

Keynote Address by the Minister of Energy, Ms. Dipuo Peters
- 13 Southern Africa Oil, Gas and Energy 2012-
At the BMW Pavillion, V&A Waterfront, Cape Town
South Africa's Oil-Gas & Energy Outlook
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Programme Director,
Chairman and CEO of Global Pacific & Partners, Dr Duncan Clarke
Captains of the Industry
Guest speakers;
Government Officials;
Members of the Media;
Honoured Guests;
Ladies and gentlemen

We are pleased to participate in this very important dialogue and to have the opportunity to share some thoughts with you.

Most of us here are aware that a few weeks ago, President Zuma made his State of the Nation Address, which was followed by the Budget Speech by the Minister of Finance. Central to amongst issues highlighted by the President in the SONA, is the provision of infrastructure in pursuance of the country's strategic goals of job creation, poverty alleviation and broad all round socio-economic development.

I am sure that you would agree with me that this is of particular importance to the energy sector, as the provision of the backbone energy infrastructure is considered to be critical in ensuring energy security through linking supply sources to demand sectors and markets.

South Africa's White Paper on Energy Policy clearly spells out the South African Government's intention of securing its supply of energy through diversification of its energy mix.

Energy supply disruptions in the recent past have highlighted the need for integrated energy planning in South Africa.

It is with this in mind that South Africa is developing an Integrated Energy Plan, and has developed the Integrated Resource Plan 2010 (IRP2010) on the electricity generation side. We will conclude the development of a 20 Year Liquid Fuel Infrastructure Plan before the end of this year. Broadly, the IEP comprises the integration of the electricity generation and liquid fuels infrastructure plans.

The IRP outlines the long-term electricity demand and details how this demand should be met in terms of generation capacity, type, timing and cost. In this regard, the IRP2010 also serves as input to other planning functions, which includes, amongst others, economic development as well as funding, environmental and social policy formulation.

Ladies and gentlemen,

Under the approved IRP 2010,
imported gas is expected to make up 6% of all new electricity generation, hydro power 6%,
open-cycle gas turbines (OCGTs) 9%,
coal 15%, renewable technologies 42%;
and nuclear 23%.

This translates into an envisaged electricity generation from gas of 15%, which is far from being an insignificant share if one considers our current gas reserves, the total electricity demand and the current gas consumption. Natural gas currently accounts for about 3 percent of our primary energy consumption.

Delegates,

The revival of the global economy, following the economic crisis which started in 2008, has led to a rebound in the demand for minerals and natural resources from Southern Africa. This has stepped-up the demand for oil (and gas) products within the region, driving growth in the Southern African downstream oil and gas market.

The countries with the greatest consumption of refined petroleum products in the region are South Africa, Angola, Namibia and Tanzania.

The price of crude oil continues to be higher than we expect. We all know that the tension in the Middle East is a direct contributing factor to these higher prices and the resultant impact on our economies.

The people of Nkonkobe, Giyani and Kroonstad have to bear the brunt of conflicts that have no bearing on their daily lives. Countries are being coerced to follow a policy approach of those that have nominated themselves as the guardians of others people's freedoms. Furthermore, due to the existing balance of forces in the global financial system, countries have very little choice but to go along.

I will soon make a statement in Parliament about this matter, specifically on the impact of global fuel prices and how we should respond to these as a country.

Many of you would also be aware that South Africa imported more than five billion litres of diesel and petrol last year. Clearly, we are fast becoming an import destination of fuel. This has far reaching implications for the existing policy frameworks. I am of the

view that the Department of Energy needs to conduct a review to determine whether the pricing framework is still relevant given these changing conditions.

In the short-term, I repeat my call that all of us must contribute to use fuel as efficiently as possible.

Programme Director,

In Southern Africa, gas reserves have grown rapidly in recent years to about 4,765 billion cubic feet (bcf), while recoverable reserves are estimated at 870 bcf according to BP Statistics.

