NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

MUNICIPAL TARIFF GUIDELINE INCREASE, BENCHMARKS AND PROPOSED TIMELINES FOR THE MUNICIPAL TARIFF APPROVAL PROCESS FOR THE 2022/23 FINANCIAL YEAR

Consultation Paper

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ABBREVIATIONS AND ACRONYMS

BER	Bureau for Economic Research
BP	Bulk Purchase
BPI	Bulk Purchase Increase
c/kWh	Cents per kilowatt-hour
COGTA	Cooperative Governance and Traditional Affairs
CPI	Consumer Price Index
CRC	Current Replacement Costs
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
NGO	Non-Governmental Organisation
OE	Other Expenses
OEI	Other Expenses Increase
R	Repairs
RCA	Regulatory Clearing Account
RI	Repairs Increase
S	Salaries
SALGA	South African Local Government Association
SEA	Sustainable Energy Africa
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'), NERSA must regulate electricity prices and tariffs.

1.2. NERSA, 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. This process is dependent on the approval of Eskom's revenues and Retail Tariff Structural Adjustment (ERTSA). On 28 February 2022, Eskom submitted its ERTSA application for the 2022/23 financial year, together with the schedule of standard tariffs, for approval. This was approved by the Regulator on 9 March 2022. A brief background is provided below with regard to the development of this consultation paper.

1.4. On 2 June 2021, Eskom submitted its MYPD5 revenue application for the Financial Years (FYs) 2022, 2023 and 2024. After consideration, this application was rejected by NERSA in its Executive Committee Meeting of 30 September 2021. The basis of the rejection was that in its application, Eskom used the expiring MYPD4 methodology, which rendered the application non-compliant. NERSA sought to develop new principles that would be used in applying the MYPD methodology to any new application by Eskom and other licensees. Moreover, as a result of, *inter alia*, industry developments, Eskom's restructuring, and greater penetration of self and private generation, NERSA sought to develop a more holistic approach to approving Eskom's application. Such an approach included approving prices for each of the utility's operational levels (Generation, Transmission and Distribution) as opposed to revenues.

1.5. Subsequent to the decision by NERSA to reject Eskom's application and development of principles that will inform the updated methodology, Eskom took NERSA's decision to court for review. On 03 December 2021 the court made findings against NERSA and ordered as follows:

- Eskom's revenue application submitted on 2 June 2021 shall be published on 8 December 2021.
- The public shall have until 14 January 2022 to make representations, if any, on the content of Eskom's application.

- Public hearings on the merits of Eskom's revenue application shall be held between 17 and 21 January 2022.
- NERSA shall make a final decision on Eskom's application by 25 February 2022.

1.6. On 24 February 2022 NERSA made a determination of Eskom's MYPD5 revenue application as per the court order. Subsequent to this decision NERSA made a decision on ERTSA application on 9 March 2022.

1.7. Therefore, NERSA considered 4 options as a means of setting municipal tariffs for the 2022/23 financial year. These options include: Regulate using the Activity Based Costing (ABC) approach; Benchmarking against Eskom tariffs; Regulating using Cost of Supply studies exclusively and Regulating using the guideline increase and benchmarks.

1.8. NERSA's intention was to regulate using the ABC approach, however due to the court ruling on 3 December 2021 and the decision on Eskom Retail Tariff Structural Adjustment application on 9 March 2022, this meant that this approach could not be pursued.

1.9. Therefore, various drawbacks identified from other alternatives in terms of practicality in implementing and the short amount of time available, NERSA decided on Regulating using the guideline increase and benchmarks approach. However, it should be noted that timelines for implementation of the ABC approach have been detailed.

1.10. NERSA is requesting that stakeholders comment on 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 22 April 2022.

1.11. Due to the limited time available for municipalities to develop their budgets based on the 2022/23 Guideline increase and benchmarks approved by NERSA, the Regulator will not hold a public hearing on the key issues highlighted in line with section 4(3) of the Promotion of Administration Justice Act, 2000 (Act No. 3 of 2000). Instead the Regulator will follow a process of notice and comment in order to ensure that the final guideline increase and benchmarks are published by 11 May 2022.

