The Budgetary Review and Recommendation Report of the Portfolio Committee on Energy, dated 28 October 2014

The Portfolio Committee on Energy, having considered the performance and submission to National Treasury for the medium term period of the Department, reports as follows:

1. INTRODUCTION

1.1. Mandate of Committee

- Conduct oversight on behalf of the National Assembly, over the actions of the Department of Energy(the Department) in order to ensure Executive accountability for the delivery of services to the people of South Africa, as enshrined in the Constitution of the Republic of South Africa, 1996. Sections 195 and 33 of the Constitution, read together, guarantee all South Africans a right to services that must be provided impartially, fairly, equitably and without bias;

- Oversee and review all matters of public interest relating to the public sector and energyto ensure service delivery;

- Ensure compliance by the Department and its entities to relevant legislation (financial and other); and

- Monitor the expenditure of the Department and its entities and to ensure regular reporting to Parliament, within the scope of accountability and transparency.

1.2. Description of core functions of the Department and its entities.

In carrying out its mandate, the Department formulate Energy policies, Regulatory frameworks and legislation, and oversees their implementation to ensure energy security, promotion of environmental friendly energy carriers and access to affordable and reliable energy for all South Africans

The Minister of Energy is responsible for overseeing the following five State-Owned Entities (and their subsidiaries), which are either classified as Schedule 2 or 3A institutions in terms of the Public Finance Management Act, 1999 (Act 1 of 1999), as amended (PFMA):

REGULATORS

- **The National Nuclear Regulator (NNR)** - The purpose of the NNR, as outlined in section 5 of theNational Nuclear Regulator Act 1999 is to essentially provide for the protection of persons, property and the environment against nuclear damage through the establishment of safety standards and regulatory practices.

- **The National Energy Regulator of South Africa (NERSA)** - The purpose of NERSA, as effectively outlined in section 4 of the National Energy Regulator Act, is to regulate the electricity, piped-gas and petroleum pipeline industries within the Republic of South Africa in terms of the Electricity Regulation Act, 2006 (Act No. 4 of 2006), the Gas Act, 2001 (Act No. 48 of 2001) and the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).

- **National Radioactive Waste Disposal Institute (NRWDI) -** This entity has been established with the aim of managing radioactive waste in South Africa. To date the Board of Directors have been appointed and the DoE is in the process of appointing the Secretariat.

RESEARCH AND DEVELOPMENT

- **The South African National Energy Development Institute (SANEDI)** - SANEDI's functions, as outlined in section 7(2) of the National Energy Act, are to: - direct, monitor and conduct applied energy research and development, demonstration and deployment as well as undertake specific measures to promote Energy Efficiency (EE)throughout the economy; and

- establish a nationally focused energy research, development and innovation sector and undertake EE measures with a strong relevance for South Africa.

- **The South African Nuclear Energy Corporation (NECSA) -** NECSA's functions, as outlined in section 13 of the National Energy Act, are to: - undertake and promote research on nuclear energy, radiation sciences and technology;- process source, special nuclear and restricted material including uranium enrichment; and - collaborate with other entities.

OTHER

- **The Central Energy Fund (CEF) Group of Companies (SOC) Ltd** - CEF (SOC) Ltd is involved in the search for appropriate energy solutions to meet the future energy needs of South Africa, the Southern African DevelopmentCommunity and the sub-Saharan African region, including oil, gas, electrical power, solar energy, low smoke fuels, biomass, wind and renewable energy sources. CEF also manages the operation and development of the oil and gas assets of the South African Government. CEF is also mandated to manage the Equalisation Fund, which collects levies from the retail sales of petroleum products to eliminate fluctuations in the retail price of liquid fuel and to give tariff protection to the synthetic fuel industry.

- National Radioactive Waste Disposal Institute (NRWDI) -

1.3. Purpose of the BRR Report

The Money Bills Procedures and Related Matters Amendment Act (Act 9 of 2009) sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

In October of each year, Portfolio Committees must compile Budgetary Review and Recommendation Reports (BRRR) that assess service delivery performance given available resources; evaluate the effective and efficient use and forward allocation of resources; and may make recommendations on forward use of resources. The BRRR are also source documents for the Standing/Select Committees on Appropriations/Finance when they make recommendations to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS). The comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

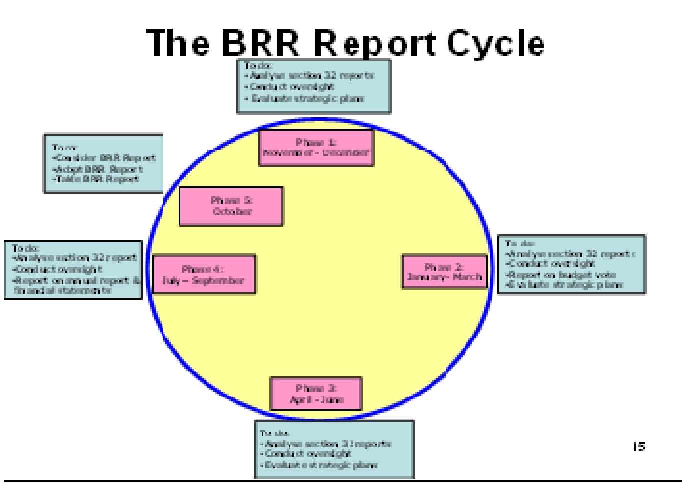
1.4. Method

The committee, in undertaking the process of compiling this report, considered the following cycle, source documents and engagements:

- Annual Report briefings, in terms of Section 65 of the Public Finance Management Act, No. 1 of 1999, which requires that Ministers table the annual reports and financial statements for the Department and public entities to Parliament.

- Briefing by the Auditor-General of SA (AGSA) on the audit outcomes of the Department of Energy and the entities reporting to it.

Diagram 1: BRRR cycle



1.5. Outline of the contents of the Report.

1. Introduction
2. Overview of key relevant policy focus areas
3. Overview and assessment of financial performance
4. Auditor-General of South Africa (AGSA) Report
5. Service delivery environment
6. Service delivery implementation plan
7. Key Policy Development and Legislative Changes
8. International Activities of the Department
9. State Owned Entities (SOEs) oversight
10. Public Participation Programmes
11. Summary of the Annual Reports 2013/4 of the entities
12. Committee's findings and observations
13. Recommendations
14. Conclusion
15. Appreciation

2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS

2.1. Constitutional policy and legislative mandate

The Department's Mission, Vision and Mandate statements as well as its Strategic Outcomes Oriented Goals directly relate to this mandate.

The following information, drawn from the Department of Energy reflects the core legislation that mandates the Department:

The National Energy Act, 2008 (Act No. 34 of 2008)
The Act is the enabling legislation that empowers the Minister of Energy to ensure that diverse energy resources are available in sustainable quantities and at affordable prices in the South African economy to support economic growth and poverty alleviation, while also taking into account environmental considerations. The Act also provides for:

- Energy planning;
- Increased generation and consumption of renewable energy;
- Contingency energy supply;
- The holding of strategic energy feedstock and carriers;
- Adequate investment in appropriate upkeep and access to energy infrastructure;
- Measures for the furnishing of certain data and information regarding energy demand;
- Supply and generation; and

- The establishment of an institution to be responsible for the promotion of efficient generation and consumption of energy and energy research.

The Petroleum Products Act, 1977 (Act No. 120 of 1977), as amended

The Act provides for:

- measures in the saving of petroleum products and the economy in the cost of distribution thereof;
- the maintenance and control of a price thereof;
- the furnishing of certain information regarding petroleum products;
- the rendering of service of a particular kind or standard in connection with petroleum products;
- the licensing of persons involved in the manufacturing, wholesaling and retailing of prescribed petroleum products;
- promote the transformation of the South African petroleum and liquid fuels industry; and
- The promulgation of regulations relating to such licenses and matters incidental thereto.

The Electricity Regulation Act, 2006 (Act No. 4 of 2006), as amended

The Act repealed the Electricity Act, 1987 as amended (Act No. 41 of 1987), with the exception of section 5B, which provides for the funds of the Energy Regulator for the purpose of regulating the electricity industry. The Act establishes a national regulatory framework for the electricity supply industry and it introduces the National Energy Regulator as the custodian and enforcer of the national electricity regulatory framework. The Act also provides for licences and registration as the manner in which generation, transmission, distribution, trading and the import and export of electricity are regulated. Section 34(1) empowers the Minister of Energy to make determinations for the establishment of Independent Power Producers (IPP) for the purpose of creating greater competition in the electricity generation sector, so as to increase the supply of electricity.

The Department also lists the following Acts that provide a mandate to the Energy Sector and are also administered by the Department:

- The Central Energy Fund Act, 1977 (Act No. 38 of 1977), as amended;
- The Nuclear Energy Act, 1999 (Act No. 46 of 1999);
- The National Nuclear Regulator Act, 1999 (Act No. 47 of 1999);
- The National Radioactive Waste Disposal Institute Act, 2008 (Act No. 53 of 2008);
- The Petroleum Pipelines Act, 2003 (Act No. 60 of 2003);
- The Petroleum Pipelines Levies Act, 2004 (Act No. 28 of 2004);
- The Gas Act, 2001 (Act No. 48 of 2001);
- The Gas Regulator Levies Act, 2002 (Act No. 75 of 2002);
- The National Energy Regulator Act, 2004 (Act No. 40 of 2004);
- The Abolition of the National Energy Council Act, 1991 (Act 95 of 1991);
- The Liquid Fuel And Oil Act Repeal Act, 1993 (Act 20 of 1993); and
- The Coal Act Repeal Act, 1991 (Act 124 of 1991).

Additionally, the Department is mandated by the following, amongst others:

- The National Environmental Management Act, 1999 (Act No. 107 of 1999),
- The Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002),
- The Disaster Management Act, 2002, (Act No. 57 of 2002),
- The Hazardous Substances Act, 1973, (Act No. 16 of 1973),
- The National Ports Act, 2005 (Act No. 12 of 2005).

2.2. Strategic Goals of the Department of Energy

The Department’s strategic goals over the medium term are to:

- Ensure that energy supply is secure and demand is well managed.
- Facilitate an efficient, competitive and responsive energy infrastructure network.
- Ensure that there is improved energy regulation and competition.
- Ensure that there is an efficient and diverse energy mix for universal access within a transformed energy sector.

