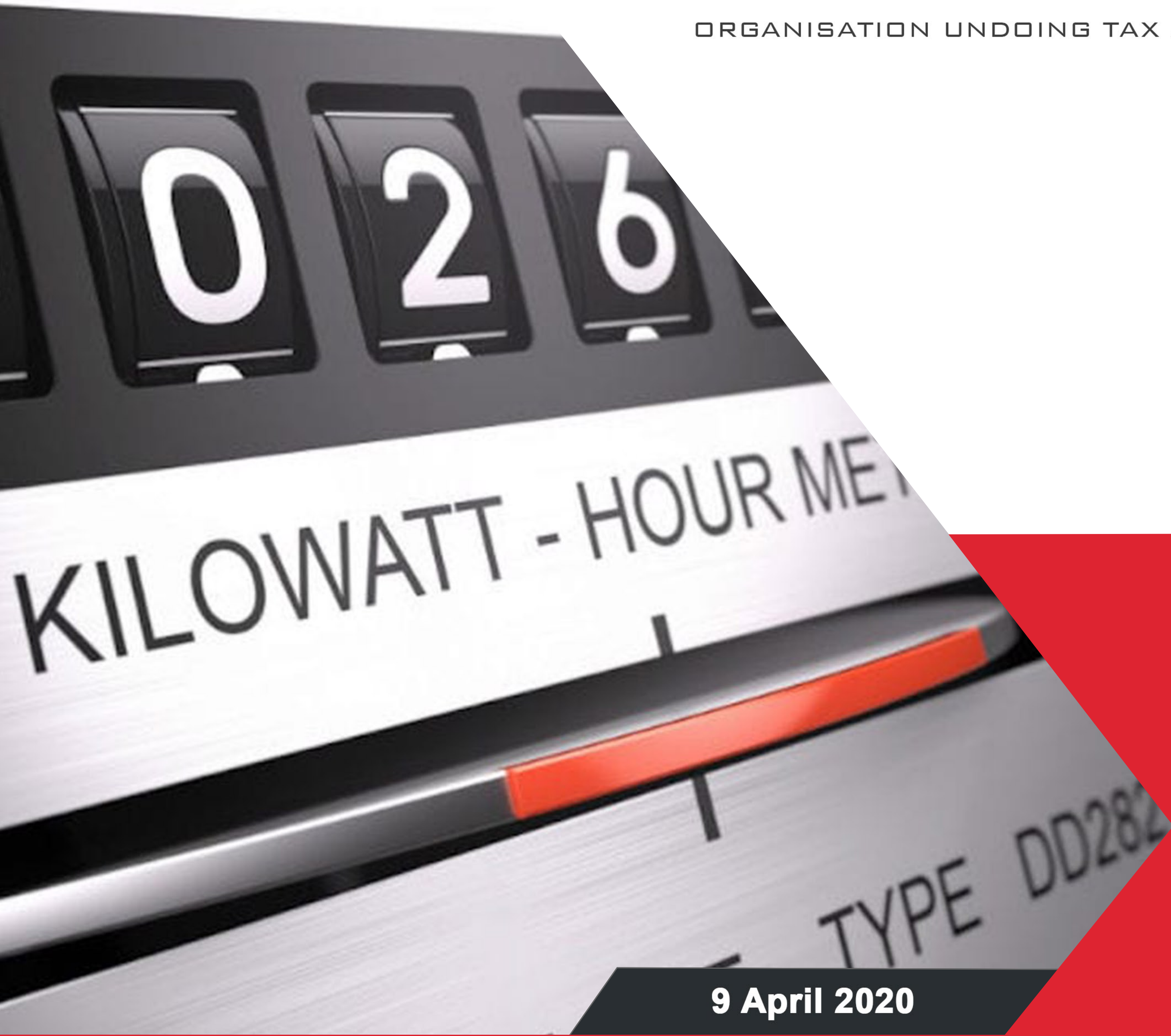
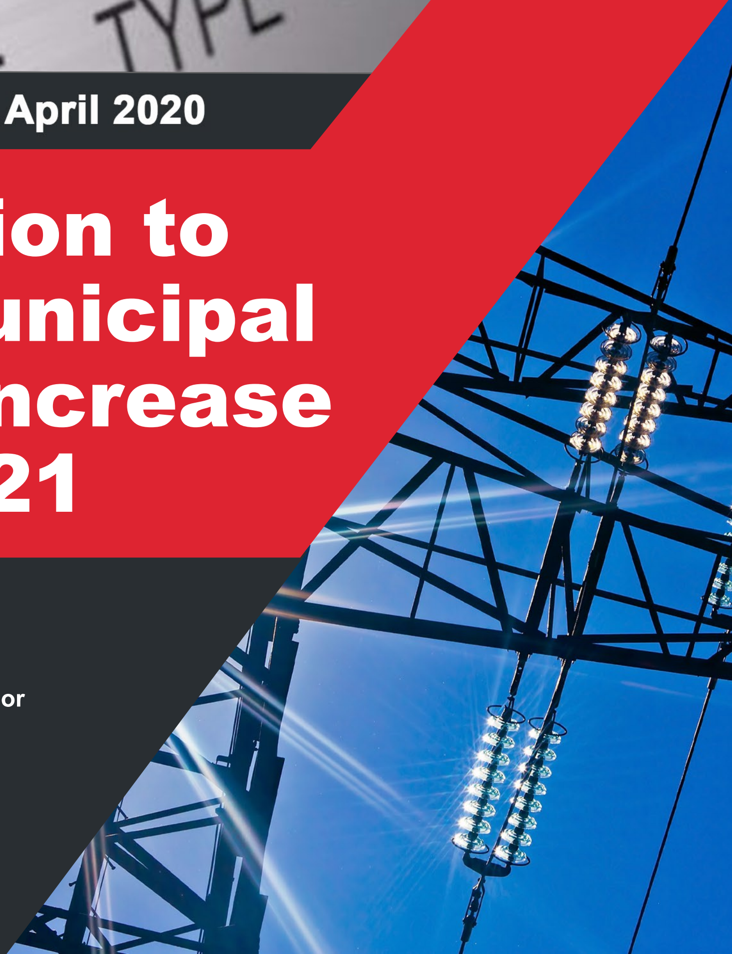
OUTA