2. BACKGROUND

2.1. The Electricity Pricing Policy document seeks to obtain a balance between several competing objectives, which include affordable electricity for the low-income consumers and cost-reflective tariffs for all the other consumers. As a result, electricity prices should reflect efficient market signals, accurate cost of supply and associated price levels that would ensure the financial viability of the electricity sector in its entirety.

2.2. Furthermore, the economic theory suggests that a perfectly competitive market would produce efficient prices. The Electricity Supply Industry (ESI) in South Africa is currently not structured to deliver perfect competition, but this does not diminish the importance of efficient electricity prices in any way.

2.3. In the absence of competition, regulators may select from a range of methodologies to regulate the industry. All these options have various advantages and disadvantages. Regardless of the method of regulation or price formation, it is essential that an efficient and prudent licensee should be able to generate sufficient revenues that would allow it to operate as a viable concern now and in the future. Moreover, it is important that the regulated business is able to attract reasonably priced finance in order to maintain, refurbish and grow its infrastructure and provide services at a reasonable cost.

2.4. As a result, tariffs must be set at a level that would not only ensure that the utility generates sufficient revenues to cover the full costs (including a reasonable margin or return), but would also allow the utility to obtain reasonably priced funding.

2.5. Historically, NERSA has taken the benchmarking approach, which sought to ensure that tariffs do not vary vastly among the various electricity distributors amongst other objectives. This approach does not explicitly show the relationship between the licensee's cost structures and its tariffs.

2.6. NERSA has previously attempted to address this issue by benchmarking the municipal tariffs to Eskom's tariffs. However, this approach raised numerous challenges since Eskom's tariffs are based on an embedded cost to supply approach, which seeks to set rates to recover approved revenues. As a result, these do not result in industry/municipality-related rates, but rather Eskom-specific cost-related rates.

2.7. This meant that an approach is needed that would somehow translate municipalities' cost requirements to tariffs. NERSA, in addressing the above

predicament, has considered various options for setting rates for municipalities, especially in light of trying to ensure that these rates are set in line with the MFMA deadlines. The proposed alternative approaches and the recommended approach are detailed below.

3. ALTERNATIVE REGULATION APPROACHES

3.1. Approach 1

3.1.1. Approach 1 entails approving prices for Generation (Gx), Transmission (Tx) and Distribution (Dx) as opposed to the historic approach of approving Eskom revenues, ERTSA and then only the municipal Guideline increase and benchmarks. This approach seeks to use Activity Based Costing (ABC) and marginal costing to set the price(s) for different levels of the electricity industry supply chain. ABC, will disaggregate electricity costs into Gx, Tx, Dx, system operations, trading, market operations and other ancillary costs. Most importantly, this approach will do away with the ERTSA and Municipal Guidelines processes.

3.1.2. Using this approach implies that municipal and other distribution tariffs would be set using ABC and marginal costing. This approach would allow NERSA to set each municipality's tariff based on its cost of service. However, based on the court's directive, this approach cannot be used in the current tariff cycle. Furthermore, this approach is data intensive and will require the collection of specific information by municipalities; as such it will require a phase-in period.

3.1.3. NERSA is in the process of developing data templates that will be used to collate data that is necessary for the use of this approach, this is part of the process to develop a fully-fledged methodology that licensees can use to apply for their tariffs. The methodology is envisaged to be completed by the end of April 2022. The methodology would still need to go through a public participation process as defined by PFMA requirements, before it can be implemented.

3.1.4. As stated above, NERSA could not implement the ABC approach for the FY2022/23 due to the court judgement. This approach is therefore not ready for use as it is currently under development.

Stakeholder Comment #1

Stakeholders are invited to comment on:

i. whether this approach is likely to be viable in setting tariffs for distributors in the near future. If not, stakeholders are invited to:
    a. provide possible enhancements to this approach, and/or
    b. suggest alternative approaches that better suit the distribution industry;
ii. the potential impact of using this approach on the regulation and revenues of municipalities;
iii. the potential impact of using this approach on consumers; and
iv. the challenges foreseen in implementing this approach, and propose solutions thereto.

