4 June 2020

Submission to the Standing Committee on Appropriations on Appropriation Bill 2020 (Energy Chapter)

Submitted by:

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SUBMISSION TO PARLIAMENT

(Energy Chapter)

Much of the content of this document was submitted to the Standing Committee on Appropriations, as part of the OUTA comprehensive Submission to Parliament.

This submission is provided to assist Parliament in their deliberations into the post Covid19 budgetary adjustment process.

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Introduction

Sector Specific Reforms

OUTA responded to the call to make written submissions to the Standing Committee on Appropriations about the 2020 Appropriation Bill, which was tabled with the 2020/2021 Budget by the Minister of Finance in February 2020. The context in which this submission is made is that events related to the Covid-19 pandemic have impacted upon the budget process, necessitating a Supplementary Budget published in response to the unforeseen expenses demanded by the ripple effects of the pandemic. OUTA's submission is informed by this context and therefore focuses on the Appropriations Bill and the impacts that the Supplementary Budget announcement has for public spending.

The need for disruption and inclusive economic change is clear. However, political barriers must be overcome by open discussion and constructive debate that builds consensus and solidarity between taxpayers, consumers and public officials. Inclusive policy reforms must be the cornerstone of post-Covid19 budgets. Repeated promises to bring about radical and inclusive economic transformation are made constantly, yet public engagements on how money should be spent in the public sector are few and far between.

The government-centric monopoly in key industries like energy, water and transport has failed to provide efficient reliable services for reasons that include the systematic contravention of the Public Finance Management Act and other legislation governing how tax revenue may be spent.

OUTA agrees that energy is one of those crucial sectors for innovation and inclusive growth that can facilitate bottom-up economic transformation. Unfortunately, these were all sectors targeted by organised state-capture networks, due to their capital-intensive value chains. The effects of this structural challenge – and the entrenched criminal networks which may continue to exploit it – cannot be overlooked and must be addressed before Parliament approves the allocations of more money to these sectors.

Mineral Resources and Energy

The Department of Energy (DoE) and the Department of Mineral Resources (DMR) were amalgamated after the elections in 2019. However, due to capacity constraints, the OUTA submission will focus mostly on the Energy portfolio.

In 2019, parliamentary researchers prepared an analysis of both the Energy and the Mineral Resources budgets, Vote 26 and Vote 29, respectively.

Figure 1 below shows the Energy budget analysis (as presented at portfolio committee meeting on 2 July 2019[1]):

Figure 1: Energy budget analysis for the Department of Energy (Parliament 2019)

Programmes R Million	2018/19	2019/20	Nominal increase/decrease	Real increase/decrease
Administration	282,6	308,3	9,09%	3,70%
Energy Policy & Planning	53,1	54,7	3,01%	-2,08%
Petroleum & Petroleum Products Regulation	87,1	91,3	4,82%	-0,36%
Electrification & Energy Programme and Project Management	5 435,4	5 531,8	1,77%	-3,26%
Nuclear Energy	816,6	1045,9	28,08%	21,75%
Clean Energy	370,2	408,1	10,24%	4,79%
Total	7 045	7 440	5,60%	0,39%

It was noted that the bulk of the allocated budget, R6.7 billion is for transfers and subsidies to departmental implementing agencies i.e. entities reporting to it, Eskom and municipalities, and that nuclear received a substantial increase.

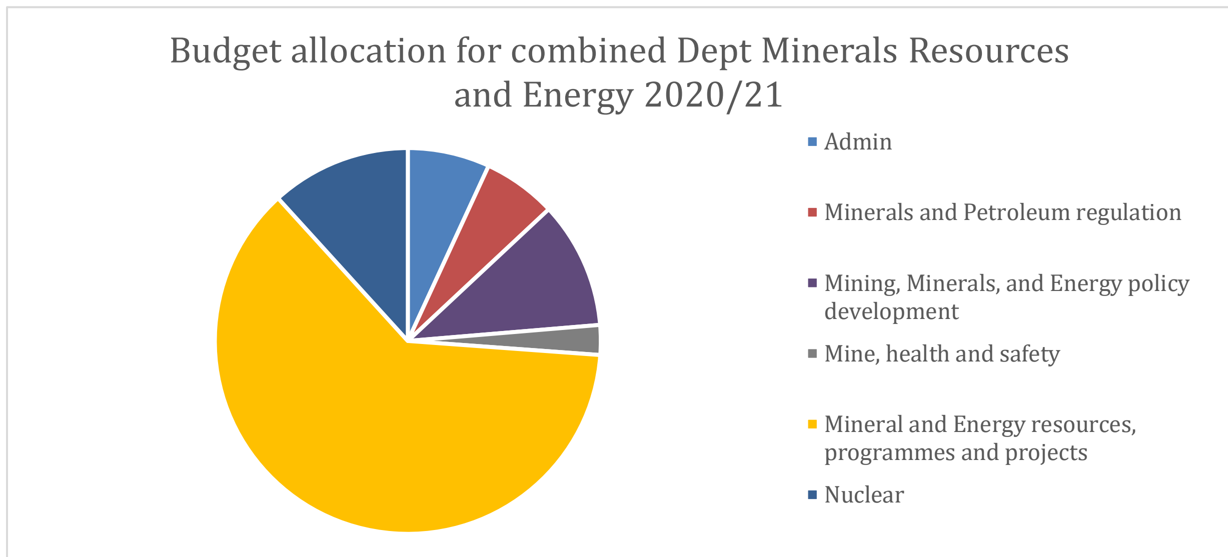
For the 2019/20 financial year, the DMR budget allocation was a total of R2.005 billion, with 50 percent allocated to mineral policy and promotion (Transfers and Subsidies to the Council for Geoscience (CGS) and Mintek). Twenty two percent (22%) was allocated to Mineral Regulation (Programme 3) which included Transfers and Subsidies to the South African

[1] https://pmg.org.za/committee-meeting/28462/

Diamond and Precious Minerals Regulator (SADPMR) and the Petroleum Agency of South Africa (PASA).

