

Department of Energy

Presentation to the Select Committee on
Economic Development –
2013/14 Annual Report



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Acting Director-General
04 November 2014



energy

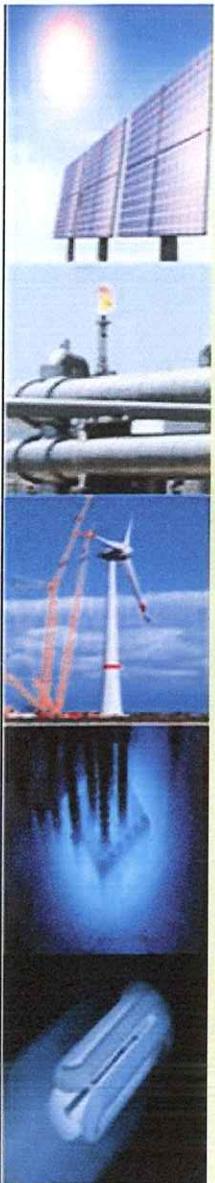
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- A. Alignment (link) of the DOE Performance with that of the Energy Sector
- B. Alignment (link) between Budget and Performance Targets (CFO)
- C. Organisational Environment and Capacity to Deliver
- D. Response Action Plan to address AGSA Findings going forward (CFO)

CONTENTS



Alignment of the DoE Performance with that of the Energy Sector

Overview of the Departmental Performance

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 key achievements of the last financial year were accomplished as indicated below:



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- Aligment of the DOE Performance with that of the Energy Sector (Cont)**
- The Integrated National Electrification Programme (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.
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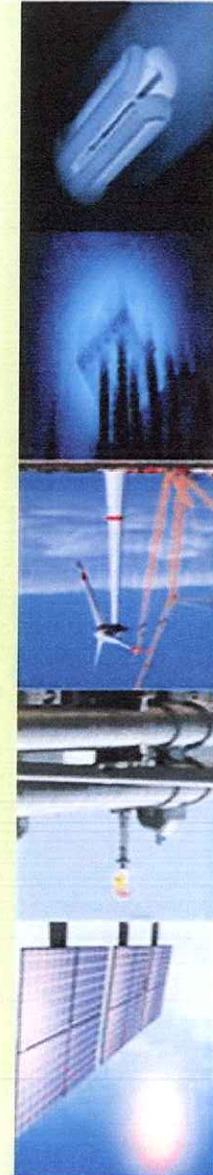
Alignment of the DoE Performance with that of the Energy Sector (Cont)

Renewable Energy Independent Power Producers Programme

- Windows 1 and 2 of the Renewable Energy Independent Power Producer Programme (REIPPPP) 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.

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Petroleum Licensing

Aligment of the DOE Performance with that of the Energy Sector (Cont)

- 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, (PPA) 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;



Alignment of the DoE Performance with that of the Energy Sector (Cont)

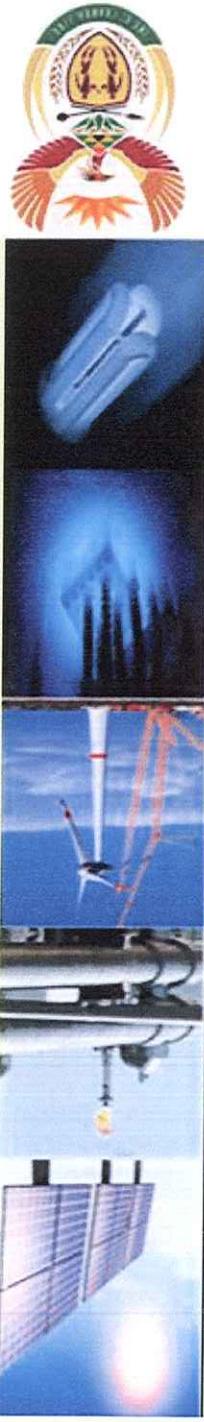
Petroleum Licensing

- 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.