3.2. Approach 2

3.2.1. Approach 2 entails benchmarking municipal tariffs to Eskom tariffs, which would mean that municipalities would have to charge the same tariffs as Eskom for similar customers. However, this approach raised numerous challenges since Eskom's tariffs are based on an embedded cost to supply approach, which seeks to set rates to recover approved revenues. As a result, these do not result in industry/municipality-related rates, but rather Eskom-specific cost-related rates. To this end, such an approach would mean that municipalities/distributors would not be able to cover their cost of supply.

3.2.2. This approach would be effective if Eskom is completely unbundled, where Dx is completely independent from the Eskom Group, since its tariff increase encompasses the three main divisions of the Eskom Group. The unbundling of Eskom will (i) eliminate cross-subsidisation among its functions; and (ii) ensure that its distribution is charged the same price as third-party distributors, as such providing a better benchmark.

Stakeholder Comment #2

Stakeholders are invited to comment on:

i. the potential impact of using this approach on the regulation of municipalities and provide mitigations thereto;
ii. the potential impact of using this approach on consumers;
iii. the challenges foreseen in implementing this approach and propose solutions thereto; and
iv. stakeholders are further invited to propose feasible alternatives to this approach.

3.3. Approach 3

3.3.1. Approach 3 entails approving municipal tariffs based on cost of supply (COS) studies. This approach requires municipalities to set their tariffs based on COS studies in support of Policy Position 23 of the Electricity Pricing Policy (EPP), which states that Electricity distributors shall undertake 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. Several challenges have been experienced with this approach.

3.3.2. COS studies require the collection and analysis of data and the keeping of proper accounting and asset records. NERSA has identified that municipalities are not submitting compliant CoS studies. The key challenges with the studies submitted include the following:

- 3.3.2.1. updating physical asset registers with asset replacement costs, useful lives and depreciated replacement costs,
- 3.3.2.2. correcting sales and purchase metering data; general ledger accounts need to be corrected to reflect correct data, e.g. some journals capture data in Rands not sales volumes, maximum demand charges captured as consumption units (kWh). Updating tariff codes and definitions; linking tariff codes to approved tariff names/types,
- 3.3.2.3. meter audits to ensure that meters that are not active are not included in the determination of customer service and billing costs,
- 3.3.2.4. poor accounting and property records,
- 3.3.2.5. lack of capacity,
- 3.3.2.6. poor data gathering and verification process,
- 3.3.2.7. complete reliance on external service providers without much involvement from municipal management, leading to the process not being fully owned by the municipality,
- 3.3.2.8. high municipal staff turnover and lack of proper handover policies and institutional memory,
- 3.3.2.9. insufficient funding of the project; and
- 3.3.2.10. evidence of poor advice from service providers has been noted.

3.3.3. NERSA has made extensive efforts to assist licensees in complying. As a deterrent to noncompliance, NERSA is no longer approving the introduction

of new tariffs or tariff restructuring or above guideline increases without a COS study. A simplified COS tool has been developed by Sustainable Energy Africa (SEA) (an NGO in the energy sector), in conjunction with South African Local Government Association (SALGA)and NERSA and made available to all licensees on the NERSA website. This tool can be used to support proposals for submission of new tariff or restructured tariffs.

3.3.4. This tool shows a link between the required revenue and the costs associated with supplying a category of consumers, the classification of costs between fixed and variable as well as energy, demand related and customer related costs. It also shows the allocation of these costs to some allocation factors, largely the position on the network. It does not replace the fully-fledged COS study and supporting data required.

3.3.5. The difference between the tool and the fully-fledged COS is that the tool uses the current D form data to allocate Eskom purchase costs and the municipality's current costs (the base is the audited financial statements). It does not use the Current Replacement Costs (CRC) depreciation as required by the COS framework. The tool also utilised generic consumption profiles to allocate time of use (TOU) purchase costs as opposed to municipality's own TOU profiles. However, the tool does give an indication of the costs of supplying customers based on D-form costs (financial statements). It is a good indication of the allocation of existing costs between different customer groups based on where they are located on the network. A risk identified with the tool is that licensees might assume that it's a replacement of a full COS study, which it is not. NERSA has put effort into communicating to licensees that this tool does not replace a COS study but can be used as an interim tool to submit proposals for tariff structural changes, subject to approval by NERSA.

