



2015/16 POLICY AND BUDGET SPEECH

Minister of Energy, Ms Tina Joemat-Pettersson, MP

NATIONAL COUNCIL OF PROVINCES

PARLIAMENT

Cape Town, 14:00, 23rd JUNE 2015

**NCOP Budget Vote Speech
23 June 2015**

Chairperson of the National Council of Provinces

Deputy Chairperson of the NCOP

Chairperson of the Select Committee on Economic Development

Members of the NCOP

Management and Staff of the DoE and its State Owned Companies

Ladies and Gentlemen

The National Development Plan seeks to eradicate poverty in South Africa by 2030. This overarching development goal creates the opportunity for an intensive programme for job creation. The past year has seen a rapid evolution of our energy system. We are poised at the fissure of a world class, dependable and sustainable energy sector.

The national energy backbone we are building creates hope for increased energy security, economic benefits, industrial development, job creation and clean energy.

The commitments made the President in the State of the Nation address, and the efforts specifically announced to deal with South Africa's broader energy challenges include the need for the radical transformation of South Africa's energy mix.

This also includes effecting structural changes to public sector entities to assist them with addressing our energy challenges.

Further investments in renewable energy and the provision of support for the transition to a low-carbon economy remain our key objective. Notwithstanding these focus areas; we will continue to exploit coal for producing electricity and liquid fuels.

One of the key lessons learnt from our past and current power challenges is the need to coordinate our planning and timing of new energy investments. In response to this, government has put in place a planning framework for the energy sector, anchored in the Integrated Energy Plan and the Integrated Resource Plan

These are the instruments to drive government's set objectives beyond just energy security. They include policy objectives such as job creation through localization, reducing our greenhouse gas emissions and reducing water usage.

Our efforts also continuously seek to diversify supply through regional integration, energy efficiency, lowering the cost of energy and importantly, increasing access to energy. These elements form an integral part of our strategic orientation towards energy security and access.

Our experiences to date have shown that new investments in generation alone are insufficient and must be accompanied by significant expansion of the transmission network in order to minimise the overall cost of electricity. This is to maintain system reliability and to mitigate locational market power.

Chairperson

Our Renewable Energy Independent Power Producer Programme continues to make notable progress with projects now located in Eastern Cape, Western Cape, Northern Cape, Free State and North West. According to Bloomberg New Energy Finance, global interest in investing in renewable energy has increased, placing South Africa at number nine of the Top Ten Clean Energy investment countries. This is an indication of the significant growth in the sector in a very short space of time.

This flagship partnership between government and the private sector aims to secure not only clean electricity, but also contributes to socio-economic development in the communities where these projects are located. We have contracted a total of 5 243 MW of green energy to be connected to the national grid.

With the recent announcement of Window 4B, the investment by the private sector in renewable energy rises to a cumulative R193 billion. Furthermore, across all bid windows to date, a total contribution of R19.1 billion has been committed to socio-economic development. This will be spent over the 20-year life span of the projects. R6 billion is earmarked to be spent on enterprise development initiatives.

Assuming an even, annual spend, the average contribution per annum would be R955 million and R300 million respectively. This can go a long way in our efforts to alleviate and eradicate poverty. We urge Provincial Governments and Municipalities to provide leadership on how these interventions should evolve. Alignment with the District and Local Integrated Development Plans will be critical.

The procurement documentation for an additional 1 800MW Bid Window will be available by end June 2015, with a submission date of end September 2015. This creates an opportunity for all ready projects including those that were unsuccessful from the previous renewable energy bid windows one to four. Early connected projects will receive preference.

Security of supply and the reliability of electricity are some of the most important contributors to the growth of the South African economy. The Department is working tirelessly to find affordable solutions to the shortage of supply.

In line with our commitments in this regard, the Co-generation Request for Bids was released to the market on 4 June 2015. The first window of the 800MW co-generation programme will be on 10 August 2015. This programme is designed with many bid opportunities, and is intended to harness green- and brown-fields projects which will be a quick win in support of the demand in the country. Through this programme, we will get extensive coverage of projects in Limpopo, Mpumalanga and KwaZulu Natal.

