

National Council of Provinces
Policy debate on Budget Vote 26: Energy
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Speech by
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Minister of Energy

Honourable Chairperson
Honourable Ministers and Deputy Ministers
Members of National Council of Provinces
Ladies and Gentlemen

In the normal course of events the Department's budget speech would take place first in the National Assembly and then in the National Council of Provinces. Due to programme logistics this year is different and I present the Department's budget to the NCOP first.

However I am very happy to do so. The reason is that we have a seemingly large budget of R7.5 billion. But of this R6.8 billion goes on transfers and subsidies, the bulk of it to municipalities in your provinces. So presenting our Budget in this house first gives me the opportunity to reflect on the work and expenditure in the provinces and also to strengthen our relationship with both the provinces and the municipalities.

South Africa celebrates twenty years since the adoption of our current Constitution in May 1996. The Constitution is grounded in the Freedom Charter, which continues to be the foundation of democratic South Africa. It not only protects our rights but entitles us to the provision of electricity, water, sanitation and housing.

The goal of the ANC since it was formed in 1912 has been to give all people of our country the chance to choose their own government. This is why generations of our leaders and members have set their sights on the objective of a new and democratic constitution which removed the colonial status of the African people.

The National Development Plan (NDP) envisages that by 2030 South Africa will have an energy sector that promotes economic growth and development through adequate investment in energy infrastructure.

The NDP identifies the need for South Africa to invest in robust economic infrastructure designed to support the country's medium and long term economic and social objectives. Chairperson, energy infrastructure is a critical component that underpins economic activity and growth across the country. The NDP requires the development of

10 000 MWs of additional electricity capacity to be established by 2025 against the 2013 baseline of 44 000 MWs.

Let me begin by reminding you of what the Minister of Finance said in his Budget speech:

“Low growth, high unemployment, extreme inequality and hurtful fractures in our society – these are unacceptable to all of us. We are strong enough, resilient enough and creative enough to manage and overcome our economic challenges.....We want to see progress throughout our land, in agriculture, manufacturing, mining, construction, tourism, science and research, sport and leisure, trade and commerce.”

Energy is central to nearly every major challenge and opportunity the world faces today. It is key to poverty reduction, social progress, equity, enhanced resilience, economic growth, and, if developed appropriately, environmental sustainability.

During sluggish economic periods it is very easy to become complacent about our energy needs because demand is lower and the strain on the system is lessened. But we need to be ready for times of increased economic activity through ensuring an abundant supply of electricity. For this reason we will continue to develop our generating capacity across a broadened energy mix. There has been valid criticism in the past that we fell behind the demand for sufficient electricity and, inevitably we lost some potential for investment. We must not allow that to happen again. It is possible that we will not have any energy supply problems in 5 to 7 years' time when Medupi and Kulisile power stations are fully on stream. But we need to look much further into the future, to 2030, 2040, and 2050 and beyond.

[Integrated Electrification Programme (INEP)]

One of our on-going needs remains the electrification of domestic housing. INEP, the Integrated Electrification Programme, and its implementing agencies Eskom, municipalities and non-grid service providers have made remarkable progress in increasing access to electricity in South Africa. Over 6.7 million households have been between 1994 and March 2016. Access to electricity now stands at 88% of all households. This is remarkable. But the more successful we have been, so too have the demands increased, sometimes with great impatience, from those yet to be connected.

R5.6 billion was appropriated during the last financial year for the electrification programme, to deliver 260 000 connections utilising both grid and non-grid technologies. By the end of March 2016 INEP achieved 256 088 new connections as part of the 2015/16 financial year allocations which were implemented by municipalities, Eskom and non-grid service providers. The final figure will only be determined as soon as all

the verification of the new connections have been completed, which will be by the end of May 2016. However the department is confident that the target of 260 000 new connections will have been achieved.

The non-grid programme has progressed well in the last financial year and has over overachieved its target by over 5 000 by completing over 25 000 modern solar energy connections. Since the inception of the Non-Grid Programme, INEP has completed more than 123 000 installations of non-grid systems mainly in the Eastern Cape, KwaZulu-Natal, the Northern Cape and Limpopo. In case you are wondering, non-grid systems are those consisting of solar cells (photovoltaic cells) converting sun energy into electrical energy. These are now also being considered for installation in urban areas of the country with a view of increasing basic electricity services in informal settlements and elsewhere.

