



SALGA
South African Local Government Association

VICTOR KHANYE LOCAL ECONOMIC DEVELOPMENT SUMMIT

***Municipal Tariffs: How they are Determined and How they
Link with National Tariffs – What are the Implications on
Local Economic Development?***

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MUNICIPAL ELECTRICITY TARIFFS

Determining Municipal Electricity Tariffs

❑ Electricity Tariffs

- Electricity tariffs may consist of : -
 - **Cost Reflective Tariffs,**
 - **Connection Fees,**
 - **Sundry Tariffs,**
 - **Special Tariffs,**
 - **Development Levies** and
 - **Subsidized Tariffs** as contained in the Schedule of Tariffs.

❑ Categories of Users

- Electricity Consumption Based Tariffs distinguish at least between **Domestic Customers** and **Commercial /Industrial Customers** and
 - have sub-categories for Domestic Customers based on **Levels of Service Consumption** and/or **Type of Connection**. Domestic Tariffs are not dependent on the type of meter installed.

Determining Municipal Electricity Tariffs (Cont...)

□ Categories of Service

- Municipal Electricity tariffs are defined for different ***Categories of Service*** based on: -
 - (a) Type of Service
 - (b) Level of Service Consumption
 - (c) Type of Connection
 - (d) Time of Use

□ Application of Tariffs

- Electricity tariffs are applied consistent with the ***Categories of Users*** and ***Categories of Service***, provided that final discretion resides with the Service Provider.

Determining Municipal Electricity Tariffs (Cont...)

- The following factors are considered when determining Municipal Electricity Tariffs: -
 - Lists of Tariffs of that particular municipality;
 - The Total Number of Customers;
 - The Forecasted Total Sales;
 - The Average Maximum Demand Per Tariff (where applicable);
 - The Average Load Factor (where applicable); and
 - The Load Profile in Percentages (both summer and winter).

Determining Municipal Electricity Tariffs (Cont...)

- The broad categories of **FIXED** and **VARIABLE** expenditure data to be gathered includes: -
 - Energy Purchases;
 - Operating and Maintenance Costs;
 - Customer Service Costs;
 - Other Overhead Costs;
 - Depreciation on Assets;
 - Bad Debts; and
 - Revenue from other Sources.



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NERSA PROCESS

NERSA Process

- ❑ NERSA publishes National Municipal Tariff Guidelines, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process annually in November
 - These guidelines do not preclude a distributor from the legal obligation to apply to the Energy Regulator for tariff increases before implementation.

- ❑ NERSA also reviews the Tariff Benchmarks and recommends new benchmarks to be used in the evaluation of the municipal tariff evaluations.

- ❑ **NERSA Approval**
 - The National Energy Regulator of South Africa (NERSA) approves Municipal Electricity Tariffs on an annual basis.

NERSA Process (Cont...)

The NERSA Guideline requires the following Additional Information from Municipalities: -

□ Applications that are Above the Guideline

- Licensees that require increases that are above the guideline will be required to present/provide a detailed motivation for the above-guideline increase.
- Reasons that are commonly accepted by NERSA for above-guideline increases include the following: -
 - Extensive Repairs and Maintenance Programmes;
 - Capital Expenditure Programmes;
 - Need for Additional Funds due to the need to fill in critical vacancies (increased human resource costs);
 - Municipalities facing serious financial challenges and municipalities placed under administration; and
 - Any other Special Electricity-related Project that a municipality undertakes, such as Demand Side Management (DSM) initiatives.

NERSA Process (Cont...)

□ Approval Process

- In accordance with the Municipal Finance Management Act (MFMA) No. 56 of 2003, the implementation date for Tariff Increases for municipalities is 01 July annually.
- Municipalities are required to apply to the Energy Regulator for Electricity Tariff Increases on an annual basis.
- Municipalities submit their Proposed Price Adjustment in the form of a **Tariff Schedule Per Customer Class**, indicating **Current** and **Proposed Tariffs**, which is then considered for approval by the Energy Regulator .
- In order to assist municipalities in its **Budget Processes** and **Timelines** and to ensure that the municipal tariff process is finalised in time for **Municipal Budget Approval**, NERSA has aligned its processes to the National Treasury/MFMA process.