As stated above, and shown on table 1, for 2019/20, the total budget allocated to both departments was R2.005 billion (DMR) and R7.440 billion (DoE). For the 2020/21 financial year, the budget allocation for the amalgamated department, the Department of Mineral Resources and Energy (DMRE or Vote 34), is R9.337 billion.

Figure 2: The amalgamated department budget as tabled by the Treasury/Minister of finance[2].

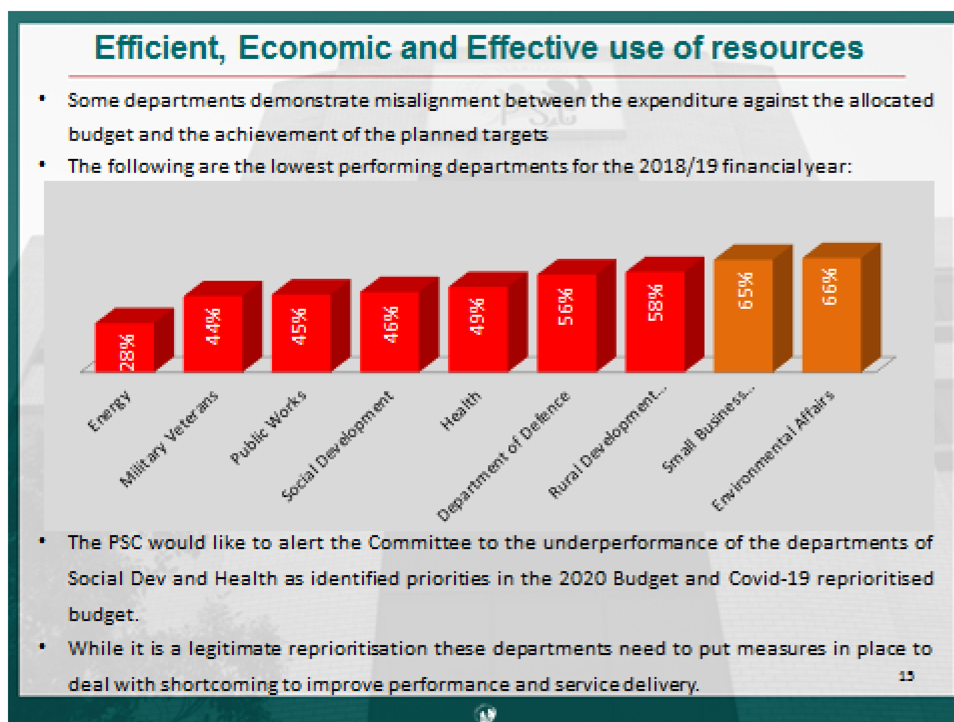


In its presentation to Parliament, on 4 May 2020, the Public Service Commission showed that Energy is one of the worst performing departments, achieving only 28% of its outcomes despite adequate funding for the 2018/19 financial year.[3]

Figure 3: Comments by the Public Service Commission on the Appropriation Bill (presented to Standing Committee on Appropriations, Parliament on 4h May 2020).

[2] Appropriation Bill – Vote 34 Minerals and Energy (page 31) Available at: http://www.treasury.gov.za/legislation/bills/2020/Appropriation.pdf

[3] https://pmg.org.za/committee-meeting/30129/



OUTA therefore submits that there needs to be increased scrutiny into the plans of the DMRE and how its budget is allocated.

Table1: Summary of financial and performance information 2014/15 – 2018/19

Year	No. of targets set	No. of targets achieved	% Targets achieved	% Budget Spent
2014/15	39	17	44%	83.6 %
2015/16	76	39	51%	98%
2016/17	77	32	42%	99.5%
2017/18	67	28	42%	97.54 %
2018/19	41	13	32%	98.9%

Source: Department of Energy Annual Reports

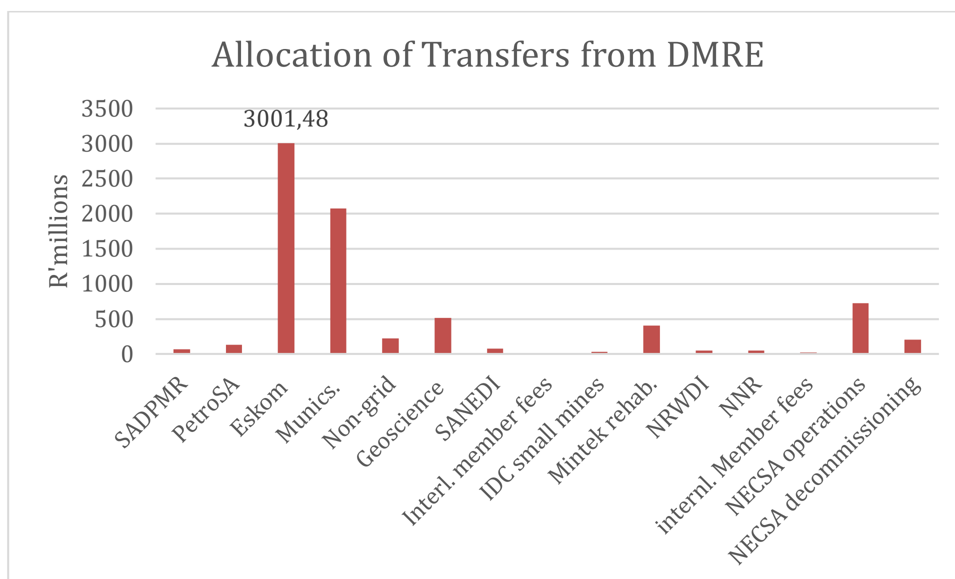
As evident in the table above, the department has performed well consistently on financial expenditure. On the contrary, service delivery performance has consistently been below required standard. In the past four financial years, the department has never achieved more than 60 percent on its performance, let alone the required 80 percent. As indicated in the above table, in 2016/17 and 2017/18 financial years, the department achieved 42 percent of its performance targets. In 2018/19, the department regressed, as it achieved only 32 percent of the set targets. These figures are a significant red flag highlighting the urgent need for answers to the public on both expenditure and performance.

