1. **Budgetary Review and Recommendation Report of the Portfolio Committee on Energy, dated 17 October 2017.**

The Portfolio Committee on Energy, having considered the performance and submission to National Treasury for the medium term period of the Department (on 04 and 10 October 2017), reports as follows:

**Outline of the contents of the Report**

1. INTRODUCTION
2. OVERVIEW OF THE PERFORMANCE OF THE DEPARTMENT OF ENERGY 2016/17
3. DEPARTMENT OF PLANNING, MONITORING AND EVALUATION (DPME) – PERFORMANCE OF THE DEPARTMENT AND ITS ENTITIES 2016/17
4. CENTRAL ENERGY FUND – PERFORMANCE FOR 2016/17
5. FINDINGS AND OBSERVATIONS
6. RECOMMENDATIONS
7. **Introduction**

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. **Mandate of the Portfolio Committee on Energy**

In line with the core objectives of Parliament, the mandate of the Committee is to:

* 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 energy to 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.

The committee, in undertaking the process of compiling this report, considered the following 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 South Africa (AGSA) on the audit outcomes of the Department of Energy and the entities reporting to it.
* Briefing by the Department of Planning, Monitoring and Evaluation on the performance of the Department of Energy for 2015/16.
* Briefing by the Central Energy Fund on its Annual Report of 2016/17
	1. **The Department of Energy 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. There are six State Owned Entities (SOE’s) reporting to the Department. The Minister of Energy is responsible for overseeing these SOEs 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). The Entities reporting to the Department are listed below:

* **The National Nuclear Regulator (NNR)** - The purpose of the NNR, as outlined in section 5 of the National 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.
* **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.
* **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 Development Community 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.
1. **OVERVIEW OF THE PERFORMANCE OF THE DEPARTMENT OF ENERGY 2016/17**

This section provides an overview of the service delivery performance of the Department during the 2016/17 financial year. The section firstly provides responses by the Department to the Committee on the recommendations of the previous BRRR. Secondly, a summary of the performance of the Department for the 2016/17 financial year is provided. Thirdly and lastly, challenges relating to service delivery performance are highlighted.

* 1. **Responses to the PC on Energy BRRR 2016**

The table below highlight the responses from the Department of Energy relating to the PC on Energy’s Budgetary Review and Recommendations Report for 2016-17

**Table 1: Responses by the DoE on the PC on Energy BRRR 2016**

|  |  |
| --- | --- |
| **Recommendations** | **Responses of the Department** |
| 1. Present to the Committee the finalised Integrated Energy Plan, in the 4rd quarter of 2016/17.
 | As part of Public consultations on the Integrated Energy Plan (IEP) was presented to PCE in April 2017. The plan is being finalised and will be submitted to Cabinet by the end of February 2018, latest.  |
| 1. Present to the Committee the Integrated Resource Plan, in the 1st quarter of 2017/18.
 | The Department is currently updating the Integrated Resource Plan (IRP) base case and scenarios following public consultations. As part of Public consultations, the Integrated Energy Plan (IEP) was presented to PCE in April 2017. The plan is being finalised and will be submitted to Cabinet by end Feb 2018, latest.   |
| 1. As a matter of urgency, ensure that all critical posts in the State Owned Entities are filled.
 | On the 6th of April 2017, the Minister was briefed about the status of vacant positions in affected SOEs. All vacancies within SOEs have been filled whilst others are in the process of being filled. Some of the vacancies within the CEF Group will only be filled once the organisational review process is completed. |
| 1. Ensure that challenges related to the maximum retail price of liquefied petroleum gas are resolved by 2017/18 financial year.
 | The Gas Amendment Bill has been developed with the intention to address the regulatory model for all gas infrastructures, including liquefied petroleum (LP) gas. A revised model has been developed. It is envisaged that the above frameworks will resolve the LPG retail price challenges.  |
| 1. Subsequent to the adoption of the Integrated Resource Plan and Integrated Energy Plan by Cabinet, the DoE must re-engage the Committee with legislative proposals for the reform and restructuring of the electricity sector.
 | Once the above approval process has been complete, the Department will engage the Portfolio Committee on both policy frameworks.  |
| 1. Develop initiatives, in conjunction with other national government departments and entities to ensure security of supply, with regard to electricity (to ensure there is no load shedding).

  | The IRP once finalised will guide the initiatives to be developed.  |
| 1. 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.
 | The DoE has done an assessment of the asset refurbishment backlog in the electricity distribution sector, covering Eskom and municipalities. The DoE is collaborating with National Treasury, CoGTA, Municipal Infrastructure Support Agency, NERSA to develop the norms and standards for municipal asset management. In addition, a funding model for refurbishing of the infrastructure is being developed in collaboration with external investors. Discussions regarding funding mechanisms are underway. |
| 1. 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 those aspects of localisation of technology and skills transfer is assessed to ensure it is occurring.
 | The DoE is continuously working with the Eskom Transmission and Distribution Infrastructure Planning teams to address the connection issues in the immediate term.  For the future, Eskom with the Department of Environmental Affairs (DEA) and in consultation with the Department has developed a Strategic Grid Plan taking into account energy resource locations. Strategic Environmental Assessment is being undertaken with a view of unlocking these corridors for the future.  On localisation, the Department is working closely with the Department of Trade and Industry (DTI) in determining the local content threshold for each technology.Each project is required to submit an economic development plan, which includes amongst other things, skills transfer, training and local ownership.The DoE through the IPP is looking at how to further enhance the benefits to local communities as well as increasing local ownership.  |
| 1. Assess the legislative mandate of the NERSA and ensure it is comprehensive and robust to fully empower NERSA to execute their duties. This includes ensuring that the NERSA is empowered to audit and investigate regulatory related issues at Eskom and Municipalities.
 | The Regulator is already empowered under s4 (b) and s32 of the Electricity Regulation Act 4 of 2006 to conduct investigations.  The NER Amendment Bill proposes a new governance model that creates an appeal authority, which should be separate from the Regulator. |

**Source: DoE presentation document to the PC on Energy on 10 October 2017**

* 1. **Summary: 2016 – 17 Annual Performance Report**

For the 2016/17 financial year, the Department had 77 planned annual targets, and of these targets, only 32 or 42 per cent were achieved. This compares to 51 percent achieved in the previous financial year – meaning the Department has not improved in terms of performance. Table 2 below provides a summary of the 2016-17 Annual Performance Report of the DoE.

**Table 2: Summary of the 2016 – 17 Annual Performance of the DoE**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Branches/Units** | **Number of Annual Targets in APP** | **Achieved Targets** | **Partially Achieved** | **Not Achieved**  |
| **Programme 1: Administration** | 11 | 6 | 4 | 1 |
| **Programme 2: Policy & Planning** | 19 | 0 | 10 | 9 |
| **Programme 3: Petroleum And Petroleum Products Regulation**  | 5 | 4 | 1 | 0 |
| **Programme 4: Electrification and Energy Programme and Project Management** | 18 | 13 | 5 | 0 |
| **Programme 5: Nuclear Energy** | 15 | 6 | 6 | 3 |
| **Programme 6: Clean Energy** | 9 | 3 | 3 | 3 |
| **TOTALS** | **77** | **32** | **29** | **16** |
|  |
| **Percentages** |  | **42%** | **38%** | **20%** |

**Source: DoE presentation document to the PC on Energy on 10 October 2017**

* 1. **Organisational environment**

With regard to the human resource capacity, in line with the approved establishment, the Department is supposed to have filled 683 posts but instead it has filled 589 posts – this translates into a vacancy rate of 13.7 per cent as indicated earlier. The highest vacancy rates are Clean Energy programme (24 percent), Administration (15 percent), Energy Policy and Planning (14.7 percent). As of March 31, 2017, 21 percent of the vacant posts were in senior management positions. According to the Department, additional employment stood at 62 posts with 27 being internships, which were due to conclude on 31 March 2017, 18 contract posts and 17 permanently employed.

