has been allocated R 586m to continue with its central role as the anchor for nuclear energy research and development and innovation;
- EE-DSM, which will receive R 398m for demand side management interventions in 21 municipalities and through Eskom, and lastly;
- TRANSNET, where during the previous financial year, we transferred R1.5 billion to Transnet as a contribution to the Security of Supply portion of the pipeline. This year again an amount of R375 Million will be transferred quarterly to Transnet, flowing from the levy that was announced last year by the Minister of Finance.

This thus leave the Department with 5% or R305 million for operations.

Furthermore, over the medium term, expenditure is projected to decrease from R5.65 billion in 2010/11 to R4.3 billion in 2013/14, in the main due to the termination of transfer payments to EDIH and the reduction of allocations in the demand side management programme.

Chairperson

Hydrocarbons

Fuel Efficiency

We present this budget at a time when political events in the Middle East and North Africa have had and are continuing to have a direct impact in the pockets of ordinary South Africans. This is in the main due to the fluctuations in the oil price, which has over a period of 24 months seen a four fold increase from \$30 per barrel to a high of \$130. There are also indications that speculators in the market take advantage of the prevailing challenges and add a premium of their own.

It is therefore important for South Africans to use fuel efficiently, and to contribute to a secure and affordable fuel future. I will be launching a fuel efficiency campaign during the month of June.

We will finalise the framework for Clean Fuels 2 during the course of this year focussing in particular on the cost for infrastructure upgrade. The impact of this modernisation process is that refineries will have to be upgraded and in so doing more than 1000 jobs can be sustained throughout the duration of the programme.

In a further response to the President's call for accelerated job creation, we will also reduce the time it takes to process a licence for new service

stations to 60 days in order to accelerate construction of new service stations. During construction each new station is estimated to sustain 120 direct jobs, and plans submitted to the department by industry indicate that an additional 1500 jobs can be created by this activity alone.

We undertook to deal with regulatory uncertainty in the Liquid Fuels Sector and we initiated a programme to develop Regulatory Accounts which will be used to reward investment in the value chain. We have completed the preparatory work and will now move towards early implementation of some of the aspects where decisions have been taken.

Honourable members,

As a nation, we must make investments today to secure our future. Our investment in infrastructure initiatives such as the New Multi Product Pipeline (NMPP) may appear to be a burden today, but for the next 50 years this economy will reap the benefits that will sustain its competitiveness.

In May 2010, I indicated that we will conduct an audit into the compliance of the oil industry with the provisions of the Liquid Fuels Charter and I duly launched the audit process shortly before the 10th Anniversary of the signing of the first ever empowerment charter, the Liquid Fuels Charter.

As much as the final outcome of the audit of the LFC has not been announced, I need to indicate that the preliminary results are disturbing in many areas, especially with regard to ownership patterns, management,

employment equity, with special reference to gender, procurement spent and an enabling supportive culture. This state of affairs, in 2011, cannot be acceptable to South Africans. For our democracy to be sustained, inequality needs to be redressed. The department will develop and lead a new covenant for empowerment in the petroleum sector. This include that BEE companies should be able to source a sizeable percentage of the country's imported crude oil and petroleum products. It is clear that the disincentives for non-compliance will have to be tighter and tougher.

As alluded to, the Integrated Energy Plan Strategy as a planning methodology, which defines the processes that we will undertake has started. The intergovernmental structures to ensure constructive debate and effective delivery of the Integrated Energy Plan, has been put in place. One of the key challenges which we face as we engage on this process remains the availability of relevant data to enrich the quantitative element of our planning process.

Last year draft regulations, which make the provision of data required for energy planning mandatory for certain stakeholders was gazetted, and after the public consultation process, we are now finalizing the regulations and will gazette these in the second quarter of this financial year.

Similarly, the content of our annual publications, such as the Digest of Energy Statistics and the Synopsis of the Energy Sector, will be improved to provide relevant and meaningful information to further aid the development and growth of this critical sector.

Honourable Chairperson,

Our National Oil Company, PetroSA is an important and critical role player in the advancement of our efforts towards ensuring security of supply. and expect that the Board, led by Dr Mokaba will soon make a recommendation to me on a candidate for the position of Chief Executive Officer . This team, we believe, will lay the correct foundation for a final decision on the proposed Project Mthombo. I must re-iterate that I firmly believe that refineries will have to be constructed in South Africa and be operationalised before 2020.