- Ensure that environmental assets and natural resources are protected and continually enhanced by cleaner energy technologies.
- Implement policies that adapt to and mitigate the effects of climate change.
- Implement good corporate governance for effective and efficient service delivery.

2.3. National Infrastructure Plan

The South African Government adopted the National Infrastructure Plan in 2012. Utilizing this plan South Africa (SA) aims to transform the economic landscape while further creating a significant numbers of new jobs, and strengthen the delivery of basic services. Government will invest R827 billion, over the three years from 2013/14 in building new and upgrading existing infrastructure,

The investment will be across all sectors of the SA economy including healthcare facilities, schools, water, sanitation, housing, *and electrification,* the construction of ports, roads, railway systems, electricity plants, and dams. It is aimed at stimulating a faster economic growth.

"The biggest chunk of the investment in infrastructure will continue to come from Eskom, which will invest R205.1 billion over the three years up to 2015. Eskom's new power stations, Medupi and Kusile, are expected to start producing electricity in 2014 and 2015 respectively."

2.4. Energy Related Strategic Infrastructure Projects (SIPs)

The Department chairs one (1) of the projects and co-chairs two (2). The Department also participates in ten (10) projects where it attends regular Inter-Governmental Forum meetings and provides inputs on specific parts of the SIP. The DoE has observer status in five (5) SIPs where it only attends meetings as and when required. The Department's involvement in the SIPs chaired/co-chaired can be categorised as follows:

SIP NO.	STRATEGIC INTEGRATED PROJECT	DEPARTMENTAL CONTRIBUTION
6	Integrated Municipal Infrastructure Project	This SIP is chaired by the Minister of Energy. The main functions of this SIP are to address all maintenance backlogs and upgrades required in water, electricity and sanitation bulk infrastructure in the 23 least resourced district municipalities, covering 17 million people, in a project that is nationally managed but locally delivered. The Department is contributing to this SIP through the following programmes: • Integrated National Electrification Plan; and • Solar Water Heating Programme.

8	Green Energy in Support of the South African Economy	This SIP is co-chaired by the Minister of Economic Development and the Minister of Energy. The main functions of this SIP are to support sustainable green energy initiatives on a national scale through a diverse range of clean energyoptions as envisaged in the IPR 2010 and to support bio-fuel production facilities. The Department is contributing to this SIP through the following programmes: • Independent Power Producer Programme; • Bio-fuels; • Clean Energy; • Solar Water Heating Programme; and • Solar Park.
10	Electricity Transmission and Distribution for All	This SIP is co-chaired by Minister of Public Enterprises and the Minister of Energy. The main functions of this SIP are: • To accelerate the transmission and distribution network to address historical imbalances, provide access to electricity for all and support economic development. • To align the 10-Year Transmission Plan, the service backlogs, the national broadband roll-out and the freight rail line development to leverage off regulatory approvals, supply chain and project development capacity. The Department is contributing to this SIP through the following programmes: • Integrated National Electrification Plan; • Approach to Distribution Asset Management (ADAM); and • Mini-ADAM (providing subsidies to nine (9) municipalities to address the maintenance, refurbishment and backlog concerns in order to improve the quality of electricity supply).

Source: Presentation by the DoE on 14 October 2014

3. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

3.1. Overview of Vote allocation and spending (2009/10 to 2014/15)

Table 2: Overview of Vote allocation and spending (2009/10 to 2014/15)

Programme	**2009/10**	**2010/11**	**2011/12**	**2012/13**			**2013/14**	**2014/15**
	Outcomes	Outcomes	Outcomes	Main	Adjusted	Outcomes	Estimates	Estimates
Administration	98.2	121.6	192.7	181.7	242.4	219 486	221.0	230.4
Energy Policy and Planning	146.9	1 607.2	1 541.9	1 541.5	1 570.2	1 544 913	51.2	53.4
Energy Regulation	10.5	14.2	15.2	1 350.0	18.5	1 139 476	49.7	52.0
Electrification and Energy Programme Management	2 558.9	2 782.0	3 286.5	3 136.3	3 170.0	3 112 376	3 942.8	4 224.5

Nuclear Energy	609.9	612.3	642.3	596.3	643.0	642 733	710.0	657.0
Clean Energy	266.4	368.0	495.7	*	1 090.3	*	1 623.6	1 997.3
Total	**3 690.9**	**5 505.4**	**6 174.3**	**6 805.9**	**6 734.5**	**6 658 984**	**6 598.2**	**7 214.6**

Source: ENE 2013

*NB: This programme was a sub-programme in the 2012/13 financial hence no allocation.

3.2. Financial Performance – 2013/14

It is important to note from the onset that, the Department and the entities reporting to it, received an unqualified audit opinion on their performance from the Auditor General of South Africa. Further details on the findings of the Auditor General (AG) will be discussed later in this paper.

The financial statements has been prepared on the modified cash basis as required in terms of the Departmental Financial Reporting Framework Guide issued by National Treasury.

The Department highlighted that the financial skills still remain a challenge in the Finance Branch, however training in this regard is currently underway.

The Department was chosen as one of the best performing departments in the 2013 MPAT process by DPME for 100% compliance in the payment of invoices within 30 days. The Department was also selected as a case study for the above achievement.

The final appropriation of the Department moved from R6.73 billion in 2012/13 financial year to R6.50 billion in the 2013/14 financial year.

Table 2: Statement of Financial Performance for the year ended31 March 2014

	2013/14
	R'000
REVENUE	6,619,526
Annual Appropriation	6,503,244
Departmental Revenue	43,472
Aid Assistance	72,810
EXPENDITURE	
Current expenditure	414,785
Transfers and subsidies	6,050,595
Expenditure for capital assets	11,683
Payments for financial assets	0
TOTAL EXPENDITURE	6,477,063
SURPLUS FOR THE YEAR	142,463
Voted Funds	26,181
Departmental revenue	43,472
Aid assistance	72,810

Table 2: Presentation document to PCE: 14 October 2014

The Table (3) below highlights the major spending areas of the Department:

Major spending areas			
DETAILS	**Adjusted Budget**	**Actual spend 31/03/2014**	**Actual % on budget spend**
Rand's Million	**R'000**	**R'000**	**%**
Transfers and subsidies	6,060,826	6,050,595	99.83%
Compensation of Employees	230,312	228,545	99.23%
Goods and Services	199,932	186,240	93.15%
Payments for capital assets	12,173	11,683	95.97%
Payments for financial assets	1	0	0%
Totals : Major spending areas	**6,503,244**	**6,477,063**	**99.60%**

Table 3: Presentation document to PCE: 14 October 2014

The table (4) below highlights the budget overview per programme

Per Programme			
DETAILS	**Adjusted Budget 2013/14**	**Actual spend 2013/14**	**Actual % on budget spend**
	R'000	R'000	%
Totals 2013/14	6,503,244	6,477,063	99.60%
Administration	233,142	232,558	99.75%
Energy Policy and Planning	47,989	47,756	99.51%
Energy Regulation	39,865	25,836	64.81%
National Electrification Programme	3,967,700	3,958,525	99.77%
Nuclear Energy and Regulation	723,998	722,501	99.79%
Clean Energy	1,490,550	1,489,887	99.96%

Table 4: Presentation document to PCE: 14 October 2014

3.3. Concluding comments on financial performance – DoE

As at 31 March 2014, the Department spent R6.48 billion or 99.6% of its allocated budget.This resulted in an unspent balance of R26.18 million or 0.4% of the adjusted allocation.

The composition of the overall unspent balance of R26.18 million is as follows:
Compensation of Employees :R 1.77 million
Goods & Services :R 13.69 million
Transfer Payments :R 10.23 million
Capital Assets :R 490 000

A rollover motivation totalling R21.13 million was submitted to National Treasury for consideration. (Subsequently, R18.9 million was approved). Details on underspending are as follows:

Compensation of employees
The under-expenditure of compensation of employees by 0.77% is mainly due to delay in the implementation of Senior Management Services (SMS)salaries adjustment.

The department had anticipated the SMS salaries adjustment to be effective from January 2014 however it was only implemented from April 2014 as per the Department of Public Service and Administration (DPSA) instructions.

Goods & Services
The under-spending of goods and services by 6.85% (or R13.69 million) is attributable to delays in administrative processes forprojects which were planned to commence during the financial year, for which orders were placed.However payments could not be effected due to delays in delivery of goods and services.

A proposal has been forwarded to National Treasury for the roll-over of a total of R11.97 million of the unspent funding of R13.69 million in goods and services to the 2014/15 financial in order to finalise projects initiated in the 2013/14 financial year. (Subsequently, R10 million was approved).

Transfer Payments
The budget balance of R10.23 million or 0.17% under the transfer payments economic classification is mainly due to under-spending of R8.9 million in the Non-grid Programme.

The Department was allocated a total of R119.22 million for the implementation of non-grid electrification technologies by service providers during the 2013/14 financial year. As at 31 March 2014, the Department had disbursed payments totalling R110.32 million to non-grid service providers, leaving an unspent total of R8.9 million, for which a rollover was requested. (A rollover for the full amount was subsequently approved).

Administrative challenges in finalising service provider contracts during the financial contributed to some of the delays in this project. Additional service providers were brought on board to accelerate the non-grid implementations.

During the fourth quarter of the 2013/14 financial year, a number of audits or verifications of work performed were finalised, increasing the spending in this project.

The management of transfer payments in terms of the Division of Revenue Act (DORA) are managed by line function (Integrated National Electrification Programme (INEP) / Clean Energy) based on funding requests received from individual municipalities and subsequent project plans which are included in the DORA implementation agreements. The Finance Branch manages the alignment of DORA payment schedules with the Department's drawings against the National Revenue Fund and payment requirements. The Finance Branch also assists the line function to re-gazette funds from a financial perspective, i.e. from non-performing municipalities and entities.

CAPEX (Capital Expenditures)
The under-spending of payment for capital assets is mainly attributable to orders placed but for which payment was pending as a result of delays in delivery.

