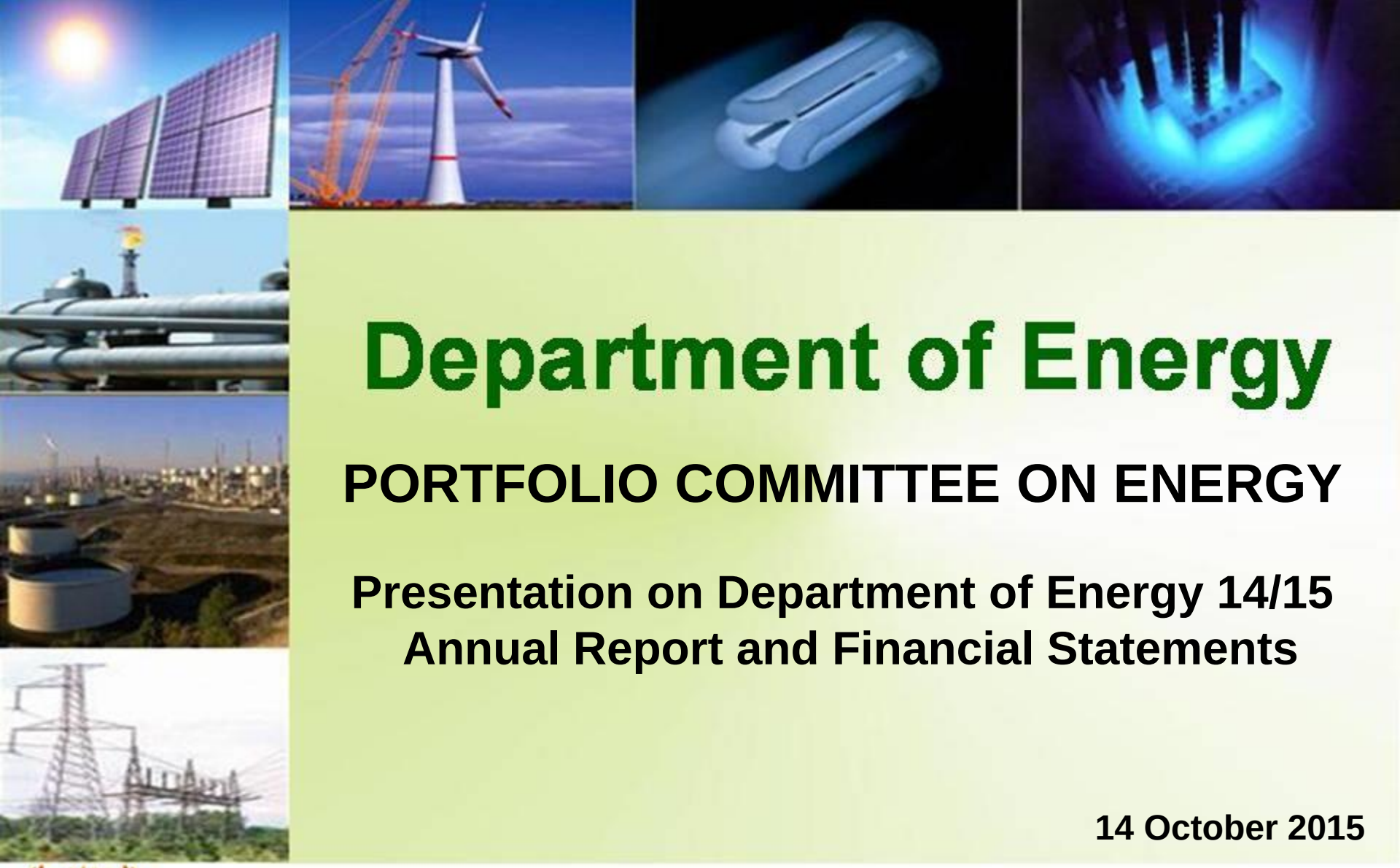

Department of Energy

PORTFOLIO COMMITTEE ON ENERGY

Presentation on Department of Energy 14/15 Annual Report and Financial Statements

14 October 2015

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Background

This presentation reflects on the following:

1. The Non-financial and Financial performance information of the Department of Energy (DoE) for the 2014/15 financial year as contained in the Audited Annual Report, as well as
2. Additional briefing requests received from secretariat of Portfolio Committee on Energy.

DoE implements its Annual Performance Plan (APP) through six programmes;

- ✓ Programme 1 – Administration,
- ✓ Programme 2 – Energy Policy and Planning,
- ✓ Programme 3 – Petroleum & Petroleum Products Regulation,
- ✓ Programme 4 – Electrification & Energy Programme and Projects,
- ✓ Programme 5 – Nuclear Energy and
- ✓ Programme 6 – Clean Energy.

CONTENTS

A. Non-financial Performance

- Service delivery environment
- Service delivery improvement plan
- Organizational environment
- Key Policy development and legislative changes

B. Key non-financial Performance Information

- Input on progress made on MDGs
- Government Priority Outcomes and SOOGs
- Strategic Integrated Projects (SIPs)
- Directives from SONA 2013/14 on Energy Issues and DoE's Response
- Response to Recommendation from DPME
- Break down of International Activities
- Additional information requested
- Supervision of SOE's within the Energy Sector

C.

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CONTENTS (cont.2)

C. Financial Performance

- Department's income, expenditure, transfers, cash and assets, as well as the state of its financial management systems – achievements and challenges
- Expenditure of each programme
- Annual financial statements. This should cover but not limited
  - Annual appropriation
  - Good and services (including use of consultants)
  - Transfers and subsidies
  - Unauthorized expenditure
  - Commitments
  - Irregular expenditure
- Overview of Audit report

Annexure A – Performance Indicator for 14/15

A. Non-financial Performance

Service Delivery

Service Delivery Environment

In carrying out its mandate, the Department formulate Energy policies, Regulatory frameworks and Legislation, and fulfil a Regulatory function in petroleum industry, as well as oversees the implementation of projects to ensure energy security, promotion of environmental friendly energy carriers, access to affordable and reliable energy for all South Africans.