3.3.6. Licensees have been requested to undertake COS studies and submit them to NERSA for consideration. Moreover, Licensees that are unable to undertake the COS studies were encouraged to use NERSA's approved framework and the simplified COS tool as provided as guidance when undertaking these studies in the interim to be assessed by NERSA for prudence and efficiency. Such applications will be assessed using the Cost of Supply Framework[1], which sets out the parameters within which the applications will be considered.

[1] https://www.nersa.org.za/wp-content/uploads/bsk-pdf-manager/2020/09/Cost-of-Supply-Framework.pdf

3.3.7. There has been a steady improvement in the quality of data submitted to support COS studies noted by NERSA. This has been largely due to NERSA's efforts to assist licensees to submit compliant COS studies. It has also been due to collaboration between NERSA and other stakeholders such as SALGA, COGTA, National Treasury and the SEA. NERSA envisions that more studies will be approved before the end of the 2023 FY.

3.3.8. NERSA has put effort into communicating to licensees that COS is not a solution to all their problems. They still need to reduce energy loses to fall within the NERSA allowable range. There is also a need to improve debt collection efforts and improve their operations in terms of repairs and maintenance. A COS study will not necessarily solve all these problems.

3.3.9. Part of the solution that will ensure successful implementation of the COS project includes:

3.3.9.1. development of data bases and improved verification processes by licensees;

3.3.9.2. effort from licensees to study and understand the framework to avoid working towards incorrect output;

3.3.9.3. NERSA to provide training to licensees on the CoS framework and lessons learnt from other submitted CoS studies;

3.3.9.4. involvement of municipal officials in the work done by consultants; and

3.3.9.5. development of handover policies by licensees.

3.3.10. This approach is currently being implemented in parallel with Approach 4 with the understanding that eventually all licensees will progress towards this approach, once all challenges have been addressed. It should be noted that COS studies remain a requirement regardless of the approach used.

Stakeholder Comment #3

Stakeholders are invited to comment on:

i. whether this approach is likely to be attainable;
ii. the potential impact of using this approach on the regulation of municipalities;
iii. the challenges foreseen in implementing this approach and propose solutions thereto; and
iv. stakeholders are further invited to provide any feasible alternatives to this approach.

3.4. Approach 4

3.4.1. Approach 4 entails approving municipal tariffs based on a percentage guideline increase and municipal tariff benchmarks. 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.

3.4.2. In light of challenges attached to approach 1 and 2, parallel implementation of approaches 3 and 4 is the most effective approach in terms of simplicity to implement to approve tariffs and address other municipal challenges. This approach is therefore recommended for implementation for the 2022/23 tariff cycle.

3.4.3. The financial and technical indicators in table 1 below will be used to assess the financial performance and the parameters are explained in the paragraphs that follow.

Table 1: Financial Indicators

Performance indicators	**Benchmark**	**Acceptable range**		
Electricity Price Margin **(%)**:	60	58	-	62
Bulk Purchase Cost / Total expenditure: **(%)**	75	58	-	78
Energy Losses: **(%)**	10	5	-	12
Revenue collection rate **(%)**	95	85	-	100
Repairs & Maintenance **(% of revenue)**	6	6	-	15
Net surplus percentage **(%)**:	15	10	-	20

3.4.4. Municipalities that operate within these benchmarks are expected to be able to run a sustainable and an efficient electricity business.

3.4.4.1. Electricity Price Margin: This is calculated using the following formula (Average Selling Price less Average Purchase Price / Average Selling Price X 100). This will be used to assess the municipality's electricity business performance purely from an electricity purchase and sale perspective. This will highlight any affordability issues municipalities could be experiencing in terms of the average bulk tariff they buy with from Eskom when compared to the average selling price to its customers. This should provide a good indication of a licensee's tariff adequacy and a need to undertake a COS study.

3.4.4.2. Bulk Purchase Cost / Total expenditure: This is calculated using the following formula (bulk purchase cost / total electricity department costs). This will be used to assess the municipality's expenditure on bulk purchases relative to total expenditure.

