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## Tariff Policy

## Centlec (SoC) – Tariff Policy

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CENTLEC (SOC) LTD	
<b>Subject:</b> Tariff Policy	Policy No:
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## **SECTION 1: OBJECTIVES OF TARIFFS POLICY**

- a) To ensure that the tariffs of the entity comply with the legislation prevailing at the time of implementation;
- b) To ensure that the electricity services are financially sustainable, affordable and equitable;
- c) To ensure that the needs of the indigent are taken into consideration in arriving at determination of tariffs;
- d) To ensure that there is consistency in how the tariffs are applied throughout the entity and; the policy is drawn in line with the principles as outlined in the Municipal Systems Act No.32 of 2000; and
- e) To ensure that the entity, in levying of fees for services provided shall at all times take into cognizance the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs have on local economic development.

## **SECTION 2: LEGISLATIVE CONTEXT**

- (a) In terms of section 74 of Municipal Systems Act no. 32 of 2000 (MSA), the council of a municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.
- (b) Furthermore, a tariff policy may differentiate between different categories of users, debtors, service providers, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.
- (c) Furthermore, section 75 of MSA , makes it a necessity for municipalities to adopt by-laws to give effect to the implementation and enforcement of their tariff policies; in fact, all policies and supporting decisions taken by the municipal council must be supported by a by-law to make it legally enforceable. Failure to comply with the necessary by-law requirements may expose the municipality to litigation.
- (d) Section 168(1)(c) of Municipal Finance Management Act No. 56 of 2003 (MFMA) prescribe that the Minister of Finance, acting with the concurrence of the Cabinet member responsible for local government, may make regulations or guidelines applicable to municipalities and municipal entities, regarding a framework for regulating the exercise of municipal fiscal and tariff-fixing powers.

In relation to determination of upper limits in respect of municipal taxes or tariffs by another organ of state, section 43 of the MFMA stipulates as follows:

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- 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 15 March in a year, not be a date before 1 July in the next year.

### **SECTION 3: POLICY PRINCIPLES**

- a) The entity shall ensure that its electricity tariffs are uniformly and fairly applied throughout the municipal region and its other areas of distribution.
- b) With regard to tariffs which it levies, the entity differentiates between the following categories of users: *Residential / Domestic; Business / Commercial; Industrial; and Government.*
- c) In terms of this policy, Centlec (SOC) Ltd adopts two -part tariff structure, namely;
  - (i) monthly availability charges for the above services and categories of consumers; and
  - (ii) monthly charge based on consumption.
- d) The users of electricity shall be treated equitably in the application of tariffs.
- e) With the exception of the poor (indigent) consumers, all households shall, as far as practically be charged and pay in proportion to the amount of services consumed.
- f) Tariffs shall include the cost reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement and interest charges.
- g) Tariffs shall be set at a level to facilitate financial sustainability of the service, taking into account subsidization from sources other than the service concerned.
- h) Provision shall be made in appropriate circumstance for a surcharge on the tariff for a service.
- i) In setting tariffs, provision shall be made for the promotion of local economic development through a special tariff for categories of the commercial and industrial users.
- j) The economical, efficient and effective use of resources and other appropriate environmental objectives shall be encouraged.
- k) The entity further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users.

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- I) Special tariff arrangements shall be determined and approved by the board of directors from time to time for specific developments and/or informal settlements, but with the concurrence of the parent municipality.

### SECTION 4: TARIFF MODELLING

In an effort to ensure cost reflective tariffs so as to plan for financial sustainability, the entity shall adopt and apply a tariff model that seek to identify and take into account all direct and indirect costs accruing from the different levels associated with electricity provision,

Cost relating to the following items in as far they relate to provision of electricity shall form the basis of the entity's tariff model:

- (i) Bulk Purchases;
- (ii) Employee Related Costs;
- (iii) Repairs & Maintenance;
- (iv) Distribution Infrastructure
- (v) Finance Charges (Interest on loans);
- (vi) Depreciation;
- (vii) Insurance;
- (viii) Capital investment (Cost of infrastructure) – New and Refurbishments;
- (ix) Any other costs

### SECTION 5: PRICING STRATEGIES OF ELECTRICITY SERVICES

To calculate the tariff for electricity, the actual cost incurred in the supply of electricity to the community, has to be taken into consideration. The principle of basic levies as well as per unit tariff for electricity is determined by the cost structure. This cost structure consists of the following components:-

***Fixed costs***: these represents that portion of expenses that must be incurred irrespective of the fact whether or not any electricity has been sold, for example the salary of staff who have been appointed permanently with specific tasks relating to the provision of electricity, costs of capital and insurance that is payable in respect of the infrastructure.

