ANNEXURE 1

MUNICIPAL TARIFF GUIDELINE INCREASE, BENCHMARKS AND PROPOSED TIMELINES FOR MUNICIPAL TARIFF APPROVAL PROCESS FOR THE 2020/21 FINANCIAL YEAR

Consultation Paper

Published on 20 March 2020

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ABBREVIATIONS AND ACRONYMS

BP	Bulk Purchase
BPI	Bulk Purchase Increase
c/kWh	Cents per kilowatt-hour
CPI	Consumer Price Index
D-forms	Distribution Forms
ERTSA	Eskom Retail Tariff Structural Adjustment
FC	Finance Costs
GI	Guideline Increase
IBT	Inclining Block Tariff
kWh	Kilowatt-hour
MD	Maximum Demand
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MYPD	Multi-Year Price Determination
NERSA	National Energy Regulator of South Africa
OE	Other Expenses
OEI	Other Expenses Increase
R	Repairs
RCA	Regulatory Clearing Account
RI	Repairs Increase
S	Salaries
SI	Salary Increase
ToU	Time-of-Use

1. EXECUTIVE SUMMARY

1.1. The National Energy Regulator of South Africa (NERSA) is the regulatory authority of the energy sector in South Africa and its mandate includes the regulation of the electricity supply industry. In terms of section 4(ii) of the Electricity Regulation Act, 2006 (Act No. 4 of 2006) ('the Electricity Regulation Act'), the Energy Regulator must regulate electricity prices and tariffs.

1.2. The Energy Regulator, on an annual basis, approves a percentage guideline increase and reviews the municipal tariff benchmarks. The guideline increase assists the municipalities in the preparation of their budgets, while the revised benchmarks are used in the evaluation of the municipal tariff applications.

1.3. On 7 March 2019, the Energy Regulator made a determination on Eskom's fourth Multi-Year Price Determination (MYPD4) and the Regulatory Clearing Account (RCA) application for Year 5 (2017/18) of the MYPD3. Moreover, Eskom's application to the High Court for an urgent implementation of a revised price increase with effect from 1 April 2020 was unsuccessful. As a result, the Energy Regulator subsequently approved Eskom's Retail Tariff Structural Adjustments (ERTSA) on 12 March 2020.

1.4. The municipal tariff guideline increase is developed based on Eskom's approved bulk price increase of electricity to municipalities and the increase in the municipalities' cost structures. Hence, the approval of the municipal guideline increase is subsequent to the determination of the ERTSA. The benchmarks are developed to ensure that tariffs across municipalities are not vastly different.

1.5. The Energy Regulator is requesting that stakeholders comment on the percentage guideline increase, the benchmarks, the proposed timelines and the specific issues raised, as set out in this consultation paper. The comments should be addressed to: **Mr Thabo Tshabalala** at **The National Energy Regulator of South Africa, Kulawula House, 526 Madiba Street, Arcadia, Pretoria** or emailed to: **municguideline@nersa.org.za**. The deadline for the submission of comments is 9 April 2020.

1.6. NERSA will hold a public hearing (tentative) on the key issues highlighted in the consultation paper on 16 April 2020, in line with the terms of section 4(3) of the Promotion to Administration Justice Act, 2000 (Act No. 3 of 2000).

2. BACKGROUND

2.1. This consultation paper focuses on the process involved in determining the municipal guideline and benchmarks, and includes the tariff application process. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural, residential customers and municipalities. It also buys electricity from and sells electricity to the countries of the Southern African Development Community (SADC). All municipalities and relevant stakeholders are informed about the approved guideline percentage increase upon approval. This is not an automatic increase for the municipalities and private distributors. As a result, NERSA allows licensees to submit their proposed price adjustments or tariff increases annually for approval by the Energy Regulator.

2.2. NERSA benchmarks are based on five tariff categories and the corresponding average consumption levels. NERSA acknowledges that these are average consumption levels and that there may also be other tariff classes at various municipalities that will cater for other customer classes or consumption levels. Where such circumstances exist, the municipality's tariff applications will be treated on a case-by-case basis.

2.3. Policy position 23 of the Electricity Pricing Policy, 1998 (GG No. 31741 of 19 December 1998) ('the EPP') states that electricity distributors shall undertake Cost of Supply (COS) studies at least every five years, but at least when significant licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes. This must be done according to the approved NERSA Framework to reflect changing costs and customer behaviour.

2.4. In support of the EPP, NERSA developed a COS Framework to be used by all licensed electricity distributors ('licensees') in South Africa. The framework will be used as a guideline to licensees when developing their COS studies. NERSA will continue to support and engage all licensees to ensure a smooth transition towards COS study implementation.

2.5. According to NERSA's timelines, the municipal tariff guideline and benchmarks will be approved on 29 April 2020. Municipalities are therefore required to submit their draft tariff applications to NERSA, in line with this consultation paper, and the final application upon receipt of the municipal tariff guideline letter.