The Department is responsible for the following key areas under service delivery:

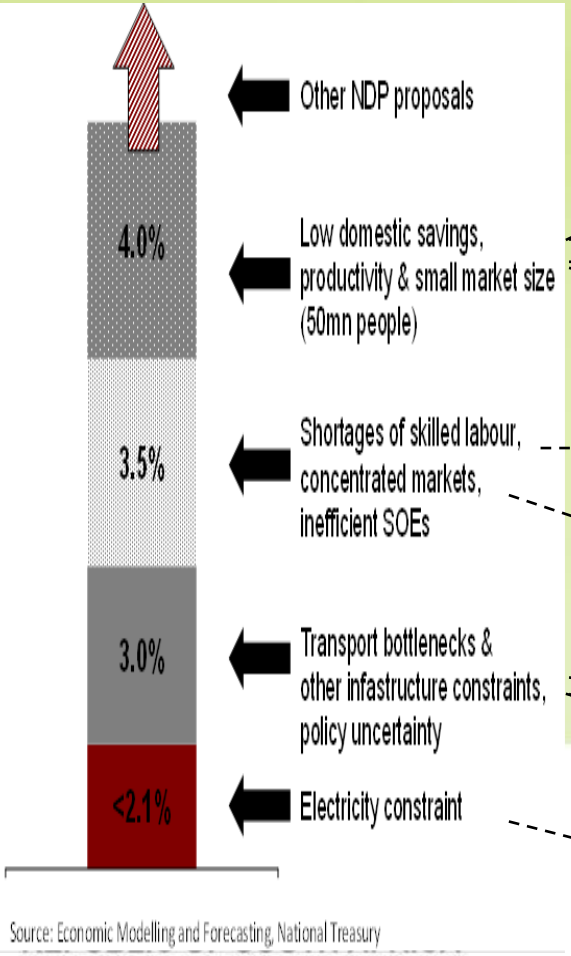
- Energy mix implementation;
- Energy Efficiency implementation;
- Integrated National Electrification Programme (INEP);
- Establishment of Energy centers;
- Opportunities in Energy space;
- Regulation of the petroleum sector;
- Regulation for the safe use of the nuclear products; and
- Oversight over SOE's

Service Delivery Environment

Electricity Supply

- The year 2014/15 has been beset with energy (especially electricity) challenges which have unfortunately impacted negatively on the country's economic development.

Impact on potential growth → **Response** → **9 priorities from SONA 2015**



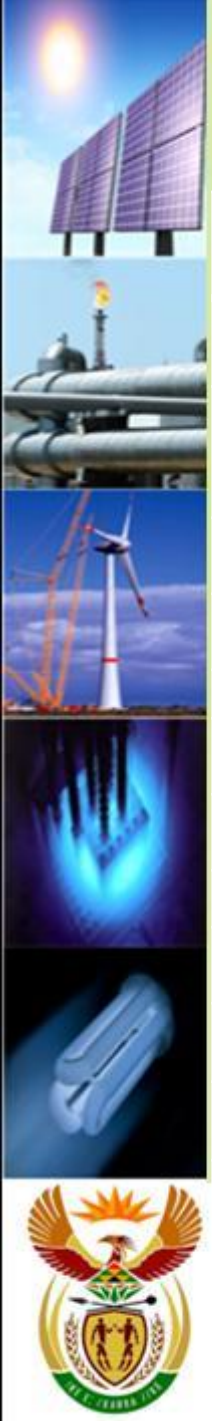
- Higher impact IPAP
- Revitalisation of the agriculture and agro processing value-chain
- Ocean economy
- Mineral beneficiation
- State reform and boosting the role of SOE's, ICT infrastructure or broadband roll-out, water, sanitation and transport infrastructure
- Unlocking the potential of SMME's, cooperatives, townships and rural enterprise
- Managing workplace conflict
- Scaling up private sector participation
- Resolving the energy challenge

Service Delivery Environment (cont.2)

Electricity Supply (cont.)

- The Department has, during the year under review participated in forums, both inter-governmental, local and international levels, created to seek short, medium and long term energy solutions – not only for South Africa, but also for Continent and Globally.
- The Department's response to electricity challenges is manifold. This includes:
  - The Integrated Energy Plan (IEP) which will prioritise policy intervention for future programmes within the Energy sector.
  - Integrated Resource Plan (IRP) to ensure sufficient capacity is added to the network on time, but also considering the broader NDP aspects of additional capacity through a option of energy mix.
  - Contributing to the 5 point plan to normalize the electricity supply/demand in country - Iimplementation of Five Point Plan:
    - Improve Eskom Maintenance and Operational Practices
    - Co-gen
    - Coal
    - Gas
    - DSM

    Other Independent Power Producers (IPPs)



Service Delivery Environment (cont.3)

A comprehensive IPP procurement portfolio has been developed

Carrier (Capacity determined)	Master planning	Project preparation	RFP	Bid submission	Bid announcement	Financial close	COD
Coal (2 500 MW) – local and cross boarder	**IRP**	**completed**	**15 Dec 2014**	Nov15	Q4 2015/16	Q1 2016/17	End 2020
Cogen (800MW) – additional 1000 MW planned	**IRP**	**completed**	**4 June 2015**	11 Aug 15; 9 Sep 15; 27 Oct 15; 23 Nov 15	Q2-Q4 2015/16	Q3 2015/16 – Q1 2016/17	Q3 2016/17 –Q1 2017/18
Gas (3 126MW) – local and cross boarder	**Dec 2014**	**concept stage (RFI July 2015)**	Q4 2015/16	Q2 2016/17	Q3 2016/17	Q3 2016/17	End 2020 - ongoing
Peakers (1 020MW)	**IRP**	**completed**	**completed**	**completed**	**completed**	**Sept 2013**	Aug 2015 and May 2016
Renewable energy (6 925 MW) plus new determination of an additional 6 300MW – in process							
Bid window 1 – 1425 MW	**IRP**	**completed**	**3 Aug 2011**	**4 Nov 2011**	**6 Dec 2011**	**5 Nov 2012**	92% COD 96% GC
Bid window 2 – 1040 MW	**IRP**	**completed**	**3 Aug 2011**	**5 Mar 2012**	**5 Mar 2012**	**9 May 2013**	47% COD 63% GC
Bid window 3 – 1456 MW	**IRP**	**completed**	**3 May 2013**	**19 Aug 2013**	**29 Oct 2013**	Q2 2015/16	end 2016
Bid window 3.5 -200 MW (CSP)	**IRP**	**completed**	**-**	**31 March 2014**	**15 Dec 2014**	Q2 2015/16	Middle 2018
Bid window 4 – 1220 MW	**IRP**	**completed**	**26 May 2014**	**18 Aug 2014**	**16 Apr 2015**	Q3 2015/16	Middle 2017
Bid window 4B - 1084 MW	**IRP**	**completed**	**26 May 2014**	**18 Aug 2014**	**7 Jun 2015**	Q4 2016/17	End 2017
Bid window 1-4 (Re-opener) - 1800 MW	**IRP**	**completed**	**25 Jun 2015**	1 Oct 2015	Q4 2015/16	Q1 2016/17	End 2017
Bid window 5	**IRP**	**Ongoing**	Q4 2015/16	Q1 2016/17	Q2 2016/17	Q4 2016/17	End 2018
Small renewables (50 MW of 200MW)	**IRP**	**completed**	**Aug 2013**	Q3 2015/16	Q4 2015/16	Q2 2016/17	End 2017

Service Delivery Environment (cont.4)

Electricity Supply (cont.)

