[The following report replaces the Report of the Portfolio Committee on Energy, which was published on page 210 of the Announcements, Tablings and Committee Reports dated 09 May 2018]

REPORT OF THE PORTFOLIO COMMITTEE ON ENERGY ON THE BUDGET VOTE NO. 26 OF THE DEPARTMENT OF ENERGY, DATED 09 MAY 2018

1. INTRODUCTION

1.1. Subject of the report

The subject of this report is to report back to the National Assembly (NA) on the Portfolio Committee on Energy's findings after evaluating and assessing the Budget Vote No 26 of the Department of Energy.

1.2. Background

Strategic Plans identify strategically important outcome orientated goals and objectives against which public institutions' medium-term results can be measured and evaluated by Parliament, provincial legislatures and the public. Annual performance plans identify the performance indicators and targets that the institution will seek to achieve in the upcoming budget year. The annual budget sets out what funds an institution is allocated to deliver services. The Annual performance plan shows funded service-delivery targets or projections. The annual budget indicates the resource envelope for the year ahead, and sets indicative future budgets over the medium term expenditure framework (MTEF). The budget covers the current financial year and the following two years.

At the beginning of every year, the Minister of Finance tables before Parliament, amidst great expectation and anticipation by South Africans, a detailed outline of the State's Budget: how much money will be or ought to be spent, on what, in that financial year.

Thereafter, various government Departments present their budget votes before Parliament -specifying how they intend reconciling their resources with service delivery imperatives as outlined by the President of the Republic of South Africa in the State of the Nation Address. One of the main statutory functions of Parliament is to discuss, pass and oversee the State's Budget. The Department of Energy's Budget (Vote No. 26) was referred to, for consideration and reporting.

In compliance with the referral by the National Assembly, the Committee held a Strategic Plan, Annual Performance Plan and Budget Vote briefing on 17 April 2018 with the Department of Energy (the Department) to consider its Annual Performance Plan, Budget Vote and Strategic Plan.

1.3. Objectives of the report

The objectives of the report are as follows:

- To describe and analyse the budget of the Department of Energy (DoE) over the 2018/19 financial year;
- To conclude on implications and make recommendations thereto.

2. STRATEGIC PLAN AND ANNUAL PERFORMANCE PLAN

The core business of the Department is premised amongst others on the Energy White Paper of 1998 as well as the National Energy Act, 2008 (Act No. 34 of 2008) which, amongst others mandates the Department to ensure that diverse energy resources are available, in sustainable quantities and at affordable prices, to the South African economy in support of economic growth and poverty alleviation, while taking into account environmental management requirements and interactions amongst economic sectors.

In carrying out this mandate, the Department develops legislation; undertakes programmes and projects; and in some instances, transfer resources to various implementing agencies and state owned entities (SOEs). The SOEs reporting to the DoE are as follows:

Table 1: Entities Reporting to the Department

Name of Public Entity	Mandate
National Nuclear Regulator (NNR)	The NNR is established in terms of the National Nuclear Regulator Act, 1999 (Act No. 47 of 1999).The Act establishes the regulator as a competent authority for nuclear regulation in South Africa. The purpose of the NNR, as outlined in Section 5 of the National Nuclear Regulator Act, 1999 (Act No. 47 of 1999) is to essentially provide for the protection of persons, property & the environment against nuclear damage through the establishment of safety standards & regulatory practices.
Central Energy Fund (CEF)	To finance and promote the acquisition of research into and exploitation of oil, gas and renewable/clean energy-related products and technology.
South African Nuclear Energy Corporation (NECSA)	NECSA is established in terms of Section 3(1) of the Nuclear Energy Act, 1999 (Act No. 46 of 1999).The Act provides for the commercialisation of nuclear and related products and services, and delegates specific responsibilities to the corporation, including the implementation and execution of national safeguards and other international obligations. The Nuclear Energy Policy of 2008 reinforced NECSA's mandate relating to Research and Development (R&D) and Nuclear Fuel Cycle (NFC) responsibilities.
National Radioactive Waste Disposal Institute (NRWDI)	NRWDI is a Nuclear Waste Disposal Institute established in terms of Section 3 of the National Radioactive Waste Disposal Institute Act, 2008 (Act No. 53 of 2008).The act provides for the establishment of an NRWDI in order to manage radioactive waste disposal on a national basis and to provide for its functions and for how it is to be managed. The Institute is not operational as yet.

Name of Public Entity	Mandate
National Energy Regulator of South Africa (NERSA)	NERSA is a regulatory authority established as a juristic person in terms of Section 3 of the National Energy Regulator Act, 2004 (Act No. 40 of 2004). NERSA's mandate is to regulate the electricity, piped-gas and petroleum pipeline industries in terms of the Electricity Regulation Act, 2006 (Act No. 4 of 2006), Municipal Finance Management Act, 2003 (Act No. 56 of 2003), the Gas Act, 2001 (Act No. 48 of 2001) & the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).
South African National Energy Development Institute (SANEDI)	SANEDI is an applied energy research institute established in terms of Section 7(1) of the National Energy Act, 2008 (Act No. 34 of 2008).