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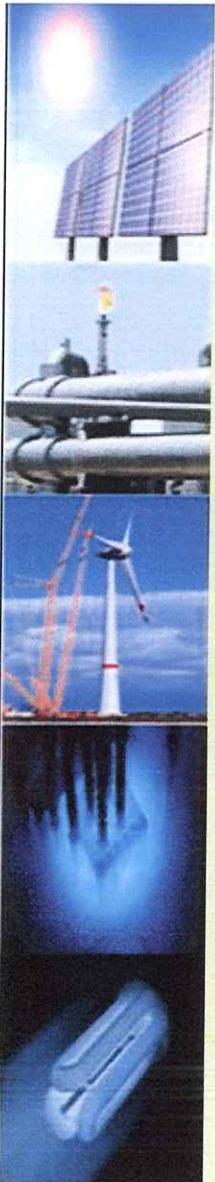
The Department revised the SWH contracting model to prescribe a minimum local content of 70% for subsidised systems and a rebate can only be secured if the local content has been verified by the South African Bureau of Standards (SABS).

- At the end of the year, 46 654 solar water heaters had been installed against a target of 80 000.
- The Department crowded out of locally produced systems by imports.

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.

Solar water heaters

Aligment of the DOE Performance with that of the Energy Sector (Cont)



Alignment of the DoE Performance with that of the Energy Sector (Cont)

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.



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SIP NO.	STRATEGIC DEPARTMENTAL CONTRIBUTION	INTEGRATED PROJECT	INFRASTRUCTURE PROJECT	The main functions of this SIP are to address all maintenance backlog 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:	Solar Water Heating Programme, Integrated National Electrification Plan; and
6	Integrated Municipal	This SIP is chaired by the Minister of Energy;	The main functions of this SIP are to address all maintenance backlog 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:	Solar Water Heating Programme, Integrated National Electrification Plan; and	

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:

Energy Sector (SIPs)

Allignment of the DoE Performance with that of the



Alignment of the DoE Performance with that of the Energy Sector (SIPs)

SIP NO.	STRATEGIC INTEGRATED PROJECT	DEPARTMENTAL CONTRIBUTION
8	Green Energy in Support of the South African Economy	<p>This SIP is co-chaired by the Minister of Economic Development and the Minister of Energy.</p> <p>The main functions of this SIP are to support sustainable green energy initiatives on a national scale through a diverse range of clean energy options as envisaged in the IPR 2010 and to support bio-fuel production facilities.</p> <p>The Department is contributing to this SIP through the following programmes:</p> <ul style="list-style-type: none">• Independent Power Producer Programme;• Bio-fuels;• Clean Energy;• Solar Water Heating Programme; and• Solar Park.



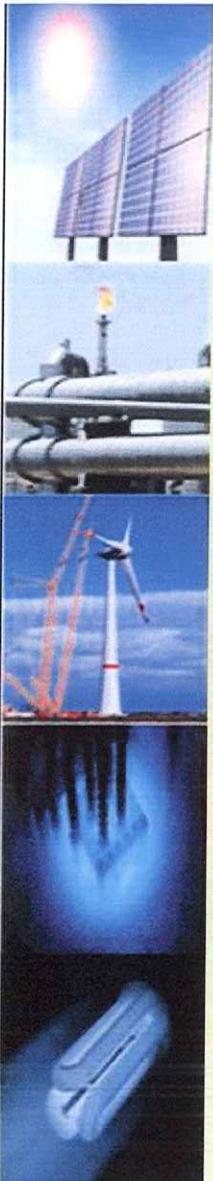
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SIP NO.	STRATEGIC PROJECT	INTEGRATED DEPARTMENTAL CONTRIBUTION
10	Electricity Transmission and Distribution for All	<p>This SIP is co-chaired by Minister of Public Enterprises and the Minister of Energy.</p> <p>The main functions of this SIP are:</p> <ul style="list-style-type: none"> 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 backlog, 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: <ul style="list-style-type: none"> Approach to Distribution Asset Management (ADM); and Mini-ADM (providing subsidies to nine (9) municipalities to address the maintenance, refurbishment and backlog concerns in order to improve the quality of electricity supply).

