CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 4

DRAFT REVISED CONSUMPTIVE TARIFFS, RATES AND BASIC CHARGES FOR ELECTRICITY SERVICES, WATER SERVICES AND WASTE MANAGEMENT SERVICES

REVISED CONSUMPTIVE TARIFFS, RATES AND BASIC CHARGES FOR ELECTRICITY GENERATION AND DISTRIBUTION, WATER AND SANITATION AND SOLID WASTE MANAGEMENT SERVICES

1. ELECTRICITY GENERATION AND DISTRIBUTION

1.1 General

The proposed revisions to the tariffs have been formulated in accordance with the City of Cape Town Tariff and Rates Policy and comply with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA).

In terms of section 75A of the Local Government Municipal Systems Act, any fees, charges or tariffs which a municipality may wish to levy and recover in respect of any function or service of the municipality, must be approved by a resolution passed by the municipal council with a supporting vote of a majority of its members.

The Electricity Regulation Act requires that proposed revisions to the electricity consumption based tariffs be submitted to the Regulator for approval prior to implementation. Provisional approval will therefore be requested with the express proviso that any alterations required by Council will be submitted to the Regulator as soon as possible.

The Consumptive Tariff Schedule includes a note indicating that the tariffs are applied in accordance with the terms and conditions as contained in the Electricity Tariff Policy.

On 15 December 2017, NERSA issued a statement allowing Eskom an average 5.23% increase, which equates to a 7.32% increase to Municipalities. On 28 February 2018 NERSA issued a Consultation Paper on Guideline Increases for regulated tariffs, which set this increase at 6.84%. It should be noted that this excludes items such as the Contribution to Rates, which for 2018/19 contributes a significant portion of the overall increase for Electricity Generation and Distribution tariffs.

The above items result in the Electricity Generation and Distribution Department requiring a revenue increase from Sale of Electricity of 5.4% in order to meet the budgeted Operating Expenditure and, when coupled to the expected negative sales growth of -2.75% (which includes a correction to account for the lower than expected 2017/18 sales), results in a tariff increase requirement of an average of 8.14%.

These increases are in line with the guidelines established in the Medium Term Revenue and Expenditure Framework.
Present electricity tariffs were approved by Council on 30 May 2017 and by NERSA (with amendments – not implemented) on 2 June 2017, and were implemented with effect from 1 July 2017.

1.2 Proposed Electricity Tariff Policy Changes

It is proposed that the Tariff Policy for Electricity Generation and Distribution is amended as follows for the 2018/19 Financial Year:

- Where relevant, references to Wheeling added (definition, category of service, category of customer, etc.)
- Clause 3.2 amended to provide clarity around NPO residential establishments
- Sections 5.2 and 5.3 rewritten to include Time of Use tariffs and the Home User Tariff where relevant
- Clause 5.2.4 amended to better reflect current practice (7MVA amended to 12MVA firm supplies)
- Clause 5.2.9 included to facilitate interest not being charged for limited Large User debts that arise as a result of the migration to the Time of Use tariffs (a 90-day interest free window for debts – defined as the difference between the Large User Time of Use account and the Large Power User theoretical account – accrued in July and August 2018 is proposed to compensate for cash flow issues that may arise)
- Clause 5.2.11 included to create the environment for further Special Economic Zone Tariffs.
- Section 6 added to specifically facilitate wheeling tariffs being introduced.

Further to this, some non-consequential changes were made to the wording of certain clauses to improve language and clarity. These changes did not materially impact on the meaning of the clauses.

1.3 Consumptive Tariff Proposals

For the 2018/19 financial year, the following is proposed for the Residential tariffs.