Source: DoE APP 2018/19

3. ORGANISATIONAL ENVIRONMENT

- Total No. of Posts on DoE's approved Organizational structure: **846**
- Total No. of Unfunded Posts: **225** - Funding of positions is based on budget allocation from National Treasury.
- Total No. of Funded Posts: **621**
  - Filled Posts: **499**
  - Vacant Posts: **122**
- Total No. of Additional posts: **46**
- Interns: **25**
- Permanent: **15**
- Contracts: **6**

Regarding Compensation of Employees (CoE), the budget is expected to increase at an average annual rate of 7.1 percent, from R333.2 million in 2017/18 to R409.2 million in 2020/21. Despite the increase in budget, the Department's staff compliment is expected to decrease by 28 over the medium term, from 597 in 2017/18 to 567 in 2020/21. However, the Department anticipates to fill critical posts at a senior management level in Energy Policy and Planning, Petroleum and Petroleum Products Regulation and Electrification and Energy Programme and Project Management programmes[1].

4. PRIORITIES OF THE DEPARTMENT FOR 2018/19 FINANCIAL YEAR

According to the APP for 2018/19, the Department will focus on the following key strategic areas, amongst others:

4.1 Legislation to be tabled in Parliament

In the previous Parliamentary Term, fourth Parliament, the Department had an exhaustive list of legislation scheduled for submission to the Cabinet and Parliament. However, to date, as the fifth Parliament is in its

[1] Ibid

final year, none of the promised legislation has been tabled in Parliament. Instead, the number of bills to be submitted to Parliament falls every year, without any explanation on what happened to the other legislative measure that had been planned for submission to Parliament in the previous years. Whilst in the quarterly performance indicators there is a mention of progress in some of the legislation, the reality is that the target of the bills being tabled in Parliament has never been reached; instead, the dates are moved forward to a later quarter or year.

In the 2015/16 APP, the Department had indicated it would submit seven pieces of legislation to Parliament, the deadlines of were mainly the end of March 2016 and the end of March 2017. The seven legislative measures[2] comprised the following:

1. **Electricity Industry Structure Bill**: The aim of the Bill is to encourage increased investment in electricity generation to enable the country to meet the required electricity supply capacity needed for economic growth.

2. **Electricity Regulation Amendment Bill (to amend the Electricity Regulation Act, 2006 [Act No. 4 of 2006], as amended)**: the purpose of the Bill is to provide a regulatory framework that promotes Independent Power Producer (IPP) participation.

3. **Energy Regulator Amendment Bill (to amend the National Energy Regulator Act, 2004 [Act No. 40 of 2004])**: The Bill aims to promote efficient regulation of the energy sector.

4. **Promulgated National Nuclear Regulator Amendment Act**: The aim is to review and update existing legislation, taking into consideration the current developments.

5. **Nuclear Energy Act Amendment Bill**: The purpose of the Bill is to review and update existing legislation, taking into consideration the current developments.

6. **National Radioactive Waste Management Fund Bill**: The Bill aims to ensure existence of the funding mechanism for radioactive waste management.

7. **Develop Strategic Fuel Fund (SFF) Bill**: The purpose of the Bill is to establish a national petroleum reserve organisation to manage the strategic stock of petroleum and gas.

Of the seven bills, only two were carried over into the next financial year (2017/18). These were the National Energy Regulator Amendment Bill and the Electricity Regulation Amendment Bill. In the APP, there was no explanation on the rationale for only two bills instead of seven being accounted for. In the current financial year APP (2018/19), there are two Bills planned to be submitted to Cabinet before the end of the financial year and these are the National Energy Regulator Amendment Bill and the Gas Amendment Bill.

[2] DoE Annual Performance Plan, (2015/16)

4.2 Integrated National Electrification Programme (INEP)

Compared to other countries in sub-Saharan Africa, South Africa has made tremendous progress in terms of electrification. This could be attributed to the National Electrification Programme that the South African government embarked on after 1994. Through this programme, the level of household electrification increased from 36 per cent in 1994 to 86 per cent in 2018, with over 7.2 million households having been electrified under the programme[3], a significant milestone for South Africa and unprecedented internationally. Through the programme, the government further aims to electrify 97 per cent of households by 2025 through grid and off-grid solutions. In recent years, grid connection rates have substantially declined[4]. Some of the reasons for this is given below:

- Significant bulk electricity generation capacity constraints;
- Electrification spending being used to fund not only electricity connections as in the past, but also upgrades of an ageing network backbone infrastructure, resulting in a lower share of available funds being targeted for new electricity connections;
- Increasing growth in the number of new households, with the backlogs and new developments that need to be serviced, and the associated increased costs to electrify poor urban households typically located on the margins of the urban areas and in remote rural areas;
- Municipalities experiencing enormous capacity challenges with regard to availability of planning and technical personnel to undertake the electrification within their jurisdictions; and
- The ongoing rural urban migration arising from historic spatial inequalities increasing pressure on already constrained power supplies in the urban areas.

For the 2018/19 financial year, the Department aims to deliver 200 000 connections through grid and 20 000 through non-grid technologies. In the previous financial year, the Department had committed to deliver 235 000 grid connections and 15 000 through non-grid by the end of March 2018. When reporting on its 2017/18 third quarter report to the Portfolio Committee on Energy, the Department indicated that the aforementioned targets are likely to be achieved[5].

