**The Budgetary Review and Recommendation Report of the Portfolio Committee on Energy, dated 22 October 2013**

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

**1. Introduction**

**1.1. Mandate of Committee**

·         Conduct oversight on behalf of the National Assembly, over the actions of the Department of Energy (the Department) in order to ensure Executive accountability for the delivery of services to the people of South Africa, as enshrined in the Constitution of the Republic of South Africa, 1996. Sections 195 and 33 of the Constitution, read together, guarantee all South Africans a right to services that must be provided impartially, fairly, equitably and without bias;

·         Oversee and review all matters of public interest relating to the public sector and energy to ensure service delivery;

·         Ensure compliance by the Department and  its entities to relevant legislation (financial and other); and

·         Monitor the expenditure of the Department and its entities and to ensure regular reporting to Parliament, within the scope of accountability and transparency.

**1.2. Description of core functions of the Department and its entities.**

The Department of Energy’s implied mandate in terms of the Constitution is to govern the Energy Sector, through reasonable legislative and other measures.

***The Department of Energy’s Strategic Orientated Outcomes Goals are as follows:***

* Universal Access and Transformation: Efficient and diverse energy mix for universal access within a transformed Energy Sector.
* Security of Supply: Energy supply is secure and demand is well managed.
* Regulation and Competition: Improved energy regulation and competition.
* Infrastructure: An efficient, competitive and responsive energy infrastructure network.
* Environmental Assets: Environmental assets and natural resources protected and continually enhanced by cleaner energy technologies.
* Climate Change: Mitigation against and adaptation to, the impacts of climate change.
* Corporate Governance: Good corporate governance for effective and efficient service delivery.

The Minister of Energy is responsible for overseeing the following five State-Owned Entities (and their subsidiaries), which are either classified as Schedule 2 or 3A institutions in terms of the Public Finance Management Act, 1999 (Act 1 of 1999), as amended (PFMA):

**REGULATORS**

* **The National Nuclear Regulator (NNR)**- The purpose of the NNR, as outlined in section 5 of the National Nuclear Regulator Act 1999 is to essentially provide for the protection of persons, property and the environment against nuclear damage through the establishment of safety standards and regulatory practices.
* **The National Energy Regulator of South Africa (NERSA)**- The purpose of NERSA, as effectively outlined in section 4 of the National Energy Regulator Act, is to regulate the electricity, piped-gas and petroleum pipeline industries within the Republic of South Africa in terms of the Electricity Regulation Act, 2006 (Act No. 4 of 2006), the Gas Act, 2001 (Act No. 48 of 2001) and the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).

**RESEARCH AND DEVELOPMENT**

* **The South African National Energy Development Institute (SANEDI)**- SANEDI’s functions, as outlined in section 7(2) of the National Energy Act, are to: - direct, monitor and conduct applied energy research and development, demonstration and deployment as well as undertake specific measures to promote Energy Efficiency (EE) throughout the economy; and - establish a nationally focused energy research, development and innovation sector and undertake EE measures with a strong relevance for South Africa.
* **The South African Nuclear Energy Corporation (NECSA) -**NECSA’s functions, as outlined in section 13 of the National Energy Act, are to: - undertake and promote research on nuclear energy, radiation sciences and technology; - process source, special nuclear and restricted material including uranium enrichment; and - collaborate with other entities.

**OTHER**

* **The Central Energy Fund (CEF) Group of Companies (SOC) Ltd**- CEF (SOC) Ltd is involved in the search for appropriate energy solutions to meet the future energy needs of South Africa, the Southern African Development Community and the sub-Saharan African region, including oil, gas, electrical power, solar energy, lowsmoke fuels, biomass, wind and renewable energy sources. CEF also manages the operation and development of the oil and gas assets of the South African Government. CEF is also mandated to manage the Equalisation Fund, which collects levies from the retail sales of petroleum products to eliminate fluctuations in the retail price of liquid fuel and to give tariff protection to the synthetic fuel industry.
* **The Petroleum Oil and Gas Corporation of South Africa (SOC) Limited (PetroSA)**– PetroSA is the National Oil Company of South Africa and is registered as a commercial entity under South African law. PetroSA is a subsidiary of the CEF, which is wholly owned by the State and reports to the Department of Energy (DoE). The Company holds a portfolio of assets that spans the petroleum value chain, with all operations run according to world-class safety and environmental standards. PetroSA was formed in 2002 upon the merger of Soekor E and P (Pty) Limited, Mossgas (Pty) Limited and parts of the Strategic Fuel Fund, another subsidiary of CEF.

**1.3. Purpose of the BRR Report**

The Money Bills Procedures and Related Matters Amendment Act (Act 9 of 2009) sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

In October of each year, Portfolio Committees must compile Budgetary Review and Recommendation Reports (BRRR) that assess service delivery performance given available resources; evaluate the effective and efficient use and forward allocation of resources; and may make recommendations on forward use of resources. The BRRR are also source documents for the Standing/Select Committees on Appropriations/Finance when they make recommendations to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS). The comprehensive review and analysis of the previous financial year’s performance, as well as performance to date, form part of this process.

**1.4. Method**

The committee, in undertaking the process of compiling this report, considered the following cycle, source documents and engagements:

**Diagram 1: BRRR cycle**

·         Annual Report briefings, in terms of Section 65 of the Public Finance Management Act, No. 1 of 1999, which requires that Ministers table the annual reports and financial statements for the Department and public entities to Parliament.

·         Briefing by the Auditor-General of SA (AGSA) on the audit outcomes of the Department of Energy and the entities reporting to it.

·         Briefing by the Department of Performance Monitoring and Evaluation on the performance of the Department of Energy on its:

o    Delivery outcomes; and

o    Management Performance

* Briefing by the Financial and Fiscal Commission on energy-sector related recommendations made by the FFC and providing an overview of on-going research work carried out by the Commission in the Energy sector and related.
* Also included, reports, oversight visits, Estimates of National Expenditure 2013 briefings, strategic plans, quarterly reports, public hearings, energy stakeholder reports.

**1.5. Outline of the contents of the Report.**

1. Introduction
2. Overview of key relevant policy focus areas
3. Summary of previous key financial and performance recommendations of the Portfolio Committee on Energy
4. Overview and assessment of financial performance
5. Overview and assessment of service delivery performance
6. Committees findings and response
7. Summary of reporting requests
8. Recommendations
9. Conclusion
10. Appreciation
11. References

**2. Overview of the key relevant policy focus areas**

**2.1. Constitutional policy and legislative mandate**

The Department’s Mission, Vision and Mandate statements as well as its Strategic Outcomes Oriented Goals directly relate to this mandate.

The following information, drawn from the Department of Energy reflects the core legislation that mandates the Department:

***The National Energy Act, 2008 (Act No. 34 of 2008)***

The Act is the enabling legislation that empowers the Minister of Energy to ensure that diverse energy resources are available in sustainable quantities and at affordable prices in the South African economy to support economic growth and poverty alleviation, while also taking into account environmental considerations. The Act also provides for:

* Energy planning;
* Increased generation and consumption of renewable energy;
* Contingency energy supply;
* The holding of strategic energy feedstock and carriers;
* Adequate investment in appropriate upkeep and access to energy infrastructure;
* Measures for the furnishing of certain data and information regarding energy demand;
* Supply and generation; and
* The establishment of an institution to be responsible for the promotion of efficient generation and consumption of energy and energy research.

***The Petroleum Products Act, 1977 (Act No. 120 of 1977), as amended***

The Act provides for:

* measures in the saving of petroleum products and the economy in the cost of distribution thereof;
* the maintenance and control of a price thereof;
* the furnishing of certain information regarding petroleum products;
* the rendering of service of a particular kind or standard in connection with petroleum products;
* the licensing of persons involved in the manufacturing, wholesaling and retailing of prescribed petroleum products;
* promote the transformation of the South African petroleum and liquid fuels industry; and
* The promulgation of regulations relating to such licenses and matters incidental thereto.

***The Electricity Regulation Act, 2006 (Act No. 4 of 2006), as amended***

The Act repealed the Electricity Act, 1987 as amended (Act No. 41 of 1987), with the exception of section 5B, which provides for the funds of the Energy Regulator for the purpose of regulating the electricity industry. The Act establishes a national regulatory framework for the electricity supply industry and it introduces the National Energy Regulator as the custodian and enforcer of the national electricity regulatory framework. The Act also provides for licences and registration as the manner in which generation, transmission, distribution, trading and the import and export of electricity are regulated. Section 34(1) empowers the Minister of Energy to make determinations for the establishment of Independent Power Producers (IPP) for the purpose of creating greater competition in the electricity generation sector, so as to increase the supply of electricity.

***The Department also lists the following Acts that provide a mandate to the Energy Sector and are also administered by the Department:***

·         The Central Energy Fund Act, 1977 (Act No. 38 of 1977), as amended;

·         The Nuclear Energy Act, 1999 (Act No. 46 of 1999);

·         The National Nuclear Regulator Act, 1999 (Act No. 47 of 1999);

·         The National Radioactive Waste Disposal Institute Act, 2008 (Act No. 53 of 2008);

·         The Petroleum Pipelines Act, 2003 (Act No. 60 of 2003);

·         The Petroleum Pipelines Levies Act, 2004 (Act No. 28 of 2004);

·         The Gas Act, 2001 (Act No. 48 of 2001);

·         The Gas Regulator Levies Act, 2002 (Act No. 75 of 2002);

·         The National Energy Regulator Act, 2004 (Act No. 40 of 2004);

·         The Abolition of the National Energy Council Act, 1991 (Act 95 of 1991);

·         The Liquid Fuel And Oil Act Repeal Act, 1993 (Act 20 of 1993); and

·         The Coal Act Repeal Act, 1991 (Act 124 of 1991).

Additionally, the Department is mandated by the following, amongst others:

·         The National Environmental Management Act, 1999 (Act No. 107 of 1999),

·         The Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002),

·         The Disaster Management Act, 2002, (Act No. 57 of 2002),

·         The Hazardous Substances Act, 1973, (Act No. 16 of 1973),

·         The National Ports Act, 2005 (Act No. 12 of 2005).

**2.2. Strategic Outcome Orientated Goals (SOOGs)**

During its strategic planning session in November 2011 the Department reconfirmed its SOOG’s as follows:

**SOOG 1 -**Universal Access and Transformation: Efficient and diverse energy mix for universal access within a transformed Energy Sector.

**SOOG 2 -**Security of Supply: Energy supply is secure and demand is well managed.

**SOOG 3 -**Regulation and Competition: Improved energy regulation and competition.

**SOOG 4 -**Infrastructure: An efficient, competitive and responsive energy infrastructure network.

**SOOG 5 -**Environmental Assets: Environmental assets and natural resources protected and continually enhanced by cleaner energy technologies.

**SOOG 6 -**Climate Change: Mitigation against and adaptation to, the impacts of climate change.

**SOOG 7 -**Corporate Governance: Good corporate governance for effective and efficient service delivery

**2.3. State of the Nation Address (SONA -2012)**

**2.3.1. SONA imperatives in the energy sector**

***i. Economic Growth.***

The President mentioned the National Development Plan was released for consideration and indicated that it directly addresses the elimination of poverty and inequality. He also indicated that R20 billion worth of incentives was announced to support new industrial projects and manufacturing and R10 billion was set aside by the IDC for job creation. It can be also noted that the President mentioned mining as one of the job drivers in the New Growth Path.

1. ***Infrastructure Plans as indicated in SONA***

The President announced that the Presidential Infrastructure Coordination Committee has identified infrastructure initiatives from state owned enterprises, as well as various spheres of government. These include rail,

* road and water infrastructure in the Waterberg as well as the Steelport areas
* Improve the movement of goods and economic integration through a Durban-Free State –Gauteng logistics and Industrial Corridor
* The Expansion of the Iron Ore Export Channel

The President also indicated that in the North West, the Government will expand the roll-out of water, roads, rail and electricity infrastructure.

In terms of the North-South Road and Rail corridor, which is part of the African Union’s NEPAD Presidential Infrastructure Championing Initiative, work in this area comprises road, railways, energy and communication technologies

***iii. Energy Efficiency directive in SONA***

The President has indicated that there is ongoing concern from business and communities about high electricity costs. The President has asked Eskom to seek options on how the price increase requirements may be reduced over the next few years.

