

Virtual Presentation to the Portfolio Committee on Mineral Resources and Energy on 20 May 2020

2020/21 Annual Performance Plan and Budget



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Chairperson**

PRESENTATION OUTLINE

- A. Executive Summary of detailed presentation
- B. Introduction
- C. Mandate
- D. Context for Annual Performance Plan 2020/21
- E. Outcomes and Targets per Programme for each of the three regulated industries as well as transversal regulatory and organisational projects
- F. 2020/21 Budget
- G. Conclusion

A. Executive Summary (1)

- The National Energy Regulator (NERSA) was established on 1 October 2005 in terms of the National Energy Regulator Act, 2004 (Act No. 40 of 2004).
- Its mandate is to regulate –
 - the Electricity industry in terms of the Electricity Regulation Act, 2006 (Act No. 4 of 2006),
 - the 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 mandate is further anchored in the following three 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).

A. Executive Summary (2)

- NERSA vision to be a recognised world-class leader in energy regulation is the foundation on which the implementation of its mandate is based.
- The Regulator acknowledges the pivotal role it plays in economic growth. In modern economies, economic growth is closely associated with increasing energy consumption. The availability of secure, reliable and affordable energy supply is essential for industrial processes and the provision of public services such as lighting, heating, cooking, information and communication technology, and mobility.
- The role of NERSA is to ensure the development and sustainability of the electricity, piped-gas and petroleum pipelines industries, while facilitating the affordability of and accessibility to these industries to balance the economic interests of all stakeholders. Hereby NERSA endeavours to ensure sustainable socio-economic development of South Africa and a better life for all.

A. Executive Summary (3)

- In developing this Annual Performance Plan NERSA take cognisance of the developments, trends and challenges within the global energy environment.
 - The global energy system is undergoing unprecedented change, driven by forces such as technological innovation, changes in consumption patterns, supply dynamics and policy shifts.
 - The geopolitical landscape of energy is quickly shifting and environmental concerns poses a serious challenge.
 - The economics of competing energy sources have changed, and the advent of Fourth Industrial Revolution technologies have enabled new business models, while making others obsolete.

A. Executive Summary (4)

- The Government, through the National Development Plan, envisages that, by 2030, South Africa will have an energy sector that -
 - provides reliable and efficient energy service at competitive rates;
 - that is socially equitable through expanded access to energy at affordable tariffs; and
 - is environmentally sustainable through reduced emissions and pollution.
- In carrying out its mandate, NERSA endeavours to facilitate the availability of reliable, affordable and clean energy which will lead to sustainable economic and social development. Therefore, contributing to the economic growth of our country through the effective and efficient regulation is a priority for the Energy Regulator.
- A critical factor that affects the economy of a country is the cost of energy. In the case of South Africa, where electricity is the main source of energy, the cost of electricity is paramount. NERSA therefore have to, in collaboration with key stakeholders, consider the best way to provide affordable electricity.

A. Executive Summary (5)

- Another priority for NERSA is the availability of secure, adequate and reliable energy supply. The challenges South Africa experienced in the last few years with load shedding and unplanned power outages accentuated the importance of the reliable supply of energy, because it severely affected all sectors of society. NERSA is committed to collaborate with Government and all stakeholders to address this challenge, within the parameters of its mandate.
- The Annual Performance Plan sets the path for NERSA to ensure the orderly development in the energy sector, mainly through licensing and registration, setting and approving of prices and tariffs, compliance monitoring and enforcement, and dispute resolution in the electricity, piped-gas and petroleum pipelines industries.
- NERSA also commenced with a process to contribute towards the transformation of the energy industry, within the ambit of its mandate.

A. Executive Summary (6)

- The development of this Annual Performance Plan was informed by the Strategic Plan for the 2020/21 to 2024/25 planning period.
- The targets identified in this Plan provides the basis for NERSA's strategic focus for the next financial year and for the forthcoming medium-term period, which is in line with and in support of two of the key government priorities, namely Economic Transformation and Job Creation; and a Capable, Ethical and Developmental State
- These targets aim to -
 - contribute to the economic growth of the country through the effective, efficient and transparent regulation;
 - facilitate availability of secure, adequate and reliable energy supply;
 - facilitate access to affordable energy supply; and
 - participate in the development of an appropriate regulatory framework required for an energy industry that contribute to economic growth in South Africa by providing regulatory certainty which facilitates investment.

