

GRID PLEASER OR NATION PLEASER?

The race to secure energy to the national grid, and through alternative energy sources, has intensified if the Policy Budget Speech delivered by Ms Tina Joemat-Peterson (Minister) on 21 July 2014 is anything to go by.

In her speech the Minister confirmed that South Africa is faced with energy constraints but encouragingly also proposed solutions. Interestingly the Minister is inclined to adopt an approach that leans towards transparency in the procurement of energy through different energy sources and technologies saying "I also want to ensure that energy is something that is understood by ordinary people, that is accessible and affordable, and that we build a national consensus about how we are going to take our country forward."

If this transparency approach is adopted it will be interesting to see how the Minister will balance the interests of the South African public against the interests of the national grid and the urgency required in transferring mega-watts through different technologies and energy sources into the national grid.

Many South Africans have viewed the procurement of nuclear energy with a measure of discomfort. On this the Minister stated "R850 million has been allocated to the Department of Energy ("DOE") and its relevant agencies in order to undertake further research and development, especially in regard to safety matters, Regulations for the handling of hazardous materials, in terms of international obligations, and the development of nuclear policies and legislation to ensure the peaceful use of nuclear energy." This expenditure is not for the procurement of nuclear energy, but for the purposes of further research and development. The South African public can only hope that the findings will be shared with all, to review and comment on, in accordance with the transparency approach.

In respect of the New Household Electrification Strategy which was approved by Cabinet in June 2013 to address electrification backlogs and to ensure universal access by 2025, the Minister reported that the electrification target for the 2013/14 Financial Year was to electrify 260 000 households. According to the Minister, "we have achieved a total of 292 714, and in addition 14059 non-grid connections were completed. During the past financial year therefore a total of 306 773 households received access to electricity for the first time, which is 46 773 connections above target."

According to the Minister, the DOE has been appropriated an amount of R7.4 billion, stating "93% of this amount being earmarked for transfer to Municipalities and State Owned Entities. Only the remaining 7% is utilized for the Departments operational and capital expenditure." This allocation seems set to tie in with the Minister's plan to renew the DOE's focus towards, in her own words, "the critical area of electricity infrastructure upgrades, working with identified municipalities."

With much needed capital headed in their direction, Municipalities are well advised to position themselves adequately, by amongst other things, gathering the necessary expertise and other resources in an effort to address their own energy constraints.

The Minister has re-affirmed her commitment towards finalising the Integrated Energy Plan citing overall global energy challenges as the key driver to this urgency, stating "South Africa cannot afford to find itself at the mercy of geo-political developments over which we have no control, and we must find sources that are secure and sovereign."

The Minister highlighted that the inadequacy of gas infrastructure, which includes pipelines and storage

facilities, has made it difficult for gas to feature prominently in the energy landscape, pointing out that "the Gas Utilisation Master Plan seeks to anticipate the infrastructure necessary to open up the gas market for the residential, commercial and industrial sectors. The scope includes investigating the development of a gas receiving and storage terminal for liquefied natural gas, and to meet the gas to liquids requirements at the Mossel Bay refinery, as well as investigating the conversion of Eskom's diesel plants."

Private sector role players were given a vote of confidence when the Minister remarked that the private sector should start preparing their contributions in respect of the implementation of the Gas Utilisation Master Plan.

In relation to the Biofuels blending framework, the Minister re-visited that in October 2013, the then Minister of Energy determined 1 October 2015 to be the date on which oil refining companies will be mandated to blend biofuels into petrol and diesel in terms of the 'Regulations regarding the mandatory blending of bio-fuel with petrol and diesel, published in terms of the Petroleum Products Act, No 120 of 1977'. The Minister further stated that, "in the next two months, our focus will be on finalizing the subsidy framework for the manufacturers and the pricing approach for the blended product."

The DOE has signalled its intent to engage with the Ministers for Agriculture and Rural Development in an attempt to map out a plan for the sustainable harvesting of biofuel feedstock. The DOE is of the view that a phased approach in respect of the feedstock to be harvested and the land to be used will need to be followed.

Critically, the DOE intends to submit the following pieces of legislation to parliament during the current financial year:

- the Electricity Regulation Amendment Bill, which is intended to provide a regulatory framework that promotes Independent Power Producer participation;
- the National Energy Regulatory Amendment Bill, which is intended to amongst others, improve credibility of the decision making process by establishing an Appeal Board;
- the Gas Amendment Bill, which is intended to promote economic growth and leverage available gas resources; and
- the Independent Systems and Market Operator Bill, which shall amongst other things, aim to assist with the planning of generation and the implementation of electricity dispatch.

The Minister expressed her concerns at the reluctance to embrace the potential of our unique energy mix. The Minister's sentiments are unlikely to fall on deaf ears as there are already experts that are of the view that even though the Renewable Energy Independent Power Producer Procurement Programme has been successful, South Africa has not been aggressive enough in unlocking its energy potential.

The Minister is undoubtedly looking to please the nation and feed the national grid at the same time. How she goes about doing so will make for an interesting journey.

Steven Ndlovu



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1st in M&A Deal Value,
1st in Unlisted Deals - Deal Flow.

2012
1st in M&A Deal Flow,
1st in General Corporate Finance Deal Flow,
1st in General Corporate Finance Deal Value,
1st in Unlisted Deals - Deal Flow.

2011
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