In terms of its commitment to the National Development Plan (NDP), and the departmental purpose is to "*regulate the minerals, and mining sector for transformation, growth and development. Formulate energy policies, regulatory frameworks and legislation to ensure energy security, environmentally friendly carriers and access to affordable and reliable energy*."

According to the Budgetary Review and Recommendations Report (BRRR) to Parliament (PMG minutes 8 October 2019), the post-2015 National Energy Efficiency Strategy (NEES) was not yet promulgated, there were no achievements on the solar water heater programme implementation, and there was no achievement on the draft renewable energy technology roadmaps (RETRM) where the project has been put on hold. To date, in 2020, the post 2015 NEES has not been promulgated, although it is reported in the 2020/21 DMRE Annual Performance Plan (APP) as a key performance target. It is inexcusable that, five years later, the energy efficiency strategy is not yet promulgated.

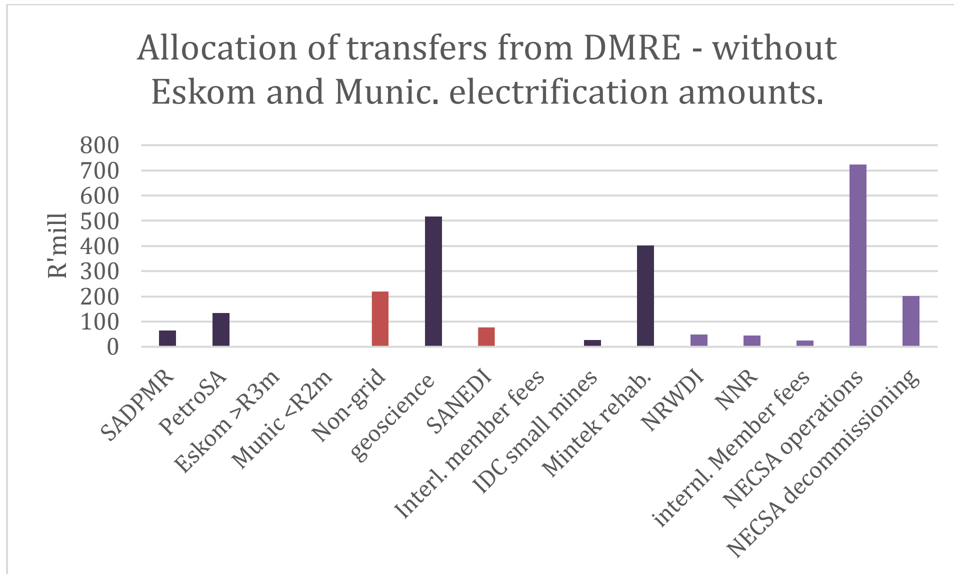
As stated earlier, much of the DMRE budget is transferred to the entities reporting to it, municipalities and Eskom for the implementation of the Integrated National Electrification Programme (INEP). For the 2020/21 financial year, 81 percent of the DMRE budget is transferred as in Table 2 below:

Figure 4: Allocation of transfers from DMRE.



If we exclude the electrification transfers, we can see the transfers more clearly:

Figure 5: Allocation of transfers from DMRE – without Eskom and municipal electrification amounts.

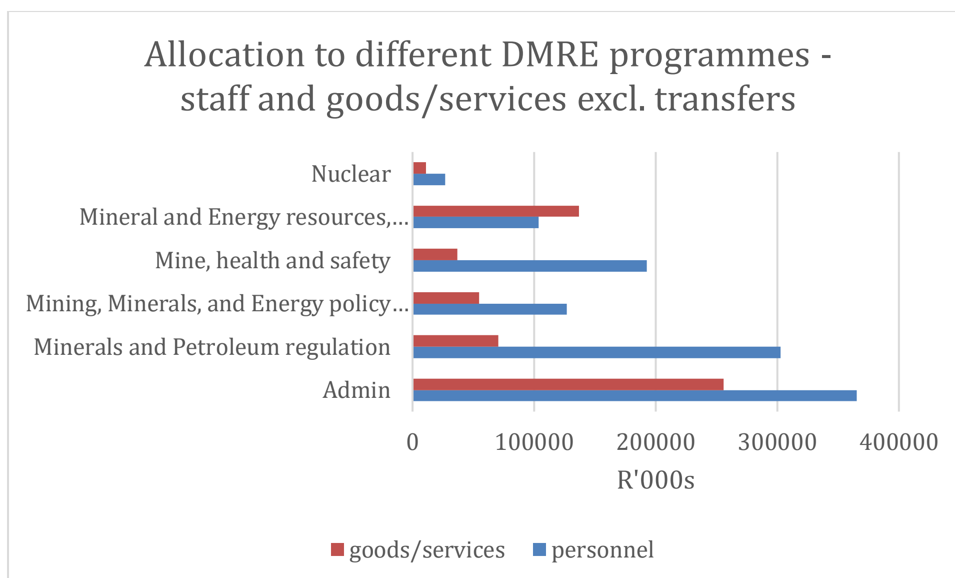


It is assumed that the DMRE must therefore hold these various entities accountable and budgets provided to these entities should be dependent on their performance.