Alignment of the DOE Performance with that of the Energy Sector (SIPs)



Alignment of the DoE Performance with that of the Energy Sector (SOEs)

- a) The Minister of Energy is responsible for overseeing the following six state 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
 - National Nuclear Regulator
 - Central Energy Fund
 - Nuclear Energy Corporation of South Africa
 - South African National Energy Research and Development Institute
- b) 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.



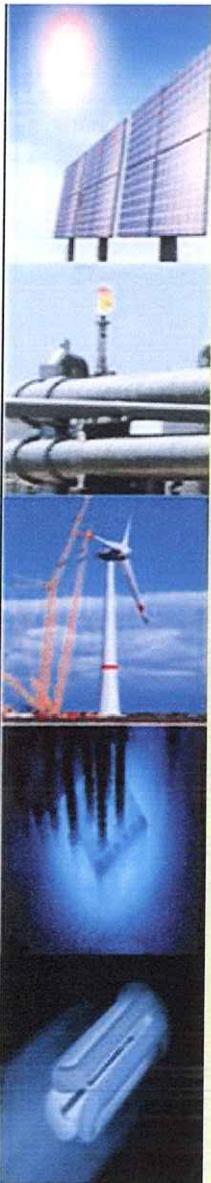
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- Alignment of the Doe Performance with that of the Energy Sector (SOEs)**
- c) The aforementioned duties includes, but is not limited to, ensuring that the SOEs have:
 - appropriate and effective planning and budgeting processes in place (section 52 of the PFMA);
 - the financial management and control structures and processes that are capable of accurately 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);
 - effective and efficient systems which are aligned to the Department's objectives and government programmes; and
 - effective and efficient systems to ensure that the SOEs deliver on the agreed strategic objectives, performance programmes and objectives which are aligned to the Department's objectives and government programmes; and
 - d) The Department has established governance structures as part of the processes for monitoring and evaluating the performance of the SOEs 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
 - The Oversight Unit will liaise with the office of the Minister to plan for the next meeting.





Alignment of the DoE Performance with that of the Energy Sector (SOEs)

- 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.
- e) 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.



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Aligning the SOE Sector with the DOE Performance

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 SOEs that report to the Minister of Energy.

In addition to the aforesaid, the SOE Oversight Unit is gravitating towards monitoring and evaluation of SOEs on a project-like basis, with monthly reports on all projects currently being undertaken by SOEs. Thus will allow the unit to become more proactive, rather than reactionary, in dealing with the SOEs.

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 SOEs reporting to the Minister of Energy received unqualified audit opinions during the 2012/13 and 2013/14 financial years

- Wind turbines in a field
- Wind turbine in the ocean
- Solar panels in a field
- Solar panel array in a field
- Solar panel array in a field
- Solar panel array in a field

Aligning the SOE Sector with the DOE Performance



Alignment of the DoE Performance with that of the Energy Sector (PPP)

In line with Cabinet directives since 2000 and GCIS guidelines July 2013, PPP/Imbizo include all opportunities for the 3-levels of government to interact with members of the public. In terms of the GCIS definition PPPs include: unmediated face-face engagement with public and stakeholders, walk-about/door-door/one-one public interaction, focused engagements with small groups, departmental initiated conferences/summits, siyahlolola - breakaway site visits/project visits to engage the communities.

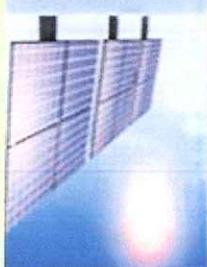
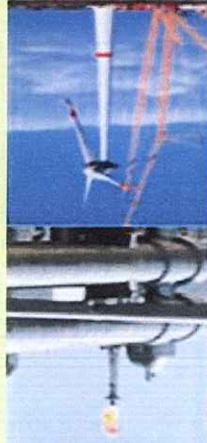
- The Minister and the Deputy Minister hosted 45 formal public engagements with an additional 15 engagements hosted by the Director-General and the staff of the Department during the year under review.
- During these engagements the Department used the opportunity to share information on access to energy, 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.