Following the skills audit conducted through the submission of Personal Development Plans (PDP’s), the Department developed a Workplace Skills Plan (WSP). As part of the implementation of the WSP, 307 employees were trained during 2016/17 financial year and 37 new bursaries offered to serving employees for 2016 academic year. This brings the total number of employees studying part-time at various institutions to 61.

With regard to regional offices, the department strives to bring service delivery closer to the people and has therefore relocated the Eastern Cape Regional Office from Port Elizabeth to East London with effect from 1 April 2016. The procurement of permanent office space for the Gauteng and Free State Regional offices have been planned for the new financial year.

* 1. **Performance challenges**

Performance challenges, as highlighted by the Department include the following:

* The delay in the implementation of grid connections in some municipalities due to the difference in financial years between municipalities and the Department (national). The municipalities’ financial year runs from July to June, whereas the Department’s runs from April to March.
* Lack of holistic infrastructure planning to ensure that the networks are extended in the most effective manner.
* More households have to be electrified in deep rural areas where the installation cost is much higher.
* Lack of relevant skills and resources in the municipalities to implement INEP programme within the agreed project scope, costs and timeframes.
* In respect of the Renewable IPP, the Department has not been able to conclude on the signing of the PPAs due to the impasse with Eskom.
* Slow and lack of responsiveness from municipalities to enter into the Solar Water Heaters Programme Framework Agreement with the Department.
* Pending Council resolutions on the designated installation areas within which the rollout should take place.
* In November 2016, Cabinet directed that Eskom be the procurer of the Nuclear Power Plants and Necsa the procurer of a Multi-Purpose Reactor and the Nuclear Fuel Cycle, with the Department assuming a coordinating role for the NNBP. Regrettably the April 2017 Western Cape High Court ruled and set aside the procurement programme.
* On legislation, the 2016/17 legislative programme could not be tabled in Parliament due to the SEIAS process requirements.
	1. **Challenges and mitigation**

Table 3 below highlights the challenges and mitigation as identified by the DoE.

**Table 3: Challenges and mitigation**

|  |  |
| --- | --- |
| **CHALLENGES** | **MITIGATION** |
| Financial resource constraints | Reprioritisation |
| High staff turnover  | Staff retention and filing of critical positions  |
| Capacity and competencies within municipalities  | More support to SALGA |
| Intergovernmental dependency  | Improved intergovernmental relations  |
| Project management capabilities-  | Project Management Office has been established |

**Source: DoE presentation document to the PC on Energy on 10 October 2017**

* 1. **Annual Financial Statements (AFS) for the year ended 31 March 2017**

The Department’s total budget allocation for 2016/17 financial year was R7.550 billion. This represents a nominal increase of R287.3 million. However, in real terms, when inflation is taken into account, the allocation represented a budget cut of two per cent.

Of the total allocated budget, transfers and subsidies accounted for R6.83 billion, while R739 million accounted for current payments and the remainder of about R4.1 million accounted for payments of capital assets. Allocation for payment of capital assets and transfers and subsidies remained almost the same when compared to the previous financial year (2015/16). However, the allocation for current payments increased by over R2 million. The largest proportion of the budget under current payments is for goods and services, compensation of employees and consultants (business and advisory services).

At the end of March 2017, the DoE had spent a total amount of R7.5 billion or 99.5 per cent of the allocated budget. This compares to 98 per cent at the end of the previous financial year. Regarding transfers and subsidies, at the end of March 2017, the DoE had made transfers of R6.81 billion, which resulted in an underspending of R18.1 million. DoE attributed the underspending to slower spending on the National Solar Water Heater Project (NSWHP) due to delays in finalising contracts with preferred bidders, as well as in Integrated National Electrification Programme (INEP) - non-grid due to delays in finalising contracts with service providers. Table 4 shows the Appropriation statement of the DoE for 2016/17.

**Table 4: Appropriation statement – 2016/17**

|  |
| --- |
| **Appropriation - per programme** |
| **2016/17** | **2015/16** |
| **Details** | **Final Appropr.** | **Actual Expenditure**  | **Variance**  | **%** **of** **final Appropr.** | **Final Appropr.** | **Actual Expenditure**  |
|  | R'000 | R'000 | R'000 | % | R'000 | R'000 |
| **Administration** | 247 018 | 282 762 | -35 744 | 114.5 | 277 898 | 277 767 |
| **Energy Policy and Planning** | 40 164 | 39 878 | 286 | 99.3 | 40 586 | 38 095 |
| **Petroleum and Petroleum Regulation** | 79 001 | 78 991 | 10 | 100 | 69 008 | 68 958 |
| **Electrification and Energy Programme and Project** | 5 714 645 | 5 678 659 | 35 986 | 99.4 | 5 824 050 | 5 820 485 |
| **Nuclear Energy** | 879 834 | 872 451 | 7 383 | 99.2 | 655 116 | 655 029 |
| **Clean Energy** | 589 894 | 560 101 | 29 793 | 94.9 | 400 961 | 281 783 |
| **Total** | 7 550 556 | 7 512 842 | 37 714 | 99.5 | 7 267 619 | 7 142 117 |

**Source: DoE presentation document to the PC on Energy on 10 October 2017**

The budget includes R6, 846 billion (91%) attributable to transfer and subsidies.

* + 1. **Operational Budget – per programme 2016/17**

Table 5 shows the DoE operational budget per programme for 2016/17.

**Table 5: Operational budget – per programme for 2016/17**

|  |
| --- |
| **Operational Budget - Per Programme** |
| **2016/17** |  |
| **DETAILS** | **Final Appropr.** | **Actual Expenditure**  | **Variance**  | **Percentage Variance** |
|  | **R'000** | **R'000** | **R'000** | **%** |
| **Administration** | **241 651** | **275 930** | **-34 279** | **-14.19%** |
| **Energy Policy and Planning** | **40 164** | **39 878** | **286** | **0.71%** |
| **Petroleum and Petroleum Regulation** | **78 879** | **78 870** | **9** | **0.01%** |
| **Electrification and Energy Programme and Project** | **70 213** | **68 303** | **1 910** | **2.72%** |
| **Nuclear Energy** | **210 294** | **202 424** | **7 870** | **3.74%** |
| **Clean Energy** | **63 318** | **31 321** | **31 997** | **50.53%** |
| **Total** | **704 519** | **696 725** | **7 794** | **1.11%** |

**Source: DoE presentation document to the PC on Energy on 10 October 2017**

Included in the figures above are earmarked funds, amounting to R564.6 million for Compensation of Employees (R318.3 million), Office Accommodation (R30.1 million), Solar Water Heater Programme (R30.4 million) , Nuclear New Build Programme (R177.9 million), Non-grid Monitoring and Verification (R2.1 million) and Energy Efficiency and Demand Side Management Programme Monitoring Verification (R5.8 million).

The variance (net budget balance) includes net unspent funds for the following earmarked appropriation:

* NNBP: R3.29 million, SWHP: approximately R30.4 million that will be surrendered to National Treasury.
	+ 1. **Budget for Transfers and Subsidies**

Table 6 below shows the DoE’s Budget for transfers and subsidies for 2016/17.

