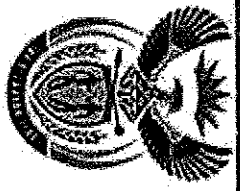


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ENERGY PRICING IN SOUTH AFRICA

MR TB MAQUBELA



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- Introduction
- Supply/ Demand Balance
- Pricing of Petroleum Products
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- Conclusion
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- Summary of Electricity Pricing Policy (EPP)
Electricity Pricing Policy of 2008

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INTRODUCTION

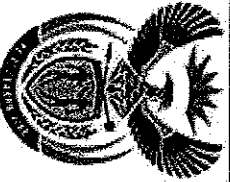
- South African economy relies heavily on Liquid Fuels
- Even Eskom and increasingly BPC of Botswana relies on Liquid fuels for Peaking Power plants – Diesel Gen
- RSA is dependent on imported Oil and increasingly imported Petrol and Diesel imports
- Prices of both Crude Oil and Finished products increasing
- Impacted by upheavals in North Africa, Middle East and EU-US sanctions
- No proven reserves in the country yet – Gas promising
- No significant footprint of crude externally

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INTRODUCTION

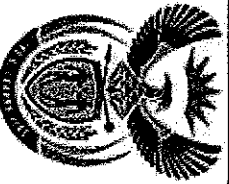
- **Manufacturing and Wholesale** – 10 700 Direct Jobs are supported in these activities alone – Excludes coal mining jobs for Sasol's Coal To Liquids
- **Retail** – 70 000 direct jobs supported – 1 200 additional are expected to be created this year alone
- **Manufactures Feedstock for Chemical Industry**, which in turn support tens of thousands of jobs

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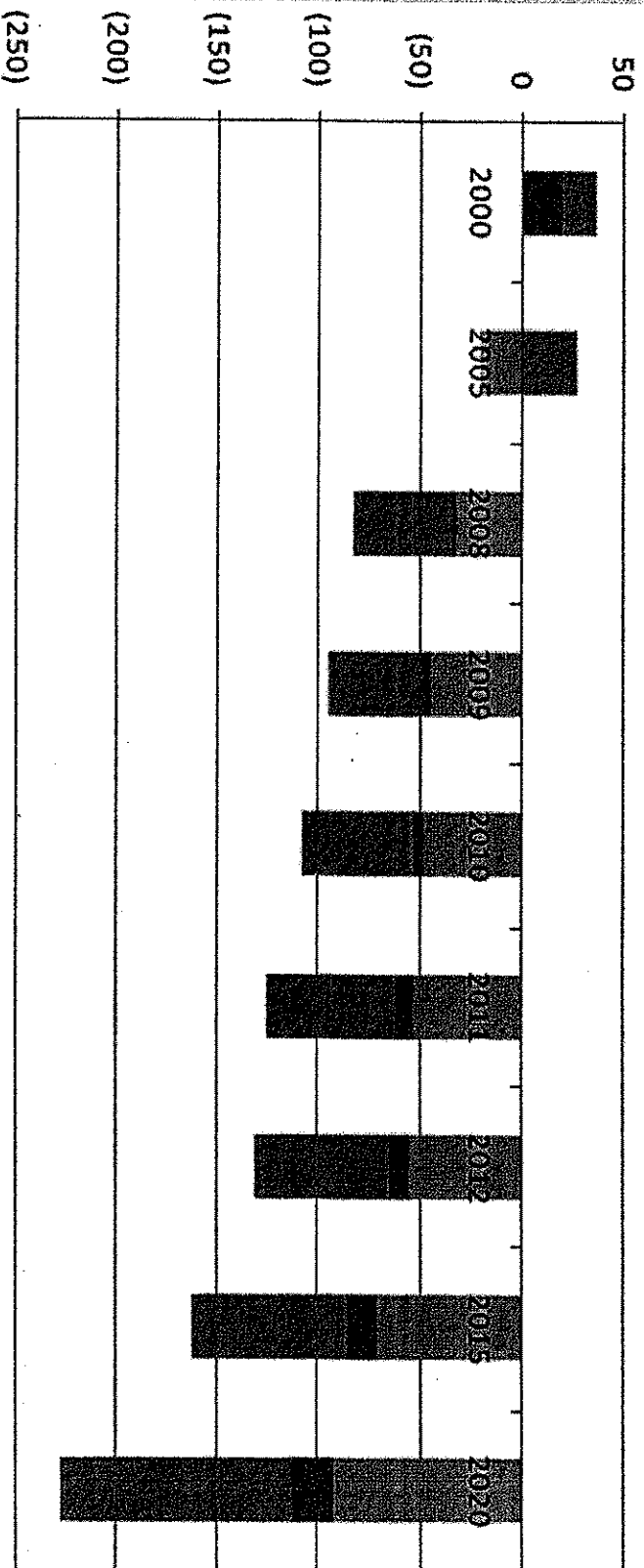
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SUPPLY AND DEMAND BALANCE IN SOUTH AFRICA

South Africa + BLNS Refined Transportation Fuel
Balance Surplus/(Deficit) ' 000bpd



Motor Gasoline
 Jet/Kerosene
 Gas/Diesel Oil
 KBC (July 2012)

The 200k bpd by 2020 represents 40% of total demand in the region

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PRICING OF PETROLEUM PRODUCTS

Import Parity Pricing System

- Assumes that supplies of petroleum products are deemed to be sourced from overseas refining centres capable of meeting South Africa's requirements in terms of both product quality and sustained supply considerations.
- **Exposes** the country to global geopolitical, economic and financial developments
- **Price of petroleum products (BFP)** is influenced by changes in crude oil and refined petroleum product prices and the value of the Rand to the US Dollar.