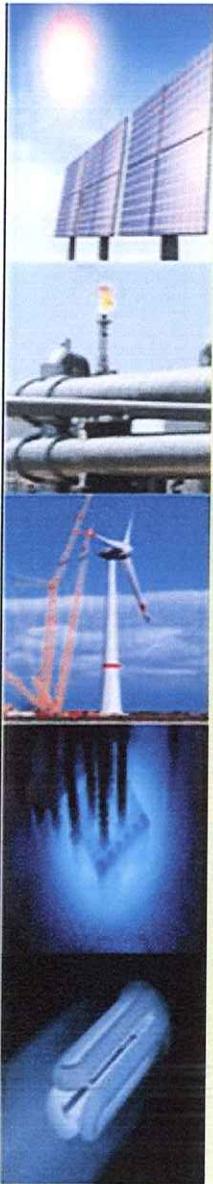
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- The Renewable Energy IPP forms part of the IRP 2010 energy diversification generation technologies plan and 17,8 GW has been earmarked to be produced by Renewable Energy sources by 2030.
- First Renewable Energy IPP Determination, 3 725 megawatts (MW) allocated.
- Second Determination, a further 3 200 MW was allocated.
- To-date, the Department of Energy (DOE) has:
 - Under Bid Window 1, entered into 28 agreements on 5 November 2012 for 1450 MW,
 - Under Bid Window 2, entered into 19 agreements on 9 May 2013 for 1045 MW.
 - 17 IPPs have started with construction

Aligment of the DOE Performance with that of the Energy Sector (Key Capital Projects)



Alignment of the DoE Performance with that of the Energy Sector (Key Capital Projects)

- ✓ Under Bid Window 3, the DOE published the names of 17 preferred on 5 November 2013 for 1450 MW.
 - All bidders are currently busy with Financial Close.
- ✓ Window 4 bidding closure was on 18 August 2014.
- ❑ Need to project the positive aspects of this programme more aggressively, since serious misunderstandings and some mistakes have been made.
- ❑ Economic Development commitments contained in the Implementation Agreement for each of the preferred bidders – failing which, penalties will be applied that might lead to termination of the Power Purchase Agreement.
- ❑ Economic Development is comprised of:
 - job creation
 - local content
 - Ownership
 - management control
 - preferential procurement
 - enterprise development
 - socio-economic development



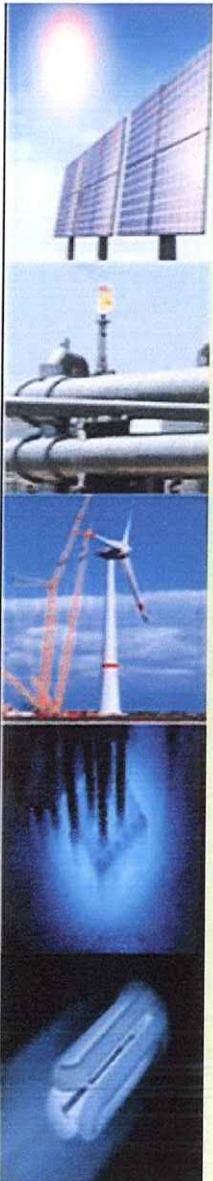
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Allignment of the DOE Performance with that of the Energy Sector (Key Capital Projects)

PROVINCE	BW1	BW2	BW3	TOTAL
EC	5	6	2	13
FS	1	2	1	4
GP	0	0	1	1
KZN	0	0	1	1
Limp	2	0	1	3
NW	1	0	0	1
NC	15	7	10	32
WC	4	4	1	9
Total	28	19	17	64





Alignment of the DoE Performance with that of the Energy Sector (Key Capital Projects)

- As part of the bidding process, each IPP was evaluated according to its Socio-economic development programme during the operational phase, which is for 20 years.
- The SED model was prescriptive to the fact that local communities within a 50 km radius around the IPP have to benefit socio-economically as a result of the IPP development –each IPP used a different economic development plan:
 - Community was given a percentage ownership of the development, or
 - The IPP opt for community upliftment project(s) that will be managed by a community trust.
- Although some socio-economic benefits have been achieved during the construction phase of Window 1 and 2, some serious oversight of critical aspects has to be acknowledged.