Whilst the budget for this programme has been reduced due to tight fiscal financial constraints by almost 13 percent, in real terms, the Department has committed to ensuring that the target of electrifying 1.25 million households by the end of 2019 is realised[6].

4.3 Integrated Energy Plan (IEP) and the Integrated Resource Plan (IRP)

The development of a National Integrated Energy Plan (IEP) is envisaged in the White Paper on the Energy Policy of the Republic of South Africa of 1998. In terms of the National Energy Act, 2008 (Act No. 34 of

[3] Department of Energy, (2018)
[4] Sustainable Energy Africa, (2014)
[5] Department of Energy 2017/18 Third Quarter Presentation (2018)
[6] Department of Energy, (2018)

2008), the Minister of Energy is mandated to develop and, on an annual basis, review and publish the IEP in the Government Gazette. Thus, the purpose and objectives of the IEP are anchored in the National Energy Act, which requires the IEP to have a planning horizon of no less than 20 years. As a long-term plan, the IEP is intended to provide a roadmap of the future energy landscape for South Africa which guides future energy infrastructure investments and policy development. The Draft IEP has been developed by the DoE and an update thereof was presented to the Portfolio Committee on Energy on the 14th of February 2017. It is important to note that the current draft IEP has been under development for several years. The first Draft Report was presented to the Portfolio Committee on Energy on 20 August 2013. At the time, the Department indicated that the required stakeholder consultation would take four months and the policy be finalised in six months. Thus, the finalised policy should have been completed in November 2014.[7] However, to date, the IEP has not been finalised. According to the Department, the Plan will be finalised during the current financial year.

As alluded to above, the IEP is an overarching energy policy – this means that following its finalisation, sector specific plans which seek to implement what is envisioned in the IEP must be developed. These plans include the Integrated Resources Plan (IRP). The future development of the IRP draws its mandate from the Electricity Regulations for New Generation Capacity, promulgated by the DoE on 5 August 2009. Although the regulations refer to resource planning, it should be clear that this is only about electricity planning. The IRP is a process by which the requirement for investment in generation capacity for South Africa is determined. It aims to provide an indication of the country's electricity demand, how this demand will be supplied and what it will cost. The IRP 2010-30 was promulgated in March 2011. It was indicated at the time that the IRP should be a "living plan" which would be revised by the DoE every two years. This would mean that by March 2013 there should have been a new iteration of the plan. However, this was delayed due to a number of challenges – the argument from the Department at the time was that the IEP had to be finalised before the IRP. However, it seems, somehow, this argument had changed as Cabinet hastily adopted the IRP in December 2017. When briefing the Committee in February 2018, the Department had indicated that whilst the Cabinet adopted the IRP, it also raised concerns, hence the revised Plan has not been publicised. The Department further stated that the IRP would be sent back to Cabinet for reprocessing by the new Cabinet.

4.4 Renewable Energy Independent Power Producer Procurement Programme

According to the current official Integrated Resource Plan for electricity, by 2030, 42 per cent or 17.8 gigawatts (GW) of new generation capacity should come from renewable energy.[8] To deliver on this, the DoE launched bidding windows under its Renewable Energy Independent Power Producer Procurement

[7] Department of Energy, (2013)
[8] Department of Energy, (2011)

Programme (REIPPPP). To date, in four separate Ministerial determinations, the Energy Minister has determined that 14 725 megawatts (MW) of renewable energy capacity be procured, drawing on onshore wind, solar photovoltaic (PV), concentrated solar power (CSP), biogas, biomass, landfill gas and small hydro.

The renewable energy programme has been regarded as one best in the world. However, the programme experienced a number of challenges in the past three years. Amongst the challenges, key was Eskom refusing to sign Power Purchase Agreements (PPA) with 27 Independent Power Producers (IPP). It is with great relief that the 27 projects have since been signed. The signed IPP projects will contribute R9.8 billion to socioeconomic development initiatives and R3.39 billion to enterprise development over the 20-year life of the projects[9].

4.5 Solar Water Heater Programme

For the past four years, the Portfolio Committee on Energy has been raising concerns about the slow pace in the implementation of the National Solar Water Heating Programme (NSWHP). Initially, the Programme had a target of installing 1 million solar water heaters (SWHs) by 2014. However, the programme has installed just over 400 000 units so far – meaning the target was not realised. Despite the failure to meet the 1 million target, the current administration has set a cumulative target of 1,75 million SWH installations by 2019 and further established a long-term target through the National Development Plan (a cumulative target of 5 million solar water heaters by 2030). In an effort to address the slow pace in implementing the programme, a new contracting model was devised and was approved by Cabinet.

The original programme was managed by Eskom and was targeted at private and commercial installations that already had geysers and electricity, with the aim of reducing the demand by electric geysers on the grid (load reduction programme). The incentive used was a subsidy on the purchase price of installed SWHs, based on the reduction in peak demand and energy achieved. An additional programme of replacement of failed electric geysers with solar water heating system was implemented by the short-term insurance industry.

The rollout of low-pressure heaters (the social programme) was handled by municipalities, supported by Eskom, with full subsidies. Eskom ceased to be involved in the programme and officially handed it over to the DoE in May 2015, as its prime business was the generation and distribution of electricity, not solar water heaters.