3. THE MUNICIPAL GUIDELINE APPROVAL PROCESS

The figure below outlines the process followed in the development of the Municipal Guideline and Benchmarks for 2020/21.

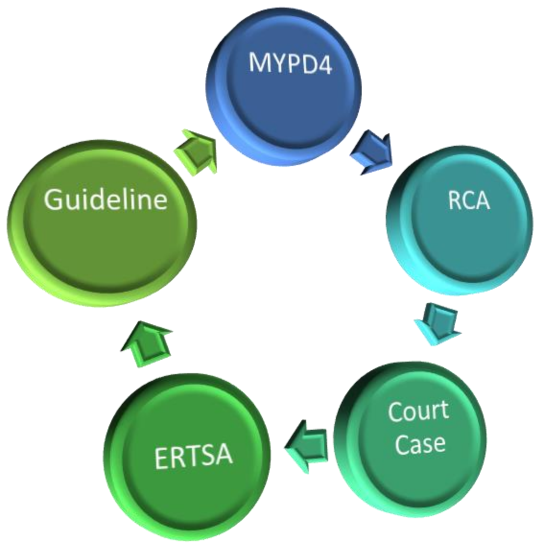

Figure 1: Municipal guideline approval process

3.1. On 7 March 2019, the Energy Regulator made a determination on Eskom's fourth Multi-Year Price Determination (MYPD4) Revenue Requirement for the control period 2019/20 to 2021/22 and the Regulatory Clearing Account (RCA) application for Year 5 (2017/18) of the MYPD3 to be recovered in 2020/21 from standard tariff customers.

3.2. Moreover, Eskom's application to the High Court for an urgent implementation of a revised price increase with effect from 1 April 2020, was unsuccessful in line with the ruling made on 10 February 2020.

3.3. Eskom submitted its ERTSA application on 14 February 2020, which the Regulator analysed and approved on an urgent basis to allow for the tabling in Parliament by the Minister of Public Enterprises by 13 March 2020. The liquidation of the MYPD4 decision and Year 5 RCA decisions resulted in an increase of 8.76% to Eskom and a bulk purchase increase of 6.9% for municipalities.

3.4. The guideline and benchmarks consultation paper is published subsequent to the ERTSA decision as per above.

4. TARIFF APPROVAL PROCESS

The figure below outlines the process followed in the tariff approval process for 2020/21.

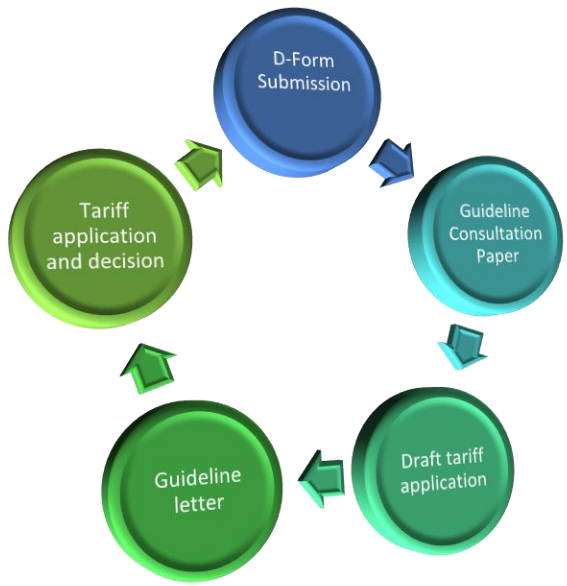

Figure 2: Tariff aprproval process

4.1. Submission of D-Form Information

4.1.1. NERSA held workshops in 2019 and considered one-on-one interactions with municipalities that needed further assistance. This would assist such municipalities with the completion of the 2018/19 D-forms. This process ran in parallel with the submission of the D-forms. The D-form templates are available on the NERSA website (**www.nersa.org.za**).

4.1.2. The closing date for the submission of the D-forms is 31 October annually. Municipalities that have been contacted by NERSA regarding inaccurate or outstanding data are required to ensure that accurate information is submitted timeously to NERSA to ensure a seamless tariff approval process. The distribution forms that are primarily used for the tariff approval process are D1 (Financial information), D2 (Market information) and D3 (Human Resources information).

4.1.3. These forms contain information regarding the financial position and efficiency levels of the municipality, as well as data regarding the customer's consumption patterns and the number of customers per tariff category. This information assists NERSA in the analysis of the tariffs and in determining the revenues that the municipality collects from the various tariff categories.

4.1.4. NERSA will not consider any municipal tariff applications without the submission of complete and accurate D-form information, which have been signed off by an authorised person. The D-forms should be accompanied by the following source documents to be considered as complete:

a) 2018/19 prepaid and conventional sales billing reports (notepad format)
b) Eskom invoices (pdf)
c) Outstanding reports i.e losses report, turnaround strategies, debt collection plans etc. (where applicable)
d) 2018/19 audited annual financial statements
e) 2018/19 trial balance (electricity only)
f) 2018/19 electricity asset register.