A. Executive Summary (7)

The identified **regulatory targets** will contribute to the achievement of the outcomes as stated in the Strategic Plan for 2020/21 to 2024/25, through the following regulator action:

- **Set and/or approve tariffs and prices** in order to ensure a fair balance between the needs of the customer and the regulated entity;
- 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 Electricity Regulation Act, 2006, Gas Act, 2001 and the Petroleum Pipelines Act, 2003;
- Ensure that **all licensees in the three regulated industries fully comply with their licence conditions**, including those relating to health, safety, security and environmental standards and requirements, as well as any other standards and requirements prescribed by the relevant industry-specific legislation;
- **Manage disputes and complaints** between licensees or between licensees and customers or end-users managed effectively
- **Set 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 licensees
- 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.

A. Executive Summary (8)

The identified **organisational targets** will contribute to the achievement of the outcomes as stated in the Strategic Plan for 2020/21 to 2024/25, through the following regulator action:

- Facilitate the development to skills, both internally and externally, in energy regulation;
- Partnership creation to position NERSA as a recognised regulator nationally, regionally and internationally; and
- Continued enhancement of organisational processes, procedures and systems to ensure effective functioning of NERSA.

A. Executive Summary (9)

| STATEMENT OF FINANCIAL PERFORMANCE | | C | E | 1 |
|--|-------|--------------------|---------------------|------------------|
| DESCRIPTION | NOTES | APPROVED BUDGET | CONSOLIDATED BUDGET | % Variance (C E) |
| | | 2019/20 | 2020/21 | |
| TOTAL INCOME | | 356 503 644 | 362 470 475 | 1,7% |
| License fees from Electricity Industry | 1 | 205 154 173 | 207 909 620 | 1,3% |
| Levies from Piped-Gas Industry | 2 | 73 902 240 | 77 964 905 | 5,5% |
| Levies from Petroleum Pipeline Industry | 3 | 68 356 705 | 70 638 400 | 3,3% |
| Interest received | 4 | 9 023 910 | 5 865 542 | (35,0%) |
| Rental Income | | 66 616 | 72 009 | 8,1% |
| Registration fees | 5 | - | 20 000 | 100,0% |
| Other Income * | | - | - | 0,0% |
| TOTAL OPERATING EXPENDITURE | | 363 363 120 | 373 685 238 | 2,8% |
| Advertising, Promotion and Communication | 5 | 13 475 550 | 11 920 000 | (11,5%) |
| Employment cost | 7 | 254 405 567 | 265 723 554 | 4,4% |
| Facilities Maintenance | 8 | 11 824 000 | 10 548 424 | (10,8%) |
| Office Administration | 9 | 12 180 057 | 12 258 879 | 0,6% |
| Professional fees | 10 | 35 615 433 | 36 810 085 | 3,4% |
| Travel, Accommodation and Training | 11 | 29 291 542 | 30 676 796 | 4,7% |
| Other Expenses | 12 | 6 570 971 | 5 747 500 | (12,5%) |
| NET SURPLUS/ (DEFICIT) | | (6 859 476) | (11 214 763) | (123,5%) |

A. Executive Summary (10)

- Operating expenditure increased from R363 million in 2019/20 to **R374 million in 2020/21**, which is **2.8% increase**.
- The increase is attributable to the following key items:
 - Advertising, Promotion and Communication is decreasing by **11.5%** because of reduction in advertising.
 - Employment cost is increasing by **4.4%** due to cost of living adjustment on gross salaries and remunerations for Regulators Members.
 - Facilities Maintenance is decreasing by **10.8%** due to anticipated savings on municipal charges (electricity consumption).
 - Professional fees is increasing by **3.4%** due planned consulting projects.
 - Travel, Accommodation and Training is increasing by **4.7%** due an expected increase in training and travel costs for staff.
 - Other expenses is decreasing by **12.5%** mainly due to reduction of Knowledge Centers subscriptions.

A. Executive Summary (11)

| | NOTES | APPROVED BUDGET | CONSOLIDATED BUDGET | % Variance (C E) |
|----------------------------------|-----------|--------------------|------------------------|---------------------|
| | | 2019/20 | 2020/21 | |
| TOTAL CAPITAL EXPENDITURE | 13 | 30 250 000 | 13 500 000 | (55,4%) |
| Motor vehicles | 13,1 | 500 000 | - | (100,0%) |
| Computer software | 13,2 | 8 000 000 | 6 000 000 | (25,0%) |
| Office furniture and equipment | 13,3 | 2 500 000 | 1 500 000 | (40,0%) |
| Building improvements | | 16 000 000 | 3 500 000 | (78,1%) |
| Computer hardware | 13,4 | 3 250 000 | 2 500 000 | (23,1%) |

Capital expenditure for the 2020/21 financial year amounts to R13.5 million, which is **55.4%** lower than the R30.2 million for 2019/20 due to the completion of the refurbishment project.