Municipal Energy Efficiency and Demand Side Management Programme (EEDSM)Programme

Since the inception of the EEDSM programme in 2009/10 there has been some improvements on the management and administration of the programme. However, the following still remain a challenge:

- Poor EEDSM proposals submitted by municipalities due inadequate technical skills and/or capacity to manage and implement the project
- Signing of the Agreements and submission of the business plans as required by the Division of Revenue Act.
- Monthly, quarterly and annual progress reports not being submitted on time as required by the Division of Revenue Act
- Lack of accountability on reports provided. Most of these reports are not officially signed off by an authorized person within the municipality.

- Poor expenditure by most municipalities. This is evident in the amount being requested as roll-over.
- Municipal conflicts on Measurement & Verification (M&V) of energy savings. However, it should be noted that for 2014/15, the M&V function has now been shifted and centralized within the DOE.

In 2011/12 the Department decided to develop an implementation and monitoring guidelines for the EEDSM programme. The guidelines serves as practical tool for the development, implementation and monitoring of the EEDSM measures within municipalities, and also list options on various technologies and methodologies that can be adopted. In addition to the guidelines, the Department also developed a set of indicators as a criteria for developing EEDSM proposals. These set of indicators together with a business plan, and reporting templates were developed through the South African German Energy (SAGEN) Programme with the support of the German International Cooperation (GIZ). In 2013/14, the Municipal Infrastructure Support Agency (MISA) also came on board to provide support specifically on improving municipal capacity and project management on implementation of the programme
The Department conducts structured workshops and site visits to municipalities to address any shortfalls on implementation agreements.

<u>Integrated National Electrification Programme Challenges</u>

Municipalities and Eskom

- Slow delivery of electrification projects by Municipalities and in certain Eskom regions.
- Lack of skills and high vacancy rates within Municipalities – administration technical and project management functions.
- Majority of Municipalities are not performing as required - internal procurement processes are too long, hence the delays in the appointment of the contractors, and the subsequent delays in service delivery.

Non-Grid Programme

- Slow roll-out of non-grid connections due to negative perceptions about non-grid technologies and practical short comings.
- Current non-grid systems are not addressing basic electricity needs of customers and does not address heating and cooking needs.
- Non-grid service providers struggle to survive due to the small customer base and implementation of non-grid projects in far rural locations.

Funding and cost of connections

- More connections are done in rural areas – connections costs increases sharply and subsidy level has to be increased accordingly.
- Annual budgetary process force projects to be planned and designed on an annual basis and not on a multi-year (project completion) basis.

In order to address the shortcomings in the INEP, the Department initiated the following initiatives:

- Project Managers and Project Coordinators in the regions must conduct site visits to assess the projects before funds can be allocated, in order to verify the existence of the project.
- During implementation phase, projects are monitored and evaluated, and this oversight role will be strengthened going forward.
- After the completion of the projects, Technical Audits are conducted in order to inspect the quality, technical standards and safety compliance.
- Not all the projects are regularly monitored and audited due to financial and human capacity constraints.
- Projects allocations of over R5 million are prioritised for technical audits.

- Establishment of the Departments monitoring and reporting unit of INEP is currently underway.

Unauthorized Expenditure – R14.86m

The unauthorized expenditure of R14.86 million is due to an Infrastructure Grant transfer payments paid to the Mthonjaneni Municipality in May 2010.The transfer was appropriated in the 2009/10 financial year, however the payment to the municipality was processed in March 2010, but only transferred in May 2010 due to the system rejection of the banking details.This amount was condoned by National Treasury on 09 November 2011, however National Treasury has not yet indicated if the approval was granted with or without funding. The matter was under discussion with National Treasury as at 31 March 2014.

Subsequent to the year-end, the Minister of Finance requested the Standing Committee on Public Accounts (SCOPA) to consider the exceptional circumstances that DoE experienced at the time of the transaction.

Irregular expenditure

All irregular expenditure incurred in the 2013/14 financial year has been condoned. Irregular expenditure amounting to R379 000 was discovered at the time of audit.

The R379 000 of irregular expenditure relate to the additional expenditure incurred for the installation of 65 non-grid home systems prior to seeking the approval for expansion of scope.

Investments – R2.205 million

The Department is a 100% shareholder in the South African Nuclear Corporation Limited (NECSA) and own 2,205 million shares of R1 each.

Current Liabilities – R27,013 million

The breakdown of the above is as follows;

- R26.18 million - Unspent voted funds / Surplus funds - This was surrendered to NT immediately after the audit
- R648 000 - Revenue collect on the 31 March 2014 - This has been surrendered to NT
- R93 000 - Taxes on employee earnings - This was paid over to SARS in April 2014
- R91 000 - Unallocated amounts received in respect of petroleum licenses

(Surplus funds account for 96.9% of the current liabilities).

Audit opinion of the Auditor General of South Africa (AGSA):

- The department received an unqualified audit opinion, the following emphasis of matter;
  - Determination of the provision for the contingent liability relating to theNECSA operational past strategic facilities;
  - Reclassification of corresponding figures (which was as a result of the amended standard chart of accounts by National Treasury)

The department has completed an action plan to address all outstanding AGSA findings.

According to the DoE, most of the audit findings were addressed as at 31 July 2014.

4. AGSA Report:

4.1.1. Funding

During the 2013-14 financial year the DoE received funding totallingR6.5bn per the following programmes.

Table 5. Funding per programme

Programme	Final Appropriation (R'000)
Administration	233,142
Energy policy and planning	47,989
Energy regulation	39,865
Electricity and Energy Programme Management	3,967,700
Nuclear energy	723,998
Clean Energy	1,490,550
TOTAL	**6,503,244**

Source: Presentation document by AGSA on 14 October 2014

As at 31 March 2014, the DoE disbursed transfer payments to the value of R6,02 billion, which represented 92,5% of the total budget allocation for the year to public entities, municipalities and implementing agencies.

Table 6: Major transfer payments are reflected in the following table:

TRANSFER PAYMENTS	Original Budget 2013/14 R'000
SANEDI	134 344
Energy and Efficiency and Demand Side Management (EEDSM) – Eskom	1 149 900
EEDSM – Municipalities	180 718
NECSA	592 182
NNR	48 360
Integrated National Electrification Programme (INEP) – Eskom	2 141 027
INEP – Municipalities	1 634 772
INEP – Non-grid	119 224
National Radioactive Waste Disposal (NRWDI)	19 800
TOTAL TRANSFER PAYMENTS	**6,020,327**

Source: Presentation document by AGSA on 14 October 2014

4.1.2. Other matters of interest

With regard to "material misstatements to the financial statements" AGSA indicated that upon auditing the CEF, AGSA found that there was inadequate review by finance management to ensure that the financial statements complied with the financial reporting framework. Financial statements submitted by the DoE for auditing were also not prepared in accordance with the prescribed financial reporting framework as required by section 40(1) (b) of the Public Finance Management Act (PFMA). Business plans for utilisation of the INEP conditional grants made to 13 municipalities were not approved prior to the start of the financial year, as required by sections 10(1)(a) of the DORA.

With regard to "other matters of interest" AGSAfound that there was no unauthorized expenditure incurred by any of the entities in the portfolio. However fruitless and wasteful expenditure was incurred during the 2013/14 financial year. In 2013/14 the DoE did not incur any fruitless or wasteful expenditure, CEF incurred R7.2 million in fruitless and wasteful expenditure, a drop from the R38.6 million incurred in 2013. NECSA incurred R0.16 million in fruitless and wasteful expenditure while NERSA incurred R 0.01 million.

With regards to irregular expenditure for the 2013/14 financial year, the DoE incurred R 380 000, CEF incurred R 1.6 billion, NECSA R 5.8 million, NERSA R 0.06 million and SANEDI R 6.5 million in irregular expenditure.

With regard to the CEF, the AGSA indicate that two investigations were currently underway at PetroSA; an independent consulting firm at the request of the Minister of Energy and the Board during the 2013 reporting period. The investigation was initiated based on an allegation of possible misappropriation of the public entity's assets. The investigation was concluded during the 2014 reporting period and resulted in criminal proceedings being instituted against internal and external parties. These proceedings are currently in progress. He concluded with the "Combined Assurance on Risk Management in the Public Sector" the AGSA indicated thatthe annual report was used to report on the financial position of auditees, their performance against predetermined objectives and overall governance, and one of the important oversight functions of legislatures is to consider auditees' annual reports. To perform an oversight function, the oversight function needs assurance that the information in the annual report was credible. To this end, the annual report also included AGSA's auditor's report, which provided assurance on the credibility of the financial statements and the annual performance report as well as on the auditee's compliance with legislation. AGSA indicated that internal audit still provided no assurance and was therefore a concern.

a) Unauthorised expenditure:
No unauthorised expenditure incurred by any of the entities in the portfolio.

(b) Table 7: Fruitless and wasteful expenditure incurred in 2013/2014:

Auditee	Fruitless and wasteful expenditure

		Movement	Amount R 2014	Amount R 2013
1	Department of Energy (DoE)	↔	0	0
2	CEF (SOC) Ltd	↓	7.2m	38.6m
3	The South African Nuclear Energy Corporation SOC Ltd (NECSA)	↑	0.16m	0.11m
4	National Energy Regulator of South Africa (NERSA)	↑	0.01m	0.001m
5	South African National Energy Development Institute (SANEDI)	↓	0	0.002m
6	Electricity Distribution Industry (EDI) Holdings SOC Ltd			6.6m
7	National Nuclear Regulator (NNR)	↔	0	0
8	Equalization Fund	↔	0	0

Source: Presentation document on 14 October by AGSA

(c) Table 8: <u>Irregular expenditure incurred in 2013/2014</u>:

Auditee		Irregular expenditure		
		Movement	Amount R 2014	Amount R 2013
1	Department of Energy (DoE)	↓	0.38m	8.2m
2	CEF (SOC) Ltd	↑	1604.1m	875.0m
3	The South African Nuclear Energy Corporation SOC Ltd (NECSA)	↑	5.8m	0.06m
4	National Energy Regulator of South Africa (NERSA)	↓	0.06m	3.1m
5	South African National Energy Development Institute (SANEDI)	↓	6.5m	12.6m
6	Electricity Distribution Industry (EDI) Holdings SOC Ltd			0
7	National Nuclear Regulator (NNR)	↓	0	0.28m
8	Equalisation Fund	↔	0	0

Source: Presentation document on 14 October by AGSA

5. SERVICE DELIVERY ENVIRONMENT

5.1. INEP

INEP has gained momentum over the financial year, with support from the Presidential Infrastructure Co-ordinating Commission (PICC), Eskom and municipalities. Despite the gains realised, challenges still remain, especially in the municipalities, some of which include:Funding applications that are six times higher than the funding available per year; long lead times for municipalities, forcing projects to start late in the year; new connections that cannot be made due to lack of network capacity or the bad state of network infrastructure; limited oversight capacity within the Department due to resource constraints; lack of, or limited technical and managerial capacity in municipalities to plan, procure and manage electrification projects; and high turnover of technical and managerial officials within municipalities.