- The Department's Renewable Energy Independent Power Producers (REIPP) programme has added to the energy supply capacity and electricity diversity in South Africa. Through the competitive procurement approach, the tariff for onshore wind has declined by 55% per unit while that of solar photovoltaic has declined by 62% per unit.

	BW1		BW2		BW3		BW3.5		BW 4		ALL	
	Capacity MW	Number of Projects	Capacity MW	Number of Projects	Capacity MW	Number of Projects	Capacity MW	Number of Projects	Capacity MW	Number of Projects	Capacity MW	Number of Projects
Wind	649	8	559	7	787	7			1 362	12	3 357	34
Solar PV	627	18	417	9	435	6			813	12	2 292	45
Solar CSP	150	2	50	1	200	2	200	2			600	7
Landfill Gas					18	1					18	1
Biomass					17	1			25	1	42	2
Small Hydro			14	2					5	1	19	3
	1425	**28**	**1040**	**19**	**1457**	**17**	**200**	**2**	**2 205**	**26**	**6 327**	**92**

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Service Delivery Environment (cont.5)

Electricity Supply (cont.)

The REIPPPP is the most advanced programme, and is already making a significant contribution to electricity supply in the country

- 5 bid rounds (bid windows 1, 2, 3, 3.5 and 4) completed
- 305 bids received and evaluated for 17.8 GW total capacity
- 92 selected as preferred bidders identified with
- 6 327 MW electricity capacity procured
- 1 860 MW already operational from 38 IPPs
- R 193.3 investment attracted in bid Windows 1 - 4

Service Delivery Environment (cont.6)

Nuclear Energy

- South Africa has signed various Inter-Governmental Agreements (IGA's) which lay the foundation for cooperation trade and exchange for nuclear technology, as well as procurement of the 9,500 Megawatts of electricity as part of energy mix initiative.
- The Department concluded various vendor parades with all nuclear vendor countries that have shown interest in the South African nuclear build programme;
- The work on financial model of new build programme in progress
- In preparation for the rollout of the nuclear build programme, the Department has commenced with the Nuclear Skills Development and Training Programme. In this regard, 50 students were selected to attend nuclear training programme; and
- Countries such as South Korea, China and Russian Federation have agreements with South Africa in relation to training in various nuclear fields.

Service Delivery Environment (cont. 7)

Energy Efficiency

- The National Energy Efficiency Strategy and Action Plan is process of completion and the Draft Regulations have been published for compulsory energy management plans to be put in place by targeted end users.
- Municipal Energy Efficiency and Demand Side Management Programme will continue with savings to the extent of 500 Gigawatt already achieved by various municipalities, mainly by retrofitting lighting in buildings, LED street lighting, installation of smart meters, water and sewage pumps.

Service Delivery Environment (cont. 8)

Solar Water Heater Programme

- The solar water heater programme has changed effectively during the year under review, with implementation projects led by the Department of Energy. The planned new contracting model has been submitted for Cabinet approval.
- In keeping with the inter-governmental relations framework, national and local government will collaborate in ensuring that the programme delivers on local enterprise and skills development. Maintenance and life cycle management of installed products and the creation of employment opportunities targeting the youth, women and military veterans will be prioritized.
- In partnership with the Department of Labour and the Energy and Water SETA, a comprehensive training programme will be implemented.

Service Delivery Environment (cont. 9)

Petroleum

- The Department has refined the proposed Biofuels Subsidy Model and the risks posed to the fiscus and National Revenue Fund by utilizing IDC to run an independent modelling analysis.
- Revisiting the cleaner fuels (CFII) programme as well as investment in new refining capacity. The Task Team working on Cleaner Fuels has been established.
- Developing proposals on how to deal with identified regulatory shortcomings that are hampering increased LPG usage to be developed.

Service Delivery Environment (Cont. 10)

Electrification

- The INEP programme was allocated R4,15 billion during the 2014/15 financial year, to expand the connections and non-grid solutions in those areas where infrastructure is inadequate.

Entity	MTEF Allocations	Planned connection	Connections Achieved
Eskom	R2.95 billion	180 031	160 938
Municipalities	R1.10 billion	70 979	72 517
Non-grid	R96.62 million	15 000	14 030
Total	**R4.15 billion**	**266 010**	**247 485**

- As the programme continues to connect deep rural areas, the delivery of connections has been significantly impacted by inadequate and in some instanced the absence of bulk infrastructure and inadequate human resources within implementing agencies and local municipalities.

Organisational Environment

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 (cont. 2)

- The Department suffered the loss of the key top management members during the year which included the DG, whose contract came to an end on 30 November 2014. Although the Department immediately commenced with the recruitment process, unfortunately there were been delays due to other requirements for the filling of this position. The second loss was the retirement of the Deputy Director General for Corporate Services who left the service on 31 January 2015. Lastly the early retirement due to ill health of the Deputy Director General: Governance and Compliance.

- The Department has also commenced with the process of reviewing the functionality of its operational structure in order to accurately respond to its mandate and the challenges facing the energy sector.

- As at the end of the financial year, the Department had a staff complement of 583 with 83 exits. This figure takes into account the replacements, new positions filled during the year and the exits mentioned above. Additional funding of R18 million received from the MTSF this year enabled us to increase on staff capacity. Challenges of technical skills required in the energy sector have continued to be of concern to the Department.

Organisational Environment (cont.3)

Training and Development

- The Department has developed a Workplace Skills Development Plan (WSP), following the skills audit conducted. As part of the implementation of the WSP, a number of training and development interventions were identified, and 384 officials were trained during 2014/15.
- The Departments also offered 39 new bursaries to serving employees, with effect from the beginning of the 2015 academic year. This brings the total number of employees studying part – time at various institutions to 68. Due to financial constraints, the planned training and development initiatives could initially not be implemented as planned. The Department therefore sought alternatives such as free training offered by external service providers, involving the energy Sector Education and Training Authorities, and secondments from SOE's, to supplement skills development.

