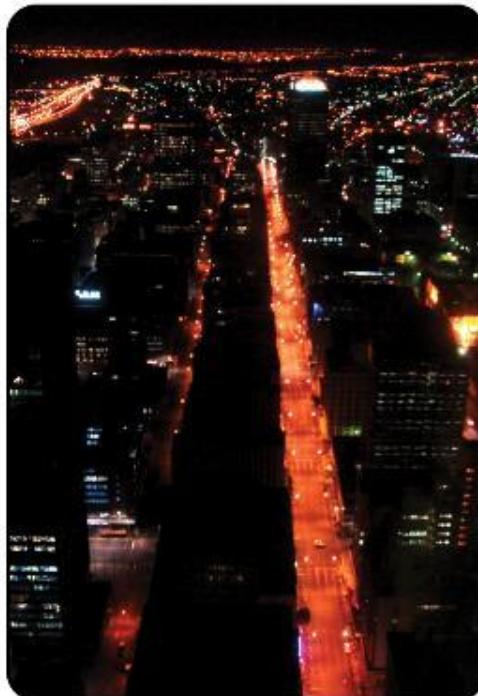


Presentation to Portfolio Committee on Energy Annual Report 2016/17



Chris Forlee
CEO

31 October 2017

PRESENTATION OUTLINE

- A. Introduction
- B. Mandate
- C. Overview of performance in 2016/17
- D. Organisational performance against predetermined objectives
- E. Financial Performance
- F. Conclusion

A. INTRODUCTION

Legislative Context

- The National Energy Regulator (NERSA) is a Schedule 3A Public Entity as per the Public Finance Management Act, 1999 (Act No. 1 of 1999).
- It was established on 1 October 2005 in terms of the National Energy Regulator Act, 2004 (Act No. 40 of 2004) to regulate the:
 - *Electricity industry - in terms for the Electricity Regulation Act, 2006 (Act No. 4 of 2006);*
 - *Piped-Gas industry – in terms of the Gas Act, 2001 (Act No. 48 of 2001); and*
 - *Petroleum Pipelines industry – in terms of the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003)*

NERSA's Role

NERSA's overarching role is to:

- ensure the development and sustainability of the electricity, piped-gas and petroleum pipelines industries;
 - while facilitating the affordability of and accessibility to the three regulated industries to balance the economic interests of all stakeholders
 - ❖ to ensure the sustainable economic development of South Africa and a better life for all.

NERSA Structure

In terms of section 5 of the National Energy Regulator Act, 2004 (Act No. 40 of 2004), the Minister of Energy appoints nine (9) Regulator Members:

- Four (4) are Full-Time Regulator Members (FTRMs) and hold office for a period of five (5) years;
 - Chief Executive Officer; and
 - 3 Members primarily responsible for Electricity, Piped-Gas and Petroleum Pipelines industry regulation respectively.
- Five (5) are Part-Time Regulator Members (PTRMs) and hold office for a period of four (4) years.
- The Chairperson and Deputy Chairperson are Part-Time Members.

Regulatory Independence

- The National Energy Regulator Act provides that the Regulator must act independently of any undue influence or instructions.
- In carrying out its regulatory functions, the Energy Regulator does this in line with its regulatory principles and governing legislation.
- In order to ensure regulatory independence, the Energy Regulator has developed regulatory mechanisms (*i.e. policies, procedures, rules, guidelines, systems, etc.*) that makes its decision-making processes to be open, transparent, credible, consistent, predictable, as well as making it accountable for its decisions.

B. MANDATE

MANDATE

NERSA's Mandate is anchored in:

- 4 Primary Acts:
 - National Energy Regulator Act, 2004 (Act No. 40 of 2004);
 - Electricity Regulation Act, 2006 (Act No. 4 of 2006);
 - Gas Act, 2001 (Act No. 48 of 2001); and
 - Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).
- 3 Levies Acts:
 - Gas Regulator Levies Act, 2002 (Act No. 75 of 2002);
 - Petroleum Pipelines Levies Act, 2004 (Act No. 28 of 2004); and
 - Section 5B of the Electricity Act, 1987 (Act No. 41 of 1987).

MANDATE (continued)

The following facilitating and other legislation is also applicable to NERSA's conduct of its business:

- the Public Finance Management Act, 1999 (Act No. 1 of 1999) ('PFMA');
 - the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000) ('PAIA');
 - the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000) ('PAJA'); and
 - the Constitution of the Republic of South Africa.
- Specifies the accounting of NERSA as a Section 3 Public Entity.
 - Determines the way that NERSA has to treat access to information.
 - Determines the just administrative action of NERSA.
 - Foundational basis for NERSA.

MANDATE (continued)

NERSA implements its mandate by means of the following regulatory functions:

- Issuing of licences and setting pertinent conditions;
- Setting and/or approving tariffs and prices;
- Monitoring and enforcing compliance with licence conditions;
- Dispute resolution including mediation, arbitration and the handling of complaints;
- Gathering, storing and disseminating industry information;
- Setting of rules, guidelines and codes for the regulation of the three industries;
- Determination of conditions of supply and applicable standards;
- Registration of import and production activities

In executing its mandate NERSA endeavours to balance the conflicting interest of both licensed entities and end users.

C. OVERVIEW OF PERFORMANCE IN 2016/17

Key achievements

- NERSA received a clean audit for its financial performance and performance against predetermined objectives;
 - 4th consecutive clean audit.
- NERSA achieved 98% (57 of 58) of its planned annual targets:
 - The one (2%) target that was not met, was that of 99% (*vs. target of 100% of creditors paid within 30 days*).
 - Corrective actions have been put into place to mitigate the recurrence of this target not being met in future.