The Department is supportive of the efforts of PetroSA to ensure the sustainable viability of the Mosselbay GTL refinery, especially in terms of efforts to source feedstock.

Honourable Members

IRP Implementation

The IRP lays the foundation for the country's energy mix up to 2030, and seeks to find an appropriate balance between the expectations of different stakeholders; considering a number of key constraints and risks, for example:

- Reducing carbon emissions;
- New technology uncertainties such as costs, operability, lead time to build, etc;
- Water usage;

- Localisation and job creation;
- Southern African regional development and integration; and
- Security of supply.

The promulgated IRP makes provision for a diversified energy mix that will comprise the following in terms of new generation capacity:

- Coal – 14%. I must emphasise the point that this government holds the view that there is a future for coal in the energy mix, and that we will continue with efforts in the field of research and development in areas such as UCG and CCS, and work with our sister departments such as DST to find ways to clean our abundant coal resources;
- Nuclear – 22,6%;
- Open Cycle Gas Turbine at 9.2% and Closed Cycle Gas Turbine at 5.6%; and
- Renewable Energy Carriers, include Hydro at 6.1%, wind at 19.7%, Concentrated Solar Power at 2.4% and PV at 19.7%

The REFIT procurement process is a starting point in implementing the IRP. We also need to take advantage of the potential in municipal power generation, to the extent that we can resuscitate some of these old mothballed power stations.

Over and above the Solar Park concept, I would like to clarify a few matters that have become topical amongst potential investors under the renewable energy programme.

We have finally arrived at a point where we are ready to procure the first clean energy projects, indicated under the Integrated Resource Plan. We hope to conclude at least 1000MW of renewable energy transactions by December this year, in time for showcasing as we host COP 17 in Durban. Apart from the showcasing, this programme is aligned to the New Growth Path and will substantially contribute to President Zuma's vision on job creation.

Secondly, the procurement of solar photovoltaic, concentrating solar power, biomass and other technologies will take into consideration the legal requirements relating to public sector procurement, in terms of which procurement is required to be open, fair, transparent, cost effective and competitive.

There are other programmes under the IRP that I would like to highlight:

Energy Efficiency Awareness Campaign

The energy efficiency awareness campaign which the Deputy Minister will elaborate on still remains a key programme of the IRP.

Medium Term Risk Mitigation Plan

The Medium Term Risk Mitigation plan under the IRP has identified other “low hanging” projects that will take us through the period until Medupi and Kusile are commissioned. We have started a process to implement these projects, which largely tend to be outside of Eskom generation.

Non-Eskom generation

We are reviewing the regulatory environment to facilitate the introduction of power generation through Independent Power Producers (IPPs). The ISMO Bill is expected to provide the institutional structure that will level the playing field.

As I indicated recently, the nuclear transaction needs to be commenced well in time so that we can commission the power by 2023.

Nuclear Power Programme

The recent events at Fukushima-Daichi Nuclear Power Station have made it necessary for South Africa to carefully take stock of the implications of these developments on our nuclear power programme, as outlined in the Integrated Resource Plan. It is therefore prudent and responsible that we monitor the relevant interventions by other countries in such situations.

This could include amongst others, increasing the safety requirements of the nuclear technology, selecting the sites for the power stations in areas that are less susceptible to seismic activity as well as putting in place dedicated institutional mechanisms for dealing with nuclear safeguards. We are not lost to the need for a rigorous awareness building exercise regarding nuclear power and its pros and cons, so that our communities are better informed about not only the risks, but the benefits as well.

For us the accident at Fukushima has happened at a time that makes it possible for South Africa to factor the appropriate lessons into the design of our nuclear power programme, and to take advantage of experiences from other countries.

We are constantly getting updates from the International Atomic Energy Agency (IAEA) and other sources regarding the lessons learned from Fukushima.

We are still convinced that nuclear power is a necessary part of our strategy that seeks to reduce our greenhouse gas emissions through a diversified portfolio, comprising some fossil-based, renewable and energy efficiency technologies.

Solar Park

Following the successful Solar Park International Investors Conference held in October last year, we have committed R18.6 million towards the completion of a comprehensive feasibility study by July this year.