ORGANISATION UNDOING TAX ABUSE



9 April 2020

OUTA submission to NERSA on the Municipal Tariff Guideline Increase for 2020/2021



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OUTA submission to NERSA on the *Municipal Tariff Guideline Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2020/2021 Financial Year*.

In principle OUTA believes that electricity revenue from municipal customers should cover the municipality's cost of supply with a small contribution to the general corporate costs of the municipality. We believe the same should also apply to Eskom.

NERSA's consultation paper includes some broad recommendations together with details of several broad categories of tariffs.

We believe that Eskom's restructuring will have an impact on tariffs, and we hope that once the Independent System and Market Operator (ISMO) is established, and wheeling arrangements are approved for all customers, the playing fields will be less tilted towards Eskom generation and this will see more equitable tariffs.

We therefore support the methodology which ensures that NERSA considers the following:

a) The economic impact of the increase on the consumers.

b) Sustainability of the licensees and ability to deliver a quality service.

c) The current tariff structures and levels in relation to NERSA-approved benchmarks and the level of cross-subsidisation.

d) The efficiency of the municipal operations (technical and financial). OUTA also supports NERSA's recommendation that municipalities should move to time-of-use tariffs which would enable them to better match their pricing and demand to Eskom's tariffs. Reducing demand at peak expensive times would "flatten the demand curve" and help with general energy efficiency, which is to be encouraged, from a perspective of good housekeeping.

The world is in the midst of an unprecedented pandemic that has so far wrought both economic and societal hardship, particularly for small businesses and households. OUTA believes that NERSA needs to take the Covid-19 pandemic into account in its consideration of the tariff increases this year. While we understand that municipalities need the electricity revenue in order to maintain the service, we ask that NERSA acts outside the box in processing the tariff guidelines for 2020/21.

NERSA has indicated that it will hold a public hearing on 16 April 2020. We doubt that this will be possible for a physical meeting to take place and we would therefore like to understand what arrangements have been made to conduct the public hearing virtually.

We request that NERSA consider:

a. No increase on municipal tariffs for 2020/21.
b. We understand that National Treasury has released R1 billion to combat Covid-19. We submit that NERSA should facilitate an engagement between municipalities and Treasury that would see some of that money being used to mitigate electricity price increases, for example exempting all clinics and hospitals from any electricity price increases this year.

OUTA strives for constructive engagement with government, to strengthen governance and ensure that there is affordable electricity for all.

In addition to broad inputs above, OUTA has the following questions:

1. The formula for calculating the municipal costs has changed (Table 1 on page 10). Salaries and wages used to make up 10% of the total costs, but now this is down to 4%. How realistic is this?
2. There is a new category of NMD (notified maximum demand) penalties at 1%. Why are "penalties" part of this? Municipalities should avoid these.
3. "Other expenses" are now 13%, up from 5%. This now seems to include interest on overdue Eskom accounts (para 4.2.2.8). Is this appropriate?
4. Finance/capital costs drops from 5% to 1% of total. But borrowings often run over several years. How will that be accommodated?
5. There's a mistake in the formula. The text version (para 4.2.2.3) says the repairs and maintenance budget increases 5.1% but Table 1 shows the increase as 4.6%. Based on the table, the overall increase is calculated at 6.24%; but if the higher increase is correct then that 6.24% will presumably increase.
6. OUTA welcomes NERSA's acknowledgement that VAT exists and includes it in the prices. OUTA has raised this issued before. The previous failure to include VAT in prices flouts the VAT law and makes it harder for consumers to understand the prices.
7. The tariffs are linked to what Eskom charges its direct customers. OUTA welcomes this change as some municipalities charge much more to their customers. How will this be implemented in municipalities which charge more? Will they immediately have to cap charges, or will they get exemptions?
8. Some of the tariffs are not clearly laid out. Tariffs seem to be labelled in line with Eskom tariffs. For example, there is no indication of what the prepaid tariffs will be for either domestic or business users. Prepaid tariffs in some municipalities have monthly connection or network fees, but not in other municipalities. Do the same energy charge tariffs apply to both post-paid and prepaid? This needs to be clarified.
9. The indigent tariff assumes free basic electricity (FBE) of a maximum of 50kWh/month (in line with National Treasury's policy, which has been the same since FBE started in 2003). The next blocks for indigents have lower charges than the standard domestic tariffs, which is a welcome move.
10. Reseller tariffs are now included, another good move. This improves transparency.