Key achievements (continued)

- NERSA maintained a healthy financial management system.
 - For the 2016/17 financial year, NERSA collected 95% of the budgeted levy income and spent 93% of the budget on operational expenses.
- NERSA maintained a cash flow risk mitigation reserve to bridge the gap between the start of the financial year and the start of levy payments by the industries.
 - The reserve target is three months' employment cost for all staff members and 4.5% of the annual operating expenditure budget.

D. ORGANISATIONAL PERFORMANCE AGAINST PRE- DETERMINED OBJECTIVES

1. Strategic imperatives
2. Service Delivery Environment
3. Corporate Governance issues
4. Key achievements for the 2016/17 financial year
5. Human resource management
6. International activities

D1. Strategic Imperatives

VISION:

“To be a recognised world-class leader in energy regulation”

MISSION:

“To regulate the energy industry in accordance with government laws and policies, standards and international best practices in support of sustainable development”

STRATEGIC OUTCOME ORIENTED GOALS

1. To facilitate Security of Supply in order to support sustainable socio-economic development in South Africa.
2. To facilitate investment in and access to infrastructure in the energy industry in support of sustainable socio-economic development in South Africa.
3. To promote competitive and efficient functioning as well as orderly development of the energy industry in order to sustain socio-economic development in South Africa.
4. To facilitate affordability of and accessibility to the energy industry to balance the economic interests of all stakeholders in support of socio-economic development of South Africa and a better life for all.
5. To position and establish NERSA as a credible and reliable regulator in order to create regulatory certainty.

STRATEGIC OBJECTIVES

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

D2. Service Delivery Environment

- Operating in national context: NERSA's contribution towards key government priorities and programmes
- Organisational Programmes

Contribution towards key government priorities and programmes (1)

NERSA is expected to contribute to Government's fourteen outcomes, which is based on Government's Medium-Term Strategic Framework (MTSF) that clearly articulates the agenda of the Government. NERSA contributes to the following six outcomes that the Minister of Energy has committed to:

Outcome 2: A long and healthy life for all South Africans	<p>NERSA contributes through facilitating the wider use of electricity instead of coal and wood as energy sources by all South Africans, thus improving respiratory health, among others, through:</p> <ul style="list-style-type: none">• facilitating the conclusion of Power Purchase Agreements between the buyer and the renewable energy Independent Power Producers;• regulating in a manner that facilitates security of supply; and• policy advocacy with regards to cleaner fuels.
Outcome 4: Decent employment through inclusive economic growth	<p>By facilitating investment in the energy industry and thereby contributing to economic growth, leading to decent employment, NERSA contributes, among others, through:</p> <ul style="list-style-type: none">• licensing and the setting and/or approving of tariffs and prices. In this manner NERSA creates pre-conditions towards the achievement of this outcome; and• promoting companies that are owned and controlled by Historically Disadvantaged Individuals (HDIs) to become competitive.

Contribution towards key government priorities and programmes (2)

NERSA contribution to six outcomes that the Minister of Energy has committed to continues

Outcome 6: An efficient, competitive and responsive economic infrastructure network	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none">• setting rules and frameworks that facilitate the building of new infrastructure;• setting and/or approving cost-reflective tariffs and prices that encourage efficient investment;• facilitating and enforcing third-party access to facilities; and• monitoring compliance and undertaking technical audits leading to regular maintenance and refurbishment of the infrastructure and therefore to the improvement in quality of supply.
Outcome 8: Sustainable human settlements and improved quality of household life	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none">• facilitating access to energy services;• facilitating reliability of supply;• taking affordability into consideration when setting and/or approving tariffs and prices; and• determining inclining block tariffs and free basic electricity tariffs to protect the low income electricity consumers.

Contribution towards key government priorities and programmes (3)

NERSA contribution to six outcomes that the Minister of Energy has committed to continues

Outcome 10: Environmental assets and natural resources that are well protected and continually enhanced	<p>NERSA has a mandate for environmental protection and remediation through the industry specific Acts that it administers. NERSA contributes, among others, through:</p> <ul style="list-style-type: none">incorporating compliance with the National Environmental Management Act, 1998 (Act No. 107 of 1998) into licence conditions;facilitating the implementation of the Integrated Resource Plan (IRP)) andfacilitating the transition to a low carbon economy.
Outcome 12: An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none">transparent processes and decisions;public consultation processes prior to decisions being made;customer education;training and development of staff and stakeholders, including training to electricity distributors on the completion of the forms requesting information from them;Corporate Social Investment activities; andthe Techno Girls programme where ten girls from grade 9 to grade 12 are exposed to NERSA's activities through visits to the organisation during school holidays.

Contribution towards key government priorities and programmes (4)

The National Development Plan (NDP) is a plan for the country to eliminate poverty and reduce inequality by 2030 through uniting South Africans, unleashing the energies of its citizens, growing an inclusive economy, building capabilities, enhancing the capability of the state and leaders working together to solve complex problems. Even though NERSA contributes directly to most of the enabling milestones, NERSA contributes specifically to the following pertinent enabling milestones.

Enabling Milestone 4: Establish a competitive base of infrastructure, human resources and regulatory frameworks	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none">• setting and/or approving cost-reflective tariffs and market-related prices that encourage investment;• monitoring compliance through undertaking technical audits leading to regular maintenance and refurbishment of infrastructure and thus contributing to an increase in quality of supply;• transparent processes and decisions;• public consultation processes prior to decisions being made;• customer education; and• setting targets for becoming a more credible, reliable, efficient and effective regulator.
Enabling Milestone 5: Ensure that skilled, technical, professional and managerial posts better reflect the country's racial, gender and disability makeup	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none">• development and implementation of an Employment Equity Plan; the Youth Employment Accord; a Learnership Programme and an Internship Programme;• training and development of staff and stakeholders; and• Techno Girls programme where ten girls from grade 9 to grade 12 are exposed to NERSA's activities through visits to the organisation during school holidays.