The INEP programme has been allocated R5.5 Billion in the 2016/17 financial year spread across all our provinces and municipalities. Transfers directly to municipalities will amount to R1.9 billion and transfers via Eskom to municipalities will amount to R3.5 billion.

In brief the provinces will get:

| | |
|---------------|--------------|
| KwaZulu-Natal | R1.5 Billion |
| Eastern Cape: | R1.3 Billion |
| Limpopo | R1 Billion |
| Mpumalanga | R520 Million |
| North West | R350 Million |
| Gauteng | R215 Million |
| Western Cape | R208 Million |
| Northern Cape | R165 Million |
| Free State: | R135 Million |

We will deliver 235 000 new connections for both grid and non-grid systems. At the current pace we will have electrified the bulk of the remaining households yet to be connected to electricity in under 10 years from now.

Some of this has been possible through innovative approaches to the provision of electricity such as through generation via renewable energy and off-grid solutions such as solar water heaters.

[Independent Power Producer (IPP) procurement programme]

Our Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), established in 2010, has become one of the world's most progressive and successful alternative energy programmes. Ever since the introduction of this

programme, solar, wind, biomass, small hydro and landfill gas power plants have been going up across the country, feeding more and more clean energy into the national grid.

The rapid roll-out of our renewable energy programme has attracted significant international attention. In the last two years, our country has consistently been ranked amongst the top achievers globally for installed solar and wind capacity, for the amount of investment in renewable energy, and, for offering an attractive market for investment in renewable energy. But, sadly, we read very little of this in the media. Success stories seem to attract very little attention.

As at 31 December 2015, the department had procured 6 377 MW of renewable energy through the programme and has already connected 44 projects with a capacity of 2 021 MW to the national grid. The energy contribution of independent power producers is expected to grow to approximately 7 000 MW with the first 47 renewable energy independent power producers fully operational by mid-2016. Private investment in the programme currently exceeds R194 billion. The programme also seeks to procure energy from small scale independent power producers, with projects that generate between 1 MW and 5 MW of energy from solar, wind, biomass and landfill gas projects.

The projects are spread through all of our provinces benefitting from local climatic conditions particularly where there is bountiful sunshine and wind. As a result, for instance, the Northern Cape will become one of the world's largest solar energy hubs whilst there will be a concentration of wind plants in the Eastern Cape.

Struggling towns have been revitalised through the benefits and opportunities presented by our renewable energy projects.

Bids in terms of bid window 4, for a total of 1800 megawatt are currently under evaluation. We will see new projects in at least 6 provinces, in cities and towns such as Mbombela, Sutherland, Swellendam, Brits, Bethlehem and Aggeneys. Nearly all the new wind farms will each be capable of generating in excess of 100MW. Bid window 4 and the first small projects programme, will increase the investment amount to more than R255 Billion. This is in excess of 4 percent of the national gross fixed investment as reported by the South African Reserve Bank for the last 3 years. These investments stimulate local business through a commitment of R65 billion to be spent on South African goods and services.

In line with the national commitment to transition to a low carbon economy, as well as the Integrated Resource Plan (IRP), 17800 MW of the 2030 target is expected to be generated from renewable energy sources by 2020.

A minimum ownership by local communities in an IPP of 2.5% is required as a procurement condition. In this way a substantial portion of the investments have been

structured and secured as local community equity. An individual community's dividends earned will depend on the terms of each transaction corresponding with the relevant equity share.

To date all shareholding for local communities has been structured through the establishment of community trusts. For projects in bid windows 1 to 4 qualifying communities will receive R29.2 Billion net income over the life of the projects which is at least 20 years.

The R30.7 billion spent on BBBEE during construction so far has already exceeded the R26.6 Billion that had originally been anticipated by IPPs.

Even though bid window 3 projects have only just started construction, employment opportunities are 111 % of the planned numbers during the construction phase (i.e. 19 523 job years), with 23 projects still in construction and employing people. The number of employment opportunities should therefore continue to grow beyond original expectations.

These IPPs had planned to deliver 8 451 job years during the construction phase, but actually achieved 14 334 new jobs. This is 70 % more than planned. These are primarily jobs in provinces away from the large urban areas.

