

**KEYNOTE ADDRESS DELIVERED BY THE MINISTER OF ENERGY, DIKOBE
BEN MARTINS:**

AT THE SECOND SOUTH AFRICAN ECONOMIC REGULATORS CONFERENCE

BIRCHWOOD HOTEL, 18 – 19 MARCH 2014

Programme Director

Chairperson of the National Energy Regulator of SA (NERSA), Mrs Cecilia Khuzwayo

Regulator Members and Commissioners of NERSA

Regulators from neighbouring countries

Representatives of the University of Johannesburg

Officials of the Department of Energy and other government departments

Representatives of economic regulators

Distinguished international guests

Industry stakeholders

Ladies and gentlemen

Good morning!

Welcome to the opening of the Second South African Economic Regulators Conference, which is co-hosted by the National Energy Regulator of South Africa (NERSA) and the University of Johannesburg (UJ).

The collaboration between NERSA and the UJ to host this important conference is highly commendable. A partnership of this nature enables synergies of academic research and the practical experience of regulators.

The Department of Energy is particularly encouraged by the choice of theme of the conference, as it resonates with the South African government's programme of expanding infrastructure to stimulate industrialisation and job creation.

The theme of this conference is thus apt, namely **'Economic Regulation in Africa: How can economic regulators best facilitate infrastructure expansion'**.

Building infrastructure to facilitate economic growth and development is one of the priorities facing nation states, especially in the developing world, where a significant number of citizens still do not have access to adequate infrastructure and services.

In Africa, the infrastructure backlog remains very high, amounting to billions of rands. For example, Africa needs \$ 43 billion per annum to address the energy backlog by 2040. If the financing gap is not filled by 2020, 35% of the continent's energy demand will not be met.

The lack of enabling infrastructure and services means that many people do not participate in the economy and cannot receive adequate social services such as health and security, as these social services are enabled by transport, energy and communications infrastructure, among others.

In South Africa, government has identified 18 Strategic Infrastructure Programmes (SIPs) as a means to encourage public and private sector investment in infrastructure and services, that enable growth and development. The Strategic Infrastructure Programmes cut across different sectors of the economy such as energy, trade and industry, public enterprises, transport, water and communications amongst others.

Implementing the SIPs and other infrastructure programmes requires partnerships, involving parliament, government, regulators, industry and the general public:

- Parliament is responsible for formulating laws that govern the infrastructure industries;

- Government has a responsibility to develop policies and draft laws. In economic sectors such as transport, energy, communications and water, government also provides public utilities to citizens;
- Regulators issue licences and table regulations, and enforce compliance with the law and regulations;
- Industry provides infrastructure and services to citizens for commercial reasons; and
- The public, as recipients of services provided by the public and private sectors, have an interest in the work of parliament, government and regulators. Public consultation should therefore be paramount and strengthened as part of policy making and regulatory processes.

While the focus of today's proceedings will in the main be economic regulation, it is important to note that regulators do not work in isolation; but work in concert with other stakeholders in the value chain.

Post 1994, government started to restructure public utilities to ensure that they responded to the needs of all South Africans. This resulted in the separation of policy, regulatory and operational functions. Before 1994, public utilities or parastatals, as they were called, played both regulatory and operational roles, making oversight and accountability difficult.

Different models of restructuring were implemented, including the introduction of competition, allowing the private sector and the public sector to provide similar services, in a competitive environment.

Market liberalisation was introduced in sectors such as telecommunications and aviation transport. While liberalisation was implemented to ensure competition and the lowering of prices, available evidence suggests that the introduction of additional players did not always result in effective competition.

There are still barriers that allow service and infrastructure providers with significant market power to set low prices and engage in anti-competitive practices, at the expense of new and smaller players as well as end users.

In the rail and ports sectors, among others, the state is still the only provider of infrastructure and services. While State Owned Companies exist to provide infrastructure and services in line with government priorities, there is scope for them to be more efficient and for them to charge affordable prices..

In order to deal with anti-competitive practices and inefficient pricing, government established economic regulators in the electricity, gas and petroleum pipelines, ports, aviation and telecommunications. In the transport sector, the process to establish a Single Transport Economic Regulator (STER) is ongoing.

According to the National Development Plan (NDP):

“economic regulators are tasked with safeguarding reliable and competitively price services for consumers, while promoting affordable access for poor and remote households. They are supposed to ensure that utilities and operators are efficient and financially viable so that they can invest in maintaining, refurbishing and extending their networks”.

Ladies and gentlemen,

Notwithstanding the work that government has done to promote economic regulation, a lot still needs to be done.

In analysing the effectiveness of economic regulators after more than 15 years of regulation, the National Development Plan (NDP) notes that, “although regulators have succeeded in issuing licences, developing pricing methods and establishing technical and service standards, they have not achieved the positive outcomes initially envisaged”.

This situation is attributable to capacity and institutional weaknesses, among other reasons.

The NDP sets out critical interventions that need to be implemented to improve the performance and effectiveness of economic regulators. These are to:

- Institute a far-reaching review of current infrastructure regulators to clarify roles, strengthen accountability, update legislation
- Explore the possibility of further consolidation of regulators
- Establish a monitoring and evaluation unit in the Presidency to undertake periodic regulatory impact reviews and provide advice and support to regulatory authorities.

It is further noteworthy to recall that His Excellency President Jacob Zuma reiterated in his 2014 State of the Nation Address to Parliament, that government is committed to the implementation of the National Development Plan (NDP).

This conference has the potential to be a critical and constructive part of ongoing engagement among stakeholders to find ways to implement the NDP, government policies and national laws. In this regard, the conference should address, among other issues, the following questions:

- Do regulators have adequate powers to make and enforce compliance with laws and regulations? What is the suitable institutional mechanism for regulators to discharge their mandate without fear or favour?
- Are regulators adequately resourced to deal with infrastructure expansion programmes? What are the long term financial and human resources needs of regulators?
- What are the preferred models for pricing and tariff setting to incentivise public utilities and private sector players, while at the same time, promoting universal access to affordable services?

- Are the current approaches to public consultation adequate? How can regulators improve public consultation and engagement with ordinary citizens?

In the energy sector, the Department of Energy will continue to work with economic regulators to identify measures to strengthen their capacity and improve performance.

Economic regulators should also learn from each other's best practice. Due to changing market structures across the economy, economic regulators in South Africa are at different levels of development and expertise, which necessitates regular exchange of information and expertise among them.

While there may be differences in the matter of emphasis, the models of economic regulation are converging, with emphasis on transparency, efficiency and cost based pricing as key principles.

This bi-annual conference also provides a platform for South Africa's economic regulators to engage with their counterparts in Africa and other parts of the world. At the continental and regional levels, we should continue with efforts to create platforms for harmonisation, exchange of information and expertise. This will ensure that there are African best practices that can be shared with others in the world.

Programme Director,

Allow me to conclude by congratulating the young people who have submitted research papers for discussion at this conference. The participation of young people will contribute to the development of scarce skills in the regulatory environment. I wish them success in their endeavours.

I wish you success in your deliberations, and look forward to the outcome of this conference.

I thank you