PC ENERGY

PARLIAMENT
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RESEARCH UNIT
Tel.
www.parliament.gov.za

An analysis of the Department of Energy's Annual Report 2010/11

1. Introduction

During May 2009, the President of the Republic of South Africa announced the restructuring of Cabinet and national departments to align the structure and electoral mandate of government with developmental challenges. The year 2010/11 was the first year for the Department of Energy operating as a stand alone department. A government-wide task team was established under the auspices of the Department of Public Service and Administration (DPSA) to oversee the transition.[1] This brief seeks to analyse the performance of the department of Energy during the 2010/2011 financial year.

2. Strategic Plan 2010/11 - 2012/13[2]

2.1. Legislative Mandate

- The legislative focus of the department during 2010/11 will be on the following:

- The Seventeenth Constitutional Amendment Bill
- REDs Establishment Bill:
- Electricity Regulation Amendment Bill:
- New Generation/IPP Regulation:
- The Petroleum Products Amendment Act, 2003 (No 58 of 2003) will be reviewed to empower the.
- The National Energy Act, 2008 (No 34 of 2008)
- The review of the fuel specification regulations

2.2. Vision

Ensure secure and sustainable provision of energy for socio-economic development.

2.3. Mission

To regulate and transform the sector for the provision of secure, sustainable and affordable energy.

2.4. Strategic Objectives

The strategic objectives of the Department for the period 2010/11 to 2012/13 are to:

The Department's strategic plan seeks to deliver results along eight strategic objectives that include promoting energy security through reliable, clean, and affordable sources; universal

[1] Department of Mineral Resources (2010).
[2] Department of Energy (2010).

access to energy sources, transformation of the energy sector, and strengthening the operations and management of the Department.

1. *Ensure energy security* – creating and maintaining a balance between energy supply and energy demand, develop strategic partnerships, improve co-ordination in the sector and ensure reliable delivery and logistics.
2. *Achieve universal access and transform the energy sector* – diversify energy mix, improve access and connectivity, provision of quality and affordable energy, promote safe use of energy and transform the energy sector.
3. *Regulate the energy sector* – develop effective legislation, policies and guidelines, encourage investment in the energy sector, ensure compliance with legislation.
4. *Effective and efficient service delivery* – understand stakeholder needs and improve turn – around times.
5. *Optimal utilisation of energy resources* – develop enabling policies, encourage energy efficient technologies.
6. *Ensure sustainable development* – promote clean energy alternatives, encourage economic development, promote job creation.
7. *Enhance DoE culture systems and people* – attract, develop and retain appropriate skills, promote good organizational culture, make the Department an employer of choice.
8. *Promote corporate governance* – optimal utilisation of resources, manage budget effectively, implement fraud and risk management, and ensure compliance with relevant prescripts.

3. Performance Analysis

3.1. Programme Performance

The Department of Minerals and Energy was composed of seven programmes that are reflected in table 1 below. Some of the programmes were sector specific like Promotion of Mine Health and Safety; Mineral Regulation; and Mineral Policy and Planning were specific to the minerals sector while Hydrocarbons and Energy Planning; and Electricity, Nuclear and Clean Energy were specific to the energy sector respectively. Administration and Associated Services programmes were over arching programmes providing services to both sectors.

Table 1: Summary of expenditure per programme

Expenditure per appropriation Act 2010 ('000)	Appropriated Budget	Total additional appropriation	Final Appropriation	Year-to-date actual expenditure	Percentage of budget expended
1. Administration	104,205	23,301	127,506	121,602	95.3
2. Hydrocarbons and energy planning	1,558,608	6,050	1,564,658	1,556,402	99.4
3. Electricity, Nuclear and Clean Energy	408,817	22,923	431,740	408,642	94.7
4. Associated services	3,463,760	61,000	3,524,760	3,418,740	96.9
Total for vote	**5,535,390**	**113,274**	**5,648,664**	**5,505,386**	**96.5**

Source: Department of Energy-Annual Report 2010/2011

3.1.1. Administration

The purpose of the Administration programme is to enable the Department to deliver on its mandate by providing strategic management and administrative support to the Ministry and Department.[3]

The programme has operated with higher vacancy rate for the better part of last year until latter in 2010 when it received funds which were misallocated to DMR. The poor state of affairs required that most employees in the support function to perform the duties of two or more people.