We are very excited that South Africa can begin to seriously explore the possibility of solar technologies, being deployed as part of our broader energy mix, in a way that will also de-carbonize our energy.

It is our intention to place South Africa in the top quartile of solar power generation, so that we can simultaneously create green jobs by localizing the manufacturing, installation, operations and maintenance.

I need to state it categorically that localization is non negotiable, and meaningful participation across the value chain for the benefit of our people will be pursued vigorously. Working together with the Department of Economic Development and the Department of Trade and Industry, this objective will be realised.

Solar Water Heating (SWH)

The SWH programme has to date delivered over 115 000 systems under the fiscal and rebate funding schemes. This is a significant increase from the zero base that we started from, when I first announced the programme in 2009. Whilst we are lagging behind our annual targets, mainly due to funding constraints, I need to highlight some of the initiatives we are working on in order to address the funding problem.

As indicated last year, the standard offer policy framework was introduced and public hearings were completed by NERSA in that regard. NERSA will announce the rebate level under the standard offer, and this will be at the appropriate level to incentivize the leveraging of private capital into the SWH program.

In 2010 the Central Energy Fund signed two agreements with foreign companies to localize SWH manufacturing. We see this as an opportunity to reduce the capital costs of the units at the same time as creating local green jobs. Having removed most of the identified constraints, it is our considered view that the SWH programme will accelerate.

Energy Efficiency

Energy efficiency is widely recognized as the most fundamental short-term imperative for rapid, ambitious and cost-effective climate change mitigation. As a matter of fact, improved efficiency is the most cost-effective, least-polluting and readily-available energy resource. More than half of the electricity-sector related Carbon dioxide reduction target in the coming twenty years could be achieved through energy efficiency.

We must emphasize the role that can be played by the hospitality industry with regards to energy efficiency, and I will be making proposals to my colleague, the Minister of Tourism on the incorporation of energy efficiency measures in the grading system of the hospitality sector.

Part of the tasks ahead will be to explore the possibility of taking towns completely off grid. It is imperative that major cities retrofit their streets and traffic lights, using renewable energy sources.

Energy Efficiency can enhance the competitiveness of our economy, while helping to alleviate energy poverty as energy becomes more available. Accelerated energy efficiency can also create attractive green jobs and businesses.

As significant efficiency potential remain countrywide, all stakeholders should join hands to contribute to this effort.

New Legislation for 2011

Insofar as our planned legislation this financial year, we intend to introduce the following bills for consideration by Parliament:

- Petroleum Products Second Amendment Bill;
- Gas Amendment Bill;
- Electricity Regulation Amendment Bill;
- Independent System and Market Operator Bill; and the
- National Energy Regulator Amendment Bill.

Internal environment

For us to implement and drive our key mandates as directed by government, we need a well oiled and motivated organizational machinery. This house must note that due to the limited budget to fund the approved establishment, the department resorted to implementing an interim structure that is currently operational with only 52% of its required overall capacity.

We have undertaken further work in refining the approved organisational structure to enhance the Department's ability to deliver on stated government-wide priorities, including access to energy, poverty alleviation, rural development and job creation. We have also established a Project Management Unit to ensure that all projects identified in the Strategic Plan will be monitored in terms of performance on quality, time and cost.

We will implement a project management framework that complies with international standards that have been tried and tested in the energy environment. This is especially critical in view of the 10 infrastructure projects and 3 major access to energy projects that will be focused on during the coming period. Furthermore, the current skills capacity of the department will have to be significantly enhanced to deliver on the department's mandate. Amongst others, we will re-train 72 staff members with a view to enhance their project management skills, so as to improve service delivery. We are also finalising a new approach to recruitment, selection, and career-pathing and performance management system in line with our strategic intent.

In responding to the policy positions of the ruling party, we have established a new Branch for Clean and Renewable Energy, which will provide for a dedicated and appropriately resourced focus on areas such as the use of alternative technologies, cleaner carriers and to exponentially increase the use of renewable energy sources. This will include the work underway in the area of demand side management and energy efficiency. This development also enables the department to significantly better

coordinate and enhance its contribution to South Africa successfully hosting COP17 in December this year.