5.2. Renewable Energy Independent Power Producers Programme (REIPPP)

Windows 1 and 2 of the Renewable Energy Independent Power Producer Programme (REIPPP) were successfully concluded with 47 projects contracted. Challenges experienced by the programme were as follows:Misunderstanding by stakeholders regarding issues relating to localisation and socio-economic development timeframes and beneficiaries; the need for the Department and the developers to intensify engagements and communication with local communities and local and provincial governments regarding the socio-economic development aspects of these projects; interventions by different stakeholders in the delivery of the construction process; delays in connection to the national grid due to grid access constraints; and clarification of the interpretation of certain aspects of the Implementation Agreements, especially with respect to the manner and information required in terms of reporting by the IPP developers.

5.3. Petroleum Licensing

The Petroleum Licensing function encountered the following challenges during the year under review:Failure of certain licence applicants to submit their documents as required in terms of the Petroleum Products Amendment Act, (PPAA) and applicable regulations, which adversely impacted on decision-making and increased the turnaround time; the tendency for site and retail applicants to focus on overtraded areas, leading to an increase in the number of new-to-industry (NTI) site and retail applications which were turned down, and an increase in the number of appeals challenging the decision of the Petroleum Controller; the fact that site and retail activities tend to be recycled amongst Africans, in particular Blacks, thus defeating the imperatives of economic transformation; structural issues such as land and property ownership and development tend to perpetuate the imbalances with regards to access to site and retail ownership; non-compliance with licence conditions; abuse of legislative gaps by law firms and applicants' representatives, which drain the overstretched human resource capacity of the Petroleum Licensing function;and as part of addressing the challenges mentioned above, the Department hosted 11 PPAA and licensing awareness campaigns during the year, where the queries of individual applicants were addressed.

5.4. Solar water heaters

The Solar Water Heater (SWH) Roll-out Programme experienced installation delays during the year under review due to problems that included the installation of poor quality products, poor workmanship, and the crowding out of locally produced systems by imports. At the end of the year, 46 654 solar water heaters had been installed against a target of 80 000. The Department revised the SWH contracting model to prescribe a minimum local content of 70% for subsidised systems and a rebate can only be secured if the local content has been verified by the South African Bureau of Standards (SABS).

5.5. Electricity distribution infrastructure

The performance and operational state of the electricity distribution infrastructure in the country requires an urgent investment and rehabilitation to prevent long-term catastrophic power failures among all major distributors. The distribution networks of municipalities and Eskom are in some cases not maintained or have been upgraded on an ad hoc basis and as a result are not operating effectively.It is estimated that the maintenance and rehabilitation backlog figure is about R38 billion.

As part of the 2013/14 appropriation, the Department was allocated R320 million to initiate and conduct pilot projects in municipalities and metros to test a policy option to rectify this challenge. Nine municipalities/metros across the country were identified as recipients of the allocated funding. At the end of the financial year, 50% of these projects had been completed.This network upgrading will ensure a more stable supply to customers who have been experiencing regular power dips and outages due to network failures.

5.6. Organisational Environment

The Department of Energy was established in 2009 with a staff complement of 426 permanent and 97 additional employees, being interns and contract employees. The approved organisational structure was implemented in a phased approach due to financial constraints. As at the end of the 2013/14 reporting period, the Department's permanent staff complement had increased to 550 employees, with a further 57 employees appointed additional to the approved establishment.

The development and implementation of the Human Resource Development Strategy has, address the critical skills shortages in the energy sector; and led to the placement of 54 interns in various municipalities around the country. Partnerships were formed in addition to the focused human resource development interventions with the Energy and Water Sector Education and Training Authority (EWSETA) and the Chemical Industries Education and Training Authority (CHIETA) to increase the scope of energy training to meet the growing skills needs of the energy sector.

6. Service Delivery Implementation Plan

In accordance with the Public Service Regulations, Chapter 1, Part III C, the Department have developed and produced a Service Delivery Improvement Plan (SDIP) and Service Delivery Charter which sets out the service standards that citizens and customers can expect from the Department and which serves to explain how the Department will meet each of the standards. The table below sets out the Department's SDIP:

Table 9: Service Delivery Implementation Plan

Main services	***Beneficiaries***	***Current/Desired standard of service***	***Actual achievement***
New Multi-Product Pipeline (NMPP) from Durban to Johannesburg	South African public	Monitor and report on implementation of the agreement for completion of the NMPP trunk line.	The NMPP has been operational since end of 2012, and currently transports only diesel.
Inclining Block Tariffs (IBT) for prepaid metering	Municipalities	Extend IBT to cover prepaid meters in more municipal areas.	For 2013/14, Incline Block Tariffs (IBT) implementation in municipal areas had progressed to 76%, including Centlec licensed areas (e.g. Kopanong, Naledi and Mohokareng) of 1%.

Petroleum Licensing	• The South African public; • Manufacturers, wholesalers and retailers; • Industry associations across the value chain; • Oil companies;; and • Independent consultants/lawyers/attorneys representing applicants.	100% compliance rate by the Controller in finalising all applications within 90 days, excluding Site and Retail NTI applications. 90% compliance rate by the Controller in finalising site and retail NTI applications within 60 days.	An average of 97% compliance with the 90-day turnaround time. An average of 93% compliance with the 60-day turnaround.
Compliance with the Petroleum Product Act	• The South African public; • Manufacturers, wholesalers and retailers; • Industry associations across the value chain ; and • Oil companies.	1 500 compliance inspections conducted at the sites during 2013/14. 1 080 fuel samples and tests during 2013/14.	1 945 compliance inspections were conducted at the sites. Only 200 fuel samples were tested due to a delay in signing the Service Level Agreement (SLA) between the Department and the service provider.
Fuel stock levels and corrective actions	• Petroleum Industry; • Transnet; and • NERSA.	Fuel stock levels monitored and corrective action taken to avoid distribution shortages co-ordinated.	Thorough monitoring of fuel stocks was undertaken by the Department and industry through supplier manager meetings and the Logistics Planning Team. As a result, minimal fuel supply disruptions were experienced.
Nuclear safeguards compliance inspections, audits and investigations	• Nuclear industry; and • Energy users.	Four nuclear safeguards compliance inspections and one audit conducted.	Eight nuclear safeguards compliance inspections were conducted.

Clean Development Mechanism (CDM) projects	• Industry; • Municipalities; and • Organisations.	100% of all CDM applications processed within the set timeframes (45 working days for Project Development Documents (PDDs) and 30 working days for Project Identification Notes (PINs).	All applications processed within stipulated timeframes.
Universal access to energy	• Eskom and Municipalities; and • The general South African public, in particular poorer communities that currently do not have electricity.	A minimum of 215 000 households electrified perannum, comprising: • 200 000 grid connections ; and • 15 000 off-grid connections .	Grid household connections: • Eskom (157 839 planned, 202 943 including roll-overs achieved); • Municipalities (87 231 planned, 89 771 including roll-overs achieved). Therefore a total of 292 714 achieved. Non-grid connections: • 14 059 were achieved.
		Two Integrated Energy Centres (IEC's) established and operational	One IeC was launched in Free State Province and one in KwaZulu-Natal.

Table 9: Presentation document to PCE: 14 October 2014

7. Key Policy Development and Legislative Changes

During the year under review stakeholder engagement on the Integrated Energy Plan (IEP) was completed. The IEP is a high level planning platform to manage the interrelations between electricity, gas, and liquid fuels up to 2050.

The updated Integrated Resource Plan (2013) was drafted for public consultation, with major highlights being:

- Reconfirmation of nuclear and renewables as supply side solutions to meet environmental and macroeconomic development objectives;
- Shale gas and imported piped-gas playing a prominent role;
- Coal technology, particularly fluidised bed combustion, to sustain the coal programme; and
- Regional integration through imported hydro projects to improve the SADC economy, while simultaneously providing a renewable energy source.

With regard to the development of South Africa's gas resources, including regional gas opportunities in neighbouring countries and the country's own shale gas resource, the draft Gas Utilisation Master Plan (GUMP) was completed and stakeholder engagement will commence to solicit broader input into the plan.

The Biofuels Incentive Framework was published for public comment. The framework has been developed to facilitate the mandatory blending of ethanol into South Africa's liquid fuels. It is envisaged that the increased cultivation of energy crops like sorghum and sugar will be coupled with agrarian reform to result in more job opportunities and transformation of the economy.

Consultation on the Liquefied Petroleum Gas (LPG) maximum refinery gate price, which started during the year, is intended to facilitate the importation of LPG, especially during supply constraints in the winter season.

8. International Activities of the Department

The Department has maintained co-operation with the Southern African Development Community (SADC) Region, the African continent and the rest of the world. These strategic partnerships have been in line with the energy interests of the country, particularly the need for security of supply, diversification of the energy mix and access to finance, technology, technical skill and information. The IEP has taken cognisance of the abundant clean energy resources available in the region and seeks to incorporate these sources. This marks the Department's strategy to multi-source, with the objective of reducing our carbon footprint and driving South Africa's low carbon trajectory.