The current renewable energy operational portfolio is contributing an increasing percentage of the buffer between the available supply and projected demand for electricity. Already a 16% contribution is made to the total energy produced during the morning and evening system peak periods in a 24 hour period. As the energy mix diversifies with the inclusion of concentrated solar power (which includes a storage element), biomass and landfill gas, the share of energy available during peak periods will increase.

The department has procured private peaker stations to the capacity of nearly 1 000 MW that can be used when there is a larger demand than what the Eskom generators can produce. The plant in Eastern Cape was completed in September 2015 and can produce 330 MW. The plant in Kwa-Zulu Natal, when completed by the end of this year, will produce 630 MW. Total projects costs were R8 Billion, while 210 permanent jobs and 6190 temporary jobs were created at both plants.

Our Renewable Energy Independent Power Producer Programme is contributing to 'greening South Africa's Industrialisation. The programme has been designed to contribute to the development of a local green industry and the creation of green jobs. We are aware of at least twelve new industrial facilities that have been established in the country in direct response to the renewable energy programme – evidence of the programme's contribution towards growing the green economy and green jobs.

[Community Upliftment]

In the past year, my Department has conducted five Energy Awareness campaigns, focused on the youth in five provinces. These were at Piet Retief in Mpumalanga, Cullinan in Gauteng, Petrusburg in the Free State, Jozini in Kwazulu-Natal and Khayelitsha in the Western Cape. The campaigns focused on interacting with learners with regard to careers in the energy environment. During these campaigns, thousands of learners were reached, and energised.

In addition, the Department in partnership with Women in Oil and Energy South Africa (WOESA) has also conducted five Business Opportunities in the Energy sector Workshop for Women. These were held in Northern Cape, Limpopo, North West, Eastern Cape and Free State provinces. More than 1 000 women were empowered at these workshops the main purpose of which was

- to provide information on the business opportunities in the energy sector across the value chain;
- encourage professionals to invest into the sector through such organisations as WOESA;
- to take active interest in the sector and provide information on opportunities for women and young people who wants to own, control and develop their businesses in the energy sector.

[Integrated Energy Centres (IECs)]

The Department of Energy in collaboration with oil companies has since 2002 been establishing Integrated Energy Centres in poor nodal areas around the country as part of the Department's mandate to promote access to energy services, such as petroleum products in rural areas where the volumes of sales are too low for a normal commercial operation to be established.

Underlying this programme is a very strong social responsibility aimed at poverty alleviation, job creation and capacity building whilst also stimulating the rural economy

There are 7 operating Integrated Energy Centres and the construction of two new Integrated Energy Centres in Bushbuckridge and Qamatha will be completed in the second quarter of 2016/2017. As we have rolled out these centres we have learned new lessons and better ways in which we can improve their effectiveness. We continue to develop the model to the benefit of the communities we are wishing to serve.

[Skills]

The challenges of technical skills required in the Energy Sector have continued to be of concern to the DoE. In response to these challenges; the DoE has developed a Workplace Skills Development Plan (WSP), based on the training needs of individual employees and their managers.

As part of the implementation of the WSP, a number of training and development interventions have been identified for implementation. The DoE has also offered thirty two (32) new bursaries to serving employees of the Department.

We will also contribute with the implementation of youth development intervention programmes such as the provision of bursaries to external applicants. Eleven external applicants within the youth programme were offered bursaries sponsored by the Chemical Industries Education and Training Authority (CHIETA) including four integrated learners, 32 interns and 15 people on learnership programmes.

Besides the significant international and domestic investment in South Africa new innovations, especially in the renewable energy space, have been introduced into South Africa.

We are a country with a flair for innovation, for making a plan, and so we must build on these newly introduced technologies by ensuring that South Africans can maintain, and develop them further. This also requires training. I encourage the higher education sector to take up the opportunities to offer courses and qualifications in these new fields of energy being introduced in South Africa. Imagine, for instance, a Department of Renewable and Alternative Energy offering courses at the new Sol Plaatje University in Kimberley!

[2016/2017 Budget]

Tuning to the nuts and bolts of this year's budget. The total appropriation to the Department for 2016/17 is R7.5 Billion. 90.2% is earmarked for transfer to municipalities and state owned entities while the remaining 9.8% is to be utilised for the Department's operational and capital expenditure.