We continue to be active in the development of an appropriate response to the scarcity of the required skills in the Energy Sector through our enhanced participation in the Energy Sector Training Authorities at both Governing Board and Sector Skills Plans sub-committee levels. This has enabled the department to provide strategic inputs for the development of skills that are critical in terms of the needs of the country.

State owned entities

EDI Holdings

In line with the Cabinet decision, EDI Holdings ceased operations on 31 March 2011. An administrator has been appointed to execute the winding up and the process is expected to be completed by the end of June 2011.

As directed by Cabinet, we are continuing with some of the programmes that EDIH was involved in, including the rehabilitation of electricity distribution infrastructure. In this regard, the Department will establish capacity that ensures service delivery of uninterrupted power to end users. Proposals in this regard will soon be submitted to Cabinet for consideration. The required funding model is currently subject to detailed discussions between the relevant government departments and other potential funders.

NERSA

The new Full Time Regulator Members for NERSA have been appointed and assumed their duties at the beginning of April 2011. I would like to take the opportunity to welcome Mr Thembani Bukula, Dr Rod Crompton, Ms Phindile Nzimande and Ms Ethel Teljeur and wish them well in their work.

We have embarked on a process of reviewing and amending the National Energy Regulator Act in order to streamline governance at NERSA.

NECSA

As part of its contribution to the public education on nuclear science and technology, NECSA built and completed a Nuclear Science Centre which is open to visits by members of the public. At this centre, people can learn more about nuclear energy. I encourage Honourable members and the public to visit this centre, especially maths and science students.

Recognizing the need for skills for nuclear expansion NECSA, with the support of DTI, has started investing in artisan skills which are in great demand in the economy. Security at Pelindaba has also been stepped up considerably and I am confident that security at this nuclear installation is adequately prepared to respond to risks of potential diversion of nuclear materials.

NNR

During the last financial year the National Nuclear Regulator (NNR) intervened decisively to protect the community of Tudorshaft in Mogale City

who were at the risk of being over exposed to radioactivity, which was a consequence of previous mining activity.

This year the NNR will continue to focus on reducing risk of exposure of workers at the special case mines that are prone to enhanced levels of radiation.

The NNR is currently undergoing restructuring to ensure that they are well positioned to respond to the aspirations of government as outlined in the IRP, as well as to respond to the ongoing need to ensure that safety at Koeberg Power Station and other nuclear installations.

CEF

In consultation with the Board of CEF I will be reviewing the structure of the CEF Group of companies in order to consolidate the various operations, improve efficiencies and take advantage of synergies between the various subsidiaries.

A key aspect of this work includes, as I have indicated previously, the re-positioning of the National Oil Company, namely PetroSA.

Together with the Department of Mineral Resources, we are engaged in finalizing the de – linking of the African Exploration, Mining and Finance Corporation from the CEF Group, for it to form the nucleus of a state owned mining company in response to the Cabinet decision of December 2010.

INTERNATIONAL CORDINATION

We will be engaging our counter-parts in the SADC Council of Energy Ministers on the strengthening of the Southern African power pool, and the proposals for the development of a Integrated Resource Plan for the region, taking into account that our energy needs are interlinked and intertwined and we can each contribute meaningfully to our energy needs and meeting our challenges.

We continue to participate in structures such as

- IRENA,
- IEF,
- IPEEC,
- UNIDO,
- Clean Energy Ministerial
- AU – EU Energy Partnership

Over the recent period, we embarked on a number of international engagements in our quest to find solution to our energy challenges. Apart from servicing our international obligations in the nuclear energy space we have a number of other bi-national and multi lateral agreements that we have to honour. I must hasten to add that our bi-lateral engagement programme has taken a very practical and implementation level approach, and we have a number of existing and developing bi-lateral or joint programmes in place in support of an array of energy areas. In keeping with our recently confirmed memberships in BRICS we are expected to have a more pronounced role in the international arena.

Conclusion

Honourable Speaker, on this note I hereby present the budget vote speech of the Department of Energy.

Finally I would like to thank:

- President and my Cabinet colleagues
- Portfolio Committee on Energy
- Deputy Minister and Team Energy led by the Director General
- Boards and other stakeholders
- My wonderful daughters, Boitumelo and Kgomotso
- My brothers and sisters for their unwavering support and understanding.