

**2018 BUDGET VOTE SPEECH BY  
MINISTER OF ENERGY, MR JEFF RADEBE, MP,  
AT THE NATIONAL ASSEMBLY, PARLIAMENT  
16 MAY 2017, 14h00**

Honourable Speaker

Honourable Members of Parliament

Cabinet Colleagues present

Deputy Minister of Energy, Ambassador Thembisile Majola

Members of the Portfolio Committee on Energy, led by  
Honourable

Chairperson, Mr Fikile Majola

Director-General of the Department, Mr Thabane Zulu

Officials of the Department of Energy

Chairpersons and CEOs of the energy entities

Invited guests

Ladies and Gentlemen

**Introduction**

I have the honour to table this budget vote for the Department of Energy for the financial year 2018\2019

The Department of Energy (DoE) is mandated to ensure the secure and sustainable provision of energy for the socio-economic development of our country.

In this Centenary Year, we are celebrating the life and achievements of Nelson Mandela and Mama Albertina Sisulu, the icons of our nation.

As we celebrate, we should take time to reflect on whether we have done justice to his vision for our people, which is also the vision of our Constitution, to *“transform South Africa into a more equitable, integrated and just society”*.

This vision is the foundation on which we are renewing and reviving our country and our democracy. Nelson Mandela said: *“It always seems impossible until it’s done.”* Now is the time to reinvigorate our efforts and focus on delivering his ideals for our people, until it is done. We, as a nation, deserve nothing less.

### **Importance of Energy mix in economic growth**

**Lenin** is remembered for many things he has done and said, but one he is usually forgotten for is that he espoused that Socialism is Soviet Power plus Electrification. This statement remains true to this day in so far as its underlying message goes, namely, that no industrial power can exist without developing its energy apparatus, in general, and expanding its

electrification program, in particular. Statistically, this has been proved and reproved time and again since the 1950's under Janossy's famous electricity law – one of the best established in the National Accounts – according to which growth in a country's gross domestic product (GDP) is the quadratic average of the electricity it produces.

We are pleased to witness South Africa's continued growth in its commerce and manufacturing and expect that this will increase demand on key energy assets. This economic growth is projected to continue, and will increase demand, **for example** we expect energy transportation consumption **alone** to increase by 74% between 2020 and 2050.

### **Using Energy To Ignite The Economic Growth**

President Ramaphosa has set us all a target to attract **\$100Billion** of investment into our economy. This cannot be possible without appreciating the role of a plurality of generational choices being open to South Africa. We would like the energy sector to contribute as a minimum to a quarter of this target. **This ambitious goal could be reached in the energy sector with several initiatives that could include:**

- Securing strategic stock through investment in new fuels tanks and in infrastructure required for South Africa to become a major shale gas producer
- Promoting Natural Gas (NG) by designing and building infrastructure required to transport natural gas and liquefied natural gas (LNG)
- Driving towards cleaner fuels by improving our refinery assets to meet world class emissions standards
- Supporting the transition towards electrification of transport, through key strategic partnerships

We understand that this is an ambitious goal but we know we can do this, because we have successfully done it before in the renewables sector.

### **The Role of Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)**

From 2014 to 2016, through the Renewable Energy Independent Power Producers Procurement Programme (REIPPPP), South Africa was able to secure investment of \$10.8Billion into the renewables sector. This was significantly more than any other African state in the same period, and more recently we have continued growing the renewables sector through the recent signing of the Independent Power Produce

(IPP) agreements, securing R56Billion of investment into 27 new projects.

### **Expedite Coal And Gas Contribution To The Energy Sector Thereby Attracting Possible Foreign Direct Investment**

Today, at a time that we and the rest of the world are responding to profound resource and technology changes in the energy sector as well as the sector's contribution to and impact of climate change, it is time that we remind ourselves of our collective commitments and obligation to all our citizens, especially the poor.

Globally, gas is the fastest growing fossil fuel and it is expected to catch up with coal over the next 20 years. It is emerging as the main hydrocarbon component of a more sustainable mix to power the world's economy. Being increasingly accessible due to technological advancements and enhanced market liquidity, gas will see its demand steadily growing across the world. In SA, natural gas, whether imported via regional pipelines or liquefied natural gas (LNG) terminals at strategic port locations should be prioritised as it could play an important role in transitioning to a low-carbon economy. This direction will establish a game-changing demand platform for the future

exploration and utilisation of South Africa's latent shale-gas resources to the benefit of security of supply for future generations.