The Department initiated and signed a treaty with the Democratic Republic of Congo in 2013, which seeks to jointly develop the Grand Inga Hydro Power Project. The project has an estimated generation capacity of 40 000 MW and will be constructed in phases. The first phase aims to generate 4 800 MW. The Department is currently exploring ways to operationalize the treaty and initiate the development of phase one. South Africa is also exploring other regional projects within the SADC Region in countries such as Mozambique and Lesotho.

South Africa, together with the SADC region, is working on regional integration of the region's transmission infrastructure. This is driven by the Southern African Power Pool (SAPP). To date, the SAPP has established a day-ahead market where trading of electricity takes place among member countries.

The regional transmission system needs further strengthening and connection to other countries such as Angola, Malawi and Tanzania. Plans are under way to implement the interconnectors for the Southern African Power Pool (SAPP).

The main objective of the Department's approach towards international relations is to advance the South African energy agenda and facilitate sustainable development in the energy with the African region and the rest of the world. In line with this imperative, the Department has forged bilateral and multilateral relations that meet its strategic objectives.

9. State Owned Entities (SOEs) oversight

As indicated earlier, the Minister of Energy is responsible for overseeing the following fivestate owned entities (SOEs) and their subsidiaries, which are scheduled as schedule 2 and schedule 3A Institutions in terms of the Public Finance Management (PFMA) Act, 1999.

- National Energy Regulator of South Africa (NERSA)
- National Nuclear Regulator (NNR)
- Central Energy Fund (CEF)
- Nuclear Energy Corporation of South Africa (Necsa)
- South African National Energy Research and Development Institute (SANEDI)

The SOE Oversight Unit, which monitors the DoE SOE's both locally and internationally (including CEF and NECSA subsidiaries), on behalf of the Minister of Energy, has continued to provide oversight of SOE's which report to the Minister of Energy by ensuring the timely approval of their Corporate Plans, Strategic Plans, Annual Performance Plans and budgets.

The aforementioned duties includes, but is not limited to, ensuring that the SOE's have:-
Appropriate and effective planning and budgeting processes in place (section 52 of the PFMA);

- the financial management and control structures and processes that are capable of accurately, timeously and reliably recording and reporting on all financial transactions which take place (section 51 of the PFMA);
- the appropriate financial management systems and controls to ensure the effective management of the financial affairs of the SOE (section 51 of the PFMA);
- systems of ensuring that the financial affairs and performance of the SOE as reported is acceptable in terms of the corporate plans and shareholders compacts (section 51 of the PFMA and Treasury Regulations 29.1);
- programmes and objectives which are aligned to the Department's objectives and government programmes; and
- effective and efficient systems to ensure that the SOE's deliver on the agreed strategic objectives, performance measures and within the agreed timelines.

The Department has established governance structures as part of the processes for monitoring and evaluating the performance of the SOE's against approved strategic plans and government policy. These structures include:-

- The Minister's quarterly meetings with the Chairpersons of the SOEs to address strategic policy issues. The SOE Oversight Unit will liaise with the office of the Minister to plan for the next meeting.
- The Director General hosts the Forum for Energy Executives ("FEE") which is made up of all Chief Executives Officers of the SOEs reporting to the Minister of Energy.
- The SOE Oversight Unit holds quarterly performance review meetings with SOE executives to discuss the submitted performance reports and address any challenges or ensure that these are appropriately escalated where necessary.

The SOE Oversight Unit facilitates the aforementioned quarterly meetings between the Minister and the various Chairpersons of the SOEs, to offer strategic direction and support. These meetings are also used to update the Chairpersons of any major decisions taken by the Cabinet which might affect the operations of the entities. The following issues, inter alia, may be discussed in these meetings:-

- board performance reviews;
- individual board member reviews;
- general performance of the entity;
- mandate and Strategic direction of the SOE; and
- review of the performance of the CEOs.

The SOE Oversight Unit also conducts annual evaluations of the general performance of the SOE Boards, as a collective, and of the individual Board members in accordance with the Protocol on Corporate Governance in the Public Sector, the King III Report on Governance and the Companies' Act.The SOE Oversight Unit also recommends, to the Minister, the appointment of suitable candidates to the Boards of the various SOE's that report to the Minister of Energy.

In addition to the aforesaid, the SOE Oversight Unit is gravitating towards monitoring and evaluation its SOE's on a project-like basis, with monthly reports on all projects currently being undertaken by SOE's. Thus will allow the unit to become more proactive, rather than reactionary, in dealing with the SOE's.Unfortunately, these, and a few other envisaged projects, have been inhibited by capacity challenges within the Unit, and attempts are ongoing within the DoE to ensure that SOE Oversight Unit is ultimately resourced with additional skilled personnel as a matter of urgency.

All SOE's reporting to the Minister of Energy received unqualified audit opinions during the 2012/13 and 2013/14 financial years.

10. Public Participation Programmes

The Minister and the Deputy Minister hosted 45 formal public engagements with an additional 15 engagements hosted by the Director-General and the staff of the Department during the year under review.
During these engagements the Department used the opportunity to share information on access to energy, the use of different energy carriers, safety aspects relating to energy, opportunities for women and youth in the energy space, planned projects to improve access to energy, the use of energy in an efficient manner, as well as general responsibilities of energy users.

The challenges experienced in these engagements were as follows:

- The time required to prepare and conduct engagements;
- The cost of arranging the engagements, since the majority were held in rural areas;
- Limited resources within the Department to manage the large number of engagements, given that the same staff members were involved in the roll-out of the electrification programme; and
- Difficulties in the remote management of procurement where procurement could not be undertaken at local government level due to cash flow challenges, and as a result had to be undertaken via the Department.

11. Summary of the Annual Reports 2013/14 of the entities

11.1. National Energy Regulator of SA

NERSAis a Schedule 3A Public Finance Management Act of 1999. The Public Entity was established on 1 October 2004 to regulate the electricity, piped-gas and petroleum pipelines industry. In executing its mandate NERSAendeavoured to balance the conflicting interests of both entities and the end users. NERSAisan independent regulator, functionally reporting to the Minister of Energy. The key highlights during the 2013/14 financial year were that NERSA received a clean audit from the Auditor-General, 90% of the annual performance targets were met, NERSA reported a net surplus of R16 216 874, no irregular expenditure was incurred and the vacancy rate was reduced to 5%.

NERSA's strategic objectives were to:

- Promote energy supply that was certain and secure for current and future user needs
- Create a regulatory environment that facilitated investment in energy infrastructure
- Promote competition and competitiveness within the energy industry
- Promote regulatory certainty within the energy industry
- Promote accessible and affordable energy for all citizens
- Establish and position NERSA as a credible and reliable regulator

NERSA collected actual levies which amounted to R 226.9 million received from the following sources; electricity industry R 127.6 million, piped-gas industry R 51.9 million and petroleum pipelines industry contributed R 47.3 million. The actual expenditure for the period 1 April 2013 to 31 March 2014 amounted to R 227 million. This represented an under-spending of 10% compared to the budgeted amount of R252.8 million. Fruitless and wasteful expenditure was R5, 47500, relating to interest charged for late payment of invoices while irregular expenditure was at R0.

With regard to the audit outcomes, NERSA received a clean audit from the Auditor-General. NERSA continued to grow from strength to strength since its inception in 2005, and the results of its work continued to have a profound impact on the lives of ordinary people as well as on the economy of the country. However the regulation of the three energy industries characteristically continued to pose challenges in that the Energy Regulator was required to balance the conflicting interests of licensees, investors, consumers/end-users and the policy maker. To deal with regulatory challenges, NERSA has undertaken various initiatives to refine regulatory practices and methodologies in its quest to become a world-class leader in energy regulation and will continue to do so.

11.2. National Nuclear Regulator (NNR)

The NNR is an independent world class regulator, which aims to ensure safety and protection against nuclear damage and abuse.

In the financial year (FY) 2013/2014, the NNR achieved 82.6% of its targets, compared to the 2012/13 financial year, where it had achieved 81%. It aims to fully achieve 85% of targets in the following financial year.

The NNR conducted peer reviews to Ghana, Kenya, Botswana and Mauritius during the financial year. South Africa has hosted a number of workshops and hubs on behalf of the International Atomic Energy Agency (IAEA) and had worked in partnership with a number of countries during 2013/2014. It was a great step forward, as the world recognised the NNR's expertise in moving and handling nuclear material. There were no nuclear occurrences in South Africa during the last year. It was specifically mentioned that after the Japanese disaster, Koeberg was instructed to follow more stringent international safety requirements.

According to the NNR, the SAFARI-1 research reactor, will have an operational lifespan until 2030.

The NNR had been researching best practices for HR management and there has been an extensive review of HR processes during the year. The NNR has embarked on an expensive re-categorisation process to allocate personnel to correct positions within the body.

A number of capital projects were under way, which includes the replacement of the Koeberg reactors.

The NNR, stated that they raised a bond to purchase a building, and its financial situation is solid, with a low liability base. The regulatory capacity is growing. The current funding model is based on government grant fees and licensing fees. The government fees were R35 million in 2011/2012 and R31million in 2013/2014. National Treasury is planning to reduce this to R10 million in the next two years. This is a major problem, given the need to grow and replace capital expenditure and skills, especially in light of the envisaged nuclear build.

The NNR stated that they need to procure overseas equipment, but that led to delays in capital project completions. The exchange rate volatility and weakness of the rand often led to budget overruns. The NNR appointed a professional Project Manager to oversee all projects to free up scientists to complete their work. Government needed to keep NNR informed about all the details regarding future nuclear projects, as NNR has the final say on if and when these would be built. The government was talking about nuclear expansion, but at the same time National Treasury is talking about cutting the NNR budget, and this, is contradictory and untenable.

Currently, the Department of Health monitors medical nuclear waste and the NNR monitors all other nuclear waste, leading to a breakdown in communication and responsibility between the two organisations. The NNR stressed that the responsibility for the medical nuclear area should be ceded to the NNR.

11.3. SA Nuclear Energy Corporation (NECSA)

NECSA derives its mandate from:The Nuclear Energy Act No 46 of 1999;The Nuclear Energy Policy (NEP) of 2008; andDirectives conferred on it by the Minister of Energy

NECSA is mandated to undertake and promote research and development in the field of nuclear energy and radiation sciences and technology; to process source material, special nuclear material and restricted material and to reprocess and enrich source material and nuclear material; and to co-operate with any person or institution in matters falling within these functions.NECSA also execute institutional responsibilities on behalf of government, e.g. operation and utilisation of SAFARI-1, decommissioning and waste management, international obligations.

