



**SPEECH BY
THE MINISTER OF MINERAL RESOURCES AND ENERGY,
HONOURABLE SAMSON GWEDE MANTASHE,
ON THE OCCASION OF THE BUDGET VOTE 26
IN THE OLD ASSEMBLY CHAMBER,
PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA**

11th July 2019, 14h00

Honourable House Chair

Cabinet Colleagues

Deputy Minister of Mineral Resources and Energy, Ms Bavelile Hlongwa

Chairperson and Members of the Portfolio Committee on Mineral Resources and Energy,

Honourable Members

Invited Guests

Ladies and Gentlemen

Introduction

This is the second presentation of the budget of the now merged Department of Mineral Resources and Energy. It is, therefore, an honour to table Budget Vote 26: Energy.

We have been allocated a budget of R7.44 billion; R6.76 billion of which – that is; 90.91% of the total budget, transferred to entities in our portfolios.

Despite the present economic climate and stringent allocations, we must ascertain a secure and sustainable provision of energy. In this context, utilise diverse energy resources in sustainable quantities; at affordable prices and mindful of environmental requirements, to support economic growth and development.

The energy sector contributed negatively to overall economic growth in the first quarter of this year. The sector declined by 6.9%, making a 0.1% contribution to the overall GDP decline of 3.2%.

Policy and Planning

Since energy is a critical component of economic growth, we need to create a stable, predictable policy and regulatory framework that will lead to investment and growth in

the sector. Improvement of legislation should also enable security of energy supply in the country.

The mandate of the department is to ensure the secure and sustainable provision of energy for the socio-economic development of our country. Guided by the National Energy Act 2008, government responsibility is to ensure that diverse energy resources are available in sustainable quantities and affordable prices to support economic growth.

Legislation

Work is underway to develop the Petroleum Resources Development Bill, which will ensure that we provide policy certainty for the upstream petroleum sector that is a relatively new sector in our economy, yet with great potential to grow GDP, contribute to the fiscus and create much-needed jobs.

The Gas Amendment Bill intends to leverage available gas resources; such as those in the Karoo and the recent discoveries in the Brulpadda field. The Bill will assist us to implement gas-to-power projects.

We intend to finalise the National Energy Regulator Amendment Bill. The structure of National Energy Regulator of South Africa (NERSA) will be revised into 2 tiers with the introduction of a Review Board to deal with appeals. These changes are aimed at promoting efficient regulation of the energy sector.

Furthermore, this year, the Department will develop a proposal for Cabinet; on how the electricity sector should be restructured. The proposals will seek to address challenges experienced by municipalities, Eskom and other key stakeholders within the sector. Upon Cabinet approval, the Electricity Regulations Act will be amended in line with Cabinet's guidance and be informed by the structure proposed in the end-state report.

IRP

The Integrated Resource Plan (IRP) is in the process of being finalised at Nedlac. In September 2019, it will be tabled before Cabinet for approval. The IRP considers a

diversified energy mix that includes all forms of energy technologies such as cleaner coal, nuclear, gas, hydro, renewables and battery storage.

As a country, we must avoid the currently polarised debate on energy, pitted as coal versus renewables. The debate should be about the effective use of all the energy sources at our disposal, to achieve security of supply.

Most coal-fired power stations will reach end of life between now and the year 2050, majority coming to an end between 2030 and 2040. Once updated and approved by Cabinet, the current IRP will outline the technologies that will replace the decommissioned coal plants. As we decommission, we should replace the lost power.

Future of the Independent Power Producers (IPP) Office

We are working closely with the Development Bank of Southern Africa to transition the current IPP Office into a legal entity that will continue to execute the mandate of the Department in bringing about security of energy supply.

Nuclear Energy

Given the long-term planning horizon for nuclear power plants, it is imperative that the planning work for the new nuclear power plants should commence now to ensure the security of energy security for the country. It is crucial for South Africa to plan for additional nuclear capacity beyond 2045 as we transition to a diversified cleaner energy future, in line with Chapter 5 of the National Development Plan (NDP). As we have stated on numerous occasions, the country would acquire nuclear at a price, pace and scale it can afford.

Koeberg, will also reach the end of its designed life by 2024. It is now embarking on the life extension project to extend the plant life by another 20 years, to around 2045. Koeberg demonstrates the benefits of nuclear power, give reason to South Africa continuing with the nuclear expansion programme. Among these are the provision of

ancillary services such as; grid balancing, back-up and inertia to intermittent electricity sources without which it would be a serious challenge. The decay heat from the plant enables it to desalinate seawater; thus assisting to mitigate against water shortages. The long-term vision is ensuring we are globally competitive in the use of innovative technology for the design, manufacture and deployment of nuclear energy systems in accordance with Nuclear Energy Policy; and international law – specifically, Article IV of the Treaty on the Non-proliferation of Nuclear Weapons.

NTP

Nuclear use goes well beyond being a source of electricity. South Africa is one of world leaders in the production of medical isotopes. Nuclear medicine through medical isotopes is already taking centre stage for the diagnosis and treatment of cancer.

NTP radioisotopes, which is a subsidiary of NECSA, is a leading global company with a proudly South African heritage. The company's Moly-99 plant, which produces radio isotopes used for the treatment of cancer globally, was shut down in November 2017 due to procedural non-compliance with the requirements of the National Nuclear Regulator (NNR). The shutdown resulted in the loss in market share, which will take a long time to regain. This led to erratic production until July 2018, a problem that is now resolved, since the NTP developed a Plant Reconstitution Plan which was submitted to the NNR. Where you are a leader you have duty to protect market share and competitive advantage.

