



**MINISTER
ENERGY
REPUBLIC OF SOUTH AFRICA**

2012 BUDGET VOTE SPEECH Ms Dipuo Peters, MP, Minister of Energy

**Old Assembly Chamber, National Assembly, Parliament,
Cape Town, 17 May 2012**

Honourable Chairperson,

Deputy Minister of Energy, Ms Barbara Thompson,MP

**Honourable Chairperson of the Portfolio Committee, Mr Njikelana and honourable
members of the Committee**

Honourable Members of Cabinet,

Honourable Members of Parliament

Members of the Diplomatic Corps present

Director-General, DDG's and Senior Management of Government,

Distinguished Guests and Energy Stakeholders,

Ladies and Gentlemen,

The 2009 elections manifesto of the African National Congress directed that we should work towards an equitable, sustainable and inclusive growth path that brings decent work and sustainable livelihoods, education, health safe and secure communities and rural development to all corners of this land.

This remains the vision and the context in which the popular government of the people seeks to bring about fundamental social change, and indeed the context in which this department must fulfill its tasks. And this task is defined!

In the main, the department of energy responds to the injunction from the ruling party, the ANC to ***“Ensure security of supply of energy resources, and pursue an energy mix that includes clean and renewable sources to meet the demands of our fast growing economy, without compromising our commitment to sustainable development”***.

We are fortunate that we are able to present our views on the energy future of this country in the year of the centenary of the glorious people’s movement!

Honourable members, allow me to reflect on some key areas of our performance for past financial year.

- The New Multiproduct Pipeline (NMPP) was completed and is operational;
- We have improved the turnaround time for petroleum licensing down from 90 days to 60 days for new entrants in retail.
- The Regulatory Accounting System was completed and margins adjusted accordingly
- The Liquid Fuels Charter Audit was completed and tabled in cabinet.
- We have completed Window One of the Renewable Energy Independent Power Producer Programme successfully, with 28 successful preferred bidders, contributing a total of 1416MW.
- We launched the energy efficiency campaign during COP17, together with our social partners in NEDLAC.
- In November 2011, Cabinet approved the establishment of the National Nuclear Energy Executive Coordination Committee (NNEECC) to oversee the necessary groundwork for the upscaling of our nuclear capacity by 9.6 GW in the period up to 2030.
- Significant progress was achieved in the development of the Solar Park Initiative, however there was an unexpected delay in accessing the identified land and we intend to overcome this challenge during this financial year.
- Despite the initial teething problems, we have installed over 250 000 solar water heater systems. The 1 million target by 2014 is still insight.
- Since 1994, 5, 4 million electricity connections have been made.

- In the international arena, we hosted the African Energy Ministers' conference in September 2011, culminating in the signing of the Johannesburg Declaration by more than 40 African Ministers.
- We hosted 26 energy side events at COP 17 and the South African Renewables Initiative Declaration of Intent was signed during COP 17, and;
- the Grand Inga MoU was signed in November 2011.
- Seven bi-lateral agreements and declarations of intent, covering areas of cooperation in capacity building, funding, technology and infrastructure development have been signed.
- The CEF Group of companies has undergone significant restructuring.
- The wind atlas which accurately quantifies the wind energy resources in the country has been launched.
- Significant progress has been achieved with the development of the following pieces of legislation: ISMO, ERA, NERA, PPA and the Gas Amendment Act

Honourable members, I am pleased to announce that we have spent 99.9% of our 2011/12 allocated budget. The total allocation for the 2012/13 financial year is R6.8 billion. 95% (R6.5 billion) of this allocation has been earmarked for transfers.

- R3.1 billion has been earmarked for Integrated National Electrification Programme (INEP) to connect 150 000 and 10 000 households to the grid and none grid systems respectively;
- R1 billion for Energy Efficiency and Demand Side Management (EEDSM) programme to accelerate solar water heating programme;
- R1.5 billion for the final instalment of the New Multiproduct Pipeline (NMPP);
- R554 million to NECSA to continue with its central role as the anchor for nuclear energy, research, development and innovation.
- The balance will be utilised for smaller projects and transfers to state owned entities reporting to the Minister of Energy as follows:
 - Sanedi receives R50.1 million
 - The National Nuclear Regulator receives R30.9 million

- The Renewable Energy Fund Subsidy Scheme has been allocated R40.4 million
- R307.27 million operational budget (which is 0.06% increase from the previous year).