From 1 July 2018 it is proposed that the following changes are made in terms of the eligibility of customers for the Domestic and Home User Tariffs. Customers currently on the Domestic Tariff with a prepayment meter and with a municipal property valuation of R1m or more will migrate to the Home User Tariff, as will all customers with a credit meter. This change will impact on approximately 200 000 customers. It is important to note that customers receiving more than 600kWh per month will see no change in their monthly electricity spend, as at this level both the Domestic and Home User Tariffs result in equal monthly accounts. Customers currently on the Domestic Tariff with municipal property valuations of less than R1m will be eligible to remain on the Domestic Tariff. Letters to this effect will be sent to all affected customers to personally notify them of this change.

The Lifeline and Domestic Tariffs increase by the average of 8.14% across all components. The Network Access and Administration Charge (also known as the Service Charge) for Home User is reduced to R150 including VAT (a reduction of 40.44% after correction for the implementation of 15%

VAT) and consequently the Block 1 energy rate increases by 21.50% to compensate. The Block 2 energy rate on Home User increases by the average of 8.14%.

No changes are proposed for the provision of Free Basic Electricity.

The Residential Small Scale Embedded Generation Tariff increases by 8.14% for all consumption linked components, with the feed-in component increasing by the average Eskom increase of 7.23%. This is keeping with the feed-in tariff being linked to the Eskom Local Authority Megaflex Low Demand Standard Time tariff and the additional subsidies linked to this.

All components of the Small Power User Tariffs increase by the average amount. Any small variation to this is the result of rounding.

The Large User Low Voltage Time of Use Tariff is redesigned to be revenue neutral to the Large Power User Low Voltage (non-Time of Use) Tariff for the 2017/18 financial year plus 8.72% (the slightly higher than average increase is to correct the slight under-recovery that would occur should all the relevant customers migrate to this tariff). The Large Power User Low Voltage Tariff is increased by the average of 8.14% plus an additional 7% as part of a phase out process for this tariff.

A similar process is to be undertaken for the Large User Medium Voltage Time of Use and Large Power User Medium Voltage (non-Time of Use) Tariffs, with the exception that the Large User Medium Voltage Time of Use Tariff does not need to be redesigned, as it is already set at being revenue neutral with the Large Power User Medium Voltage Tariff. This means that the Large Power User Medium Voltage Time of Use Tariff will increase by 8.72% across all components, with the Large Power User Tariff increasing by 15.14% across all components.

It is proposed that all Large Power User customers (both Low and Medium Voltage) who will see an increase of 5% or less as a result of being migrated to a Large User Time of Use Tariff be consulted (consultation sessions were held on 6-8 March 2018), with the intention of migrating them to the applicable Large User Time of Use Tariff as of 1 July 2018.

Customers currently on the Medium Voltage Time of Use tariff were included in the consultations, with the objective of migrating them to the Large User Medium Voltage Time of Use Tariff, and as such this tariff is also increased by the additional 7% above average, at 15.14% on all components.

The High Voltage Time of Use Tariff is renamed to the Large User High Voltage Time of Use Tariff to bring this in line with the nomenclature currently employed by the tariffs. This tariff is set with the same service charge as the Large User Medium Voltage Time of Use Tariff, with a 4% discount applied to the energy components (as a result of lower technical losses at these high voltage levels) and a 5% discount applied to the demand charge (again, this discount results from the fact that there is less transformation and physical network components required at these voltage levels).

The Non-Residential Small Scale Embedded Generation Feed-in Tariff increases by the Eskom increase of 7.23%, in keeping with the methodology applied (the same as for the Residential SSEG Feed-in Tariff).

It is proposed that the special Atlantis Time of Use Medium Voltage Tariff be discontinued with effect from 1 July 2018, and a new Special Economic Zone Medium Voltage Tariff be promulgated. This new tariff will provide customers with a 10% reduction on their account based on what they would have paid had they been on the Large User Medium Voltage Time of Use Tariff (effectively the Contribution to Rates surcharge amount is excluded from this tariff). It is proposed that customers currently receiving the benefit of the Atlantis Tariff be migrated to the new SEZ Medium Voltage Tariff. The new Tariff will also permit the City to create other Special Economic Zones within the City boundaries, or declare certain industries (irrespective of location) to be eligible for this benefit.