3.4.4.3. Energy losses percentage: This is calculated using the following formula (electricity kWh purchases less electricity kWh sales) / electricity purchases X 100. This will be compared against set targets and used to assess the efficiency of the municipality's network and billing functions. This is meant to ensure that technical losses are managed efficiently. Non technical losses are discouraged in their entirety.

3.4.4.4. Revenue collection rate: This is calculated using the following formula (billed revenue less bad debts written off).This will be compared against set targets and used to assess the efficiency of the municipality's proportion of billed revenue that is collected. This relates to the municipality's ability to collect billed revenues.

3.4.4.5. Repairs and maintenance percentage: This is calculated using the following formula (repairs and maintenance expenditure / electricity revenue billed). This will be compared against set targets and used to assess the municipality's investment in its network infrastructure and maintenance.

Stakeholder Comment #4
Stakeholders are invited to comment on the adequacy of the repairs and maintenance target of 6% of revenue and propose alternatives to this approach and benchmark.

3.4.4.6. Net surplus percentage: This is calculated using the following formula (net surplus / electricity revenue). This will be used to assess the municipality's electricity business performance after taking into account all of the other costs of the licensee.

3.4.5. These performance targets will ensure that municipalities are encouraged to improve on their revenue collection, energy losses, as well as spend sufficiently on repairs and maintenance of their networks to ensure delivery

of a sustainable, quality service. This will also ensure that a municipality earns a sufficient net profit margin/surplus after all costs have been taken into account.

3.4.6. Details regarding the timelines involved with this approach are provided under section 6.

4. GUIDELINE INCREASE PERCENTAGE CALCULATION

4.1. To calculate the guideline increase for the 2022/23 financial year, NERSA grouped the municipalities' costs into the various categories, as outlined in Table 2 below. The Rand figures are a representation of costs as submitted by municipalities in their 2019/20 financial Distribution Forms (D-Forms).

4.2. These costs are then increased by a relevant index to achieve an average guideline increase of 7.47%.

Table 2: Calculation of the guideline for the 2022/23 financial year

GI	Expenses	2019/20*	Contribution	% Increase	Guideline
BP	Bulk Purchases	80 601 164 937	74.0%	8.61%	6.37%
R	Repairs and Maintenance	9 716 696 768	8.9%	4.40%	0.39%
S	Salaries	4 191 050 936	3.8%	4.40%	0.17%
FC	Finance Costs	2 241 814 519	2.1%	2.00%	0.04%
BD	Bad Debts Provision	4 202 613 447	3.9%	4.40%	0.17%
OMD	Charges from other Municipal Departments	1 979 670 604	1.8%	4.40%	0.08%
GE	General Expenditure	5 940 689 061	5.5%	4.40%	0.24%
Total expenditure		**108 873 700 271**	**100%**		**7.47%**

4.3. In order to calculate the guideline increase percentage of 7.47% in table 2 above, the formula below is used:

GI = (BP X BPI) + (R X RI) + (S X SI) + (FC X FCI) + (BD x BDI) + (OMD x OMDI) + (GE x GEI)

Where:

a) GI = % Municipal guideline increase
b) BP = % Bulk purchases
c) BPI =% Bulk purchase increase
d) R = % Repairs
e) I = % Inflation from BER
f) S = % Salaries
g) SI = % increase in line with the Salary and Wage Collective Agreement

h) FC = % Finance Costs
i) FCI = % Finance Cost increase
j) BD = Bad Debts expenses
k) BDI = % Bad Debt increase
l) OMD = Charges from other municipal departments
m) OMDI = % increase for Charges from other municipal departments
n) GE = General expenditure
o) GEI = % General expenditure increase

4.4. The bulk purchases represents 74.0% of total costs incurred by licensees. To get to the estimated bulk purchase increase we utilised the approved ERTSA increase of 8.61% to municipalities. There will always be a difference between Eskom's increase and that of the municipalities due to the MFMA time lag (the municipalities' implementation date is 1 July, whereas Eskom's financial year starts on 1 April).

4.5. Due to the requirements of the MFMA, Eskom can only increase its prices to municipalities from 1 July 2022 and not 1 April 2022. For the 2022/23 FY, this time lag leads to an over-recovery by Eskom from sales to municipalities, which requires a lower price increase to municipalities. The lower price increase results from the fact that the outstanding revenue has to be recovered within a nine-month period instead of twelve months.