One of the most astute sons of the continent of Africa, Thomas Sankara, said:

“You cannot carry out fundamental change without a certain amount of madness. In this case, it comes from nonconformity, the courage to turn your back on the old formulas, the courage to invent the future.”

The African National Congress, through the mandate of the 52nd National Conference and the 2009 Elections Manifesto, enjoined its representatives in government to act in the spirit of what Sankara describes in this quote. The focus and budget of the department of energy is therefore geared to contribute to the overall programme of transformation, and indeed to what Sankara calls “to invent the future.”

Geopolitical developments globally have once again demonstrated the need for South Africa to improve its energy security of supply. We are impacted on negatively by events that are taking place in other parts of the world, and we have seen how dependence on a few countries from one region can jeopardize our security of supply.

We have embarked upon a diversification strategy that will ensure that we reduce our vulnerability to the spectre of political upheavals.

We have also witnessed a rollercoaster of fuel prices, the increases of which were mainly caused by these geopolitical upheavals and associated exploitation of the situation by commodity traders. I believe that there is a need for stakeholders to begin to understand that these swings are not just affecting South Africa, but are impacting the whole world. The move of crude oil from \$100 to \$120 per barrel happened in a short space of time. I continue to feel and share the pain of the motorist, but in particular the pain of the paraffin user and the farmer who produce the food we need.

A positive development is that we are currently witnessing a swing of the crude oil price downwards, and I am pleased to announce that next month, motorists will benefit from a substantial decrease in fuel prices in time for the June holiday driving season.

I hope that those transport sector players that had increased their prices will take this decrease into consideration, and act accordingly.

Honourable Members, all of us must explain to our people that the petroleum products system is such that when there is a downward movement in the international market prices, that benefit is passed on to the motorist in the following month. Recently, we have observed efforts to controversialise the Fuel Levy. Let us desist from spreading misinformation and mischief and use facts to educate and share knowledge with our people.

Another matter which requires our collective effort is the US and EU sanctions on Iran and the impact thereof on the South African economy. Some have tried to force us into a confrontational position with the US, EU and the Iranian government. In the interest of the South African economy we have steadfastly resisted that. We have said before and state again that we will respond appropriately to this challenge in the best interest of our country and its people.

The Cabinet Task Team remains seized with this matter and is continuing engagement with the relevant governments, and we expect to come to finality on this matter soon.

Honourable Speaker,

As a result of the identified constraints throughout the liquid fuels supply chain, the Department embarked on a process to develop a Liquid Fuels Infrastructure Roadmap. One of the key objectives of this roadmap is to enable Government to ensure that South Africa has access to reliable, affordable, clean, sufficient and sustainable sources of energy to meet the country's liquid fuel demand.

In addition, in dealing with the supply challenges of refineries, last year we embarked on a process of conducting an audit of our refineries. The purpose of the audit was to assess the state of our refineries and to obtain an understanding of their current capacity.

A preliminary investigation indicates that our refineries are experiencing reduced production levels, which is equally a threat to liquid fuels security of supply.

The Twenty Year liquid Fuels Infrastructure Plan will form the basis for the implementation of the PICC Strategic Implementation Project with regard to refinery upgrades and development, and we will make recommendations on the future of the refinery infrastructure in the country.

Work in this regard will be informed by the cost recovery mechanism that we will be developing with the National Treasury.

As a further response to the global situation and domestic development imperatives, we have taken a decision to strengthen the Strategic Fuels Fund, a subsidiary of the CEF. To this end, a new board for the SFF with the requisite complement of skills will be appointed and a new CEO appointed this year. We intend to position the SFF to once again improve our strategic petroleum reserves, and in that way enable the country to better respond to catastrophic global events that impact on the petroleum trade. A revised Strategic Stocks Policy is under consideration by Cabinet and will be concluded soon.

Honourable members,

We are making steady progress with the development of the Integrated Energy Plan; and by the end of the financial year will table the draft for Cabinet approval before embarking on further broader public and stakeholder consultations.

The Energy Planning Colloquium was held at the end of March this year, and attended by subject matter experts in the academic field, industry and various organisations and interest groups.

While we obtained a wealth of constructive viewpoints and comments on our processes and approach, there was a call for more stakeholder consultations to provide input into the plan.

In developing this plan, we are taking a holistic approach to the problem of planning for future energy needs and we seek to ensure that environmental and climate change issues, together with social development and economic growth issues are all considered in a balanced manner.