Three new tariffs are also proposed to enable Wheeling (the procurement by City customers of energy generated by third party suppliers – typically Independent Power Producers of Green energy – and “wheeled” from the supplier to the customer through the City’s electricity network) to take place. The first such tariff is the Wheeling Customer Medium Voltage Tariff, which is created to supply such energy as the customer consumes from the City supply. For 2018/19 this Tariff is set at the same level as the Large User Medium Voltage Time of Use Tariff. The other two tariffs proposed are for the Supplier of the energy, and are designed to recover such costs that will still be imposed on the City (including but not limited to subsidies provided to other Directorates and Customer Categories, the maintenance of the network and the additional administrative load imposed on the Utility by these arrangements). Different versions are created to cater for the location of the Supplier (i.e. whether the Supplier is embedded within the City grid, or is in an Eskom supplied area). This is done to cater for the different impacts these have on the Utility’s expenditure. It must be noted at this point that the rules and processes for Wheeling have not yet been finalized, and as such it is proposed not to implement the tariffs as of 1 July 2018, but from a date later in the financial year once all requirements are in place.

The tariff for Street Lighting and Traffic Signals energy increases by 8.12%. The slight variance to the overall average is as a result of rounding.

1.4 Miscellaneous and Street Lighting Tariffs

The Miscellaneous Electricity Tariffs are levied to recover the costs of services provided directly to individual customers.

In terms of the Miscellaneous Tariff Schedule, each tariff was revisited in terms of its relevance and revenue generating potential.

The following tariff item was added to the schedule for the 2018/19 financial year:

- Item 2.1.2 to cater for the removal of unauthorised Small Scale Embedded Generation systems that have been connect to the electricity distribution system.
- Item 20 to allow for Engineering Study fees for Small Scale Embedded Generation and Wheeling applications, to be based on the required capacity.
- The Remark for Item 14 is updated to allow for all other installations where metering is not considered to be feasible by Electricity Generation and Distribution.

The following items on the Schedule are dependent on the Consumption Based tariffs, and are adjusted in accordance with the current tariff increase estimate of 8.14%:

- Item 10.6 will increase by the same amount as the Small Power User 2 energy charge.
- Item 13.1, Bulk Residential and Small Power User deposits increase by the average
- Item 13.2, Deposits for Large and Time of Use agreements increase by 8.5%, slightly more than the average increase as a result of the change in the profile of the average customer on these tariffs and the changes to the Large User tariff structure
- Item 14.1, Unmetered Tariffs are recalculated in line with the proposed Small Power User 1 energy rate.
- Item 3.1 on the Street Lighting Schedule will increase by the average consumption tariff increase. It should also be noted that the usage of Green Energy Certificates is compulsory.

The following tariffs were reassessed in terms of the actual cost of supplying the service (recalculated annually from a zero base and dependent on internal costs such as the expected salary increase and external costs such as the cost of meter technology – may also in some instances include a consumption tariff component and may also result in a reduction in tariff):

- Item 2, unauthorised supplies
- Item 7.2, retrofitting of existing credit meter ahead of scheduled Meter Replacement Programme replacement.

The following tariffs remain unchanged, and are mostly free services:

- Items 5.1, 5.2 and 5.3, quotation fees
- Item 8.2, Accuracy test of residential meter on site
- Item 11.1, temporary hire of MV switchgear equipment for breakdowns (these tariffs are dependent on the replacement value of the equipment only)
- Provision of the Electricity Supply By-law (available as a free download from the City’s website)
- Green Energy Certificates – the variance in cost between the energy from Darling Wind Farm and Eskom is such that these do not require an escalation in cost at this time.