**Gas to Power Programme:** It should be noted that the price of electricity is a very important component of our economy. Therefore, the IPP Programme provides the much needed competition in power generation with a view of providing lower prices to the economy but most importantly to indigent households.

The Gas to Power Programme was started two years ago and a substantial work has been done in relation to the required studies at the different ports, most important in Richards Bay and Coega. I have thus instructed the IPP Office to resuscitate the programme and take a lead in engaging with the different stakeholders that the country is working towards a single goal.

The initial phase of the Gas to Power Programme will utilise imported Liquefied Natural Gas whilst looking at the options related to the regional gas and the domestic shale gas in the long term. The result will be to stimulate the development of a

gas demand in South Africa whilst providing a market for the expected domestic shale gas.

### **Promulgating the revised Integrated Energy Plan (IEP), Integrated Resource Plan (IRP), Liquid Fuels And Gas Master Plans**

On the 8<sup>th</sup> of May 2018 I committed to the Portfolio Committee that Department will open the revised IEP and IRP for consultation with all key stakeholders and the public with an aim of submitting the policy adjusted IEP, IRP, Liquid Fuels and Gas Master Plans to Cabinet by August 2018 for approval.

This will bring much needed certainty on the country's energy infrastructure build programme and will also restore confidence that South Africa is well prepared to supply reliable energy to grow the economy.

### **The Rationale for the New Refinery**

Refinery is a significant contributor to the economy and the issue of the sustainability of the current refineries is of utmost concern. The refining sector is facing major challenges which include the provision of cleaner fuels, adhering to minimum emission standards and meeting the bunker fuel oil sulphur cap of 2020. Our refineries are not equipped to produce the latest

fuels required by modern vehicle engines to reduce vehicle emissions and improve efficiency.

These challenges are not insurmountable but require significant investment with long lead times within the context being set by the regulatory regime. To this end we intend to finalise the Regulatory Framework to provide policy certainty to the Industry by end of 2018. In so doing, we will engage the Industry in a constructive and comprehensive way over the next few months in order to develop a plan that delivers on these objectives in the best interests of South Africa.

In line with the National Development Plan, government will provide a detailed plan that will be made available by the end of November 2018.

### **Petroleum Sector Transformation**

To effect Radical Economic Transformation which is about decisive steps of placing the economy on a qualitatively different path that eliminates poverty, creates jobs and sustainable livelihoods and substantially reduce inequality and de-racialization of the economy, the Department together with relevant stakeholders in the liquid fuels industry is aligning the Petroleum and liquid fuels charter with the Department of Trade

and Industry's (DTI) Broad-Based Black Economic Empowerment (B-BBEE) Act and policy frameworks.

The objective is to resolve the identified impediments stated in the Public Proclamation gazetted on the 13 September 2017. The process must be completed by September 2018 such that we are able to effect Section 10 of the B-BBEE Act that requires all organs of state to apply the Petroleum sector code to determine qualification criteria for issuing Petroleum Licenses.

The draft reviewed scored cards adopt a value chain transformation opportunities with quick wins and High impact which lead to a framework of having 7 subsectors scorecards namely Retail, Wholesale; Manufacturing; Biofuels; Gas; Access to infrastructure; Public Sector. The draft sector code is currently being discussed robustly by all stakeholders.

I will release the long overdue Petroleum Retail Audit results before the end of the 3<sup>rd</sup> Quarter of this financial year and that will provide the system of allocation of Licenses provided for by section 2E of the Petroleum Products Act as amended.

Shale Gas discoveries in the Karoo will be a game changer for the South African economy and energy mix. South Africa will

therefore continue to work on creating a conducive environment for the exploration and development of shale gas in South Africa in the near future. The finalization of the Minerals, Petroleum and Development Act (Act) this year as announced by the President in the State of the Nation Address, already begins to create this environment.

### **Minerals and Petroleum Resources Development Act (MPRDA)**

The amendments to the **Minerals and Petroleum Resources Development Act (MPRDA)** were approved by Cabinet in and first introduced in the National Assembly process. To unlock the potential for oil and gas development in our country it is imperative that the process of finalising MPRDA be concluded as matter of urgency. This will bring clarity on acreage both offshore and onshore as an attractive proposition for oil and gas exploration companies.

The gradual rise in the oil price means that oil companies will start to have appetite for gas and oil exploration. **Consequently**, South Africa must be ready to capture this opportunity and the finalisation

### **Regional Integration**

We will continue to engage with our counter-parts and play our role in the multilateral organisations such as BRICS and host the BRICS Energy Ministers Meeting and BRICS Working Group on Energy Saving and Improvement of Energy Efficiency.

