

Address by the Minister of Energy, Honourable Ms Dipuo Peters, MP

Africa Utility Week

May 2012

Programme Director;

Business Executives present;

Honourable guests

Esteemed members of the media;

Ladies and gentlemen:

Good Morning

Last Thursday the Minister of Energy, Minister Peters delivered her 2012 Budget Vote to Parliament and energy stakeholders where she laid out her plans for the energy sector. Included in her speech was, off course, reference to electricity as a critical partner in the energy sector. This morning, I will reiterate some of the issues that were raised last week.

Earlier this year, President Zuma's 2012 State of the Nation Address introduced a very ambitious infrastructure development programme for the country, and the energy infrastructure is at the centre of these efforts as a critical enabler of any country's socio economic development.

South Africa's response to the recent energy challenges has been manifold, amongst which, is the implementation of the Integrated Resource Plan (or IRP) which addresses the mandate of energy security in a manner that reduces our dependence on coal. The IRP proposes the development of new generation capacity simultaneously as optimizing costs, promoting job creation and mitigating against adverse climate change.

The **Renewable Energy IPP Bidding Programme**, which is part of the IRP, provides for the construction of 3 625 Megawatts of capacity from Independent Power Producers by 2016. The process has lived up to expectations by attracting foreign direct investment into South Africa worth about **R70 billion** over a period of 12 months. We are confident that this will boost sector employment growth.

The renewable energy programme is a rolling programme, where subsequent windows are initiated subject to availability of MW left from the previous windows.

Last November we announced the first 28 successful bidders (from window 1) at COP 17 in Durban and yesterday we announced a further 19 preferred bidders from the second window under this programme. Investment is expected to be introduced into the South African economy through wind and solar projects in the Northern Cape, Western Cape, Eastern Cape and Free State.

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.

This year we are set to initiate a fresh bidding round for the other technologies, viz. cogeneration from Biomass (including sugar and paper), Biogas, Landfill Gas, and Small Hydro. Relative to the first window under the bidding process, we have seen significant improvement in commitments towards local content and job creation, simultaneously as the selling price of the power has been declining. This bodes well for the South African wind and solar energy sectors and for future bidding rounds as envisaged under the Integrated Resource Plan.

We will be introducing the small power (of less than 5MW capacity) bidding round in the next few weeks. This will be followed by the renewable cogeneration bidding round, to harness the sugar and paper opportunity that promises to create new job opportunities.

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

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

Nuclear Power Programme.

The IRP provides for the upscaling of nuclear capacity by 9.6 Gigawatts in the period up to 2030. Concerns regarding the safety of nuclear energy in light of the 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.

In November 2011 Cabinet approved the establishment of the National Nuclear Energy Executive Coordination Committee (NNEECC) to oversee the roll-out of the nuclear build programme. The NNEECC is headed by the Deputy President and is the authority for decision making, monitoring, and ensuring general oversight of the nuclear energy expansion programme. This year we will finalize the procurement and financing framework for nuclear power generation, for consideration by the NNEECC.

Our energy security can be greatly enhanced through 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.

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, Cahora Bassa etc.

The **Integrated National Electrification Programme (INEP)** is the backbone of our electricity delivery programme for communities who are under-serviced in terms of grid and off-grid connection. INEP focuses primarily on servicing rural areas and newly established formal and informal urban settlements.

Challenges within the INEP include increasing costs of supplying new customers, network capacity, lack of skills, and the poor financial status of distributors.

As you might be aware, more than 5 million connections have been completed through the Government's electrification programme over the last 10 years. The biggest backlogs are still in KwaZulu-Natal, Eastern Cape, and Limpopo followed closely by the informal in and around the six (6) metropolitan municipalities.

This year we will also develop a new Electrification Roadmap, emanating 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 Access to Energy.

Solar Home Systems are installed in rural areas, in our quest for universal access. To date 45 000 Solar Home Systems have been installed and they are managed by independent energy service providers (referred to as Concessionaires).

The **Independent System and Market Operator (or ISMO) Bill** sets out to improve the operational efficiencies in the electricity supply industry, by putting in place the regulatory and institutional mechanism that unbundles the generation, transmission and trading functions within Eskom. ISMO will assume responsibility for long term planning, procurement of all electricity from generators, it will aggregate the tariffs and it will then dispatch all the generated power to meet demand.

The ISMO Bill is in the parliamentary process and public hearings commenced last week.

The **Electricity Regulation Amendment Bill** seeks to provide for an improved regulatory framework, given the massive capital expansion programme in the sector. Specific amendments are proposed to facilitate the execution of the large capital expansion programme in the sector.

Electricity distribution infrastructure

Ladies and gentlemen, we can no longer put the challenges of the country's electricity distribution infrastructure as a secondary priority in the energy space.

One of the biggest criticisms of the IRP process was that its scope did not extend to cover the transmission and distribution implications of the generation options that we chose.

The Approach to Distribution Asset Management (or ADAM) Project is to be launched this year with pilot projects at selected municipalities

Our approach is premised on the prioritisation of regulatory matters rather than the structural adjustment of distribution businesses. We recognize that there might be limitations in the current legislative and regulatory framework, and we require some commitment from municipalities where funding will be made available to rehabilitate the infrastructure, particularly where energy security is threatened.

Copper Theft

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 system 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. 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.

Localisation of solar water heater programme

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. We reached accords on the Local Procurement, Energy Efficiency, and Skills Development and it is our intention to make these agreements to take practical meaning in relation to the various capital investment programmes we run.

As you might be aware, we have also installed over 250 000 solar water heater systems to date, with intentions to reach the 1 million target by 2014. Whilst happy that we are on track, the majority of these systems, particularly the low pressure type that we install in the RDP and medium income residential sectors, have been 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.

In the near future, 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 manufacturerers who bring their factories to South Africa.

Energy Efficiency Tax Incentive Regulations

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 October/November 2011. The regulations fall under section 12L of the Income Tax Act, and will be finalised this year. They are intended to incentivize investment in Energy Efficiency measures by industry.

Energy Efficiency Monitoring System

Since Cabinet approved the Energy Efficiency Strategy in 2005, we have not been able to monitor the actual performance on the ground, due to lack of mechanisms for quantifying the savings in a reliable manner. The collation of energy efficiency data and information across all sectors will be prioritized this year, including the establishment of a target monitoring system that will enable us to compile an annual energy efficiency trends across different sectors.

Last year, we committed to achieve 1 TWh 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.

Energy Efficiency Campaign

Some of you will remember that we launched the energy efficiency campaign during COP 17 in Durban last year. Together with NEDLAC stakeholders, we have developed the EE Campaign Strategy. We do recognize the importance of building awareness on the need to save energy at all levels and our communication campaign will incorporate the 49m programme by Eskom and other government initiatives. We need to intensify these efforts throughout South Africa, so as to maximize the energy sector's contribution towards sustainable development.

The energy efficiency campaign will also publicize the economic, environmental and social benefits of energy efficiency while highlighting the simplicity of making energy efficiency changes in homes, offices, industry, public and commercial buildings.

In conclusion, it is our view that this conference will provide us with the opportunity not only to reflect on the challenges that our communities continue to encounter on a daily basis. It provides the opportunity for governments to put in place coherent regulatory and policy frameworks that support the development of thriving markets with the assistance of the private sector.

I hope the deliberations of this conference will assist us to find common solutions, which will contribute meaningfully to accelerated and sustainable development.

I thank you