Issues for consideration

- Over and above, most of the predetermined objectives were achieved despite operating at high vacancy rate for the better part of the year. However, there some areas which need attention such as: Virtual Private Network (VPN) and population of data on the installation of Solar Water Heaters in the database.
- Parliamentary Questions Systems (PQS) which will be very helpful to track and monitor progress made on the issues raised by Parliamentarians has not been achieved.
- The Departmental capacity increased from 41 percent at the beginning of the year to 52 percent at the end of year. The average vacancy rate for the year was 10.6 percent caused by lack of funding. What the Department envisage as the required human resources capacity in order to carry out its strategic plan? What number of staff in the organogram is required?

[3] DoE (2011)

3.1.2. Hydrocarbons and Energy Planning

The purpose of the programme is to undertake energy planning to promote the sustainable use of energy resources. To develop appropriate policies implement regulations and monitor compliance within the hydrocarbons sector.[4] The programme spent 99.4 percent of its allocated budget.

In terms of service delivery achievements, the Department has a draft LPG strategy with an objective of increasing LPG usage in the households to 20 percent (1 million people). However, the current usage of LPG is at 5 percent. The Department need to do a lot in the LPG sub sector in order to achieve its target and this is evident from the briefings the Department had with PC on Energy. There are still barriers that need to be unlocked such as cylinder management, non compliance to pricing, possible collusion etc in pursuit of greater uptake of LPG in South Africa.

It is noted that Integrated Energy Plan was not completed as it was initially envisaged due to the fact that there was need to revise some of the Plausible Future Scenarios and IEP methodology. The scope and availability of data to build model seem to have been a major impediment.

One of the departmental priorities as per strategic plan 2010/11 was the development of Biofuels Pricing Framework to guide investment decisions and expanding the biofuels market as envisaged in the Biofuels Industrial Strategy.[5] This seem to have been not been achieved as per annual report and it will stall the whole process of biofuels market creation because without price signals the investors would not invest in this sub sector.

Issues for consideration

- Despite the published maximum retail gate price for LPG supplied to residential customers, it is reported that some retailers are still overpricing the customers. Does the Department have the capacity to enforce this regulation?
- The completion of compliance audit Liquid Fuels Charter is worth noting during 2010/11 and the Committee need to be briefed on where the sector is in terms of transformation and some recommendations.
- Given the delays which occurred for the development of Integrated Energy Plan (IEP) and unavailability of data for modelling. What is the new deadline for the project and how data management for modelling is going to be carried out?
- A total of R4.5 billion has been committed by the Department over a period of three years. The Department has transferred R1.5 billion to Transnet for NMPP during 2010/11. However, the installation of 24 inch trunk line was delayed pending a workable funding mechanism.

[4] National Treasury (2009)
[5] DoE (2010)

3.1.3. Electricity, Nuclear and Clean Energy

The purpose of the programme is to monitor developments in the electricity, nuclear and clean energy sectors. The programme has spent 94.7 percent of its budget. The actual unspent budget (under expenditure) totalled R23 098 million for the period under review.

In terms of Integrated National Electricification Programme (INEP) that is aimed at achieving universal access to electricity, the Department connected 195 000 households to the electricity and 10 000 to the off grid system with an overall spend of R29 billion. More than 5 000 jobs were created during electrification of households.[6]

Huge chunk of departmental underspenditure is from this programme and reasons for the underspending as stated are as follows:

- INEP: Non-grid services providers - R114.3 million designated for transfers to INEP were not made due to delays in service agreements, late fund requests by municipalities and time frames attached to the bank verification process.
- NERT-PMO- R5 million in respect of the National Electricity Response Team (NERT-PMO) was not disbursed before March 31st
- INEP: Conditional Grant to municipalities - R1.58 million was not disbursed due to late fund requests by municipalities and time frames attached to the bank verification process.