Contribution towards key government priorities and programmes (5)

NERSA contribution to pertinent enabling milestones of the NDP continues

Enabling Milestone 6:

Broaden ownership of assets to historically disadvantaged groups

NERSA contributes, among others, through:

- licensing and the setting and/or approving of tariffs and prices, therefore creating pre-conditions towards the achievement of this milestone;
- issuing licences to eligible applicants to facilitate the meeting of stated socio-economic development targets;
- facilitating and enforcing (piped-gas) third-party access to facilities; and
- promoting companies that are owned and controlled by Historically Disadvantaged Individuals (HDIs) to become competitive.

Enabling Milestone 10:

Produce sufficient energy to support industry at competitive prices, ensuring access for poor households, while reducing carbon emissions per unit of power by about one-third

NERSA contributes, among others, through:

- taking affordability into consideration when setting and/or approving tariffs and prices;
- determining inclining block tariffs and free basic electricity tariffs to protect the low income electricity consumers;
- facilitating the conclusion of Power Purchase Agreements between the buyer and the renewable energy Independent Power Producers;
- facilitating access to electricity in setting aside some funds for the Electrification Cross-subsidy as part of determining electricity prices;
- developing and implementing the Grid Code for renewable energy to facilitate the introduction of renewable energy power producers;
- facilitating the transition to a low carbon economy; and
- regulatory advocacy with regard to cleaner fuels policy.

Contribution towards key government priorities and programmes (6)

The National Infrastructure Plan intends to transform our economic landscape while simultaneously creating significant numbers of new jobs, as well as to strengthen the delivery of basic services. The plan also supports the integration of African economies. Even though NERSA contributes indirectly to more than just the energy Strategic Integrated Projects (SIPs), NERSA contributes specifically to the energy SIPs as follows:

SIP 8: Green energy in support of the South African economy	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none"> • facilitating the conclusion of Power Purchase Agreements between the buyer and the renewable energy Independent Power Producers; • incorporating compliance with the National Environmental Management Act, 1998 (Act No. 107 of 1998) into licence conditions; • facilitating the transition to a low carbon economy; and • regulatory advocacy with regard to cleaner fuels policy.
SIP 8: Electricity generation to support socio-economic development	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none"> • regulating in a manner that facilitates security of supply and investment; • facilitating the conclusion of Power Purchase Agreements between the buyer and the renewable energy Independent Power Producers; • setting rules and frameworks that facilitate the building of new infrastructure; • setting and/or approving cost-reflective tariffs and prices that encourage investment; and • monitoring compliance through undertaking technical audits leading to regular maintenance and refurbishment of infrastructure and thus contributing to an improvement in quality of supply.

Contribution towards key government priorities and programmes (7)

NERSA contribution to energy SIPs continues

SIP 10: Electricity transmission and distribution for all

NERSA contributes, among others, through:

- facilitating access to electricity in setting aside some funds for the Electrification Cross-subsidy as part of determining electricity prices;
- taking affordability into consideration when setting and/or approving tariffs and prices, while allowing a provision for expansion of current operations;
- determining inclining block tariffs and free basic electricity tariffs to protect the low income electricity consumers;
- facilitating reliability of supply; and
- auditing of the implementation of the Transmission Development Plan.

Contribution towards key government priorities and programmes (8)

The National Industrial Policy Framework (NIPF) determined the framework for continuous improvement and upscaling of concrete industrial development interventions. The implementation of the NIPF is done through the Industrial Policy Action Plan (IPAP), of which successive iterations seek to scale up interventions over rolling three-year periods with a ten-year outlook on desired economic outcomes. Even though NERSA contributes indirectly to a range of these policies, NERSA specifically contributes to the following:

Policy vi: Competition and regulation policies that lower costs for productive investments and for poor and working-class households	<p>NERSA contributes, among others, through:</p> <ul style="list-style-type: none"> • regulating in a manner that facilitates security of supply and investment; • taking affordability into consideration when setting and/or approving tariffs and prices, while allowing a provision for expansion of current operations; • determining inclining block tariffs and free basic electricity tariffs to protect the low income electricity consumers; • facilitating the conclusion of Power Purchase Agreements between the buyer and the renewable energy Independent Power Producers; • the registration of gas importation and production facilities; and • development and implementation of the Grid Code for renewable energy to facilitate the introduction of renewable energy power producers.
Policy ix: Interventions that give expression to Government's commitment to regional economic development and integration in Africa	<p>NERSA contributes, among other, through:</p> <ul style="list-style-type: none"> • Founding and current member of the Executive Committee of the African Forum for Utility Regulators; and • Member of Executive Committee of Regional Electricity Regulator Association. NERSA is no longer the chair of RERA but that of the Portfolio Committee on Facilitation ESI Policy, Legislation and Regulation from 1 January 2016.

Organisational programmes (1)

- In order to achieve its outcome oriented goals NERSA delivers on its strategic objectives through the following structured programmes:

PROGRAMMES	PURPOSE
Programme 1: Setting and/or approval of tariffs and prices	To set and/or approve tariffs, prices and charges in order to ensure a fair balance between the needs of the customer and the regulated entity. While the customer needs to be protected against misuse of monopolistic powers and unnecessary price hikes, the regulated entities needs to have sufficient income to ensure that they can continue operating as a going concern and have enough revenue for the maintenance and refurbishment of infrastructure.
Programme 2: Licensing and registration	To ensure the orderly development of the energy industry and to ensure that all activities related to all operations are licensed and registered as required by the relevant legislation.
Programme 3: Compliance monitoring and enforcement	To ensure that all licensees fully comply with their licence conditions, including those relating to health, safety, security, environmental standards and requirements as well as any other standards and requirements prescribed by the relevant industry-specific legislation. To ensure compliance with directives to govern relations between a licensee and its end users. Compliance monitoring will be done in such a way that a fair balance between the interests of all stakeholders is encouraged and maintained.