The new programme is managed by the DoE and it is separated into Supply and Installation programmes. According to the Department, there has been great progress made with implementation of the Supply Programme. Since the programme has been moved back from Eskom, over 80 000 units have been

[9] Engineering News, (2018)

manufactured[10], however, there is no progress on installation. The Department has taken a decision to move the installation phase of the programme to the Central Energy Fund (CEF) and IPP Office[11].

4.6 Petroleum Industry

Regarding the petroleum sector, the Department will continue to monitor compliance with the Liquid Fuels Charter commitment, which requires that historically disadvantaged South Africans own 25 per cent of the aggregate value of the equity of the entities that hold the operating assets in the South African Oil industry. The sector remains largely untransformed, especially in the retail sector[12]. To this end, the Department commissioned an independent audit to confirm the extent of transformation in the petroleum retail sector[13]. The aim of the audit is to provide a baseline in the alignment of Petroleum and Liquid Fuels Charter with the national the Broad Based Black Economic Empowerment (B-BBEE) policy framework[14]. Furthermore, the Department is developing the petroleum sector codes, to ensure monitoring, evaluation, reporting and enforcement.

Pertaining to the country's refining capacity; the national demand for petroleum products outstrips supply from domestic refineries. Although the country has six refineries, four of which are crude oil refineries, the country imports an increasing share of refined products[15]. As a result, in 2015 there was a steep increase in the amounts of diesel and petroleum imported into the country. The National Development Plan (NDP) anticipated that by 2017 a decision would be made on building a new refinery. In line with the NDP, the Department, in the previous financial year had indicated that it would make recommendations and proposals regarding the refining capacity in South Africa. To date, a decision has not been made on the expansion of the refining capacity. In the current APP, the Department states that it will "…soon make a policy decision regarding the refining capacity of the country, especially as we move towards Cleaner Fuels II"[16]. Whist a decision has not been made; there is a general view that there is a need for a new refining capacity for South Africa.

4.7 Regional Integration and Energy Cooperation

According to the APP, the Department will continue to maintain cooperation with the Southern African Development Community (SADC) region, the Africa continent and the rest of the world. These strategic partnerships are in line with the energy interest of the country, particularly the need for energy security of supply, diversification of energy mix, and access to finance, technology, technical skills and energy information. In line with this imperative, the DoE has forged bilateral and multilateral relations that meet the DoE's strategic objectives. During the current financial year, South Africa assumes the Chairship of BRICS, with the DoE leading the work in the energy sector, and specifically hosting the Third BRICS Energy

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[10] Department of Energy, (2018)
[11] Ibid
[12] Department of Energy, (2018)
[13] Ibid
[14] Ibid
[15] Ibid
[16] Ibid

Ministers meeting and the meeting of the BRICS Working Group on Energy Saving and Improvement of Energy Efficiency[17].

Furthermore, the 2018 SADC Summit is also under the Chairship of South Africa. A number of sectoral meetings and engagements will precede the Summit, with the DoE hosting the meeting of the SADC Energy Ministers during June 2018[18]. One of the deliverables during South Africa's Chairship of SADC will be the development of the Regional Gasification Strategy and Plan. South Africa will work with the SADC secretariat. During the year under review, the Department will also work with the relevant SADC member states towards concluding and signing of the Inter-governmental Memorandum of Understanding (IGMoU) and Inter-utility Memorandum of Understanding (IUMoU) on the Inga III transmission line for the transmission of power from the Inga III Hydropower Project with the Democratic Republic of Congo (DRC)[19].

5. BUDGET OF THE DEPARTMENT OF ENERGY (2018/19)

This section provides analysis of the overall budget allocation for the DoE for the 2018/19 financial year.

Table 2: Overall Budget of the Department of Energy

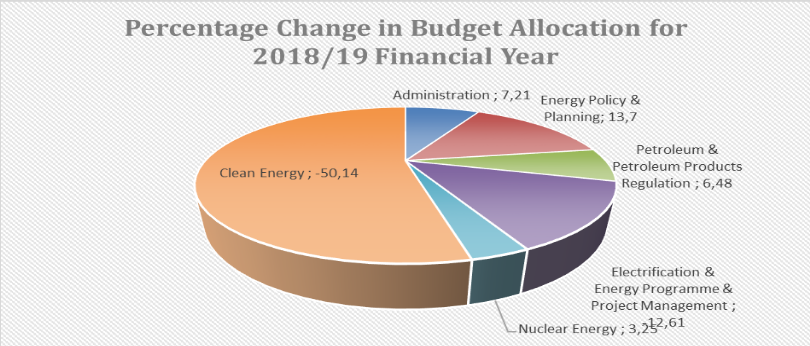
Programme	Budget		Nominal Increase / Decrease in 2018/19	Real Increase / Decrease in 2018/19	Nominal Percent change in 2018/19	Real Percent change in 2018/19
R million	2017/18	2018/19				
Administration	263,6	282,6	19,0	4,3	7,21 %	1,62 %
Energy Policy & Planning	46,7	53,1	6,4	3,6	13,70 %	7,78 %
Petroleum & Petroleum Products Regulation	81,8	87,1	5,3	0,8	6,48 %	0,93 %
Electrification & Energy Programme & Project Management	6 220,0	5 435,4	- 784,6	- 1 068,0	-12,61 %	-17,17 %
Nuclear Energy	790,9	816,6	25,7	- 16,9	3,25 %	-2,13 %
Clean Energy	742,5	370,2	- 372,3	- 391,6	-50,14 %	-52,74 %
TOTAL	**8 145,4**	**7 045,0**	**- 1 100,4**	**- 1 467,7**	**-13,5 %**	**-18,02 %**