Issue 1: The stakeholders are requested to comment on the following:

a) The availability of the above information.
b) The ability to supply the information in the required format.

4.2. Guideline Increase Consultation Paper

4.2.1. The following licensee costs were considered when determining the percentage guideline increase:

a) Bulk purchases
b) Repairs and maintenance
c) Salaries and wages
d) Finance costs
e) NMD penalties
f) Other expenses.

4.2.2. The formula below was used to determine the guideline increase (GI) for 2020/21, based on the weights of the various cost categories and the associated increases. When developing the percentage guideline increase (GI) for 2020/21, the formula below was used:

GI = (BP x BPI) + (R x RI) + (S x SI) + (FC x FCI) + (NMD x NMDI) + (OE x OEI)

Where:

a) GI = % Municipal Guideline Increase
b) BP = % Bulk purchases
c) BPI =% Bulk purchase increase
d) R = % Repairs
e) RI = % Repairs increase
f) S = % Salaries
g) SI = % Salaries increase
h) FC = % Finance costs
i) FCI = % Finance cost increase
j) OE = % Other expenses
k) OEI= % Other expenses increase

4.2.2.1. The bulk purchases represents 74% of total costs incurred by licensees. For the 2020/21 financial year, an increase of 6.9% is applied in line with the approved ERTSA submission. The difference between Eskom's increase of 8.76% and that of the municipalities of 6.9% is due to the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) time lag (the municipalities' implementation date is 1 July, whereas Eskom's financial year starts on 1 April).

4.2.2.2. Due to the requirements of the MFMA, Eskom can only increase its prices to municipalities from 1 July 2020 and not 1 April 2020. This time lag leads to an under-recovery by Eskom in sales to municipalities, which calls for a higher price increase to municipalities to deal with this under-recovery. The higher price increase results from the fact that the outstanding revenue has to be recovered within a nine-month period instead of twelve months.

4.2.2.3. The repairs and maintenance represents 6% of total costs incurred by licensees. For the 2020/21 financial year, an increase of 5.1% is applied in line with the BER inflation figures.

4.2.2.4. The salaries and wages represents 4% of total costs incurred by licensees. For the 2020/21 financial year, an increase of 6.5% is applied in line with the Salary and Wage Collective Agreement for the period 1 July 2018 to 30 June 2021, as published by the South African Local Government Bargaining Council.

4.2.2.5. The finance costs represents 1% of total costs incurred by licensees. For the 2020/21 financial year, a decrease of 25 basis points (0.25%) is applied on finance costs in line with the announcement by the Reserve Bank Governor to cut the repo rate on 16 January 2020.

4.2.2.6. The NMD penalties represents 1% of total costs incurred by licensees. For the 2020/21 financial year, an increase of 0% is applied, this is because these penalties are deemed inefficient as no licensee is supposed to be incurring this cost. Licensees are encouraged to increase contracted demand and improve on network efficiencies instead.

4.2.2.7. The other expenses represents 13% of total costs incurred by licensees. For the 2020/21 financial year, an increase of 4.6% is applied in line with the BER inflation figures.

4.2.2.8. It should be noted that other expenses account for 13% of licensee expenses, which is high compared to the 2% collectively for NMD and finance costs. This is partly due to the inclusion of Eskom interest in other expenses, which is a consequence of the reporting format adopted in the 2017/18 D-forms. In future, the other expenses will be broken down further to ensure transparency.

4.2.3. The application of the formula in 4.2.2 above results in a guideline increase of 6.24% as indicated in the table below.

Table 1: Calculation of the guideline for the 2020/21 financial year

GI	Expenses	2017/18	Contribution	Increase	Guideline
BP	Bulk Purchases	74 909 465 994	74%	6.90%	5.1%
R	Repairs and Maintenance	6 505 426 229	6%	4.6%	0.3%
S	Salaries	4 174 239 245	4%	6.5%	0.3%
FC	Finance Costs	1 400 551 462	1%	-0.25%	0.0%
NMD	NMD penalties	1 413 285 019	1%	0%	0.0%
OE	Other Expenses	13 145 484 247	13%	4.6%	0.6%
Total expenditure		**101 548 452 197**	**100%**		**6.24%**

Issue 2: Stakeholders are requested to comment on the following:

a) **The approach taken to develop the guideline increase and propose alternatives where applicable.**
b) **Bulk purchases will increase by 6.9% as indicated in the ERTSA submission for the 2020/21 financial year.**
c) **BER forecast Consumer Price Index (CPI) for 2020/21 – 4.6%[1].**
d) **Salary increases – the Salary and Wage Collective Agreement for the period 1 July 2018 to 30 June 2021 – 6.5%[2].**
e) **Interest rate decrease for the year 2020/21 – 0.25%.**
f) **NMD penalties – 0%.**

4.3. Draft Tariff Applications

4.3.1. Licensees are encouraged to submit their draft tariff applications as soon as the Guideline and Benchmarks Consultation Paper is published.