He also highlighted energy efficiency and indicated we need a pact with all South Africans including business, communities, etc to achieve sustainability and avoid load shedding.

The President also mentioned the Green Energy Accord and indicated that we will continue to search for renewable energy sources especially solar and biofuels and in this regard mentioned the installation of 220 000 solar geysers nationwide s part of the 1 million solar geysers target by 2014-2015

The President also indicated education is an essential service for our country and here he was pleased to announce that the matric percentage pass rate is on an upward trend.

*From the 2013 State of the Nation Address by the State President, His Excellency Jacob G Zuma, the following information was obtained:*

·         “In the energy sector, we have now laid 675 kilometres of electricity transmission lines to connect fast-growing economic centres and also to bring power to rural areas.

·         In addition, government signed contracts to the value of R47 billion in the renewable energy programme.

·         This involves 28 projects in wind, solar and small hydro technologies, to be developed in the Eastern Cape, Western Cape, Northern Cape and in the Free State.

·         We established an 800 million rand national green fund last year.  To date, over 400 million rand investments in green economy projects has already been approved for municipalities, other organs of state, community organisations and the private sector across all provinces.

·         We have also rolled out 315 000 solar water geysers as of January this year, most of which were given to poor households, many of whom had never had running hot water before.

·         We have scored successes in extending basic services through the infrastructure programme. Close to 200 000 households have been connected to the national electricity grid in 2012.

·         You will also recall that Census 2011 outlined the successes in extending basic services. The report said the number of households with access to electricity is now at 12.1 million, which translates to 85%. Nine out of 10 households have access to water.”

**2.4. National Infrastructure Plan**

The South African Government adopted the National Infrastructure Plan in 2012. Utilizing this plan SA aims to transform the economic landscape while further creating a significant numbers of new jobs, and strengthen the delivery of basic services. Government will invest R827 billion, over the three years from 2013/14 in building new and upgrading existing infrastructure,

The investment will be across all sectors of the SA economy including healthcare facilities, schools, water, sanitation, housing, *and electrification,*the construction of ports, roads, railway systems, electricity plants, and dams. It is aimed at stimulating a faster economic growth.

“The biggest chunk of the investment in infrastructure will continue to come from Eskom, which will invest R205.1 billion over the three years up to 2015. Eskom's new power stations, Medupi and Kusile, are expected to start producing electricity in 2014 and 2015 respectively.”

**2.4.1. Challenges Identified**

In SA there are still major challenges of poverty, unemployment and inequality. Further, the New Growth Path sets a goal of five million new jobs by 2020. It also identifies structural problems in the economy and hence points to opportunities in specific sectors. The New Growth Path identifies infrastructure as the first major job creator in the economy. This lays the basis for further growth and job creation.

**2.4.2. Response**

“In order to address these challenges and goals, Cabinet established the Presidential Infrastructure Coordinating Committee (PICC) to:

* Coordinate, integrate and accelerate implementation
* Develop a single common National Infrastructure Plan that will be monitored and centrally driven
* Identify who is responsible and hold them to account
* Develop a 20-year planning framework beyond one administration to avoid a stop-start pattern to the infrastructure roll-out.

Under their guidance, 18 Strategic Integrated Projects (SIPS) have been developed.”

**2.4.3. Achievements in 2012/2013 Financial year**

By the end of the 2012/13 financial year, government will have spent about R860 billion on infrastructure developments since 2009. These include:

* “Eskom has embarked on a massive build programme to boost electricity generation. Projects include the construction of the Medupi, Lephalale and Ingula power stations, which have also created jobs and stimulated development in the surrounding communities.” It was further noted that the first phase of the Mokolo and Crocodile River (West) Water Augmentation project started. This R2.1 billion project will provide part of the water required for the Matimba and the Medupi power stations
* Additionally low lift pumps (known as the Komati Scheme) will now provide water from the Vaal river to two power stations in Mpumalanga
* 675 km of electricity transmission lines were laid in 2013 which was the largest level in more than 20 years.

**2.5. Energy Related Strategic Infrastructure Projects (SIPs)**

**2.5.1. Energy related SIPS (SIPS 8, 9 and 10)**

(i)     SIP 8: Green energy in support of the South African economy

* Support sustainable green energy initiatives on a national scale through a diverse range of clean energy options as envisaged in the Integrated Resource Plan (IRP2010).
* Support bio-fuel production facilities.

(ii)    SIP 9: Electricity generation to support socio-economic development

* Accelerate the construction of new electricity generation capacity in accordance with the IRP2010 to meet the needs of the economy and address historical imbalances.
* Monitor implementation of major projects such as new power stations: Medupi, Kusile and Ingula.

(iii)   SIP 10: Electricity transmission and distribution for all

* Expand the transmission and distribution network to address historical imbalances, provide access to electricity for all and support economic development.
* Align the 10-year transmission plan, the services backlog, the national broadband roll-out and the freight rail line development to leverage off regulatory approvals, supply chain and project development capacity.

**2.5.2. Involvement of the Department of Energy in the SIPs**

The Department of Energy chairs one of the SIPS, co-chairs two, participates in 10 projects and has observer status in five SIPS.

The Department of Energy Chairs the Spatial SIP, which is:

*(1) SIP 6: Integrated municipal infrastructure project which has the following as deliverables;*

* Develop national capacity to assist the 23 districts with the fewest resources (19 million people) to address all the maintenance backlogs and upgrades required in water, electricity and sanitation bulk infrastructure.
* The road maintenance programme will enhance service delivery capacity thereby impacting positively on the population.

*Departmental Contribution*

The Department of Energy is the lead ministry for this project. The Department of Energy has appointed the Development Bank of Southern Africa (DBSA) as the implementing agent responsible for developing the business plan & for the programme management of the SIP. A business plan has been submitted to the Presidential Infrastructure Coordinating Commission (PICC) for review.

*(2) SIP 8: Green Energy in Support of the South African Economy*

*Departmental Contribution*

This SIP is co-chaired by Minister of Economic Development. The Industrial Development Corporation (IDC) has just been appointed as the implementing agent responsible for developing the business plan & for the programme management of the SIP.

*(3) SIP 10: Electricity Transmission & Distribution for All*

*Departmental Contribution*

This SIP is co-chaired by Minister of Public Enterprises. Eskom has appointed DBSA as the implementing agent responsible for developing the business plan & for the programme management of the SIP.

*(4) The Department of Energy participates in the following SIPs:*

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| --- | --- |
| **SIP No.** | **SIP Title** |
| 1 | Unblocking the Northern Mineral Belt with the Waterberg as the Catalyst |
| 2 | Durban-Free State-Gauteng Logistics & Industrial Corridor |
| 3 | South Eastern Node & Corridor Development |
| 4 | Unlocking the Economic Opportunities in North West Province |
| 5 | Saldanha-Northern Cape Development Corridor |
| 7 | Integrated Urban Space & Public Transport Programme |
| 9 | Electricity Generation to Support Socio-Economic Development |
| 14 | Higher Education Infrastructure |
| 17 | Regional Integration for African Cooperation & Development |
| 18 | Water & Sanitation Infrastructure Master Plan |

*Departmental Contribution*

Attendance of all meetings held by the various implementing agents for the relevant SIPs

Provide advice & policy input as & when required.

Unblocking of any obstacles where the Department of Energy may be of assistance.

*(5) The Department of Energy has observer status in the following SIPS*

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| **SIP No.** | **SIP Title** |
| 11 | Agri-Logistics & Rural Infrastructure |
| 12 | Revitalisation of Public Hospitals & other Health Facilities |
| 13 | National School Build Programme |
| 15 | Expanding Access to Communication Technology |
| 16 | SKA & Meerkat |

*Departmental Contribution*

Attendance of meetings held by the various implementing agents for the relevant SIPs in an observer status only

**2.6. Strategic outlook of the Department of Energy**

The Department of Energy (DoE) published a Strategic Plan for the period 2010/11 to 2014/15. Due to changes in the service delivery environment, the Department of Energy published a Revised Strategic Plan for the period 2011/12 to 2015/16 in March 2012. The changes in the service delivery environment that warranted a revision of the strategic plan included the following.

In 2010, Government adopted the Outcomes Based Approach and the Presidency published the Guide to the Outcomes Approach in May 2010. The Department had to adapt its strategic plans to the Outcomes Based Approach, also known as Strategic Outcomes-Oriented Goals (SOOGs) – hence the revision of the strategy. The Minister of Energy had initially signed Service Delivery Agreement for Outcomes 2, 6 and 10. Outcomes 4 and 8 were added at a later stage.

The implementation of the Government-wide Monitoring and Evaluation System by the Department  indicated that there were a number of existing Strategic Objectives (Outputs) that were not provided for in the Strategic Plan for the period 2011/12 – 2015/16. To avoid misalignment of Budgeting and Planned Outputs this had to be taken into account when strategizing.

Furthermore, changes were ‘again’ made in the strategic plan for the 2013/14 financial years. Reasons for the change were also due to changes in the service delivery environment. Examples of the changes are:

* The adoption of the National Development Plan (NDP) and the need for the Department to adjust its plans and programmes to align with the NDP.  Pages 19 to 25 of the Annual Performance Plan articulate how the Department plans to align its programmes to the NDP. Furthermore, it is explained how the Department plans to contribute to the Government Outcomes, Millennium Development Goals and Strategic Integrated Projects (infrastructure plans).

·         Since the publication of the 2012/2013 Annual Performance Plan, the Minister has also signed delivery agreements for Outcomes 7 and 9

* Department of Energy’s new organizational structure was approved. The Department had to revise the strategy to ensure that the budget structure is aligned with Macro Organizational Structure. The Interim Operational Structure of the Department had 5 branches. On the other hand, the approved Macro Organizational Structure has about 8 branches. The Department plans to implement the new structure in phased-in approach due to financial constraints.

Issues which were highlighted in the State of the Nation Address of 2013 impacting on the functions of the department of Energy included: Growing the economy, Job creation, The country’s 20 year plan (National Development Plan), Infrastructure development drive, department’s role in the electricity price path, renewable energy, demand side management, NEPAD and SADC engagements, Women and Youth Empowerment, State Owned Entities, Alignment of the Government Outcomes, Millennium Development Goals, Strategic Orientated Outcomes Goals (SOOGs)  and the Department’s Programmes.

In June 2011, Cabinet approval for annual assessments of management performance of national and provincial departments using the Management Performance Assessment Tool (MPAT) was approved. The aim is for effective and efficient translation of inputs into outputs through good management practices which is important for improving service delivery. The aim is also to develop a culture of continuous improvement and sharing of good practice.

The assessment will be done against 31 management standards in 17 management areas. These standards are based on legislation and regulations. The standards were developed collaboratively (with National treasury, Department of Public Service and Administration, Office of the Public service Commission, Office of the Auditor-General and Offices of the Premier). This is a joint initiative, where the Office of the Premier facilitates provincial departments, the DPME facilitates national departments.