Source: National Treasury, (2018) & Research Unit Own Calculations

As evident in the above table, the overall budget of the DoE has decreased by R1.467 billion, from R8.1 billion in 2017/18 to R7 billion in 2018/19. This means the Department's budget has decreased by 18 percent, in real terms. The reductions of R1.4 billion were approved by Cabinet for the 2018/19 financial year. The reductions are mainly on the Electrification and Energy Programme and Project Management, the Department's largest programme, which account for almost 77 percent of the projected budget over the medium term[20]. There is a substantial decrease on the clean energy programme, a decrease of over 50 percent. The biggest increase is in the Energy Policy and Planning programme, an increase of almost 8 percent, in real terms. The details on the decrease or increase in programmes will be discussed in the

[17] Ibid
[18] Ibid
[19] Ibid
[20] National Treasury, (2018)

subsequent section.



The above Chart shows the percentage change, such as increase or decrease in budget allocation per programme for the 2018/19 financial year. The percentage is in nominal terms, meaning inflation is not taken into account. As can been seen, the Clean Energy Programme budget allocation decreased by 50 percent, Electrification and Energy Programme and Project Management decreased by almost 13 percent. Allocations for the Administration programme increased by 7 percent, Energy Policy and Planning increased by almost 14 percent, Nuclear Energy by 3 percent, whilst the Petroleum and Petroleum Products Regulation increased by 6 percent.

5.1 Programme Analysis

As indicated in the preceding section, the Department has six programme areas, namely - Administration; Energy Policy and Planning; Petroleum and Petroleum Products Regulation; Electricity and Energy Programme and Project Management; Nuclear Energy; and Clean Energy. It is also noteworthy that these departmental programmes have their respective sub-programmes as well.

5.1.1 Programme 1: Administration

The aim of this programme is to provide strategic leadership, management and support services to the Department.

Table 3: Programme1: Administration

Programme	**Budget**		**Nominal Increase / Decrease in 2018/19**	**Real Increase / Decrease in 2018/19**	**Nominal Percent change in 2018/19**	**Real Percent change in 2018/19**
R million	**2017/18**	**2018/19**				
Ministry	39,3	33,3	- 6,0	- 7,7	-15,27 %	-19,68 %
Departmental Management	63,6	73,2	9,6	5,8	15,09 %	9,09 %
Finance Administration	36,1	39,3	3,2	1,2	8,86 %	3,19 %
Audit Services	6,1	8,5	2,4	2,0	39,34 %	32,08 %
Corporate Services	82,8	79,2	- 3,6	- 7,7	-4,35 %	-9,33 %
Office Accommodation	35,8	49,2	13,4	10,8	37,43 %	30,27 %
TOTAL	**263,6**	**282,6**	**19,0**	**4,3**	**7,2 %**	**1,62 %**

Source: National Treasury, (2018) & Research Unit Own Calculations

The budget for this programme increased from R263.6 million in 2017/18 to R282.6 million in 2018/19. This translates into a budget increase of 7 percent in nominal terms, however, in real terms, the budget increases by only 2 percent. The above table illustrates that the largest chunk of the budget, although it has decreased by 4 percent in real terms, is allocated to Corporate Services, followed by Departmental Management and Office Accommodation. Allocation for Departmental Management increased by 15 percent in nominal terms, whilst Office Accommodation increased by 37 percent in normal terms.

5.1.2 Programme 2: Energy Policy and Planning

This programme aims to ensure evidence-based planning, policy setting and investment decisions in the energy sector to improve the security of energy supply, regulation and competition.

Table 4 : Programme 2: Energy Policy and Planning

Programme	Budget		Nominal Increase / Decrease in 2018/19	Real Increase / Decrease in 2018/19	Nominal Percent change in 2018/19	Real Percent change in 2018/19
R million	**2017/18**	**2018/19**				
Policy Analysis & Research	2,5	2,6	0,1	0,0	4,00 %	-1,42 %
Energy Planning	22,7	25,6	2,9	1,6	12,78 %	6,90 %
Hydrocarbon Policy	12,8	15,2	2,4	1,6	18,75 %	12,56 %
Electricity, Energy Efficiency & Environmental Policy	8,6	9,7	1,1	0,6	12,79 %	6,91 %
TOTAL	**46,7**	**53,1**	**6,4**	**3,6**	**13,7 %**	**7,78 %**

Source: National Treasury, (2018) & Research Unit Own Calculations

The budget for this programme has increased from R46.7 million in 2017/18 to R53.1 million in 2018/19. In normal terms, this represents a budget increase of almost 14 percent. However, when considering inflation, the budget increases by almost 8 percent. The increase is mainly noticeable in three sub-programmes, namely, Energy Planning – an increase of 7 percent in real terms, Hydrocarbon Policy – an increase of almost 13 percent in real terms, Electricity, Energy Efficiency and Environmental Policy – an increase of 7 percent in real terms. On the other hand, allocation for Policy Analysis and Research decreased by 1 percent in real terms.