A. Executive Summary (12)

Budget allocation per programme

| | Programme 1 | Programme 2 | Programme 3 | Programme 4 | Programme 5 | Programme 6 | Total |
|---------------------|---|----------------------------|---------------------------------------|--|---|---|-------------|
| | Setting and/or approval of tariffs and prices | Licensing and Registration | Compliance monitoring and enforcement | Dispute resolution including mediation, arbitration and the resolution of complaints | Setting of rules, guides and codes for regulation | Establishing NERSA as an efficient and effective organisation | |
| Electricity | 38 299 564 | 15 943 808 | 27 107 113 | 12 375 592 | 3 512 381 | 119 413 908 | 216 652 366 |
| Piped-Gas | 13 761 351 | 7 111 513 | 8 493 487 | 5 943 341 | 3 853 853 | 43 236 070 | 82 399 615 |
| Petroleum Pipelines | 12 498 647 | 6 372 814 | 6 372 814 | 4 175 242 | 1 977 669 | 43 236 070 | 74 633 256 |
| Total NERSA | 64 559 562 | 29 428 136 | 41 973 414 | 22 494 174 | 9 343 903 | 205 886 049 | 373 685 238 |

A. Executive Summary - Conclusion

- The Annual Performance Plan was concluded before the outbreak of the COVID-19 pandemic. During this last few weeks, the adverse impact of the measures taken to protect South Africans against this pandemic, on our economy has become clear.
- Following the declaration of a national state of disaster on 15 March 2020, NERSA pro-actively implemented a work-from-home approach which contributed to minimal disruptions to our operations. We also immediately commenced with having meetings on line to be able to implement social distancing. On 14 May 2020 the Energy Regulator approved NERSA's Business Continuity Response Plan, which formalises how NERSA will operate during the COVID-19 pandemic within the guidelines given by government.
- NERSA is acutely aware of the three scourges South Africa is currently facing, namely the COVID-19 pandemic, the downgrade of South Africa's credit rating and the pending recession. NERSA is working with the Department of Mineral Resources and Energy on how the Energy Regulator could contribute to the growth of the economy amidst these threats.
- As an economic regulator NERSA may have to reprioritise some of its targets where possible, without compromising our regulatory responsibilities. This could lead to an adjustment of our proposed budget.

Thank you

B. Introduction (1)

- The National Energy Regulator 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 is a Schedule 3A Public Entity as per the Public Finance Management Act, 1999 (Act No. 1 of 1999).

B. Introduction (2)

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.

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 and orderly development

C. Mandate (1)

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).

C. Mandate (2)

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

D.Context for Annual Performance Plan 2020/21 (1)

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

- Issuing of licences and setting of pertinent conditions;
- Setting and/or approving of 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

D. Context for Annual Performance Plan 2020/21 (2)

NERSA's structure is as follows:

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.

D. Context for Annual Performance Plan 2020/21 (3)

The Energy Regulator's functions are supported by the following:

| REGULATORY DIVISIONS | DEPARTMENTS | SUPPORT DIVISIONS | DEPARTMENTS |
|--------------------------------|--|----------------------------|--|
| Electricity Regulation | Electricity Pricing and Tariffs | Corporate Services | Legal Advisory Services |
| | Electricity Licensing, Compliance and Dispute Resolution | | Communication and Stakeholder Management |
| | Electricity Infrastructure Planning | | International Co-ordination and Partnerships |
| Piped-Gas Regulation | Gas Pricing and Tariffs | Finance and Administration | Information Resources Management |
| | Gas Licensing, Compliance and Dispute Resolution | Human Resources | Financial Management and Governance |
| | Gas, Competition and Market Analysis | Specialised Support Units | Supply Chain Management |
| Petroleum Pipelines Regulation | Petroleum Pipelines Tariffs | | Human Resources – Value Creation |
| | Petroleum Licensing, Compliance and Dispute Resolution | | Human Resources -Transactions |
| | | | Regulator Support |
| | | | Strategic Planning and Monitoring |
| | | | Regulatory Analysis and Research |
| | | | Information and Communication Technology |
| | | | CEO's Office Operations |
| | | | Internal Audit |