**Table 6: Budget for transfers and subsidies**

|  |
| --- |
| **Budget for Transfers and Subsidies** |
| **Programme** | **Programme / Project** | **Final Appropriation** | **Actual****transfers** | **Available balance** | **% of Total Budget Expended** |
| **R’000** | **R’000** | **R’000** | **%** |
| **1** | Households | 4 708 | 2 978 | 1 730 | 63.25% |
| SETAs (EWSETA & CHIETA) | 985 | 985 | - | 100.00% |
|  International membership fees | 19 105 | 25 003 | -5 898 | 130.87% |
| **4** |  INEP Non-grid electrification | 171 809 | 137 733 | 34 076 | 80.17% |
|  INEP - Eskom | 3 526 334  | 3 526 334  | -  | 100.00% |
|  INEP - Municipalities | 1 946 246 | 1 946 246 | - | 100.00% |
| **5** |  South African Nuclear Energy Corporation  | 599 338 | 599 338 | - | 100.00% |
|  National Nuclear Regulator  | 40 936 | 40 936 | - | 100.00% |
| National Radioactive Waste Disposal Institute | 10 000 | 10 000 | - | 100.00% |
| **6** |  EEDSM - Municipalities | 185 625 | 185 625 | - | 100.00% |
|  Solar Water Heater Project  | 320 326 | 320 314 | 12 | 100.00% |
|  South African National Energy Development Institute  | 20 625 | 20 625 | - | 100.00% |
|  |  **TRANSFER PAYMENTS TOTAL**  | **6 846 037** | **6 816 117** | **29 920** | **99.56%** |

**Source: DoE presentation document to the PC on Energy on 10 October 2017**

As indicated earlier and in the above table, the Department had spent 99.5 of its allocated budget. Reasons for underspending are detailed below per programme:

**Programme 1: Administration**

The overspending of R35.74 million in this programme is due to:

* Compensation of employees, overspent with R5.53 million due to budget reductions implemented by the National Treasury (NT) in the 2015 Medium Term Expenditure Framework (MTEF) process, as well as an inadequate budget allocation for filled posts.
* Goods and services, overspent with R29.21 million due to operating leases for office accommodation and property payments as a result of increased payments due to relocation of several regional offices. Unforeseen and unavoidable legal fees as well as the difference in exchange rate (ZAR / $) associated with the procurement of software licenses under computer services.
* Transfer payments for foreign membership fees to multilateral organizations, which were rolled over from the 2015/16 financial year.

**Programme 4: Electrification and Energy Programme and Project Management**

The budget underspending of R35.99 million is mainly due to:

* Compensation of employees under spent by R1.91 million due to vacancies.
* Transfer Payments under spending was R34.08 million because of payments for Non- Grid Electrification Programme, which were delayed due to physical verification that had to be performed by the Department for installed Solar Water Home Systems (SWHS) before disbursement of payments.

**Programme 5: Nuclear Energy**

The budget underspending of R7.38 million is mainly on Goods and services, due to delays in disbursement of payments in Nuclear New Build Programme (NNBP) because of verification of work done by service provider in line with deliverables per contract. The invoices were received towards the end of the financial year.

**Programme 6: Clean Energy**

The budget underspending of R29.79 million is mainly in Goods and services, due to delays in concluding collaboration agreements with selected municipalities as key role players in the installation phase of SWHP.

* + 1. **APPROPRIATION STATEMENT - 2016/17**

Table 7 below shows the DoE Appropriation – per economic classification.

**Table 7: Appropriation - per economic classification**

|  |  |
| --- | --- |
| **Appropriation – per economic classification**  | **2015/16** |
| **DETAILS** | **Final Appropr.** | **Actual Expenditure**  | **Variance**  | **% of final Approp.** | **Final Appropr.** | **Actual Expenditure**  |
|  | **R'000** | **R'000** | **R'000** | **%** | **R'000** | **R'000** |
| Compensation of Employees | 318 297 | 321 466 | -3 169 | 101.0 | 296 219 | 296 009 |
| Goods and Services | 371 031 | 360 532 | 10 499 | 97.2 | 215 588 | 213 299 |
| Transfers and subsidies | 6 846 037 | 6 816 117 | 29 920 | 99.6 | 6 751 374 | 6 628 379 |
| Payments for capital assets | 15 162 | 14 700 | 462 | 97.0 | 4 432 | 4 424 |
| Payments for financial assets | 29 | 28 | 1 | 96.3 | 6 | 5 |
| **Totals : Major spending areas** | **7 550 556** | **7 512 842** | **37 714** | **99.5** | **7 267 619** | **7 142 117** |

**Source: DoE presentation document to the PC on Energy on 10 October 2017**

**Compensation of Employees (CoE)**

* CoE budget was overspent by R3. 17 million or by 1% due to:
* Budget reductions by National Treasury since 2015/16 financial year.
* Contract positions carried additional to establishment and unavoidable overtime.

**Goods and Services**

* Net underspending of R10.5 million or 2.83 % was reported, because of planned projects not finalized at year-end as anticipated.

**Transfers and Subsidies**

* Net budget under spending of R29.92 million or 0.4% was disclosed due to the following:
* Under spending of R34.08 from INEP Non-Grid Electrification Programme.
* Item “Households” under spent by R1.73 million.
* International membership fees overspent by R5.89 million.

**Payment for capital assets**

* The underspending of R462 thousand was due to delays in relocation of regional offices.

**Payments for financial assets**

* Payments for financial assets of R28 thousand was expenditure incurred because of theft and losses as well as debt/s written off. The expenditure is defrayed by a virement from reported savings at year-end.
	+ 1. **Report of the Auditor-General of SA on the AFS for 2016/17**

In the past three financial years, the Auditor-General (AG) had expressed an unqualified Audit opinion on the performance of the Department. However, in the year under review, the Department received a qualified[[1]](#footnote-1) audit opinion with findings from the AG (see table below).

**Table 8**: **Review of Audit Outcomes**

|  |  |
| --- | --- |
| **Department**  | **Snapshot Review of Audit Opinion during 2012/13 – 2016/17** |
|  | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| Energy | Unqualified with findings  | Unqualified with findings | Unqualified with findings | Unqualified with no findings | Qualified with findings  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Clean Audit  |  | Disclaimer  |  | Unqualified with findings  |  | Qualified with findings  |

According to the AG, the basis for a qualified audit opinion is because of the following:

* + - 1. **Irregular expenditure**

The AG argues that the Department did not include the required information on irregular expenditure in the Notes to the Financial Statements, as required by Section 40(3)(i) of the Public Finance Management Act (PFMA). This resulted from payments made in contravention of the Supply Chain Management (SCM) requirements, resulting in irregular expenditure being understated by R98 382 000.

* + - 1. **Material underspending of the Vote**

According to the AG, the Department has materially underspent the budget on Clean Energy, Nuclear Energy, Electrification and Energy Programme and Project Management to the amount of R73 162 000.

**2.6.4.3 Unauthorised expenditure**

Unauthorised expenditure to the amount of R35 744 000 was incurred, relating to overspending in the Administration programme.

**2.6.4.4** **Reported target not consistent when compared with planned target:**

On programme 3, a target was set for the licence inspections to show more than 50 percent Historically Disadvantaged South Africans (HDSA) ownership. According to the annual report, this target was over-achieved, an achievement of 82.79 percent. However, according to the AG, while the target was approved as 50 percent of licence applications approved to have 50 percent BEE ownership in the Annual Performance Plan. This is not in line with the requirements of Treasury Regulation 5.2.4. According to the aforementioned regulation, the strategic plan must form the basis for the annual reports of accounting officers as required by the Public Finance Management Act.

**2.6.4.5 Performance indicators are not well defined and targets are not specific and measurable**

In programme 4, a performance indicator was set to ‘*develop* *implementation of a project management business process”.*  However, according to the AG, the target for this indicator was not specific in clearly identifying the nature, required level of performance, and was not measurable during the planning process, as required by the Framework for Managing Programme Performance Information (FMPPI).