The following tariffs are deleted from the Street Lighting Schedule:

- Item 3.2 – Floodlighting of Private Buildings. This service has not been performed for a number of years of years now, and can therefore be removed from the schedule.

The remaining tariffs increase by CPI. Note that in some instances the rounding for VAT purposes may result in a slightly above or below increase for some items. Note also that these tariffs will be revisited at the time of the finalisation of the Consumption Based Tariffs, and should be considered as indicative until that time.

The increases are in accordance with the guidelines established in the Medium Term Revenue and Expenditure Framework.

In terms of the revenue trends from these income sources, over the last three years there has been limited variation in income (a total of R10m swing between the lowest year (2015/16) and the highest year (2016/17), with 2017/18 budgeted to be in the middle of these two. Since these revenue sources are completely customer driven, there is no reason to increase the budgeted amount of revenue from these by anything other than CPI.

While the tariffs themselves increase mostly by an amount between 0% and 8.14% at this time, the budgeted increase in revenue from these tariffs is projected to be R2.3m, or 5.5% (CPI). To accurately determine the amount of revenue increase that will result from these tariffs is not possible, as it is the result of customer interactions and requirements, and will vary accordingly. Any variance will however, hold no operational implications as the amounts are relatively insignificant.

2. WATER AND SANITATION

The City of Cape Town has previously allowed for possible shifts in water usage patterns experienced during periods of restrictions. To this end, level 1, 2, 3 and 4 reduction tariffs for the restriction measures were originally approved for the 2017/18 financial year. During January 2018, due to the extremity of the drought, the City was necessitated to approve level 5, 6 and 7 restriction tariffs via special dispensation by the Minister of Finance.

In line with the restriction levels, consumers have taken action to save water such as making use of grey water, rain water harvesting, utilisation of water efficient devices, retrofitting of plumbing, fixing of leaks, sinking of boreholes, changing of gardens, etc., all of which are having a significant permanent impact on the overall consumption levels as well as consumption in the high usage steps which have been historically used for cross-subsidisation as part of the progressive domestic stepped tariff structure.

The cost of running water and sanitation networks does however not decrease in proportion to the amount of usage. Even during times of reduced water consumption the same operations and repairs and maintenance programmes are necessary to keep water flowing reliably. The cost will also be increasing significantly in the coming years as a result of the measures taken to ensure security of water supply.

Municipalities need to ensure that the cost of delivering a service is recovered to ensure the sustainability of the service. The projected overall reduction of consumption and evaporation of high level consumption are placing the current progressive domestic stepped tariff structure under severe strain and increased risk.

The City has therefore been forced to act responsible and consider alternative methods to ensure much higher levels of certainty and resilience of the financial model to recover the cost for delivering the service. This is to ensure the current infrastructure can be operated, maintained and extended to provide the basic services to the community. The following changes have therefor been recommended:

Water Service:

- The introduction of a Fixed Basic Charge based on the meter size which provides the basis of access to the water network.

- Revision of the current six step tariff structure to a four step tariff structure, still designed to discourage high water consumption, with a higher rate of recovery at the lower steps where usage is certain.

- Uniform tariffs for the non-domestic categories.

- The needs of the indigent are addressed and the basic allocation has been increased from 6kl to 10.5kl. This change is however matched by ending the previous subsidisation of step 2 of the indigent customers. The Fixed Basic Charge for Indigent Customers will be charged at R Nil.

Sanitation Service:

- The introduction of recovering the sanitation cost through Sanitation (Cent-in-Rand) Rates on the same principles as Property Rates. This will ensure more stability in the recovery of sanitation cost as it will not be impacted upon by events that drives water consumption.

- Refer Annexure 2 for the Sanitation Rates.

- The implementation of Sanitation Rates will also mean the ending of subsidisation of step 2 of the indigent customers. Rates based rebates will be applied to indigent customers and such will be reflected as income forgone.