The Integrated Resource Plan (IRP 2019) aims to ensure affordable and reliable energy supply until 2030 and we would expect the focus, departmental budget allocation and programmes to be geared towards the implementation of this plan.

Of the 19% of the budget remaining within the DMRE control, the allocation to the various programmes is as follows:

Figure 6: Allocation to different DMRE programmes



Within the Energy side of the DMRE, we would expect that resources would be allocated towards the implementation of the IRP 2019, and to further research into the next reiteration and towards the finalisation of the Integrated Energy Plan (IEP).

In 2019, clean energy was an express part of the Energy Department programme whose aim was to manage and facilitate the development and implementation of clean and renewable energy initiatives as well as energy efficiency and demand side management initiatives. This programme allocated R227.065 million to local government for energy efficiency and also apportioned SANEDI R74.151 million. In addition, there were allocations for membership of international organisations, namely the International Energy Forum (R356 000), the International Partnership for Energy Efficiency Cooperation (R1.345 million), and the International Renewable Energy Agency (R1.201 million).

In October 2019, Parliament's Mineral Resources and Energy Committee noted that the Auditor General SA (AGSA) had determined that the department has materially underspent on its 2018/19 budget by R63.574 million on Clean Energy, as well as on Electrification and Energy Programme and Project Management programmes[4]. For the 2020 Budget, the allocations for international membership and SANEDI are included but the there is no mention of energy efficiency or demand side management.

OUTA concludes that despite a purpose that claims to be "Regulate the minerals and mining sector for transformation, growth and development. Formulate energy policies, regulatory

[4] BRRR report of the Portfolio Committee on Mineral Resources and Energy (Vote 26) dated 22 October 2019. Available at: https://pmg.org.za/tabled-committee-report/3951/

frameworks and legislation to ensure energy security, environmentally friendly carriers, and access to affordable and reliable energy", the DMRE in its budgetary allocations fails to align with its purpose.

At the same time as adjusting the allocation upwards, there must be an accompanying will on the part of the DMRE to serve the citizens it is mandated to serve. It appears that the department wilfully ignores the needs of citizens while it is determined to promote large capital projects that may never materialise, such as the renewed interest in expensive nuclear energy. Recent history demonstrates that there is a very high likelihood that these large energy projects will be subject to corruption and will cripple the already beleaguered fiscus.

We highlight two areas: electrification and nuclear energy.

Electrification is another cornerstone of the mandate of the DMRE. However, with the changing landscape towards a more decentralised energy supply, and with Eskom's acknowledgement that rolling out the Eskom grid to the isolated rural communities is increasingly expensive, we would expect additional funds allocated towards off-grid electrification.

Table 2 shows the variance in electrification allocations over the two years.

Electrification	**2019 (millions)**	**Cost per installation ('000s)**	**2020 (millions)**	**Variance 2019 to 2020**	**OUTA comment**
Local government INEP[5]	R1 863.328	R36.30	R1 858.752	-1%	Appears to be least-efficient form of electrification
Institutions for non-grid electrification	R212.941	R16.26	R220.160	3.3%	Most cost-effective form of providing access to electricity – should increase allocation
Eskom INEP	R3 374.053	R17.6	R3 001.483	-12%	Lack of clarity about reduction but would expect this allocation to be moved to non-grid allocation.

[5] INEP is the Integrated National Electrification Programme

Reporting on 2018/2019 year, DMRE claimed that R5.2bn delivered 255 995 connections, both grid and off grid.[6] This was broken down into 51 320 municipal connections, 191 585 Eskom connections and 13 090 off-grid solar systems.

Access to affordable electricity is a developmental priority and figures presented to Parliament indicate that it is more efficient to roll out non-grid electrifications than grid electrification. Given the cost of municipal electrification, OUTA would suggest that additional scrutiny is conducted and potentially additional resources be moved from grid to non-grid electrification in order to achieve greater numbers of electrified households in a more cost-effective manner[7]. We note that there is a reduction in allocation to Eskom electrification this year. If this is related to the need to move resources to off-grid installations, we would expect to see an increase in the non-grid allocation beyond the minimal 3%, but this is not obvious from the budget.

Nuclear energy

The nuclear allocation in the IRP is only for the extension of life of Koeberg. There is no other nuclear capability needed before 2030 and there is a downward trend in the costs of renewable energy and the potential of technologies such as storage. The next IRP which should emerge over the next couple of years is likely to see an ever-increasing amount of renewables. The budget allocation of the department provides no money explicitly for renewable energy research or development, but allocates more than 10% towards nuclear development. It appears as if the department is operating against its own IRP.

At a time when the fiscus is even more drastically constrained than it has been previously, rather than acknowledging the fiscal and economic realities, the department is pushing ahead with procuring 2 500MW of new nuclear power. Given that the IRP is largely a least-cost plan, such a project cannot be at a pace and scale that the country can afford. We assert that beginning a nuclear procurement process is premature given the contents of the IRP and the reducing costs of both RE and storage technologies. The work of the State Capture Commission should be completed first. Those who have been involved in state capture and corruption at Eskom and other entities need to be held accountable for their actions, before embarking on a capital project that will imply future obligations and indebt the country.

[6] 8 October 2019. Minutes of the meeting of the Portfolio Committee on Mineral Resources and Energy. Available at: https://pmg.org.za/committee-meeting/28983/

[7] Given the differing local contexts, this is possibly an oversimplification but demonstrates the need for further analysis to ensure most affordable efficient electrification implementation.