Organisational programmes (2)

PROGRAMMES	PURPOSE
Programme 4: Dispute resolution, including mediation, arbitration and handling of complaints	To ensure that disputes and complaints between licensees or between licencees and customers or end-users are managed effectively and settled in a manner that is appropriate.
Programme 5: Setting of rules, guidelines and codes for the regulation of the three energy industries	To ensure the setting of appropriate rules, guidelines and codes of best practices in the quest to promote uniformity and standardise practices in the regulation of the three energy industries. This will facilitate the creation of investor confidence and lessen the regulatory burden on licencees.
Programme 6: Administration (Establishing NERSA as an efficient and effective regulator)	To ensure that systems, processes, procedures and resources are in place that will put NERSA in the position to appropriately advise policy makers on any matter relating to the effective and efficient regulation of the electricity, piped-gas and petroleum pipelines industries, thereby contributing towards the broader government objectives aimed at the economic development of the country. The purpose includes the development to skills, both internally and externally in energy regulation.

D3. Corporate Governance issues

Introduction

- NERSA is committed to good corporate governance. Adopted the Corporate Governance Handbook containing corporate governance rules and prescripts.
- The provisions of the National Energy Regulator Act, 2004 (Act No. 40 of 2004), the PFMA and the principles contained in the King IV Report on Corporate Governance are included in the Corporate Governance Handbook to which NERSA adheres.
- NERSA ensures declaration of interest.
- In adhering to best practice and sound governance principles, the Energy Regulator subjects itself to an annual assessment on the effectiveness of the Energy Regulator and its committees.

Oversight

The Parliamentary Portfolio Committee (PPC) on Energy has oversight of NERSA

Executive Authority

The Executive Authority of the National Energy Regulator is the Minister of Energy.

The Energy Regulator submitted a number of documents to the Executive Authority, namely:

- The Annual Performance Plan (2017/18-2019/20) submitted on 31 January 2017. It was approved by the Minister of Energy in March 2017 and tabled in Parliament on 15 March 2017.
- 4 quarterly performance reports submitted within prescribed timeframes
- The Annual Report (2015/16) was submitted to the Minister of Energy, the Minister of Finance and the Auditor-General on 18 August 2016.

Accounting Authority

- The Energy Regulator, as the accounting authority, retains full and effective control over NERSA.
 - The Energy Regulator provides leadership and is responsible for monitoring the implementation of its decisions and strategies by management.

Energy Regulator subcommittees and committees

- Regulatory Subcommittees – open to the public except where confidential matters are to be considered:
 - Electricity Subcommittee (ELS)
 - Piped-gas Subcommittee (PGS)
 - Petroleum Pipelines Subcommittee (PPS)
- Crosscutting Subcommittees – open to the public except where confidential, organisational or governance matters are to be considered:
 - Regulator Executive Committee (REC)
- Governance Committees – not open to the public:
 - Human Resource and Remuneration Committee (HRRC)
 - Finance Committee (FIC)
 - Finance Bid Adjudication Committee (FIC BAC)
 - Audit and Risk Committee (ARC)

Risk Management

- In compliance with the requirements of the PFMA, the Energy Regulator approved a Risk Management Policy for the organisation.
- Progress made with mitigating the top 10 risks was reported in the quarterly performance reports.

Internal Audit

- The objective of the NERSA internal audit function is to:
 - provide professional, independent and objective assurance and consulting activity designed to add value and improve the operations of NERSA; and
 - assist NERSA in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- The Internal Audit Unit has completed all 34 audits planned for the period under review.

Compliance monitoring

- In compliance with the requirements of the PFMA, the Energy Regulator approved a Compliance Monitoring Framework.
- Progress on implementation of legislation is monitored and reported in the quarterly reports.

Fraud and Corruption

- A fraud policy and a fraud prevention plan are in place and were approved by the Energy Regulator.
- A fraud hotline is in place, which is operated by an external service provider and guarantees the anonymity of any person calling in to report suspected fraud, corruption or misuse of public resources.
- No cases of fraud were reported during the financial year.

D4. Key achievements for the 2016/17 financial year

- Overall Performance against predetermined objectives
- Specific Achievements – grouped as follows:
 - Electricity Industry Regulation;
 - Piped-Gas Industry Regulation;
 - Petroleum Pipelines Industry Regulation;
 - Transversal Regulatory; and
 - Organisational.

Overall Performance against predetermined objectives

	Target met		Target not met				Total	
			External Dependencies		Internal Resources			
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
Electricity Industry Regulation	23 (96%)	20 (100%)	1 (4%)	0 (0%)	0 (0%)	0 (0%)	24	20
Piped-Gas Industry Regulation	17 (100%)	17 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	17	17
Petroleum Pipelines Industry Regulation	10 (100%)	10 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	10	10
Transversal Regulatory	3 (100%)	5 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (100%)	3	5
Organisational	8 (100%)	5 (83%)	0 (0%)	0 (0%)	0 (0%)	1 (17%)	8	6
Total	61 (98%)	57 (98%)	1 (2%)	0 (0%)	0 (0%)	1 (2%)	62	58

