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Ref.45260

Date: 24 February 2010

The Municipal Manager  
**Licensed Electricity Distributor**

Dear Sir/Madam

## **MUNICIPAL ELECTRICITY TARIFF GUIDELINE INCREASE FOR 2010/11, 2011/12 AND 2012/13 FINANCIAL YEAR**

On 24 February 2010, the National Energy Regulator of South Africa (NERSA) made its determination on the guideline electricity tariff increase and the revision of the municipal tariff benchmarks for the 2010/11, 2011/12 and 2012/13 financial years in line with the approved Eskom average price increase for the Multi-Year Price Determination 2 (MYPD2) period. The details of the Energy Regulator's decision will be available on the NERSA website [www.nersa.org.za](http://www.nersa.org.za) on 25 February 2010. The reasons for decision will be on the website in due course.

### **1. Annual electricity price increase guideline**

An annual guideline increase of 15.33% for 2010/11 and indicative guideline increase of 16.03% for 2011/12 and 16.16% for 2012/13 for municipalities has been determined by NERSA. The indicative increase will be reviewed annually and if it needs to be adjusted, NERSA will do so and inform all distributors at the appropriate time.

NERSA calculated a claw back based on the assumption that the municipalities increased their tariffs by 34% last year. For the municipalities that increased by a lesser amount, the Energy Regulator will consider their applications on a case by case basis.

The guideline refers to the overall increase in revenue resulting from the adjustments to electricity tariffs and excludes the effect of any growth in sales on revenue.

Please note that this guideline does not mean an automatic increase in tariffs and that you are still required to apply to NERSA for the approval of your tariffs, i.e. any tariff level or tariff structural change. Where NERSA has, in previous tariff adjustments, approved

particular tariffs without reservation, and the current levels and structures are within the benchmarks, the Energy Regulator would generally approve increases to these tariffs within the guideline. Where the Energy Regulator has previously limited increases to specific or all tariff categories or indicated that a specific tariff or tariffs are too high; then the licensee should increase these tariffs at a lower rate than the guideline or even decrease these tariffs. Please provide sufficient motivation for any such changes. NERSA's Electricity Pricing and Tariffs Department will contact you to request any additional information and motivation where the need arises.

## 2. Municipal Tariff Benchmarks

On 25 June 2009, NERSA decided that Inclining Block Rate Tariffs (IBTs) must be implemented during the MYPD2 control period in order to provide for cross-subsidies for low income domestic customers, as required by the Electricity Pricing Policy (EPP). Following this decision, an inclining block tariff structure for municipalities has been developed and approved by NERSA. Therefore, municipalities are required to implement residential inclining block rate tariffs concurrently with this price increase. The structure of the inclining block tariffs, together with the average c/kWh and percentage price increases, are as follows:

Monthly Consumption Level	2010/2011	2011/2012	2012/13
Block 1 (1-50kWh)	5.6%	5.50%	5.50%
Block 2 ( 51 – 350kWh)	7.30%	7.73%	8.00%
Block 3 (351 – 600kWh)	15.33%	16.03%	16.16%
Block 4 (> 600kWh)	15.33%	16.03%	16.16%

The average municipal electricity tariff level benchmarks including IBTs in c/kWh for 2010/11 to 2012/13 financial years were approved as detailed below:

### Municipal benchmarks for 2011/12

c/kWh	Domestic Block 1 (1-50kWh)	Domestic Block 2 (51-350kWh)	Domestic Block 3 (351-600kWh)	Domestic Block 4 >600	Commercial Prepaid	Commercial	Industrial
RED 1	54 - 60	58 - 64	71 - 76	83 - 90	91 - 96	91 - 96	91 - 96
RED 2	54 - 60	58 - 64	71 - 76	83 - 91	91 - 96	90 - 95	92 - 97
RED 3	54 - 60	58 - 64	71 - 76	83 - 90	91 - 96	90 - 95	92 - 97
RED 4	54 - 60	58 - 63	70 - 75	83 - 90	90 - 95	90 - 95	92 - 97
RED 5	54 - 60	58 - 64	71 - 76	83 - 90	90 - 95	91 - 96	91 - 96
RED 6	54 - 60	58 - 62	70 - 75	83 - 90	91 - 96	91 - 96	92 - 97

### Municipal benchmarks for 2011/12

c/kWh	Domestic Block 1 (1-50kWh)	Domestic Block 2 (51-350kWh)	Domestic Block 3 (351-600kWh)	Domestic Block 4 >600	Commercial Prepaid	Commercial	Industrial
RED 1	57 - 64	63 - 68	83 - 89	99 - 104	106 - 111	106 - 111	106 - 112
RED 2	57 - 64	63 - 68	83 - 89	100 - 106	105 - 110	105 - 110	107 - 113
RED 3	57 - 64	63 - 68	83 - 89	99 - 104	106 - 111	106 - 111	108 - 113
RED 4	57 - 64	62 - 67	82 - 88	98 - 104	105 - 110	105 - 110	108 - 113
RED 5	57 - 64	63 - 68	83 - 89	99 - 104	106 - 111	105 - 110	106 - 112
RED 6	57 - 64	62 - 67	82 - 88	98 - 104	106 - 111	106 - 111	108 - 113