As indicated above, there are seven tariff sets which relate to consumption levels in comparison to the Water Demand Curve. Due to the permanent impact of the drought on water consumption, the volumetric usage per tariff set had to be adjusted downwards (and will need further refinement once the new levels has settled post the drought). Given current circumstances, the level 6 restriction tariffs will be carried into the 2018/19 financial year and will be subject to change based on further decisions regarding the water restrictions.

In light of the fact that the recommended changes which now include new approaches to cost recovery, it is not possible to provide specific separated percentages for water and sanitation as a whole. The impact on the customer will depend on the customer's specific set of circumstances.

Significant tariff increases will however be experienced due to the change in cost recovery models, introduction of fixed costs, the reducing volumetric base to recover cost, the significant cost required for the water augmentation plan to ensure security of water supply from various sources such as aquifers, water re-use as well as desalination, ensuring the management of assets at appropriate levels, sustain and enhance the maintenance programs, supplying water and sanitation at appropriate capacity, service delivery and responsiveness levels. The water collection ratio has also been adjusted downwards in line with the latest trends.

The miscellaneous tariffs are levied by Water and Sanitation for the provision of various services by the Department. Examples of these services are the installation of water connections and the testing of meters. The aim of these tariffs is to recover the cost of the provision of a particular service to each customer. There is a proposed 5.5% increase on miscellaneous tariffs. The proposed consumption based as well as miscellaneous tariffs are shown in the attached Tariffs and Charges Book.

Apart from changing and adding some wording to refine the existing tariff policy, notable changes / additions in the tariff policy, tariff structure and tariff schedules for the 2018/19 financial year include:

Consumptive:

- The introduction of a Fixed Basic Charge for Water.
- Revision of the current six step tariff structure to a four step tariff structure.
- The basic allocation for water to the indigent has been increased from 6kl to 10.5kl offsetting the ending of the subsidisation of step 2 of the indigent customers.
- The Fixed Basic Charge will Indigent Customers will be charged at R Nil.
- The introduction of recovering the sanitation cost through Sanitation (Cent-in-Rand) Rates on the same principles as Property Rates;
- The implementation of Sanitation Rates will also mean the ending of subsidisation of step 2 of the indigent customers. Rates based rebates will be applied to indigent.
- Introduction of Industrial Effluent – Sewerage Volumetric Charge to ensure the continuance of the billing Industrial Effluent.
- Significant tariff increases on non-potable water sources to start the process of cost recovery to ultimately eliminate current subsidisation of these water sources.

Miscellaneous:

Introduction of tariffs for new connections for to the treated effluent network

3. SOLID WASTE MANAGEMENT

The Solid Waste Tariffs are levied to recover costs of services provided directly to customers and include refuse collection fees, disposal fees, compost sales, weighbridge fees and other ad hoc services. An average increase has been applied on the Consumptive Tariffs for Collections of 5.7% & Disposal of 14.83%. An average increase has been applied on the Miscellaneous Tariffs for Cleaning of 5.5%.

The following amendments to the Tariff Policy are proposed:

- **Tariff Policy Changes**
  - Changes have been made to the following definitions:
    - 240L Container (Wheelie Bin);
    - Building and Demolition Waste;
    - Containers;
    - General Waste;
    - Non-Residential Properties;
    - Recyclable material;
    - Recycling Container (Wheelie Bin);
    - Residential Garage Waste has been deleted;
  - A change to item 7.1.8.5 – hostels, guesthouses, old age homes <u>and frail care centres</u> are not regarded as residential; and;
  - A change to item 11.3.1 – Any quantity will be rounded up to the nearest <u>quarter Ton</u>. This is applicable to actual mass at weighbridges;
  - New item 11.3.2 – At any one given transaction a maximum of 3 x Quarter ton coupons may be presented.