Specific Achievements: Electricity Industry Regulation

Tariffs	Licensing
Approved 175 municipal and 12 private electricity distribution tariff applications.	Granted 10 generation licences under the DoE's Renewable Energy Independent Power Producer (REIPP) Procurement Programme.
Approved - <ul style="list-style-type: none"> • the Free Basic Electricity Rate for the compensation of Eskom for implementation on 1 July 2016; • the revised mechanism for the determination of Eskom's revenues and prices (MYPD); • the Service Quality Incentive (SQI) Schemes for Eskom Transmission and Distribution; and • Eskom's Retail Tariffs. 	<ul style="list-style-type: none"> • Granted 16 generation and 2 distribution licenses; • Approved the amendment of 6 generation licences, 6 distribution licences and 1 trading licence; and • Revoked 1 distribution licence.
Confirmed Eskom's revenue decision of the 2013 MYPD3, in relation to the requirement for 2017/18.	Granted 1 cogeneration licence under the DoE's REIPP Procurement Programme
	Granted 1 distribution connection facility licence.

Specific Achievements: Electricity Industry Regulation (continued)

Other

A consolidated audit report for generation, transmission and distribution respectively, highlighting the state of compliance in the electricity industry for 2015/16.

An audit report on Eskom's Transmission Network Development 2015/16 projects for compliance with the South African Grid Code.

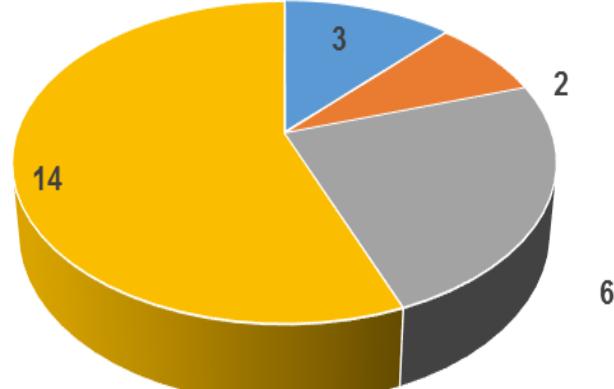
A report on the trends regarding to the status of disputes and complaints in the electricity industry which was published on the NERSA website.

Approved -

- 46 applications for exemption to the South African distribution and transmission grid code and the Network Code;
- 3 amendments on the Renewable Grid Code; and
- 1 Derogation (for the 1200MW CSP).

Annual review and publication of the medium term system adequacy outlook (MTSAO) as required by the South African Grid Code, System Operation Code clause 2.1.2 (7).

Specific Achievements: Piped-Gas Industry Regulation

Tariffs and pricing	Licensing										
<p>Approved</p> <ul style="list-style-type: none"> • 6 maximum price applications; and • 2 tariff applications. 	 <table border="1"> <thead> <tr> <th>Licence Type</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Granted Operation licences</td> <td>14</td> </tr> <tr> <td>Granted Construction licences</td> <td>3</td> </tr> <tr> <td>Granted Trading licences</td> <td>6</td> </tr> <tr> <td>Granted Amendment of licences</td> <td>2</td> </tr> </tbody> </table>	Licence Type	Count	Granted Operation licences	14	Granted Construction licences	3	Granted Trading licences	6	Granted Amendment of licences	2
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<p>Approved ROMPCO's Network Code with guidelines for third party access to its gas transmission pipeline from Mozambique to South Africa. These guidelines set out procedures and requirements that will apply to third parties wishing to access uncommitted capacity in the ROMPCO pipeline.</p>											
<p>Deliberated the ruling of the High Court in favour of NERSA's decision regarding Sasol Gas' maximum price and the Methodology for Approval of Maximum Prices of gas. The implication is that the current Maximum Price Methodology will remain valid.</p>	<p>The total value of the construction projects under licence by the end of 2016/17 is R72 million.</p>										

Specific Achievements: Piped-Gas Industry Regulation (continued)

Other

Reports on 2 audits that were conducted on the ROMPCO pipeline according to the compliance framework.

4 reports on compliance with licence conditions in the operation of gas distribution and transmission facilities.

Monitoring reports on the implementation of Maximum Prices.

4 reports on the monitoring of progress in the construction of licensed facilities and issued notices of non-compliance.

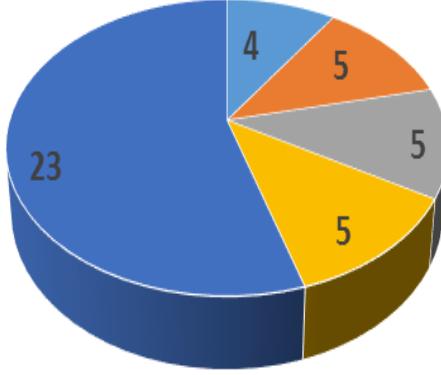
A report on investigations initiated into gas supply interruptions at Sasol Gas (Pty) Ltd's gas facilities in the Gauteng province.

Approved the revised Guidelines for Monitoring and Approval of transmission and storage tariffs.

4 reports on new developments in the gas industry.

A report on the study tour to Spain which was aimed at gaining an understanding of how the Spanish and European gas industries are regulated and gaining knowledge which places NERSA in a better position to handle new and complicated tasks such as the regulation of LNG regasification terminals.