The strategic outcomes of the NECSA is to : Raising the performance of R&D, NMC (Nuclear Manufacturing Centre), Operations, the NTP Group and the Pelchem Group; increasing the awareness of NECSA's research and production outputs and the positive impact thereof; finding sustainable funding models for the expansion and enhanced viability of NECSA's subsidiaries; and Expanding R&D collaboration with iThemba LABS and the rest of the National System of Innovation, including government departments such as Department of Science & Technology (DST); future proofing of NECSA activities through the SAFARI-2 feasibility study, ensuring LEU fuel and target plate security of supply and commercial sustainability, and driving SAFARI-1 life extension within a proper regulated framework; maintenance of site infrastructure based on the risks and potential liabilities associated with such infrastructure; strengthening NECSA's project management and business development capabilities; skills development and transformation by advancing employment equity, growing the pipeline of graduates and lowering the average age of researchers; and obtaining early Shareholder support for key strategic projects.

With regard to international collaboration NECSA maintained cooperation with counterpart institutions from different countries through mechanisms such as MOU's in order to support its drive to achieve its mandated goals. NECSA experts continuously contribute to the development of international standards and codes in nuclear technology through participation in various IAEA fora. NECSA participated in various global policy conferences such as the WNA and the annual general conference of the IAEA.

On financial risks NECSA highlighted the following

- The going concern of Pelchem SOC Ltd is under extreme pressure and hence NECSA signed a letter of support for Pelchem, In mitigating this NECSABoard of Directors have emphasised the strategic importance of Pelchem's function and have appointed a Task Team to evaluate different options to ensure long term sustainability of these strategic functions.
- Contingent liabilities relating to decommissioning and decontamination of NECSA's past strategic operational nuclear facilities and waste disposal at Vaalputs. On mitigating this NECSAis engaging with the DoE & Treasury to determine accountability of decommissioning liabilities and to find suitable funding strategies.

Some of NECSAs highlights for the period under review include: Unqualified audit reports for all entities within the Group; NECSA achieved, and in some instances exceeded, the targets of 10 of the 13 key performance indicators - if the NTP profit target is adjusted for insurance recovery, 84.6% of targets have been achieved; R190m (including VAT) additional funding received; and NECSAsigned an MOU with the IDC to jointly focus on some projects funding.

According to NECSA, certain items of fruitless and wasteful expenditure were identified relating unrecoverable overpayments, penalties and interest (total of R0.3m in the group and R0.2m on NECSA corporate).Systems controls have been improved to further prevent these expenditure irregularities.

Irregular expenditure of R5.8m disclosed in the annual report relates to: procurement of goods and services regarding the 80/20 and 90/10 principle where tenders came in higher than foreseen and

Isolated occurrences relating to procurement of goods and services where tax clearance certificates were not on file. According to NECSA these were isolated incidents & not reflective of the standard applied as tax clearance certificates are requested from all bidders and are a key component of the bids evaluation criteria.

11.4. SA National Development Institute (SANEDI)

Some of SANEDI's highlights include: Converting Hub and Spoke for Energy Efficiency to full Centre Model; Technical Advisory Facility for EE operationalized with AFD support; Establishing cool surfaces association; securing World Bank funding for Carbon Capture and Storage (CCS) Pilot; collaboration with the City of JHB on biogas production for vehicles; development of the high mast light project with City of Tshwane; the development of the Kwa-mashu waste to energy pilot project;Development of SARETEC training centre at Cape Peninsula University of Technology (CPUT); and the development of cogeneration platform.

Table 10: SANEDI's link with the IEP, NDP and IRP

INTEGRATED ENERGY PLAN	**NATIONAL DEVELOPMENT PLAN**	**INTEGRATED RESOURCE PLAN**
Increase in renewable energy technologies – total installed capacity of renewable energy technologies would be in the magnitude of 26.3% of the total installed capacity by 2030	Move to a less carbon intensive economy through procuring at least 20 000 MW of renewable energy by 2030	Development of solar corridors
Wind energy plays a significant role in limiting emissions	Growth and expansion of RE sector	Emphasis on improving energy efficiency regarding transport networks
Alternative renewable energy sources must be sourced	Expand renewable energy sources	NT to use fiscal instruments to subsidise energy R&D
Increased and improved energy efficiency to reduce GHG emissions	Increased and improved energy efficiency to reduce GHG emissions	Innovation is required to improve energy efficiency

Source: Presentation document on 16 October 2014

11.5. Central Energy Fund (CEF) and its subsidiaries

11.5.1. CEF Ltd

CEF (SOC) Ltd ("CEF") is the holding company for a number of subsidiaries, which, when taken together, constitute the CEF Group. These subsidiaries also operate in the energy sector with commercial, strategic, regulatory and developmental roles. The business focus and activities of each subsidiary is as follows:

Table 11: CEF and subsidiaries

	Subsidiary	**Business Focus**
1	CEF	Holding Company
2	Clean Energy Division (CED)	Clean and Renewable Energy
3	Petro SA	Oil and Gas, NOC
4	SFF	Strategic stock and pollution control
5	PASA	Promotion, Licensing and Regulation
6	AEMFC	Mining, Coal
7	iGas	Gas and Gas infrastructure

Source: Presentation document on 21 October 2014

In 2010, the CEF Board through a series of strategic workshops recognised many strategic challenges that were facing CEF Group and preventing it from performing optimally. These strategy workshops were held between 2010 and 2013 and focussed on understanding the underlying strategic challenges and identifying interventions required to change the critical sustainability situation that was beginning to emerge.

Table 12:Workshops held by CEF

Location	Group Strategy Session Lanzerac September	Group Strategy Session Misty Hills August	Group Strategy Session Zimbali August	Group Alignment Initiatives begin to take shape
Year	2011	2012	2013	2014
Outputs	CEF Group reviews the many internal and external forces that are likely to influence and shape the Group. This is driven by the looming Group financial crisis with detrimental impact	CEF Group reviews both internal and external forces and focuses on: • Governance • Compliance • Communications • Skills • Performance • Projects • New Ideas	Refinement of the Group Strategic intent which articulated the core components of the mandate and sharpens the group commercial viability agenda by adopting a Strategic Roadmap for short and long term strategic goals	Implementation of a number of strategic initiatives to focus on: • Delivery of the CEF Mandate • Group Governance structures for oversight • Repositioning of CEF as a holding structure. • Commercial viability

Source: Presentation document on 21 October 2014

Table 13: The following strategic challenges were identified as part of the strategic workshops that were held:

• Project execution challenges • Oversight failures • Missed deadlines • Financial sustainability consideration • Lack of leadership	• Lack of direction • Unwieldy structure • Potential skills shortages • Processes and controls • Diminishing Cash reserves

Source: Presentation document on 21 October 2014

As a result of identifying key strategic challenges that would affect Group sustainability, three critical resolutions emerged:

- Streamline the Group by reducing the number of subsidiaries (Portfolio rationalisation)
- Position CEF to act as a Holding Company – provide oversight and assurance (Project Genesis)
- The need to return the Group to Commercial viability and sustainability (Vision 2025)

The 3 Resolutions are intertwined in ensuring long term business success

Group performance concerns include the following: impairment of the GTL facility – R3.4 billion; further delays on Ikhwezi project which partially caused the impairment of the GTL facility; disabling Injury rate higher than 0.44; volume of liquid fuels supplied to the South African market way below target at just over 4MMbbl; Coal production below the target of 1.5 million tons; limited progress on the reorganisation of AEMFC and iGas; and the R1.6 billion irregular expenditure.

11.5.2. Strategic Fuel Fund (SFF)

The SFF mandate is to manage strategic crude oil on behalf of the South African Government. The strategic stock of crude oil and the land and buildings used to hold the stock are the property of the State. SFF acts as the agent of the State in managing these assets under the guidance of Ministerial Directives issued in terms of the CEF Act. The primary function of the storage facilities is the cost-effective and safe receipt, storage and distribution of strategic and commercial crude oil stocks.

SFF is a nominated stockpiling agency of the Republic in terms s17 (1) of the National Energy Act of 2008.

According to the SFF:

- Irregular expenditure relates to lack of proper document keeping and we could not prove that PPPFA was adhered to on supplier selection.
- Fruitless expenditure relates to a SARS penalty on late payment of employee taxes by our service provider (CEF SOC)

11.5.3. iGas

The national South African gas development company (iGas) has the mandate to invest in hydrocarbon gas development in Southern Africa including gas infrastructure and storage.

Currently, iGas is a 25% shareholder in the Republic of Mozambique Pipeline Investment Company (Rompco) which owns the 865km gas pipeline from Mozambique to South Africa.
This pipeline annually imports from Mozambique 167 Million Giga Joules of gas into South Africa, the equivalent of 2, 2Mossel Bay refineries. The majority of gas used in Mozambique goes to small industrial development and a power plant that sells electricity into South Africa.

iGas is mandated to advance the energy goals set out in the White Paper on Energy Policy (December 1998) or as revised from time to time. Specifically iGas will promote the diversification of energy usage into hydrocarbon gas and may assist in ventures which will facilitate the usage of hydrocarbon gas in South Africa

iGas is specifically empowered to:

- Own, invest in, construct and/or operate hydrocarbon gas transmission pipelines and hydrocarbon gas storage facilities.
- Conduct research into and finance or participate in projects with a view to the diversification of energy usage to include hydrocarbon gas

Key projects include:

- Expanding gas infrastructure. (Loop line 1; Expands energy infrastructure in Southern Africa. Expected to supply natural gas to at least 2030)
- Maintaining gas infrastructure. (Rompco operations; Maintains an important energy infrastructure which providing there are natural gas resources and regular maintenance could last until at least 2040.)
- Developing options for new gas infrastructure. (Studies done on gas infrastructure to Gauteng Hospitals and gas pipeline from Saldanha Bay to Ankerlig and related gas pipeline options studied; develops new energy infrastructure options)
- Planning for electricity generation from natural gas. (Develops new energy infrastructure)
- Effective management of the Rompco dividend.

