



**TARIFF POLICY**  
**ELECTRICITY**  
**2023-2024**

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## **Preamble**

**WHEREAS** section 229(1) of the Constitution authorises a municipality to impose rates on properties and surcharges on fees for the services provided by or on behalf of the municipality.

**AND WHEREAS** sections 4 and 73 of the Municipal Systems Act impose a duty on the municipality to ensure that local community has access to at least the minimum level of basic services; and that such services are financially sustainable, equitable, prudent and progressively improving.

**AND WHEREAS** section 75A of the Municipal Systems Act authorises a municipality to levy and recover fees, charges or tariffs in respect of any function or service of the municipality; and recover collection charges and interest on any outstanding amount.

**AND WHEREAS** section 74(1) of the Municipal Systems Act requires a municipality to adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality or on behalf of the municipality which complies with the provision of the Municipal Systems Act, Municipal Finance Management Act and any other applicable legislation.

**NOW THEREFORE** the Municipal Council of the municipality in terms of section 156 of the Constitution of the Republic of South Africa read with section 11 of the Municipal Systems Act hereby make the following Policy to be known as Tariff Policy.

## Definitions

**“Act”** means Local Government: Municipal Systems Act, 2000

**“Administrative Penalty”** means a once off as well as a per day penalty that may be charged for contravening the Abaqulusi Spatial and Land use Management Scheme or any of the associated bylaws.

**“Agricultural Use”** means an agricultural use as defined in the Rates Policy

**“Break-even”** means a situation where income derived from the supply of the service is equal to the aggregate of fixed and variable costs associated with delivery of the service

**“Business and commercial Use”** means a place of selling, buying or trading in commodities, goods, stocks or services including offices and activities of any commercial nature for gain or profit

**“Bylaw”** means Tariff Bylaw

**“Consumer”** means a person who has an agreement with the municipality for the provision of municipal services to the premises

**“Council”** means the Municipal Council of Abaqulusi municipality

**“Disconnection Fee”** means a penalty charge to a consumer on termination or restriction of a municipal service to the premises

**“Financial Sustainability”** means provision of municipal service in manner that ensures that the service generate adequate revenue to finance the related costs of the service or that their adequate subsidy or cross-subsidy to defray the costs of the service

**“Financial year”** means a municipal financial year as described in the MFMA

**“IDP”** means Integrated Development Plan in terms of section 25 of the Act

**“Indigent”** means a household which is registered in the Indigent Register of the municipality in terms of the municipality’s Indigent Support Policy

**“Industrial Use”** means a place of business of manufacturing, processing, assembling and production of goods or products, including warehousing or storage of such goods or products

**“MFMA”** means Local Government: Municipal Finance Management Act, 2003

**“Mining Use”** means a place of business activities relating to mining operations in terms Mineral and Petroleum Resources Development Act, 2002

**“Municipality”** means Abaqulusi Municipality

**“Municipal Service”** means a service which the municipality provides in terms of its powers and functions

**“Policy”** means Tariff Policy

**“Public Benefit Use”** means public benefit organisation as defined in 30 of the Income Tax Act

**“Public Service Infrastructure Use”** means as defined in MPRA

**“Reconnection Fee”** means a charge to a consumer on reconnection of municipal service (s)

**“Residential Use”** means a place of domestic dwelling or household home

**“Services-Primary Services”** means municipal services which are generally referred to as Trading Services

**“Services-Secondary Services”** means Rates and General services as opposed to trading services

**“Surcharge”** means a charge raise on and above the normal tariff for a service

**“Tariff”** means levy, fees, charges or surcharges imposed by the municipality on any municipal service or function but excluding property rate

**“Tariff-Schedule of Tariff” (SoT)** means a catalogue of tariffs or tariff book or tariff chart

**“Tariff-Secondary Tariff”** means a tariff for secondary services

## **2. Purpose of the Policy**

The purpose of this Policy is four-fold:

2.1. It is compliance with section 74 of the Municipal Systems Act which requires the municipality to adopt and implement a Tariff Policy for the purpose of levying of fees for municipal services in terms of section 229 of the Constitution;

2.2 To provide for an enabling policy framework for the levying of fees and surcharges on fees for various municipal services and programmes, including activities incidental thereto;

2.3 To provide a policy framework for principles underlying Tariff determination, setting and modelling, including the processes thereof; and

2.4 To, generally, give effect to Tariff principles outlined hereinafter as guidelines to tariff determination for municipal services.

