

# Presentation to PPC on Mineral Resources and Energy

## Annual Report 2018/19



**Chris Forlee**  
**CEO**  
**9 October 2019**

# PRESENTATION OUTLINE

- A. Introduction
- B. Mandate
- C. Overview of performance in 2018/19
- 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 of 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 (1)

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.

## NERSA Structure (2)

DIVISION	NERSA STAFF COMPLEMENT	
<b>Electricity Regulation</b>	1 Executive Manager, 3 Heads of Department and 84 staff members	<b>88</b>
<b>Piped-Gas Regulation</b>	1 Executive Manager, 3 Heads of Department and 27 staff members	<b>31</b>
<b>Petroleum Pipelines Regulation</b>	1 Executive Manager, 2 Heads of Department and 24 staff members	<b>27</b>
<b>Finance and Administration</b>	1 Chief Financial Officer, 2 Heads of Department and 30 staff members	<b>23</b>
<b>Human Resources</b>	1 Chief Human Capital Officer, 2 Heads of Department and 10 staff members	<b>13</b>
<b>Corporate Services</b>	1 Executive Manager, 5 Heads of Department and 32 staff members	<b>38</b>
<b><u>Specialised Support Units</u></b>		
• <b>Internal Audit</b>	1 Chief Audit Executive and 6 staff members	<b>7</b>
• <b>Strategic Planning &amp; Monitoring</b>	1 Senior Manager and 3 staff members	<b>4</b>
• <b>Regulator Support</b>	1 Senior Manager and 10 staff members	<b>11</b>
• <b>CEO's Office Operations</b>	1 Senior Manager and 4 staff members	<b>5</b>
• <b>Regulatory Analysis and Research</b>	1 Senior Manager and 5 staff members	<b>6</b>
<b>Grand Total</b>		<b>253</b>

# Vacancy Rate

- Total vacancies: 34 (13.4%)
- External Appointment = 33 (85%)
- Internal Appointments = 6 (15%)
- Total appointments = 39

# 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**

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 2018/19

- NERSA received a clean audit for its financial performance and performance against predetermined objectives;
  - 6<sup>th</sup> consecutive clean audit.
- NERSA achieved 94% (66 of 70) of its planned annual targets:
  - Three targets relating to Electricity Industry Regulation could not be considered within the stated timeframes due to their dependence on the approval of Eskom's revenue application.
    - These three targets were however met in the reporting period.
  - One target relating to Piped-Gas Industry Regulation was not met within the stated timeframes due to the link between this target, trading margin applications, and applications for maximum gas prices. During the reporting period the Supreme Court of Appeals levelled criticism against the basket of alternative energy sources Methodology, which is applicable to maximum price applications. The Regulator resolved to only suspend the criticised section of the methodology.
    - This one target was however met in the reporting period.

## Overall Performance against predetermined objectives

	PLANNED ANNUAL TARGETS		ANNUAL TARGETS MET		REASONS FOR ANNUAL TARGETS NOT MET			
					External Dependencies		Internal factors	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
Electricity Industry Regulation	17	18	15 (88%)	15 (83%)	0 (0%)	3 (17%)	2 (12%)	0 (0%)
Piped-Gas Industry Regulation	18	18	18 (100%)	17 (94%)	0 (0%)	0 (0%)	0 (0%)	1 (6%)
Petroleum Pipelines Industry Regulation	10	11	10 (100%)	11 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Transversal Regulatory	7	9	7 (100%)	9 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Organisational	9	14	9 (100%)	14 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
<b>Total</b>	<b>61</b>	<b>70</b>	<b>59 (97%)</b>	<b>66 (94%)</b>	<b>0 (0%)</b>	<b>3 (4%)</b>	<b>2 (3%)</b>	<b>1 (2%)<sup>11</sup></b>

# Key Achievements in respect of NERSA's regulatory functions (1)

## Tariffs / Pricing

<p>Electricity Industry Regulation</p>	<p>Approved –</p> <ul style="list-style-type: none"> <li>- 168 municipal and 7 private distribution tariff applications;</li> <li>- Eskom's RCA Application – MYPD3 Year 2 (2014/15), Year 3 (2015/16) and Year 4 (2016/17); and</li> <li>- Eskom's MYPD3 Year 5 RCA application (2017/18) and the MYPD4 revenue application for 2019/20, 2020/21 and 2021/22</li> </ul>
<p>Piped-Gas Industry Regulation</p>	<p>Approved 4 applications trading margins</p>
<p>Petroleum Pipeline Industry Regulation</p>	<p>Approved 2 tariff applications and 5 storage tariff applications</p>

## Key Achievements in respect of NERSA's regulatory functions (2)

### Licensing

Electricity Industry Regulation	Granted 34 generation licenses, 24 distribution licenses, 2 trading licenses
Piped-Gas Industry Regulation	<p>Granted the following licenses:</p> <ul style="list-style-type: none"> <li>- 3 to trade in gas;</li> <li>- 2 to construct a gas distribution facility;</li> <li>- 3 to construct a gas transmission facility;</li> <li>- 1 to operate a gas transmission facility.</li> </ul> <p>Registered 3 operations for the production of gas</p>
Petroleum Pipeline Industry Regulation	Granted 1 licence for the construction of petroleum pipelines

