

## GREATER LETABA MUNICIPALITY



## ELECTRICITY TARIFF POLICY

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**APPENDIX A - LIST OF COUNCIL APPROVED RATES AND FEES.**

## **1 Definitions**

- 1.1 **Trading Services:** Services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services.
- 1.2 **Economic services:** Services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers.
- 1.3 **Community services:** Services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered from public service charges and are of a regulatory nature.
- 1.4 **Fixed costs:** Costs which do not vary with consumption or volume produced.
- 1.5 **Variable costs:** These are costs that vary with consumption or volume produced.
- 1.6 **Total cost:** Is the sum of all fixed and variable costs.
- 1.7 **Flat rates:** Are the unit tariffs that are calculated by dividing the total costs by volume used.
- 1.8 **Two-part tariffs:** Are tariffs that are raised to cover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed.
- 1.9 **Units consumed:** Are the number of units consumed of a particular service and are measured in terms of the units of measurement reflect in Section 6.

## **2 Purpose of this policy**

The Greater Letaba Municipality wishes to achieve the following objectives by adopting this tariff policy.

- 2.1 To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000);
- 2.2 To prescribe procedures for calculating tariffs where the Greater Letaba Municipality wishes to appoint service providers in terms of section 76(b) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- 2.3 To give guidance to the Councillor responsible for finance regarding tariff proposals that must be submitted to Council annually during the budget process.

### **3 Scope of application**

- 3.1 It is intended that this policy document guides the annual setting (or revision) of tariffs, hence the policy does not make specific tariff proposals, nor does it deal in any detail with the implementation of specific tariff proposals. Details pertaining to specific levels and applications of the various tariffs are published in the Tariff listing, which must be read in conjunction with this Policy, and is issued on annual basis together with the Municipal Budget.
- 3.2 The policy is applicable to all tariffs for electricity, water, sanitation and solid waste services including availability charges and capital contribution charges as applicable
- 3.3 This policy is also applicable to all sundry tariffs, as provided for in the Tariff listing of Greater Letaba Municipality.

## **4 Governance and regulatory requirements**

### **4.1 Tariffs in terms of this Policy shall comply with the:**

- 4.1.1 Constitution of the Republic of South Africa, 1996 as amended
- 4.1.2 Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), sections 17(3) (a) (ii), 19(2) (b), 24(2) (c) (ii), 28(6) and 62(1)(f)(ii) – [MFMA];
- 4.1.3 Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), sections 4, 74 and 75 – [MSA]; and
- 4.1.4 Any other applicable legislation, regulations and policies that may govern tariffs and that are not in contradiction with the primary legislation referred to above.

### **4.2 Constitution:**

- 4.2.1. Section 229: Subject to subsections (2), (3) and (4), a municipality may impose –
  - 4.2.1.1 Rates and property and surcharges on fees for services provided by or on behalf of the municipality; and
  - 4.2.1.2 If authorised by national legislation, other taxes, levies and duties appropriated to local government or to the category of local government into which that municipality falls, but no municipality may impose income tax, value-added tax, general sales tax or customs duty.
- 4.2.2. The power of a municipality to impose rates on property, surcharges on fees from services provided by or on behalf of the municipality, or other taxes, levies or duties–
  - 4.2.2.1 May not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour; and

4.2.2.2 May be regulated by national legislation.

4.2.3 When two municipalities have the same fiscal powers and functions with regard to the same area, an appropriate division of those powers and functions may be made in terms of national legislation. The division may be made only after taking into account at least the following criteria: -

4.2.3.1 The need to comply with sound principles of taxation.

4.2.3.2 The powers and functions performed by each municipality.

4.2.3.3 The powers and functions performed by each municipality.

4.2.3.4 The effectiveness and efficiency of raising taxes, levies and duties.

4.2.3.5 Equity.

4.2.4 Nothing in this section precludes the sharing of revenue raised in terms of this section between municipalities that have fiscal power and functions in the same area.

4.2.5 National legislation envisaged in this section may be enacted only after organized local government and the Financial and Fiscal Commission have been consulted, and any recommendations of the Commission have been considered.

#### **4.3. Municipal Finance Management Act:**

4.3.1. Section 17: When an annual budget is tabled, it must be accompanied by draft resolutions - imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and

- 4.3.2. Section 19: Before approving a capital project in terms of subsection (1)(b), the Council of a municipality must consider the future operational costs and revenue on the project, including municipal tax and tariff implications.
- 4.3.3. Section 24: An annual budget must be approved together with the adoption of resolutions as may be necessary setting any municipal tariffs for the budget year.
- 4.3.4. Section 28: Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- 4.3.5. Section 43: 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 date specified in the determination.
- 4.3.6. Section 62: The Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and implements a rates policy as may be required in terms of any applicable national legislation.