4.3.2. Licensee tariffs are approved on an annual basis, when reviewing tariff applications, 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).

4.3.3. A tariff application will be deemed complete only when it complies with the following:

a) Must be accompanied by complete D-forms (in line with requirements in section 4.1.4 above).
b) Must be accompanied by requested reports (if applicable) in line with the previous year's tariff approval letter.
c) Must have a tariff description, which must include:
   - description of which customers the tariff applies to;
   - average consumption per month; and
   - connection size.
d) Tariff schedule, in line with the table below, based on the structure of each tariff category.

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[1] As indicated in the Bureau for Economic Research (BER) 2020/21

[2] As indicated in Circular No. 1/2019: Salary and Wage Collective Agreement for the period 01 July 2018 to 30 June 2021

Table 2: Tariff schedule format

1	Tariff Name	Current Tariffs	Proposed Tariffs	% increase
	Basic Charge/Admin charge	R/month	R/month	%
	Energy Charge	c/kW	c/kW	%
	Demand charge	R/kVA	R/kVA	%

Issue 3: The stakeholders are encouraged to comment on the following:

a) The availability of the above information.

b) The ability of licensees to supply the information in the required format.

4.4. Above-Guideline Increases

4.4.1. Licensees applying for an increase that is above the guideline will have to justify their increases to the Energy Regulator, and meet the following requirements:

a) The additional revenue should be quantified per customer category, including the forecast sales assumptions.

b) A detailed plan on the projects on which the additional funds will be used, should be provided.

c) The approved additional revenue must be ring-fenced and strictly used for identified projects. Failure to comply will result in the additional revenue being clawed back in the following year.

d) Licensees must report to NERSA on a six-month basis on how the additional funds are being used.

4.4.2. NERSA reserves the right to request any additional information to assist in assessing a tariff application.

4.4.3. Failure to provide/partial provision of the above additional information will result in the tariff application being considered as a guideline increase application.

4.4.4. The licensees are encouraged to develop time-of-use, and seasonal tariffs in order to enable the customer to benefit from shifting their load. This will also enable licensees to charge their customers prices that are similar to what Eskom is charging them.

Issue 4: The stakeholders are encouraged to comment on the following:

a) **The availability of the above information.**
b) **The ability of licensees to supply the information in the required format.**

4.4.5. NERSA will publish the approved Municipal Tariff Guideline and Benchmarks on its website once the Regulator has approved it. The licensees are then encouraged to submit final tariff applications with changes or ratify the draft submission as final. This will ensure that NERSA considers and approves these applications on time for implementation on 1 July 2020.

5. PROPOSED MUNICIPAL ELECTRICITY TARIFF BENCHMARKS FOR 2020/21

The proposed benchmarks for the 2020/21 financial year have been developed for the different tariff categories as follows:

5.1. Domestic Tariff

5.1.1. It is an electricity tariff for residential customers, which may also be charged to supplies such as churches, schools, halls, clinics, old-age homes or similar supplies in urban areas with an NMD of up 100kVA connected at a supply voltage below 500V.

5.1.2. This tariff is based on the following charges:

Energy charge (c/kWh):

- Active energy charge: The charge for each unit of energy consumed.

Basic charge (R/month):

- Network capacity charge: Fixed network charge raised to recover network costs based on used capacity.

The domestic tariff benchmarks are as follows:

Table 3: Homepower 1 tariffs

	Homepower 1								
	Energy charge [c/kWh] Block 1 [0 - 600 kWh]			Energy charge [c/kWh] Block 2 [>600 kWh]			Basic Charge (per month)		
Excluding VAT	R0.95	-	R1.45	R1.45	-	R2.30	R0.00	-	R186.60
Including VAT	R1.09	-	R1.67	R1.67	-	R2.64	R0.00	-	R214.59

Table 4: Homepower 2 tariffs

	Homepower 2								
	Energy charge [c/kWh] Block 1 [0 - 600 kWh]			Energy charge [c/kWh] Block 2 [>600 kWh]			Basic Charge (per month)		
Excluding VAT	R0.95	-	R1.45	R1.45	-	R2.24	R0.00	-	R350.10
Including VAT	R1.09	-	R1.67	R1.67	-	R2.57	R0.00	-	R402.62

Table 5: Homepower 3 tariffs

	Homepower 3								
	Energy charge [c/kWh] Block 1			Energy charge [c/kWh] Block 2			Basic Charge (per month)		
Excluding VAT	R0.95	-	R1.45	R1.45	-	R2.24	R0.00	-	R723.30
Including VAT	R1.09	-	R1.67	R1.67	-	R2.57	R0.00	-	R831.80

Table 6: Homepower 4 tariffs

	Homepower 4								
	Energy charge [c/kWh] Block 1 [0 - 600 kWh]			Energy charge [c/kWh] Block 2 [>600 kWh]			Basic Charge (per month)		
Excluding VAT	R0.95	-	R1.45	R1.45	-	R2.34	R0.00	-	R114.30
Including VAT	R1.09	-	R1.67	R1.67	-	R2.69	R0.00	-	R131.45

5.1.3. The maximum charges have been aligned to what Eskom charges to its Homepower customers as these are based on its cost of supply study, while the lower-end benchmarks were taken from the lower end of the currently approved NERSA benchmarks.