## Key Achievements in respect of NERSA's regulatory functions (3)

### Compliance monitoring and enforcement

Electricity Industry Regulation	Conducted 16 <b>electricity</b> generation, 13 distribution and 15 transmission compliance monitoring audits
Piped-Gas Industry Regulation	<ul style="list-style-type: none"> <li>• Monitored monitoring of compliance with approved maximum piped-gas prices by 10 licensees.</li> <li>• Conducted compliance inspections on 48 licensed gas facilities</li> </ul>
Petroleum Pipeline Industry Regulation	Conducted compliance site visits to the <b>petroleum pipelines</b> facilities of 39 licensed activities.

### Complaints Resolution and Proactive Investigations

Electricity Industry Regulation	388 (99%) of 390) of disputes/complaints received regarding electricity related matters were closed.
Piped-Gas Industry Regulation	Completed 2 initiated investigations into incidents of gas supply interruptions.
Petroleum Pipeline Industry Regulation	No complaints were received

## Key Achievements in respect of NERSA's regulatory functions (4)

### Setting of rules, guidelines and codes

Electricity Industry Regulation	<ul style="list-style-type: none"> <li>• Approved 15 applications for <u>exemption from</u> and 1 application for the <u>amendment to</u> the South African distribution and transmission grid code</li> <li>• Considered and report on the scope for the review of the South African distribution and transmission grid</li> </ul>
Piped-Gas Industry Regulation	<p>Considered a report on the gas pricing strategy and formulae in different regional markets with implications to South Africa and an update of review of the Maximum Pricing Methodology</p>
Petroleum Pipeline Industry Regulation	<ul style="list-style-type: none"> <li>• Approved the Guidelines for Prudency Assessment</li> <li>• Considered a report on contributions towards alignment between</li> <li>• relevant Petroleum legislation and regulations and government policies</li> </ul>

NERSA is funded through levies and license fees collected from Regulated Industries. The following Acts govern the imposition of such levies/license fees:

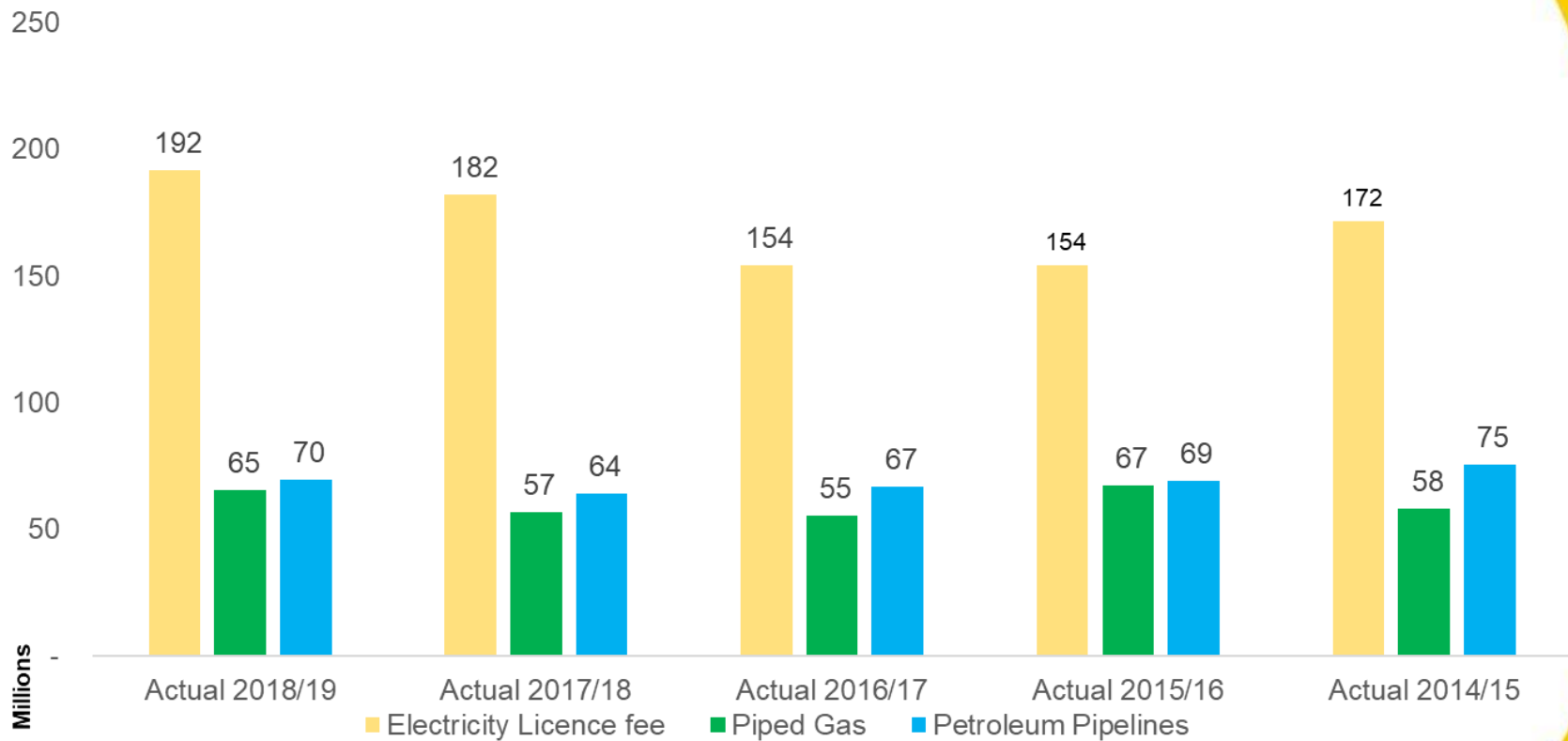
- Gas Regulator Levies-Act, 2002 (Act No. 75 of 2002); **Piped-Gas** levy payable by users of pipelines (holders of the title to gas at the inlet flange). The levies is based on Giga Joules gas as it enters the inlet flanges of transmission or distribution pipelines
- Petroleum Pipelines Levies Act, 2004 (Act No. 28 of 2004); **Petroleum pipelines** levy payable by users of the pipelines (holders of the title to petroleum at the inlet flange).The levy is based on the litres of petroleum as it enters the inlet flanges of petroleum pipelines
- Section 5B of the Electricity Act, 1987 (Act No. 41 of 1987).**Electricity** industry is mainly funded through licence fees levied on licensed electricity generators. The said licence fee is based on the kilowatt hours of electricity generated for supply.
- The following amounts were collected during the year 2018/19
  - Electricity: The license fees amounted to **R191 million** based on actual volumes of 224 805 495 MWh .
  - Piped Gas: the levies amounted to **R65 million**, based on actual volumes of 177 075 515 GJ.
  - Petroleum Pipelines: The levies amounted to **R70 million**, based on actual volumes of 17 976 072 Lt