## **3. Tariff Objectives**

To provide mechanism for the following:

- Revenue sufficiency for the provision of municipal services to local community;
- Adequacy of working capital to ensure that municipal programmes are carried out seamlessly at all times;
- Promotion of local economic development for the improvement of quality of life for the local community;
- Progressive improvement and upgrade of municipal services;
- Progressive extension of municipal service infrastructure to cover parts of the municipal area which are currently not serviced yet;

## **4. Tariff Principles**

Section 74 of the Municipal Systems Act, 2000 prescribes the following Tariff Principles:

- The Tariff Policy may differentiate between categories of users, creditors, debtors, services, service standards; geographical areas and other appropriate considerations on condition that such differentiation does not amount to unfair discrimination.
- Cost-reflective tariff to cover all costs associated with rendering the service; such as capital, operating, maintenance, asset replacement, interest charges and administration.
- Tariff must be set at the level that facilitates financial sustainability of the service, taking into account subsidisation income streams from other sources. Financial sustainability is measured by associated cash inflows and cash outflows of the service including other associated costs.
- In appropriate circumstances, provision may be made for a surcharge on the tariff for a service.
- In appropriate circumstances, provision for a special tariff may be made for certain categories of commercial and industrial users to promote local economic development.
- Users of municipal services must be treated equitably in the application of tariffs.
- The amount the individual user pays for the service should generally be proportionate to ones use of the service.
- Poor households must have access to at least the minimum level of basic services through a policy mechanism for the Indigent. The Council shall approve Indigent Policy to provide for all matters relating to the provision of basic services the indigent household, including the criteria thereof.
- Full disclosure of the cost of the minimum level of services afforded to the Indigent households in terms of Indigent Policy and funding sources thereof.

In addition, the following tariff principles underpin tariff setting process and modelling on one hand and tariff determination on the other:

- Affordability of Tariffs to both the service consumers and municipality as bedrock of service sustainability

- Economic efficiency: optimum use of resources to the best with minimum waste and inefficiency
- Efficient use of municipal resources
- Efficient management of municipal infrastructure & assets
- Efficient management of municipal service delivery systems
- Revenue stability
- Value-for- money
- Prudent Expenditure of revenue
- Fairness and consistent tariff enforcement
- Consumer must pay principle subject to Indigent Policy
- Transparency and Predictability of tariff determination
- Ethical Governance system and practices
- User Consultation
- Simplicity and ease of tariff determination and implementation

## **5. Scope and Application of Policy**

This Policy shall be applicable to all municipal services, programmes and activities whatsoever for which the municipality charges a fee of one description or another including surcharges on fees. The schedule of fees and surcharges (tariffs) for municipal services, programmes and activities shall be compiled and approved by the Council as part of the annual budget approval process. The schedule shall be called "Schedule of Tariffs (SoT)". The SoT shall list all municipal services, programmes or/and activities on one hand and the applicable tariff on the other, for which the municipality charges a fee to cover the cost of the service/programme or cover part of the cost thereof as set out hereinafter. The SoT may break a municipal service into different specific activities and attach a levy/fee to each activity. Further, the SoT shall specify the specific calculation formulae applicable to the service, where such is applicable and necessary for clarity. This policy shall not be applicable to Properties Rates and levying thereof.