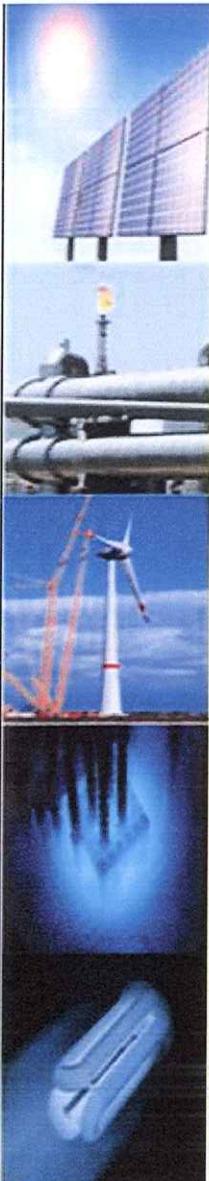
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- Allignment of the DOE Performance with that of the Energy Sector (Key Capital Projects)**
- Bid Window 1 :**
 - BW 1: 17 projects achieved COD - 713.68 MW
 - BW 1: 10 projects achieved COD late
 - BW 1 and 2: 7 projects did not achieve COD to date SCOD (SCOD in past)
 - Early Operation (EO):
 - BW1: 2 Projects in EO period - 155 MW
 - Bid Window 2 :
 - BW 2: 3 projects achieved COD - 54.5 MW
 - BW 2: 1 project achieved COD late
 - Total Green energy supplied into the grid - Window 1 and 2: 886 MW





Organisational Environment and Capacity to Deliver

- 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.