# Volumes

Industry	BUDGET 2019/20		ACTUAL 2018/19		ACTUAL 2017/18	
	Volumes	Change %	Volumes	Change %	Volumes	Change %
<b>Electricity (Twh)</b>	232.99	3.64	224.81	0.29	224.15	(1.93)
<b>PIPED GAS (Million Gigajoules)</b>	181.34	2.41	177.08	(2.00)	180.69	(1.03)
<b>PETROLEUM PIPELINES (Billion litere)</b>	17.78	(1.10)	17.98	6.33	16.91	0.28

# Licence fees



# FINANCIAL PERFORMANCE 2018/19

	<b>ACTUAL R'million</b>	<b>BUDGET R'million</b>	<b>VARIANCE R'million</b>	<b>VARIANCE (%)</b>
REVENUE	R 346.68	R 343.51	R 3.17	0.9%
OPERATING EXPENDITURE	R 298.89	R 341.67	R 42.78	(12.5%)
DEPRECIATION	R 7.61	-	(R 7.61)	(0.00%)
<b>NET SURPLUS*</b>	<b>R 40.18</b>	<b>R1.84</b>	<b>R38.34</b>	<b>&gt;100%</b>
<b>CAPITAL EXPENDITURE **</b>	<b>R 28.66</b>	<b>R 40.20</b>	<b>R 11.54</b>	<b>28.7%</b>

\*The net surplus is due to under-spending of operating expenditure and over recovery of Other Income

\*\*As at 31 March 2019, Building Refurbishment project was still in progress and scheduled to be completed in the second quarter of 2019/20.

# DETAILS OF IRREGULAR EXPENDITURE PRIOR YEARS

Details of Irregular Expenditure	Amount
Services rendered by a consultant without prior approval	R 23 612
Procurement of promotional material not on existing contract	R 84 004
Procurement of a staff competency assessment report without prior approval	R 32 490
Award of quotation to a supplier whose tax clearance had expired	R 184 605
<p>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.</p> <p>The Minister of Energy also appointed a new FTRM CEO on 01 May 2011.</p> <p>The Energy Regulator implemented the salary increases effective from 01 April 2011 without the approval of the Minister of Energy.</p>	R 4 610 398

# CONTROL ENVIRONMENT AND KEY RATIOS

- Current Ratio :**4.42**.
- Debtors collection period:  
**35 days**.
- Creditors as a % of cash and cash equivalents  
:**12%**.
- Average payment of creditors :**4.66 days**.
- **Sixth** consecutive **clean** audit report.
- Approved Policies and procedures
- **Approved Delegation of Authority matrix**

## F. CONCLUSION

- 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

Website: [www.nersa.org.za](http://www.nersa.org.za)  
Tel: 012 401 4600  
Fax: 012 401 4700  
Email: [info@nersa.org.za](mailto:info@nersa.org.za)



@NERSAZA



@NERSA\_ZA