As alluded to above with regards to changes in the service delivery environment, strategic goals of the Department have had to be revised. The revised strategic goals of the Department are as follows:

***Table 1: Existing and Amended Strategic Outcomes Orientated Goals***

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| **Existing Strategic Outcomes-Oriented Goals** | **Amended Strategic Outcomes-Oriented Goals** |
| **Security of Supply**: Energy supply is secure & demand is well managed. | **Security of Supply**: To ensure that energy supply is secure & demand is well managed |
| **Infrastructure**: An efficient, competitive & responsive energy infrastructure network. | **Infrastructure**: To facilitate an efficient, competitive & responsive energy infrastructure network. |
| **Regulation & Competition**: Improved energy regulation & competition. | **Regulation & Competition**: To ensure that there is improved energy regulation & competition. |
| **Universal Access & Transformation**: Efficient & diverse energy mix for universal access within a transformed Energy Sector. | **Universal Access & Transformation**: To ensure that there is an efficient & diverse energy mix for universal access within a transformed Energy Sector. |
| **Environmental Assets**: Environmental assets & natural resources protected & continually enhanced by cleaner energy technologies. | **Environmental Assets**: To ensure that environmental assets & natural resources are protected & continually enhanced by cleaner energy technologies. |
| **Climate Change**: Mitigation against, & adaptation to, the impacts of climate change. | **Climate Change**: To implement policies that adapt to & mitigate the effects of climate change. |
| **Corporate Governance**: Good corporate governance for effective & efficient service delivery. | **Corporate Governance**: To implement good corporate governance for effective & efficient service delivery. |

Source: DoE Annual Assessment Performance Plan 2013/14

**3. Summary of previous key financial and performance recommendations of the portfolio Committee on energy**

Summary of previous key financial and non-financial performance recommendations made by the Portfolio Committee on Energy (2010/11 – 2011/12):

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| **Recommendations** | **Responsiveness of the Department** |
| The campaign around changing consumer behaviour on usage of energy (energy saving lifestyle), | Some initiatives by the DoE and entities e.g. 49M project at Eskom |
| Local manufacturing and beneficiation of products (focusing on, inter alia, solar photovoltaic and renewable energy technology) in the green economy. Due consideration should include the consideration of urban waste as a source of energy. | Various initiatives across the country on waste to energy, e.g. landfill gas projects |
| The Renewable Energy Technology Policy and Programme should be developed in line with the conventional grid infrastructure by the Minister of Energy and progress on such be shared with Parliament. | No progress noted |
| The Minister of Energy should develop regulations for handling, disposal and recycling of power batteries by the end of the third quarter of 2012. | No progress noted |
| Establishment of an African Technology Test Centre, in partnership with NEPAD, should be explored by the Minister of Energy in order to standardize materials used to manufacture photovoltaics and associated products. Progress thereon should be shared with Parliament. | No progress noted |
| The Minister of Energy should emphasize education focused on nuclear technology used for nuclear energy, as part of its public education programme on energy issues. This is an effort that should be executed in collaboration with other spheres of government. The Minister of Energy should share the programme with Parliament. | Various programmes noted including development programmes at NECSA and NNR.  The NNR is involved in several community outreach projects |
| Optimization of Muela and Cahora Bassa hydropower facilities should be favourably considered in the context of a South African Development Community Regional Energy Power Pooling Programme by the Minister of Energy. The outcome of such consideration should also be integrated into the review of IRP2010. What are the developments here? Minister of Energy should ensure that further engagements be undertaken with the Mozambican authorities to explore and scale up hydro electricity opportunities to supply South Africa with additional renewable energy. | IRP 2010 is currently under review  This is work in progress |
| The Minister of Energy should ensure functions and competencies on nuclear and nuclear-related programmes and activities be rationalized and harmonized amongst various Ministers and their respective government departments and entities, e.g. Health, Science & Technology, Mineral Resources, Water and Environmental Affairs. An update hereon should be presented. | The Minister initiated the Integrated Nuclear Infrastructure Review |
| The Minister of Energy should examine the adequacy of the Strategic Fuel Fund’s (SFF)’s funding received from the fiscus. Such effort should include a comprehensive review of fuel stocks reserves which are currently 21 days. | Progress has been noted in this regard |
| The Department of Energy address the committee on the Internal Audit Control strategies and plans on how to achieve clean audits for both the Department of Energy and its entities. | Updates have been given during quarterly reporting. This is on going |
| The Department of Energy and its entities develops a strategy on synergy between itself and its entities within 2012/13 financial year. Such a strategy should include monitoring and evaluation of funds transferred to entities including municipalities. The Department of Energy to update the Portfolio Committee on Energy on this. | Forums established at CEO level and an Oversight Directorate established |
| The Department of Energy is to update the Portfolio Committee on Energy on the Renewable Energy Independent Power Producer Programme (REIPPP). | Progress noted |
| The Department of Energy ensures corporate services especially skills development, legal services and monitoring and evaluation have adopted plans by the end of the 2012 calendar year. The Department of Energy to briefly outline the plans. | No progress noted |
| The Department of Energy ensures that an independent verification mechanism is in place to determine the quality of liquid fuels. | The testing of liquid fuels not done |
| The Department of Energy ensures the readiness of South African Nuclear Energy Corporation and the National Nuclear Regulator for the New Nuclear Build Programme is visibly geared up. The Department of Energy to update the Portfolio Committee on Energy on progress here. | Ongoing – phased approach |
| The Department of Energy develops a plan on smart-grid policy and strategy is developed within the 2012/13 financial year. | Progress noted by the Committee |
| Continental activities of the Department of Energy should be expanded and intensified by the Minister of Energy. A comprehensive plan on this area should be submitted to Parliament by the end of the first quarter of 2012. | Progress noted but ongoing |
| The Minister of Energy should address the challenges in the distribution of electricity as a matter of urgency. These include a restructuring of the electricity distribution industry, as well as reviewing the legislative and regulatory environment throughout 2012. Progress of addressing the challenges should be submitted to Parliament by the end of June 2012. | The ISMO Bill was submitted to Parliament |
| The Department of Energy facilitates financing mechanisms for Clean Development Mechanism by the end of the financial year. The Department of Energy to update the Portfolio Committee on Energy on this. | Progress noted but ongoing |
| The Department of Energy is to discuss their funding and implementation plan in order to reduce the electricity distribution infrastructure maintenance backlog of R27.4 billion to R15 billion by 2014. This plan to include the following:  o    Funding and implementation plan in place by March 2011,  o    Report detailing a map of distribution asset status for 50% of all Municipalities by 2012/13  o    Initiate interventions, monitor rehabilitation projects and reduce backlog by R8bn in 2012/13 | Ongoing e.g. mini ADAM programme |
| The Department of Energy expedites the conclusion of outstanding policy strategies and programmes in order to position itself in the forefront of energy policy and planning. These strategies and programmes should include the following and the Department of Energy is expected to update the Portfolio Committee on Energy  on progress and internal capacity building w.r.t. policy development:  o    Strategic Fuel Policy,  o    Energy Efficiency Strategy,  o    Approach to Distributions Asset Management (ADAM),  o    Restructuring of the electricity industry,  o    Electricity Pricing Policy,  o    Bio-Fuels Policy,  o    Replacement of Regional Electricity Distributors (REDs),  o    Free Basic Alternative Energy (FBAE),  o    Cost Recovery Mechanism for cleaner fuels,  o    Review of the Integrated Resource Plan (IRP),  o    Review of the Renewable Energy White Paper,  o    Integrated Energy Plan, and  o    Household Energy strategy.  o    Smart grid policy | No progress noted |

**4. Overview and assessment of financial performance**

**4.1. Overview of Vote allocation and spending (2009/10 to 2014/15)**

***Table 2: Overview of Vote allocation and spending (2009/10 to 2014/15)***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | | | **2013/14** | **2014/15** |
| Outcomes | Outcomes | Outcomes | Main | Adjusted | Outcomes | Estimates | Estimates |
| Administration | 98.2 | 121.6 | 192.7 | 181.7 | 242.4 | 219 486 | 221.0 | 230.4 |
| Energy Policy and Planning | 146.9 | 1 607.2 | 1 541.9 | 1 541.5 | 1 570.2 | 1 544 913 | 51.2 | 53.4 |
| Energy Regulation | 10.5 | 14.2 | 15.2 | 1 350.0 | 18.5 | 1 139 476 | 49.7 | 52.0 |
| Electrification and Energy Programme Management | 2 558.9 | 2 782.0 | 3 286.5 | 3 136.3 | 3 170.0 | 3 112 376 | 3 942.8 | 4 224.5 |
| Nuclear Energy | 609.9 | 612.3 | 642.3 | 596.3 | 643.0 | 642 733 | 710.0 | 657.0 |
| Clean Energy | 266.4 | 368.0 | 495.7 | \* | 1 090.3 | \* | 1 623.6 | 1 997.3 |
| **Total** | **3 690.9** | **5 505.4** | **6 174.3** | **6 805.9** | **6 734.5** | **6 658 984** | **6 598.2** | **7 214.6** |

**Source: ENE 2013**

\*NB: This programme was a sub-programme in the 2012/13 financial hence no allocation.

**4.2. Financial performance 2012/13**

***Table 3: Financial Performance for 2012/13 - Overview – Economic Classifications***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Vote 29** | **2012/13**  **Adjusted budget** | **2012/13**  **Actual** | **2012/13**  **Variance** | **2012/13**  **% variance** | **2012/13**  **Budget expended** |
|  | R’000 | R’000 | R’000 | % | % |
| **TOTAL ENERGY** | 6,734,478 | 6,658,984 | 75,494 | 1,1% | 98,9% |
| **Compensation of employees** | 206,763 | 201,485 | 5,278 | 2,6% | 97,4% |
| **Goods & Services** | 207,747 | 170,208 | 37,539 | 18,1% | 81,9% |
| **Payments for financial Assets** | - | 36 | -36 | - | - |
| **Transfers & subsidies** | 6,304,841 | 6,276,700 | 28,141 | 0,4% | 99,6% |
| **Payments for capital assets** | 15,127 | 10,555 | 4,572 | 30,2% | 69,8% |

**Source: Presentation in June 2013 to the PC on Energy**

For the year under review, year 2012/13, is the third year that the Department of Energy has been operating as an independent department. The DEPARTMENT OF ENERGY’s budget allocation increased by 8.6% from R6.20 billion in 2011/12 financial year to R6.73 billion in the 2012/13 financial year. Of the 8.6% increase between the two years, 7.46% was allocated to transfers and subsidies and 1.14% allocated to the Department’s operational budget.

From the 2012/13 total budget allocation of R6.73 billion, 93.6% was allocated to transfers as follows:

·         Integrated National Electrification Programme – R3 billion;

·         Transnet’s New Multi-Product Pipeline – R1.5 billion;

·         NECSA – R568 million;

·         Energy Efficiency Demand Side Management – R1,02 billion

The balances were transfers to State Owned Entities and other smaller programmes. Only 6.4% (or R429 million) of the total budget was allocated for the Department’s operational needs. The Department spent 98.9% of its allocated 2012/13 budget.

**4.3. Analysis of performance:**

The department’s total spending for the year was R6.66 billion (98.9%) of the total budget of R6.73 billion. The above represents an under spending of 1.12% (or R75.49 million). A total of R28.14 million (37%) of the overall balance of R75.49 million remaining are for Transfer payments.

The composition of the overall balance of R75.49 million is as follows:

·         Compensation of Employees     :R5.28   million

·         Goods & Services                     :R37.54 million

·         Transfer Payments                    :R28.14 million

·         Capital Assets                           :R4.57   million

A rollover request was submitted to National Treasury for the unspent budget amount of R69.34 million (Subsequently R28.07 million was approved).

The under-expenditure of compensation of employees by 2.55% is mainly due to delay in the implementation of SMS salary adjustment. The department had anticipated the SMS salary adjustment implementation to be effective from January 2013 however it was only implemented from April 2013 as per             DPSA instructions.

·         The under-spending of goods & services by 18.07% (or R37.54 million) is due to late receipts of invoices and delay in the delivery in goods and services.

·         The following major payments could not be disbursed before 31 March 2013:

o    The development of the 20 year Liquid Fuels Infrastructure Road Map plan incorporating an audit of Refineries, an amount of R 2.3 million.

o    The review of the electricity distribution industry asset status report, subsequent development of a business case and the design of an integrated contract management system for the implementation of the asset rehabilitation programme, an amount of R11.8 million.

o    The acquisition of an electronic monitoring tool to monitor the implementation of electricity connections and various energy projects, an amount of R 6.5 million

With regard to transfer payments an amount of R28.07 million of the overall balance of R28.14 million within this category was attributable to funding specifically appropriated to the Non-Grid Households that was not transferred in full.  A rollover request was submitted to National Treasury for R28.07 million, for Non-grid - Solar Home Systems project (this request was subsequently approved)

The under-spending in Capex is due to the delay in the procurement processes as some of the projects and acquisition could not be finalised before year-end.

**4.4 Auditor-General of South Africa (AGSA) Report:**

**4.4.1. Opinion of the Auditor-General of South Africa.**

The AGSA expressed the opinion in terms of the financial reporting of the Department of Energy that the financial statements present fairly, in all material aspects, the financial position of the Department of Energy at 31 March 2011, 2012 and 2013, and its financial performance and cash flows for the year then ended in accordance with The Departmental Financial Reporting Framework prescribed by the National Treasury and the requirements of the Public Finance Management Act of South Africa and Division of Revenue Act of South Africa. It is also important to note that the AGSA’s opinion would reflect that the financial statements had been properly prepared instead of fairly presented.