5.1.4. This method of capping these prices seeks to achieve the following:

a) To ensure that competitive pricing is maintained, especially in light of the anticipated Eskom unbundling and changing energy sector.
b) To base licensee tariffs on cost of supply studies.
c) To protect consumers from undue high prices.

5.1.5. The qualification criteria for the above tariffs are set out as follows:

Table 7: Qualification criteria

Homepower 1	dual-phase 32kVA (80A per phase) 25 kVA (40A per phase)
Homepower 2	dual-phase 64kVA (150A per phase) 50 kVA (40A per phase)
Homepower 3	dual-phase 100kVA (80A per phase) 100 kVA (40A per phase)
Homepower 4	single-phase 16kVA (80A per phase

5.1.6. Licensees wishing to operate outside of these set tariff levels and structures will be required to submit a complete, licensee specific cost of supply study justifying the deviation.

Issue 5: Stakeholders are requested to comment on the following:

a) The approach taken to derive the domestic benchmarks, propose additional categories and alternative approaches, if applicable.
b) The tariff qualification criteria used.

5.2. Indigent Tariff

5.2.1. This is an electricity tariff for residential indigent customers who qualify in line with the licensee indigent policies. This tariff has been developed in line with the Eskom Homelight tariffs.

5.2.2. The indigent tariff is as follows**:**

Table 8: The indigent tariff

	Indigents		
	Energy charge [c/kWh] Block 1 [0 - 50 kWh]	**Energy charge [c/kWh] Block 2 [51 -350 kWh]**	**Energy charge [c/kWh] Block 2 [351 - 600 kWh]**
Excluding VAT	R0.00 - R0.00	R0.95 - R1.22	R1.22 - R1.45
Including VAT	R0.00 - R0.00	R1.09 - R1.40	R1.40 - R1.67

Issue 6: Stakeholders are requested to comment on the following:

a) The approach taken to derive the indigent benchmarks, the structure and levels propose alternative approaches, if applicable.

b) The tariff qualification criteria used.

5.3. Business Rate Tariff

5.3.1. It is an electricity tariff for supplies with commercial usage and also for non-commercial supplies such as churches, schools, halls, clinics, old-age homes, public lighting or similar supplies in urban areas with an NMD of up to 100kVA connected at a supply voltage below 132kV.

5.3.2. This tariff is based on the following charges:
Energy charge (c/kW):

- Active energy charge – the charge for each unit of energy consumed.
- Network demand charge – variable network charge raised to recover network cost.
- Electrification and rural network subsidy.

The table below provides the cost assumptions used in developing the energy charge.

Table 9: Cost assumptions used in developing the energy charge

1. Energy Charge (R/kW)	
1.1. Active energy charge	
- Business Rate 1	1.27
- Business Rate 2	1.27
- Business Rate 3	1.27
- Business Rate 4	3.42
1.2. Ancillary service charge	
- Business Rate 1	
- Business Rate 2	
- Business Rate 3	
- Business Rate 4	
1.3. Distribution network demand charge	
- Business Rate 1	0.18
- Business Rate 2	0.18
- Business Rate 3	0.18
- Business Rate 4	0.18
1.4. Electrification and rural network subsidy charge	
- Business Rate 1	
- Business Rate 2	
- Business Rate 3	0.09
- Business Rate 4	

5.3.3. Ancillary service charge by definition means the charge that recovers the cost of providing ancillary services by the System Operator and are thus excluded for the purposes of determining these benchmarks.

5.3.4. Furthermore, customers taking up supply at voltage levels exceeding 33kV will be charged an electrification and rural network subsidy charge, which is the contribution towards socio-economic network-related subsidies for residential and rural tariffs.

Basic charge (R/month):

- Network capacity charge: Fixed network charge raised to recover network costs based on used capacity.
- Administration charge: Fixed charge payable to recover administration-related costs such as meter reading, billing and meter capital (payable every month whether any electricity is used).
- Service charge: Fixed charge payable to recover service-related costs (payable every month whether any electricity is used).

The table below provides the cost assumptions used in developing the basic charge.