E. Programme Outcomes and Targets for 2020/21

NERSA's targets for the outcomes are grouped in the following programmes:

- Programme 1: Setting and/or approval of tariffs and prices
- Programme 2: Licensing and registration
- Programme 3: Compliance monitoring and enforcement
- Programme 4: Dispute resolution, including mediation, arbitration and handling of complaints
- Programme 5: Setting of rules, guidelines and codes for the regulation of the three energy industries
- Programme 6: Establishing NERSA as an efficient and effective regulator

| Programme | 1: Setting and/or Approval of Tariffs and Prices |
|------------------------------------|---|
| Purpose | <p>To set and/or approve tariffs and prices 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.</p> |
| Link to National Priorities | <ul style="list-style-type: none"> • Economic Transformation and Job Creation • Capable, Ethical and Developmental State |

E. Programme 1 Outcomes and Targets (2)

a) Electricity Industry Regulation

| Outcomes | 2020/21 Targets |
|--|--|
| Accessible and affordable electricity for all citizens | 100% of complete tariff applications of licensed distributors for increases higher than the guideline and benchmark considered within required timelines |
| | 100 % of complete tariff applications of licensed distributors for increases within the guideline and benchmark considered within required timelines |
| | Energy Regulator decision on the review of Eskom's RCA application for 2019/20 |
| | One report on the proposed guidelines and benchmarks for 2021/22 |
| | One report on the analysis of Eskom's performance based on Regulatory Financial Reports (RFRs) |
| | One report on analysis of Eskom's ERTSA for 2021/22 |
| | One report on the calculation of the FBE Rate for the compensation of Eskom |

E. Programme 1 Outcomes and Targets (3)

b) Piped-Gas Industry Regulation

| Outcomes | 2020/21 Targets |
|---|---|
| Access to competitive gas prices and gas services | 100% of complete maximum price applications considered within required timelines |
| | 100% of complete trading margin applications considered within required timelines |
| | 100% of complete applications on distinguishing features considered within required timelines |
| | 100% of complete transmission tariff applications considered by ER within required timelines |
| | Four calculations of the ROMPCO tariff for gas volumes below 120 million Gigajoules |

c) Petroleum Pipelines Industry Regulation

| Outcomes | 2020/21 Targets |
|------------------------------------|---|
| Access to petroleum infrastructure | 75% of complete pipeline, storage and loading facility tariff applications considered within required timelines |

E. Programme 2 Outcomes and Targets (1)

| Programme | 2: Licensing and Registration |
|------------------------------------|--|
| Purpose | 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 Electricity Regulation Act, 2006 (Act No. 4 of 2006), Gas Act, 2001 (Act No. 48 of 2001) and the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003). |
| Link to National Priorities | <ul style="list-style-type: none"> • Economic Transformation and Job Creation • Capable, Ethical and Developmental State |

E. Programme 2 Outcomes and Targets (2)

a) Electricity Industry Regulation

| Outcomes | 2020/21 Targets |
|---|--|
| Energy supply that is certain and secure for current and future user needs through the orderly development and operation of the electricity supply infrastructure | 100% of complete licence applications considered within required timelines |
| | 100% of complete applications for amendment of licence considered within required timelines |
| | 100% of complete applications for registration of electricity generation facilities considered within required timelines |
| A regulatory environment that facilitates investment in electricity infrastructure | One report on new entrants into the electricity supply industry |

E. Programme 2 Outcomes and Targets (2)

b) Piped-Gas Industry Regulation

| Outcomes | 2020/21 Targets |
|--|---|
| Efficient, sustainable and orderly development of the piped-gas industry aimed at security of supply | 100% of complete licence applications considered within required timelines |
| | 100% of complete applications for licence amendments considered within required timelines |
| | 100% of complete applications for the registration of gas activities considered within required timelines |
| | One report on the assessment of criteria for the allocation of uncommitted capacity |

E. Programme 2 Outcomes and Targets (3)

c) Petroleum Pipelines Industry Regulation

| Outcomes | 2020/21 Targets |
|--|---|
| Efficient, sustainable and orderly development of a transformed petroleum pipelines industry aimed at security of supply | 100% of complete licence applications considered within required timelines |
| | 100% of complete applications for licence amendments / revocations considered within required timelines |
| | One report on investigations done into suspected unlicensed activities |
| A competitive petroleum pipelines industry | One report on new entrants into the petroleum pipelines industry |
| | One report on the pipelines, storage and loading licenses issued |