We will therefore continue to engage with various experts and stakeholders during the IEP development process, and we urge maximum participation from all interested parties.

On the regulatory framework, greater focus will be on compliance particularly with fuel specifications. The Department will embark on spot checks at all licensed facilities to verify that all petroleum products sold to motorists meet the required fuel specifications. This will be over and above the certification that is done by the Oil companies.

We have also set ourselves an ambitious target of obtaining ISO accreditation for the petroleum licensing process. This we believe will ensure greater consistency and predictability through rigorous documented processes and systems. It will also reduce subjectivity completely and also ensure that scope for potential corrupt practices is eliminated. This is not a one year undertaking, but there will be milestones for each year.

This financial year will be spent training all petroleum licencing staff on the Quality Management System framework and ensuring that there is not a single process for which there is no corresponding standard operating procedure.

Ladies and Gentlemen, the implementation of the Integrated Resource Plan has commenced and a number of policies and strategies that address the mandate of energy provision and the need to reduce our dependence on coal have been initiated. The IRP proposes the development of new generation capacity in a way that optimizes costs, promotes job creation and mitigates adverse climate change.

The flagship programme under IRP is the **Renewable Energy IPP Bidding Programme** for the provision of 3625MW of capacity from Independent Power Producers. The process has lived up to expectations by attracting foreign direct investment into South Africa worth about **R100 billion** over a period of 12 months.

The successful bidders are expected to enter into a contractual agreement with the Department, referred to as the Implementation Agreement. This agreement is designed to govern the commitments made by the bidders in relation to the minimum number of jobs that they will create during the construction period, the local content procurement of some power plant's components and the change in control and BEE equity. The procurement process is designed such that the bidders will not be able to finalize their deals without signing this critical component of the project agreements.

We are confident that this will boost the energy sector employment growth potential.

We are now set to initiate a fresh bidding round for the other technologies such as cogeneration from Biomass, including sugar and paper, Biogas, Landfill Gas, and Small Hydro. The selected preferred bidders for the REIPP under window two will be announced on Monday, 21st May 2012.

During the course of this year, we will introduce the small power or less than 5MW capacity bidding round, whilst continuing with the renewable energy programme as a rolling programme, where subsequent windows are initiated subject to availability of MW left from the previous windows.

In response to the injunctions of the Green Economy and Localization Accords, the target for local content has progressively been increased for window 2 to a target of 60% in respect of certain technologies, whilst the minimum 40% South African equity participation remains the same. I would like to challenge project developers to take advantage of this certainty in the project pipeline to bring their factories to South Africa, to locally manufacture the components that constitute the various systems and to develop local skills. More details on this process will be dealt with by Minister Davies.

Over and above the Renewable Energy IPP Programme, we have also issued a Request for Information for projects that are available from other technologies such as gas, imported hydro, cogeneration and coal.

Once we have received the information about prospective projects, we will initiate a procurement process to meet the IRP requirements based on these projects.

Honourable Speaker,

Nuclear energy is going to play a critical role in the IRP implementation process, and it is for that reason that the National Nuclear Energy Executive Coordination Committee (NNEECC) was established last year as the authority for decision making, monitoring, and ensuring general oversight of the nuclear energy expansion programme.

The success and deployment of nuclear power requires public acceptance, and public education is the most important topic surrounding nuclear energy.

Concerns regarding the safety of nuclear energy in light of the recent Fukushima incident, will be factored into the South African approach, to ensure that proper safety measures are put in place and that they are overseen by the appropriate expert authorities. We remind honourable members that as member of the IAEA, we are obliged to comply with the relevant guidelines and safeguards on nuclear plants and we are therefore evaluating our process against the IAEA developed milestones for new plants.

Honourable Speaker,

We estimate that the total power capacity extension under the IRP will cost in excess of R4 trillion in the period up to 2030, including the new power plants, plus the transmission and distribution infrastructure.

Whilst the primary objective of the IRP capital programme is energy security, we also have prioritised considerations like reducing water intensity, reducing greenhouse gas emissions, implementing an affordable tariff trajectory and the localisation of technologies. As we do this, we must ensure that tariffs do not increase beyond what is affordable to the economy and the household consumer.

Honourable members,

We are all aware that the Multi Year Price Determination (or MYPD3) is due to start this year. In the last round (MYPD2), NERSA approved increases of 25%, 25% and 16% for 2010, 2011 and 2012 respectively.