**4.4.2. Unauthorised and irregular expenditure**

From the 2011 report the following information was obtained, he department incurred unauthorised expenditure of R14 860 000 due to funds that were expended for purposes which were not in accordance with the vote; irregular expenditure of R110 992 000 as the expenditure incurred was in contravention of the Treasury Regulations 8.2.2, expenditure not approved in accordance with the department’s financial delegations and irregular expenditure of R1 371 000 as the expenditure incurred was in contravention of the Treasury Regulation 16.A.3 relating to supply chain management.

It can be noted as a comparison that the then DME incurred Irregular expenditure to the amount of R4.2 million incurred as a result of contravention of the authorised delegations of authority of the department. (as noted in the 2009/2010 Annual Report)

In 2012 it was reported that the Accounting officer did not take effective steps to prevent irregular expenditure, as required by the PFMA and Treasury Regulation.

It was noted from the report that

·         Employees of the department performed remunerative work outside their employment in the department without written permission from the relevant authority

·         Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state.

·         Quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations and the Preferential Procurement Regulations.

In the 2012/2013 annual report, the Department of Energy listed irregular expenditure relating to the current year as R8.238 million. R8.019 million of this was related to the direct payment of the rental lease for Travenna Campus to the landlord, rather than via DMR. Of the remainder, R43 000 was related to procurement process not followed and a further R176 000 were for services rendered before generating an order; both of which are under investigation. No unauthorized expenditure was listed for the 2012/2013 year.

**4.4.3. Transfer of funds**

From the 2011 report it was noted that the Transferring National Officer did not comply with various sections of DORA e.g.

·         Funds were transferred without ensuring that information required in terms of DORA has been secured and all relevant information has been provided to the National Treasury.

·         The Transferring National Officer did not always comply with the approved payment schedule.

·         Further did not submit a quarterly performance report within 45 days after the end of each quarter to the National Treasury.

From the 2012 report it is noted that the arrangements and requirements for the Integrated National Electrification Programme (Municipal) grant (as defined in the framework for the allocation) were not adhered to, as the Department did not sign the memorandum of agreements with all the municipalities before the beginning of the financial year in contravention with the Division of Revenue Act.

In 2012/2013 it was noted by the AGSA that once again, the Department of Energy did not submit a quarterly performance report within 45 days after the end of each quarter to the National Treasury

**4.4.4. Internal Control**

In terms of internal controls the AGSA makes the following disclaimer; “I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.”

In the previous years it can be noted that the AGSA had the following statements on internal controls of the Department of Energy; In terms of Financial and performance management, in both annual reports, it was noted that the reviewing and monitoring of compliance with applicable laws and regulations were ineffective when dealing with transfers, subsidies and procurement through quotations.

It was further noted from the reports that “controls were not monitored and reviewed to ensure accurate and complete financial and performance reports that are supported and evidenced by reliable information to avoid material adjustments to the financial statements and the annual performance report submitted for audit.” Here it was reported that ongoing monitoring and supervision by Leadership not adequate which led to material adjustments to the financial statements and non compliance to laws.

Important to note that the department in conjunction with the Special Investigation unit are in the process of investigating allegations that state employees are involved in the procurement processes.

In 2012/2013 financial year the AGSA noted that there was “lack of controls to ensure regular, accurate and complete performance reports that are supported and evidenced by reliable information are prepared” and “lack of review and monitor of compliance with applicable laws and regulations.”.

The AGSA further indicated that two investigations relating to employees allegedly having interest and/or performing remunerative work without approval, were concluded.

**4.4.5. Control of Projects**

The AGSA also reported on the reporting of financial information of projects. From the 2011 report it is noted that

·         Changes to planned objectives, measures and targets are not disclosed in the report of predetermined objectives and explained as required in terms of the relevant National Treasury preparation guide.

·         Reported objectives, measures and targets are not complete when compared with the planned objectives, indicators and targets in that the reported performance against predetermined indicators and targets is not consistent with the approved strategic plan. Further, the actual achievements with regard to 27% of all planned objectives, indicators and targets specified in the strategic plan for the year under review were not included in the report on predetermined objectives submitted for audit purposes.

·         Changes to planned objectives, indicators and targets are not approved as different objectives, indicators and targets were reported on as opposed to the approved strategic plan. These additional and different objectives, indicators and targets were not approved subsequent to the strategic planning process.

·         Finally for 2011, planned and reported targets are not measurable. For the selected programmes, 38% of the planned and reported targets were not measurable in identifying the required performance.

In the 2012 report it is noted that, of the total number of planned targets, only 96 targets were achieved during the year under review. This represents 43% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

The 2011 report, the AGSA noted that the reported performance information was deficient in respect of the following criteria;

· *Consistency*: The reported indicators and targets are not complete when compared with the planned indicators and targets.

· *Relevance*: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets.

·         Measurability: The targets are not measurable.

In the 2012/2013 annual report, the AGSA noted that, of a total of 204 departmental targets planned for the year, 85 were not achieved during the year under review. This represents 42% of total planned departmental targets were not achieved. It can be noted that, of the R6.7 billion departmental appropriation, 98.9% was spent and 58% of the targets set for the department were achieved.

**4.4.6. Entities**

In terms of entities the following comments from the AGSA was noted

For the CEF, in 2013, 50% of the targets were achieved. The AGSA noted fruitless and wasteful expenditure of R5.2 million and irregular expenditure of R872.2 million for the current financial year. The AGSA also indicated that problems that the appointment of the members to the audit committee was not in compliance with the companies act. Further problems were noted with reference to contract and procurement management and indicated there were two investigations into these related areas by the Board Audit and Risk Committee and the Honourable Minister of Energy; both of which are at various levels of completeness.

At PetroSA, 38% of targets had not been achieved in the current financial year. For the 2013 financial year, 20 targets were achieved. Fruitless and wasteful expenditure was listed at R35.8 million and irregular expenditure at R27.4 million. Again here there are investigations by both the Board Audit and Compliance Committee on the procurement policy of PetroSA and an investigation by the Honourable Minister of Energy into all procurement above R5 million.

At SANEDI, of the 67 planned targets, 26 (39%) of the planned targets were not achieved. The entity listed R2000 as fruitless and wasteful expenditure and R12.6 million as irregular expenditure. The AGSA noted a few contraventions with regard to procurement and contract management and noted that non-compliance with laws could have been avoided if proper controls were put in place.

It was noted from the annual report from the NERSA that there was irregular expenditure of R3.1 million and fruitless and wasteful expenditure of R1222 due to receiving a late Telkom account. The AGSA noted a lack of controls over daily and monthly processing and reconciling of transactions, lack of control in compiling financial reports with supporting information and lack of review and monitor compliance with applicable laws and regulations. There were two investigations during the current financial year, one relating to irregularities in supply chain management and one relating to employee cost.

At NECSA, the AGSA noted 6 (or 32%) of the 19 planned targets were not achieved. The AGSA noted that he did not identify any deficiencies in internal control that he considered sufficiently significant for inclusion in his report. Irregular expenditure was listed at R65 and fruitless and wasteful expenditure at R117 000, by the entity.

In terms of the NNR, of the 27 targets for the year, 12 (or 44%) were not achieved under the year under review. The NNR incurred no fruitless and wasteful expenditure in the current year but had irregular expenditure of R284 373. The AGSA noted a lack of controls in compiling financial reports with supporting information and lack of review and monitor compliance with applicable laws and regulations.

**Table 4: Fruitless and Wasteful expenditure**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Auditee | | Fruitless and wasteful expenditure | | |
| Movement | Amount  R  2013 | Amount  R  2012 |
| 1 | Department of Energy (DoE) |  | 0 | 0 |
| 2 | CEF (SOC) Ltd |  | 38.6m | 0.064m |
| 3 | The South African Nuclear Energy Corporation SOC Ltd (NECSA) |  | 0.11m | 1.5m |
| 4 | National Energy Regulator of South Africa (NERSA) |  | 0.001m | 0 |
| 5 | South African National Energy Development Institute (SANEDI) |  | 0.002m | 0 |
| 6 | Electricity Distribution Industry (EDI) Holdings SOC Ltd |  | 6.6m | 9.1m |
| 7 | National Nuclear Regulator (NNR) |  | 0 | 0.2m |
| 8 | Equalization Fund |  | 0 | 0 |

(c)  Irregular expenditure incurred in 2012/2013:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Auditee | | Irregular expenditure | | |
| Movement | Amount R  2013 | Amount R  2012 |
| 1 | Department of Energy (DoE) |  | 8.2m | 39.6m |
| 2 | CEF (SOC) Ltd |  | 875.0m | 48.0m |
| 3 | The South African Nuclear Energy Corporation SOC Ltd (NECSA) |  | 0.06m | 0 |
| 4 | National Energy Regulator of South Africa (NERSA) |  | 3.1m | 0.4m |
| 5 | South African National Energy Development Institute (SANEDI) |  | 12.6m | 0 |
| 6 | Electricity Distribution Industry (EDI) Holdings SOC Ltd |  | 0 | 0 |
| 7 | National Nuclear Regulator (NNR) |  | 0.28m | 0 |
| 8 | Equalisation Fund |  | 0 | 0 |

Source: Briefing by the AGSA on 08 October 2013

**4.5. Summary of key financial issues contained in any other relevant report(s) for 2012/13**

**4.5.1 Financial and Fiscal Commission**

Below is the Financial and Fiscal Commission’s matrix outlining the Commission’s energy and energy-related recommendations and the official government response thereto. Table 5 outlines energy-specific recommendations made by the Commission and thereafter, Table 6 details energy-related recommendations that may be of interest to the Committee.

***Table 5: Energy-specific recommendations made by the Commission in the last 3 years***

**Submission Document**

**Recommendation**

**Government Response****[[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131028pcenergybrrr.htm" \l "_ftn1" \o ")**

**Progress**

|  |
| --- |
|  |
| Submission on the 2012/13 DoR | 1.         National government should specifically enforce the provisions set out in Section 74(2) of the Municipal Systems Act such that the basis of municipal tariffs accurately reflects the cost of providing the specific service, as well as conforms to National Treasury’s expenditure guidelines for repairing and maintaining municipal infrastructure | Government supports the proposal | | Mechanisms are in place to guide municipalities in setting tariffs, in particular, the Municipal Finance Management Act Budget Circulars 51, 54 and 55 highlight the  need for cost-reflective tariffs. However, it may take time to develop appropriate systems that can provide reliable data to determine accurate cost-reflective tariff structures for various municipal services. The information foundation required for cost-reflective tariffs is being laid. For example,  National Treasury is exploring appropriate cost accounting and tariff-setting methodologies, and financial management reforms are being undertaken, including updating asset registers and developing a standard chart of accounts for municipalities. |
| 2.         Government should consider providing municipalities with a performance-based conditional grant, which rewards or incentivises actions that are environmentally efficient and responsive to the adaptation and mitigation challenges of climate change. The design of the proposed grant should pay attention to municipal-specific factors such as the area, topography coastal, and vulnerability to climate change. Specific focus areas for this grant to include:  •     Efficient energy management practices, including the minimisation of electricity losses, the elimination of illegal connections and energy savings by household/industry  •     Implementation of green procurement policies | Partial acceptance. National Treasury notes that the poor uptake of existing incentive grants shows that such grants are not the most efficient way to influence the behaviour of municipalities. There may be merit in a specific conditional grant to address major infrastructure requirements related to climate change, for example, coastal  breakwaters or storm water management systems. However, more research is needed to determine the structure of such a grant. | | It should be noted that National Treasury has initiated a review of local government infrastructure grants. The FFC, Salga, StatsSA are all part of the review team. The Commission intends channelling its numerous recommendations/ideas regarding conditional grants through this process |
| Submission on the 2011/12 DoR | 3.         In the absence of an assessment of the specific performance challenges that the different municipalities face in implementing functions listed in Schedules 4B and 5B of the Constitution, the Commission recommends that approving a blanket regionalisation  approach is not supported as current legislative provisions allow for alternative and creative service delivery arrangements | Government did not respond directly to these recommendations – the following was noted as the response: “The FFC recommendations were proposed before government resolved not to continue with the  restructuring and establishment of the regional electricity distributors. The FFC’s recommendations are therefore moot. | | It should be noted that whilst the Commission’s research on this work was done within the context of the REDS proposal, the recommendations relate to broad principles that should be applied should the outstanding policy issue of reforming EDI be brought back onto the table |
| 4.         Not all electricity distributors suffer from the challenges that the restructuring intends to overcome. As a result, the EDI restructuring process should consider a differentiated approach that allows for differences in performance |
|  |  |  |  |  |