[6] Ibid

Issues for consideration

- The issue of late fund requests by municipalities and late time frames attached to bank verification process as claimed by the department should not only be labelled to municipalities only, however, the department seem to be also a culprit in this regard. The Report of the Auditor General on Transfer of Funds under point 24 indicates that the Transferring National Officer (Department of Energy) did not always comply with the approved payment schedule as per the requirements of section (1)(c) of Division of Revenue Act.
- One would also be prompted to find out the main impediments which led to delays in the finalisation of service level agreements.
- Solar Water Heaters programme is considered by many as the main driver of energy efficiency programme because of the huge electricity savings/electricity demand reduction it could achieve in the country. However, it seems unlikely that the programme will reach its 1 million SWHs by 2014. This is because of its failure to penetrate the high pressure market (middle to high income class) and also its dwindling tariff based rebate system.
- Working for Energy received transfer payments of R12 million during the period under review. Is there information on how well the project has been implemented?

3.1.4. Associated Services

The purpose of the Associated Services programme is to provide related services in support of the Department's mandate through funded and non-funded statutory bodies and organisations.[7]

The measurable objectives were to enhance the Department's objectives through policies and directives, promoting its legislative mandate and leading to the creation of an environment conducive to sustainable development, investment and the improvement of the quality of life of all South Africans.[8]

The greater percentage of the Departmental budget (62 per cent) was allocated to this programme. The greater portion of the programme budget is for transfers and subsidies. Funds are transferred from this programme to entities such as EDIH, NNR and NECSA, while other entities have funded their own operations through levies without grants from the Department.

[7] DoE (2010)
[8] Ibid.

3.2. Annual Financial Statements

3.2.1. Report of the Auditor General

The Department received unqualified audit opinion, however the Auditor General drew attention to the following matters:

3.2.1.1. Emphasis of matter

- The Department incurred unauthorised expenditure of R14 860 000 due to funds which were spent for purposes not in accordance with the vote. Details of irregular expenditure are well documented on 142 of the annual report
- The Department incurred irregular expenditure of R110 992 000. This was in contravention of Treasury Regulations 8.2.2, expenditure not approved in accordance with department's financial delegations
- The department also incurred irregular expenditure of R1 371 000 as the expenditure was in contravention with Treasury Regulation 16.A.3 relating to SCM (Transparency and fairness).

The then DME 2009/10 annual report also drew attention to similar matter which is:

- Irregular expenditure to the amount of R4.2 million incurred as a result of contravention of the authorised delegations of authority of the department, the irregular expenditure was condoned in the financial year.

3.2.1.2. Report on other legal and regulatory requirements

Usefulness of information

The reported performance has been found to be deficient on the following:

Consistency: Targets and indicators in the annual reports are not complete as compared to targets and indicator in the strategic plan.
Measurability: Targets are not measurable.

In a nutshell this implies that strategic objectives, targets and indicators in the strategic plan and annual report are not comparable and measurable.

3.2.2. Statement of Financial Performance

The Department had a total revenue of R5 658 125 billion and its total expenditure of R5 506 256 billion with a net surplus of R151 869 million. The net surplus as documented in the annual report is as a results of unspent budget and it is not clear if savings were made in some of the programme.

3.2.3. Statement of Financial Position

It could be concluded that the financial position of the department is in good standing because its balance sheet shows that the total assets and liabilities are equal.

4. Conclusion

The Department appears to be in a good financial position. However, its income statement shows a net surplus of R151 869 million. This can be interpreted in two ways. Firstly it might reflect that the entity made savings or profit from its operations. Secondly, it might be that they under-spent, thereby not delivering some of the services that it was supposed to deliver. Be that as it may, the Department has to address issues identified by the Auditor General in his report and some non financial performance information issues are recurrent from the previous years.

The balance sheet reflected current assets that are equal to current liabilities, which indicates that the department is in a good financial position. The greater portion of the budget is spent on transfers and subsidies, which necessitate more effective measures of oversight to be put in place in order to ensure efficient utilisation of funds by receiving entities.

Overall the Department should be commended for fulfilling its mandate and be encouraged to improve where there is still room for improvement.

References

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