

**EXINGENCY ITEM****COUNCIL: 27 AUGUST 2014**

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**NATIONAL ENERGY REGULATOR TARIFF APPROVAL 2014/2015****1. PURPOSE**

The purpose of this report is for Council to consider the National Energy Regulators (NERSA) tariff approved for 2014/15.

**2. AUTHORITY**

Council.

**3. LEGAL / STATUTORY REQUIREMENTS**

- The Constitution of the Republic of South Africa, 1996
- Municipal Finance Management Act, 56 of 2003
- National Energy Regulator Act, 2004 (Act No. 40 of 2004)
- Electricity Regulation Act, 2006 (Act No. 4 of 2006)

**4. BACKGROUND**

A timeline of events is provided below in order to better understand the process and events for electricity tariff approval. BCMM was notified by NERSA of the Consultation paper for Municipal Tariff Guideline on 11 September 2013. NERSA subsequently Issued a guideline and proposed a 7.39% tariff increase on 20 November 2013. BCMM commenced its budget process during November 2013 wherein a suggested tariff increase of 10% was proposed taking into account the initial prior MTREF Council approved tariff. The additional tariff was required to focus on funding the expansion and replacement of electricity infrastructure.

In February 2014 during the budget discussion process the 10% was revised downward to 8.5% in an attempt to alleviate payment pressure on consumers. BCMM's application to NERSA requested an 8.5% increase on 6 May 2014 and a revised application was submitted on 20 May 2014. BCMM together with other Municipalities, presented their application on 9 June 2014 at a NERSA public

forum where BCMM applied for an 8.5% electricity tariff increase. This presentation was undertaken upon the request of NERSA, wherein NERSA staff interrogated the presentation. It should be noted that during this process no suggestion was made that the 8.5% increase would not be approved.

BCMM received an unsigned NERSA tariff letter on 30 June 2014 and the signed copy on 7 July 2014 approving an average 7.39% increase (Annexure E). On 4 July 2014 BCMM responded to NERSA's final tariff approval expressing the challenges the Municipality would experience in complying with their approval letter and requested guidance from NERSA as to the way forward, Annexure B. To date NERSA has not replied to BCMM's request for further guidance on this matter. BCMM did communicate in the correspondence that the Municipality had complied with MFMA requirements relating to the IDP and Budget processes however are now in contravention of the Electricity Licence Conditions and Agreement with NERSA. Effectively NERSA approved a tariff that was on average 1.11% less than the tariff approved by Council on 28 May 2014.

In terms of the Municipal Finance Management Act, 56 of 2003 section 24, Council must approve at least 30 days before the start of the budget year an annual budget, adopted by Council resolution, and included in this process is the setting of tariffs for the budget year. The NERSA and BCMM tariff approval process is potentially in conflict with one another as approval from NERSA is received after Council has approved tariffs on 28 May 2014.

BCMM had applied for an 8.5% tariff increase to NERSA with the reason for the additional application being to allow for funding to be available to alleviate backlogs that exist as well as allow for the upgrading and replacement of the BCMM main High Voltage (HV) network. The project will be a multi-year project to redesign and modernise this main network. The main HV network has reached the end of its estimated useful life and complete refurbishment and replacement is required. The HV network requires expensive and uniquely designed equipment which in some cases requires special manufacturing. The

backlogs include the electrification of informal settlements in areas that are suitable for human habitation.

The additional 1.11% tariff increase above the guideline of 7.39% will be focused on the infrastructure asset expansion and replacement programme which is being undertaken. This additional amount raised by the tariff variance equates to R15, 7 million which was ring-fenced specifically for infrastructure projects. It needs to be recognised however that this is far below the amount that has been allocated for the own funded capital budget of R80 million, (Annexure C) however is considered important to upgrade an aging infrastructure.

#### 5. EXPOSITION OF FACTS

Reference is made to Annexure A, Electricity Tariffs and Charges 2014/2015, which details BCMM electricity tariffs, approved by Council on 28 May 2014, together with a comparison with NERSA's approved tariff. The difference is reflected as a "% above / (below) NERSA final approval" together with a brief "Description" of either:

- Above NERSA approval – BCMM tariff is higher than NERSA
- Same as NERSA approval – BCMM tariff is the same as NERSA
- Below NERSA approval – BCMM tariff is less than NERSA

The below table represents a summary of the tariff scales.