***Table 6: Energy-related recommendations made by the Commission in the last 3 years***

**Submission Document**

**Recommendation**

**Government Response**

**Progress**

|  |
| --- |
|  |
| Submission on the 2012/13 DoR | 1.         Government should actively and specifically pursue the development of a more spatially compact urban form for South African cities, by developing and adopting appropriate policies and financing instruments | Government agrees with the objective of promoting a more spatially compact urban form | •   The Department has included efficient land utilisation as one of strategic outcome goals  •  Government has initiated a new cities support programme involving several departments to assist cities manage the built environment in a way that promotes economic growth, job creation, access to basic services and environmental sustainability. |
| 2.         Government should conduct a broad based review of the efficacy of current housing finance arrangements in meeting housing needs within the context of creating sustainable and more compact human settlements | Government is considering the efficacy of all housing financing instruments within the wider context of improving delivery of infrastructure and services to enhance built environments. This will lead to further reforms of the human settlements development grant and the urban settlements development grant. |

The FFC also undertook a comprehensive assessment of the entire local government fiscal framework. The various challenges and subsequent solutions proposed were the result of intense stakeholder interactions which saw the Commission hosting two public hearings between 2011 and 2012. These recommendations are not part of the Commission’s annual submission on the division of revenue and as such government is not required to respond. However it should be noted that all relevant stakeholders from the National Treasury, SALGA, various municipalities et cetera, attended and inputted into this process.

***Table 7: Recommendations Emanating from the FFC’s Public Hearings on the Review of the Local Government Fiscal Framework***

**Recommendation**

**Elaboration of the Issue**

|  |
| --- |
|  |
| Commission recommends a review of the funding for capital expenditure in local government given the identified vertical fiscal gap on municipal capital budgets, which is driven by increasing infrastructure needs and constraints on municipal capital revenues (operating surpluses and borrowing powers) | All categories of municipalities are facing shortages of capital funding, which is hindering their ability to clear service provision backlogs and rehabilitate ageing infrastructure. One explanation given for this persistent gap was insufficient transfers and an inability to raise sufficient debt finance. It is estimated that there is a shortfall in the vertical division on capital expenditure that needs to be addressed – estimated at R42 billion (excluding grants) |
| Municipalities need to ensure that their tariffs are cost reflective and sensitive to the indigent profile of municipalities in order to minimise municipal consumer debt level | In line with the need to ensure fiscal viability of municipalities and sustainability of services delivered, tariffs need to be cost reflective |
| Municipalities are constitutionally assigned the electricity distribution function and are also legislatively entitled to apply a surcharge on the electricity tariff charged. In instances where Eskom is the service provider on behalf of the municipality, the municipality should be allowed to impose a surcharge on Eskom’s tariff | Electricity sales account for a high proportion of municipal revenues and can generate significant surpluses. Not providing electricity in some or all of the areas under their jurisdictions, municipalities lose a significant amount of own revenue that could be earned. The Municipal Fiscal Powers and Functions Act allow municipalities to levy a surcharge on electricity tariffs, even if it is provided by Eskom. However in the absence of guiding norms and standards, no municipalities have, according to the National Treasury, done so (See Local Government and Expenditure Review, 2011, page 152). So better regulation/norms and standards around application of surcharges is required |

**4.5.2 DEPARTMENT OF PERFORMANCE MONITORING AND EVALUATION (DPME)**

|  |  |
| --- | --- |
| **Progress Status (Key to outcomes below)** | **Colour** |
| Progress as planned or completed, on schedule,  milestone or target met | Green |
| Progress with activity but not on schedule | Yellow |
| Strong likelihood that milestone or target will not be achieved within the planned timeframe | Red |

* **Outcomes committed to by the Department of Energy**
* Outcome 6: An Efficient, Competitive and Responsive Economic Infrastructure Network
* *Output 2: Ensure reliable generation, distribution and transmission of electricity*

|  |  |
| --- | --- |
| **Outcome 2 of Outcome 6** | **Colour** |
| Create regulatory and institutional structures for the introduction of viable Independent Power Producers (IPP) and start process  for the participation of IPPs in 2010 | Yellow |
| Develop a funding and implementation plan and reduce the electricity distribution infrastructure maintenance backlogs of R27.4bn to R15bn by 2014 | Red |
| Household access to electricity should be 92% by 2014 | Red |
| Develop a funding model for Electricity Generation/build programme to ensure security of supply | Yellow |
| Long-term energy mix diversification to address the security of energy supply and requirements for renewable energy | Green |
| Coal Haulage Logistics | Red |
| Electricity Distribution Industry (EDI) restructured | Green |
| Setting cost reflective tariffs while cushioning the poor from increasing electricity costs | Yellow |

* Outcome 9: Responsive, accountable, effective and efficient Local Government system
* *Output 2: Improving Access to Basic Services*

|  |  |
| --- | --- |
| **Outcome 2 of Outcome 9** | **Colour** |
| Increased access to basic electricity | Red |

* Outcome 10:     Protect and enhance our environmental assets and natural resources
* *Output 2: Greenhouse gas emissions reduced, climate change impacts mitigated & air/atmospheric quality improved*

|  |  |
| --- | --- |
| **Outcome 2 of Outcome 10** | **Colour** |
| Renewable energy deployed | Yellow |
| Efficient energy use | Yellow |

**4.5.3 MANAGEMENT PERFORMANCE ASSESSMENT TOOL (MPAT)**

According to the Department of Performance Monitoring and Evaluation (DPME), improved management practices are key to improved service delivery. Weak administration (financial management, supply chain management, asset management, human resource management, planning, monitoring, facilities management) is a recurring theme across the priorities and is leading to poor service delivery, e.g. appointment of unqualified people in key municipal positions, contributing to poor municipal service delivery

The aim is to develop a culture of continuous improvement and sharing of good practice and to link institutional performance to the individual assessment of HoDs.

Assessment is done against 31 management standards, in 17 management areas (developed collaboratively with DPSA, NT and Offices of the Premier (OTP). Standards are based on legislation and regulations. Standards are developed collaboratively (with National Treasury, DPSA, Office of the Public Service Commission, Office of the Auditor General and Offices of the Premier). DPME facilitates national departments, and the OTPs facilitates provincial departments.

For the 2012/13 assessments, detailed peer moderation of self-assessments was conducted. Policy and implementing experts from national and provincial departments were used as moderators. Feedback was provided to departments on 21 January 2013. Final scores were communicated to departments 23/25 April 2013 with a request to indicate if clarity is required by 10 May 2013

With regard to the Department of Energy, the MPAT observed the following with regard to the department:

* Observed strengths (Level 4 - Full compliance and doing things smartly):
  + Strategic Plans
  + Monitoring and Evaluation
  + Human Resource Development Planning
  + Management of Diversity
* Observed weaknesses (Level 1 - Non-compliance with legal/regulatory requirements):
  + Service Delivery Improvement Mechanisms
  + Assessment of Accountability mechanism (Audit Committee)
  + Management of Disciplinary Cases

**4.6. Financial performance 2013/14**

2013 Roll-over requested

***Table 8: 2013 Roll-over requests***

|  |  |  |  |
| --- | --- | --- | --- |
| **VOTE 29: Energy** | **12/13 Unspent budget R’000** | **Roll-over requested R’00** | **Approved Roll-over R’000** |
| **TOTALS** | 75,496 | 69,343 | 28,072 |
| **Compensation of employees** | 5,278 | 0 | N/A |
| **Goods and Services** | 37,541 | 21,271 | 0 |
| **Transfers and subsidies** | 28,141 | 48,072 | 28,072 |
| **Payments for capital assets** | 4,572 | 0 | N/A |
| **Payments for financial assets** | -36 | 0 | N/A |

Source: Presentation to the PC on Energy on 17 September 2013

As at the end of the 2012/14 financial year, the Department reported a total unspent budget of R75.5 million. A total of R69.3 million was motivated for to the National Treasury to be rolled-over into the 2013/14 financial year in order to off-set expenditure carried over from the 2012/13 financial year. The 2012/13 expenditure, which were to be finalized in the current financial year were as follows:

·         Procurement of various goods and services R21.3 million

·         Transfer payments:

- Non-grid electrification programme R28.1 million

- Electrification transfers to municipalities R20 million

From the total request of R69.3 million, only R28.1 million for the Non-grid electrification programme was approved by the National Treasury. Therefore, Department of Energy has to cater for an additional R21.3 million from its 2013/14 goods and services budget allocation. The electrification transfer to various municipalities of R20 million that was not approved, is still under query with the National Treasury.

**4.7. First (1st) Quarter Financial Performance for 2013/14**

***Table 9: 2013/14: 1st Quarter Financial Performance – Overview (per economic classification)***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Vote 29: Energy** | **2013/14 original Budget**  **R’000** | **2013/14 YTD Budget**  **R’000** | **2013/14 YTD**  **Actual R’000** | **2013/14**  **YTD Variance**  **R’000** | **2013/14 YTD**  **Variance**  **%** | **2013/14 Budget Expended %** |
| **TOTAL ENERGY** | 6,598,172 | 1,236,385 | 907,450 | 328,935 | 26,60% | 13,75% |
| **Compensation of employees** | 247,562 | 61,886 | 54,601 | 7,285 | 11,77% | 22,06% |
| **Goods & Services** | 218,057 | 45,494 | 23,723 | 21,771 | 47,85% | 10,88 |
| **Transfers & subsidies** | 6,124,192 | 1,128,424 | 828,771 | 299,653 | 26,56% | 13,53% |
| **Payments for capital assets** | 8,361 | 581 | 355 | 226 | 38,90% | 4,25% |

Source: Presentation to the PC on Energy on 17 September 2013

The Department had a budget of R1.24 billion available for its operations during the reporting period. Total spending during this period was a total of R907.45 million or 73.4% which resulted in a budget under-spend of R328.94 million or 26.6% attributable to the following:

Transfer payments:

A budget balance of R299.65 million or 26.6% of the total 1st quarter budget remained due to unspent funds in the following programmes:

·         Energy Efficiency Demand Side Management (EEDSM)-Eskom programme (R267.9 million),

·         INEP Non-grid project (R24.1 million) and

·         National Radio Active Waste Disposal Institute (R7.8 million).

·         Compensation of employees:

o    R7.29 million (11.8%) under budget attributable to vacancies which are in the process of being filled following the prioritization of positions by the Departmental Organizational Development Committee (DODC) and the final approval by the Finance Committee (FC).

Goods and services:

·         R21.8 million (47.9%) unspent as a result of projects, which at the beginning of the financial year were projected would have commenced by the first quarter, which could not commence due to delays in procurement processes

·         Revision of initial plans.  Through the internal spending plans process conducted as a directive of the FC, branches/programmes reviewed their initial plans and revised these in accordance with the prevailing circumstances.

·         The result is that, some spending plans have now been moved to the following periods; however, the Drawings schedule approved by the National Treasury can only be amended later in the year.

First Quarter Transfer Payment schedule for 2013/14

The transfer payments reflected a budget under spend of R299.7 million (26.6%) mainly due to the following:

·         EEDSM –Eskom: -R267.9 million planned for transfer to Eskom for the Solar Water Heaters/geysers programme could not be paid due to delays in finalizing the implementation contract with Eskom.  The contract has since been finalized and awaiting sign off while the funding contract is being reviewed by affected parties.

·         INEP Non-grid: -R24.1 million remained unspent due to delays with the extension of contracts.  The extension of service contracts has since been signed and spending is expected in the following period.

·         NRAWDI: -R7.8 million could not be transferred to the institute, as planned, pending the establishment of the management structure, i.e. board of directors.

**4.8. Concluding comments on financial performance**

The Department of Energy’s budget allocation increased by 8.6 percent from R6.201 billion in the 2011/12 financial year to R6.734 billion in the 2012/13 financial year.