**2.6.4.6 Procurement and contract management**

* The Department awarded contracts to bidders participating in contracts procured by other organs of state with specifications and price, which were not similar to those stipulated in the original contract, as required by Treasury Regulations 16A6.6. This regulation provides that an accounting officer may appoint a service provider who has been appointed by an organ state, through a competitive bidding process provided that both the service provider and the organ of state consent.
* Effective steps were not taken to prevent irregular expenditure, as required by Section 38(1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1. The expenditure disclosed under Note 25 does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.
* Contracts were extended or modified without the approval of a properly delegated official as required by Treasury Regulation 8.2. This regulation stimulates that “An official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer”[[2]](#footnote-2).

**2.6.4.7 Financial and performance management**

* Management did not review and monitor compliance with applicable laws and regulations as a result of not implementing and updating the regulations and laws on the policies.
* Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as a result of proper monitoring and oversight.

**Table 9: Irregular expenditure per entity**

|  |
| --- |
| **Irregular expenditure incurred per entity Irregular expenditure**  |
| **Entity**  | **2016/17**  | **2015/16**  | **2014/15**  | **2013/14**  |
| **DoE**  | 76 824 000  | 678 000  | 55 000  | 379 000  |
| **CEF**  | 52 000  | 82 657 000  | 20 429 000  | 1 604 058 000  |
| **NECSA**  | 0  | 43 638 000  | 169 874 000  | 5 792 000  |
| **SANEDI**  | 120 000  | 420 000  | 426 000  | 12 644 000  |
| **NRWDI**  | 3 362 500  | 4 513 546  | 828 648  | 0  |
| **SFF**  | 619 000  | 80 436 000  | 282 000  | 8 556 000  |
| **Petro SA**  | 7 113 000  | 511 000  | 16 937 000  | 1 589 000 000  |
| **Radioisotope**  | 0  | 33 973 157  | 2 688 084  | 0  |
| **Gammatec**  | 0  | 6 891 615  | 63 084 547  | 0  |
| **Pelchem**  | 0  | 3 235 693  | 592 549  | 391 900  |
| **NNR**  | 0  | 4 683  | 0  | 0  |
| **NERSA**  | 4 795 003  | 0  | 1 703 887  | 64 935  |
| **Total**  | **92 885 500**  | **256 958 964**  | **276 900 715**  | **3 220 885 835**  |

**Source: AGSA presentation document to the PC on Energy on 04 October 2017**

According to the AGSA, 83% of occurrences was caused by non-compliance with Supply Chain Management (SCM) legislation. The main areas of non-compliance within SCM that caused irregular expenditure is non-compliance with legislation on contract management (77%). The highest contributors of the irregular expenditure included:

* DoE – R76 824 000 (2015-16: R678 000)
* PetroSA – R7 113 000 (2015-16 :R511 000)
* NRWDI– R3 362 500 (2015-16: R828 648)
* NERSA – R 4 795 003 (2015-16 : R 0)
	+ 1. **Action Plan by the DoE**

Management will implement corrective measures to address the Audit Outcome of 2016/17. The Department is disputing the audit finding that irregular expenditure is understated by R98 million. Consequently, the Department has lodged an appeal against the audit outcome of 2016/17. On unauthorised expenditure, the Department has committed to monitor its expenditure for 2017/18 to reduce the risk of recurrence of the same. Furthermore, the unauthorised expenditure will be presented to Standing Committee on Public Accounts (Scopa) for condonement. Regarding irregular expenditure, the Department has committed to strengthen its internal controls to prevent the same from happening the next financial year.

1. **department of Planning, Monitoring and evaluation (DPME)**

The DPME vision is to improve government outcomes and impact on society. Its mission is to facilitate, influence and support effective planning, monitoring and evaluation of government programmes aimed at improving service delivery, outcomes and impact on society. With regard to DoE, the DPME monitors the planning and performance of the Department on government Outcomes 6 and 10. Outcome 6 refers to a commitment to “an efficient, competitive and responsive economic Infrastructure”. The two Sub-outcomes of Outcome 6 are to ***improve regulation, funding and investment*** as well as to ***ensure reliable generation, transmission and distribution of energy***. On the other hand, Outcome 10 refers to the protection and enhancement of environmental assets and natural resources. The three Sub-outcomes of Outcome 10 relevant to the energy sector are to ensure “**An effective climate change mitigation and adaptation response**”, “***Enhanced governance systems and capacity***’ and “***Sustainable built environment***”. Thus, the DPME assessed the performance of the DoE on the abovementioned Outcomes and the findings are summarised below.