Tariff Scale	Total Revenue at		Variance
	NERSA approved Percentages. Excl VAT	Total as per 8.5% Approved Budget	
	62 689 128 06	63 360 693 01	671 565
	470 490 488 76	475 895 759 14	5 405 270
	93 048 507 67	94 093 646 52	1 045 139
	25 788 108 88	25 788 108 88	0
	442 069 459 39	446 638 759 13	4 569 300
	345 552 945 84	349 124 635 66	3 571 690
	0 00	0 00	0
	4 752 848 21	4 802 010 99	49 163
	3 301 628 53	3 243 297 77	(58 331)
	48 079 136 86	48 565 017 39	485 881
	1 495 772 252 20	1 511 511 928 49	15 739 676

On average NERSA has approved a 7.39% tariff increase, however it should be noted that for Scale 4B – Time of use, NERSA has approved business tariffs in excess of their 7.39%. NERSA's tariffs for scale 4B applicable to business as approved are stated below:

- Basic charge per month or part thereof approved a 16.52% increase
- Active energy charges / kwh Standards approved a 11.13% increase
- Active energy charges / kwh Off Peak approved a 18.52% increase

The effect of this approach would be that NERSA is focusing on business to absorb a greater proportion of the tariff increase and lighten the burden on low electricity consumers and households. It should however be noted that the biggest contributor of electricity revenue for BCMM is not business but rather households.

There is concern that NERSA's suggested tariff for tariff 4B would have a negative impact on business and, in turn, the local economy. Any loss of business will have a

significantly negative impact on both the local economy and employment due to higher business tariffs. It is further submitted that the impact would be more severely felt on business that is the job creator for the local economy.

It should further be noted that the Equitable Share is utilized to assist the indigent population of BCMM, by providing 50 kWh free electricity. NERSA's approved tariff increase of 5.49% will only have an impact where consumption is in excess of 50 kWh of electricity per month. It needs to be recognized that this is significantly below the cost increase of electricity being 8.06%.

Communication has been prepared to NERSA dated 4 July 2014 wherein the concerns were detailed and guidance requested on the way forward. To date no response has been received. If NERSA's average increase of 7.39% is approved by Council then BCMM will be required to inform the public through a participation process.

Communication was also undertaken with National Treasury due to the MFMA compliance concerns. National Treasury recommended that a report be tabled at Council to obtain guidance and the way forward.

## **6. CHALLENGES**

- If the NERSA tariff was implemented BCMM will need to review all Capital Electricity Projects as approved by Council as funding will be reduced.
- If BCMM implements NERSA's average tariff increase there will be an estimated decrease in electricity revenue amounting to R 15, 7 million. Projected revenue will decrease from R 1,511 billion to R 1,495 billion (Annexure D).
- BCMM's Council adopted its tariffs 28 May 2014. In terms of the MFMA No. 56 of 2003, Council must adopt the tariffs to be implemented by 1 July 2014.
- Bulk electricity purchases from Eskom are expected to increase by 8.06% however NERSA has only approved an effective average increase of 7.39% tariff increase to be charged to BCMM electricity consumers. This business methodology of paying for electricity more than our recovery revenue will

create a challenge to a point where electricity would not be able to cross subsidise some of our non-revenue services.

**7. STAFF IMPLICATIONS**

None.

**8. FINANCIAL IMPLICATIONS**

Implementation of NERSA approved tariffs will cause revenue reduction to an amount of R15, 7m.

**9. PARTIES CONSULTED**

- NERSA
- National Treasury

**10. RECOMMENDATION**

It is recommended that, should Council accede to the explanation given above, the following will be applicable during the adjustment budget:

10.1 Council approves and implements NERSA's approved tariff increases, the average of which is 7.39%, with effect from 1<sup>st</sup> July 2014.

10.2 The revenue and expenditure budget for electricity be adjusted downwards by R15.7m.

10.3 Council consider adjusting Capital Projects.

10.4 Council consider the increase of business tariff for scale 4B as per

NERSA approval, for the following:

- Basic charge per month 16.52%
- Active Energy Charge (Low Demand)
- Peak 8.99%
- Standard 11.13%
- Off-peak 18.52%

10.5 National Treasury and NERSA be informed of Council decision.

10.6 Should Council consider and approve NERSA average tariff for Electricity, an adjustment Budget must be tabled by the Executive Mayor in the next Council meeting owing to the above stated recommendations.



**A FANI**  
**CITY MANAGER**

V. Pillay /cb

**ATTACHMENTS**

Annexure A: Electricity Tariffs and Charges 2014/2015

Annexure B: RE – Electricity tariffs for the period 01 July 2014 – 30 June 2015

Annexure C: Capital Projects: Electricity 2014/2015

Annexure D: Tariff Categories and category comparison NERSA (7.39%) and BCMM (8.5%) 2014/15

Annexure E: Signed NERSA letter 2014/15