Specific Achievements: Petroleum Pipeline Industry Regulation

Tariffs	Licensing														
<p>Approved tariffs for 22 storage facilities and set tariffs for two pipelines.</p>															
<p>Considered a preliminary impact assessment report on the approved tariff methodology for storage and loading facilities.</p>															
Other															
<p>Considered</p> <ul style="list-style-type: none"> • 2 reports on trends regarding utilisation of storage facilities and 3rd party access; • an assessment report on the extent of compliance by licencees with the Petroleum Pipelines Levies Act,; • 4 reports on the construction of new facilities; and • 4 reports on licencees' compliance with statutory reporting requirement. 	 <table border="1"> <thead> <tr> <th>Type of Licence</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Granted construction licences</td> <td>23</td> </tr> <tr> <td>Granted operation licences</td> <td>4</td> </tr> <tr> <td>Amendment of construction licences</td> <td>5</td> </tr> <tr> <td>Amendment of operation licences</td> <td>5</td> </tr> <tr> <td>Revoked licences</td> <td>5</td> </tr> <tr> <td>Unlabeled</td> <td>4</td> </tr> </tbody> </table> <p>The total value of the construction projects under licence by the end of 2016/17 is R 1 560 million.</p>	Type of Licence	Count	Granted construction licences	23	Granted operation licences	4	Amendment of construction licences	5	Amendment of operation licences	5	Revoked licences	5	Unlabeled	4
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Amendment of operation licences	5														
Revoked licences	5														
Unlabeled	4														
Reports on the inland supply forecast.															

Specific Achievements: Transversal regulatory

Establishing NERSA as an efficient and effective Regulator

Approved -

- a revised regulatory impact framework as well as a revised benchmarking framework; and
- the reviewed Benchmarking framework.

Presented two papers at the 13th Annual African Forum for Utility Regulators (AFUR) conference and Annual General Assembly in Abidjan, Ivory Coast, on the following topics:

- Ex-post regulatory impact assessment (RIA) of pricing, tariff, licensing and compliance decisions in South Africa: a case study; and
- Institutional and regulatory requirements for PPP projects in developing countries

Undertook 66 stakeholder engagement and education programmes aimed at empowering stakeholders with relevant energy industry as well as economic regulatory knowledge and information.

Specific Achievements: Organisational

Establishing NERSA as an efficient and effective Regulator

4 progress reports on the implementation of the recommendations from the comprehensive ICT systems review.

NERSA received a clean audit from the Auditor-General for the 2015/16 financial year.

A customer and stakeholder perception and satisfaction level of 87.53% was achieved (target was 84%)

The refurbishment of NERSA's building commenced due to the following reason:

- non-compliance with regulations [Electricity, HVAC (air-conditioning)], Health and Safety Regulations (minimum size of passages etc.), and central firefighting equipment (the sprinkler system);
- optimisation of work space;
- modernising the look and feel of the building to keep it abreast of currently designed and available workplaces in and around the city; and
- a lack of energy efficiency.

D5. Human Resource Management

Staff development

- A total of 67% of staff underwent training (both locally and internationally) . This is a decrease of 8% from the previous year's 75%.
 - The decrease was due to cost containment measures implemented from April 2016.
- In the period under review, 9 learners were appointed to embark on NERSA's Learnership programme to attain a National Certificate: Energy Regulation NQF Level 5.
 - The programme prepares young graduates from further education and training institutions and universities for development of skills within the regulatory environment by providing theoretical and on-the-job training in order to create a pool of potential candidates for employment by the Energy Regulator.
- 11 interns were appointed and allocations were made across both the support and regulatory divisions.

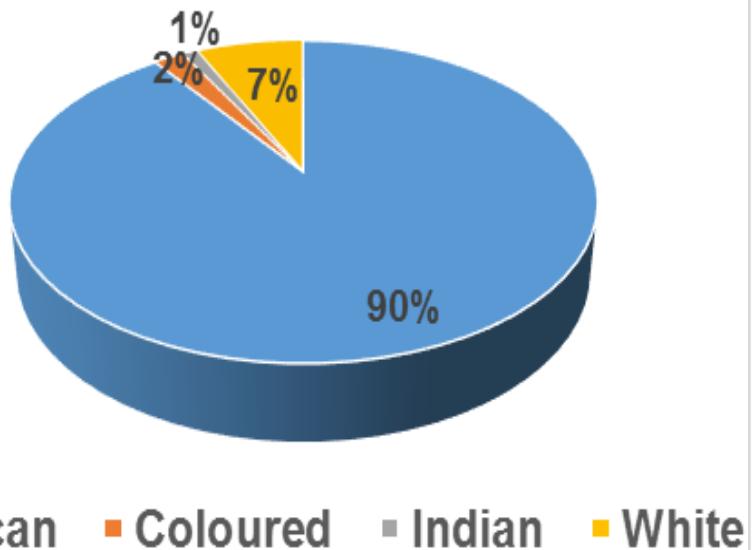
Staff Analysis

- NERSA concluded an organisational review in July 2016 and a new organisational structure was approved with a total of 246 positions.
- The implementation of the new structure commenced with the start of the 2017/18 financial year.

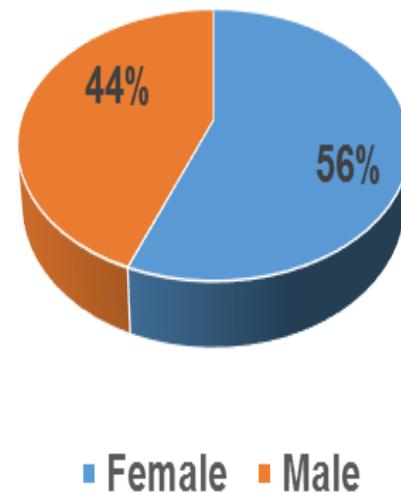
	2016/17	2017/18 to date
Total staff strength	186	246
Total staff complement	166	203
Vacancies	20	43

Staff Analysis (continued)

Demographic profile



Gender Profile



D5. International Activities

Regional Electricity Regulatory Association of Southern Africa (RERA)

NERSA is a Member of the Executive Committee of RERA

RERA Objectives:

- Capacity Building and Information Sharing;
- Facilitation of Electricity Supply Industry Policy, Legislation and Regulations; and
- Regional Regulatory Cooperation.