**3.1 Outcome 6 performance assessment**

**Table 10: Outcome 6 three-year performance comparison**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Outcome 6 Indicator** | **MTSF Target**  | **Year 1(2014/15)** | **Year 2 (2015/16)** | **Year 3 (2016/17** |
| Amend the National Energy Regulator (NER) Act and the Electricity Regulation Act | Amend Acts by April 2016 | The consultations on the two Bills have been concluded and will be tabled at Cabinet on 20 May 2015. A comprehensive report on the two bills will be provided in the next reporting cycle.  | Inter-misterial Committee (IMC) on Energy indicated that they will provide political guidance regarding proposals on electricity industry end state. Socio-Economic Impact Assessment System (SEIAS) Report to be submitted in respect of the NERA | IMC indicated that they will provide political guidance regarding proposals on electricity industry end-state.Cabinet rejected the Memo regarding the NER Amendment Bill, citing the need to limit NERSA autonomy. DoE will be resubmitting reworked amendments to Cabinet for consideration in the 2017/2018 financial year (FY) |
| Establish appropriate mechanisms to prefund capital and create a smooth price path over a longer-term for Eskom | Mechanism to prefund capital by July 2014 | Support package for Eskom, approved by cabinet in 2014 to address funding gap Inclusion into the Finance Task Team for auctioning includes: Key inclusion in package is emphasis on sustainable electricity Ensuring financial sustainability of Eskom Short term funding.  | Electricity price path under development, as part of the Integrated Resource Plan (IRP) Update process taking into account the build programme and the appropriate tariff increases over the medium term. | Electricity price path under development, as part of the IRP Update process taking into account the build programme and the appropriate tariff increases over the medium term.Public consultations on IRP base case and assumptions have been concluded. DoE in the process of considering the comments and updating the studies with first full draft of IRP expected by end of Quarter 3 of 2017/18 FY for inter-departmental consultation. |
| Develop a Private Sector Participation Framework (PSP) in the energy sector in baseload and renewable electricity generation, liquid fuels and gas. | Framework by December 2014. As per framework targets over MTSF. | RE IPP Programme with private sector participation now at Window 4 stage. REIPP Programme now at Window 5 stage. Co-generation contracts renewed that retained over 800 MW supplied by the private sector. 1800MW Coal IPP RFP issued and will be closing in June 2015. | REIPP Programme now at Window 5 stage. Co-generation contracts renewed that retained about 800 MW supplied by the private sector. 1800MW Coal IPP Request for proposal (RFP), plus Request for Information (RFI) for Gas issued in Q1 2015 | REIPP Programme now at Window 5 stage Co-generation contracts renewed that retained about 800 MW supplied by the private sector. 1800MW Coal IPP RFP, plus RFI for Gas issued in Q1 of 2015 |
| Develop Integrated Energy Plan (IEP) | IEP by December 2014 | Done. To be submitted as part of Energy Master Plan this year. | IEP has been completed and is ready for submission to the Economic Sectors, Employment and Infrastructure Development (ESEID) Cluster | IEP has been completed and resubmitted to the ESEID Cluster in September 2016 and to the Cabinet Committee in October 2016. Cabinet approved public consultation on the report closed on 31st March 2017. DoE in the process of updating the studies with revised report to be issued by end of quarter 3 of 2017/18 financial year for interdepartmental consultation. |
| Develop and implement a gas infrastructure Master Plan | Developed Master Plan by December 2015. | The draft Gas Utilisation Master Plan (GUMP) compiled and submitted as part of the Energy Master Plan – addresses short-term gas issues including the Liquefied Natural Gas (LNG) option and regional natural gas – includes shale gas exploitation in the medium term. | The draft GUMP compiled – addresses short term gas issues including the LPG/LNG option and regional natural gas – includes shale gas exploitation in the medium term. RFI for gas issued as precursor to RFP for gas to power programme. Submission will be made with updated IRP in Q1 2016/17 | The draft GUMP compiled – addresses short term gas issues including the LPG/LNG option and regional natural gas – includes shale gas exploitation in the medium term. RFI for gas issued as precursor to RFP for gas to power programme. Submission will be made with updated IRP in Q1 2016/17 |
| Refine, update and implement the Integrated Resource Plan (IRP). | Key decisions by July 2014; update IRP mid and end of 5 year terms; 100% completion against the plan | Public consultations concluded.The IRP is being refined internally for submission to the Cluster and subsequently to Cabinet for approval. | Interdepartmental consultations on IRP Update underwayThe draft IRP is being refined internally for submission to the Cluster and subsequently to Cabinet for approval. | Interdepartmental consultations on IRP Update completed and submitted to the Cluster in September 2016 and to the Cabinet Committee in October 2016.Public consultations on IRP base case and assumptions have been concluded. DoE in the process of considering the comments and updating the studies with first full draft of IRP expected by end of Quarter 3 of 2017/18 FY for interdepartmental consultation. |
| Reform of the electricity supply industry to introduce IPPs in support of electricity security of supply | At least 2 major power stations and 7000MW renewable energy deals.  | The procurement process for Base load Coal fired power generation has been started and RFP issued Extension of existing Short-term power producer contracts is done As at 31 December 2014, a total of 1 795 MW of energy from IPPS was connected to the national grid – 1 182, 62 (from BW1) and 339 MWs (from BW2). This from a total of 4 122 procured in bid windows 1, 2 and 3  | To date, 6 327 MW from RE IPPS was procured4000MW additional allocation has been determined for IPP’s (coal, gas, and renewablesEvaluation for coal bids underway. Renewables (Window 6) bidding will commence by June 2016 Gas: bidding will commence by June 2016 | To date, 6 327 MW from RE IPPS was procured. 4000MW additional allocation has been determined for IPP’s (coal, gas, and renewables) have beenEvaluation for coal bids completed and successful bidders announced Signing of contracts by Eskom is still pending. Discussions are still going. |
| Ring-fence the electricity distribution businesses of the 12 largest municipalities and resolve their maintenance and refurbishment backlog | 12 municipalities’ distribution issues resolved by 2019. | The Approach to Distribution Asset Management (ADAM) framework has been revised and implementation and funding model being developed | A stakeholder platform has been created and a meeting scheduled for Q1 FY2016/17A collaboration framework has been negotiated with Municipal Infrastructure Support AgencyNorms and Standards for infrastructure management are being developed in consultation with NERSA A funding model based on electricity tariffs has been presented to NERSA.  | A collaboration framework has been negotiated with Municipal Infrastructure Support Agency.Norms and Standards for infrastructure management are being developed in consultation with NERSA. |
| Develop Southern Africa’s hydroelectric resources and enhance inter-regional electricity trade. | A major hydro scheme approved over MTSF | The prefeasibility study for the Mphanda Nkuwa Project, wherein Eskom is to have an interest and be the major off taker is expected to commence by the end of 2014 Inga Project treaty signed September 2014 and ratified by Parliament in November 2014. Consultations with DRC counterparts are ongoing | Inga Project treaty signed September 2014, ratified by Parliament in November 2014 and entered into force on 20 March 2015. The DRC intends to negotiate the offtake agreements with RSA from Jan 2016  A determination for the Mozambique hydro project technology from Minister of Energy has been issued which accommodates the Mozambique project | DRC has commenced the bidding process and RSA finalising the transmission solution in consultation with DRC, Zambia, Zimbabwe and Botswana. In this regard, an intergovernmental MoU has been proposed under the facilitation of the SADC Energy Ministers with the support of the utilities in the respective countries Draft Inter-Governmental MoU for draft transit countries (DRC, Zambia, Zimbabwe and Botswana) has been developed and is being finalisedA stakeholder platform has been created and a meeting scheduled for Q1 FY2016/17.A collaboration framework has been negotiated with Municipal Infrastructure Support Agency. Norms and Standards for infrastructure management are being developed in consultation with NERSA. A funding model based on electricity tariffs has been presented to NERSA |
| Review bulk electrical infrastructure required for universal access to electricity, prepare an implementation plan, and implement. | Implementation of items as per approved plan | By the end of the 4th Quarter, the final draft of the new electrification master plan will be completed.Mini ADAM has managed to complete 4 distribution projects out of the 9.  The remaining 5 are progressing well. | DoE is finalising the electrification Master Plan. | Electrification Master Plan is completed but detailed study needs to be undertaken to deal with rising costs per connections and suite of supply options. |
| Improve demand-side management, including through smarter management of electricity grids | 800 MW over the MTSF | Funding being made available to pilot smart grids ongoing Agreement already signed with municipalities for implementation  The War room has been exploring energy saving options that could be implemented in the short term. 495 MW saving have been achieved by Eskom. DoE and DPW need to finalise the partnership on the government energy saving programme and provide report to the Cluster in the next quarter. | Smart meter pilot project in buildings, municipalities ongoing DOE, DEA and DPW to finalise the partnership on the government energy saving programme and provide report to the Cluster in the next quarter. RFI for demand side options issued and expedited procurement process being developed •0.8 Terra watt hours (0,5%) of savings have been independently verified to date. | Smart meter pilot project in buildings, municipalities ongoing. DoE and DCS have entered into an MoU regarding Energy Efficiency improvements in correctional facilities |
| Commission at least 7000 MW of renewable energy by 2020 | 500 MW by 2019 | Window 4 of the REIPP programme successful bidders have been announced by the Minister of EnergyThe construction of the 100 MW Sere Wind Farm is on track for full commissioning by end of March 2015. All 46 turbines have been installed. As at 20 January 2015 a total of 1 521,62 MW of energy from IPPS was connected to the national grid – 1 182,62 (from BW1) and 339 MWs (from BW2). This from a total of 4 122 MW procured in BWs 1, 2 and 3. BW 5 planned get RFP Feb 2015, Bid Submission by August 2015, and to reach Financial Close by August 2016 | All projects in the current build programme in the Construction phase. Medupi unit 6 is already delivering 800MW and is has been handed over for commercial operation The synchronisation of Kusile Unit 1 is planned for Q1 2017/18 •Ingula unit 3 and 4 are expected to be synchronised by end of 2015/16 financial year and commissioned for the next FY. | Evaluation of the Expedited Renewable Energy Bid Window completed. Eskom has committed in principle to sign the remaining procured windows. |

**Source: Department of Planning, Monitoring and Evaluation Presentation, (2017)**

On assessing the performance of DoE, on Outcome 6, the DPME found the following:

Progress has been very slow between 2014 and early 2016 and has started picking up on the 3rd quarter of 2016 /17.

The MTSF targets in most indicators where progress has been shown was expected to be delivered between 2014 and 2016. It has it noted in some indicators that the MTSF target will be achieved.

Progress has never been reported in some MTSF indicators. These include the following indicators: i) taking a decision on expanding oil refining capacity; (ii) Develop a funding mechanism for upgrading of existing refineries to ensure they meet new fuel-quality standards; ii) Improve governmental support for combating illegal use of electricity.