- **Tariff Book (Changes underlined)**
  - The following items are to be deleted as we no longer have a half ton tariff for Disposal:
    - 1.3.5.2.1.3;
    - 1.3.5.2.2.3;
    - 1.3.5.2.3.3;
    - 1.3.5.2.3.4;
    - 1.3.5.2.5.3.
  - The following items for Quarter ton tariffs have been added to Disposal:
    - 1.3.5.2.1.4;
    - 1.3.5.2.2.4;
    - 1.3.5.2.3.5;
    - 1.3.5.2.3.6.

  - New Builders rubble tariffs to be introduced under the following items:
    - 1.3.5.2.5.1;
    - 1.3.5.2.5.2.

- The following items are to be deleted as we no longer have a Tyre tariffs Disposal as Tyres may not be accepted at any Disposal facility:
  - 1.3.5.2.6;
  - 1.3.5.2.6.1;
  - From 1.3.5.2.6.1.1 to 1.3.5.2.6.1.8;
  - 1.3.5.2.6.2;
  - From 1.3.5.2.6.2.1 to 1.3.5.2.6.2.8;
  - 1.3.5.2.6.3;
  - From 1.3.5.2.6.3.1 to 1.3.5.2.6.3.8

Failure to implement the proposed Tariff increases on 1 July 2018 will result in under recovery of Revenue required to meet anticipated expenditure for the 2018/2019 financial year.

LIST OF ATTACHMENTS

1. Refuse Collection & Disposal Tariff (Consumptive) for 2018/19 as per the Tariff Book (see page 35.1 to 35.10)
2 Other Tariffs (Sundry) for 2018/19 as per the Tariff Book (see page 36.1).

ATTACHMENT 1

CONSUMPTIVE SOLID WASTE TARIFFS 2018 / 2019

All Tariffs reflected below are exclusive of VAT

Solid Waste		2017/18 (excl. VAT)	2018/19 (excl. VAT)	2018/19 (incl. VAT)	Average Increase %
RESIDENTIAL COLLECTIONS					
Formal					
240l Container including Lockable Container	Rand per month	R 119.47	R 126.26	R 145.20	5.7%
INDIGENT REBATE - 240l Container including Lockable Container					
Block 1 (100% rebate) – property value from R1 up to R100 000	Rebate Rand per month	R -119.47	R -126.26	R -145.20	5.7%
Block 2 (75% rebate) – property value from R100 001 to R150 000	Rebate Rand per month	R -89.56	R -94.70	R-108.90	5.7%
Block 3 (50% rebate) – property value from R150 001 to R350 000	Rebate Rand per month	R -59.74	R -63.13	R -72.60	5.7%
Block 4 (25% rebate) – property value from R350 001 to R500 000	Rebate Rand per month	R -29.91	R -31.65	R -36.40	5.7%
ENHANCED SERVICE LEVEL INCLUDING LOCKABLE CONTAINER					
240l - Additional Container	Rand per container per month	R 119.47	R 126.26	R 145.20	5.7%
240l - 3x per week for cluster	Rand per container per month	R 358.25	R 378.70	R 435.50	5.7%
Informal					
Basic Bagged service	Rand per month	Free	Free	Free	-
NON-RESIDENTIAL COLLECTIONS					
240 LITRE CONTAINER INCLUDING LOCKABLE CONTAINER					
1 removal per week	Rand per container per month	R 142.63	R 150.78	R 173.40	5.7%
3 removal per week	Rand per container per month	R 427.89	R 452.26	R 520.10	5.7%
5 removal per week	Rand per container per month	R 713.25	R 753.91	R 867.00	5.7%
REFUSE AVAILABILITY					
All vacant Erven	Rand per month	R 70.79	R 74.78	R 86.00	5.7%

DISPOSAL SERVICES					
General Waste	Rand per ton	R 421.14	R 483.57	R 556.10	14.83%
Special Waste	Rand per ton or part thereof	R 558.07	R 640.87	R 737.00	14.83%
Builders Rubble	Rand per ton	R0	R 20.00	R 23.00	New