Table 10: Cost assumptions used in developing the basic charge

2. Basic Charge	R/day	R/month
2.1. Network capacity charge		
- Business Rate 1	R 25.25	757.50
- Business Rate 2	R 42.58	1 277.40
- Business Rate 3	R 73.58	2 207.40
- Business Rate 4	R 0.00	R 0.00
2.2. Service & Administration charge		
- Business Rate 1	R 21.62	648.60
- Business Rate 2	R 21.62	648.60
- Business Rate 3	R 21.62	648.60
- Business Rate 4	R 0.00	R 0.00
3. Transmission network charges (R/kVA)		
- Business Rate 1		
- Business Rate 2		
- Business Rate 3		
- Business Rate 4		9.18

5.3.5. As can be seen from the table above, only connections at transmission voltages will be allowed to recover a cost for the transmission network as is the case with Business Rate 4.

5.3.6. The business tariff benchmarks are as follows:

Table 11: Business Rate 1 tariffs

	Business Rate 1	
	Energy charge (R/kWh)	**Basic charge (R/month)**
Excluding VAT	R1.00 - R1.45	R1 200.00 - R1 406.10
Including VAT	R1.15 - R1.66	R1 380.00 - R1 617.02

Table 12: Business Rate 2

	Business Rate 2	
	Energy charge (R/kWh)	Basic charge (R/month)
Excluding VAT	R1.00 - R1.45	R1 200.00 - R1 926.00
Including VAT	R1.15 - R1.66	R1 380.00 - R2 214.90

Table 13: Business Rate 3

	Business Rate 3	
	Energy charge (R/kWh)	Basic charge (R/month)
Excluding VAT	R1.00 - R1.54	R1 200.00 - R2 856.00
Including VAT	R1.15 - R1.77	R1 380.00 - R3 284.40

Table 14: Business Rate 4

	Business Rate 4		
	Energy charge (R/kWh)	Basic charge (R/month)	Transmission (R/kVA/month
Excluding VAT	R1.13 - R3.59	R1 200.00 - R2 856.00	R0.00 - 9.18
Including VAT	R1.30 - R4.13	R1 380.00 - R3 284.40	R0.00 - 10.56

5.3.7. The maximum charges have been aligned to what Eskom charges to its business rate customers. These are based on its cost of supply study, while the lower-end benchmarks were taken from the lower end of the currently approved NERSA benchmarks. This method of capping these prices seeks to achieve the following:

a) To ensure that competitive pricing is maintained, especially in light of the anticipated Eskom unbundling and changing energy sector.
b) To base licensee tariffs on cost of supply studies.
c) To protect consumers from undue high prices.

5.3.8. The qualification criteria for the above tariffs are set out as follows:

Table 15: The qualification critera for the above tariffs

Business Rate 1	≤500V
Business Rate 2	>500V ≤33kV
Business Rate 3	>33kV ≤132kV
Business Rate 4	>132kV

Issue 6: Stakeholders are requested to comment on the following:

a) The approach taken to derive the business benchmarks, propose additional categories and alternative approaches if applicable.

b) The cost elements included and excluded.

c) The cost assumptions used.

d) The tariff qualification criteria used.

5.4. Landrate Tariff

5.4.1. This is an electricity tariff for rural customers with single, dual or three-phase conventionally metered supplies with an NMD up to 100kVA with a supply voltage below 500V.

5.4.2. This tariff is based on the following charges:
Energy charge (c/kW):

- Active energy charge – the charge for each unit of energy consumed.
- Network demand charge – variable network charge raised to recover network cost.

Basic charge (R/month):

- Network capacity charge: Fixed network charge raised to recover network costs based on used capacity
- Administration charge: Fixed charge payable to recover administration-related costs such as meter reading, billing and meter capital (payable every month whether any electricity is used).
- Service charge: Fixed charge payable to recover service-related costs (payable every month whether any electricity is used).

5.4.3. This tariff is based on the following charges:

Energy charge (c/kWh):

- Active energy charge: The charge for each unit of energy consumed.

Basic charge (R/month):

- Network capacity charge: Fixed network charge raised to recover network costs based on used capacity.

5.4.4. The Landrate tariff benchmarks are as follows:

Table 16: Landrate 1

	Land Rate 1	
	Energy charge (R/kWh)	**Basic charge (R/month)**
Excluding VAT	R1.00 - R1.58	R1 200.00 - R2 351.70
Including VAT	R1.15 - R1.81	R1 380.00 - R2 704.46

Table 17: Landrate 2

	Land Rate 2	
	Energy charge (R/kWh)	**Basic charge (R/month)**
Excluding VAT	R1.00 - R1.58	R1 200.00 - R2 351.70
Including VAT	R1.15 - R1.81	R1 380.00 - R2 704.46

Table 18: Landrate 3

	Land Rate 3	
	Energy charge (R/kWh)	**Basic charge (R/month)**
Excluding VAT	R1.00 - R1.54	R1 200.00 - R3 270.90
Including VAT	R1.15 - R1.77	R1 380.00 - R3 761.54

Table 19: Landrate 4

	Land Rate 4	
	Energy charge (R/kWh)	**Basic charge (R/month)**
Excluding VAT	R1.00 - R3.59	R1 200.00 - R795.00
Including VAT	R1.15 - R4.13	R1 380.00 - R914.25

5.4.5. Non-metered supplies will be charged at Landrate 4 rates at an assumed consumption level of 200kWh per month.

5.4.6. The maximum charges have been aligned to what Eskom charges to its land rate customers. These are based on its cost of supply study, while the lower-end benchmarks were taken from the lower end of the currently approved NERSA benchmarks. This method of capping these prices seeks to achieve the following:

a) To ensure that competitive pricing is maintained, especially in light of the anticipated Eskom unbundling and changing energy sector.
b) To base licensee tariffs on cost of supply studies.
c) To protect consumers from undue high prices.