**5.1 This policy** shall be applicable to and cover all the following services and programmes; whether self-funded or funded from the Rates and General. Some of the services and programmes may not have dedicated tariffs but they are a factor in the overall revenue streams of the municipality. Invariably, an item which is funded in full from Rates and



General will not have a tariff for payment by the consumer/user of the services. Such items are included below for completeness of the cost drivers' structure of municipal services and programmes:

(i) **Primary Services** (also known as Trading Services)

- Electricity
  
- Auxiliary Sundries; a list of functions/activities and the tariff for each. The list may include activities such as, but not limited to:
  - Lodging of an application
  - Certificate or permission by the municipality
  - Test meter for water or electricity
  - Work by the municipality on a private property
  - An inspection visits to a private site on the request of the owner of the site
  - Utilisation of municipal infrastructure or amenities for private use/benefit
  - Printing and photocopying
  - Etc.

Primary Services are services whose consumption is fairly measurable and therefore could be apportioned to single user concerned. Each of the Primary Services must be managed as a self-sustaining business unit; able to defray all its expenses and still make some reasonable surplus for contribution to local economic development and cross-subsidisation of the Secondary Services.

Secondary Services are all the services and functions which are not listed under Primary Services. Notwithstanding that these services (secondary services) form part of the brief of the Objects of local government in terms of section 152 of the Constitution; they do not lend themselves to feasible measurement for individual apportionment of the usage cost of such services. Nonetheless, they are essential for the overall wellbeing of the community and/or orderliness in the municipality's area of jurisdiction. Secondary services are either wholly or partly funded from Rates and General Account. In the majority of cases, such services are regulated by Regulating Tariff type; as more fully set out on the Schedule of Tariffs (ToC) for the year.

5.2 Tariff determination shall include reviewing the basis of the factors or assumptions underpinning the tariff structure of different services on one hand and/or setting the actual tariffs for different services on the other; including determining a tariff-type for a municipal service.

## **6. Categories of Users/Consumers**

The categorisation below is strictly for the purpose of the billing system and demand management (it is indicative in nature). The Council may set maximum volume threshold for each category. The Tariff Structure of all Primary Services shall be a Stepped Tariff Structure unless the provided otherwise; and may make differentiated provision, including exemption, for the following categories of Users/Consumers:

- Residential
- Indigent
- Debtor Rehabilitation
- Business and Commerce
- Industrial
- Mining
- Agriculture
- Special Dispensation agreement
- Sport and Recreation Facilities
- Government
- Schools
- Hospitals
- Public Benefit Organisations
- Faith-based use
- Municipal Users
- Vacant Land
- Special Agreement

## 7. Tariff Types

A tariff system is the backbone of the revenue system. A revenue system is the backbone of service delivery vice-versa. When a consumer receives a statement of account for municipal services, one asks oneself the question “do I receive value for money”? The answer lies in the tariff structure and O&M programmes of the municipality for different services.

The following is the catalogue of tariff types available to the municipality. The municipality may use one type or combination of two or more types for a service, depending on the circumstances of the service. The decision on which tariff type or tariff type’s combination shall be applicable to the service and Consumer/User category, shall be contained in Schedule of Tariff for the financial year. The Council may decide to add a surplus amount to the primary services. The surplus amount shall be added to other costs of the service for the purpose of calculating the applicable tariff for the service.

**7.1 Single Tariff:** this is cost of the unit consumed by the user. All costs shall be recovered through unit charges at the level where the cash inflows and outflows break even. On good course, the Council may approve percentage surpluses on primary services. The percentage surplus shall be added to the fixed and variable costs of the service for the purpose of calculating the tariff for the service concerned

**7.2 Two-Part Tariff (two to three part)** This is pricing technique in which the price of a service consists of two parts: the lump-sum charge/fee, grouping together into a fixed charge (“kva demand charge”) the costs of capital, management and maintenance and recover them as a fixed charge. The other part consists of the normal operating variable costs which is recovered by the normal consumption unit charge per energy consumption units (“consumption charge”) This technique is useful in cases where the Consumer Mix is heterogeneous with different needs and levels of price appetite. There will be baseline threshold of consumers with price appetite of normal consumption of average volumes; and additional threshold of consumers who want the same service but, in more volumes, than the average threshold (kva demand). The former shall pay the normal consumption charge only, based on the volume of the units consumed. The latter shall pay the lump-sum for excessive volumes pressure

(demand charge) and the normal consumption charge based on the volumes of the units consumed. In South Africa (municipalities) two-part tariff is more common in electricity service for “bulk users” (mining and industry).