5.1.3 Programme 3: Petroleum and Petroleum Products Regulation

This programme regulates the petroleum and petroleum products industry, to ensure the optimal and orderly functioning of the industry to achieve government's development goals.

Table 5: Programme 3: Petroleum and Petroleum Products Regulation

Programme	Budget		Nominal Increase / Decrease in 2018/19	Real Increase / Decrease in 2018/19	Nominal Percent change in 2018/19	Real Percent change in 2018/19
R million	**2017/18**	**2018/19**				
Petroleum Compliance, Monitoring & Enforcement	12,7	18,6	5,9	4,9	46,46 %	38,82 %
Petroleum Licensing &	26,9	27,4	0,5	- 0,9	1,86 %	-3,45 %

Fuel Supply						
Fuel Pricing	8,5	6,2	- 2,3	- 2,6	-27,06 %	-30,86 %
Regional Petroleum Regulation Offices	33,7	35,0	1,3	- 0,5	3,86 %	-1,56 %
TOTAL	**R 81,8**	**87,1**	**R 5,3**	**R 0,8**	**6,5 %**	**0,93 %**

Source: National Treasury, (2018) & Research Unit Own Calculations

When compared to the previous financial year, budget for this programme has increased by 6.5 percent in nominal terms, from R81.8 million in 2017/18 to R87.1 million in 2018/19. However, when considering inflation, the budget increases by only 0.9 percent. One programme shows a noticeable increase, both in real and nominal terms. This relates to the Petroleum Compliance, Monitoring and Enforcement – an increase of 38 percent in real terms. On the other hand, allocation for the sub-programme Fuel Pricing has decreased substantially, a decrease of 30 percent in real terms.

5.1.4 Programme 4: Electrification and Programme and Project Management

The aim of this programme is to manage, coordinate and monitor programmes and projects that are focused on access to energy.

Table 6 : Programme 4: Electrification

Programme	**Budget**		**Nominal Increase / Decrease in 2018/19**	**Real Increase / Decrease in 2018/19**	**Nominal Percent change in 2018/19**	**Real Percent change in 2018/19**
R million	**2017/18**	**2018/19**				
Integrated National Electrification Programme	6 177,7	5 392,5	- 785,2	- 1 066,3	-12,71 %	-17,26 %
Energy Regional Offices	16,6	18,1	1,5	0,6	9,04 %	3,35 %
Programme & Project Management Office	11,3	11,4	0,1	- 0,5	0,88 %	-4,37 %
Electricity Infrastructure/Industry Transformation	7,7	8,1	0,4	0,0	5,19 %	-0,29 %
Community Uplifment Programmes & Projects	6,7	5,3	- 1,4	- 1,7	-20,90 %	-25,02 %
TOTAL	**6 220,0**	**5 435,4**	**- 784,6**	**- 1 068,0**	**-12,6 %**	**-17,17 %**

Source: National Treasury, (2018) & Research Unit Own Calculations

The bulk of the DoE's budget, over the years, has been allocated mainly for this programme. This is currently still the case. The budget for this programme decreased from R6.2 billion in 2017/18 to R5.4 billion in 2018/19. This represents a decrease of 13 percent in nominal terms, whilst in real terms, the budget decreases by 17 percent. There is a substantial budget decrease in two sub-programmes, namely, the Integrated National Electrification Programme (INEP)– a decrease of 17 percent in real terms, and the Community Upliftment Programme – a decrease of 25 percent in real terms. The only budget increase is on allocation for the Regional Offices – an increase of 9 percent in nominal terms, whilst in real terms the budget increases by 3 percent.

5.1.5 *Programme 5: Nuclear Energy*

The programme manages the South African nuclear energy industry and controls nuclear materials in terms of international obligations, nuclear legislation and policies to ensure the peaceful use of nuclear energy.

Table 7: Programme 5: Nuclear Energy

Programme	Budget		Nominal Increase / Decrease in 2018/19	Real Increase / Decrease in 2018/19	Nominal Percent change in 2018/19	Real Percent change in 2018/19
R million	**2017/18**	**2018/19**				
Nuclear Safety &Technology	770,7	796,2	25,5	- 16,0	3,31 %	-2,08 %
Nuclear Non-Proliferation & Radiation Security	9,3	9,1	- 0,2	- 0,7	-2,15 %	-7,25 %
Nuclear Policy	10,9	11,4	0,5	- 0,1	4,59 %	-0,87 %
TOTAL	**790,9**	**816,6**	**25,7**	**- 16,9**	**3,2 %**	**-2,13 %**

Source: National Treasury, (2018) & Research Unit Own Calculations

The budget for this programme has increased from R790.9 million in 2017/18 to R816.6 million in 208/19. This represents an increase of 3,2 percent in nominal terms, but when inflation is considered, the budget shows a decrease of 2 percent in real terms. The biggest decrease is in the Nuclear Non-Proliferation and Radiation Security sub-programme – a decrease of 7 percent in real terms.

5.1.6 *Programme 6: Clean Energy*

The aim of this programme is to manage and facilitate the development and implementation of clean and renewable energy initiatives, as well as energy efficiency and demand-side management initiatives.