In terms of irregular expenditure, during the year under review the Department identified irregular expenditure to the amount of R8.24 million. This amount is made up of   
R220 000 attributable to non-compliance to procurement procedures, and further irregular expenditure in the amount of R8.02 million incurred as a result of payments made against an unsigned lease, which was one of the operational consequences that had to be borne by the Department after the split from the Department of Minerals and Energy.  Condonation was granted in the 2012/13 financial year for the irregular amounts of   
R22.09 million for the 2011/12 financial year and R17.40 million for the 2010/11 year for the unsigned lease relating to office accommodation.  Condonation was also simultaneously granted in the 2012/13 financial year for R8.02 million relating to the office accommodation costs for the unsigned lease for the period April 2012 to July 2012. Other irregular expenditure in the amount of R220 000 relates to *ex-post facto*approval payments, all of which were all condoned in the 2012/13 financial year.

Due to limited Medium Term Expenditure Framework (MTEF) allocations, a total of 265 posts of the revised structure of the Department still remain unfunded and thus vacant.

In terms of donor funding, during the 2012/13 financial year, the Department of Energy received a total of R2.4 million as donor funding from the Swiss Confederation, acting through the Swiss Agency for Development and Cooperation, to contribute towards the Energy Efficiency Monitoring and Implementation Project in South Africa. A payment of R2.4 million was subsequently disbursed to the South African National Energy Development Institute (SANEDI) as the implementing agent for the above-mentioned project.

Regarding the implementation of Smart Metering, the Department received a total of   
R71.8 million, from the National Development Programme for the first phase of the implementation of smart grid initiatives in South Africa. This amount was subsequently disbursed to SANEDI as the implementing agent.

In terms of skills development, the Department of Energy appointed 33 interns as part of an in-service electrical engineering training programme within various municipalities for the period March 2012 to 30 June 2013. Funding for this training programme was made available by the Energy and Water Sector Education and Training Authority (EWSETA).

**5. Overview and assessment of service delivery performance**

**5.1. Service delivery performance for 2012/13**

***Table 10: Performance overview for 2012/13***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Branches/Programmes** | **Planned targets** | **Achieved** | **Partially achieved** | **Not achieved** |
| Policy and Planning | 36 | 10 | 21 | 5 |
| Petroleum and Petroleum Products Regulations | 16 | 6 | 7 | 3 |
| Nuclear Energy | 10 | 2 | 7 | 1 |
| Clean Energy | 32 | 16 | 11 | 5 |
| Programmes and Projects | 9 | 2 | 1 | 6 |
| Corporate Services | 29 | 22 | 5 | 2 |
| Financial Management Services | 25 | 24 | 1 | 0 |
| Governance and Compliance | 31 | 27 | 3 | 1 |
| Director General’s Office | 10 | 9 | 1 | 0 |
| **Total** | **198 [204]** | **118** | **57** | **23** |

**Source: DoE presentation document presented on 09 October 2013**

**Programme Performance**

***Table 11: Budget overview – per programme***

|  |  |  |  |
| --- | --- | --- | --- |
| **PER PROGRAMME** | | | |
| **Details** | **Budget** | **Actual spend**  **31/03/2013** | **Actual % on budget spend** |
|  | **R’000** | **R’000** | % |
| **TOTALS 2012/13** | 6,734,478 | 6,658,984 | 98,9% |
| **Administration** | 236,583 | 219,486 | 92,8% |
| **Energy Policy and Planning** | 1,563,403 | 1,544,913 | 98,8% |
| **Petroleum Regulation** | 1,139,787 | 1,139,476 | 100% |
| **Programmes and Projects** | 3,147,822 | 3,112,376 | 98,9% |
| **Nuclear Energy** | 646,883 | 642,733 | 99,4% |

Source: Presentation to PC on Energy on 09 October 2013

**5.2. Overall performance of the Department**

The Department was allocated an amount of R6.734 billion in the 2012/13 financial year, an increase of 8.6 percent from the previous financial year (2011/12). According to the Annual Report (2012/13), the Department spent almost 99 percent of the allocated budget. The reasons for the unspent budget will be dealt with under programmes performance as well as annual financial statements of the Department.

In terms of the planned targets, the Department had 204 targets of which 85 of the targets were achieved, translating into 42 of the Departmental targets not achieved compared to 43 targets in the previous financial year.

**5.3. Overview of Department programmes**

The Department has six programme areas: Administration; Energy Policy and Planning; Petroleum and Petroleum Products Regulation; Nuclear; Clean Energy; and Projects and Programmes. It is important to note that when the Department reports its qualitative performance (planned versus achieved targets) it reports as per the above programmes. However when it reports on its financial performance it uses the following programmes names: Administration; Energy Policy and Planning; Energy Regulation; National Electrification Programme; Nuclear Energy; and Regulation. The reason cited by the Department for this different reporting method is that it had to review its Departmental programme structure to align with the National Treasury budget programme. The Department believed that this alignment would facilitate the internal (Department of Energy) budgeting process; budget allocation as well as the reporting process.

What follows is an overview of the performance of the Department per programme. It is noteworthy that these departmental programmes have their respective sub-programmes as well.

**5.3.1. Programme 1: Administration**

The purpose of the programme is to provide corporate, executive, financial management and accounting, information and communication technology, supply chain, asset management support to the Department, to ensure good corporate governance and compliance by Department and/or the Energy Sector.

In terms of financial performance, this programme was allocated R236.58 million of which   
7.2 percent was under-spent due to the following reasons as explained by the Department:

* The production, layout, design and printing of the Department’s 2013/14 Annual Performance Plan for a total cost R222 118. The initial order issued for this service was for a total amount of R197 000. Due to additional pages which had to be printed, an additional cost was incurred. The payment disbursement was delayed by payment processes which had to be complied with.
* The review of the draft State Owned Entity (SOE) Oversight Framework and related process enhancement services for an amount of R760 000. The appointment of a service provider was delayed by tenders which were substantially higher than the total of R760 000 earmarked for this service.
* The co-sourcing of the Risk Management and Anti-Fraud and Corruption activities, an amount of R750 000. Due to unanticipated delays in the finalisation of the project, invoices for the total project’s cost were delayed and could not be processed before year-end.
* Review of the 2012/13 and 2013/14 Annual Performance Plan. The initial scope of the service for reviewing the 12/13 and 13/14 annual performance plan amounted to   
  R248 000 which was duly paid. An extension of service was approved and the additional work amounted to R37 206. Due to payment processes which had to be fulfilled prior to the disbursement of the payment, the payment could not be finalised by 31 March 2013.

In terms of achieving the planned targets for the financial year, a lot has been achieved (see table below).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Administration** | | | | |
| Administration | Planned Targets | Achieved | Partially Achieved | Not Achieved |
| Corporate Services | 29 | 22 | 5 | 2 |
| Governance & Compliance | 31 | 27 | 3 | 1 |
| Financial Management Services | 25 | 24 | 1 | 0 |
| Director General’s Office | 10 | 9 | 1 | 0 |
| Total | 95 | 82 | 10 | 3 |
| DETAILS |  | Budget  2012/13 | Actual spend 2012/13 | Actual % on budget spend |
|  |  | R'000 | R'000 | % |
| Administration |  | 236,583 | 219,486 | 92.8% |

Of note though is the issue of human capacity that the Department has been mentioning consistently since 2010. In the Annual report, it is reported that the Department’s new organizational structure was approved and this meant additional capacity was needed but due to lack of funding posts were not filled. The Department has a total of 552 employees compared to the required 611 employees. As a result, the Department has a vacancy rate (posts not filled) of 9.7 per cent in 2012/13. There was no improvement if one compares this to the 8.9 vacancy rate of the previous financial year.  Also of particular concern is the extent to which the Department employs people with disability. In the 2011/12 financial year, there were only four employees with disabilities (two white males, one African female and one white female). The number has dropped to three in the 2012/13 financial year (one white female, one African female and one white male).

Also noted is the slow pace of the Department in development of the Departmental Compliance Framework. On page 99 of the 2012/13 Annual report the Department’s strategic object is to focus on Departmental Compliance, the Department of Energy reported progress on this as ‘partially achieved’. The reason provided for the partial achievement is that the “Compliance Framework could not be finalised due to lack of capacity”.

**5.3.2. Programme 2: Energy Planning and Policy**

The purpose of the programme is to ensure evidence-based planning, policy setting and investment decisions in the energy sector to improve security of energy supply, regulation and competition. During the 2012/13 financial year, the Department worked in earnest towards the development of the Integrated Energy Plan (IEP). To this effect, the Department in consultation with various government departments, developed a Draft Integrated Energy Planning Report which presented model output from the various energy policy options that were evaluated.

This programme was allocated a budget of R1.563 billion in the 2012/13 financial year of which 1 per cent was not spent due to the following reasons:

* Delays for the acquisition of services for the development of the Liquid Fuels Infrastructure Roadmap. According to the Annual Report the project could not be completed as planned due to the late submission of required data by stakeholders within the Liquid Fuels Industry.

·         The appointment of a service provider to review the electricity distribution industries asset status, and subsequently develop a business case and design an integrated contract management system for the implementation of the asset rehabilitation programme, was approved. The procurement process was halted after a decision was taken to re-advertise the service.

The development of the Integrated Energy Plan is a major step forward in terms of energy security as this provides the roadmap of the future energy landscape of SA. In general, some targets in this programme were achieved but targets are mostly not achieved or are partially achieved (see table below).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Energy Policy & Planning** | | | | |
|  | Planned Targets | Achieved | Partially Achieved | Not Achieved |
| Energy Policy  and Planning | 68 | 26 | 32 | 10 |
| Total | 68 | 26 | 32 | 10 |
| DETAILS |  | Budget  2012/13 | Actual spend 2012/13 | Actual % on budget spend |
|  |  | R'000 | R'000 | % |
| Energy Policy  and Planning |  | 1,563,403 | 1,544,913 | 98.8% |

Of note is the issue of energy data collection. The Department had set a target for the timeously compilation and dissemination of energy statistics – this target was not achieved. This is a concern because energy statistics are essential for energy planning, design of interventions, monitoring progress and reporting on outcomes. Of importance is the monitoring of the extent to which this target will be achieved in the current financial year (2013/14).

**5.3.3. Programme 3: Petroleum and Petroleum Products Regulation**

The purpose of the programme is to ensure the optimum and orderly functioning of the petroleum industry to achieve Government development goals.

It is notable that there were no major disruptions in fuel supply to South Africa during this financial year, especially to the inland markets. This indicates the Department of Energy functioned well in this area. Further, the progress made with the new Multipurpose Product Pipeline is noted and so too the promulgation of the Biofuels Mandatory Blending Regulations. Also, the Department developed the Biofuels pricing framework to determine the break-even price for biofuels manufactures, and the blending value for refinery operations.

However, similarly with Programme 2, some targets have either been partially achieved or not achieved. For example, in terms of petroleum licensing the Department had a 100 percent compliance target but it achieved 58 percent compliance rate. Regarding compliance with the Petroleum Products Act, the Department had planned to conduct 1 080 fuel samples and test. However, it is reported that this target was changed due to unavailability of funds. Of importance is also the enforcement of the Liquid Fuels Charter. It is commendable that the Department of Energy has conducted an audit but the Department had planned that by the year under review, a system of corrective action for non-compliance with the Liquid Fuels Charter and technical, legal, and commercial licensing conditioned would have been developed, maintained and implemented. Unfortunately this target was also not achieved.

**5.3.4. Programme 4: Nuclear**

The purpose of the programme is to govern the South African nuclear energy industry and control source and special materials in terms of international obligations, nuclear legislation and policies to ensure peaceful use of nuclear energy.

In this area commendable points noted were the Integrated Nuclear Infrastructure Review, requested by the Department from the IAEA to assess SA’s readiness for the nuclear rollout programme and the NNR response to the Fukushima incident by requesting safety reassessments of the existing nuclear facilities.