Angola currently tops the gas reserves distribution by country in the region, with about 271.8 billion cubic meters (m³) concentrated in Cabinda and environs, followed by Mozambique (127.4 billion m³) - the Pande and Temane fields, then Namibia (62.3 billion m³) - the Kudu fields, Tanzania (6.5 billion m³) and South Africa (27 million m³). New gas finds in Mozambique that were reported in 2011 are set to catapult Mozambique to the top. They also augur well for regional trade and development, and provide a further strategic opportunity to lift the fortunes of the region and the continent.

We should be asking ourselves and spare some thought on how these resources can be used to best serve sub-saharan Africa and the entire continent first. As South Africa, with a clear intent of creating a sustainable gas market in our country, we will continue to engage with our sister countries to find the best way of utilizing these resources, whilst making the necessary returns on investment.

We are of the view that SADC structures on energy should be integrated and mobilized. This is necessary because of the growing evidence that separate development planning in the end may cost end users more. It may be more effective to link the regions pipeline network for gas as well as petroleum products. These may be a more effective intervention than costly investment in road transport tankers and rail road cars.

We are also of the firm view that governments in the region should progressively strengthen National Oil Companies and re-define the role that they should play in directing and determining the exploration and exploitation of the natural resources we possess. Amongst others, there is a need to harmonise the regulatory frameworks in the region so as to ease the cost of doing business in the region and indeed on the continent.

Ladies and gentlemen, allow me to also reflect on a current topical matter.

In South Africa, a very rough estimate of its shale gas resources located in the Karoo Basin has been cited by the USA's Energy Administration to be around 485 trillion cubic feet (tcf). This makes South Africa the only Southern African country with a potential abundance of shale gas.

Even if only a tenth of these resources could be confirmed as reserves and be exploited in an environmentally friendly manner, that would be game changer for South Africa. The determination of proven shale gas reserves depends on further geological exploration to quantify, verify and hence transform resources into economically viable reserves

My colleague, Minister Susan Shabangu imposed a Moratorium on the lodging of shale gas exploration rights, to allow Government to properly investigate the concerns around fracking.

A Shale Gas Interdepartmental Task Team that includes among others, the Departments of Energy, of Mineral Resources, of Science and Technology and of Environmental Affairs has been established to investigate the impact of shale gas fracking to the environment, technology advancement and other socio-economic dynamics.

Should there be any breakthrough regarding shale gas, the extracted gas would greatly assist to address our energy needs as well as those of other countries. These include:

- the use gas turbines to generate electricity;
- be directly used in industries and households for thermal needs;
- be used for production of liquid transport fuels through the employment of gas-to-liquids (GTL) technology (noting that South Africa is home to PetroSA and Sasol, which are global leaders in GTL technology);
- and, possibly exported as LNG or CNG.

The increased employment of GTL would also address South Africa's demand for crude oil derived products.

Ladies and Gentlemen,

Although South Africa has the highest crude oil refining capacity in Sub-Saharan Africa, being around 708,000 barrels crude oil equivalent per day, it currently does not have significant crude oil resources and relies on imports for feedstock into its oil refining sector. Other than South Africa, only Angola (Luanda) and Zambia (Ndola) have working refineries. In the context of the development of the 20 Year Liquid Fuels Infrastructure Plan, South Africa remains steadfast in its quest to increase its refining capacity.

Work that has already be done on our national oil companies Mthombo Project and this work and other related initiatives will be incorporated in the implementation of the Liquid Fuels Infrastructure Plan.

The development of this Plan involves identifying constraints in the liquid fuels supply value chain and determining the infrastructural requirements to ensure the security of supply of liquid fuels to the South African economy in the medium- to long-term.

We are informed that gas production and utilization in Southern Africa is limited by lack of local or regional markets, unavailability of infrastructure to link with the domestic market and long distances from the international gas markets. The mitigation factor in reaching international markets is the introduction of advance transportation mediums like Liquid Natural Gas (LNG) and Compressed Natural Gas (CNG).