Progress should however be noted as Eskom continues to implement a maintenance strategy to improve plant availability and accelerate delivery of additional generating capacity.

Eskom has on the 31 March 2017, raised R57.4 billion, and R32.0 billion for 2016/17 and 2017/18financial years respectively.

The Renewable Independent Power Producer Programme (REIPP) has unlocked R201 billion with 6 244 MW Renewable Energy procured and now supplying 3 175MW to the Grid.

**3.2. Outcome 10 Performance Assessment**

**Table 11: Outcome 10 three-year performance comparison**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Outcome 10 Indicator** | **MTSF Target**  | **Year 1(2014/15)** | **Year 2 (2015/16)** | **Year 3 (2016/17** |
| Percentage of new build that is renewable power generation | 42% (or 17 800 MW) by 2030 for renewable energy | Work done is reported at working Group 10 level | Work done is reported at working Group 10 level | Work is reported at working Group 10 level |
| Number of solar home systems (PV) installed | 105 000 | 14030 | 25070 | 20 822 |
| Percentage of energy efficiency improvement | 12% by 2015  | No Commitment  | 23.7% Target exceeded | No Commitments |
| Annual Energy Balances tables for SA published in accordance with International Energy Agency Guidelines (with two year lag) | 5 | 0 | 0 | 1 |

**Source**: Department of Planning, Monitoring and Evaluation Presentation, (2017)

On assessing the performance of DoE, on Outcome 10, the DPME found the following:

* Although DoE had made commitments on the percentage of new build that is renewable power generation (42% by 2030) in the Outcome 10 delivery agreements, progress reports are still lacking at outcome level. However, progress on the number of megawatts transmitted to the grid (100 MW per year) as committed in the DoE Strategic plan is reported at Working Group 10 level (IGCCC Climate Change)
* DoE has exceeded its target of 12% by 11.7% on percentage of energy efficiency improvement in 2015/16 FY, new commitments/ upscaling of targets for the remainder of the MTSF is required.
* Significant progress has been made by DoE in the installation of solar home systems (PVC). To date the department is sitting at 59 922 (57%) against a target of 105 000 by 2019.
* Progress on publishing energy balances is lagging behind, the Department has so far published 2014 energy balances tables. This has impacted on the timeous publications of subsequent energy balances as the backlog has been created.
1. **CENTRAL ENERGY FUND – PERFORMANCE FOR 2016/17**

**4.1. Key matters attended to during the 2016/17 Period**

**4.1.1. Group Sustainability**

Various engagements with stakeholders on the sustainability of the Group were undertaken. The majority of these centered on PetroSA, the CEF’s biggest subsidiary. The issues of the impairment, poor project execution, depleting feedstock and the need to change the current PetroSA operating model were key issues discussed during these engagements. Further discussions were around the strategic Turnaround of PetroSA. It was also evident that as a Group, CEF needed to fast track some of their projects that were in the feasibility stage. These also related to hiving off key entities to DMR .

**4.1.2. Labour Relations and Leadership Vacancies**

The Group was inundated with a number of challenges related to concerns by labour at PetroSA as a result of the S189 process that was underway. Engagements with the major unions and employees to find amicable solutions and solicit input had been undertaken. The other issues related to the key vacant positions within the Group.

**4.1.3. Group Governance**

The Group governance matters related to the challenges at SFF with regards to the “stock rotation” and the negative publicity this had on the Group. CEF continue to deal with this matter in court. CEF also dealt with the overall board capacitation to strengthen subsidiaries and this saw a massive change across the Group. One of these was the change of board at PetroSA to bring about the required skills that could drive the turnaround of PetroSA. As a result of poor controls there were bonus payments that were paid by PetroSA to certain staff members although the organisation was in a precarious position. According to CEF, these matters were also dealt with decisively.

**4.1.4. Future Outlook**

As the sustainability and long-term commercial viability of the Group is paramount, ongoing discussions with the Shareholder on how best to configure the CEF Group and realign it operating model to improve coordination, delivery, capture synergies and improve strategic relevance are ongoing with anticipated changes in the near future.

**4.2. Overview of CEF Operating Environment 2016/17**

The CEF Group operating environment was characterised by a number of key dynamics from a global, local, internal, external, strategic and operational perspective, which all influenced the CEF’s business activities and best elucidated through the energy sector value chain. The CEF Group operates in a dynamic, capital intensive, competitive, dollar based and price sensitive industry that is dominated by multinationals. During the 2016/17 period, CEF witnessed the following trends.

**Table 12: Operating Environment for 2016/17**

|  |  |  |
| --- | --- | --- |
| **UPSTREAM** | **MIDSTREAM** | **DOWNSTREAM** |
| Continued downscaling of key upstream projects & job cuts. | Increased trader activity in search of opportunities and value chain participation. | Active pursuit to improve refinery margins |
| Minimal M&A activity/rig count |  | Operational efficiency is seen as a key competitive advantage |
| Market consensus of the prevailing lower for longer oil price scenario. | New players in the storage space | Traders showing interest to play in the downstream market as part of long term product placement strategy |
| Market consolidation and rise in strategic partnerships | Diversification strategies | Multinationals refocusing on profitable business units. |
| Volatile commodity prices & struggle by commodity depended countries |  |  |
| OPEC production cuts to stabilize price |  |  |
| These industry dynamics continue to necessitate a review of the CEF’s Operating Model to maintain competitiveness and agility |

**Source: CEF presentation document to the PC on Energy on 04 October 2017**

**4.3. Statement of Comprehensive Income 2016/17**

Table 13 below shows the CEF’s Statement of Comprehensive Income for 2016/17.

**Table 13: Statement of Comprehensive Income 2016/17**

|  |  |
| --- | --- |
|   | **31March 2017(Audited)** |
| **Description** | **CEF Group** | **Intra Group transactions** | **CEF SOC Ltd** | **Renewable Energy** | **PetroSA Group** | **SFF NPC** | **AEMFC SOC Ltd** | **PASA SOC Ltd** | **Igas SOC Ltd** | **OPC NPC** |
|  | **R’ million** | **R’ million** | **R’ million** | **R’ million** | **R’ million** | **R’ million** | **R’ million** | **R’ million** | **R’ million** | **R’ million** |
| Revenue |  11,598.02  |  (10.67) |  14.67  |  0.09  |  10,357.08  |  798.54  |  376.17  |  62.14  |  -  |  -  |
| Cost of sales |  (11,037.92) |  1.26  |  -  |  -  |  (10,832.35) |  -  |  (206.83) |  -  |  -  |  -  |
| **Gross profit/(loss)** |  **560.10**  |  **(9.41)** |  **14.67**  |  **0.09**  |  **(475.27)** |  **798.54**  |  **169.34**  |  **62.14**  |  **-**  |  **-**  |
| Other income |  342.08  |  (23.80) |  16.22  |  7.34  |  245.36  |  6.91  |  89.86  |  0.20  |  -  |  -  |
| Operating expenses |  (1,841.12) |  276.00  |  (346.26) |  (15.73) |  (792.48) |  (647.76) |  (182.86) |  (112.36) |  (18.36) |  (1.30) |
| **Operating loss** |  **(938.93)** |  **242.79**  |  **(315.37)** |  **(8.30)** |  **(1,022.39)** |  **157.69**  |  **76.34**  |  **(50.02)** |  **(18.36)** |  **(1.30)** |
| Investment income |  943.06  |  (219.78) |  360.16  |  1.54  |  390.32  |  230.74  |  12.77  |  15.31  |  150.01  |  1.99  |
| Income from equity accounted investments |  300.28  |  300.28  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |
| Finance costs |  (572.88) |  103.84  |  (92.93) |  -  |  (533.24) |  (34.71) |  (1.81) |  -  |  (14.03) |  -  |
| **(Loss)/Profit before taxation** |  **(268.47)** |  **427.13**  |  **(48.14)** |  **(6.76)** |  **(1,165.30)** |  **353.71**  |  **87.29**  |  **(34.71)** |  **117.62**  |  **0.69**  |
| Taxation |  (331.01) |  -  |  (54.16) |  -  |  (234.27) |  -  |  (33.14) |  -  |  (9.44) |  -  |
| **Loss for the year** |  **(599.48)** |  **427.13**  |  **(102.30)** |  **(6.76)** |  **(1,399.57)** |  **353.71**  |  **54.16**  |  **(34.71)** |  **108.18**  |  **0.69**  |
| **Comprehensive (loss)/profit** |  (231.01) |  (383.97) |  **-**  |  **-**  |  **(208.50)** |  **(22.52)** |  **-**  |  **-**  |  **383.97**  |  **-**  |
| **Total Comprehensive income/(loss)** |  **(830.49)** |  **43.16**  |  **(102.30)** |  **(6.76)** |  **(1,608.07)** |  **331.19**  |  **54.16**  |  **(34.71)** |  **492.15**  |  **0.69**  |