E. Programme 3 Outcomes and Targets (1)

| Programme | 3: Compliance Monitoring and Enforcement |
|------------------------------------|--|
| Purpose | To ensure that all licensees in the three regulated industries fully comply with their licence conditions, including those relating to health, safety, security and environmental standards and requirements, as well as any other standards and requirements prescribed by the relevant industry-specific legislation. The programme will also 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. |
| Link to National Priorities | <ul style="list-style-type: none"> • Economic Transformation and Job Creation • Capable, Ethical and Developmental State |

E. Programme 3 Outcomes and Targets (2)

a) Electricity Industry Regulation

| Outcomes | 2020/21 Targets |
|--|--|
| A regulatory environment that facilitates investment in electricity infrastructure | One consolidated distribution audit report on the state of compliance of licensees with licence conditions |
| | One consolidated generation audit report on the state of compliance of power stations with licence conditions |
| | One consolidated transmission audit report on the state of compliance of Main Transmission Substations with licence conditions |
| | Three reports, one each for transmission, generation and distribution licensees, on the monitoring of the implementation of the corrective action plans by non-complying licensees |
| | One audit report on the review the annual performance of IDM for 2019/20 |
| | One audit report on the Transmission Network Development 2019/20 projects for compliance with the South African Grid Code |

E. Programme 3 Outcomes and Targets (3)

a) Electricity Industry Regulation (continued)

| Outcomes | 2020/21 Targets |
|--|---|
| A regulatory environment that facilitates investment in electricity infrastructure | One audit report on the Distribution Network Development 2019/20 projects for compliance with the South African Grid code |
| | Two monitoring reports on the performance and progress of Renewable Energy projects for 2021/22 |
| | Two reports on the implementation of the Service Quality Incentive (SQI) – one each for transmission and distribution |

E. Programme 3 Outcomes and Targets (4)

b) Piped-Gas Industry Regulation

| Outcomes | 2020/21 Targets |
|--|--|
| Supply of 120m GJ p.a. from Mozambique to South Africa (in terms of Clause 4 of Schedule One to the Agreement) | Twelve monthly volume balance reports assessed and quarterly analysis reports |
| | One audit conducted on the ROMPCO pipeline according to the compliance framework and an audit report |
| | Forty five inspections conducted, non-compliance notices issued (where necessary) and quarterly inspection reports |
| | Three monitoring reports on the implementation of transmission tariffs (one each for ROMPCO, Transnet and Sasol Gas) \ |
| | Four reports (one for each licensee) on the implementation of the RRM in 2019/20 |
| | One monitoring report on the implementation of Maximum Prices per licensee |

E. Programme 3 Outcomes and Targets (5)

c) Petroleum Pipelines Industry Regulation

| Outcomes | 2020/21 Targets |
|--|--|
| Infrastructure utilisation and third-party access monitored in the petroleum pipeline industry | Two reports on trends regarding utilisation of storage facilities and third-party access |
| | One report on the implementation of the methodology to determine uncommitted capacity |
| Development of infrastructure monitored in the petroleum pipeline industry | Four reports on the construction of new facilities |
| Licensees' in the petroleum pipeline industry compliance with statutory reporting requirements monitored | Four reports on licensees' compliance with statutory reporting requirements |

E. Programme 4 Outcomes and Targets (1)

| Programme | 4: Dispute Resolution, including Mediation, Arbitration and Handling of Complaints |
|-----------------------------|--|
| Purpose | To ensure that disputes and complaints between licensees or between licensees and customers or end-users are managed effectively and settled in a manner that is appropriate. This programme will also ensure that when needed, any mediation or arbitration required will be done within prescribed procedures. |
| Link to National Priorities | <ul style="list-style-type: none"> • Economic Transformation and Job Creation • Capable, Ethical and Developmental State |

E. Programme 4 Outcomes and Targets (2)

a) Electricity Industry Regulation

| Outcomes | 2020/21 Targets |
|--|---|
| Fair balance between the needs of all stakeholders | 87% of disputes/ complaints including initiated investigations closed within required timelines |
| | One report on the trends regarding to the status of disputes and complaints in the electricity industry |

b) Piped-Gas Industry Regulation

| Outcomes | 2020/21 Targets |
|---|--|
| Fairness and equity in the piped-gas market | 50% of complaint investigations completed within required timelines and a report on findings |
| | 50% of initiated investigations completed within required timelines and a report on findings |

E. Programme 4 Outcomes and Targets (5)

c) Petroleum Pipelines Industry Regulation

| Outcomes | 2020/21 Targets |
|--|---|
| Efficient, effective, sustainable and orderly development, operation and use of petroleum pipelines infrastructure | 100% of complaints investigated within required timelines and one report |