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These costs must be recovered whether any electricity is used or not. The costs shall therefore be recovered by means of a fixed levy per period (normally as a monthly basic charge) in order to ensure that these costs are covered.

**Variable costs:** these relate to the physical provision of electricity according to consumption/ demand and must be financed by means of a unit tariff which is payable per kWh/KVA electricity consumed.

**Surplus taking:** The tariffs for electricity services shall be determined in such a way that a NETT trading surplus is realized. Any trading surplus shall be used for the future capital expansion of the service, or as directed by the parent municipality from time to time.

The following tariff structures shall basically be used for the determination of tariffs:-

- a) Inclining block tariff (IBT) tariff structure (Normal and Indigent Residential) with prepaid electricity meters) where customer's consumption is divided into blocks and each subsequent block has a higher energy rate (c/kWh). The tariff structure has been set by NERSA in order to protect/ cross-subsidize low income domestic customers and to promote energy efficiency.
- b) Single rate energy tariff (all costs expressed in a single cent/kWh charge).
- c) Three part tariff for Residential, Business and Commercial Customers (consist of a basic monthly charge, and a variable charge related to metered kWh consumption):
  - Energy rate (c/kWh) based on time of use;
  - Basic monthly charge (R/month); and
  - Capacity (ampere) charge (R/month).
- d) Four part tariff for Bulk Customers (consist of a basic monthly charge, access charge, demand charge and a variable charge related to metered kWh consumption):-
  - Energy rate (c/kWh) based on time of use;
  - Basic monthly charge (R/month);
  - Access charge (R/kVA); and
  - Demand charge (R/kVA).

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- e) Special tariff arrangements determined and approved by the board of directors from time to time for specific developments and/or informal settlements.

An availability fee will be charged on properties not connected to the electricity network should it be available to that property. This fee aims to recoup capital and maintenance costs in respect of such properties. If the owner connects the service with the intention to improve the property the debit will be adjusted pro-rata from the date of the connection.

## SECTION 6: CLASSIFICATION OF CONSUMERS

### 6.1 Residential (Domestic) Customers (*with Conventional Meters*)

**6.1.1 domestic indigent IBT conventional >>>>2 meters applicable to these category.**

**6.1.2 domestic conventional>>>>**

**6.1.3 domestic conventional time of use tariff**

Customers with conventional meters shall be billed as follow:

- a) An availability charge is payable on all properties, where a connection to the electricity network is possible, but not in use.
- b) Three part tariff:>>>>>Should be under 5.1.3
- i. Fixed monthly charge (R/month) ).>>>>Basic Charge
  - ii. Energy rate (c/kWh). The energy rate is charged on a tariff per unit based on the number of kWh consumed within a specific period which is determined as follows:-
    - Energy High Demand – Peak >>> Should be changed to Annexure
    - Energy High Demand – Standard
    - Energy High Demand – Off-Peak
    - Energy Low Demand - Peak
    - Energy Low Demand – Standard
    - Energy Low Demand – Off-Peak

### 5.2 Residential (Domestic) Customers (*with Pre-paid Customers*)

6.2.1 Prepaid Indigent IBT

6.2.2 Prepaid domestic IBT

Block 1 0 to 50

Block 2 >50kWh



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Pre-paid users, if applicable, shall be charged at an inclining block tariff per unit based on the number of kWh purchased, which is determined as follows:-

- Block 1: 0 to 50 kWh
- Block 2: 51 to 350 kWh
- Block 3: >350kWh

Should the customer have any arrears on any of the Centlec's or Mangaung Metropolitan Municipality's accounts, the auxiliary payment system may be activated for the gradual payment of the arrears as a percentage of purchases.

Registered Indigents shall receive a number of kWh units as determined by the Council of Mangaung Metropolitan Municipality on an annual basis, fully subsidised every month, these indigent Registers should be reviewed annually by the municipality to Indigent Status

## **6.3 Accommodation Establishments**

The tariff for this category shall cover the supply of electricity to all premises qualifying under the definition of accommodation establishments as determined in this policy or similar premises.