The Electricity Pricing Policy, which Nersa is obliged to apply in the tariff determination, provides that the wholesale tariff must rise to the long-run-marginal cost (LRMC) within 5 years of 2008, in order to fund the capital investment requirements. This has resulted in a steep rise in the electricity tariffs.

Some of the risks associated with high tariff increases are macroeconomic in nature such as high administered prices that drives inflation upwards, and the gross domestic product which will slow down as input costs increase. There is also the reality of the socio-political dynamic that these interventions may cause, especially with regard to the hardship that will increase, with the poor taking the biggest brunt.

The other side of the risk equation is that without appropriate investment and funding of the electricity infrastructure, inadequate capacity will cause blackouts, and act as an impediment to economic growth, and development. It is therefore critical that we strike a balance between these competing considerations.

An interdepartmental team is considering the best approach for determining the next round of electricity tariff increases for Eskom, due to take effect from April 2013. We share the concern of the President as raised in the State of the Nation address earlier this year, and

our response will be informed by the need to develop an approach for defining a long term electricity tariff trajectory. We intend to make a pronouncement on this matter this year.

The Integrated National Electrification Programme (INEP) continues to be the backbone of our electricity delivery programme for communities who are under-served in terms of grid and off-grid connection. INEP focuses primarily on servicing rural areas and newly established formal urban and informal settlements. Deputy Minister Thompson will expand more on this programme.

This year, we will develop a new Electrification Roadmap, which emanates from our engagement with stakeholders during the Electrification Indaba in March this year. This is intended to accelerate our responsiveness, particularly given the declaration by the United Nations of 2012 as the year of Sustainable Access to Energy for All.

As a further contribution to sustainable energy access, we intent to build 3 additional leC's in Mbizana, Ulundi and Maluti-a-Phofung.

Last year, we announced our intention to confront the problem we faced due to copper theft.

We had indicated that the direct financial losses amounted to R100m annually apart from the inconvenience of power supply disruptions attributable to copper theft. We had noted that even the flagship Gautrain Rapid Rail Transport and telecommunications systems was not insulated from this menace, and we decided to take action.

With the collaboration of the criminal justice system, a number of interventions have been concluded. I am pleased to announce that copper theft will be treated with the seriousness that is necessary to stop the *izinyoka* once and for all – the South African Police Service have gazetted an amendment to the Second Hand Goods Act, and this is the beginning of a process to tighten the penal regime in regard to copper theft. I want to take the opportunity to thank Minister Mthetwa and the SAPS for their collaboration and support on this critical challenge.

Honourable members,

Last year we entered into a pact with labour, civil society and business constituencies on numerous matters that would put us on a path that aligns with our green economy aspirations. I am referring to the Local Procurement, Energy Efficiency and Skills Development Accords that we concluded under the auspices of the NGP Social Partners Forum. It is our intention to make these agreements to have practical meaning in relation to the programmes we implement, especially with regard to the IRP Implementation Plan and the Biofuels strategy.

Whilst we are recording good progress with the implementation of the SWH Programme, I need to also indicate that the majority of these systems, particularly the low pressure type that we install in the RDP and medium income residential sectors, are imported.

This is clearly untenable and the time has arrived for us to intervene if we are to make a difference in creating local job opportunities.

I have therefore decided that from this year, the solar water heater programme will work on a different model. In essence, only those suppliers who commit to localize their product will be able to participate in the government funded subsidy programme. We will be announcing the details of a new approach to support only those suppliers who install units from manufacturers who commit to bring their factories to South Africa.

Energy Efficiency remains our best hope in the short term, of balancing electricity supply and demand. Together with National Treasury we have introduced the Energy Efficiency Tax Incentive Regulations which were gazetted for public comment in November 2011. The regulations fall under section 12L of the Income Tax Act, and will be finalised this year. They are intended to incentivise investment in Energy Efficiency measures by industry.

Last year, we committed to achieve 1 Tera watt hours of energy savings from a combination of EEDSM interventions including the Solar Water Heating programme and other initiatives.

Eskom indicates that savings of 1.471 TWh have been achieved, which excludes the municipal lighting retrofit programme which still have to be verified through an independent measurement and verification protocol.

