

**ESKOM'S APPLICATION FOR THE RATIONALISATION OF MUNICIPAL
TARIFFS**

CONSULTATION PAPER

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1. Executive Summary

The National Energy Regulator of South Africa (NERSA) is a regulatory authority established as a juristic person in terms of Section 3 of the National Energy Regulator Act, 2004 (Act No. 40 of 2004). NERSA's mandate is to regulate the electricity, piped-gas and petroleum pipelines industries in terms of the Electricity Regulation Act, 2006 (Act No. 4 of 2006), Gas Act, 2001 (Act No. 48 of 2001) and Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).

On 6 November 2017, Eskom submitted a final application for the rationalisation of municipal tariffs to NERSA. In terms of the submission, NERSA is requested to approve the rationalisation of municipal tariffs for implementation in the 2018/19 financial year.

However, the implementation of the rationalisation of municipal tariffs in the 2018/19 financial year, as requested by Eskom, would not have been practical given the fact that the Energy Regulator was engaged in evaluating Eskom's one-year revenue application for the 2018/19 financial year. The approval of the Munciflex and Muncirate municipal tariffs for implementation from 1 July 2018 would have required that the Energy Regulator finalise the approval of the application by 28 February 2018. This would not have given the Energy Regulator sufficient time to thoroughly analyse the application and to undertake a stakeholder consultation process.

Eskom's application for the rationalisation of municipal tariffs is intended to limit the tariff options available to municipalities to three tariff options, namely the 'Munciflex', 'Muncirate' and 'Public Lighting' tariffs, for implementation in the 2018/19 financial year. In the application, Eskom indicated that there will no longer be an urban/rural differentiation for municipal points of delivery.

Comments on the consultation paper should be addressed to: **Dr Bongani Khonjelwayo at the National Energy Regulator of South Africa, Kulawula House, 526 Madiba Street (formerly Vermeulen Street), Arcadia, Pretoria** or sent via email to: erts@nersa.org.za. The deadline for the submission of comments is 29 June 2018.

After the consolidation of all the comments from stakeholders, NERSA will hold a public hearing on key issues highlighted in the consultation paper. NERSA wishes to state that the success of this process will depend on robust stakeholder participation.

2. Background

On 31 August 2017, Eskom submitted a draft application for the rationalisation of municipal tariffs. In terms of section 42 (1) of the Municipal Financial Management Act, 2003 (Act No. 56 of 2003) ('MFMA'), Eskom is required to first submit its proposed amendments to tariff structures affecting municipalities to National Treasury and the South African Local Government Association (SALGA) in order to obtain their comments before submitting them to NERSA. According to section 42 (2) of the MFMA, Eskom is allowed at least 40 days to obtain written comments from National Treasury and SALGA.

Eskom had previously submitted the first draft on 31 November 2016, but it was subsequently withdrawn. The application dated 16 November 2016 was withdrawn by Eskom in consideration of the comments received from SALGA, including a suggestion that the implementation be delayed until July 2018 to allow SALGA sufficient time to evaluate the application.

On 6 November 2017, Eskom submitted a final application for the rationalisation of municipal tariffs to NERSA.

3. Purpose

The purpose of this consultation paper is to request stakeholders and affected parties to comment on the proposed municipal tariff rationalisation application.

4. List of Stakeholder Comments

NERSA has drafted a few comments for consideration. Stakeholders are also requested to consider the published Eskom application on the proposal for the rationalisation of municipal tariffs for comment.

Eskom has indicated that any revenue impact resulting from the municipal tariff rationalisation will be recovered through the annual price adjustment.

Stakeholder Comment #1

Stakeholders are invited to comment on whether Eskom's plans to include the revenue shortfall as a result of the rationalisation of municipal tariffs should be recovered in the regulatory clearing account.

Eskom has not made any assumption regarding the consumption impact of reallocating customers to different tariffs. Customers might react negatively by reducing their electricity consumption if the tariff rationalisation results in a higher tariff.

Stakeholder Comment #2

Stakeholders are invited to comment on whether the impact on customers' demand, whether positive or negative, should be recovered in the regulatory clearing account.

Eskom policies indicated that all Municflex and Municrate customers will be subject to the existing policies relating to urban customers and any other applicable policies for similar-sized customers.

Stakeholder Comment #3

Stakeholders are invited to comment on whether any benefits would accrue to customers if Eskom continues to apply existing policies relating to urban customers to those customers on the rationalised tariffs (i.e. Municflex and Municrate tariff).

Eskom has stated that no cost of supply study will be completed for the purpose of determining the Municflex and Municrate rates, as these rates are derived from the existing Megaflex and Businessrate tariffs, respectively [a cost of supply study will be completed with the submission of the fourth Multi-Year Pricing Determination (MYPD4) application].

Stakeholder Comment #4

Stakeholders are invited to comment on whether Eskom should provide a cost of supply study in order to support the Municflex and Municrate tariffs.

Eskom indicated that once the initial allocation to the new municipal tariffs has been completed, municipal points of delivery between 25 kVA and 100 kVA will be able to choose between being on the Municflex or the Municrate tariff, subject to the payment of the applicable conversion charges.

Stakeholder Comment #5

Stakeholders are invited to comment on whether Eskom should amend its policies to enable customers to convert to an alternative tariff, regardless of whether the customers' Eskom accounts are in arrears.

5. Timelines for Consideration and Approval

Table 1 depicts the proposed timelines for the consideration and approval of the tariff rationalisation.

Table 1: The proposed consultation and approval process

Action	Timeframe
1. NERSA received the application from Eskom	6 November 2017
2. Approval by Electricity Subcommittee (ELS) of Eskom's application, consultation paper and note the proposed timelines.	5 April 2018
3. Submission to Energy Regulator (ER) requesting publication of Eskom's application and approval of the proposed timelines	25 April 2018
4. Publication of the application and consultation paper for stakeholder comments.	6 June 2018
5. Closing date for stakeholder comments	29 June 2018
6. NERSA staff to consider stakeholder comments and further analysis of Eskom's submission	2–27 July 2018
7. Public Hearing on Eskom's application	August 2018
8. ELS panel debriefing	August 2018
9. ELS meeting to consider the Reasons for Decision (RfD)	12 September 2018
10. ER decision on Eskom's application	26 September 2018
11. Communication of decision to Eskom and key Government departments	26 September 2018
12. Publication of NERSA decision	26 September 2018