Regardless of the assurances of officials that it will create no immediate obligations, such projects always have to be paid for. We reject any premise that they should be paid for by future bailouts which take from areas of spending such as education, health and human settlements. This is precisely what is happening currently when Eskom cannot meet its loan repayments – it seeks a bailout and the money must be found by cutting the spending of other departments.

According to the 2020 Special Adjustment Budget Guidelines issued on 13 May 2020, departments need to identify programmes and projects that are not critical to the core service delivery requirements and to cut their funding. We suggest that some of NECSA operations are not critical and we question why it has enjoyed increasing budgetary allocations while not fulfilling its accountability obligations. In October 2019 the Parliamentary Committee on Mineral Resources and Energy noted with displeasure the failure of NECSA to submit its annual report to Parliament on time. This happened for two consecutive years, which committee members said seems to be a normal practice for NECSA to avoid accountability[8]. This is a state-owned entity (SOE) which has failed to deliver its financial report to Parliament two years running with no apparent consequences and is instead being entrusted with an increased budget allocation. This is unacceptable and the committee should refuse to increase its budget until NECSA produces a clean financial report.

The AGSA gave NECSA a disclaimed opinion as the audit outcome for the 2018/19 financial year. A disclaimed opinion is given when the auditor is unable to form an opinion due to the poor quality of financial statements presented. That said, the audit did reveal severe internal control deficiencies, with the auditor reporting that "the accounting authority did not exercise adequate oversight responsibility regarding compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with applicable laws and regulations". The AGSA report in the annual report notes that "Senior management did not prepare accurate annual financial statements and a performance report that were supported and evidenced by reliable evidence, resulting in a disclaimed opinion on the financial statements and material findings on the annual performance report as well as compliance with applicable laws and regulations." Due to the lack of reliable financial information, the AGSA could not make an assessment of the entity's viability in the foreseeable future. Of great concern is that the audit found that effective and appropriate steps were not taken to prevent irregular expenditure amounting to R50.752 million.

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[8] BRRR report of the Portfolio Committee on Mineral Resources and Energy (Vote 26) dated 22 October 2019. Available at: https://pmg.org.za/tabled-committee-report/3951/

We therefore suggest that transfers to NECSA operations be reduced to 2018 levels and that NECSA board be directed to look for cost savings and if necessary to close most of the subsidiaries. NECSA's subsidiaries are Pelchem, NTP Radioisotopes and Pelindaba Enterprises. Pelchem is involved in fluoro-chemical production, NTP in producing radiation-based products and services for healthcare, life sciences, and industry and Pelindaba Enterprises in commercialising Nuclear Engineering and Manufacturing Services. NECSA also operates SAFARI-1 nuclear research which is used for the production of radioisotopes[9].

The nuclear programme of DME enjoyed a 28% increase from its 2018 allocation, whereas other programmes within the department only managed single digit increases in most cases. The reason for increasing NECSA's budget despite its poor record of accountability fails to show sound financial logic.

We also note that the National Radioactive Waste Disposal Institute (NRWDI) will be getting R155 million over the next three years for operationalisation and that it is finalising its application for a radioactive waste disposal licence from the National Nuclear Regulator (NNR). OUTA is concerned that the disposal of radioactive waste be handled without incidents. We therefore ask that the Finance Committees request the Energy Oversight Committee to ensure that there is transparency about how the NRWDI will handle the waste disposal and to ensure that the public is adequately prepared in the event of any radiation hazards in the vicinity of nuclear facilities and disposal sites including Pelindaba, Koeberg and Vaalputs.

Nuclear safety is defined by the International Atomic Energy Agency (IAEA) as "The achievement of proper operating conditions, prevention of accidents or mitigation of accident consequences, resulting in protection of workers, the public and the environment from undue radiation hazards".

Proper financial management and good governance are key to ensuring that the funds used to create operating conditions that protect workers, the public and the environment are not wasted. In too many instances, the effects of corruption and state capture have impacted citizens. We call on Parliament to exercise its oversight role to ensure transparency of information and to impress upon officials the importance that no nuclear safety incident occurs.

The legacy of South Africa's nuclear programme is that nuclear waste management and nuclear decommissioning will be needed forever. Nuclear regulation is needed and the

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[9] National Treasury. 2020. Vote 34: Mineral Resources and Energy. Estimates of National Expenditure.

NRWDI needs funding to manage South Africa's nuclear waste. If we adopt the user-pays approach, and cost of supply model, these costs should be paid for by the nuclear plant owned by Eskom and should be included in the electricity tariff. However, nuclear facilities pose particular unique risks and the NNR needs to ensure that it can function despite Eskom's precarious financial position. We would therefore support the allocation to the NNR and would suggest that this is increased to enable us to ensure that our nuclear institutions are adequately policed.

The failures of the NTP which appear to have led to a financial meltdown in NECSA should not be tolerated and it is clear that the nuclear industry needs additional regulation by the NNR.

Table 3: OUTA recommendations

Nuclear	**2019**	**2020**	**Variance**	**OUTA recommendation**
NRWDI	R47.499m	R49.397m	4%	Acceptable
NNR	R43.096m	R45.467m	5.5%	Increase allocation to improve safety risk
NECSA	R890.431m	R939.419m	5.5%	Reduce allocation as not financially accountable

If we look at NECSA in a little more detail:

Table 4: OUTA recommendations

NECSA	2019	2020	Variance	OUTA recommendation
NECSA operations	R599.246m	R722.285m	20%	Reduce to 2018
NECSA capital	R100.743m	R16.218m	-84%	Unclear which capital project completed?
Decommissioning and decontamination of old nuclear facilities – stage 1	R170.207m	R179.568m	5.4%	Needs to continue

Decommissioning and decontamination of old nuclear facilities – stage 2	R20.235m	R21.348m	5.5%	Needs to continue

It appears that the government has continued to bail out a failing NECSA which has been beset by governance issues.