RERA Membership

- **Angola** - Institute for Electricity Sector Regulation (IRSE);
- **Lesotho** - Lesotho Electricity and Water Authority (LEWA);
- **Malawi** - Malawi Energy Regulatory Authority (MERA);
- **Mozambique** - National Electricity Advisory Council (CNELEC);
- **Namibia** - Electricity Control Board (ECB);
- **South Africa** - National Energy Regulator of South Africa (NERSA);
- **Swaziland** – Swaziland Energy Regulatory Authority (SERA);
- **Tanzania** - Energy & Water Utilities Regulatory Authority (EWURA);
- **Zambia** - Energy Regulation Board (ERB); and
- **Zimbabwe** - Zimbabwe Energy Regulatory Authority (ZERA).

African Forum For Utility Regulators (AFUR)

NERSA is a member of AFUR EXCO and Energy Sectoral Committee.

AFUR focuses on issues related to the regulation of the Energy, Telecommunications, Transport, Water and Sanitation Sectors

AFUR Objectives:

- Information sharing;
- Capacity building; and
- Harmonisation of regulatory policies and legislation.

AFUR Membership

Algeria	Ethiopia - observer
Mauritania	Uganda
Niger	Kenya
Mali	Tanzania
Senegal	Malawi
Gambia	Zambia
Burkino Faso	Zimbabwe
Cote d'Ivoire	Namibia
Ghana	Mozambique
Togo	South Africa
Nigeria	Lesotho
Cameroon	Rwanda
Angola - observer	
Benin	North Sudan - observer
DRC - observer	

Co-operation with other global institutions / organisations

- RERA and AFUR continue to enjoy excellent working relationships and support from the:
 - African Union (AU);
 - SADC Secretariat;
 - Southern African Power Pool (SAPP);
 - International Confederation of Energy Regulators (ICER);
 - Council of European Energy Regulators (CEER);
 - Energy Regulators Regional Association (ERRA);
 - ECOWAS Regional Electricity Regulatory Authority (ERERA); and
 - Roundtable of Regional Energy Regulators Associations of Emerging Market.

E. FINANCIAL PERFORMANCE

Funding Methodology

In terms of the National Energy Regulator Act, 2004 (Act No. 40 of 2004) NERSA derives its revenue by, among others, imposing prescribed levies on the regulated industries following a prescribed transparent procedure.

The following Acts govern the imposition of such levies:

- Gas Regulator Levies-Act, 2002 (Act No. 75 of 2002);
 - Petroleum Pipelines Levies Act, 2004 (Act No. 28 of 2004); and
 - Section 5B of the Electricity Act, 1987 (Act No. 41 of 1987).
-
- ***Electricity*** industry is mainly funded through a levy levied on licensed electricity generators. The said levy is based on the estimated generation capacity.
 - ***Piped-Gas*** levy payable by users of pipelines (holders of the title to gas at the inlet flange).
 - ***Petroleum pipelines*** levy payable by users of the pipelines (holders of the title to petroleum at the inlet flange).

Funding Methodology (continued)

- Costs for industry-specific regulatory functions are ring-fenced.
- Costs that cannot be directly attributed to an industry-specific regulatory function, but are incurred as common costs in order to support the three industry-specific regulatory functions, are allocated between the three industry-specific regulatory functions using the following ratio proportionate to the approved staff complement attributable to the industry-specific function:
 - 58% for the electricity industry regulation;
 - 21% for the petroleum pipeline industry regulation; and
 - 21% for the piped-gas industry regulation.

Funding of NERSA

Licence fees from the Electricity Industry

- The license fees for the electricity industry were invoiced based on actual volumes of 228 572 726 MWh against total budgeted volumes of 246 675 758 MWh. The difference in volumes is 18 103 032 MWh, which translates to under-recovery of levies by (R12 197 823) (7.3 %).

Levies from the Piped-Gas Industry

- The volumes for the piped-gas industry were invoiced based on actual volumes of 182 567 070 GJ against budgeted volumes of 184 280 951 GJ. The variation in volumes is 1 713 881 GJ, which translates to an under-recovery of levies by (R520 316) (0.9%).

Levies from the Petroleum Pipelines Industry

- The volumes for the petroleum pipelines industry were invoiced based on actual volumes of 16 858 593 652 Lt against budgeted volumes of 16 868 265 976 Lt. The variation in volumes is 9 672 324 Lt, which translates to an under-recovery of levies by (R38 293) (0.1%).

Statement of Financial Position as at 31 March 2017

Figures in Rand	2017	2016
Assets		
Current Assets		
Inventories	186 337	187 621
Receivables from exchange transactions	2 952 601	2 736 654
Receivables from non-exchange transactions	28 585 965	37 097 313
Cash and cash equivalents	191 494 702	176 679 840
	223 219 605	216 701 428
Non-Current Assets		
Property, plant and equipment	55 706 520	52 347 233
Intangible assets	5 496 714	5 715 928
	61 203 234	58 063 161
Total Assets	284 422 839	274 764 589

Statement of Financial Performance for the year ended 31 March 2017

Figures in Rand	2017	2016
Revenue	276 181 012	305 137 183
Other income	326 939	289 119
Operating expenses	(271 243 474)	(260 308 877)
Operating surplus	5 264 477	45 117 425
Interest received	12 189 709	9 231 345
Surplus for the year	17 454 186	54 348 770