Table 8 : Programme 6: Clean Energy

Programme	Budget		Nominal Increase / Decrease in 2018/19	Real Increase / Decrease in 2018/19	Nominal Percent change in 2018/19	Real Percent change in 2018/19
R million	**2017/18**	**2018/19**				
Energy Efficiency	668,7	285,7	- 383,0	- 397,9	-57,28 %	-59,50 %
Renewable Energy	65,8	75,8	10,0	6,0	15,20 %	9,19 %
Climate Change & Designated National Authority	8,1	8,7	0,6	0,1	7,41 %	1,81 %
TOTAL	**742,5**	**370,2**	**- 372,3**	**- 391,6**	**-50,1 %**	**-52,74 %**

Source: National Treasury, (2018) & Research Unit Own Calculations

Of all the programmes, this programme has seen the biggest decrease in budget allocation, a decrease of over 50 percent. The decrease is mainly the Energy Efficiency sub-programme, a decrease of over 57 percent. The Energy Efficiency sub-programme advances energy efficiency in South Africa by planning and coordinating initiatives and interventions that are focused on developing and improving the energy efficiency market, and ensures the integration and coordination of energy efficiency initiatives and interventions with relevant associated institutions. This sub-programme also make transfers in respect of the solar water heater projects – hence the substantial reduction in budget allocation.

5.2 Economic Classification

This section provides a summary of the Medium Term Expenditure Framework (MTEF) for the Economic Classification aspect of the budget.

Table 9: MTEF Allocation and Indicative Baselines

Economic Classification	2018/19 ENE Allocation	2019/20 Indicative Baseline	2020/21 Indicative Baseline	Total Budget
R million	**R'000**			
Compensation of Employees	360,517	384,278	409,249	1,154,044
Goods and Services	252,306	272,098	296,882	821,286
Transfers and Subsidies	6,427,655	6,912,485	7,286,426	20,626,566
Payments for Capital Assets	4,539	4,785	5,048	14,372
TOTAL	**7,045,017**	**7,573,646**	**7,997,605**	**22,616,268**

Source: DoE Presentation to PCE – 17 April 2018

Regarding Compensation of employees, the budget is expected to increase at an average annual rate of 7.1 percent, from R333.2 million in 2017/18 to R409.2 million in 2020/21. Despite the increase in budget, the Department's staff compliment is expected to decrease by 28 over the medium term, from 597 in 2017/18 to 567 in 2020/21. However, the Department anticipates to fill critical posts at a senior management level in Energy Policy and Planning, Petroleum and Petroleum Products Regulation and Electrification and Energy Programme and Project Management programmes[21].

On Goods and Services, the budget is expected to increase at an average annual rate of 7.4 percent over the medium term from R239.4 million in 2017/18 to R296.9 million in 2020/21. The expenditure mainly comprises servicing operating leases at the Department's regional offices which were relocated, costs related to the inspection of 4 500 petroleum retail sites, and the solar water heater programme over the medium term[22].

Table 10: Transfer payments

Entity / Project	2017/18 ENE Allocation	2018/19 ENE Baseline	2019/20 ENE Baseline
Rand million	**R'000**	**R'000**	**R'000**
Households	454	480	507
SETAs	1,108	1,170	1,234
International Membership fees	27,915	29,478	31,099
Programme 4: INEP Non-Grid	201,649	212,941	224,653
Programme 4: INEP Eskom	3,262,031	3,432,453	3,621,488

[21] Ibid
[22] Ibid

Programme 4: INEP Municipalities	1,904,477	2,127,928	2,244,964
Programme 5: NECSA	682,714	720,224	759,851
Programme 5: NNR	16,510	43,096	45,467
Programme 5: NRWDI	45,532	43,499	39,397
Programme 6: SANEDI	70,241	74,151	78,215
Programme 6: SWHP	-	-	-
Programme 6: EEDSM: Municipalities	215,024	227,065	239,554
Total	**6,427,655**	**6,912,485**	**7,286,429**

Source: DoE presentation to PCE – 17 April 2018

6. OBSERVATIONS AND FINDINGS

- The budget of the Department has been reduced by R1.1 billion or 13 percent when compared to the previous financial year. For the 2017/18 financial year, the Department was allocated R8.1 billion and in 2018/19, the budget is reduced to R7.045 billion. This will have an impact on the filling of the vacant posts, thus affecting the ability of the Department to execute its mandate effectively. Whilst the budget has been reduced, the compensation of employees budget has increased by almost 9 percent, in line with adjustments related to inflation. The Department indicated that the process of filling critical vacant posts is underway. The Minister of Energy indicated that the shortlisting of Deputy Director-General positions will be done during the week of the 14th of May 2018.
- Of all the six programmes of the Department, the Clean Energy Programme has seen the biggest decrease in budget allocation, a decrease of over 50 percent. The decrease is mainly in the Energy Efficiency sub-programme, a decrease of over 57 percent. The Energy Efficiency sub-programme advances energy efficiency in South Africa by planning and coordinating initiatives and interventions that are focused on developing and improving the energy efficiency market, and ensures the integration and coordination of energy efficiency initiatives and interventions with relevant associated institutions. This sub-programme also makes transfers in respect of the solar water heater projects – hence the substantial reduction in budget allocation. The Committee was concerned about this significant cut in budget in light of the fact that the Department has a vision of improving the country's energy mix by having 30 percent of clean energy by 2025. According to the Department, funding for the Clean Energy Programme is not only dependent on the DoE, funding is sourced from various areas such as international donors, sponsorships, Development Bank of South Africa (DBSA), Independent Power Producer (IPP) Office – income generated from the bidding process, etc.
- The Committee was concerned about the increase in budget for the Nuclear Energy Programme. The budget for the programme increased from R790.1 million in 2017/18 to R816.6 in 2018/19. This represents an increase of 3.2 percent in nominal terms. The budget for consultants and advisory services increased from R10.8 million in 2017/18 to R21.1 in 2018/19. The Department stated that the increase is for the coordination of nuclear activities, not necessarily for the New Nuclear Build Programme (NNBP). Coordination referred to includes activities relating to the Western Cape High Court judgement on the processes