### Municipal benchmarks for 2012/13

c/kWh	Domestic Block 1 (1-50kWh)	Domestic Block 2 (51-350kWh)	Domestic Block 3 (351-600kWh)	Domestic Block 4 >600	Commercial Prepaid	Commercial	Industrial
RED 1	60- 67	67 - 72	97 - 103	115 - 121	124 - 129	124 - 129	124 - 129
RED 2	60 - 67	67 - 72	97 - 103	117 - 122	122 - 127	122 - 127	126 - 131
RED 3	60 - 67	67 - 72	97 - 103	115 - 121	124 - 129	122 - 127	126 - 131
RED 4	60 - 67	66 - 71	95 - 101	114 - 121	122 - 127	122 - 127	126 - 131
RED 5	60 - 67	67 - 72	97 - 103	115 - 121	122 - 127	124 - 129	124- 129
RED 6	60 - 67	65 - 70	95 - 101	115 - 121	124 - 129	124 - 129	126 - 131

The Municipalities are encouraged to contact NERSA should they need any assistance or clarifications on the implementation of inclining block rate tariffs. To facilitate this assistance, the enquiring municipality will need to have handy and provide NERSA with its residential customers numbers along with average consumption per tariff residential customer category.

### 3. Municipal network maintenance/refurbishment

NERSA is concerned about the state of the electricity networks and the apparent lack of ongoing maintenance on these. NERSA is also continuously performing independent technical audits on distribution networks. The results of these audits have indicated some lack of ongoing maintenance of networks by licensees.

In the determination of this guideline increase NERSA has allowed for at least 6% of the total revenue on electricity sales to be spent on normal ongoing maintenance and repairs of networks. The Municipality is therefore required to spend the money as such.

Where you have a request for an additional increase for funding for abnormal maintenance or major capital refurbishment, NERSA will request from you the following:

- I. A detailed plan on this will have to be submitted to NERSA with the request,
- II. Six monthly reports will then have to be submitted to NERSA on project progress in a ring-fenced format showing work to date and amounts spent; and
- III. Where the funds are not utilised appropriately, these will be clawed-back in the next tariff review period by crediting your customers with the appropriate amount.

Please note that this letter will also be sent to Provincial Auditor Generals for their records and for auditing purposes.

### 4. Illegal tariff adjustments

In terms of section 4(ii) of the Electricity Regulation Act, 2006 (Act No 4 of 2006) the National Energy Regulator must regulate prices. Licensees annually submit their proposed price adjustments / tariff increases for approval by NERSA. According to section 15(2) of the Electricity Regulation Act, 2006 (Act No 4 of 2006), a licensee may not charge a

customer any other tariff and make use of the provisions in agreements other than that determined or approved by the Energy Regulator as part of its licensing conditions. Licensees who implement tariffs illegally will be subject to a penalty to be determined by NERSA, and will be obliged to repay customers the money illegally collected from them before any further applications for tariff increases will be considered. NERSA may also consider the withdrawal of a license in such cases.

## **5. Submission of Distribution forms to NERSA**

You are reminded that all licensed distributors are required to submit distribution information (on prescribed D-forms) to NERSA on an annual basis as a condition of your license. These forms are very critical for the evaluation of the tariff application and therefore no tariff increase will be considered unless NERSA has received accurately completed forms.

## **6. Implementation date**

In terms of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) ("MFMA"), all municipalities are expected to have completed their budgeting process and have promulgated their proposed tariffs before the beginning of the new financial year.

In response to the implementation of the MFMA, changes to the previous electricity tariff approval process were required. NERSA encourages all municipalities to submit their applications by 30 April 2010 prior to implementation date, and NERSA will undertake to process all applications received in time for implementation, 1 July 2010/11.

All licensees are urged to apply on time to avoid delays and eventually not being able to adjust their tariffs on 1 July 2010 for the 2010/11 financial year. This may require submitting draft tariffs to NERSA prior to the stakeholder process and Council approval, and the tariffs could then be ratified once finalised.

## **7. Timeframe for applications**

In order to meet the desired deadline for approval of 1 July 2010, to allow for appeals and implementation administration, it is important that provision is made in your planning / budgeting cycle to allow time for the submission of applications for future changes or increases to NERSA for consideration. **The deadline for submission of municipal tariff applications is 30 April 2010 for implementation on 1 July 2010.**

For your convenience and to assist you in planning we attach a list of Regulator Executive Committee, Electricity Subcommittee and the Energy Regulator meetings and dates. Please bear these dates in mind when applying for tariff adjustments, with the understanding that completed documentation for these meetings needs to be finalized some weeks before each meeting.

### SCHEDULE OF COMMITTEE MEETINGS UNTIL 30 JUNE 2010

<i>Regulator Executive Committee</i>	<i>Electricity Subcommittee</i>	<i>Energy Regulator</i>
1. Mon, 08 March 2010	1.Wed, 17 March 2010	1.Thurs, 29 April 2010
2. Tues, 06 April 2010	2. Wed, 14 April 2010	2. Thurs, 27 May 2010
3. Thurs, 15 April 2010	3. Wed, 05 May 2010	
4. Mon, 17 May 2010	4. Wed, 19 May 2010	
5. Mon, 07 June 2010	5. Wed, 23 June 2010	
6. Mon, 21 June 2010		

Finally let me take this opportunity to thank you for the continued support and assistance given to NERSA. I trust that this relationship will continue in the future for the benefit of all parties.

Yours sincerely,

  
Simanda Mokoena

**CHIEF EXECUTIVE OFFICER**