**Source: CEF presentation document to the PC on Energy on 04 October 2017**

**4.3.1. Net Loss after tax**

The Group made a net loss for the year under review of R599.5 million

**4.3.2. Gross profit**

According to the CEF Group, the performance has been adversely affected by the collapse in the gross profit margin, which decreased from 22% to 5%. For the first time in the history of the Group, PetroSA has reported a gross loss of R475 million. The decrease in gross profit by 77% is due to the changes in the operating model for the refinery, which was necessitated by the declining gas reserves. The new model has partially converted a gas to liquid refinery into condensate processing refinery. This change has had a negative impact on the gross profit margins because the cost of the new feedstock is higher than the cost of the indigenous gas. The new operating model requires the refinery to operate at its maximum operating capacity in order for the operations to generate adequate margins.

**4.3.3. Operating expenses**

The operating expenses decreased from R5.4 billion to R1.8 billion. The decrease in costs is due to once off transfer of R2.1 billion to the state, which was recorded in 2015/16 financial year; net reversal of the impairment of R590 million; which is made up of the gross reversal of impairment of R2.4 billion and the gross impairment of R1.8 billion and the decrease in operating costs of R274 million.

**4.3.4. Profitability**

The CEF’s revenue is mainly derived from the sale of petroleum products, which constitutes 89% of total revenue for the Group, rental of crude oil storage tanks that constitutes 7% of the total revenue from the Group and sale of coal, which constitutes 3% of the total Group revenue. Majority of the CEF’s revenue comes from the sale of petroleum products and the revenue from petroleum products is under strain due to the declining gas reserves.

The Group revenue has been declining since 2015; however, during 2016 the revenue was high due to the rotation of strategic stock. The decrease in revenue is due to the lower production of petroleum products as result of declining gas reserves. The revenue should stabilise when the conversion of the refinery has been completed. The revenue from the rental of crude oil tanks and sale of coal continues to increase at marginal rate. However, the Group revenue continues to decrease because other entities in the Group are relatively small compared to PetroSA.

**4.4. Statement of Financial Position 2016/17**

**Table 14: Statement of financial position 2016/17**

|  |  |  |
| --- | --- | --- |
| **Description** | **31March 2017** | **31March 2016** |
|  |  **R’000** | **R’000** |
| **Non-current assets** | 13,280,164 | 15,106,389 |
| **Current assets** | 19,791,916 | 20,658,632 |
| **Disposal Group** | 88,639 | 50,000 |
| **Total assets** | **33,160,719** | **35,815,021** |
| **Equity and liabilities** |  |
| **Equity** | 14,258,377 | 15,021,282 |
| **Non-current liabilities** | 13,129,537 | 14,711,971 |
| **Current liabilities** | 5,753,889 | 6,081,768 |
| **Disposal Group** | 18,915 | - |
| **Total liabilities** | **18,902,341** | **20,793,739** |
| **Total equity and liabilities** | **33,160,719** | **35,815,021** |

**Source: CEF presentation document to the PC on Energy on 04 October 2017**

**4.4.1. Assets**

The Group assets decreased by R3 billion, from R36 billion to R33 billion. The decrease in assets is due to the decrease in property, plant and equipment and the decrease in current assets. The decrease in property is due to the reinvestment rate being lower than the depreciation rate.

**4.4.2. Equity**

The equity decreased marginally from R15 billion to R14.3 billion. The decrease in equity is due the strengthening of the rand when it is compared to the US dollar, which resulted in a foreign currency translation loss, and the net loss, which was reported during the year.

**4.4.3. Liabilities**

The Group liabilities decreased from R21 billion to R19 billion. The decrease in liabilities is mainly due to the decrease of the rehabilitation provision and repayment of the reserve based lending.

**4.4.4. Liquidity requirements**

The Group has adequate cash to service its short-terms debts

**4.4.5. Solvency**

The Group’s target solvency ratio is 60:40 (Total Assets: Total liabilities), the actual ratio at 31 March 2017 was 63.7:36.3.

**4.4.6. Gearing**

The cap for the CEF Group gearing ratio is set at *40:60* (Interest bearing debt / Equity and Reserves). The actual ratio at 31 March 2017 was 6.1:93.9. The ratio is within the target that was set by National Treasury as a condition for the approval of the Reserve Based Lending and the Trade Finance Facility.

* 1. **Future Initiatives to address Group Risks and to Grow the business**

|  |  |
| --- | --- |
| **CURRENT STATE** | **FUTURE OUTLOOK** |
| GTL refinery operating on a 1X1 mode on natural gas and condensate | LNG to be considered as possible feedstock to the refinery |
| Partially funded abandonment liability | Deferral |
| Constrained balance sheet for funding upstream projects | Upstream Partnership |
| Contango market structure showing weakening signs. | Partnership with oil producing countries |
| One coal mining operation – Vlakfontein Mine | Increase mining operation to three (3) by 2021 |
| Contractor Mining in FY2017 | Owner operated mines |
| Single source through ROMPCO investment and passive investment business model | Diversify into other Gas projects and be operational |
| Challenges with PPA pricing structure and its delays on Group renewables projects | Diversify away priced challenged projects |
| Most Group projects are in feasibility phases | Group Cost containment & refinery optimization |
| Cost optimization | Group Operating Model review |
| Group Governance Challenges  | Targeted leadership development and brand reputational management initiatives  |