In pursuit of the continental economic integration agenda and to ensure facilitation of energy sector participation in the SADC region, Africa and the rest of the world in the bilateral and multilateral forums, the Department will host the SADC Energy Ministers Meeting.

The South African Economy has benefited from gas from Mozambique for over a decade now. The capacity of the pipeline has been expanded significantly availing gas for RSA and Mozambique. Infrastructure ownership model of private sector and the two governments has served us well.

There is room for more participation by the two governments as well as other entrants in the marketing of molecules in the South African market. In this regard, I will be engaging my counterpart in Mozambique to seek further collaboration. Officials of the two countries will meet before the end of May to prepare a roadmap for a joint programme.

The gas finds in the ROVUMA Basin in Mozambique provide an opportunity for that country, South Africa and the SADC region to benefit from such resources. We are firmly of the view that together with our Mozambican counterpart, we need to develop an infrastructure programme, which will allow the gas to be beneficiated through projects such as a Gas to Liquids Plant and other petrochemical facilities in Mozambique as well as a pipeline from ROVUMA to the south of Mozambique, which in our view would enable construction of Gas to Power projects in both countries.

### **State Owned Entities**

Reform of State-owned Enterprises is one of the major themes that the President underlined in his State of the Nation Address. The President has stressed the need for Government to **restore State-Owned Enterprises (SOEs) as drivers of economic growth and social development.**

SoEs are a crucial part of achieving economic recovery, transformation and promoting sustained economic development.

To attract investment we will be initiating activities to turnaround our State-Owned Enterprises, including our Central Energy Fund (CEF) and PetroSA.

**CEF Restructuring:** - For CEF we will refocus its mandate, uplift its technical capabilities, re-balance its portfolio and set it up with a clear governance structure to make quick and decisive decisions. This turnaround of CEF will enable it to create significant positive impact on SA's energy landscape (e.g. Optimise dependency on import, improve energy security, catalyse the required industry transformation, drive socio-economic & sustainable benefits and ensure CEF is able to contribute significantly towards the implementation of the energy elements of the National Development Plan).

**For PetroSA;** the turnaround will include improving key capabilities that will stabilise the company. This turnaround will involve making sure critical projects are delivered on time and budget, any liabilities are properly managed, operations are made more efficient and effective and commercial capabilities are uplifted to capture greater profits.

We see a bright future for the SA energy sector, and believe that these initiatives will attract investment and help us to continue our positive trajectory of growth.

**NECSA** is strategically positioning itself to further entrench its global leadership position in medical radioisotopes through its subsidiary NTP SOC Limited. In addition to this NECSA also intends strengthening its contribution to the South African Health sector. This will be through both supply of medical radioisotopes as well as supply of fluorine based active pharmaceutical ingredients or API's to substitute currently imported pharmaceutical products.

### **Honourable Members,**

The Department is appropriated R7, 045 billion in the 2018/19 financial year. Operational funding to execute the mandate of the Department remains a challenge. Our operational budget is allocated R617 million translating to 8.76% of the total appropriation and the balance of R6, 428 billion being 91.24% as transfer payments to the Department's entities as well as other government agencies, with the substantial budget transferred to:

- INEP implementation programme by Eskom at R3.3 billion
- INEP Non-Grid at R202 million

- Transfers to Municipalities for INEP Programmes at R1.9 billion
- EEDSM Municipalities allocated R215 million; and the remaining balance R816 million for our entities.

In view of our budgetary constraints, complexity of some of our priority policy changes and energy sector challenges, I am confident that the Department together with its state owned entities will be able to rise above these challenges and move our economy towards the achievement of socioeconomic development of all our people as well as the targets we have set ourselves in the NDP, Strategic Plan and Annual Performance Plan.

Addressing the department's human capital challenge of developing and retaining a skilled workforce that is capable of designing, implementing and overseeing our strategic programmes as well finalise all pending legislative and policy issues is my top priority. I will ensure that within the next three months all critical vacant positions are filled.

I would also like to thank the Director General, the entire Executive Management of the Department, the Boards and Executives of our Entities, as well as Team Energy for your hard work and commitment to public service.

I would also like to acknowledge the key role played by the Deputy Minister, Ambassador Majola for her support, guidance and valuable contribution in the achievement of Departmental strategic objectives. I look forward to us working together and strengthening our efforts in improving energy governance, stimulating economic growth and transforming the energy sector.

In conclusion, I wish to thank my predecessors for the solid foundation laid in this Department that has led to our many achievements in the Department thus far.

**Speaker, I commend** to this House the budget of the Department of Energy.

**I Thank You!**