5.4.7. The qualification criteria for the above tariffs are set out as follows:

Table 20: The qualification criteria for the above tariffs

Land Rate 1	≤500V
Land Rate 2	>500V ≤33kV
Land Rate 3	>33kV ≤132kV
Land Rate 4	>132kV

Issue 7: Stakeholders are requested to comment on the approach taken to derive the Landrate benchmarks and propose alternative approaches if applicable.

Issue 8: Stakeholders are requested to comment on the applicability of the definition of a rural customer.

5.5. Reseller Tariff

5.5.1. This is an electricity tariff to be charged to resellers by licensees. It has been developed with an intention of enabling resellers to supply electricity at a desired quality of service, while also maintaining their networks at desired levels. Furthermore, this tariff is intended to ensure that a reseller is able to charge its customers in line with approved tariff schedules of the licensees.

5.5.2. The tariff is based on the following charges:

Energy charge (c/kW):

- Active energy charge: The charge for each unit of energy consumed.

Network capacity charge (R/kVA):

- Network capacity charge: Based on the NMD or if measured the maximum demand of the supply.

5.5.3. The reseller tariff benchmarks are as follows:

Table 21: Residential Reseller 1 tariff

	Reseller Tariff	
	Energy charge (R/kWh)	Network capacity charge (R/kVA)
Excluding VAT	R0.81 - R1.87	R0.00 - R36.36
Including VAT	R0.93 - R2.15	R0.00 - R36.36

5.5.4. The energy charge component has been discounted to 80% of the lowest domestic tariff. This will ensure that a sufficient margin is earned to achieve the intended objectives of reselling mentioned above.

5.5.5. The network capacity charge has been set at levels similar to the Eskom Homepower Bulk tariff.

5.5.6. The maximum charges have been aligned to what Eskom charges to its Homepower Bulk customers. These are based on its cost of supply study, while the lower-end benchmarks were taken from the lower end of the currently approved NERSA benchmarks. This method of capping these prices seeks to achieve the following:

a) To ensure that competitive pricing is maintained, especially in light of the anticipated Eskom unbundling and changing energy sector.
b) To base licensee tariffs on cost of supply studies.
c) To protect consumers from undue high prices

Issue 9: Stakeholders are requested to comment on the following:

a) The approach taken to derive the resellers benchmarks and propose alternative approaches, if applicable.
b) The discount level sufficient for reseller and licensee sustainability.

5.6. Time-of-Use Tariff for Urban Customers

5.6.1. Time-of-Use (ToU) electricity tariff for urban customers with an NMD greater than 1MVA that are able to shift load and are connected at a voltage below 132kV.

5.6.2. This tariff is based on the following charges:
Energy charge (c/kW):

- Active energy charge: Seasonally and time-of-use differentiated c/kWh active energy charges, including losses.
- Network demand charge: Variable network charge raised to recover network cost.

kVA charges (R/kVA)

- Transmission network charge: Fixed network charge raised to recover network costs based on used capacity.
- Network capacity charge: Fixed network charge raised to recover network costs based on used capacity.
- Network demand charge: Variable network charge raised to recover network cost.
- Urban low voltage subsidy charge: Charge transparently indicating the network-related cross subsidy payable by ≥ 66kV connected supplies for the benefit of < 66kV connected supplies.

Basic charge (R/month):

- Administration charge: Fixed charge payable to recover administration-related costs such as meter reading, billing and meter capital (payable every month whether any electricity is used).
- Service charge: Fixed charge payable to recover service-related costs (payable every month whether any electricity is used).