Regional offices of the Department

- In its quest to improve and bring service delivery closer to the people, the Department has managed to secure permanent office space for its regional offices in Mpumalanga and KwaZulu-Natal provinces. The process to secure permanent office space in other provinces is underway and it is anticipated that it will be finalised before the end of the ensuing financial year.

Organisational Environment (cont. 4)

Current Status of Employment Equity

Occupational Category	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers, Permanent	31	3	2	3	21	1	2	2	65
Professionals, Permanent	47	0	0	5	55	1	1	4	113
Technicians and associate professionals, Permanent	105	0	1	1	116	2	1	0	226
Clerks, Permanent	32	1	0	0	87	2	0	5	127
Service and sales workers, Permanent	40	0	0	0	8	0	0	0	48
Elementary occupations, Permanent	2	1	0	0	1	0	0	0	4
TOTAL	**257**	**5**	**3**	**9**	**288**	**6**	**4**	**11**	**583**
Employees with disabilities	2	0	0	2	8	0	0	1	13

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Key Policy Developments and Legislative Changes

The National Development Plan (NDP), requires South Africa to devise policies and plans for the following in order to improve the country's energy situation:

- Gas should be explored as an alternative to coal for energy production;
- There needs to be greater mix of energy sources and greater diversity of IPPs in the energy industry;
- Electricity pricing and access need to accommodate the needs of the poor;
- Universal access to modern energy through grid and non-grid means by 2030
- Timing and desirability of nuclear power and
- New petrol refinery need to be considered.

Key Policy Developments and Legislative Changes (2)

In addressing the NDP requirements, the Department has developed/completed the following:

- The Electricity Regulation Second Amendment Bill;
- National Energy Regulator Amendment Bill;
- The National Energy Regulator Amendment Bill;
- Nuclear Financial modeling process
- Radioactive Waste Fund Bill were initiated with National Treasury to develop the institution's funding model;
- Gas Utilisation Master Plan (GUMP);
- Integrated Energy Plan;
- Integrated Resource Plan (IRP) to implement energy mix options
- Bio-fuels implementation strategy and
- Petroleum Road Map

B. Key non-financial Performance Information

MDGs, Priority Outcomes, and SIPs

Medium-Term Strategic Frame Work (Government Outcomes)	Strategic Outcomes Oriented Goals (SOOGs)	Strategic Integrated Projects (SIPs)	Associated DOE Programme
Outcome 10 – Environmental assets and natural resources that are well protected and continually enhanced.	SOOG 5: Environmental Assets– To ensure that environmental assets and natural resources are protected and continually enhanced by cleaner energy technologies. SOOG 6: Climate Change – To implement policies that adapt to and mitigate the effects of climate change.	Integrated Municipal Infrastructure Project (6)	Review IRP to cover 20 000 MW. Continue with the implementation of the IRP: • IPP Programme; • Hydro Power; and • Solar. Implementation of the National Solar Water Heating Programme.
Outcome 6 – An efficient, competitive and responsive economic infrastructure network.	SOOG 2: Infrastructure – To facilitate an efficient, competitive and responsive energy infrastructure network. SOOG 3: Regulation and Competition – To ensure that there is improved energy regulation and competition.	Electricity Transmission and Distribution for All (10)	Provide strategic guidance to key role players and ensure that implementation takes place post Cabinet approval.
Outcome 9 – A responsive, accountable, effective and efficient local government system.	SOOG 4: Universal Access and Transformation – To ensure that there is an efficient and diverse energy mix for universal access within a transformed energy sector	Electricity Transmission and Distribution for All (10)	Address the backlog challenges in the maintenance of the electricity distribution infrastructure

MDGs, Priority Outcomes, and SIPs (cont. 2)

Medium-Term Strategic Frame Work (Government Outcomes)	Strategic Outcomes Oriented Goals (SOOGs)	Strategic Integrated Projects (SIPs)	Associated DOE Programme
Outcome 7 – Vibrant, equitable and sustainable rural communities and food security for all. Outcome 8 – Sustainable human settlement and improved quality of household life.	SOOG 4: Universal Access and Transformation – To ensure that there is an efficient and diverse energy mix for universal access within a transformed energy sector	Integrated Municipal Infrastructure Project (6)	Electrification of households through the Integrated National Electrification Programme (INEP) and increased service delivery by all Eskom, municipalities and concessionaires as implementers of INEP concentrating on the 23 district municipalities that have been identified by the Department of Co-operative Governance and Traditional Affairs (CoGTA) and the Department of Rural Development and Land Reform (DRDLR) as the areas in the country that have the most deprived municipalities.

MDGs, Priority Outcomes, and SIPs (cont. 3)

Medium-Term Strategic Frame Work (Government Outcomes)	Strategic Outcomes Oriented Goals (SOOGs)	Strategic Integrated Projects (SIPs)	Associated DOE Programme
Outcome 6 – An efficient, competitive and responsive economic infrastructure network.	SOOG 2: Infrastructure – To facilitate an efficient, competitive and responsive energy infrastructure network. SOOG 3: Regulation and Competition – To ensure that there is improved energy regulation and competition.	Electricity Transmission and Distribution for All (10)	Submitting the 20-Year Liquid Fuels Master Plan (20YRLFMP) to Cabinet for approval and incorporating it into the IEP. Finalisation of the financial mechanism for strategic stocks.
Outcome 4 – Decent employment through inclusive economic growth. Outcome 6 – An efficient, competitive and responsive economic infrastructure network.	SOOG 1: Security of Supply – To ensure that energy supply is secure and demand is well managed. SOOG 2: Infrastructure – To facilitate an efficient, competitive and responsive energy infrastructure network. SOOG 3: Regulation and Competition – To ensure that there is improved energy regulation and competition	Green Energy in Support of the South African Economy (8)	Consultation on the Liquid Fuels Infrastructure Roadmap Report and identification of intervention projects.
			Contribute towards ensuring the security of energy supply by leading, developing and overseeing the implementation of the nuclear energy expansion programme as guided by the Nuclear Energy Policy and the decision of NNEECC. Facilitate process that will culminate in the finalisation ofprocurement decisions for the nuclear build programme.