#### **4.4. Municipal Systems Act:**

- 4.4.1. Section 4: The Council of a municipality has the right to:
  - 4.4.1.1 Govern on its own initiative the local government affairs of the local community;
  - 4.4.1.2 Exercise the municipality 's executive all legislative authority, and to do so without improper interference; and
  - 4.4.1.3 Finance the affairs of the municipality by:



4.4.1.3.1 Charging fees for services; and

4.4.1.3.2 Imposing surcharges on fees, rates on property and, to the extent authorised by national legislation, other taxes, levies and duties.

4.4.1.4 The Council of a municipality, within the municipality's financial and administrative capacity and having regard to practical considerations, has the duty to:

4.4.1.4.1 Strive to ensure that municipal services are provided to the local community in a financially and environmentally sustainable manner; and

4.4.1.4.2 Consult the local community about-

- The level, quality, range and impact of municipal services provided by the municipality, either directly or through another service provider; and
- The available options for service delivery.

4.4.2. Section 74:

4.4.2.1 A Municipal Council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation.

4.4.2.2 A tariff policy must reflect at least the following principles, namely that:

4.4.2.2.1 Users of municipal services should be treated equitably in the application of tariffs;

4.4.2.2.2 The amount individual users pay for services should generally be in proportion to their use of that service;

4.4.2.2.3 Poor households must have access to at least basic services through-

- Tariffs that cover only operating and maintenance costs;
- Special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
- Any other direct or indirect method of subsidisation of tariffs for poor households.

- 4.4.2.2.4 Tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- 4.4.2.2.5 Tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned;
- 4.4.2.2.6 Provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- 4.4.2.2.7 Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- 4.4.2.2.8 The economical, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
- 4.4.2.2.9 The extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

4.4.2.3 A tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

#### 4.4.3. Section 75:

4.4.3.1 A Municipal Council must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.

4.4.3.2 By-laws in terms of subsection (1) may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

## **4.5 Water services act, Act No. 108 of 1997**

### **4.5.1 Section 10: Norms and standards for tariffs**

4.5.1.1 A municipality, in its capacity as a water services institution, must apply a tariff for water services which is not substantially different from any norms and standards which the Minister of Water Affairs and Forestry, with the concurrence of the Minister of Finance, has prescribed in terms of the present Act.

### **4.5.2 Section 21: Bylaws**

4.5.2.1 A municipality, in its capacity as water services authority, must make bylaws which contain conditions for the provision of water services, and which provide for at least the following (inter-alia):

4.5.2.1.1 The standard of the services;

4.5.2.1.2 The technical conditions of supply, including quality standards, units or standards of measurement, the verification of meters, acceptable limits of error and procedures for the arbitration of disputes relating to the measurement of water services provided;

4.5.2.1.3 The determination and structure of tariffs in accordance with Section 10 of the present Act.

4.5.2.2 If the municipality, in its capacity as water services authority, has imposed conditions under which water services are provided, such conditions must be accessible to consumers and potential consumers.

4.5.2.3 If the municipality, in its capacity as water services authority, provides water for industrial use, or controls a system through which industrial effluent is disposed of, it must make bylaws providing for amongst others at least the following:

4.5.2.3.1 The standards of the service;

4.5.2.3.2 The technical conditions of provision and disposal;

## **5 Tariff principles**

### **5.1 The Greater Letaba Municipality wishes to record the following tariff principles:**

- 5.1.1 All users of municipal services will be treated equitably. The various categories of customers will pay the same charges based on the same cost structure.
- 5.1.2 The amount payable will be in proportion to usage and based on the tariff structure adopted for the approved category of consumer.
- 5.1.3 Indigent households will have access to basic services through lifeline tariffs or direct subsidisation in accordance with the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- 5.1.4 Tariffs will reflect the total cost of services.
- 5.1.5 Tariffs will be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:
  - Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made;
  - Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- 5.1.6 Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be necessary for major breakdowns in infrastructure and periods of droughts when a restriction of usage is required.
- 5.1.7 Efficient and effective use of resources will be encouraged by providing for penalties to prohibit exorbitant use.

- 5.1.8 The extent of subsidisation of tariffs will be disclosed. This will be achieved by publishing the true costs of the service and the level of subsidy as well as the source of the subsidy.

## **6 Categories of customers**

- 6.1 The tariff structure of the Greater Letaba Municipality makes provision for the following categories of customers:
- Domestic;
  - Commercial;
  - Indigents
  - Pensioners
  - Industrial;
  - Agricultural;
  - Rural;
  - Education institutions
  - Public benefit organisations, orphanages.
  - Government (National, Provincial and District);
  - Municipal services; and
  - Special agreements.
- 6.2 Where there is a substantial difference between the standard of services provided within a specified category, the Council can, after the presentation of a report by the Municipal Manager or the relevant department, determine differentiated tariffs within the specified category.

