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20 November 2013

The Municipal Manager
Licensed Electricity Distributor

Dear Sir/Madam

Municipal Tariff Guideline on electricity price increase for 2014/15

1. Annual Electricity Municipal Tariff Guideline

On 19 November 2013, the National Energy Regulator of South Africa (NERSA) approved a guideline increase for municipalities as follows:

A guideline increase of 7.39%, which is based on the following assumptions:

- I. bulk purchases have been increased by 8.06% in line with Eskom's electricity tariff increase to municipalities;
- II. a consumer price index (CPI) of 5.5%;
- III. salary and wage increases of CPI plus 1%, as indicated in Circular No.6/2012: Salary and Wage Collective Agreement;
- IV. repairs and maintenance, capital charges and other costs have been increased by the CPI.

The Decision and Reasons for Decision documentation on the determination of the municipal tariff guideline and the revision of the benchmarks for the financial year 2014/15 can be accessed on the NERSA website (www.nersa.org.za)

It is important to note that this guideline is not an automatic increase in tariffs and that licensees are still required to make an application to the Energy Regulator for approval of the tariffs.

2. Approved conditions on the analysis of the tariff reviews

- I. Licensees should note that the costs deemed not to be in the direct supply of electricity will be dealt with on a case-by-case basis from each municipality. In determining the average cost to supply the following will be taken into account:

- bulk purchases;
- bad debts;
- reasonable energy losses.
- salaries and wages
- capital charges etc.

II. Municipalities applying for an increase that is above the guideline will have to justify its increases to the Energy Regulator and the following actions would be expected:

- a full analysis of additional funds requested needs to be presented to NERSA as part of the motivation for above guideline increase;
- the approved funds must be ring-fenced to ensure that it is strictly utilised for the identified projects;
- municipalities must report to NERSA on a six-monthly basis on how the additional funds are utilised;
- funds not utilised for the purpose for which they were approved will be clawed back in the following financial year;
- municipalities may be required to make representations at the public hearings of the National Energy Regulator of South Africa. Public Hearing dates will be communicated to all stakeholders in due course;
- any other reasons not indicated above may be considered by the Energy Regulator e.g historical low tariffs.

III. In line with the Electricity Pricing Policy (EPP), municipalities are required to undertake Cost of Supply (COS) studies in the 2014/15 financial year.

3. Municipal Tariff Benchmarks

The guideline, as mentioned above resulted in the average municipal tariff benchmarks including the Inclining Block Tariffs (IBTs) for 2014/15, as follows:

- **Domestic (Block 1 – 4)**

Table 1: Average Domestic Benchmarks for 2014/15

Domestic Inclining Block Tariffs (IBTs)			
Block 1 0 – 50 kWh (c/kWh)	Block 2 51 – 350 kWh (c/kWh)	Block 3 351 – 600 kWh (c/kWh)	Block 4 >600 kWh (c/kWh)
68 - 74	87 – 93	119 - 126	143 - 148

- **The alternative domestic IBT benchmarks**

- **Domestic Low**

Table 2: Average Domestic Low (comprises energy charge only)

Domestic Inclining Block Tariffs (IBTs)	
Block 1 0 –350 kWh (c/kWh)	Block 2 351 – 600 kWh (c/kWh)
85 - 90	118 - 123

- Domestic High

Table 3: Domestic High (comprises energy charge and basic charge)

Domestic Inclining Block Tariffs (IBTs)	
Block 1 0 - 350 kWh (c/kWh)	Block 2 > 350kWh (c/kWh)
83 - 88	116 - 121
Basic Charge (R/month)	

- Domestic Non – IBT Benchmark

Table 4: Average Domestic Non- IBT Benchmarks

Domestic Inclining Block Tariffs (IBTs)	
Domestic Low 400 kWh (c/kWh)	Domestic High 800 kWh (c/kWh)
90 - 95	112 - 117

- Commercial Benchmarks

- Commercial Prepaid Benchmarks

Table 5: Average Commercial Benchmarks

Commercial 2000 kWh
Prepaid c/kWh
149 - 155

- Commercial Single & 3- Phase Benchmarks

- Commercial Conventional – Low

Table 6: Average benchmark for Commercial - Low

Commercial 2000 kWh
c/kWh
138 - 143

- Commercial Medium

Table 7: Average benchmark for Commercial - Medium

Commercial 3000 kWh
c/kWh
134 - 139

- **Commercial High**

Table 8: Average benchmark for Commercial - High

Commercial 7000 kWh
c/kWh
118 - 123

- **Agriculture Benchmarks**

- **Agriculture Low**

Table 9: Average benchmark for Agriculture - Low

Commercial 2000 kWh
c/kWh
160 - 165

- **Agriculture Medium**

Table 10: Average benchmark for Agriculture - Medium

Commercial 3000 kWh
c/kWh
152 - 157

- **Agriculture High**

Table 11: Average benchmark for Agriculture - High

Commercial 7000 kWh
c/kWh
130 - 135

- **Industrial Low**

Table 12: Average benchmark for Industrial- Low

43800 kWh
c/kWh
135 - 142

- **Industrial Medium**

Table 13: Average benchmark for Industrial- Medium

98 550 kWh
c/kWh
132 - 137

- **The alternative domestic IBT benchmarks were developed as follows:**

- **Domestic Low & High**

- Block 1 – the 2013/14 benchmarks were increased by 6%.
- Block 2 – the 2013/14 benchmarks were increased by the municipal tariff guideline of 7.39%

Municipalities that are experiencing challenges with regards to the implementation of the IBTs are requested to liaise with the staff of the Energy Regulator for assistance with implementation of IBTs by 01 July 2014.

9. Timelines

The following timelines were approved by the Regulator:

ACTIVITY/TASK	DATE
Municipalities compile and submit tariffs application for consideration by NERSA	Dec 13 – Feb 14
NERSA's consideration and approval of tariff applications and communication of NERSA's decision to municipalities	Dec 13 – 14 Mar 14
Public Hearings for above guideline increases	End Jan 14 & End Feb 14
Consideration and approval of applications above the guideline	Feb 14 – Mar 14
Communicate NERSA's decision to licensees	Dec 14 – Mar 14
Receipt and analysis of tariff review (appeal) applications	Jan 14 – Mar 14
Consideration and approval of review applications	Feb 14 – Mar 14
Implementation of approved budget including NERSA-approved tariffs	1 Jul 14

It is important to note that in order for NERSA to adhere to the timelines, the onus is on the licensees to ensure timely submission of the D-forms by 30 October annually, and its 2014/15 tariff applications as soon as possible. NERSA will endeavour to ensure that all applications that are received on time will in turn be approved on time to ensure compliance with the necessary MFMA budgetary process and timely implementation of approved rates.

Please do not hesitate to contact NERSA's Electricity Pricing and Tariffs Department should you require any further assistance or clarity of any of the above. NERSA looks forward to a continuous engagement with all municipalities.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Phindile Nzimande', is written over a horizontal line. The signature is somewhat cursive and includes a small 'PN' monogram on the left side.

Phindile Nzimande (née Nzimande)

Chief Executive Officer

Date: 27/11/2013