E. Programme 5 Outcomes and Targets (1)

| Programme | 5: Setting of Rules, Guidelines and Codes for the Regulation of the Three Energy Industries |
|-----------------------------|--|
| Purpose | <p>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 licensees. In order to achieve orderly investor confidence in the energy industries, there must be standardised practices, which are the same for all participants and NERSA must maintain and safeguard these standards. This will facilitate investment in the energy industries, as investors and developers need a sound regulatory framework to ensure that they receive the expected returns for their investment.</p> |
| Link to National Priorities | <ul style="list-style-type: none"> • Economic Transformation and Job Creation • Capable, Ethical and Developmental State |

E. Programme 5 Outcomes and Targets (2)

a) Electricity Industry Regulation

| Outcomes | 2020/21 Targets |
|--|---|
| Non-discriminatory access to and a safe and reliable operation of the electricity infrastructure | 100% of complete applications from the ESI requiring exemption to the South African grid code considered within required timelines |
| | 100% of complete applications from the ESI requiring amendment to the South African grid code considered within required timelines |
| Regulatory certainty within the electricity industry | One report on regulatory advocacy aimed at improvement of the regulatory framework provided through legislation, regulation and government policies |

E. Programme 5 Outcomes and Targets (3)

b) Piped-Gas Industry Regulation

| Outcomes | 2020/21 Targets |
|--|--|
| Regulatory certainty in the piped-gas market | One report on the review of the framework for conducting adequacy of competition |
| Effective regulation of the piped-gas industry | One report on gas regulatory advocacy |
| A regulatory environment that facilitates investment in piped-gas infrastructure | One report on the implementation of the reviewed mechanism for enforcement of 3rd party access |

E. Programme 5 Outcomes and Targets (4)

c) Petroleum Pipelines Industry Regulation

| Outcomes | 2020/21 Targets |
|-------------------------|--|
| Regulatory certainty | One report on the monitoring of the implementation of the revised methodology |
| Regulatory dispensation | One report on contributions towards alignment between relevant Petroleum legislation and regulations and government policies |

E. Programme 6 Outcomes and Targets (1)

| Programme | 6: Administration (Establishing NERSA as an efficient and effective regulator) |
|-----------------------------|--|
| Purpose | 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. |
| Link to National Priorities | <ul style="list-style-type: none"> • Economic Transformation and Job Creation • Capable, Ethical and Developmental State |

E. Programme 6 Outcomes and Targets (2)

a) Electricity Industry Regulation

| Outcomes | 2020/21 Targets |
|---|---|
| Security of Supply | One System Adequacy Report |
| | One report on refurbishments and upgrades of electricity infrastructure |
| Empowered stakeholders with relevant energy industry as well as economic regulatory knowledge and information | Sixty customer education programmes |
| | One consolidated report on the customer education programmes undertaken |

E. Programme 6 Outcomes and Targets (3)

b) Piped-Gas Industry Regulation

| Outcomes | 2020/21 Targets |
|---|---|
| Dialogue with stakeholders in the gas market in order to facilitate the development of the market | One report on stakeholder workshops / meetings |
| Understanding of and monitor new developments in the gas industry | Two reports on new developments in the gas industry One report on the review of the definition of the piped-gas market |
| Regulatory certainty within the piped-gas industry | Reviewed framework for conducting adequacy of competition in the gas industry |

E. Programme 6 Outcomes and Targets (4)

c) Petroleum Pipelines Industry Regulation

| Outcomes | 2020/21 Targets |
|---|--|
| Security of Supply promoted | Two reports on the inland security of supply |
| Access to petroleum infrastructure | One report on the percentage utilisation for of pipelines, storage facilities and loading facilities and third party access |
| A regulatory environment that provides regulatory certainty and facilitates investment in petroleum pipeline infrastructure | One report on regulatory advocacy aimed at improvement of the regulatory framework provided through legislation, regulation and government policies for the petroleum pipelines industry |
| A competitive petroleum pipelines industry | One report on the geographic spread of petroleum pipelines infrastructure |