Nuclear energy makes up about 5% of the electricity supply of South Africa and IRP 2019 indicates that renewables will play an increasing role in the electricity supply going forward. We therefore question why the DMRE budget contains no allocations towards energy efficiency or renewable energy development and recommend that the allocations that have been given to nuclear be redirected towards clean and renewable energy development.

The progression of any further nuclear energy is supposed to be only at a pace and scale that the country can afford. We would argue that IRP 2019 shows that it is not affordable or necessary and that it is certainly not efficient to allocate 12% of the budget to something that only supplies 5% of our electricity. We would also argue that reducing the inequitable budgetary allocation that nuclear enjoys would enable the DMRE to meet any Treasury requirement to make savings in order to address Covid-19.

Central Energy Fund (CEF)

According to the AG report presented to parliament in October 2019, PetroSA "has continued to make a loss in the current year. PetroSA at company level was technically insolvent as at 31 March 2019 with total liabilities exceeding total assets. This was mainly due to the devaluation of the rand which caused an increase in the rand value of the entity's decommissioning liability. The group was technically solvent as at 31 March 2019. The company does not have sufficient cash reserves to fund the decommissioning liability according to the regulations issued in terms of National Environmental Management Act (NEMA). There is no clear indication as to how the group's asset base would be sustainable to cover its liabilities in future.".[10]

[10] 8 October 2019. Minutes of meeting of the Portfolio Committee on Mineral Resources and Energy. Available at: https://pmg.org.za/committee-meeting/28983/

Further, “Net cash from operating activities has significantly decreased since the prior year, which impacts PetroSA’s financial and economic viability. The current business model may hamper the entity’s ability to continue to operate optimally at the current capacity as a going concern.”

In briefing to Parliament on its plans on 12 May 2020, the Central Energy Fund (CEF) proposed that it be provided with government resources to compensate it for previous mismanagement. It is unacceptable for Treasury to bail out a SOE for previous mismanagement. Such action sets a dangerous precedent as it rewards incompetence and corruption with taxpayers money which is urgently needed for essential services.

OUTA strongly objects to the CEF request by its chairperson, Monde Mnyande, that a portion of the fuel levy as well as pipeline and carbon taxes / levies should be diverted to the CEF. From Mnyande’s presentation to Parliament, it is clear that the CEF is motivating for this revenue to salvage PetroSA and other subsidiaries and build a new business case for this failed SOE. OUTA finds this request absurd and if indeed granted, it would be yet another waste of taxpayers’ money. PetroSA is in trouble because its prior leadership allowed the entity to slip into a situation of excessive losses, along with other unnecessary political interference. More absurd is the CEF chairperson’s statement that the CEF is not looking for a bailout, but instead wants a continuous stream of tax revenues to fund its restructuring. What Mr Mnyande is asking for is in fact a direct bailout, and not merely a once off bailout, but a continuous one of around R20 billion per annum, if it manages to hijack 25% of the fuel levy from the fiscus. Even if South Africa was in a healthy financial state, this request should be frowned upon. The CEF is a Schedule 2 SOE, which means it is a business enterprise that is required to generate revenue to fund its own operations. As such, it has less government intervention and oversight of its financial management. It therefore does not deserve the kind of state funding and bailouts that it now seeks.

CEF has a programme of cost cutting and has raised the idea of winding down those entities that are unable to perform. Given the scarcity of government funds, hard decisions need to be made. OUTA believes that the current economic situation calls for government to bring in key private equity partners into PetroSA and other CEF subsidiaries in order to reduce the state’s hold over and meddling in these entities. A mix of equity partners, professional structures and funding mechanisms should enable this SOE to stand on its own feet and stop future requirements for state funding.

CEF has historically not received funds from government, and at this time, when the fiscus is constrained, OUTA would reject bailing out CEF and its subsidiaries, as that money is needed elsewhere.

Eskom

The financial condition of Eskom and the harm it has inflicted on the electricity supply industry – and the electricity price – is well documented. Refer to the chapter on SOEs for further discussion of Eskom.

However, one of the biggest price problems is the increasingly high price of electricity: this needs addressing more urgently than many other prices, as it affects every industry and sector.

Eskom's current aim to ensure that its revenue covers its costs is to be applauded. However, Eskom's business model is not financially sustainable, and the current regulatory clearing account (RCA) mechanism has enabled Eskom to limp along for years. The tariff increases due to year-on-year RCA related increases are a strong indicator of an unsustainable business model must serve as the primary example of the need for public sector reforms.

OUTA supports the rapid consideration of the Independent System Management Operator bill, or the Independent Electricity Management Operator Bill by Parliament, as a first step in reforming this sector.

The urgency of secure electricity supply and financial sustainability in this sector cannot be overstated. Levels of social upheaval and unrest are rising fast while the energy crisis is being politicised. Even though senior politicians finally acknowledge the seriousness of the situation, it must be put on record that this battle has been fought by civil society for more than a decade.

Instead of showing a true and authentic commitment to public concerns, the state ignored calls for increased transparency, sustainability, competitiveness and accountability in the energy sector and rampant state capture was the result. Today, Eskom continues to expect the public to pay for this grave mistake. That is an unfair expectation that has and should continue to meet resistance. The energy landscape has moved from a vertically integrated monopoly and further restructuring will accelerate affordable energy access for households, businesses and macro industries alike.

The recently announced new generation regulations to allow municipalities to generate their own electricity, together with the court case in the Western Cape High Court to allow the City of Cape Town to generate its own electricity, will have a profound impact on Eskom.