Statement of Changes in Net Assets for the year ended 31 March 2017

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 April 2015	28 142 725	150 056 634	178 199 359
Changes in net assets	-	-	-
Surplus for the year	-	54 348 770	54 348 770
Total changes	-	54 348 770	54 348 770
Balance at 01 April 2016	28 142 725	204 405 404	232 548 129
Changes in net assets	-	-	-
Surplus for the year	-	17 454 186	17 454 186
Total changes	-	17 454 186	17 454 186
Balance at 31 March 2017	28 142 725	221 859 590	250 002 315

Cash Flow Statement for the year ended 31 March 2017

Figures in Rand	2017	2016
Cash flows from operating activities		
Receipts		
Sale of goods and services	285 352 378	289 348 238
Interest Income	12 189 709	9 231 345
	297 542 087	298 579 583
Payments		
Suppliers and employees	(274 919 370)	(264 740 171)
Net cash flows from operating activities	22 622 717	33 839 412
Cash flows from investing activities		
Purchase of property, plant and equipment	(7 007 722)	(4 554 284)
Purchase of other intangible assets	(800 133)	(913 341)
Net cash flows from investing activities	(7 807 855)	(5 467 625)
Net Increase/(decrease) In cash and cash equivalents	14 814 862	28 371 787
Cash and cash equivalents at the beginning of the year	176 679 840	148 308 053
Cash and cash equivalents at the end of the year	191 494 702	176 679 840

Fruitless and Wasteful Expenditure as at 31 March 2017

Figures in Rands	2017	2016
Fruitless and wasteful expenditure incurred during the year	27 230	1 134
Recovered	-	(1 134)
	27 230	-

For 2017 Fruitless and wasteful expenditure was incurred with regard to the cancellation of international trips due to the implementation of cost containment measure on international conferences.

The prior year amount is in respect of interest paid to service providers due to late payments. The amount was recovered from employees who were responsible for the delay in payment.

Irregular Expenditure as at 31 March 2017

Figures in Rands	2017	2016
Opening balance	4 610 398	4 549 958
Add: Irregular Expenditure incurred during the year	184 605	60 440
	4 795 003	4 610 398

Analysis of expenditure awaiting condonation per age classification

Awarding of quotation to a supplier whose tax clearance had expired	184 605	-
Remuneration of Full-Time Regulator Members not approved by Minister:		
31-Mar-16	-	60 440
31-Mar-15	-	511 401
31-Mar-14	-	1 232 661
31-Mar-13	-	2 489 831
31-Mar-12	-	316 065
	184 605	4 610 398

Irregular Expenditure as at 31 March 2017 (continued)

Details of irregular expenditure - current year	Disciplinary steps taken/criminal proceedings
Awarding of quotation to a supplier whose tax clearance had expired.	Under investigation
Details of irregular expenditure - prior year	Condoned by (condoning authority)
<ul style="list-style-type: none"> • FTRM Remuneration should be approved by the Minister of Energy in concurrence with the Minister of Finance. • The Minister of Energy re-appointed three FTRM and delegated the Energy Regulator to negotiate the remuneration of FTRM. • The Minister also appointed a new FTRM CEO on 01 May 2011. The Energy Regulator implemented the salary increase effective from 01 April 2011 without approval of the Minister of Energy. 	<ul style="list-style-type: none"> • The Energy Regulator requested condonation from the Minister of Energy on 25 March 2013. • On 19 March 2014 the Minister of Energy approved the condonation subject to the concurrence of the Minister of Finance. • On 30 July 2014 the Minister of Finance did not support the condonation. • From 01 April 2015 FTRM salaries were frozen. <ul style="list-style-type: none"> • All affected FTRM are no longer employed by NERSA. NERSA has drafted a request for condonation of the irregular expenditure by the Minister in terms of the Treasury Regulation.

Linking Performance with Budgets

Programme	2016/17		
	Budget	Actual Expenditure	(Over)/Under Expenditure
Programme 1	39 192 091	36 075 662	3 116 429
Programme 2	19 894 539	18 547 221	1 347 318
Programme 3	17 562 671	16 143 729	1 418 942
Programme 4	17 058 277	15 682 515	1 375 762
Programme 5	22 774 727	19 308 661	3 466 066
Programme 6	169 786 748	161 166 180	8 620 568
Total NERSA	286 269 053	266 923 968	19 345 085

Linking Performance with Budgets (continued)

Programme	2015/16		
	Budget	Actual Expenditure	(Over)/Under Expenditure
	R	R	R
Programme 1	38 336 342	38 799 795	(463 452)
Programme 2	18 162 252	17 264 730	897 522
Programme 3	16 139 022	15 161 107	977 914
Programme 4	15 690 295	14 721 731	968 564
Programme 5	23 454 455	16 932 324	6 522 131
Programme 6	165 763 046	153 125 729	12 637 317
Total NERSA	277 545 413	256 005 417	21 539 995

E. CONCLUSION

- NERSA would like to thank the Portfolio Committee for the opportunity to present its Annual Report for 2016/17.
- As indicated in the presentation, NERSA's responsibility is discharged mainly through licensing, setting or approving of prices and tariffs, compliance monitoring and enforcement, and dispute resolution in the electricity, piped-gas and petroleum pipelines industries.
- Therefore NERSA can be regarded as is a key enabler in advancing economic growth and social development within South Africa.
- NERSA's performance and relevance are informed by the tangible impact, benefits and meaningfulness of its work for the citizens as well as the economy of our country.
- NERSA has, through regulation, facilitated the construction of power stations, pipelines and storage facilities to ensure continued access to energy and security of supply in the country.
- To deal with regulatory challenges, NERSA has undertaken various initiatives to refine regulatory practices and methodologies in its quest to become a world-class leader in energy regulation and will continue to do so.
- NERSA is a viable entity and is still operating as a going concern.

Thank you

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