E. Programme 6 Outcomes and Targets (5)

d) Transversal regulatory projects

| Outcomes | 2020/21 Targets |
|---|--|
| An enabling environment for the benefit of internal and external stakeholders with a skilled workforce that is empowered to work in a complex and ambiguous environment | One progress report on the implementation of the Regulatory Reporting Manuals regarding the Standard Chart of Accounts (SCOA) for the municipalities |
| | One report on the impact of global, regional and local energy trends on NERSA's business |
| | Two reports on the implementation of the Regulatory Reporting Manuals for Non-financial and financial information |
| | Two reports on partnership creation to position NERSA as a recognised regulator nationally, regionally and internationally |

E. Programme 6 Outcomes and Targets (6)

d) Organisational projects

| Outcomes | 2020/21 Targets |
|---|--|
| An enabling environment for the benefit of internal and external stakeholders with a skilled workforce that is empowered to work in a complex and ambiguous environment | Two reports on the implementation of the Employment Equity Plan |
| | 50% of women in management positions |
| | 2% of people with disabilities employed |
| | Four reports on the implementation of the Youth Employment Accord |
| | One report on the implementation of the Learnership and Internship Programmes |
| | One report on the implementation of the bursary programme for qualifying external applicants |
| | Two reports on the design of a regulatory course at an accredited institution of higher learning |
| | One report on the leadership development programme |

E. Programme 6 Outcomes and Targets (7)

d) Organisational projects (continued)

| Outcomes | 2020/21 Targets |
|---|--|
| An enabling environment for the benefit of internal and external stakeholders with a skilled workforce that is empowered to work in a complex and ambiguous environment | One report on the development of a technical regulatory training and development programme |
| | Four reports on the progress made regarding certification with an appropriate international standard on quality management |
| | Reviewed NERSA Enterprise Development Plan and new target group identified |
| | 100% of implementation of Preferential Procurement Policy Framework |
| | One report on the implementation of the stakeholder management plan |
| | Audit Report that is not qualified |
| | 100% of creditors paid within 30 days |
| | Four reports on legislative and policy developments impacting on the Regulator |

G. 2020/21 Budget (1)

FUNDING MODEL

The Energy Regulator Act provides as follows:

- For the purpose of regulation of the **piped-gas and petroleum pipelines industries**, the funds of the Energy Regulator consist -
 - (a) money appropriated by Parliament;
 - (b) levies imposed by or under separate legislation;
 - (c) charges for dispute resolution and other services rendered in terms of this Act;
 - (d) licence fee
- For the purpose of regulation of **the electricity industry**, the funds of the Energy Regulator consist -
 - (a) money appropriated by Parliament;
 - (b) funds collected under section 5B of the Electricity Act; and
 - (c) levies imposed by or under separate legislation.

G. 2020/21 Budget (2)

ENABLING LEGISLATION

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.

G. 2020/21 Budget (3)

RING-FENCING METHODOLOGY

According to Section 13 of the National Energy Regulator Act, all accounts for the three regulated industries have to be ring-fenced.

- All direct costs attributable to each of the three industries must be allocated to that industry;
- The direct staff compliment in the industry-specific functions is used to proportionately allocate the remaining (common) costs to the respective industries;
- The common costs allocation ratio for electricity, piped-gas and petroleum pipelines industries is **58%:21%:21%**; and
- Allocation % will be reviewed after the Organisation review.

G. 2020/21 Budget (4)

| STATEMENT OF FINANCIAL PERFORMANCE | | C | E | 1 |
|--|-------|--------------------|------------------------|---------------------|
| DESCRIPTION | NOTES | APPROVED BUDGET | CONSOLIDATED BUDGET | % Variance (C E) |
| | | 2019/20 | 2020/21 | |
| TOTAL INCOME | | 356 503 644 | 362 470 475 | 1,7% |
| License fees from Electricity Industry | 1 | 205 154 173 | 207 909 620 | 1,3% |
| Levies from Piped-Gas Industry | 2 | 73 902 240 | 77 964 905 | 5,5% |
| Levies from Petroleum Pipeline Industry | 3 | 68 356 705 | 70 638 400 | 3,3% |
| Interest received | 4 | 9 023 910 | 5 865 542 | (35,0%) |
| Rental Income | | 66 616 | 72 009 | 8,1% |
| Registration fees | 5 | - | 20 000 | 100,0% |
| Other Income * | | - | - | 0,0% |
| TOTAL OPERATING EXPENDITURE | | 363 363 120 | 373 685 238 | 2,8% |
| Advertising, Promotion and Communication | 5 | 13 475 550 | 11 920 000 | (11,5%) |
| Employment cost | 7 | 254 405 567 | 265 723 554 | 4,4% |
| Facilities Maintenance | 8 | 11 824 000 | 10 548 424 | (10,8%) |
| Office Administration | 9 | 12 180 057 | 12 258 879 | 0,6% |
| Professional fees | 10 | 35 615 433 | 36 810 085 | 3,4% |
| Travel, Accommodation and Training | 11 | 29 291 542 | 30 676 796 | 4,7% |
| Other Expenses | 12 | 6 570 971 | 5 747 500 | (12,5%) |
| NET SURPLUS/ (DEFICIT) | | (6 859 476) | (11 214 763) | (123,5%) |