Our Gas to Power Request for Information documentation was released to the market end of May 2015. The opportunity to submit responses will remain open until 20 July 2015. We are encouraged by the overwhelming interest in this programme, which has seen more than 380 downloads of the documentation from all over the world. The procurement of this 3 126 MW programme is on track and expected to kick-off during the second half of 2015.

The 2 500MW coal programme bid submission date is the 28th of August, and we will announce preferred bidders by year end.

Given the calls from developers and communities alike, the REIPPPP is being extended to offer opportunities for small-scale renewable energy producers. This will stimulate

additional small local entrepreneurship as well as the financial market to provide access to finance for such small entrepreneurs.

Though our partnership with the DBSA and the German development agency KfW, the small projects procurement approach is being implemented to promote partnerships between large experienced developers and smaller, local entities to facilitate skills transfer and risk mitigation.

Chairperson

Investments in the clean energy sector continue to assist in the alleviation of unemployment. It is estimated that about 21 900 jobs will be created during the construction period and 38 500 jobs during the operations period. There has been a significant level of skills transfer to people involved in the various projects and within local communities, and we expect to grow and develop numerous small and medium sized businesses.

I am happy to announce that through the IPP Office, the department will soon launch a dedicated programme for the development of young professionals for the energy sector. Three distinct areas will be targeted namely a Bursary Programme, Graduate Programme and a Young Professionals Programme. The programme will focus on South Africans, with 80% of the total participants being Employment Equity candidates.

Over the past few months the problems of load shedding have underscored the importance of saving energy. It is self-evident that more effort needs to be put into ensuring that the energy that we produce goes further in being utilized for its intended purpose. Energy efficiency is recognized the world over as the most cost effective manner of securing a resource as scarce as energy. The energy that was never wasted is indeed the cheapest energy that can be harnessed.

In this budget year the department will focus on the following energy efficiency initiatives. Firstly, insofar as the policy and regulatory space, the National Energy Efficiency Strategy

and Action Plan will be finalized. This will provide an analysis of our energy situation, isolating the factors that inhibit efficient energy usage.

To support the effectiveness of the national energy efficiency strategy, regulations have been published for compulsory energy management plans to be developed and put in place by targeted end users.

Those entities with energy usage above certain thresholds at a contiguous site will be required by law to submit these energy management plans, so as to assist government in its planning and monitoring functions. We need private sector assistance in providing energy statistics for our country. This will enable us to plan appropriately, as well as to advance our energy security agenda. We therefore appeal to all stakeholders to play a positive role in this regard.

The second area of focus with regard to energy efficiency this budget year will be the provision and implementation of various incentives and disincentives to accelerate energy efficiency. As you might be aware, the Income Tax Act has been amended to provide for regulations under section 12L. These regulations provide incentives for the retrofitting of capital equipment that will improve energy efficiency in production processes. The implementation of these regulations will be finalized this year in collaboration with industry and other stakeholders.

The municipal energy efficiency and demand side management programme will continue, and we make a call on all municipalities to take advantage of the potential of this initiative.

Our focus is on reducing the energy consumption associated with street-lighting. A pilot project with the Nelson Mandela Bay Municipality has been successfully completed. We will now embark on a national rollout of this pilot project.

The model for the National Solar Water Heater Programme will be changed, with implementation led by the Department of Energy. The planned new contracting model has been submitted for Cabinet approval.

The Integrated National Electrification Programme is responsible for planning, project management and funding the bulk infrastructure grid and non-grid new connections for households. President Zuma indicated during the 2015 State of the Nation Address that access to electricity had to be fast tracked at Amathole, OR Tambo, Alfred Nzo (in the Eastern Cape), Umzinyathi (in KwaZulu Natal), and Greater Sekhukhune (in Limpopo), because these districts have the highest infrastructure backlogs.

R4.2 billion was appropriated for this programme in the 14/15 financial year, and we achieved 233 455 household grid connections by end of March 2015.

In the year under review, the Department of Energy has built 5 new substations, upgraded 15 more, and built more than 430 km medium voltage lines.

We must also indicate that most of the new household connections are concentrated in very remote areas. This causes challenges since most of the rural areas are far from the existing grid. This necessitates the installation of additional bulk infrastructure to connect these areas. Environmental impact assessments, acquiring servitudes, navigating land claims and other complexities are also being addressed.

