



Annexure to MFMA Circular 67

This Annexure to MFMA Circular 67 provides updated information to municipalities and municipal entities regarding:

1. NERSA's municipal guideline tariff increase; and
2. Applications to NERSA for tariff approvals.

Municipal Guideline Tariff Increase

The National Energy Regulator of South Africa (NERSA) has approved a tariff guideline increase for municipalities as follows:

A guideline increase of 7.0 per cent, which is based on the following assumptions:

- i. bulk purchases increase of 7.3 per cent in line with Eskom electricity tariff increase to municipalities;
- ii. a consumer price index (CPI) of 5.5 per cent;
- iii. salary and wage increases of CPI plus 1.25 per cent, as indicated in the Salary and Wage Collective Agreement; and
- iv. repairs and maintenance, capital charges and other inflation related cost increases.

All documentation related to the guideline determination will be made available on the NERSA website (<http://www.nersa.org.za/>) in due course.

Municipalities are urged to examine the cost structure of their electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective to ensure continued financial sustainability.

National Treasury supports the use of the following formula, proposed by NERSA, for calculating municipal electricity tariff increases:

$$MG = (B \times BPI) + (S \times SI) + (R \times RI) + (C \times CCI) + (OC \times OCI)$$

Where:

MG = % Municipal Guideline Increase

B = % Bulk purchases

BPI = % Bulk purchase increase

S = % Salaries

SI = % Salaries increase

R = % Repairs

RI = % Repairs increase

C = % Capital charges

CCI = % Capital charges increase

OC = % Other costs

OCI = % Other costs increase

All cost shares and increases must relate to the electricity function of the municipality

Where a municipality's evaluation of its cost structure results in a lower or higher tariff increase to that proposed by NERSA, the municipality must structure its tariffs accordingly and ensure it provides the necessary motivation and information in its tariff application to NERSA.

Process for NERSA approval of municipal electricity tariffs

It is important that municipalities and NERSA work together to ensure that the process of approving electricity tariffs does not disrupt the process of compiling municipal budgets or compromise community consultations on the budget. NERSA has been granted an extension in terms of MFMA section 43(2) and will finalise its determination and inform municipalities of their tariff determination by 30 April 2013. Municipalities should timeously submit their tariff applications to enable NERSA to meet this deadline.

Municipalities are once again reminded to submit all outstanding D-forms to NERSA. The deadline for submission was 30 October 2012. NERSA will not be in a position to evaluate municipal tariff applications in the absence of complete D-forms.

It has come to the attention of National Treasury that several municipalities impose electricity tariff increases without undergoing the necessary NERSA tariff application process. Municipalities should take note that the NERSA electricity tariff application process is a legislative requirement and municipalities that fail to adhere to the application process are acting outside the ambit of the law. Municipalities must ensure that all budgeting and planning processes are aligned to the legislative framework governing local government. The approval and implementation of electricity tariff structures is just one of these legal requirements and all municipalities must ensure they abide to these legal requirements otherwise municipalities might be compromising and exposing themselves to future litigation.

Contact



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Post	Private Bag X115, Pretoria 0001
Phone	012 315 5009
Fax	012 395 6553
Website	http://mfma.treasury.gov.za/Pages/Default.aspx

JH Hattingh
Chief Director: Local Government Budget Analysis
24 April 2013