- The spending focus over the medium term will remain on transfer payments to Eskom and Municipalities for expanding the electrification programme to increase the number of households with connections to the grid and providing substation infrastructure. We also focus on the implementation of the National Solar Water Heater programme with the objective of promoting energy efficiency. Spending of R1.2 Billion over the medium term on 131 146 solar water heaters is projected.
- Transfers to municipalities are expected to increase from R1.9 Billion in 2016/17 to R2.2 Billion in 2018/19, and transfers to Eskom from R3.5 Billion in 2016/17 to R4 Billion in 2018/19.
- Non-grid electrification projects, mainly solar energy, will be extended countrywide. The projects will be implemented in any areas where extending the grid would not be cost-effective. 70 000 non-grid connections to households are expected to be achieved over the medium term, with spending on non-grid

electrification projects expected to increase from R166.4 million in 2016/17 to R201.6 million in 2018/19.

- Funding of R10.9 million was also allocated over the medium term within the Integrated National Electrification Programme for the oversight, monitoring and evaluation of non-grid electrification projects.
- Funding for state owned entities such as the South African Nuclear Energy Corporation, National Nuclear Regulator and the South African National Energy Development Institute were maintained at existing funding levels. NECSA will receive R599.34 million in 2016/17 while the NNR and SANEDI will receive R16.64 million and R20.63 million respectively.
- The New Nuclear Build Programme is part of the security of electricity supply. Additional funding of R200 million in the Nuclear Energy programme is made available in 2016/17 for a transactional advisors and consulting services for the New Nuclear Build Programme.

In line with the Presidential Review Commission on State Owned Entities, we have been working towards the review of the composition of the CEF Group of companies. Our work in this area includes the strengthening of the entities in the oil and gas sector and the policy objective of the creation of a stand-alone National oil Company.

Furthermore, the Department together with our state owned entities has been focusing on leveraging the current low oil price environment towards ensuring that our country benefits optimally.

In 2015, we issued a ministerial directive for the rotation of strategic stocks by the Strategic Fuel Fund and this has resulted in the increased revenue base for SFF, whilst at the same time maintaining stocks within our storage tanks for security of supply, through long term lease and contractual agreements with the buyers. The estimated revenue to accrue from this process is around R 170 million per annum, significantly boosting the balance sheet of the SFF.

This, through the rotation of strategic stocks and trading initiatives the SFF has further consolidated its ability to be self- sustainable. This has also allowed us to replace the unsuitable stock that we have been storing in our tanks which has been both uneconomical and did not contribute to security of supply. The SFF will continue to ensure that it is able to respond to any shock in the market, whilst optimally making use of the opportunities presented in an evolving oil sector.

[Improve visibility in provinces]

Chairperson, I will be embarking on a programme to improve our visibility in all nine provinces. I began my speech by indicating the large amount of transfers from the Department's budget to the provinces and municipalities. We need to ensure that there is adequate oversight of the spending of these funds to ensure the effectiveness and

efficiency. As indicated already we have significantly increased our visibility in the provinces through campaigns and workshops but we want a permanent presence.

We will do this by adequately staffing our provincial offices at a level appropriate to what is required. In addition we will engage in discussions with the various spheres of government operating in the provinces commencing with my colleague responsible for Cooperative Governance and Traditional Affairs. In the absence of a formal Ministers meeting with responsible MECs (MinMEC) in the provinces I will engage directly with the premiers and those MECs who have responsibility for energy and specifically electrification.

Honourable Members, I encourage you to assist with oversight in your provinces to ensure the effective and efficient provision of energy services.

My department is working with the Municipal Infrastructure Support Agent (MISA) located in the Department of Cooperative Governance and Traditional Affairs to improve the delivery of projects and programmes. It includes dealing with electricity infrastructure challenges, liaison between Eskom and municipalities, and oversight of projects in municipalities.

At the same time we need to ensure that energy needs are met seamlessly, in an integrated manner, across government. It is therefore important to consult regularly with municipal managers to coordinate their implementation programmes with that of the provinces as well as with national departments responsible for the delivery of services in the provinces.

In conclusion I would like to thank Deputy Minister, the Director-General, Ministry Officials, Department Officials and all our state owned entities for ensuring that their eyes are focused on our mandate all the time.

I thank you