followed regarding the NNBP, areas that deal with South African Nuclear Energy Corporation (NECSA), the National Nuclear Regulator (NNR) and Eskom (Koeberg Nuclear Plant).

- The Department is not faring well in executing its mandate or the purpose it was created for, which is to "…formulate energy policies, regulatory framework and legislation", amongst others. In the fourth Parliament, the Department had planned to table legislation in Parliament and deadlines were missed. Similarly, in the fifth Parliament, most deadlines for submission of legislation to Parliament have passed; it is very unlikely that the Fifth Parliament will process any of the long outstanding legislation.
- As with the delays in the submission of Bills to Parliament, the same could be argued on the poor performance of the Department in finalising critical energy policies. For instance, the Integrated Resource Plan and Integrated Energy Plan are long overdue. These policies are key in the energy sector; they provide direction for the energy sector and all the many industries that rely on energy availability for their own planning. The Minister indicated that the IRP will be financed by August 2018.
- Whilst the impasse between Eskom and the IPPs has been resolved, there needs to be a regulatory framework or legislation, which permanently addresses the participation of IPPs in electricity generation. Thus, the Department should expedite the finalisation of the Electricity Regulation Amendment Bill. As stated above, the Bill aims to provide a regulatory framework that promotes IPP participation.
- The Committee is concerned about the poor performance of the National Solar Water Heater programme. Initially, the programme had a target of installing 1 million solar water heaters (SWHs) by 2014. However, the programme has installed just over 400 000 units so far – meaning the target was not realised. Despite the failure to meet the 1 million target, the current administration has set a cumulative target of 1,75 million SWH installations by 2019 and further established a long-term target through the National Development Plan (a cumulative target of 5 million solar water heaters by 2030). In light of the implementation challenges experienced thus far, the Committee is of the view that reaching the set target is not possible. The Department has manufactured 80 000 solar water heaters to date. The next phase, which is proving to be difficult, is the installation phase. This phase requires partnership with the municipalities – thus a municipal resolution. The Department stated that municipalities derive their revenue from electricity, thus installing solar water heaters for its customers is not beneficial to them. It seems the Department does not have a clear strategy on how to implement the programme. In the APP, the Department states that the installation phase of the programme will be moved to the Central Energy Fund (CEF) and the IPP Office.
- Despite the challenges PetroSA faces, the Minister indicated that Government is committed to making the entity sustainable as an oil and gas company for the country.
- On the Grand Inga Project, the Department indicated that the project is not progressing fast as anticipated due to internal challenges within the Democratic Republic of Congo (DRC). Therefore, the DoE can move as fast as its partners move.

7. CONCLUSION

The Portfolio Committee on Energy will continue to fulfil its Constitutional mandate. It is guided by the Parliamentary rules in conducting the oversight on the functioning of the Department of Energy. This is done to ensure proper and effective functioning and compliance with the legislation and policy requirements.

8. RECOMMENDATIONS

Having considered the Budget Vote of the Department of Energy, the Portfolio Committee on Energy recommends that the House support the Budget Vote 26: Energy and further recommends that,

The Minister of Energy, within the current financial year:

1. Update the Committee on the Solar Water Heater Implementation Plan, including transfer of the installation phase to the Central Energy Fund, in the 4^{th} Quarter of 2018/2019.
2. Once the judgement on the investigation into the sale of strategic fuel stock has been passed, update the Committee.
3. Present to the Committee the finalised Integrated Resource Plan (IRP), in the 4^{th} Quarter of 2018/19.
4. Present the end-state of electricity report to the Committee, in the 4^{th} Quarter of 2018/19.
5. Regarding the Grand Inga Project, update the Committee on the Intergovernmental Memorandum of Understanding (IGMoU) with transit countries, in the 4^{th} Quarter of 2018/19.
6. Update the Committee on the Nuclear New Build Programme, in the 4^{th} Quarter of 2018/19.
7. Update the Committee on the filling of vacant posts, including vacant posts in State Owned Entities, in the 3^{rd} Quarter of 2018/19.
8. Submit and present the Inter-Ministerial Task Team Report on the Electricity Distribution Industry, in the 3^{rd} Quarter of 2018/19.
9. Update the Committee on the restructuring of the Central Energy Fund, in the 3^{rd} Quarter of 2018/19.
10. Update the Committee on Eskom governance challenges and the status of the coal power stations, in the 3^{rd} Quarter of 2018/19.
11. Update the Committee on the decision to build a new refinery, in the 4^{th} Quarter of 2018/19.

Report to be considered.