It is regrettable that there is still about 11 percent of gas produced from field operations that is flared. Investment to create a niche domestic market through the development of gas pipelines and supply channels to the industry and households would unlock the gas potential in the region.

In order to further strengthen good bi-lateral relations, South Africa has established Gas Commissions with Mozambique and Namibia.

The objective of these commissions is to promote, facilitate and strengthen regional trade in gas.

The South Africa-Mozambique and South Africa-Namibia Gas Commissions were established respectively to encourage joint venture formations, geared at mutual development and economic engagement to enhance advancement.

Natural Gas flows from the Pande and Temane Gas fields in Mozambique to South Africa, where Mozambique, iGas and Sasol had invested R2.2 –billion in the construction and development of pipeline infrastructure, and the subsequent integration with a compression station at Komatipoort to increase capacity by 20 percent to 147 million Giga Joules. The natural gas is destined to Secunda in Gauteng for the production of synthetic fuel, industrial application and household usage.

The South Africa-Namibia Gas Commission is looking at mutual economic benefit between the countries in the exploitation and beneficiation of the gas from the Kudu gas fields. The gas is intended to produce 800MW electrical power through combined cycle

gas turbines, to service Namibia and feed into the Southern Africa Power Pool, and export the excess gas to South Africa.

Programme Director,

Growth in the upstream oil and gas market of the region is being propelled by exploration initiatives within Angola. Angola appears set to supply about 4 million barrels of crude oil per day by 2017.

Growth in the downstream market of Southern Africa, however, will continue to be primarily driven by the growth in demand for oil products in South Africa. Inadequate infrastructure remains a major constraint for the efficient and economical transportation of refined products to the markets.

The South African Government has taken a major initiative of reviving the rail and road infrastructure that will further promote trade with countries in the region. International oil companies entering the Southern African region need to establish a secure and reliable product supply chain with sufficient storage capacity in proximity to the market.

Ladies and gentlemen, for South Africa, the work of the PICC, National Planning Commission and the Infrastructure Development Cluster will complement and assist the work that the Department of Energy is doing regarding in developing and implementing its energy plans. Optimal production or sourcing and use of energy resources and the concomitant infrastructure, require integrated planning and collaboration by all those involved.

I am pleased to inform this meeting that the new Multi-Product Pipeline is operational. Our country can now boast some redundancy because the old pipeline is still operational albeit at a reduced pressure as diesel is no longer carried through this pipeline.

The Transnet team that worked on ensuring completion of the NMPP has to be congratulated. An investment has been made which will benefit users and consumers well into 2050 and beyond.

As we pay for this asset, we must appreciate that we have secured a more certain future for our children, who will enjoy the benefits of our sacrifices now. If that is not a good feeling, then I will be surprised, after all, it is the need to secure a prosperous future for successive generations that should drive all of us.

In conclusion Ladies and Gentlemen,

Allow me to mention that a conducive legislative and regulatory environment remains fundamental to the success of the energy industry. It is for this reason that the Department of Energy is continually reviewing its legislative and regulatory framework so as to remain in step with an ever changing and evolving industry and world.

As a Department we will continue with our efforts of creating an enabling environment for the sustainable production and use of oil, gas and other resources in our energy mix.

Pursuant to this, we have initiated the process of reviewing the Gas Act, 2001(Act No. 48 of 2001) and the National Energy Regulator Act, 2004 (Act No. 40 of 2004).

We are very appreciative of the efforts of our state owned companies in the energy sector, our national oil company, PetroSA, and regulators. We are also encouraged by the interest shown by private entities that are investing to explore our shores in the energy sector and continue to partner and cooperate with us to provide solution to our energy challenges.

Ladies and Gentlemen, I wish you well in your deliberations and again extend the hand of partnership – we stand ready to support the industry, engage with us.

I thank you.