Priorities for iGas during the current financial year include:

- Rompco Loop Line 1 : Construction expected to be complete in November 2014. Beneficial operation by January 2015.
- Rompco Loop Line 2 : Awaiting final regulatory approvals and financing. Commencement of construction in March or April 2015.
- LNG Terminal work and related transmission pipelines: Work continuing. Preparation of all necessary information for a viable project

11.5.4. African Energy Finance and Mining Corporation (AEMFC)

AEMFC is a CEF subsidiary whose mandate is to ensure the security of energy supply for the benefit of the country by ensuring the supply of energy feedstock for current and future power generation. The AEMFC operates an open cast coal mine in Ogies supplying Eskom Kendal power station. A Cabinet decision in 2010 directed that AEMFC be hived off from CEF to report directly to the DMR.

Recent developments include: The DOE and DMR are currently in discussions to effect the Cabinet decision wrt the hiving off of the AEMFC. A draft Bill is in progress to hive off AEMFC supported by an Act of Parliament (DMR Minister Budget speech)

11.5.5. Petroleum Agency of SA (PASA)

PASA is a private company that has been designated, with effect from 18 June 2004, as an Agent of the State in terms of the Mineral and Petroleum Resources Development Act (MPRDA). The main business of PASA is the promotion, licensing and regulatory function for offshore exploration and production of petroleum. PASA also manages the Continental Shelf Claim Project on behalf of the country. The MPRDA Amendment Bill has now been passed by parliament and upon the President of the country signing the bill into an act, PASA will be transferred from the CEF Group to the Department of Mineral Resources.

PASA financial performance highlighted the following: unqualified audit report with no emphasis of matter for the second year running; ongoing concerns regarding long-term funding; and the uncertainties created by MPRD Amendment Bill.

11.5.6. PetroSA

Table 14: Below is a table on the progress made on key projects by PetroSA

Project Name	Achievements	Looking ahead
Ikhwezi	• First Well, F-O9, spudded in January 2013. • Second development Well F-O10, was spudded in October 2013.	• The drilling of remaining wells and the final tie-in will be done during 2014/2015.
Mthombo	• Review of the business case was jointly completed and approved by PetroSA and its anchor partner, Sinopec. • High-level desktop studies were completed on the possible integration of LNG importation and a petrochemicals production.	• The discussion with partners for development of the feasibility study is ongoing.
LNG	• Uptime analysis concluded showed that the technical and commercial viability of locating the LNG terminal in the Mossel Bay will be challenging due to severe met-ocean conditions.	• Alternative locations for a terminal are being considered. • Viability of the project is dependent upon PetroSA/Eskom obtaining a delivered gas price that meets commercial thresholds
PetroSA Ghana	• The asset performed well during the year, offering an additional income stream. • The Jubilee oil field gross production averaged 97 120 bpd. This contributed on average • 72 000 bbls/month to PetroSA.	• Production will be bolstered by the further development of the Tweneboa-Enyenra-Ntomme (TEN) fields to be commissioned in 2016.

Source: Presentation document on 21 October 2014

The investigations mandated by the Minister of Energy and by the Board of PetroSA were completed. The outcomes of these investigations were considered by the accounting authority of PetroSA and accounting authority of CEF SOC Limited (CEF). PetroSA is in the process of resolving the matters.Steps were taken to effectively manage fruitless and wasteful and irregularexpenditure.Fruitless and wasteful expenditure of R6 million and irregular expenditure ofR1.6 billion were incurred. An impairment of R 3.4 billion was raised during the current financial year in respect of the GTL cash generating unit of PetroSA. This resulted in the overall loss of R 1.4 billion reported at CEF.

Focus for the period ahead include:

- Successfully delivering Ikhwezi on time and within budget;
- Finalizing funding arrangements for downstream entry; and
- Full placement of the reserves-based lending facility for PetroSA Ghana.
- Cost-containment remains a key area of focus across the organisation.
- Greater efforts will be directed to taking the LNG importation project through the necessary approval stages (e.g. Environmental Impact Assessment).
- Focus on improving the performance of PetroSA's trading business continues in terms of its value-add and risk exposure, with a view to reduce operating costs.
- In terms of the Asset Development Plan (ADP), aimed at developing a long-term solution for Mossel Bay – completion of technical studies will be key.

12. COMMITTEE'S FINDINGS AND OBSERVATIONS

The Portfolio Committee on Energy noted the following observations and findings:

- ***Energy planning*** is an area requiring attention in the Department and in this regard, some key outstanding policies are the Integrated Energy Plan, the Integrated Resource Plan and the Gas utilization Master plan. The Committee noted that some of these are in draft form but have not been finalized. This is adding to the energy constraints being experienced by the country and hindering economic growth. This is also applicable to key legislation, governing the sector that is outstanding.
- ***Lack of skills,*** e.g. required for the national electrification programme, (especially at Municipal level) was highlighted to the Committee numerous times. The formation of the Municipal Infrastructure Support Agent (MISA) goes a long way in assisting in this regard. The Committee identified that there is a challenge in South Africa with regard to engineering skills and hence this is resulting in slower than anticipated progress in some projects. Although skills development may not be identified as a key output by the Department. It is critical that the Department assess this and develop plans and strategies to ensure that there are sustainable solutions available;e.g. the problem of distribution infrastructure maintenance will always be there and investment in skilling people to maintain the infrastructure is needed to ensure the countrymoves out of the expensive crisis management mode.
- With regard to ***electricity***, the Committee observed that there are challenges with regard to electricity supply, resulting in load shedding, and further delays in new build projects coming on line is putting a strain on supply and resulting in elevated costs. There were also challenges noted with regard to transmission and distribution. This includes transmission challenges identified with regard to the REIPP programme and distribution challenges (including maintenance and backlogs), identified especially at municipal level. Other observations were in the area of implementation of the Free Basic Energy policy, especially at Municipal level. Protection of indigent communities is of highest priority. Further in terms of electricity utilization, the co-ordination and monitoring of this is required and hence the identification of an energy efficiency champion for South Africa is critical. Some of the challenges are as follows:

    a. ***The Implementation of Free Basic Electricity (FBE) and Free Basic Alternative Energy (FBAE) Policy*** appears to be a challenge for South Africa, particularly the latter. Apart from supplying FBE to the indigent communities, with only 86% of SA electrified, the remaining 14% of South Africa also need access to clean energy. Further, Eskom announced that electricity prices are to rise by 12.66% next year. The Committee observed that although the Department is addressing some of the challenges with regard to access to FBE, a lot more can be done.

b. ***In terms of INEP,*** problems were highlighted last year with regard to slow delivery at municipal level and issues related to the budgeting (especially for multiyear projects) and different financial years at local and national level. The Committee also observed, problems with reference to overlap in terms of project management and how funds are distributed. Municipalities only budget for a project if the funds are available, whereas the Department only pays when the project reaches a certain point of delivery.
c. The Department informed the Committee that the backlog with regard to ***electricity distribution infrastructure*** was in the order of R68 billion. The Department has launched the mini ADAM pilot programme last year with about R360 million being made available. The Committee finds that more can be done with regard to this situation.
d. The Department has identified ***Energy Efficiency*** as one of the challenges facing SA and acknowledged that we need to redouble our efforts. The Department spent R1.33 billion on the Energy Efficiency Demand Side Management programme (EEDSM) and further launched the Energy Efficiency Incentive Scheme in December 2013. The Committee finds that the Department needs to place as much effort in the area of Energy Efficiency as it does on the new build programme. All those megawatts being saved could result in us having to build fewer power station going forward. Further, in 2009 the ***Solar Water Heater (SWH) Programme*** aimed to ensure that 1 million systems be installed by 2014. This target has be moved to 2015/16 yet in the last financial year 46 600 units were installed against a target of 80 000. With only about 400 000 units installed, the Committee observes that this is going to require a concerted effort from the Department.
e. ***Renewable Energy Independent Power Procurement Programme (REIPPP).*** The Portfolio Committee of Energy notes that, this programme is a model world over and showcases SA ability to attract international investment and deliver on massive projects. However the Committee observes that some short comings have been identified at the REIPPP. This includes ensuring that the transmission grid is available to the programme as and when required, local communities are empowered and benefit from the programme and that aspects of localization of technology and skills transfer is assessed to ensure it is occurring. Resolution of these issued and continued roll out of this programme is important for SA, as is the roll out the co-generation independent power procurement programme as soon as possible to ensure South Africa benefits from this programme.
f. In terms of energy carriers, the ***nuclear power programme*** will be the biggest infrastructure programme of the state. The Committee observes that the Department of Energy needs to manage the state of readiness of SA for the programme and the aspects of localization and skills development.

- The Portfolio Committee on Energy also observed that transformation of ***the liquid fuels sector*** is progressing but at a very slow pace. Some initiatives by the Department of Energy to ensure transformation in this regardis acknowledged, e.g. the use of storage facilities at either end of the NMPP to allow access to smaller companies, but the Portfolio Committee on Energy finds that progress is not fast enough in terms of transforming this space. Further, the slow delivery of the objectives of the biofuels strategy, is also of concern to the Portfolio Committee on Energy as this can contribute substantially to the economy.
- ***In terms of Gas***, as indicated, the Gas Utilization Master Plan is critical for developments in this sector. The Portfolio Committee on Energy observes that constraints in terms of gas supply is placing a substantial strain on the economy (e.g. usage of diesel for power generation) and hindering economic growth. The Portfolio Committee on Energy finds that there has to be far greater penetration of gas in the economy and mechanisms to enable this has to be identified. This includes identifying and developing a reliable gas supply to the economy.
- ***Oversight capacity of the DoE***, specifically with reference to the State Owned Entities that account to it. The PCE observes that the DoE needs to develop a robust oversight model as

various problems were noted at some State Owned Entities' in terms of financial management (including supply chain management) and project delivery. In this regard the Department of Energy further needs to reassess the funding of some State Owned Entities, especially the NNR and NECSA. It is critical, considering the envisaged nuclear roll out programme, that the NNR and NECSA be empowered financially, to develop the critical skills required for the envisaged programme.