4.6. The repairs and maintenance represents 8.9% of total costs incurred by licensees. For the 2022/23 financial year, an increase of 4.4% is applied in line with the BER inflation figures.

4.7. The salaries represent 3.8% of total costs incurred by licensees. For the 2022/23 financial year, a CPI increase of 4.4% is applied in line with the Salary and Wage Collective Agreement for the period 1 July 2022 to 30 June 2023, as published by the South African Local Government Bargaining Council.

4.8. The finance costs represents 2.1% of total costs incurred by licensees. The South African Reserve Bank's (SARB's) quarterly projection model calculates a steep interest rate hiking cycle – resulting in interest rates of 5.75% by the end of 2023. The Reserve Bank Governor indicated that the implied policy rate path of the Quarterly Projection Model (QPM) indicated an increase of 25 basis points in the fourth quarter of 2021 and further increases in each quarter of 2022, 2023 and 2024. This amounts to a total increase of 2% by the end of the 2022/23 financial year. It is noted that further increases are expected beyond 2022/23 but projections have been limited to the year in question which is the 2022/23 financial year.

4.9. The other expenses represents 11.2% of total costs incurred by licensees. For the 2022/23 financial year, an increase of 4.4% is applied in line with the BER inflation figures.

4.10. The application of the formula in 4.3 above results in a guideline increase of 7.47%, as indicated in table 2 above.

Stakeholder Comment #5
Stakeholders are invited to comment on the approach taken and the variables used to calculate the average annual increase (guideline increase) for licensees and propose any feasible alternatives, where applicable.

5. THE MUNICIPAL GUIDELINE APPROVAL PROCESS

5.1. On an annual basis, NERSA 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.

5.2. The table below outlines the processes to be followed in approving the guideline increase and benchmarks by 11 May 2022, as well as the proposed timelines.

Table 3: Municipal tariff guideline and benchmarks approval timelines

Task Name	Date
Final Guideline and Benchmarks Publishing	**11 May 2022**
- Guideline and Benchmarks consultation paper presented to ELS	22 March 2022
- Closing date for comments	22 April 2022
- Final Guideline and Benchmarks presented to ELS	03 May 2022
- Final Guideline and Benchmarks succesfully Published	11 May 2022

5.3. The Reasons for Decision (RfD) will be published on the NERSA website, as well as on Facebook, Twitter, the Government Gazette and various local newspapers.

5.4. The publication of the approved guideline percentage increase and benchmarks is not an automatic increase for the municipalities and private distributors. As a result, licensees are urged to submit their proposed price adjustments or tariff increases for approval by NERSA.

6. TARIFF APPROVAL PROCESS

6.1. Submission of D-Form Information

6.1.1. NERSA held virtual workshops in 2021 and conducted one-on-one interactions with municipalities that needed further assistance with the completion of the 2019/20 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).

6.1.2. 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 validation process is due on 31 January 2022.

6.1.3. The distribution forms that are primarily used for the tariff approval process are D1 (financial information), D2 (market information) and D3 (human resources information).

6.1.4. 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.

6.1.5. NERSA will not consider municipal tariff applications without the submission of complete and accurate D-form information that has been signed off by an authorised person. The D-forms should be accompanied by the following source documents:

a) 2019/20 prepaid and conventional sales billing reports (Excel or Notepad format);
b) Eskom invoices (Excel and pdf);
c) outstanding reports, i.e. losses report, turnaround strategies and debt collection plans (where applicable);
d) 2019/20 audited annual financial statements;
e) 2019/20 trial balance (electricity only); and
f) 2019/20 electricity asset register.

Stakeholder Comment #6
Stakeholders are invited to comment on the availability of the above information and the ability to supply it in the required format.

6.2. Guideline Increase and Benchmarks Consultation and Approval

6.2.1. NERSA will publish the approved Municipal Tariff Guideline increase and Benchmarks consultation paper on its website once the Energy Regulator approves it on 30 March 2022, in line with the timelines provided in Table 3 above. The licensees are encouraged to submit tariff applications as soon as possible to allow the Energy Regulator sufficient time to consider and approve these applications on time for implementation on 1 July 2022.