G. 2020/21 Budget (5)

- Operating expenditure increased from R363 million in 2019/20 to **R374 million in 2020/21**, which is **2.8% increase**.
- The increase is attributable to the following key items:
 - Advertising, Promotion and Communication is decreasing by **11.5%** because of reduction in advertising.
 - Employment cost is increasing by **4.4%** due to cost of living adjustment on gross salaries and remunerations for Regulators Members.
 - Facilities Maintenance is decreasing by **10.8%** due to anticipated savings on municipal charges (electricity consumption).
 - Professional fees is increasing by **3.4%** due planned consulting projects.
 - Travel, Accommodation and Training is increasing by **4.7%** due an expected increase in training and travel costs for staff.
 - Other expenses is decreasing by **12.5%** mainly due to reduction of Knowledge Centers subscriptions.

G. 2020/21 Budget (6)

| | | APPROVED BUDGET | CONSOLIDATED BUDGET | % Variance (C E) |
|----------------------------------|-----------|--------------------|------------------------|---------------------|
| | NOTES | 2019/20 | 2020/21 | |
| TOTAL CAPITAL EXPENDITURE | 13 | 30 250 000 | 13 500 000 | (55,4%) |
| Motor vehicles | 13,1 | 500 000 | - | (100,0%) |
| Computer software | 13,2 | 8 000 000 | 6 000 000 | (25,0%) |
| Office furniture and equipment | 13,3 | 2 500 000 | 1 500 000 | (40,0%) |
| Building improvements | | 16 000 000 | 3 500 000 | (78,1%) |
| Computer hardware | 13,4 | 3 250 000 | 2 500 000 | (23,1%) |

Capital expenditure for the 2020/21 financial year amounts to R13.5 million, which is **55.4%** lower than the R30.2 million for 2019/20 due to the completion of the refurbishment project.

G. 2020/21 Budget (7)

Budget allocation per programme

| | Programme 1 | Programme 2 | Programme 3 | Programme 4 | Programme 5 | Programme 6 | Total |
|---------------------|---|----------------------------|---------------------------------------|--|---|---|-------------|
| | Setting and/or approval of tariffs and prices | Licensing and Registration | Compliance monitoring and enforcement | Dispute resolution including mediation, arbitration and the resolution of complaints | Setting of rules, guides and codes for regulation | Establishing NERSA as an efficient and effective organisation | |
| Electricity | 38 299 564 | 15 943 808 | 27 107 113 | 12 375 592 | 3 512 381 | 119 413 908 | 216 652 366 |
| Piped-Gas | 13 761 351 | 7 111 513 | 8 493 487 | 5 943 341 | 3 853 853 | 43 236 070 | 82 399 615 |
| Petroleum Pipelines | 12 498 647 | 6 372 814 | 6 372 814 | 4 175 242 | 1 977 669 | 43 236 070 | 74 633 256 |
| Total NERSA | 64 559 562 | 29 428 136 | 41 973 414 | 22 494 174 | 9 343 903 | 205 886 049 | 373 685 238 |

G. CONCLUSION

- The Annual Performance Plan was concluded before the outbreak of the COVID-19 pandemic. During this last few weeks, the adverse impact of the measures taken to protect South Africans against this pandemic, on our economy has become clear.
- Following the declaration of a national state of disaster on 15 March 2020, NERSA pro-actively implemented a work-from-home approach which contributed to minimal disruptions to our operations. We also immediately commenced with having meetings on line to be able to implement social distancing. **On 14 May 2020 the Energy Regulator approved(to be added after the meeting)**
- NERSA is acutely aware of the three scourges South Africa is currently facing, namely the COVID-19 pandemic, the downgrade of South Africa's credit rating and the pending recession. NERSA is working with the Department of Mineral Resources and Energy on how the Energy Regulator could contribute to the growth of the economy amidst these threats.
- As an economic regulator NERSA may have to reprioritise some of its targets where possible, without compromising our regulatory responsibilities. This could lead to an adjustment of our proposed budget.

Thank you

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