



Annexure 2 to MFMA Circular No. 48

This Annexure 2 to MFMA Circular No.48 provides updated information to municipalities and municipal entities regarding NERSA's ruling on the bulk price of electricity.

Eskom bulk tariff increases

In the Annexure to MFMA Circular 48 National Treasury advised that in the absence of NERSA approving a revised electricity pricing structure before 15 March 2009, municipalities should budget for a 34 per cent increase in bulk electricity tariffs when preparing their tabled and adopted budgets.

On 25 June 2009, NERSA made an announcement regarding the price increase in the bulk price of electricity. Relevant extracts from this announcement as they relate to municipalities and municipal entities are:

1. A 31.3 per cent price increase on the average standard tariff is approved from 01 July 2009 to 31 March 2010 (i.e. 9 months);
2. The 31.3 per cent increase includes the 2c/kWh levy on the sale of electricity generated from non-renewable sources ("environmental levy") as announced in the 2008 Budget Speech by the Minister of Finance. The levy comes into effect on 1 July 2009 (Government Gazette No. 32309 of 09/06/2009). The 2c/kWh must be recovered (by Eskom) within the 31.3 per cent tariff increase;
3. The approved price increase on the average standard tariffs includes a limited price increase of 15 per cent to both Eskom and municipalities' poor customers (i.e. Homelight 1 and 2 tariffs). It must be noted that this is an interim measure until the implementation of inclining block rate tariffs for protection of the poor. The full implementation will occur in the Multi-Year Price Determination (MYPD2); and
4. NERSA will issue minimum information requirements that will provide clarity on needed information for tariff applications and act as guidance to the applicant as to the type of information required by NERSA for tariff determination and decision making.

Subsequent to the above ruling, NERSA has advised the National Treasury that the 01 July 2009 to 31 March 2010 approval is with respect to Eskom. The NERSA approved price increase of 31.3 per cent with respect to municipalities and municipal entities is applicable for the period 01 July 2009 to 30 June 2010. Once the Minister of Public Enterprises has tabled the price increase in Parliament, the Minister of Finance will issue the following notice in the *Government Gazette*.

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003: EFFECTIVE DATE OF ESKOM'S ELECTRICITY PRICE INCREASE FOR MUNICIPALITIES AND MUNICIPAL ENTITIES

Notice is hereby given that the Minister of Finance has on 30 June 2009, in terms of section 42(5) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), granted approval for Eskom's price increase for bulk electricity for municipalities and municipal entities, as approved by the National Electricity Regulator on 25 June 2009, to become effective as from 1 July 2009 until 30 June 2010.

Because this issue was not known at the time the municipality tabled its budget on 31 March 2009, or when the municipality approved its budget, the Municipal Manager is advised to immediately inform Council of it, indicating the impact it will have on the municipality's approved budget. If the Council decides that it will necessitate any adjustments to be made to the budget, such adjustments may ***only*** be made as part of the mid-year budget adjustments process (see MFMA Budget and Reporting Regulations regulation 23(1)). Should a municipality choose not to reduce its electricity tariffs in the light of the NERSA ruling, the over-recovery in this financial year must be factored into the electricity tariff adjustments that are made for the 2010/11 Budget.

Note that in terms of section 28(6) of the MFMA municipal tax and tariffs may not be ***increased*** during a financial year.

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