PetroSA, Central Energy Fund mess gets far worse

Despite the claim by new acting Group CEO, Sakhiwo Makhanya, that the Central Energy Fund (CEF) annual accounts for 2017/8 have "provided sufficient headroom for growth due to cost containment", the CEF executive team was unable to convince Energy Portfolio Committee chair, Fikile Majola, (now Deputy Minister of Trade and Industry) that CEF had a viable future in any scenario.

"This is unless", as Majola put it, "the CEF group fixes its largest and totally broken subsidiary, PetroSA." He compared the billions being lost in taxpayer money caused by PetroSA's determination to be a player in oil and gas industry as story comparable to the Eskom disaster, but lower in profile and hidden mostly from the public. He said he would call upon the Minister Radebe.

This was stated in a parliamentary portfolio committee meeting just before Parliament closed its last session of the Fifth Parliament, April 2019.

Left hand, right hand

Heightening the apparent division between the ANC Executive, DOE and Parliament came the news on media that CEF was to invest in Southern Sudan, according to former Minister of Energy, Jeff Radebe, holding up an MOU signed by President Ramaphosa on television.

The whole subject was not even touched upon in the energy meeting under review, which might indicate that either the Department of Energy (DOE) was unaware of the possible investment of amounting to billions or simply fearful to tell the truth by withholding facts.

Shortage of truth

Events as they have unfolded seem to indicate that the ANC itself, and not just the DOE, are operating on separate policy agendas on energy. If industry players are aware of the facts, this also has not emerged at portfolio committee level.

With the Cabinet seemingly split on many subjects at the time, and with former Minister Jeff Radebe managing to keep R20m in travel costs under complete wraps, the DA's new but quite incisive shadow energy minister has been quoted as saying that any underlying rationale in terms of an energy plan still seems totally missing, despite Minister Radebe having produced an Integrated Resources Plan.

Catch up

in the second apparently urgent media briefing to the nation to qualify the exposure of the dealings by the media, two DG's of the DOE and two DOE heads were present but sat mute on TV in the background. Two of the televised DOE officials were at the earlier parliamentary meetings where nothing was said.

This further seems to indicate that the Minister Radebe had outgunned Parliament but needed DOE officials present at his media briefing to endorse the deal as known policy. Obviously therefore Chair Fikile Majola and the former Minister of Energy are both working to different hymn sheets on the issue of Southern Sudan.

Old faces

Furthermore, the DOE DG Thabane Zulu and Deputy DG Tseliso Maqubela, the top DOE team both present at the Minister's press conference on Sothern Sudan, appeared by their faces to have little idea of Cabinet's recent energy ploy. One got the impression at the time from the Minister's second briefing that a limited version of past president Jacob Zuma's war room on energy, thought to be sterile, is still working by proxy.

Bad start

Returning once again to a subsequent parliamentary portfolio meeting before Parliament closed was Central Energy Fund to give a report back on the findings of the Auditor General on its 2017/8 annual report. Once again, former Minister Radebe was absent, this time with last-minute apologies.

Chair Majola remarked to the Committee present that the Minister's continued absence was affecting the business of Parliament, especially under the circumstances where CEF was to explain away such issues as PetroSA losses and SFF SIU reports. DG Thabane Zulu and DOE Petroleum Products head, Tseliso Maqubela, the latter representing DOE on the CEF main board, were also present.

Line up

Present also was the new chairman (acting) of the CEF board, Neville Mompati who had replaced Luvos Maka, who was fired by the former minister of energy Mmamoloko Kubayi, three members of the CEF executive, a 22-person team from PetroSA and senior executive members of the Strategic Fuel Fund (SFF), plus others. MPs, across party lines noted that the large delegation in terms of air fares alone was fruitless and wasteful expenditure since none would speak and few would even have the answers that Parliament awaited.

Where things stand

For the year 2017/8 AG's Office (AGSA) had categorised the accounts as unqualified but with findings, notably irregular spending amounting to R17m in the period under review and fruitless and wasteful expenditure reflected as R15.2m.

The findings also noted that no satisfactory answers had been received in respect of unexplained irregular spending in previous years and which according to information received was in all likelihood criminal.

History recounted

In addition, the AGSA had also noted that an accumulated loss of R2.2bn was being carried forward from PetroSA's books from previous years into the 2017/8 CEF results, arising from the continued inability of this subsidiary to acquire sufficient feedstock for its Mossgas refinery.

Considered as a liability, of R3.7bn to account was the 2015 sale under suspicious circumstances of 10 million barrels of oil held by Strategic Fuel Fund (SFF) at their Saldanha Bay storage facility for R280m. The provision represented the same quantity of oil that was sold, but at current day oil prices plus interest.

New boy

New acting CEO Makhanya referred, in a lengthy response first of all, only on CEF group activities; he outlined a "seven-month rapid PetroSA Emergency Plan" that was to be applied to PetroSA operations;

and a plan for CEF which included "high impact intervention in the areas of technical expertise, commercialisation and human capital".