Only two targets of a planned 10 were achieved in this programme, the rest were either not achieved or were partially achieved. The two achieved targets are as follows:

* Nuclear radiation security: Standardization of security measures at strategic points. The Department reported that Standard Procedures have been developed.
* Nuclear Communication and Stakeholder Engagement: Three Nuclear Community Outreach events including a media campaign were planned. According to the Department, two community outreach events and a media campaign was conducted. Moreover, the Africa Nuclear Conference which took place on 18 March
* 2013 and the media coverage received constituted an additional media campaign.

|  |  |  |  |
| --- | --- | --- | --- |
| **Nuclear Energy** | | | |
| Planned Targets | Achieved | Partially Achieved | Not Achieved |
| 10 | 2 | 7 | 1 |
| 10 | 2 | 7 | 1 |
|  | Budget  2012/13 | Actual spend 2012/13 | Actual % on budget spend |
|  | R'000 | R'000 | % |
|  | 646,883 | 642,733 | 99.4% |

**5.3.5. Programme 5: Clean Energy**

The purpose of the programme is to manage and facilitate the development and implementation of clean and renewable energy as well as energy efficiency and demand side management initiatives. Regarding policy developments under this programme, Draft Regulations for introducing Energy Management were completed during the year under review. A second review of the Energy Efficiency Strategy was approved by Cabinet in October 2012 and the draft National Energy Efficiency Implementation Plan was completed.

It is with pride that the Portfolio Committee on Energy notes the financial closure, in August 2012, of the 28 preferred bidders that were contracted to supply 1415 MW of renewable energy capacity. Further of note is that the bidders have committed R 1 billion to be spent on vendors that are owned by women.

Key areas not achieved that are of concern in this programme, include amongst others:

* The Department’s performance indicator of completing a feasibility study for the Solar Park initiative was not achieved. Reason cited for the failure to perform as planned is that there were delays in resolving land access agreement at Upington site.
* The Department had planned to install 500 027 solar water heating units, instead it installed 353 188 units.

**5.3.6. Programme 6: Programmes and Projects**

The purpose of the programme is to manage, coordinate, monitor and report on energy related programmes and projects. The Department, in the year under review, developed a New Household Electrification Strategy in an effort to accelerate the electrification programme.

One sub-programme of the Department that one can report on is the National Electrification Programme. According to the Annual report, the Department had planned to electrify a minimum of 180 000 households but instead managed to electrify 202 835 households exceeding the target by 22 835. It was also noted that 10% of “newly electrified” households are supplied by non-grid electricity. Also noted is the Department of Energy’s commitment to the Presidential Infrastructure Co-ordination Committee and the SIPS programme. Further noted is the progress on the Approach to Distribution Asset Management (ADAM) programme. Targets under this programme mainly have not been achieved and the reason cited is that some of the sub-programmes were only established on 1 July 2012.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programmes and Projects** | | | | |
|  | Planned Targets | Achieved | Partially Achieved | Not Achieved |
| Programmes  and Projects | 9 | 2 | 1 | 6 |
| Total | 9 | 2 | 1 | 6 |
| DETAILS |  | Budget  2012/13 | Actual spend 2012/13 | Actual % on budget spend |
|  |  | R'000 | R'000 | % |
| Programmes and Projects |  | 3,147,822 | 3,112,376 | 98.9% |

**5.5. The Service Delivery Improvement Plan**

The draft Service Delivery Improvement Plan has been completed. The plan is based on national priorities (as defined by the NDP), the Department’s strategic and operational plans.

The Department’s service delivery improvement priorities identified are:

•       Electrifying the country

•       Provision and installation of solar water heaters

•       Improvement of the petroleum licensing process

•       Improvement of the  nuclear licensing process

The process is expected to be completed at the end of November 2013.

**5.6. Service delivery performance for 2013/14**

According to the Department key focus areas have been identified for the 2013/14 financial year. They have also identified areas where they are most likely not going to meet the intended targets (unfunded and under-funded mandates).

Key focus areas for 2013/14 include the following:

•       Implementation of the Integrated Resource Plan (IRP) (nuclear, IPPs, etc.)

•       Increase the number of grid and non-grid connections through INEP

•       Solar Water Heaters programme

•       Energy Efficiency

•       Finalisation of the CEF group restructuring process

•       Finalisation of the Integrated Energy Plan (IEP)

•       Monitoring of Petroleum Compliance

•       Conclusion of the Regulatory Account Process

**5.7. Other service delivery performance findings as identified by the DPME**

To follow is the 3 Year Comparison on Department of Energy Outcome 6: 4th Quarter Data for Financial Years - 2010/11, 2011/12, and 2012/13

|  |  |  |  |
| --- | --- | --- | --- |
| **Sub-output** | **4th Quarter 2010/11** | **4th Quarter 2011/12** | **4th Quarter 2012/13** |
| 2.1 Create regulatory and institutional structures for the introduction of viable Independent Power Producers (IPPs) and start process  for the participation of IPPs in 2010 | •       A ring-fenced entity for the procurement of electricity from the Independent Power Producers (IPPs) established, with contracts already signed with four IPPs and 277MW of electricity added to the national grid  •       The ESEID Cabinet Committee approved the draft ISMO legislation in March 2011, for tabling at Cabinet | •       The ISMO Bill to be deliberated in parliament in May 2012, with the intended finalization of Q3 2012  •       Renewable Energy IPP Programme underway. To date, 1415MW of preferred bidders have been appointed, with the intention for them to commission before end-2012. | •       The ISMO Bill was adopted by the Parliamentary Portfolio Committee on Energy in March 2013. It has since been reclassified as Section 76 legislation and will now follow the NCOP approval process. Once the Bill has been ratified into law, the process to establish ISMO as a State Owned Company will start.  •       IPPs -New generation capacity regulations under the Electricity Regulation Act have been promulgated. IPP process has progressed on Renewable energy |
| 2.2 Develop a funding and implementation plan and reduce the electricity distribution infrastructure maintenance backlog of R27.4bn to R15bn by 2014 | •       The ADAM project, outlining the blueprint to rehabilitate distribution infrastructure completed. | •       The Approach to Distribution Asset Management (ADAM) proposal has been completed. Pilot projects to be initiated by June 2012. | •       Cabinet approved the Cabinet Memo on Approach to Distribution Asset Management (ADAM). A pilot project is being implemented wherein nine municipalities have been allocated funding for infrastructure refurbishment. |
| 2.3 Household access to electricity should be 92% by 2014 | A total of 194 941 households have been connected to electricity in the current financial year | Eskom electrification programme was able to connect 155 213 house holds by 31 March 2012 | •          In the last quarter under review, 72 802 households were electrified. Eskom electrified 59 230 and Municipalities electrified 13 572 and non-grid was 5264.  •          Overall 86 percent electrified. |
| 2.4 Develop a funding model for electricity generation build programme to ensure security of supply | No information  reported on this item | By 31 March 2012, Eskom had secured 77.6% of the funding required for the Capital Expansion Programme (Medupi, Kusile, Ingula, RTS, Transmission projects and refurbishments Projects) | Eskom has continued to focus on export credit agencies, development finance institutions and the domestic money market for its funding requirements.  In this regard, Eskom has secured over 80 percent of the funding requirement for the build programme up to 2017. |
| 2.5 Long-term energy mix diversification to address the security of energy supply and requirements for renewable | The Integrated Resource Plan was approved by Cabinet in March 2011 | The Integrated Resource Plan developed and adopted after thorough public consultation. The RE requirements outlined to constitute 40% of all future investment till 2030 | IRP approved that provides long term generation targets and mix.  Approx 2 400MW of renewable energy IPPs selected as preferred bidders. Window two - 28 preferred bidders reached financial close and signed Implementation Agreements in November 2012. Window one Projects are currently under construction and should be ready to supply power to the grid at least by 2016.  By end-March 350 000 solar water heaters were installed; the rules for the Energy Conservation Scheme were completed after stakeholder engagement; the residential and industrial energy efficiency initiatives have reduced demand by 1.4TWh.  The rules for the Energy Conservation Scheme were completed after stakeholder engagement; the residential and industrial energy efficiency initiatives have reduced demand by 1.4TWh. |
| 2.6  Migrate Eskom coal from road to rail  Rehabilitate coal haulage roads (joint responsibility with DPE and DoT) | Eskom and the Transnet Freight Rail (TFR) have not yet concluded the necessary agreements to facilitate the migration And Service Level Agreements (SLA) between SANRAL and the Mpumalanga Department of Public Works, Roads and Transport not yet finalised. | 8.5 Mt of Eskom coal on rail (35.5 Mt on road) in 2011/12 | Eskom has completed Camden and Tutuka containerised coal terminals. The Majuba heavy-haul line project is underway. Eskom planned to transport 12.2 million tons by rail in 2012/13 once the Tutuka rail facility was operating. The actual amount transported was 10.1 million tons. |
| 2.7 Restructuring of the  electricity distribution industry | Cabinet decision concluded to terminate the REDS process | Cabinet decision concluded to terminate the REDS process | EDI restructuring process terminated. In the revised Delivery Agreement, the project will be excluded. |
| 2.8 Setting cost reflective tariffs while cushioning the poor from increasing electricity costs | The Inclining Block Tariffs (IBT), which provides preferential tariffs for the indigent, have been incorporated into the NERSA tariff determination for 2010/12 | As tariffs increase, three cushioning mechanisms in place – (a) inclining block tariffs, currently under implementation, (b) free basic electricity, (c) solar water heating | Estimated national implementation of FBE is about 70% to all indigent household’s customers and there is diverse number of challenges, including lack of funding. |

Source: Briefing by DPME on 8th October 2013

**5.9. Oversight visit reports- summary of key service delivery issues.**

The Portfolio Committee on Energy conducted oversight in the following sectors:

Ø **PETROLEUM INDUSTRY**

· *On the 05th December 2012, attended a public engagement on the outcomes of the Liquid Fuels Charter with the Minister in Midrand, Pretoria.*

* *Energy stakeholder meeting on transformation in the Petroleum Industry, 01 November 2012.*

The Portfolio Committee on Energy noted, that there was lack of transformation in this sector from the various stakeholders a feature that was collaborated by the audit conducted by the Department.

Ø **ENERGY EFFICIENCY**

* *The committee undertook site visits to various energy efficiency projects in the Cape Town area on 21 – 22 June 2013. The visits on 21 June 2012 included the following: the Kuyasa Solar Water Heater Project, the Manenburg Centre, and Goodwood Traffic Management Centre.  The visits on 22 June 2012 included: Nampak Tissue, Creda Communications, and the Hose Manufacturing Company.*

· *Visited the Council for Scientific and Industrial Research (CSIR) – focusing on energy efficiency programmes, on 03 December 2012.*

· *Visited St Gobain on energy efficiency initiatives – St Gobain is a manufacturing company which was assisted by CSIR on energy efficiency initiatives and programmes, 27 November 2012.*

· *Visit to Aurecon Building, Century City - the first building in South Africa to be awarded a 5 Star Green Star SA by the Green Building Council of South Africa (GBCSA), 27 November 2012.*

· *Invited stakeholders to make presentations on energy efficiency (EE) plans, programmes and policies. These public hearings were part of a roadmap to engage with the Department of Energy and make recommendations so that the Department’s revised energy efficiency strategy would be amended accordingly. The first round of the hearings was held on the 5th – 6th September 2012.*

* *Visited the South African Bureau of Standards (SABS) the aim of which was to engage with SABS on energy efficiency vis-a-vis appliances, on 03 December 2012.*
* *Held meetings of stakeholders in the renewable energy sector: exploring solutions to the challenges of financing and certification of locally produced renewable energy products, 30 August 2012*.

The Portfolio Committee on Energy noted:

I.        That there are initiatives undertaken by various entities that show progress in this area. This includes projects at the various government and private institutions visited.

II.        The Portfolio Committee on Energy noted that these energy efficiency programmes and initiatives are fragmented

III.        The Portfolio Committee on Energy noted that there are localization efforts, including development of standards. The Portfolio Committee on Energy observed lack of co-ordination, with regard to manufacturing, in terms of the full value chain.

Ø **NUCLEAR ENERGY**

*Visited Nuclear Energy Corporation (NECSA) in Pelindaba, December 2012.*

1)     With regard to the restructuring at NECSA, the Portfolio Committee on Energy indicated its concern with regards to retention of key and critical skills.

**2)**The Portfolio Committee on Energy appreciated the skills development and training programme at the Training Centre in Pelindaba. Of note was the Trade Test Centre – an add-on that NECSA established over and above its mandate for the benefit of others as well.