Figure 7: Sales of electricity per customer category, in GWh

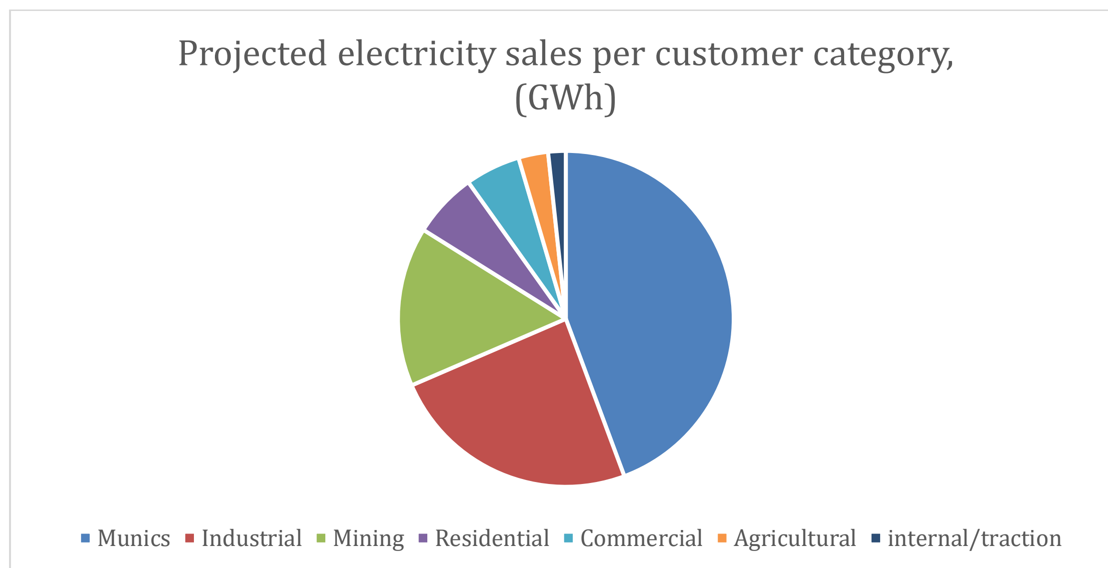

Figure 7 shows the sales of electricity per customer category, showing the large proportion of Eskom's sales that come from municipalities.

and shows the potential impact of the new regulations on Eskom revenue. With a large proportion of Eskom revenue drawn from municipalities, Eskom is likely to lose key municipal customers with the implementation of the new regulations allowing municipalities. A proportion of the industrial demand might also switch to own or municipal generation, particularly as new renewable power stations (in the form of IPPs currently) are cheaper than Eskom new coal generation. This is likely to exacerbate the Eskom "death spiral" and indicates that Eskom's business model needs urgent and rigorous critique.

Parliament should not be dominated and controlled by the Executive and it is possible that its portfolios need to be realigned to enable it to conduct effective oversight, to effectively carry out the duty placed on Parliament in Section 42 of the Constitution. For example, Eskom reports to DPE but its business is energy and yet it does not report to the DMRE in Parliament for the funds that DMRE hands over to Eskom for electrification. OUTA urges Parliament to ensure that Eskom truly accounts not only for its financial obligations to DPE but for its energy policies to the DMRE Portfolio Committee.

Debt management is the primary question mark in Eskom's impending unbundling. Privatisation or any other controversial form of ownership should be discussed with due consideration of existing debt guaranteed by taxpayers.

The perceived risk to Eskom employees and workers in other energy related value chains can be mitigated by innovative human resource development programmes that upskill and transfer people to local government and the renewable energy industry, etc. Such programmes cannot left to civil society and labour organisations, but must be driven proactively by government in consultation with such groups. Failure to address legitimate livelihood fears have led to social unrest and unnecessary retardation of the Eskom restructuring. This has had a knock-on effect that Eskom has continued to return year-on-year to the South African people for bailouts either from consumers or the state.

Runaway and uncertain energy prices are not conducive to economic growth. Load-shedding is not only a serious impediment to household energy security, but the lack of electricity supply also impacts on businesses, constraining the country's economy. In August 2019, it was reported that Eskom planned to spend up to R4.32 billion on diesel for gas turbines to keep the electricity supply on until December. This was because Eskom could not meet the demand in peak periods.

Residential peak demand is part of what drives peak demand.

OUTA would like to recommend that National Treasury engage with the SARS Commissioner about offering tax breaks for energy efficient measures, such as installing a solar water heater, buying a heat pump and/or gas stove. For example, such measures could receive 100% tax deduction if done before the end of the tax year, February 2021. We also recommend that the Department of Energy installs the solar water geysers on which it has incurred R110 million in fruitless and wasteful expenditure for storage costs during 2018/19 as an urgent priority.

Improving energy efficiency is cheaper than building more supply and much quicker to achieve. This option can reduce the peak load, and alleviate some of the load shedding, which will mean that all households and sectors will benefit.

Financial Accountability

The AGSA, in his report of 2020 [11], found that the DOE remains stagnant with a qualification due to non-disclosure of irregular expenditure amounting to R162 million as at 31 March 2019.[12]

The Portfolio Committee was told: "The DoE obtained a qualified audit opinion on the basis of irregular expenditure understated by R162.450 million. The qualified audit opinion was based on material misstatement of R98.382 million irregular expenditure for Nuclear New Build Program (NNBP) brought forward from 2016/17 financial year, which increased with additional payments of R64.068 million processed in the year under review. The understatement was a result of the Department's disagreement with AGSA that the DoE's participation in a contract of another organ of state was irregular*."*[13] Capital expenditure was allocated R6.14 million but the expenditure was R52 million. This was for a software programme for the Nuclear New Build Programme.