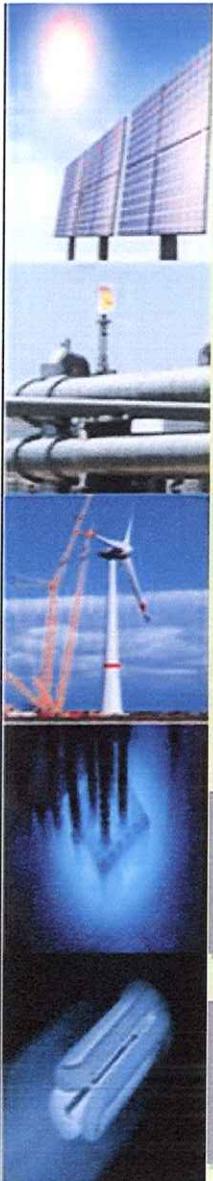
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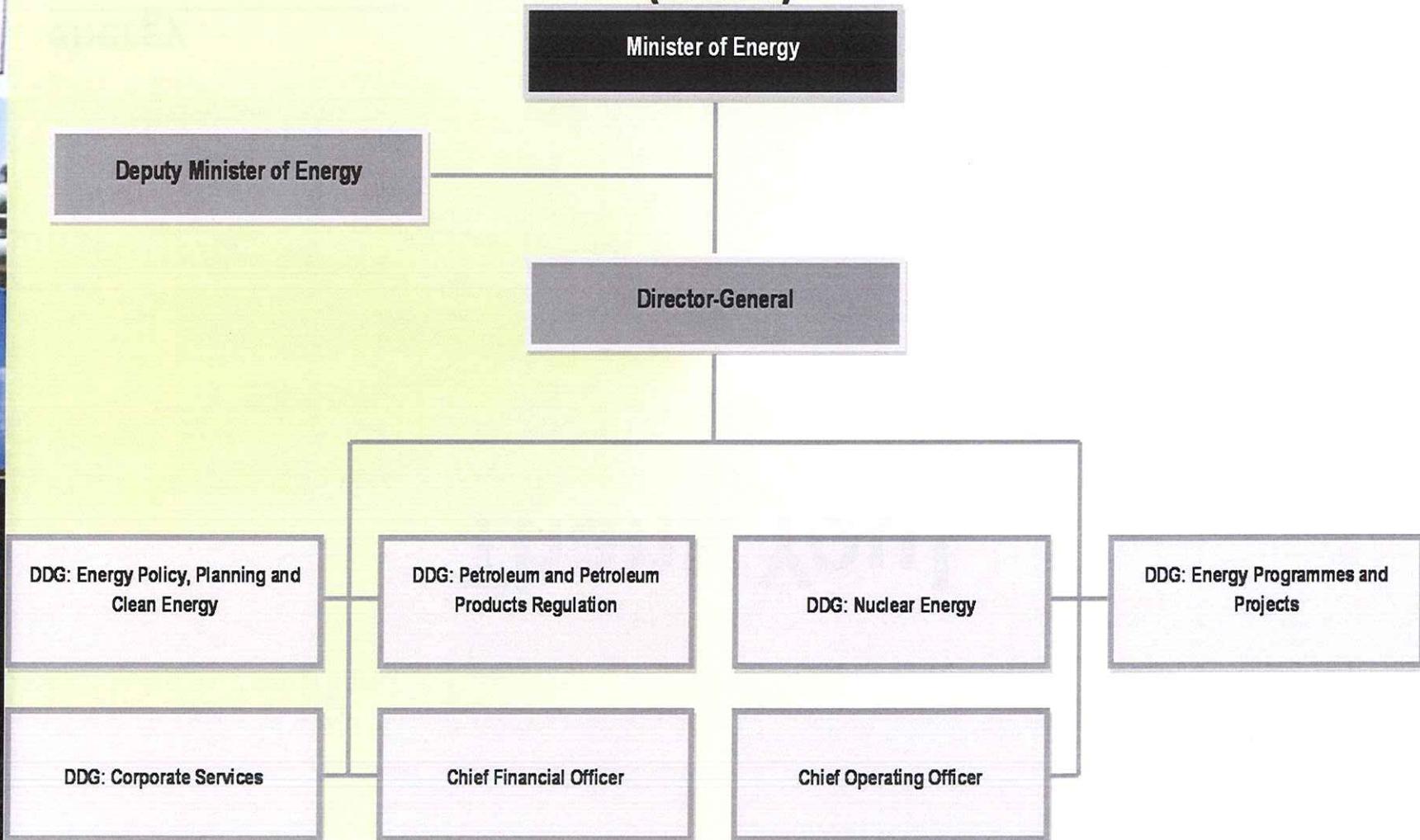
Organisational Environment and Capacity to Deliver

NO	PROGRAMME	PROGRAMME PURPOSE
1.	Administration	Provide strategic support and management services to the Ministry and the Department.
2.	Energy Policy and Planning	Ensure evidence-based planning, policy setting and investment decisions in the energy sector to improve energy security, through supply- and demand-side options, and increase competition through regulation.
3	Petroleum and Petroleum Products Regulation	Manage the regulation of petroleum and petroleum products to ensure optimum and orderly functioning of the petroleum industry to achieve government's developmental goals.
4	Electrification and Energy Programme and Project Management	Manage, co-ordinate and monitor programmes and projects focused on access to energy.
5	Nuclear Energy	Manage the South African nuclear energy industry and control nuclear material in terms of international obligations, nuclear legislation and policies to ensure the safe and peaceful use of nuclear energy.
6	Clean Energy	Manage and facilitate the development and implementation of clean and renewable energy initiatives, as well as energy efficiency and demand side management initiatives





Organisational Environment and Capacity to Deliver (Cont)



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Thank you!