6.3. Tariff Application Information

6.3.1. Municipalities are required to submit their tariff applications with the minimum information in line with Table 3 below. A clear description of the applicability (description of the target customer group) of the tariff should be provided.

Table 4: 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	%

6.3.2. This schedule of tariffs should be accompanied by the resultant revenue forecast of the municipality. This revenue forecast must indicate the current volumes from the current tariffs (translating into current revenue), as well as projected revenues from projected tariffs and projected volumes. Projected revenues = Projected tariffs X Projected volumes.

Stakeholder Comment #7
Stakeholders are invited to comment on the availability of the above information and the ability to supply it in the required format, as well as to provide alternatives that will allow the Energy Regulator to assess the revenue requirement of the licensee if applicable.

6.3.3 Above-guideline increases

6.3.3.1. Municipalities applying for an increase that is above the guideline and the benchmark will have to justify their increases to the Energy Regulator through a public hearing process, and should submit a COS study.

Stakeholder Comment #8
Stakeholders are invited to comment on the approach taken to assess applications for an above-guideline increase and propose any alternatives where applicable.

6.3.4. *Small-scale embedded generator (SSEG) tariffs*

6.3.4.1. These are tariffs for customers with embedded generators (e.g. solar panels) that allow them to generate power for own use. However, with the current technological advancement, such customers are able to generate and export power back to grid.

6.3.4.2. NERSA has developed SSEG benchmarks after taking into consideration the guideline increase and Eskom's Megaflex tariff minus 20%.

Stakeholder Comment #9
Stakeholders are invited to comment on the reasonableness of the approach taken to develop the SSEG benchmarks, and to propose enhancements or propose an alternative approach.

6.3.5. *Municipal tariff approval timelines*

6.3.5.1. The table below provides timelines for the municipal tariff approval process.

Table 5: Timelines for the approval of the municipal tariff applications

Activity	Timelines
Approval and communication of the municipal benchmark and guidelines	11 May 2022
Municipalities compile and submit tariff applications for consideration by NERSA (all applications including above-guideline applications)	11 May 2022 – 10 June 2022
Analysis and approval of all municipal tariff applications	16 May 2022– 15 June 2022
Public hearing for above-guideline tariff applications	08 June 2022

NERSA’s consideration and approval of all tariff applications by Regulator Executive Committee (REC)	23 May 2022 – 15 June 2022
NERSA’s consideration and approval of above-guideline tariff applications by Electricity Subcommittee (ELS)	13 June 2022
Communication of NERSA's decision to licensees	16 May 2022 – 15 June 2022

6.3.5.2. It is anticipated that the final municipal guideline increase and benchmarks will be published on 11 May 2022 for municipalities to start submitting their respective tariff applications, while the final communication of NERSA’s decision is anticipated to be on the 15 June 2022.

ANNEXURE A: PROPOSED MUNICIPAL ELECTRICITY TARIFF BENCHMARKS FOR 2022/23

The proposed benchmarks for the 2022/23 financial year have been developed for the different tariff categories as follows:

Table 6: Average domestic IBT benchmarks

	Domestic Inclining Block Tariffs (IBTs)			
	Block 1 (0-50 kWh) R.c/kWh	Block 2 (51-350 kWh) R.c/kWh	Block 3 (351-600 kWh) R.c/kWh	Block 4 (>600 kWh) R.c/kWh
Excl VAT	R1.2396 - R1.3523	R1.6259 - R1.7386	R2.3182 - R2.4470	R2.7851 - R2.8817
Incl VAT	R1.4255 - R1.5551	R1.8698 - R1.9994	R2.6659 - R2.8140	R3.2029 - R3.3139

Table 7: Alternative domestic low IBT

	Domestic Low IBT	
	Block 1 (0-350 kWh) R.c/kWh	Block 2 (>350 kWh) R.c/kWh
Excl VAT	R1.5776 - R1.6582	R2.2860 - R2.3986
Incl VAT	R1.8142 - R1.9069	R2.6288 - R2.7584