Rural connections are on average also four times more expensive than urban connections, while in some cases, this figure can be as high as ten times more expensive.

With regard to the non-grid programme, I can announce that a delivery rate of 94% or 14 030 household connections have been achieved, the highest to date since the initiation of this programme.

The Integrated National Electrification Programme received an allocation of R5.7 billion for the 2015/16 financial year, with Eskom and Municipalities receiving R3.6 billion and R2.0 billion respectively. An additional R313 million has been earmarked for the non-grid programme.

Due to the large rural connections still outstanding, Eskom has received a larger portion of the INEP allocation. The programme will deliver 280 000 new grid and non-grid connections in this new budget cycle.

Amathole District Municipality has been allocated R138, 4 million to electrify 7 936 households;

Umzinyathi District Municipality has been allocated R118 million to electrify 6 930 households. To date a total of R118 million has been transferred and 2 365 households have been connected. An additional provision of R209 million has been made for the 2015/16 financial year.

Alfred Nzo District Municipality has been allocated R191 million to electrify 4 688 households, and a total of R148 million has been transferred to connect 2 399 households. R30 million has been made available for the 2015/16 financial year.

Lukhanji municipality received R 7 million for the upgrade of Unathi Mkevh 5MVA Substation, the building of a 7.3km distribution line, the upgrading of a 66kV Line in New Rathwick, and for the electrification of 195 households.

The OR Tambo District municipality has been allocated R300 million for the electrification of 12 192 households, with houses not connected to grid to be connected using solar home systems. 2 365 household connections have been connected thus far, and an additional provision of R358 million has been made for the 2015/16 financial year for this area.

We are a caring government, and our policies are meant to ensure that electricity tariffs that apply to the poor are sensitive to the plight of poverty afflicting many communities. Municipalities are urged to isolate those end-users that are indigent for targeting with appropriate tariff design. Over and above inclining block tariffs, we have put in place numerous other mechanisms to protect the poor against high electricity tariffs.

The free basic electricity (FBE) and free basic alternative energy (FBAE) policies provide for a cushion to those that have been identified to be in need. The extent to which FBE

and FBAE has been an effective policy instrument is measured by the rate of utilization of FBE by municipalities. Approximately R20 billion is transferred to municipalities for purposes of distribution as free basic electricity, and all municipalities are participating.

In addition, the solar water heater programme is meant to reduce the financial burden on beneficiaries by providing a cost effective technology for heating water. We believe that a combination of cross-subsidization, free basic electricity and solar water heating should cover the energy needs of indigent households.

Our fuel switching strategy involves the substitution of electricity by liquefied petroleum gas (LPG) for purposes of space heating and cooking.

In the residential sector, municipalities are encouraged to support the introduction of LPG in households. We are aware of the safety concerns that our communities have expressed and we have engaged the LP Gas Safety Association to assist in developing awareness about the safe usage of LP Gas.

The Fuel Switching Strategy for LP Gas is being developed and we intend to gazette it before the end of quarter 2 of this financial year. Our target is to transfer the electricity load attributed to residential heating and cooking to LP Gas, as an energy efficiency initiative.

Honourable Members

The total appropriation to the Department of Energy for 2015/16 is R 7, 5 billion, with 93% being earmarked for transfer to Municipalities and State Owned Entities, while the remaining 7% is to be utilized for the Department's operational and capital expenditure.

I wish to announce to this House that South Africa will host the International Renewable Energy Conference from 3 to 7 October 2015 in Cape Town. Led by the SANEDI, in partnership with REN 21, preparations for this Conference are well underway and gaining momentum. Africa is hosting this landmark Conference for the first time. We expect more than 6 000 delegates, including over 100 Ministers responsible for energy and environmental affairs.

We want to encourage Parliament, the energy sector and our communities to assist the DoE and SANEDI in making this conference a success. Your full support is required to make this a broad based international renewable energy event, with a distinct focus on Africa and its development.

Chairperson, Honourable Members, I commend to the National Council of Provinces the Budget Vote of the Department of Energy.

Thank you.