## **7 Expenditure classification and cost elements**

7.1 The Chief Financial Officer shall, subject to the guidelines of the Department of Finance and Executive Committee of the Council, make provision for the following classification of services:

### **7.1 Trading services**

7.1.1 Electricity;

### **7.2 Community services**

7.2.1 Air pollution;

7.2.2 Child care facilities;

7.2.3 Firefighting services;

7.2.4 Local tourism;

7.2.5 Municipal planning;

7.2.6 Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law;

7.2.7 Storm water management system in built-up areas;

7.2.8 Trading regulations;

7.2.9 Fixed billboards and the display of advertisements in public places;

7.2.10 Cemeteries;

7.2.11 Control of public nuisances;

7.2.12 Control of undertakings that sell liquor to the public;

7.2.13 Facilities for accommodation, care and burial of animals;

7.2.14 Fencing and fences;

7.2.15 Licensing of dogs;

7.2.16 Licensing and control of undertakings that sell food to the public;

7.2.17 Local amenities;

7.2.18 Local sport facilities;

7.2.19 Municipal parks and recreation;

7.2.20 Municipal roads;

7.2.21 Noise pollution;

7.2.22 Pounds

- 7.2.23 Public places;
- 7.2.24 Street trading/street lighting;
- 7.2.25 Traffic and parking
- 7.2.26 Building control.

### **7.3 Subsidised services**

- 7.3.1 Health;
- 7.3.2 Libraries and museums.

## **7.4 Expenditure classification**

7.4.1 Subjective classification into various expenditure groups is as follows:

- 7.4.1.1 Employee related expenses;
- 7.4.1.2 Remuneration of councillors;
- 7.4.1.3 Impairment losses;
- 7.4.1.4 Finance costs;
- 7.4.1.5 Debt impairment;
- 7.4.1.6 Bulk purchases;
- 7.4.1.7 General expenses;
- 7.4.1.8 Repairs and maintenance;
- 7.4.1.9 Depreciation and amortisation.

## **7.5 Cost elements**

7.5.1 The following cost elements will be used to calculate the tariffs of the different services:

7.5.1.1 Fixed costs which consist of the capital costs (interest and redemption) on external loans as well as internal advances and or depreciation whichever are applicable on the service and any other costs of a permanent nature as determined by the Council from time to time.

7.5.1.2 Variable cost: This includes all other variable costs that have reference to the service.

7.5.1.3 Total cost: is equal to the fixed cost plus variable cost.

## **8. Tariff types**

8.1 In settings service charges the Council shall:

8.1.1 Accurately reflect costs to achieve economic efficiency;

8.1.2 Ensure equity and fairness between different types of consumers;

8.1.3 Utilise appropriate metering and supporting technology; and

8.1.4 Be transparent.

8.2 In determining the type of tariff applicable to the type of service the Council shall make use of the following four options or a combination of the same:

8.2.1 Single tariff: This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through unit charges at the level of breakeven consumption. Profits on trading services may be allowed subject to Council approval.

8.2.2 Cost related two to four part tariff: This tariff shall consist of two to four parts. Management, capital, maintenance and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed.

8.2.3 Inclining block tariff: This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as



consumption levels increase. This tariff will only be used to prohibit the exorbitant use of a commodity. The first step in the tariffs will be calculated at break-even point. Subsequent steps will be calculated to yield profits and to discourage excessive use of the commodity.

- 8.2.4 Declining block tariff: This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase. This tariff will only be used during special agreements.
- 8.2.5 Time-of-use tariff: this tariff is based on fixed charges and seasonally and time differentiated energy and demand charges.
- 8.2.6 Regulating tariff: this tariff is only of a regulatory nature and the municipality may recover the full or a portion of the cost associated with rendering the service.

## **9. Unit of measurement**

**The following units of measurement will, where possible, be used to determine tariffs:**

### **9.1 Electricity**

#### **9.2.1 Tariff structure**

- Maximum demand plus Fixed costs plus kWh consumed;
- Fixed costs plus kWh consumed;
- KVA consumed;
- KWA.

#### **9.2.2 Method of calculation**

NERSA guidance is used to calculate the growth rate for the tariffs. A different tariff is charged for the following different services which could include:

- New connections - Domestic;
- New connections - Business;
- Consumer notification of intension to disconnect. (Telephonically);
- Reconnection of supply cut off for non-payment;
- Deposit - Domestic;
- Deposit - Domestic Flat;
- Deposit Business
- Availability fee per stand not making use of the supply from the network (Basic);
- Usage;
- All rates approved annually by Council.

#### **9.2.3 A different tariff rate is charged for different consumption per connection. Refer Below:**

##### **9.2.3.1 Domestic (Conventional, indigent and pre-paid)**

- Block 1 ( 0 - 50 kwh);

- Block 2 ( 51 - 350 kwh);
- Block 3 (351 - 600 kwh);
- Block 4 ( > 600 kwh).

#### 9.2.3.2 Commercial

- Energy charge and Monthly Basic charge

#### 9.2.3.3 Industrial

- Energy charge,
- Demand Charge, and
- Monthly Basic charge

## 9 By-laws and review

The principle contained in this policy will be reflected in the various service by-laws as promulgated and adjusted by Council from time to time.

The policy and attached rate and fee structure must be reviewed on an annual basis and the rate and fee structure must be approved by Council before the start of the financial year.



Municipal Manager

Sewape M.O

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