5.6.3. The ToU urban tariff benchmarks are as follows:

Table 22: ToU urban tariff

Time of Use (ToU) urban					
Time of Use 1	**Peak Energy charge (c/kWh)**	**Standard Energy charge (c/kWh)**	**Off Peak Energy charge (c/kWh)**	**Basic charge (R/month)**	**kVA charges (R/kVA/month)**
	High Demand Season				
Excluding VAT	R3.54 - R3.82	R1.07 - R1.16	R0.58 - R0.63	R0.00 - R10 247.10	R19.26 - R76.24
Including VAT	R4.07 - R4.39	R1.23 - R1.33	R0.67 - R0.72	R0.00 - R11 784.17	R22.15 - R87.68
	Low Demand Season				
Excluding VAT	R1.15 - R1.24	R0.79 - R0.86	R0.50 - R0.63	R0.00 - R10 247.10	R19.26 - R76.24
Including VAT	R1.33 - R1.43	R0.91 - R0.99	R0.58 - R0.72	R0.00 - R11 784.17	R22.15 - R87.68

5.6.4. The maximum charges have been aligned to what Eskom charges to its Megaflex customers. These are based on its cost of supply study, while the lower-end benchmarks were taken from the lower end of the currently approved NERSA benchmarks. This method of capping these prices seeks to achieve the following:

a) To ensure that competitive pricing is maintained, especially in light of the anticipated Eskom unbundling and changing energy sector.
b) To base licensee tariffs on cost of supply studies.
c) To protect consumers from undue high prices

5.6.5. This tariff is for customers connected at a voltage below 132kV.

6. THE FINANCIAL BENCHMARKS

6.1. The municipalities' overall financial and technical performance indicators to be considered in this regard mainly include:

a) gross profit margin;
b) net profit margin;
c) percentage power cost;
d) repairs and maintenance;
e) technical energy losses; and
f) revenue collection rate.

6.2. The table below indicates the weights of the financial benchmarks for the 2018/19 financial year. The municipalities that operate within these benchmarks are considered to run a sustainable and efficient electricity business.

Table 23: Financial benchmarks

Financial indicators	Benchmark	Financial benchmark acceptable range
Gross profit margin **(%)**:	**58**	**58 - 62**
Net profit margin **(%)**:	**15**	**10 - 20**
Percentage Power Cost: **(%)**	**74**	**58 - 78**
Technical Energy Losses: **(%)**	**10**	**5 - 12**
Revenue collection rate **(%)**	**95**	**85 - 100**
Repairs & Maintenance **(minimum of 6% of revenue)**	**6**	**6**

6.3. The licensees are encouraged to improve on their revenue collection, improve on energy losses, as well as spend sufficiently on repairs and maintenance of their networks to ensure a sustainable quality service delivery. This will ensure that a licensee earns a sufficient net profit margin after all costs have been taken into account.

Issue 7: Stakeholders are requested to comment on the performance targets set for licensees and recommend any additions/alternatives, if applicable.

7. TIMELINES FOR MUNICIPAL TARIFF APPROVAL PROCESS AND GUIDELINE DETERMINATION

7.1. Municipalities are bound by legislation such as the MFMA and the Municipal Systems Act, 2000 (Act No. 32 of 2000). According to the MFMA budgetary process, a budget circular to all municipalities is issued by the National Treasury by the end of November annually. This circular takes into account NERSA's approved guideline increase.

7.2. The municipalities are required to submit their tariff applications to NERSA as soon as possible upon receipt of the municipal tariff guideline letter.

7.3. Section 43 of the MFMA states:

(1) If a national or provincial organ of state in terms of a power contained in any national or provincial legislation determines the upper limits of a municipal tax or tariff, such determination takes effect for municipalities on a date specified in the determination.

(2) Unless the Minister on good grounds approves otherwise, the date specified in a determination referred to in subsection (1) may –

a) If the determination was promulgated on or before 15 March in a year, not be a date before 1 July in that year; or

b) If the determination was promulgated after the 15 March in a year, not be a date before 1 July in the next year.

7.4. Given that the process is delayed, NERSA will not be in a position to meet the 15 March deadline as per section 43 of the MFMA. NERSA will then request exemption from the Minister of Finance.

7.5. The table below indicates the timelines for the approval of the Municipal Tariff Guideline and Benchmarks.

Table 24: Approval of municipal tariff guideline and benchmarks

Activity/task	Date
ERTSA approval	09-Mar-20
Guideline modelling	14-Mar-20
NERSA decision on Consultation paper	18-Mar-20
Publishing of Consultation paper	19-Mar-20
Closing date for comments	09-Apr-20
Public hearing (to be confirmed)	15-Apr-20
ELS decision on Guideline and Benchmarks (Proposed Special ELS request)	22-Apr-20
ER decision on Guideline and Benchmarks	29-Apr-20

7.6. From the approval of the ERTSA application on 9 March 2020, NERSA will publish the final guideline increase and benchmarks on 23 April 2020.

Table 25 below indicates the municipal tariff review process leading to the approval of the municipal electricity tariffs.

Table 25: Municipal tariff review process for the 2020/21 financial year

Activity/Task	Date
Municipalities compile and submit tariff applications for consideration by NERSA	*Mar – May 2020
NERSA's consideration and approval of tariff applications and communication of NERSA's decision to municipalities	May– June 2020
Public hearing for above-guideline increase	May – June 2020
Consideration and approval of applications above the guideline	May – June 2020
Communicate NERSA's decision to licensees	May – June 2020

*Although the final guideline approval is expected on 29 April 2020, licensees should start submitting draft tariff applications to NERSA for consideration.