### **6.3.1 Accommodation Establishments (*with Conventional Meters*)**

Accommodation establishment customers with conventional meters shall be billed as follow:

- a) An availability charge is payable on all properties, where a connection to the electricity network is possible, but not in use.
- b) Three part tariff:
  - i. Fixed Basic charge (R/month).>>>>Basic Charge
  - ii. Demand charge (R/month). The charge is determined by the installed circuit breaker size.
  - iii. Energy rate (c/kWh). The energy rate is charged on a tariff per unit based on the number of kWh consumed within a specific period which is determined as follows:
    - Winter – Peak >>> Should be agreed to Tarrif list.
    - Energy High Demand – Standard
    - Energy High Demand – Off-Peak

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- Energy Low Demand – Peak>>>>Should be Summer , Low demand to change to summer
- Energy Low Demand – Standard
- Energy Low Demand – Off-Peak

Show when is peak standard and off peak.

### **6.3.2 Accommodation Establishments (*with Pre-paid Meters*)**

Mention Prepaid meters limited to 100 Amps

Accommodation establishment customers with pre-paid meters, if applicable, shall be charged at an inclining block tariff per unit based on the number of kWh purchased, which is determined as follows:

- Block 1: 0 to 50 kWh
- Block 2: >50 kWh

Should the customer have any arrears on any of the Centlec's or Mangaung Metropolitan Municipality's accounts, the auxiliary payment system may be activated for the gradual payment of the arrears as a percentage of purchases.

### **6.4 Commercial/ Business Customers**

This tariff covers the supply of electricity to shops, office buildings, hotels, clubs, industrial undertakings, builder's supplies or similar premises.

#### **6.4.1 Commercial flat business conventional (with Rotational Meters)**

**Charge only the energy charge , Flat charge**

#### **6.4.2 Commercial/ Business Customers (*with Conventional Meters*)**

Commercial/ Business customers with conventional meters shall be billed as follows:

- a) An availability charge is payable on all properties, where a connection to the electricity network is possible, but not in use.
- b) Three part tariff:

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- i. Basic monthly charge (R/month).
- ii. Demand charge. The charge is determined by the installed circuit breaker size.
- iii. Energy rate (c/kWh). The energy rate is charged on a tariff per unit based on the number of kWh consumed within a specific period which is determined as follows:-

- Energy High Demand – Peak>>> Winter
- Energy High Demand – Standard>>> Winter
- Energy High Demand – Off-Peak>>> Winter
- Energy Low Demand - Peak>>> Summer
- Energy Low Demand – Standard>>> Summer

Energy Low Demand – Off-Peak>>> Summer

### **6.4.2 Commercial/ Business Customers (with Pre-paid Meters)**

**If applicable are charged at flat business. >>> Winter charged at flat rate of Rx**

Should the customer have any arrears on any of the Centlec's or Mangaung Metropolitan Municipality's accounts, the auxiliary payment system may be activated for the gradual payment of the arrears as a percentage of purchases.

### **6.5 Bulk Customers**

These customers shall be billed as follow:

Four part tariff.

- a) Basic monthly charge (R/month).
- b) Demand charge (R/kVA month).
- c) Access charge (R/kVA month).
- d) Energy rate (c/kWh). The energy rate is charged on a tariff per unit based on the number of kWh consumed within a specific period which is determined as follows:

- Energy High Demand – Peak>>>>Winter
- Energy High Demand – Standard
- Energy High Demand – Off-Peak
- Energy Low Demand - Peak>>>>Summer
- Energy Low Demand – Standard

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- Energy Low Demand – Off-Peak

>>>Not included in Price list

### **6.7 Special Arrangements**

Other tariffs may be applicable which has been determined by the Engineering Department: Retail or board of directors by special agreement with specific clients. This will only be considered when special circumstances prevail.

Only be applied when approved by NERSA

### **6.8 Departmental**

The respective Commercial and Bulk Supply tariffs will be applicable to all entity's own buildings, municipal buildings, pump stations, waste water works, water treatment works, etc.

### **6.9 Electricity Sundry Tariffs**

All other electricity related services offered by the entity shall be charged at a tariff as determined by the board of directors annually during the budget process.