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OUTCOMES AND IMPLICATIONS OF THE 2013/14 MUNICIPAL TARIFFS DETERMINATION



Outcomes and Implications of the 2013/14 Municipal Tariffs Determination

□ ESKOM Average Price Increase

- SALGA noted with relief that the efforts of many stakeholders, including SALGA, of persuading the National Energy Regulator of South Africa (NERSA) that the electricity price increase of 16% that was requested by ESKOM in its MYPD 3 application was going to be very harmful to the country's socio-economic development and was avoidable, had paid some dividends.
- NERSA at its meeting held on Thursday, 28 February 2013, approved an ESKOM electricity price increase average of 8% per annum for the next five years.
- The average electricity price for electricity purchases from ESKOM increased to 65.51c/Kwh in 2013/14 up to 89.13c/kWh in 2018.

Outcomes and Implications of the 2013/14 Municipal Tariffs Determination (Cont...)

❑ Municipal Electricity Tariff increase for 2013/14 Fin. Year (Cont..)

- On 04 April 2013, the National Energy Regulator of South Africa (NERSA) approved a **7%** guideline increase for municipalities. The guideline increase were based on the following assumptions:-
 - Bulk Purchases have been increased by **7.3%** in line with Eskom's electricity tariff increase to municipalities;
 - A Consumer Price Index (CPI) of **5.5%**;
 - Salary and Wage increases of CPI plus **1.25%**, as indicated in Circular No.6/2012: Salary and Wage Collective Agreement;
 - Repairs and Maintenance, Capital Charges and other costs have been increased by the CPI.
- **SALGA is in general agreement with the methodology and the assumptions used for this determination.**



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THE EFFECT ON MUNICIPALITIES IN TERMS OF BUDGETED INCOME FOR 2013/14 FINANCIAL YEAR

The Effect on Municipalities in Terms of Budgeted Income for 2013/14 Financial Year

METRO	Projected 2013/14 Electricity Income Based on the Initial 16% Eskom's MYPD Application	Budgeted 2013/14 Electricity Income Based on the NERSA Approved 8% for Eskom's MYPD Application (Municipal 7%)	Difference in Budgeted 2013/14 Electricity Income Based on the NERSA Approved 8% for Eskom's MYPD Application (Municipal 7%)	Average % Difference (Projected v/s Budgeted 2013/14 Electricity Income)
	R'000	R'000	R'000	
City of Johannesburg	13 969 261	13 276 206	693 055	4.96
Ekurhuleni	11 666 839	11 068 434	598 406	5.13
City of Tshwane	9 597 732	9 209 536	388 196	4.04
Ethekwini	10 808 297	10 311 803	496 494	4.59
City of Cape Town	11 188 634	10 585 713	602 921	5.39
Nelson Mandela Bay	3 457 825	3 219 354	238 471	6.90
Buffalo City	1 175 614	1 094 537	81 077	6.90
Mangaung	2 301 363	2 125 684	175 679	7.63
TOTAL	64 165 565	41 369 928	3 274 299	5.10



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IMPLICATIONS ON ECONOMIC DEVELOPMENT, INVESTMENT & JOB CREATION

Implications on Economic Development, Investment & Job Creation

- ❑ In terms of the current architecture of the local government fiscal framework, municipalities are expected to primarily rely on local revenue (property rates and service charges linked to their tradable services functions)
 - Local government should be incorporated into the system of intergovernmental fiscal relations, where they can share in revenue and grants in order to provide basic services and contribute meaningfully to Local Economic Development

- ❑ Cross-subsidization of services such as water, refuse removal and sewerage through income from sale of electricity ought to be restructured by exploring alternative revenue sources at municipal level.

- ❑ Government should actively and specifically pursue development of a more spatially compact urban form for cities, by developing and adopting appropriate policies and financing instruments.

Implications on Economic Development, Investment & Job Creation (Cont...)

- ❑ NERSA must strike a balance between ESKOM's required revenue from municipal consumers and the revenue municipalities require from the same consumers in order to keep the lights on and local government financially viable.
- ❑ While SALGA agrees that, going forward, the country should not rely on low electricity prices to facilitate viability of businesses and Economic Growth, departure from this historic situation has to be coordinated with other policy interventions.
- ❑ As prices increase towards cost reflectivity, there must be comparable trade and industry policy interventions that mitigate the impact of electricity prices on Economic Development, Investment & Job Creation
- ❑ It is therefore recommended that NERSA, must engage the Department of Trade and Industry (DTI) and ascertain that these policy interventions are in place **before** taking decisions on electricity prices.



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THANK YOU