- The Portfolio Committee on Energy observes, that with regard to ***State Owned Entities (SoEs),*** various challenges were identified in terms of operations and finances. This in especially in the case of project delivery and irregular expenditure. State Owned Entities were also experiencing challenges with regard to enabling legislation, available and proposed funding and skills availability. Some more detailed observations and findings are listed below:

CEF and Entities

- The Portfolio Committee on Energy observes that the restructuring of CEF and its entities is needed to ensure they more effectively meet South Africa's energy needs. The hiving off of entities should be fast tracked to ensure the organisation restructures urgently.
- The root cause of the financial challenges identified at these entities is a concern and need to be identified and urgently addressed, to ensure that there is no re-occurrences and further to ensure that they are correctly capitalized for growth.
- The Portfolio Committee on Energynoted a challenge with regard to PetroSA's feedstock supply and although there are plans on the table more focus is required to ensure delivery is fast tracked. The constrained supply of gas is negatively affecting the economy.
- The PCE finds, at PASA, until it is transferred to the Department of Mineral Resources (DMR), the issue of financial sustainability and retention of key and critical skills is an area that needs to be addressed.
- At SFF Association, the issue of strategic reserves be addressed, including increasing the current reserve capacity from the current 25 days to the proposed 42 days.
- At AEMFC, the issue of coal contracts at the entity is an issue, to ensure the sustainability of the business unit.

SA Nuclear Energy Corporation (NECSA)

- The PCE observes that NECSA needs to explore and promote mechanisms to ensure it is able, via its companies and technologies created, that it can generate most of its own funds and becomes financially independent of the state, if possible. This includes assessing the challenges being experienced at Pelchem that results in them showing financial losses each year.
- The PCE noted with concern, the issue of the contingent liabilities related to the decommissioning and decontamination of NECSA's past strategic operational nuclear facilities and the disposal of low and intermediate level waste at Vaalputs. In this regard, the National Radioactive Waste Disposal Institute needs to start operating as a functional entity as soon as possible.

National Nuclear Regulator (NNR)

- The PCE observes that the DoE needs to ensure that NNR has the requisite skills and resources to be able to perform robust regulatory oversight on the proposed nuclear new build programme. Staff should be empowered with the knowledge and skills required and should have adequate international exposure.
- Further, an area of concern, raised by the 5th Parliament was that of the "ownerless legacy sites" and the NNR should ensure efforts to identify and manage these sites be fast tracked to protect South Africans from accidental exposure.

- The PCE also observes that the DoE should ensure that the fragmented regulatory framework be urgently addressed so that the Regulator is empowered to manage category 3 and 4 radioactive sources, which is normally managed by the Department of Health.

National Energy Regulator of SA (NERSA)

- The PCE observed that the legislative mandate of NERSA has to be assessed and revised to ensure it is comprehensive and robust to fully empower NERSA to execute their duties. This includes ensuring that NERSA is empowered to audit and investigate regulatory related issues at Eskom and Municipalities. An effective regulator is empowered by the legislation that governs it and the sectors it oversees and also in its ability to execute its mandate.

SA National Development Institute (SANEDI)

- The Portfolio Committee on Energy observed that SANEDI requires a robust plan to ensure projects meet all specified deadlines and that mechanisms are in place to convert the Research and Development projects into commercial ventures.
- The Portfolio Committee on Energy also observed that there are also staffing challenges at SANEDI as majority of staff are on contract, with very few permanent staff.

13. RECOMMENDATIONS

The Portfolio Committee on Energy recommends that the Minister of Energy should address the following:

1. Expedite the finalisation of the energy planning policies, with specific reference to the Integrated Energy Plan (IEP) and the Integrated Resource Plan (IRP).
2. Expedite all outstanding legislation which include the following;
    - The Gas Amendment Bill
    - National Nuclear Regulator Amendment Bill
    - Electricity Regulation Second Amendment Bill
    - National Energy Regulator Amendment Bill
    - Radioactive Management Fund Bill
    - Nuclear Energy Amendment Bill
    - Independent System Market Operator Bill
3. Develop initiatives, in conjunction with other national government departments and entities to ensure security of supply, with regard to electricity (so as to ensure there is no load shedding).
4. In conjunction with the Department of Co-operative Governance and Traditional Affairs and National Treasury develop a strategy to address the backlog related to the Distribution Network.
5. In conjunction with the Department of Co-operative Governance and Traditional Affairs, assess and develop strategies for the effective implementation of Free Basic Electricity (FBE) and Free Basic Alternative Energy (FBAE) Policies.
6. Identify and empower an Energy Efficiency champion for South Africa, who will take ownership of all current initiatives in South Africa, conduct assessments on effectiveness of current initiatives, and develop strategies going forward including recommendations on new technologies and policies that South Africa needs to introduce in this sector.

7. In terms of the Integrated National Electrification Programme (INEP) programme, develop strategies to address the problems experienced at Municipal level, relating to: slow delivery, skills availability, budgeting, and project management.
8. Assess and develop interventions for the development of key and critical skills in the various areas of energy including, among others, engineering, nuclear and electricity distribution.
9. Enhance the oversight capacity of the Department of Energy, specifically with reference to the State Owned Entities that account to it. The Minister is to ensure the Department of Energy develops a robust oversight model as various problems were noted at some State Owned Entities in terms of financial management (including supply chain management) and project delivery.
10. Develop mechanisms and strategies to expedite the transformation the liquid fuels sector.
11. Fast track the biofuels strategy and finalize the regulatory instruments that the Department of Energy are working on, to facilitate the introduction of biofuels into the South African liquid fuels market.
12. Reassess the funding of the National Nuclear Regulator (NNR) and SA Nuclear Energy Corporation (NECSA)- in conjunction with National Treasury -considering the envisaged nuclear roll out programme, that the National Nuclear Regulator and the SA Nuclear Energy Corporationbe empowered financially, to develop the critical skills required for the envisaged programme.
13. Address the challenges identified at the Renewable Energy Independent Power Procurement Programme, which includes ensuring that the transmission grid is available to the programme as and when required, local communities are empowered and benefit from the programme and that aspects of localization of technology and skills transfer is assessed to ensure it is occurring.
14. Roll out the co-generation independent power procurement programme to ensure South Africa benefits from this programme.
15. Ensure that the negotiations for the proposed nuclear build programme be conducted in a fair and transparent manner, to ensure that maximum benefit is derived for South Africa.
16. Finalize the Gas Utilization Master Plan (in conjunction with the Gas Amendment Bill), to ensure investment in and development of this sector.
17. Closely monitor and where necessary, direct developments related to shale gas and other oil and gas exploration ventures in and around South Africa.
18. Ensure that the Central Energy Fund (CEF) and its entities are urgently restructured to more effectively meet South Africa’s energy needs, focusing on the hiving off of entities should be fast tracked to ensure the organisation restructures urgently.
19. PetroSA develop a clear strategy to ensure that gas supply constraints, current and going forward, at its Gas to Liquid (GTL) plant in Mossel Bay be addressed, and a long term strategy, with clear objectives, targets and deliverables, be developed.
20. That Petroleum Agency SA (PASA), until it is transferred to the Department of Mineral Resources, the issue of financial sustainability and retention of key and critical skills be addressed.
21. The Department with the Central Energy Fund and the Strategic Fuel Fund (SFF), address the issue of strategic reserves, including increasing the current reserve capacity from the current 25 days to the proposed 42 days.
22. With regard to the African Exploration and Mining Finance Corporation, the issue of financial sustainability and growth at the entity, especially with regard to the coal contracts, should be addressed.
23. Explore and promote mechanisms to ensure SA Nuclear Energy Corporation is able, via its companies and technology created, generate most of its own funds and becomes financially independent of the state.
24. Further, there are contingent liabilities related to the decommissioning and decontamination ofSA Nuclear Energy Corporation’s past strategic operational nuclear facilities and the disposal of low and intermediate level waste at Vaalputs. The Minister is to urgently assess this situation, including where (and to what extent), the liability resides

25. The Minister is to ensure that the National Radioactive Waste Disposal Institute begins operating as a functional entity as soon as possible.
26. Ensure that National Nuclear Regulator has the requisite skills and resources to be able to perform robust regulatory oversight on the proposed nuclear new build programme.
27. The Minister of Energy should ensure that the “ownerless legacy sites” be identified and managed to protect South Africans from accidental exposure.
28. The Minister should also ensure that the fragmented regulatory framework be urgently addressed to ensure that the National Nuclear Regulator (NNR) is empowered to manage category 3 and 4 radioactive sources, which arecurrently managed by the Department of Health.
29. Assess the legislative mandate of the National Energy Regulator of SA (NERSA) and ensure it is comprehensive and robust to fully empower NERSA to execute their duties. This includes ensuring that the National Energy Regulator of SA is empowered to audit and investigate regulatory related issues at Eskom and Municipalities
30. Ensure that SANational Energy Development Institute (SANEDI), has a robust plan to ensure projects meet all specified deadlines and that mechanisms are in place to convert the Research and Development projects into commercial ventures.
31. Address the staffing challenges at SANational Energy Development Institute(SANEDI) as majority of staff are on contract, with very few permanent staff.

14. CONCLUSION

The operational context in which the Department of Energy is assessed for the period under review has been unfortunately less conducive. The environment within which practitioners of energy sector, led by the Department of Energy, operate is an assortment of conducive and compromising factors viz.:

- Unfortunately the deficient financial baseline upon which the Department was established, fragmented regulatory environment, absence of or unrefined legislation have tended to compromise the work of the Department.
- Erratic fluctuation of oil prices globally.
- Demand on electricity has been steadfastly outstripping supply.
- Energy constraints have an impact on economic development.

The DoE have been resilient enough to grow and also enhance its performance and effectiveness in a number of respects.

15. APPRECIATION

The Committee would like to express its gratitude to the Minister, Hon T Joemat-Pettersson, the Deputy Minister, Hon TC Majola, the Acting-Director-General, Dr W Barnard and the executive management team (Team Energy) of the Department of Energy,the Chief Executive Officers (CEOs) of the respective state-owned companies reporting to the Department of Energy and the Office of the Auditor General of SA (AGSA).

Report to be considered.