Where applicable, sundry services tariffs shall be levied to cover 100% or as near as possible to 100% of the annual operating expenses, namely;

- New connection fees Electricity;>>>Connection policy done by Planning.
- Photostat copies and fees; and>>>>Is this applicable
- Clearance certificates (35 % of the tariff set by Mangaung Metropolitan Municipality for this service)

The following charges shall be considered as regulatory or punitive;

- Electricity disconnection and reconnection fees and
- Penalty and charges imposed in terms of Debt Collection and Credit Control policy

<b>SECTION 7: ENSURING FINANCIAL SUSTAINABILITY OF SERVICE DELIVERY</b>
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The Constitution and Municipal Systems Act, No 32 of 2000 require that the municipality (in this case entity) must ensure that the services that it provides must be sustainable.

Financial sustainability of the entity will be achieved when at least the tariff for a service will be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision.

However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that charges to be levied must be collected.

### **SECTION 8: INDIGENT CONSUMERS**

Poor households shall be dealt with in accordance with the approved Indigent Policy of Mangaung Metropolitan Municipality.

Indigents reviewed annually and communicated to centlec

### **SECTION 9: TARIFF DETERMINATION PROCESS**

The entity shall formulate its electricity tariff structures for its annual budgets and MTREF's based on the indicative per cent increase as provided by the National Treasury from time to time, and taking into account NERSA guidelines.

Not later than 28 February / 15 April of each year, the entity shall submit a tariff application to NERSA containing all the required information for approval.

Proposed tariffs shall be presented to the community during Mangaung Metropolitan Municipality's consultation process about the budget.

Immediately after the board of directors has determined or amended a tariff, the Accounting Officer shall cause a notice of tariffs to be conspicuously displayed at a place installed for this purpose at all the offices of the entity as well as at such other places within the municipal area as may be determined.

Tariffs and levies proposed shall be passed by the board of directors with a supporting vote of a majority of its members.

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## **SECTION 10: FACTORS TO BE CONSIDERED FOR TARIFF INCREASE / ADJUSTMENTS**

The entity shall consider increasing or adjusting tariffs annually during the budget process in terms of the guidelines issued by National Treasury from time to time.

The following factors shall be taken into account for purpose of increasing/adjusting tariffs:

- Priorities of the entity as reflected in its Business Plan and the Integrated Development Plan of the parent municipality;
- Revenue needs of the entity;
- Need for management of tariffs shocks; and
- Affordability of tariffs to consumers.

All proposed increases and adjustments in tariffs shall be presented and communicated to the local community in terms of the Mangaung Metropolitan Municipality's community consultation processes.

The entity must at least annually evaluate the cost structure of its electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective and ensure continued financial sustainability.

The following formula, proposed by NERSA for calculating electricity tariff increases shall be used when calculating tariff increase proposal:

$$MG = (B \times BPI) + (S \times SI) + (R \times RI) + (C \times CCI) + (OC \times OCI)$$

Where:

MG	=	% Municipal Guideline Increase
B	=	% Bulk purchases
BPI	=	% Bulk purchase increase
S	=	% Salaries
SI	=	% Salaries increase
R	=	% Repairs
RI	=	% Repairs increase
C	=	% Capital charges
CCI	=	% Capital charges increase
OC	=	% Other costs
OCI	=	% Other costs increase

<b>COST LINE ITEM</b>	<b>REVISED MUNIC % OF TOTAL COST</b>	<b>EXPECTED INCREASE%</b>	<b>WEIGHTED AVERAGE</b>
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			<b>EXPECTED INCREASE</b>
Purchases	70	9.25	6.48
Salaries and wages	10	6.4	0.64
Repairs & Maintenance	6	5.4	0.32
Capital changes in total	4	5.4	0.22
Other costs	10	5.4	0.54
% increase			8.20

Where the entity's evaluation of its cost structure results in a lower or higher tariff increase to that proposed by NERSA, the entity must re-structure its tariffs accordingly and ensure it provides the necessary motivation and information in its tariff application to NERSA.

### **SECTION 10: REVIEW AND APPROVAL**

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

Approved by the board of directors on \_\_\_\_\_:

Signed: \_\_\_\_\_

Chairperson of the Board

Date: \_\_\_\_\_