The EE Campaign Strategy was developed together with the NEDLAC stakeholders. We recognize the importance of building awareness about the need to save energy at all levels and our communication campaign will incorporate Eskom's 49m programme that was launched by the Deputy President, as well as initiatives such as the Electricity Conservation Scheme, the NBI led programmes and the UNIDO supported Industrial Energy Efficiency Programme.

We need to intensify these efforts throughout South Africa, so as to maximize the energy sector's contribution towards sustainable development.

The repatriation of SAFARI-1 spent fuel of US origin was successfully completed through excellent collaboration between my Department, the US Department of Energy, NECSA and NNR and the security services. This collaboration proved that working together, we can do more to enhance nuclear security.

The Fukushima Nuclear Accident in Japan saw heightened local and international concerns regarding the robustness of safety procedures at nuclear installations. This led to much needed introspection from the nuclear international fraternity regarding the adequacy of emergency preparedness measures in the event that a nuclear accident occurs.

To this end, NNR directed ESKOM and NECSA to conduct re-assessments of their respective reactors in order to provide assurance that the design parameters, operations and beyond design basis of the plants are sufficiently robust to withstand all types of major external events.

The NNR review of the reassessment reports provided by NECSA and Eskom on their safety considerations following the Fukushima nuclear accident in Japan resulted in the following conclusions:

- The nuclear installations have been adequately designed, and are maintained and operated to withstand all the external events that were considered in the original design basis;
- Nothing has been found to warrant curtailing their operation or to question the design margins of these facilities;
- The safety reassessments identified a number of potential improvements to further reduce risk beyond the design requirements. Eskom and Necsa will be required to implement such improvements; and
- The NNR has identified five areas for improvement of the Regulatory Standards and Regulatory Practices. These areas for improvement will be addressed as part of the current review of the Regulatory Framework project.

As South Africa embarks on a path toward nuclear energy in its future mix, we will ensure that we strengthen the National Nuclear Regulator and build our regulatory system and the capacity of our regulatory staff to maintain a high level of nuclear safety.

Later this evening, I will be formally launching the South African National Energy Development Institute. During this financial year, SANEDI will continue with the process of ensuring that proper and effective internal control systems are developed and implemented. The Institute will continue with the Carbon Capture and Storage work, which will culminate with the selection of a site for a CO₂ Test Injection project planned to commence in the 2016/17 financial year.

Our energy security can be greatly enhanced through the regional development and integration. The Grand INGA MoU signed with the Democratic Republic of Congo is an important milestone in working towards sustainable African partnerships aimed at developing strategies for low carbon economies and interconnected energy systems.

Located on the Congo River, the Grand INGA project is expected to generate approximately 40 000MW of hydroelectric power for regional distribution.

The CESUL project in Mozambique will improve the ability to evacuate power from the projects in the Northern Mozambique complex, particularly releasing the hydropower power potential relating to Mpanda Nkuwa and Cahora Bassa, amongst others.

The South African Renewables Initiative aims to establish and facilitate an international financing partnership to enable investment in the deployment of renewable energy, as well as the development of industrial capabilities associated with renewable supply chains through securing a critical mass of renewable energy, without imposing undue burden on the fiscus or the South African consumer.

The funding mechanism being developed will combine climate related grants, low cost loans and risk guarantee instruments from international sources with modest amounts of domestic funds that may be secured publically or from private energy users.

In line with this objective, the Department of Energy has signed a declaration of intent with the Germany, United Kingdom, Denmark, Norway, and the European Investment bank. This agreement will lead to the establishment of a fund to assist in the deployment of renewable energy.

Ladies and Gentlemen, as I have said – our resolve to fundamentally transform society should be steeped in **“nonconformity, the courage to turn your back on the old formulas, the courage to invent the future” as Sankara directed us!**

As the Department of Energy, these progressive thoughts by an African son will be our war cry for the period going forward. We have been bold to turn our backs on old formulas, and we will do our part to invent a unique and prosperous South African and African future!

Allow me to thank the Portfolio Committee on Energy, our sister departments and our State Owned Companies for the ongoing engagement and support.

Thank you, Deputy Minister Thompson for the support and contributions to the energy sector, the Director General, Nelisiwe Magubane and Team Energy for the hard work and dedication against all odds. To my Ministerial Team and protectors, thanks you for your dedication, support and for going the extra mile.

Lastly, allow me to also thank my family, especially my two girls for their love, patience and sacrifice in knowing that we all belong to a bigger family that works together for a better life.

I Thank you.

End.