The AGSA gave NECSA a disclaimed opinion as the audit outcome for the 2018/19 financial year. A disclaimed opinion is given when the auditor is unable to form an opinion due to the poor quality of financial statements presented. The audit revealed severe internal control deficiencies, with the auditor reporting that "the accounting authority did not exercise adequate oversight responsibility regarding compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with applicable laws and regulations". The AGSA's report in the annual report notes that "Senior management did not prepare accurate annual financial statements and a performance report that were supported and evidenced by reliable evidence, resulting in a disclaimed opinion on the financial statements and material findings on the annual performance report as well as compliance with applicable laws and regulations." Due to the lack of reliable financial information, the AGSA could not make an assessment of the entity's viability in the foreseeable future. Of great concern is that the audit found that effective and appropriate steps were not taken to prevent irregular expenditure amounting to R50.752 million.

OUTA notes that the South African Nuclear Energy Corporation (NECSA) is allocated R3 billion over the next three years. And that of this, R2.3 billion is for operational costs and R635 million is decontamination and decommissioning of old nuclear facilities. In October

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[11] AGSA briefing of Parliamentary portfolio committee on Minerals and Energy on the DMER. Budget review and recommendations report.

[12] AGSA. Budgetary Review and Recommendations Report. http://pmg-assets.s3-website-eu-west-1.amazonaws.com/9/191008AGSA.pdf

[13] DoE CFO, Ms Y.Chetty. 8 October 2019. Minutes of meeting of the Portfolio Committee on Mineral Resources and Energy. Available at: https://pmg.org.za/committee-meeting/28983/

2019, the NECSA board wrote a letter[14] to Parliament's Energy Oversight Committee. According to EE Publishers, the letter says that "Necsa has been technically bankrupt since about 2016, and has survived using ring-fenced funds, which has cumulatively had an impact on the going concern status on the entity – a challenge which the current board is now faced with". The AGSA has also highlighted maladministration and irregular expenditure under the former (2018) NECSA board.

OUTA recommends that Parliament's Finance Committees follow up with the Energy oversight committee to ask whether they are satisfied that there is a turnaround strategy in place to remedy the situation that has led to NECSA's strained financial position and that the issues of maladministration and irregular expenditure are being addressed. R3 billion is a lot of money. It cannot be squandered.

The AGSA found that the department did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 40(3) (b) (i) of the Public Finance Management Act (No.1 of 1999) (PFMA). The department did not disclose payments of R64.068 million (2017/18: R98.382 million) made in contravention of the supply chain management requirements, resulting in irregular expenditure being understated by R162.450 million (2017/18: R98.382 million).

Steps taken were not effective to prevent fruitless and wasteful expenditure amounting to R110.151 million, as disclosed in note 27 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and Treasury regulations 9.1.1. The majority of the fruitless and wasteful expenditure was caused by additional storage cost for solar water heater geysers that were manufactured but not installed.

According to the AGSA briefing to Portfolio Committee on Mineral Resources and Energy (BRRR 2019 - 8th October 2019), the AGSA was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against any official who had incurred irregular, fruitless and wasteful expenditure, as required by section 38(1)(h)(iii) of the PMFA. This was due to proper and complete records that had **not** been maintained as evidence to support the investigations into irregular, fruitless and wasteful expenditure.[15]

Conclusion

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[14] https://www.ee.co.za/article/exposed-financial-mismanagement-at-sas-nuclear-energy-corporation.html

[15] 8 October 2019. Minutes of meeting of the Portfolio Committee on Mineral Resources and Energy. Available at: https://pmg.org.za/committee-meeting/28983/

According to the 2020 Special Adjustment Budget guidelines issued on 13 May 2020, departments need to find programmes and projects that are not critical to the core service delivery requirements.

OUTA proposes that the following areas of the appropriation be amended to reduce the allocation. OUTA believes that the South African people should not have to pay for waste and irregular expenditure and that this should be recovered from the officials concerned.

OUTA believes that safeguarding our existing nuclear legacy is a necessary expenditure and that our NNR should be strengthened. However, we suggest that much of NECSA is not critical and we question why it has enjoyed increasing budgetary allocations while not fulfilling its accountability obligations.

Expanding our nuclear facilities is not urgent, nor is it in the electricity plan for the future, and should be rejected and that funding reallocated to other areas of the Energy portfolio. Some funds could be redirected to national health infrastructure improvement to invest in Covid-19 response and the post-Covid-19 state preparedness. Funding should be shifted away from fossil and nuclear and towards renewable research and policy advancement, with additional allocations from grid to off grid connections. A post-Covid-19 renewable energy investment strategy would aid post-lockdown recovery.

Specific recommendations include:

- Increase electrification allocation towards off grid electrification.
- Reduce nuclear spending – specifically NECSA operations to 2018 levels.
- Reject the CEF attempt to use fuel levy and carbon tax to bail out Petrosa.
- Accelerate legislative reform to restructure Eskom so that the costs of generation, transmission and distribution can be transparently reviewed in order to assess and adapt the Eskom business model for the future.

The Report of the High-Level Panel on the Assessment of Key Legislation and Fundamental Change clearly indicates that more direct accountability of political leaders that act as custodians of taxpayers' money to the public, including civil society institutions representing public interests, is needed.

OUTA also calls on parliament to ensure that consequence management is implemented, including measures that involve the Special Investigating Unit and National Prosecuting

Authority, to ensure that those officials and politicians that have resulted in wasteful and irregular expenditure are held accountable.

OUTA offers this submission in the spirit of constructive engagement towards a resilient and prosperous South Africa where accountable government ensures that everyone who calls this country home receive their equitable share of public services.