Ø **INTERNATIONAL WORK**

The Portfolio Committee on Energy also assessed Climate Change and Millennium Development Goals and attend the following events:

1) *A visit to Doha (Qatar) by the Chairperson on the 08th – 10th of December 2012.*The Doha Forum, entitled*Renewable Tigers*, took place immediately following the annual UN Climate Conference (COP18), which was hosted last year by Qatar. The ten countries represented in the Forum were Bangladesh, Congo Brazzaville, India, Jordan, Lebanon, Morocco, Senegal, South Africa, Tanzania and Tunisia. It is believed that these countries have the potential to do in renewable energy what the Asian Tigers have done in the manufacturing sector. All these countries have rich potential in solar, wind, hydro and other forms of renewable energy. All are severely threatened by climate change.

2) *On the 16th – 18th November 2012 Climate Parliament held hearings in Colombo, Sri-Lanka*and the Portfolio Committee on Energy was represented. Climate Parliament and UNDP held the first in an ongoing series of parliamentary meetings, as part of the Parliamentary Action on Renewable Energy (PARE) project. Over the course of the three-day Hearing, MPs heard presentations from climate scientists, policy experts, and technical specialists, questioned leading thinkers on potential solutions to the climate change problem, and worked together to discuss possible solutions and outline future legislation.

**6. COMMITTEE’S FINDINGS and response**

**Findings**

1.     The Portfolio Committee on Energy finds that that there was a “defective financial baseline” from which it started which has resulted in the Department of Energy not receiving adequate finding to achieve its mandate.

2.     The Department was appropriated R6.7 billion for this financial year. 98.9% was spent and 58% of the department targets were achieved. The Department of Energy did indicate that some of the remaining 42% is partially achieved which indicates challenges of efficiency.

3.     Transformation of the liquid fuels sector is progressing but at a very slow pace. An unencumbered stake of 25% by a black owned company in one of the major oil companies was achieved during the year. Some initiatives by the Department of Energy to ensure transformation in this space is acknowledged, e.g. the use of storage facilities at either end of the NMPP to allow access to smaller companies, but the Portfolio Committee on Energy  finds that the Department of Energy did not progress fast enough in terms of transforming this space.

4.     The issue of data management in the energy sector appears to be a problem that needs attention. The Portfolio Committee on Energy acknowledges that this is a difficult area to manage, and acknowledges that the Department of Energy has appointed staff to assist in the area of data compilation and digestion. However, the Portfolio Committee on Energy finds that data management is not of a good standard.

5.     The Portfolio Committee on Energy acknowledges the success of the Department in achieving (or overachieving above the 180 000 planned) 202 835 electricity connections in the last year, and especially the 9 343 non-grid connections. However challenges were identified during oversight visits in the working relationships between, municipalities, Eskom and the Department of Energy, a feature which results in compromising the quality of delivery.

6.     The Portfolio Committee on Energy acknowledges the construction of the two Integrated Energy Centres constructed at Ulundi and Mbizana last year.

**7. Summary of reporting requests**

|  |  |  |
| --- | --- | --- |
| **Reporting matter** | **Action required** | **Timeframe** |
| Updates by the Department on the formulation and renewal of the various plans and/or strategies | Written reports | With regard to the progress of the various plans and/or strategies, the Department must update the Committee on a frequent basis. |
| Department programme relating to people with disabilities | Written reports | The Department must forward the report to the Committee by 08 November 2013 |
| Forward Household Electrification strategy | Written reports | The Department must forward the report to the Committee by 08 November 2013 |
| Update on the ADAM pilot | Written reports | The Department must forward the report to the Committee by 08 November 2013 |

**8. Recommendations**

The Portfolio Committee on Energy recommends that the Minister of Energy should address the following:

1.     The Grand Inga Hydro Power Project be handled as one of the priority projects of the Department and an update be presented to the PCE by the 3rd term of 2014-15.

2.     Energy efficiency be addressed by empowering SANEDI in engaging in energy efficiency programmes. The strategy and plan thereof to be presented to the PCE by the 3rd term of 2014-15.

3.     The rate of delivery of Integrated Energy Centres be increased and the Department builds at least three in the current financial year, with special focus on rural areas.

4.     Skills development in the energy sector, in partnership with the relevant government entities and higher education institutions be intensified and report back to the Portfolio Committee on Energy by the end of the 3rd term of 2014-15.

5.     Not only co-ordination of research, within the entities it oversees, should be enhanced but assistance for the entities be increased to ensure full value chain to commercialization of research and development projects is maximised. Such enhanced support should be linked improved allocation of funds. The strategy and plan thereof to be presented to the PCE by end of the 4th term of 2014-15.

6.     Robust oversight over Energy Efficient Demand Side Management Programme Municipalities and Eskom is intensified. The Minister to update the PCE by the 3rd term of 2014-15.

7.     Transformation of the gas industry is firmly in place by concluding the refinement of policy on gas and substantial investments are mobilised as well as encouraging new entrants into the gas industry. The Minister to present the update on strategic interventions by the 3rd term of 2014-15.

8.     Ensure replication of the Kuyasa CDM project throughout SA on a mass scale. The Minister is to update the PCE by the 4th term of 2014-15.

9.     In conjunction with other sectors of Government to ensure all future designs, retrofitting and construction of government property are energy and resource efficient and such be extended to all built environment as a matter of urgency. The Minister of Energy, in conjunction with the Minister of Public Works to, prepare a plan to be presented to the Portfolio Committee on Energy by the 2nd term of 2014-15.

10.  In terms of the Renewable Energy Independent Power Producers Procurement Programme, the Minister of Energy to:

a)     Urgently address challenges of the complex and expensive bidding process, job creation, skills transfer in partnership with other departments;

b)    Reverse the lack of initiatives to take advantage of the emerging opportunities and ensure the establishment of a local manufacturing renewable energy industry to achieve the 60 percent target on local content;

c)     To closely monitor skills transfer to emerging businesses;

d)    To ensure the 2.1 percent of project costs that are earmarked for socio-economic development are strictly adhered to – such must include clear guidelines on how this money should be spent;

e)     Develop mechanisms to ensure South African bidders have a higher number of local participants during subsequent phases beyond Windows 1,2 and 3 of the REIPPPP;

f)     To mobilize provincial Financial Development Institutions to enhance their contribution on the renewable energy programmes by the 4th term of 2014-15.

The Minister should include updates on the above mentioned (a-f), to the Portfolio Committee on Energy, when updating the committee on the IRP.

11.  In terms of “exploring solutions to challenges on financing and certification of locally produced renewable products”, the Minister of Energy to:

11.1.Engage with the Banking Association of SA (BASA), the Industrial Development Corporation (IDC) and other financing entities as well as the SABS to explore solutions to problems faced by the renewable energy sector.

11.2.Engage with the National Treasury and the Department of Cooperative Governance and Traditional Affairs (COGTA) to explore ways of resolving the issue of local government authorities being prevented from purchasing energy from IPP’s.

12.  Formulate a compensation strategy for the establishment of the African Mining Exploration and Financing Corporation by the Central Energy Fund through conversion of the loans into equity.

13.  In partnership with the Minister of transport develop a green transport strategy and programme as part of the Green Energy Strategy by the 3rd term of 2014-15.

14.  Institutionalise research into fossil fuels and present the plan to the Committee by 4th term of 2014-15

15.  Explore mechanisms in addressing enhanced funding to SANEDI

16.  Explore mechanisms to enhance CEF’s manufacturing capacity in the energy sector

17.  Update the Committee on the following investigations (once they are finalised);

17.1.Allegations that State employees are involved in the procurement processes

17.2.Investigations relating to employees allegedly having interest and/or performing remunerative work without approval.

17.3.Investigation relating to irregular expenditure in supply chain management and one relating to employee costs.

18.  Remove the reference to REDS in the ADAM policy and programme as well as replace it by an appropriate policy directive

19.  Intensify efforts on non-grid electrification, especially in rural areas and report by 3rd term of 2014-15.

20.  The Minister should, once again, ensure that staffing is prioritised - particular reference is made on legislative capacity as well as personnel for regional offices, international relations and oversight unit on entities.

21.  Appointment of permanent Chief Financial Officers at entities must be urgently addressed within six months from submission of this report.

22.  Ensure that when determining the rate that municipalities charge their customers for electricity, NERSA also meticulously assesses the components of the rate and regularly audit the actual expenditure of municipalities.

23.  With regard to establishment of “end user forums” ensure that NERSA, in conjunction with South African Local Government Association and the Department of Energy to continue establish appropriate mechanisms to roll out this programme once the relevant legislation is in place.

24.  Ensure that NECSA intensify its transformation and present an update to the Portfolio Committee on Energy by the 3rd term 20140-15

25.  With regard to Pelchem, ensure that NECSA must make every endeavour to ensure it is a financially viable entity and strong focus on investing in the fluorspar industry by the 3rd term 20140-15.

26.  Ensure that the NNR intensify its public awareness campaigns as well as efforts to demystify nuclear energy.

27.  Ensure NNR makes pay more attention on “ownerless legacy sites” especially the mine dumps with radioactive waste with the assistance of the Department of Energy and other relevant sectors of government. The Minister should update the Committee by the 3rd term of 2014-15.

28.  Enhance the role of SANEDI on the “Working for Energy Programme”.  Update the Committee on the above three points by the 4th term of 2014-15.

29.  Ensure that research and development projects that are developed in SANEDI are commercialised within the shortest possible time frames whenever possible. Update the Committee on the above three points by the 4th term of 2014-15.

30.  Ensure that funding for research and development, not only in renewable energy technology but also on the development of new products in the energy sector be enhanced including working with SANEDI, universities and the renewable energy industry to minimize the critical research gap that requires funding. Update the Committee on the above three points by the 4th term of 2014-15.

31.  Ensure there is proper management of procurement at some of the entities of CEF. The Minister is to regularly update the Committee on this matter.

**9. CONCLUSION**

The operational context in which the Department of Energy is assessed for the period under review has been unfortunately less conducive. The environment within which practitioners of energy sector, lead by the Department of Energy, operate is an assortment of conducive and compromising factors viz.:

Ø  Enabling factors such the IRP as well as a number of regulations that were introduced during the period under review.

Ø  Unfortunately the deficient financial baseline upon which the Department was established, fragmented regulatory environment, absence of or unrefined legislation have tended to compromise the work of the Department.

Ø  Erratic fluctuation of oil prices globally.

Ø  Demand on electricity has been steadfastly outstripping supply.

Ø  Economic growth has been severely compromised.

Notwithstanding the above challenges, the DoE under the leadership of Minister Dikobe-Martins, Deputy Minister Thompson and the Director-General, Ms Magubane, have been resilient enough to grow the department and also enhance its performance and effectiveness in a number of respects.

**10. Appreciation**

The Committee would like to express its gratitude to the Minister, Hon D Martins, the Deputy Minister, Hon B Thompson, the Director-General, Ms N Magubane and the executive management team (Team Energy) of the Department of Energy, the Department of Performance Monitoring and Evaluation, the Office of the Auditor General, the Financial and Fiscal Commission and the Chief Executive Officers of the respective state-owned companies reporting to the Department of Energy.

**11. REFERENCES**

·         The 2012/13 annual Reports of the Department of Energy and the entities that account to it

·         Presentations to the Portfolio Committee on Energy by the:

o    Department of Performance Monitoring and Evaluation

o    Auditor-general of SA

o    Financial and Fiscal Commission

·         Budget Review and Recommendation  Report, presentation to the Members of the National Assembly by Mr. E. M. Sogoni on the 7th February 2013

·         The State of the Nation Address (February 2013)

·         Budget Review and Recommendation Reports (2010, 2011, 2012) National Treasury, 2012. Estimates of National Expenditure 2012. Pretoria, South Africa

·         National Treasury, 2013. Estimates of National Expenditure 2012. Pretoria, South Africa

·         Minutes and Reports of the Portfolio Committee on Energy (2012/2013)

· [http://www.gov.za/issues/national-infrastructure-plan/index.html downloaded on 2013/10/14](http://www.gov.za/issues/national-infrastructure-plan/index.html%20downloaded%20on%202013/10/14)

Report to be considered.