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PRICING OF PETROLEUM PRODUCTS

Composition of fuel price structure

BFP + Levies + Margins = Retail price

BFP:

Free-on-Board (FOB) : prices of international petroleum prices

Transport (freight) costs from refining centres to RSA ports

Ocean Leakage: Internationally accepted losses in transporting fuel at sea

Insurance: 0.3% of the sum of the FOB-value and transport costs

Demurrage: Three (3) days allowed in BFP structure at in and out ports.

Stockholding costs: Cost to hold stocks at primary storage facilities for 25 days

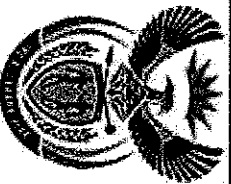
Stock financing costs: Determined on the BFP-value of a product for 25 days at the prime interest rate less 2%

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CURRENT FUEL PRICE INCREASES

Contributing reasons:

- Positive sentiment on prospects for economic growth in China and US
- Increased demand – due to low end year inventories of Crude – Tax Implications
- Products affected by massive planned and some unplanned Refinery shutdowns in the US and Europe – Preparation for Summer Season and Specs
- One refinery closure announcement in the US – Hess - Over-emphasized
- Chinese Lunar New Year Effect – Increased Demand – 3rd Highest imports ever

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CONCLUSION

- Import Parity Pricing needs to be maintained as RSA is in import mode
- Tweaks may be necessary
- South Africa needs a vibrant refining sector – Input to Chemical Sector
- Beneficiation of Crude Oil, Coal and Gas
- Finding Crude Oil along RSA Shores could change competitiveness of the economy

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ELECTRICITY SECTOR OBJECTIVES

In perspective these come from the 1998 Energy White Paper

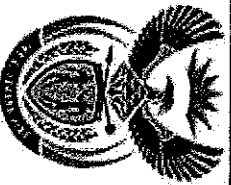
- Improve social equity by addressing the needs of the low income group
- Enhance efficiency and competitiveness by providing reasonable priced power to all sectors
- Provide non discriminatory access to the transmission system
- Facilitate participation of the private sector in power generation

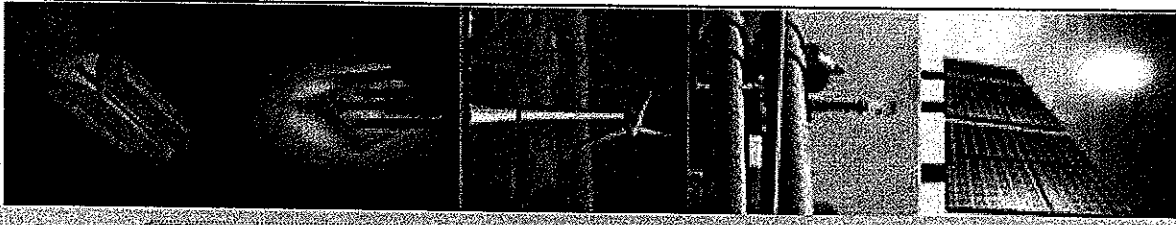
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- 1
- Least economic cost
 - The lowest cost of the life cycle cost to both the supplier and the customer referring to various supply options for the supply of electricity

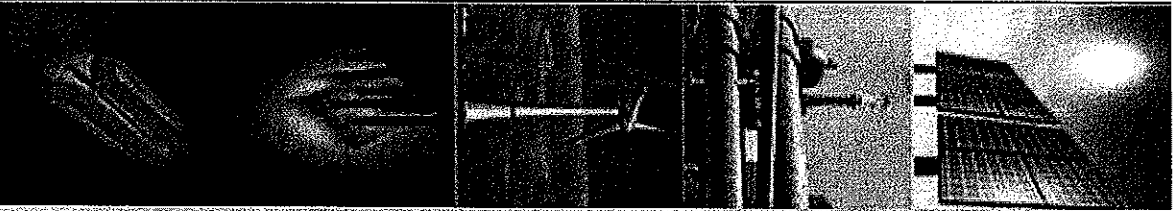
- 2
- Cost reflectivity
 - Reflect the full economic cost of supplying a class of customers as reflected by size and consumption profile

- 3
- Electricity sector financial sustainability
 - Future financial viability without over burdening the fiscus



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4

- Non discriminatory
- Tariffs should be equitable and fair

5

- Efficient use
- Tariffs should promote overall demand and supply economic efficiency

6

- User must pay
- Provide a link between a price a user must pay to the cost of serving that user

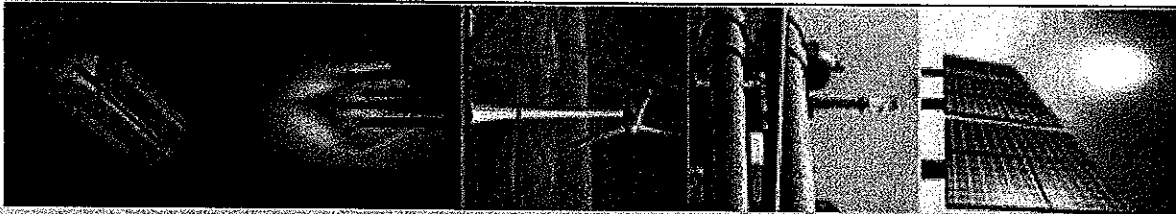
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7

- Social support
- Tariff level and structures that support social programmes

8

- Returns
- Licensees must get a fair and reasonable return

9

- Transparent and unbundled
- Prices to be unbundled and no cost to be hidden, tariffs easy to apply

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