Table 8: Alternative domestic high IBT

	Domestic High IBT	
	Block 1 (0-350 kWh) R.c/kWh	Block 2 (>350 kWh) R.c/kWh
Excl VAT	R1.5293 - R1.6259	R2.2539 - R2.3504
Incl VAT	R1.7587 - R1.8698	R2.5919 - R2.7030

Table 9: Average domestic non-IBT benchmarks

	Domestic Non- IBT	
	Domestic Low (0-400 kWh) R.c/kWh	Domestic High (>400 kWh) R.c/kWh
Excl VAT	R1.7386 - R1.8513	R2.1894 - R2.2698
Incl VAT	R1.9994 - R2.1290	R2.5178 - R2.6103

Table 10: Average commercial prepaid: Single phase

	Commercial Prepaid (2 000 kWh)		
	R.c/kWh		
Excl VAT	R2.8978	-	R3.0104
Incl VAT	R3.33	-	R3.4620

Table 11: Average commercial conventional low: Single phase

	Commercial Low (2 000 kWh)		
	R.c/kWh		
Excl VAT	R2.6884	-	R2.7690
Incl VAT	R3.0917	-	R3.1843

Table 12: Average commercial conventional medium: Single phase

	Commercial Medium (3 000 kWh)		
	R.c/kWh		
Excl VAT	R2.5919	-	R2.7045
Incl VAT	R2.9806	-	R3.1102

Table 13: Average commercial conventional high: Single phase

	Commercial High (7 000 kWh)		
	R.c/kWh		
Excl VAT	R2.2860	-	R2.3986
Incl VAT	R2.6288	-	R2.7584

Table 14: Average commercial prepaid: Three phase

	Commercial Low (5500 kWh)		
	R.c/kWh		
Excl VAT	R2.8978	-	R3.0104
Incl VAT	R3.3324	-	R3.4620

Table 15: Average commercial conventional low: Three phase

	Commercial Low (5500 kWh)		
	R.c/kWh		
Excl VAT	R2.2860	-	R2.3825
Incl VAT	R2.6288	-	R2.7399

Table 16: Average commercial conventional medium: Three phase

	Commercial Medium (11500 kWh)		
	R.c/kWh		
Excl VAT	R2.1733	-	R2.2698
Incl VAT	R2.4993	-	R2.6103

Table 17: Average commercial conventional high: Three phase

	Commercial High (22 000 kWh)		
	R.c/kWh		
Excl VAT	R2.1249	-	R2.2216
Incl VAT	R2.4437	-	R2.5549

Table 18: Average agriculture low

	Agriculture Low (2000 kWh)		
	R.c/kWh		
Excl VAT	R3.1231	-	R3.2196
Incl VAT	R3.5916	-	R3.7026

Table 19: Average agriculture medium

	Agriculture Medium (3000 kWh)		
	R.c/kWh		
Excl VAT	R2.9621	-	R3.0588
Incl VAT	R3.4064	-	R3.5176

Table 20: Average agriculture high

	Agriculture High (7000 kWh)		
	R.c/kWh		
Excl VAT	R2.5274	-	R2.6241
Incl VAT	R2.9065	-	R3.0177

Table 21: Average industrial low

	Industrial Low (43 800 kWh)		
	R.c/kWh		
Excl VAT	R2.6241	-	R2.7529
Incl VAT	R3.0177	-	R3.1658

Table 22: Average industrial medium

	Industrial Medium (98 550 kWh)		
	R.c/kWh		
Excl VAT	R2.5757	-	R2.6723
Incl VAT	R2.9621	-	R3.0731

Table 23: Average industrial high

	Industrial High (730 000 kWh)		
	R.c/kWh		
Excl VAT	R2.3182	-	R2.4147
Incl VAT	R2.6659	-	R2.7769

Table 24: Average industrial time of use (ToU): Megaflex

	Industrial TOU (1 323 MWh)		
	R.c/kWh		
Excl VAT	R2.0103	-	R2.1125
Incl VAT	R2.3118	-	R2.4293

Table 25: Average ToU: Nightsave

	Industrial TOU (1 323 MWh)		
	R.c/kWh		
Excl VAT	R2.9643	-	R3.0664
Incl VAT	R3.4089	-	R3.5264