MDGs, Priority Outcomes, and SIPs (cont. 4)

Medium-Term Strategic Frame Work (Government Outcomes)	Strategic Outcomes Oriented Goals (SOOGs)	Strategic Integrated Projects (SIPs)	Associated DOE Programme
Outcome 4 – Decent employment through inclusive economic growth. Outcome 6 – An efficient, competitive and responsive economic infrastructure network.	SOOG 1: Security of Supply – To ensure that energy supply is secure and demand is well managed. SOOG 2: Infrastructure – To facilitate an efficient, competitive and responsive energy infrastructure network. SOOG 3: Regulation and Competition – To ensure that there is improved energy regulation and competition	Green Energy in Support of the South African Economy (8)	Contribute towards ensuring the security of energy supply by leading, developing and overseeing the implementation of the nuclear energy expansion programme as guided by the Nuclear Energy Policy and the decision of NNEECC. Facilitate process that will culminate in the finalisation ofprocurement decisions for the nuclear build programme.

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Break down of international activities

- The Department has maintained co-operation with the 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, particularity the need for energy security of supply, diversification of the energy mix and access to finance, technology, technical skill and information.
- In line with this imperative, the Department has forged bilateral and multilateral relations that meet our strategic objectives
- The Department's medium and long term energy strategies have taken cognizance of the abundant clean energy resources available in the region. These guide the strategy of the Department to multi-source with the twin objective of security of supply and reduce our carbon foot print. In regard to this, the Department led the process of signing a Treaty on Hydropower project with government of the Democratic Republic of Congo. The Treaty was signed in 2013 and it enjoins South Africa and DRC develop the Project. The project has an estimated generation capacity of 40 000 MW and will be constructed in phases, with Inga III Low being the first phase. The Inga Hydropower project has the potential to provide up to 15 000 MW of clean energy specifically to South Africa. The first phase targets aims to generate 4 800 MW.

Break down of international activities (cont.2)

- On 20 March of this year the Inga Treaty entered into force, meaning that all the conditions for ratifying the long term agreement between the two countries were satisfied, effectively paving the way for commercial negotiations to be concluded regarding the power to be procured from Phase 1 of the Inga Hydropower project.
- South Africa is also exploring other regional projects within the SADC Region in countries such as Mozambique and Lesotho.
- DOE has participated in all Energy related and general BRICS activities.
- South Africa has signed various nuclear technology based Inter-Governmental Agreements (IGA's) with different countries;
- Various bi-national meetings have been held during the last financial year – a separate session will be required to reflect on all the 63 bi-lateral agreements South Africa have with various countries, entities and/or agencies.

Responsiveness: SONA and DPME

In his June 2014 SONA, His Excellency, President Jacob Zuma made reference to:

- RE IPP programme and in line with the announced Windows of the RE roll-out, the Department continued with the 4th bid Window of REIPP programme. This was successfully concluded – see progress slides above.
- Establishment of Energy Security Cabinet Sub-committee - the Department actively participated in the newly formed committee.
- The President identified priority areas for infrastructure intervention
  - ✓ In UMzinyathi District Municipality, the electrification of households.
  - ✓ In Alfred Nzo District water provision, sanitation, and electrification.
  - ✓ Lukhanji Local Municipality to reorganize its administration and supports plans for the provision of water and electricity.

Responsiveness: SONA and DPME (cont. 2)

2014/15 Electrification programme (Eskom and Municipality Programme)

MUNICIPALITY	ALLOCATION
UMZINYATHI DM	R87.1 m
ALFRED NZO DM	R178.7 m
LUKANJI MUNICIPALITY	R8.2 m
TOTAL	**R274 m**

2015/16 Electrification programme (Eskom and Municipality Programme)

MUNICIPALITY	ALLOCATION
UMZINYATHI DM	R209 m
ALFRED NZO DM	R301 m
LUKANJI MUNICIPALITY	R5.5 m
TOTAL	**R515.5 m**

- DPME proposed that DOE's Strategic and APP situational analyses be enhanced to include more detail with regard to its external operating environment. The DOE by way of its second draft successfully addressed this concern with subsequent acknowledgement to this effect from DPME.

2014-15 HIGHLIGHTS OF PERFORMANCE

APP Performance Indicator 2014/15	Planned Target 2014/2015	Actual Achievement 2014/2015	Deviation from Planned Target to Actual Achievement 2014/2015	Comment on Deviations 2014/15
Average score on the Management Performance Assessment Tool (MPAT).	Average MPAT score of at least 3.1 achieved for moderated Assessment of 2013/14; with at least the following sub-scores: • KPA 1 – 3.3; • KPA 2 – 3.2; • KPA 3 – 3.1; And • KPA 4 – 2.9.	Overall score of 2.64 comprised of: KPA 1 – 2.67 KPA 2 – 2.2 KPA3 – 2.45 KPA 4 – 3.22	Overall score was 0.46 points off the intended Score See DPME analysis and MPAT evaluation	None
Finalised Integrated Energy Plan (IEP) submitted to Cabinet for approval	Finalised IEP submitted to Cabinet	Cabinet Committee did not approve the IEP	The IEP was developed, stakeholder Engagements conducted and IEP submitted to Infrastructure Cluster of Cabinet.	The consultation Process extended beyond the financial year
Number of new petroleum retail site inspections per year.	2 000 retail site Compliance inspections conducted.	2 070 retail site Compliance inspections conducted.	70 more retail site compliance inspections were conducted	The planned target exceeded because of wider inspection coverage in the regions

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2014-15 HIGHLIGHTS OF PERFORMANCE (cont. 2)

APP Performance Indicator 2014/15	Planned Target 2014/2015	Actual Achievement 2014/2015	Deviation from Planned Target to Actual Achievement 2014/2015	Comment on Deviations 2014/15
Number of reports on the allocation of funding and monitoring of progress on the number of additional Households electrified with grid electrification Per year in comparison to the electrification plan	Eleven (11) monthly reports on the allocation of funding and monitoring of progress on the number of additional Households electrified with grid electrification towards the 2014/15 target of 265 000 in the Electrification plan.	Twelve reports were submitted concerning the connection of 233 455 household to the grid.	There was a variance of 31545 connections due to a lag in bulk Infrastructure availability	Longer than expected lead times in the procurement of materials and other project management Coordination matters.
To commission an additional 9 600 MW of nuclear energy into the grid by 2030.	Implementation of procurement process (if approved).	Procurement process not commenced	Procurement roadmap being developed	Signing of Inter-Governmental Framework Agreements with Russia, France and China completed. These agreements Concern cooperation with the nuclear vendor countries who have expressed a desire to participate in the nuclear build programme

2014-15 HIGHLIGHTS OF PERFORMANCE (cont. 3)