Makhanya referred to a new plan for the whole group termed "Vision 2040+" a concept which went beyond the current concerns over energy security and into such areas as finding answers to the need for a new refinery, facing up to a new digital world, planning for new energy markets and commercial growth through transformation." Makhanya concluded eventually that the CEF Group had "a good story to relate".

Down to earth

Chair Majola said he was not too sure about that. "From what I have heard from CEF so far, there is nothing that is good about your report or even helpful." Chair Majola said he would finalise the meeting with his own comments in due course but meanwhile wanted questions, despite limited time, on the which topic of audit findings by the AGSA, the agenda for that day.

Zero-ing in

Kevin Mileham (DA) also said the time taken to explain visions for the future for CEF did lock in with the purpose of the meeting which was to respond to the AGSA audit findings, nor had CEF seemed to answer any one of the questions it had been asked over the years.

He wanted to know where the money from the sale of oil reserves was at present and was it in dollars or rands? Why were so many of the executives in CEF and its largest subsidiary by far, PetroSA, still classified "acting"? What is their plan, knowing that PetroSA will run out of local resources by 2020?

PetroSA

In answering questions, Sakhiwo Makhanya confirmed that the group had applied to the Western Cape High Court for an interdict to reverse the sale as irregular, illegal and unconstitutional. That meant in accounting terms, he said, that if the application which was not yet heard is successful, CEF must repay approximately R3.7bn to the buyer for a sale that was illegal but "erroneously" justified to Parliament by Tina Joemat-Pettersson in order to "rotate oil stocks".

Under the counter

On this subject, it was confirmed in the meeting by CEF and DOE together, that such a sale "had been conducted in haste" and, coupled with ignorance of the oil trading world, the sale also "included an un-pumpable amount of oil which was necessary to leave in the pipeline estimated at 1.2m barrels", for which a credit has to be included if the decision by the High Court is favourable to CEF.

The total indebtedness in that case to get the oil back would be in the region of R4.7bn.

SPECIAL INVESTIGATING UNIT

MPs demanded to know why the SIU report had not been progressed as far as the criminal aspects were concerned. DG Tseliso Maqubela of DEO intervened at that stage and carefully stated that although the whole issue was sub-judice and that further revelations could damage the criminal prosecutions being sought, he could say without damaging evidential support that the case is about to be finalised and charges laid.

Parties named

Maqubela added that the SIU report on the sale was originally withdrawn some months ago when it was found that former minister Tina Joemat-Pettersson, DOE official Gareth Bezuidenhout and SFF official Bheki Gila were essential witnesses but had not been asked to provide answers on the sale in order to conclude evidence as to whether there was any culpability. The report with such answers was now part of the evidence being supplied.

Kevin Mileham asked in total fifteen questions of CEO Makhanya but in the light of time constraints Majola said that questions not answered had to be responded to in writing by CEF in three days for the record. One of the questions related to the Saudi deal signed on renewables asking for progress which, again, DOE seemed to have no knowledge of.

Safe in a safe

In closing, CEF CFO Lufuno Makluba responded from noisy and angry MPs to the question on the oil sale and where the money was. He told members that the cash from the sale in an account of a South African bank, held in dollars, and could not be touched until the outcome of the Western Cape interdict was known.

Chair Fikile Majola then wrapped up the meeting.

He said, "This Committee has been listening to such stories as presented today, for five years." He said, "We still have no strategy for the whole CEF group; no answers on Mossgas; no answers on the SFF sale of the reserves for which they were responsible to the nation; we have no idea of where PetroSA is going in exact terms, or any idea of the consequences for years of poor management and no plan of CEF entry into renewables."

Reality check

He said that CEF had precarious finances because of a technically bankrupt PetroSA which had no feedstock of consequence to maintain its original purpose, or even meet local procurement requirements. Also, as a result of this failure of monumental proportions over the years, he said that CEF had insufficient capital for it to invest seriously into renewables, which was its mandate.

"It boggles the mind", chair Majola said, "that CEF has come to Parliament to say they are proud of a revenue of 17bn, when most of this represented by interest recoveries and tax credits, added to which is a small amount of coal sold. This they call a "turn around'", he said.

Red card

Majola, normally a quiet speaker, said in a raised voice, "This abuse of the parliamentary system has to stop, and it doesn't help with the Minister not here. This is a national energy crisis of major proportions similar to the Eskom crisis", he said. "It's not 'in your face' like the Eskom debacle with its load shedding, but this is just as serious."

In adjourning the meeting, he said, "It's time that the Minister of Energy intervened, and I intend put it in writing to him the whole sad story. It's also time for action. Whomsoever the parties involved are in the form of MPs on this Committee, when the next Parliament convenes, they will have to address the issue of PetroSA and its future as their first item."