1. **FINDINGS AND OBSERVATIONS**
	* The 2016/17 financial year has been a difficult period for the Department of Energy. In the previous financial year, 2015/16, the Department had 76 annual targets, of these, 39 or 51 per cent of the targets were achieved[[3]](#footnote-3). In contrast, during the year under review, the Department had 77 key performance targets, and of these, 32 or 42 percent were achieved. According to National Treasury guidelines, an acceptable performance requires 80 percent of set targets to be achieved each year. Similarly, for the first time since its establishment, the Department received a qualified audit opinion from the Auditor General of South Africa. The basis for the qualification is an irregular expenditure of R98 million earmarked for the procurement of a Nuclear New Build Programme IT system. However, the Department is still challenging the Auditor General findings. The Committee is deeply concerned about the poor performance of the Department, especially performance during the year under review. The Minister of Energy acknowledged that the performance of the DoE could have been better, and that the Department is continuously working to improve its performance and an important factor relating to this is to keep executives accountable for their performance.
	* Even during this difficult and challenging period, the Department managed to ensure that there is no shortage of energy in the country. In fact, there has been a surplus of electricity because of improved performance and new electricity generation capacity coming online from the IPPs and Eskom.
	* An additional challenge that affects the performance of the Department is that over 90 percent of the budget is for transfers and subsidies and the remainder is for Departmental operations. According to the Department, the budget for operations is inadequate for it to be able to execute its mandate. For instance, on compensation of employees, the Department had to overspend by over R35 million. However, under the current economic situation, the Department will have to do more with less. To this end, the Department had indicated that it will find creative solutions to address budget issues. One of the solutions being to abolish some of the unfilled posts, which are not critical, to prevent overspending. Regarding critical posts, the Department is in the process of filling the 4 vacant DDG posts and it is envisaged that the appointments will be endorsed by Cabinet and that the process will be finalised by the end of October 2017.
	* In May 2017, a decision was taken that the Director General (DG), Mr T. Zulu, of the DoE be seconded to the Strategic Fuel Fund as Acting Chief Executive Officer (CEO). The Committee was concerned about the legality of the secondment, questioning whether due processes were followed. The Minister assured the Committee that her actions were legal and within her powers. To this end, a written response, detailing the process leading to the final appointment of Mr Zulu will be sent to the Committee, as requested by the Members. According to the Minister, one of the reasons for the secondment of Mr Zulu to SFF was to ensure that the investigation into the sale of South Africa’s strategic fuel reserves in 2015 was “clean and transparent and not contaminated”. With regard to the sale of strategic fuel stock, the Minister highlighted that the issue will be going to courts to nullify the contracts.
	* The Committee was concerned about the claims that SFF is engaged in oil exploration in Equatorial Guinea. The Committee was of the view that the mandate of SFF is to hold strategic reserves. The Department, however, argues that exploration is provided for in terms of the company’s Memorandum of Incorporation (MOI - Article 4). However, the Minister indicated that there is currently no agreement signed regarding oil exploration in Equatorial Guinea. She argued, “If there are any such agreements it has to go through various processes, prior to it being scrutinised by the Minister”.
	* CEF stated that despite the various strategic challenges that the Group faces, the CEF Group remains a going concern, meaning that the Group will continue to operate in the foreseeable future, where its assets exceeds its liabilities. The assertion of a going concern is premised on the fact that the Group gearing ratio is low and the Group assets exceed liabilities by R14 billion. The bulk of the CEF assets comprises cash of R15 billion, which is available for use in furthering their mandate. Further to its cash balances, the CEF Group argues it has the capacity to borrow money because its gearing ratio is 4% debt and 96% equity, which is below the self-imposed ceiling of 40% debt and 60% equity.
	* The CEF stated that as it move forward with the delivery of its Group strategy, its key priorities remain the sustainability of PetroSA, leadership, governance and sustainable growth for the Group and all efforts will continue to be focused on these areas. CEF is also confident that the planned review of the Group Operating Model will yield positive outcomes.
	* According to CEF, cash can be deployed in funding the sustenance projects for the oil and gas business and it will be deployed to fund their participation in the gas to power and renewable programmes.
	* PetroSA makes up 75% of the revenue of the Central Energy Fund. It posted a loss for the year to end-March of R1.4 billion compared with the previous year’s total loss of R449 million. A major challenge facing PetroSA is the dwindling offshore gas reserves to feed its Mossel Bay gas-to-liquid (GTL) plant. According to PetroSA, it is crucial that within the CEF Group, competencies are shared.
	* PetroSA and Rosgeo, geological exploration company of the Russian Federation, have signed an agreement that will see about US$400 Million invested in oil and gas development. The agreement involves the development in the exploration areas of blocks 9 and 11a off the South Coast of South Africa. The project envisages extraction of up to 4 million cubic metres of gas daily. This will subsequently be delivered to PetroSA’s Gas-To-Liquids refinery, in Mossel Bay, the South Coast processing plant.
	* The CEF with PetroSA confirmed that PetroSA would not be retrenching any staff.
	* With regard to nuclear, the Minister stated that Cabinet confirmed that the nuclear procurers are Eskom and the South African Nuclear Energy Corporation (NECSA), respectively. Furthermore, the Department stated that it is working on issues as raised in the Western Cape High court judgement and progress is ongoing. On the outstanding balance of R24 million on the nuclear build programme, the department confirmed that the outstanding balance will be paid to the service provider, as services have been rendered and that the department need to honour its contracts entered into. The Department confirmed that there will be consequence management and it will deal with individuals who might have transgressed.
	* The National Development Plan (NDP) directs that a decision regarding building a new oil refinery be taken in 2017. The Department is of the view that there is a need to build a refinery in SA, as we are net importer of crude oil. However, the Department awaits Cabinet decision on this before the end of December 2017.
	* Regulations regarding the introduction of Clean Fuels II were gazetted in June 2012, which indicated it would come into operation on 1 July 2017. These regulations, among other things, require that sulphur levels in both petrol and diesel be reduced to 10 parts per million (ppm). The regulations also require other specifications to conform to such as those contained in the national standards for petrol and diesel. The target date of July 2017 has been postponed to a date to be determined in the future, once various aspects relating to the financial implications of producing the cleaner fuels have been finalized. The Department indicated that it has done a cost benefit analysis in conjunction with National Treasury; however, the study is not final, the Department is in the process of reviewing it.
	* On solar water heaters (SWH), the Department stated that systems were procured and that there were efforts to install them. However, the uptake was not as well received as initially perceived. The Department further stated that with regard to the installation of SWH, municipalities will not be “too eager” to install, as this will impact on revenue from electricity.
	* With regard to the hiving-off of the African Exploration Mining Finance Corporation (AEMFC), the Minister highlighted that a cabinet decision was taken in 2010 to hive-off the AEMFC from the Department of Energy to the Department of Mineral Resources. The process has started and will be finalised by the end of the 2017/18 financial year. The Committee raised its concerns about the impact this will have on CEF Group.
	* The DPME confirmed that the NERA and the ERA Amendment Bills will be finalized by the end of the 4th Quarter of 2017/18.
	* According the DPME, there is uncertainty regarding the end-state of electricity. The Deputy Minister emphasized that the end-state of electricity is not only the Department of Energy’s responsibility.
2. **RECOMMENDATIONS**

*It is recommended that the Minister of Energy:*

* 1. Present to the Committee the finalised Integrated Energy Plan (IEP) and Integrated Resource Plan (IRP) in the 4th Quarter of 2017/18 Financial Year.
	2. Ensure that the Medium Term Strategic Framework (MTSF) priorities are implemented and targets met.
	3. Update the Committee on Cabinet decision on building a new refinery, in the 4th Quarter of 2017/18.
	4. Regarding the Electricity Distribution Industry (EDI), regularly update the Committee on the development of norms and standards for Municipal Asset Management, as well as the funding model for refurbishment of infrastructure.
	5. Update the Committee on progress made on the signing of the outstanding renewable energy independent power producer projects, and ensure that challenges relating to localisation are addressed.
	6. Present to the Committee progress and a strategy to overcome challenges experienced regarding the implementation of the National Solar Water Heater Programme (NSWHP).
	7. Update the Committee on the restructuring of the Central Energy Fund Group during the 4th Quarter of 2017/18, including the hiving-off of African Exploration Mining and Finance Corporation (AEMFC) and the impact thereof on CEF.
	8. Submit and present the report to the Committee on the Court outcome regarding the sale of strategic fuel stock by the Strategic Fuel Fund (SFF), and ensure application of consequence management related thereto.

**Report to be considered.**

1. An opinion is qualified when an accounting officer/department could not produce credible and reliable financial statements , had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published and did not comply with key legislation in certain instances. [↑](#footnote-ref-1)
2. National Treasury, (2005) [↑](#footnote-ref-2)
3. Department of Energy Annual Report Presentation, (2015/16) [↑](#footnote-ref-3)