APP Performance Indicator 2014/15	Planned Target 2014/2015	Actual Achievement 2014/2015	Deviation from Planned Target to Actual Achievement 2014/2015	Comment on Deviations 2014/15
Promulgated National Energy Efficiency (NEE) Strategy document	Promulgation of NEE strategy document (if approved by Cabinet).	NEE strategy and action plan completed	Cabinet presentation on NEES not yet done.	Stakeholder Consultation process on the NEE strategy has taken longer than anticipated

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Additional Information

UPDATE ON ADDRESSING THE DISTRIBUTION CHALLENGES

- Municipal electricity distribution infrastructure has an estimated backlog of R70 billion
- Needs a funding model that entails revamped institutional, regulatory and structural adjustments to the status quo. In this regard the Approach to Distribution Asset Management (ADAM) programme was initiated, targeting the metropolitan and suburban areas of the country for piloting.
- The development of norms and standards relating to amongst others maintenance, tariff design, is been developed that is necessary for adoption as a regulatory mechanism for municipalities to normalize their electricity distribution businesses. These norms and standards are to be informed by the pilot ADAM programme that was initiated in n13/14 and is under review currently.

UPDATE ON IMPLEMENTATION OF THE ENERGY EFFICIENCY MEASURES

- The National Energy Efficiency Strategy and Action Plan is nearing completion and the Draft Regulations have already been published for compulsory energy management plans to be put in place by targeted end users.

Additional Information (cont. 2)

UPDATE ON IMPLEMENTATION OF THE ENERGY EFFICIENCY MEASURES (cont.)

- The South African National Energy Development Institute (SANEDI) continues to play a leading role with respect to a variety of energy efficiency initiatives.
- The Cool Surfaces pilot programme, with a particular focus on schools and low-income households, will mobilize our youth to form part of energy efficiency initiatives.
- Furthermore, the municipal Energy Efficiency and Demand Side Management Programme (EEDSM) will continue, with savings to the extent of 500 Gigawatt already achieved by various municipalities, primarily by retrofitting lighting in buildings, LED street-lighting, the installation of smart meters, water and sewage pumps.

UPDATE ON GAS IMPORTATION AND DISTRIBUTION INFRASTRUCTURE

- The uptake of Liquid Petroleum Gas (LPG) in our country remains disappointing, mainly due to infrastructure impediments. On the positive side, NERSA has licensed three import installations that will be able to bring in LPG. Proposals on how to deal with other identified regulatory shortcomings that are hampering increased LPG usage will be developed by the Department, including the Draft LPG Fuel Switching Strategy, which provides a framework for the expansion of the use of LPG South Africa with special emphasis on the household sector.

Additional Information (cont. 3)

UPDATE ON THE PETROLEUM INDUSTRYREFINING CAPACITY

- Major strides were made towards the licensing of fuel import capacity. NERSA licensed import facilities in Richards Bay, Saldanha, Cape Town and Coega, which will enhance competition in the liquid fuels sector, whilst ensuring a more robust energy security regime.
- Government will align the regulatory dispensation by the different organs of state to aid efficiencies in this area.

UPDATE ON OIL AND GAS IN RELATION TO OPERATION PHAKISA

- The DoE and the Minister of Mineral Resources are co-operating in accelerating efforts that will result in exploration for oil and gas within our territorial waters.
- The Department of Energy and the State-Owned Entities (SOEs) reporting to it, are already an integral part of Operation Phakisa.
- Alignment between the amendment process of the Mineral and Petroleum Resources Development Act and Energy Policy are considered to ensure the development of the oil and gas potential in the country.

Additional Information (cont. 4)

UPDATE ON INTEGRATED ENERGY PLAN (IEP) AND INTEGRATED RESOURCE PLAN (IRP)

- Both IEP and IRP are in the process of been finalized and updated respectively, and will be submitted to Cabinet to obtained approval to be released for public comment and inputs by end of this financial cycle.

SOEs

The Department has continued to provide oversight of State Owned SOE/Cs reporting to the Minister of Energy through the SOE Oversight Unit, by ensuring engagements on and timely approval of their Corporate Plans, Strategic Plans, Annual Performance Plans (APPs), Budgets recommendations regarding board positions.

- The CEF Group, NERSA, NNR and SANEDI obtained unqualified audit opinions from the Auditor General South Africa (AGSA).
- The Necsa Audit has still not been completed and will be presented to the Committee as soon as it is signed off by the AGSA.
- NECSA celebrated the 50th anniversary of its SAFARI-1 Nuclear Research Reactor, commissioned in 1965, and it still remains the country's only research reactor. This is a significant milestone in the nuclear sector.
- The Nuclear Regulator continues to capacitate itself in various key positions that will give it the necessary human resource capacity to successfully oversee the Country's imminent Nuclear new build Programme

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SOEs

- Although, the CEF Group suffered a huge loss due to the impairment of the GTL Refinery as a result of the poor gas recoveries from the Ikhwezi project, the Group still managed to increase cash generated from its operations by approximately 36 % while cutting operational costs by 12 %.
- The CEF Group of companies is presenting their Annual report to PCE on 15 October 2015.

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C. Financial Performance

INTRODUCTION

AFS Preparation

- 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.

Challenges

- Timely appointment of service providers with the requisite sector skills.