The Plan was accepted, with an agreement to start up the production facility in a safe and sustainable way. It is imperative that going forward we strike a balance between ensuring safety and growing our market share in this field, in order to maintain our competitive advantage.

Pelchem

We will work towards the promotion of partnerships between the entities within the department. With Pelchem and Mintek being in one department, doubling the

production of high value diagnostic products and the manufacturing infrastructure to supply products on a commercial scale as part of beneficiation initiatives, will be attended to. We must ensure a sustainable and self-sufficient Pelchem.

We will engage relevant departments to also play their role in the revitalisation of the state pharmaceutical company to secure supply of critical medication for our health system.

State owned entities oversight

Stabilising the entities reporting to the Department is critical in the current year. These entities are critical in assisting us to execute our mandate. To have senior management and Boards in an acting capacity hampers our ability to be efficient. We are moving with speed to ensure that the entities are adequately resourced, functional and productive. Key appointments at Board and executive management level are a priority in the next six months.

PetroSA turn-around

We note recent challenges in the governance of PetroSA. In the best interests of governance, we will ensure that there is stability in the leadership of PetroSA, at all levels. We will pay attention to the long-term sustainability of the company. PetroSA has also commenced with forensic investigations into allegations of wrongdoing that may have taken place in the past few years.

Strategic Fuel Fund (SFF)

The forensic audit into developments at the SFF is complete. We are considering various options of how to deal with the issues it highlights, taking into account other affected parties and needs of our country.

Development of a gas industry

There is increased demand for access to affordable energy sources. South Africa is currently dominated by electricity, which is consumed by key economic industries like

mining and manufacturing. Increasing electricity prices have had a direct impact on the cost of doing business in South Africa.

To mitigate against this, the department is exploring greater use of natural gas. The current supply of natural gas in South Africa is mainly from imports via the Republic of Mozambique Pipeline Investment Company' (ROMPCO) pipeline. We, therefore, need to explore more economical options to bring natural gas into the South African market, including accelerating our own natural gas exploration activities such as the Karoo Shale Gas and the deep-sea discoveries.

The Department will, in the current period, implement importation of Liquefied Natural Gas (LNG) with Coega Industrial Development Zone as the hub. Mozambique will be engaged to explore possibilities of increasing and extending the supply of gas beyond 2023, as we consider our own gas fields.

The Grand Inga Project

South Africa has entered into a legally binding Treaty with the Democratic Republic of Congo. We play a vital role in ensuring that investment into the development of the project is realised, as we have guaranteed power offtake for the first phase. Post phase one South Africa will have a right of first refusal on equity and power offtake for any of the subsequent phases.

Implementation of bilateral and regional engagements with Botswana, Zambia, Zimbabwe and the Democratic Republic of Congo, to realise cooperation on Hydro-Electricity power. These discussions will enable the development of a power transmission line solution for the benefit of all parties involved.

Access to electricity

We are making progress to meet the United Nations (UN) Sustainable Development Goal (SDG), to ensure affordable, reliable, sustainable and modern energy for all by 2030.

Between April 2014 and March 2019, through the electrification programme, we have connected an additional 1,285 million (one million two hundred and eighty-five thousand) houses to the national grid, which brings us to a total of 7.6 million household connections. Recent StatsSA figures show that electrification now stands at 87% of households in our country.

The Department will place more focus on the Eastern Cape and KwaZulu-Natal provinces, which still have high levels of households to be electrified. Urban migration into provinces like Gauteng and the Western Cape requires an integrated approach to human settlement and service delivery as it threatens to reverse the current electrification gains.

In this current financial year 2019 MTEF an amount of R16.2 billion was appropriated for the electrification programme, with a plan to connect 590 000 (five hundred and ninety thousand) households in the next three years.

We must, however, decisively address the high cost of energy which creates a situation where people have access but, cannot afford to use the energy.

Regulation of petroleum and petroleum products

South Africa remains a net importer of refined petroleum products like petrol and diesel, as well as petrochemicals. Investing in a new crude oil refinery and an associated petrochemical plant is necessary to reduce the amount of refined petroleum products imported.

We should ensure that South Africa is a hub for crude oil refining in the region. In this regard, we have identified an opportunity with Saudi Aramco (the National Oil Company of Saudi Arabia) as an investor in the refinery in Richards Bay. The proposed investment will be in excess of 10 billion US dollars. CEF and Saudi Aramco have concluded a Non-Disclosure Agreement and a Memorandum of Cooperation.

Fuel Pricing

The volatility of crude oil prices continues to have an impact of fuel prices and this in turn contributes to wild swings in inflation. South Africa remains an importer of both crude oil as well as petroleum products and these commodities are US dollar denominated.

To this end, the Department published a discussion document on the review of the Basic Fuel Price (BFP) structures of petrol, diesel and illuminating paraffin in the government gazette on the 23 November 2018. The main purpose of the review is to ensure that the Basic Fuel Price elements are aligned to the realities in the international markets. The BFP formula was last updated in 2004 and the international market dynamics have changed over time. The South African Petroleum Industry Association (SAPIA) and other stakeholders requested an extension of the submission deadline from the 31 January 2019 to the 31 March 2019.

Regarding the review, the Department has concluded the one-on-one consultations with all the stakeholders that submitted comments. There will be provincial workshops to finalize the review process once the report is approved. The details of these workshops will be communicated to stakeholders once finalised.

Conclusion

Honourable Chairperson and members, the decision to merge the departments of Mineral Resources and Energy is a positive one for our economy. It will bring synergy and alignment in our work. Me and the Deputy Minister Cde Bavelile Hlongwa have begun fruitful engagements with the department and the sector.

I thank you.