Achievements

- Clean audit report

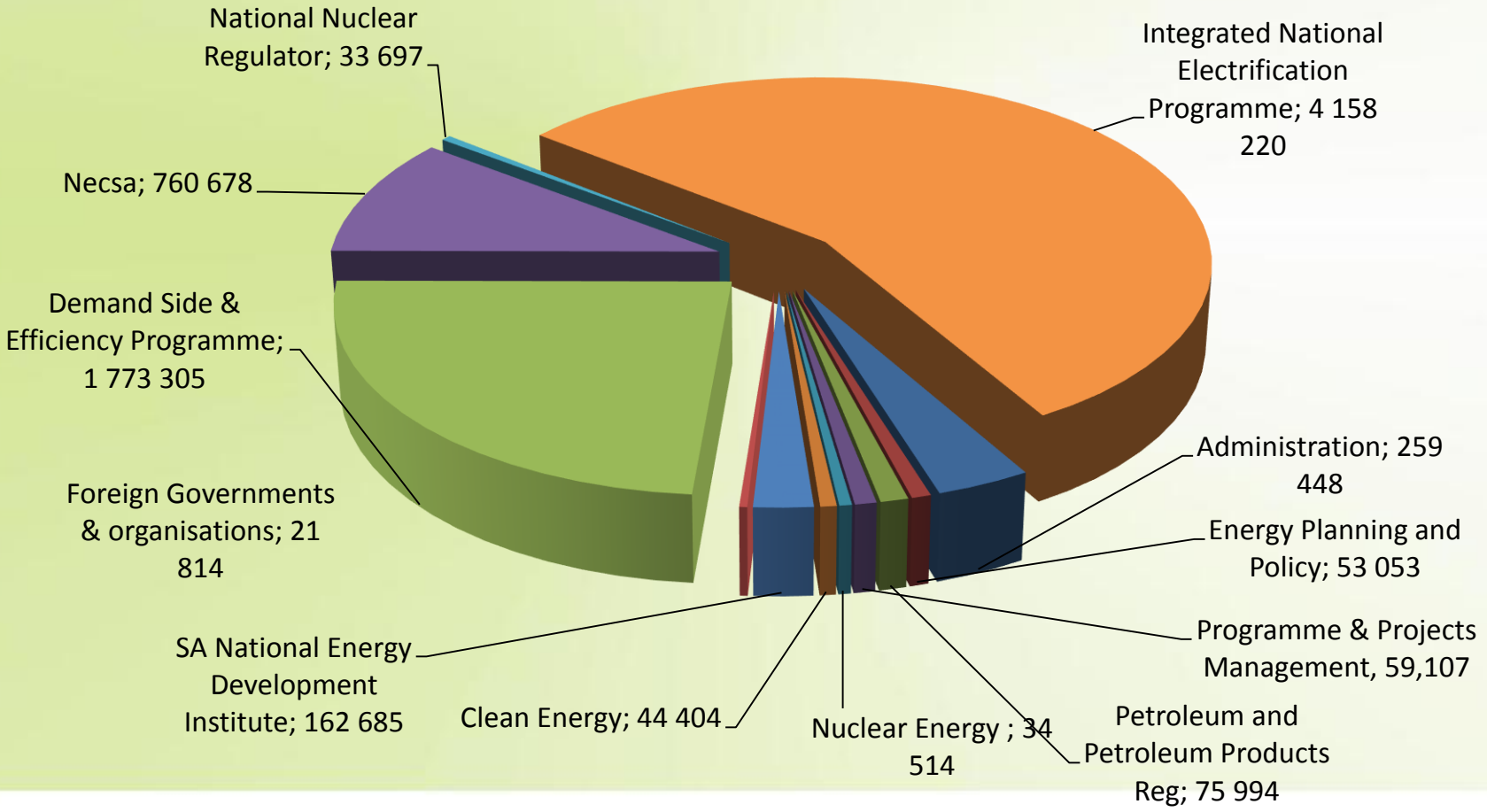
INTRODUCTION

The final appropriation of the Department changed from R6.5 billion in 2013/14 financial year to **R7.4 billion in the 2014/15** financial year, and was allocated as follows:

FINAL APPROPRIATION	BUDGET	SHARE
Administration	259,448	3.49%
Energy Planning and Policy	53,053	0.71%
Petroleum and Petroleum Products Reg	75,994	1.02%
Electrification and Energy Programme & Projects Mananagent	59,107	0.79%
Nuclear Energy	34,514	0.46%
Clean Energy	44,404	0.60%
SA National Energy Development Institute	162,685	2.19%
Foreign Governments & organisations	21,814	0.29%
Demand Side & Efficiency Programme	1,773,305	23.84%
Necsa	760,678	10.23%
National Nuclear Regulator	33,697	0.45%
Integrated National Electrification Programme	4,158,220	55.91%
SETAs	875	0.01%
TOTAL	**7,437,794**	**100%**

INTRODUCTION

BUDGET SHARE



energy

Department:
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REPUBLIC OF SOUTH AFRICA

FINANCIAL PERFORMANCE

Statement of Financial Performance for the year ended 31 March 2015

	2014/15
	R'000
REVENUE	**7 582 442**
Annual Appropriation	**7 437 794**
Departmental Revenue	**5 277**
Aid Assistance	**139 371**
EXPENDITURE	
Current expenditure	**473 607**
Transfers and subsidies	**5 877 782**
Expenditure for capital assets	**3 763**
Payments for financial assets	**33**
TOTAL EXPENDITURE	**6 355 185**
SURPLUS FOR THE YEAR	**1 227 257**
Voted Funds	**1 217 681**
Departmental revenue	**5 277**
Aid assistance	**4 299**

Department:
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2014/15 BUDGET OVERVIEW

Spending By Economic Classification

DETAILS	Adjusted Budget	Actual spend 31/03/2015	Actual % on budget spend
Rand's Million	**R'000**	**R'000**	**%**
Compensation of Employees	273,246	264,266	96,70%
Goods and Services	244,081	209,341	85,80%
Transfers and subsidies	6,915,239	5,742,710	83,0%
Payments for capital assets	5,195	3,763	72,40%
Payments for financial assets	33	33	0.00%
Totals : Major spending areas	**7,437,794**	**6,220,113**	**83,60%**

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2014/15 BUDGET OVERVIEW (continued)

Per Programme			
DETAILS	**Adjusted Budget 2014/15**	**Actual spend 2014/15**	**Actual % on budget spend**
	R'000	**R'000**	**%**
Totals 2014/15	**7 437 794**	**6 220 113**	**83.6%**
Administration	260 601	257 168	98.7%
Energy Policy and Planning	53 053	41 749	78.7%
Petroleum and Petroleum Products Regulation	78 210	64 548	82.5%
Electricity and Energy Programme Management	4 217 327	4 180 973	99.1%
Nuclear Energy	846 529	845 418	99.9%
Clean Energy	1 982 074	830 257	41.9%

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FINANCIAL PERFORMANCE

Analysis of financial performance:

- As at 31 March 2014, the Department spent R6.22 billion or 83.6% of its allocated budget.

- This resulted in an unspent balance of R1.22 billion or 16.4% of the adjusted allocation.

- The composition of the overall unspent balance of R1.22 billion is as follows:
  - Compensation of Employees :R 8.98 million
  - Goods & Services :R 34.74 million
  - Transfer Payments :R 1.17 billion
  - Capital Assets :R 1.43 million

- A rollover motivation totalling R1.2 billion was submitted to National Treasury for consideration.

FINANCIAL PERFORMANCE (continued)

Compensation of employees

- The Department spent a total of R264.27 million in respect of compensation of employees during the 2014/15 financial year which resulted in an under spending of R8.98 million (3.29%) at year-end.

- The budget balance is attributable to the number of vacant positions in the Department. The recruitment process for the majority of positions was not completed by year end but was at an advanced stage.

FINANCIAL PERFORMANCE (continued)

Goods & Services

- Disbursed payments totalling R209.34 million for the procurement of various goods and services which resulted in an under spending of R34.74 million (14.23%) at year-end.

- Attributable to operational delays in appointing service providers for various projects and certain projects which were not undertaken as planned during the financial year both resulting in a significant under spending in the consultants cost item.

- Cost reduction measures implemented resulted in operational savings in travel and subsistence, the delayed relocation of regional offices to the new office accommodation premises delayed the procurement of office furniture resulting in under spending in the minor assets cost item.

FINANCIAL PERFORMANCE (continued)

Transfer Payments

- Disbursed payments amounting to a total of R5.74 billion to public entities, municipalities and implementing agents against a budget of R6.92 billion. This resulted in a budget under-spending of R1.17 billion (16.96%) at year-end.

- The major contributors to this under-spending are:
  - R35.53 million - INEP non-grid electrification programme due to the late start of the projects in the 2014/15 financial year as a result of delays in finalizing implementation agreements. This consequently impacted on time frames attached to implementation and verification of connections and subsequent late receipt of invoices.

FINANCIAL PERFORMANCE (continued)

Transfer Payments (continue)

- R1.14 billion - Eskom Solar Water Heater Programme which could not be transferred due to challenges in implementing the project by Eskom in the current financial year. The re-engineering of the programme was inevitable during the financial year and culminated in the termination of the DoE-Eskom MoA (by mutual agreement).

- The Department has initiated the process of obtaining Cabinet's approval for the programme's Revised SWH Contracting Model.

FINANCIAL PERFORMANCE (continued)

Transfer Payments

- A request has been submitted to National Treasury to roll funding of R1.14 billion over to the 2015/16 financial year to implement the Solar Water Heater Projects at municipalities across all nine regions which will assist in reducing the electricity demand.

FINANCIAL PERFORMANCE (continued)

Transfers and Subsidies	Adjusted Budget 2014/15	Actual	Variance
Rand Million	R'000	R'000	R'000
SANEDI	162,685	162,685	-
International Membership	21,814	21,275	539
EDSM - Eskom	1,636,400	500,000	1,136,400
EDSM - Munic	136,905	136,905	-
NECSA	760,678	760,678	-
NNR	33,697	33,697	-
INEP - Eskom	2,948,037	2,948,037	-
INEP - MuniC	1,104,658	1,104,658	-
INEP - Non-grid	105,525	70,000	35,525
Households	3,965	3,963	2
SETAs	875	812	63
Total Transfer Payments	**6,915,239**	**5,742,710**	**1,172,529**

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FINANCIAL PERFORMANCE: TRANSFER PAYMENTS

- The management of transfer payments in terms of the DORA are managed by line function (INEP / Clean Energy) based 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.

MUNICIPAL EEDSM PROGRAMME CHALLENGES

- Since the inception of the EEDSM programme in 2009/10 there has been 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.

MUNICIPAL EEDSM PROGRAMME CHALLENGES (Continue)

- 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.

TECHNICAL SUPPORT PROVIDED TO MUNICIPALITIES FOR EEDSM PROGRAMME

- In 2011/12 the Department decided to develop an implementation and monitoring guideline 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.
- This 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).

TECHNICAL SUPPORT PROVIDED TO MUNICIPALITIES FOR EEDSM PROGRAMME (Continue)

- 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 at municipalities to address any shortfalls on implementation agreements.

INEP PROGRAM CHALLENGES

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 municipal procurement take 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.

INEP PROGRAM CHALLENGES (continued)

- 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 – connection 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.

PROPOSED SOLUTIONS ON INEP

- Regional steering committees are being established to enhance project assessments before funds are allocated which will assist with the current project monitoring on existing projects.
- During the implementation phase, projects are monitored and evaluated, and this oversight role has been strengthened.
- 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.

FINANCIAL POSITION

Statement of Financial Position as at 31 March 2015

	2014/15 R'000
ASSETS	
Current assets	**1 219 911**
Unauthorised expenditure	14 860
Cash and cash equivalents	1 203 054
Prepayments and advances	1 686
Receivables	311
Non-current assets	**2 205**
Investments	2 205
TOTAL ASSETS	**1 222 116**
LIABILITIES	
Current liabilities	**1 219 811**
Voted funds to be surrendered to the Revenue Fund	1 217 681
Dept. Revenue and NRF Receipts to be surrendered to the Revenue Fund	1666
Payables	464
TOTAL LIABILITIES	**1 219 811**
NET ASSETS	**2 305**

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FINANCIAL POSITION (continued)

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.
- A request for condonation has been submitted to National Treasury for consideration. Condonation was approved without funding.
- The Department presented the matter to SCOPA on 12 November 2014 and is awaiting the committee's decision. No unauthorised expenditure was incurred in the 2014/15 financial year.

FINANCIAL POSITION (continued)

Irregular expenditure

- During 2014/15 irregular expenditure to the amount of R 55 000 was identified .This amount was due to non-compliance to procurement process .

- Condonation was granted in the 2014/15 financial year for this irregular expenditure. The matter is being investigated and disciplinary steps will be taken pending the outcome of the investigation.

Investments – R2.205 million

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

FINANCIAL POSITION (continued)

Current Liabilities – R1,219,811 billion

The breakdown of the above is as follows;

- R1,218,681 billion - Unspent voted funds / Surplus funds, This was surrendered to NT immediately after the audit.
- R1,666 million - Revenue collect on the 31 March 2015
  This has been surrendered to NT
- R208 000 - Taxes on employee earnings. This was paid over to SARS in April 2015.
- R256 000 - Unallocated amounts received in respect of petroleum licenses

FINANCIAL POSITION (continued)

Audit outcomes for the last 4 years

	2011/12	2012/13	2013/14	2014/15
Audit Opinion	Unqualified	Unqualified	Unqualified	Unqualified (Clean Audit)
Support Function	**31**	**8**	**14**	**3**
Corporate Services	5	1	2	1
Information Technology	6	3	1	1
Financial Management Services	14	3	6	1
Governance and Compliance	6	2	5	0
Line Function	**7**	**8**	**3**	**1**

REPORT OF THE AUDITOR GENERAL

Audit opinion:

- The department received an **unqualified audit opinion without emphasis of matter (clean audit report).**

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

- Most of the audit findings were addressed as at 31 July 2015

Thank you

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