**7.3 Inclining Block Tariff (Stepped-Tariff):** This tariff involves consumption levels being categorised into progressive blocks, the tariff being determined and increased progressively as consumption levels increased. The blocks thresholds shall be set out on the Schedule of Tariff for the year. (Is your municipality’s block structure divided into three blocks: 1<sup>st</sup> block for O&M costs; 2<sup>nd</sup> block for break-even and 3<sup>rd</sup> for block for surplus and discouraging excessive consumption?)

**7.4 Declining Block Tariff:** This tariff is the converse of the inclining block tariff. The tariff decreases progressively as the consumption levels increase. It consists of fixed and variable costs on one hand and some surplus margin on the other. This tariff is subject to special agreement with the municipality

**7.5 Regulating Tariff:** This tariff is only for regulatory nature. It may recover either the full or portion of the cost associated with rendering of the service. Most of the Secondary servicers would fall under this tariff type.

**7.6 Availability Tariff:** in some municipality this is called the “Basic Charge or Fixed Charge”. It is associated with water and electricity services; where the area of the household is fully serviced by the appropriate infrastructure for the rendering of the service. Yet; the household address, by choice of the owner, is not connected service supply system (infrastructure) of the service. The household address shall be liable for the availability tariff even though there is no consumption on the address premises.

**7.7 Special Tariff:** This is fixed charge for a service, made certain on the Schedule of Tariff. It is imposed by agreement between the municipality and the person or the service provider. The said agreement must be approved by the Council because such agreement becomes an integral part of the special tariff.

**7.8 Time-Of-Use Tariff:** This tariff is on fixed charges, seasonal usage and time differentiated energy consumption and demand charges

**7.8 Auxiliary or Sundry Tariff:** This tariff is applicable to all services and facilities where and when the cost cannot be determined accurately or where the tariff is intended only as control measure rather than cost recovery. It is applicable to all uses which are not covered under any of the foregoing tariff types. There is long list of items to which this tariff type is applicable.

**7.9 Punitive Tariff:** This tariff is applicable to instances of the imposition of penalty charges for particular acts or defaults or in instances where the charge is intended to discourage a particular behaviour or excessive consumption of a service. Some of the instances are created in terms of other duly approved policies and bylaws of the municipality; whilst other instances may be created by a resolution of the Council.

**7.10 Internal Municipal Service District Tariff:** As per section 86 of MSA and section 22 of MPRA for Special Rating Area

## **8 Penalties**

### **8.1 Administrative penalties**

(1) A Municipal Council may impose an administrative penalty when an owner uses land or permits land to be used in the manner referred to in section 52A in respect of each day on which he or she continues or has continued with such conduct up to a maximum of 180 days.

(2) A Municipal Council may impose a once-off administrative penalty to penalise a land owner for having used land or permitted land to be used in the manner referred to in section 52A before approval was obtained in terms of this Act or a by-law to use the land in that manner.

(3) The amounts charged by a Municipal Council in terms of this section must be calculated in accordance with a tariff levied by a municipality in terms of section 75A (2) of the Municipal Structures Act.

## **9 Cost Elements and Calculation Methods**

9.1 The cost elements for every service shall generally consist of the following elements regardless of whether the service is self-financed or subsidised:

Total Cost = fixed costs + variable costs: as listed below:

- Bulk Supply/Purchases
- Salaries
- Repairs and maintenance
- Materials
- Vehicles and plants
- Fuel
- Purification systems cost (water & sewer)
- Quality control monitoring systems
- Distribution costs
- Distribution losses (water & electricity)
- Asset Depreciation.
- Financing Charges and loans
- Consumption of associated services
- Political and Support Services allocated costs
- Inter-department charges (where applicable)
- Reasonable incidental overheads

The above cost structure shall apply to every municipal service or programme, *mutatis- mutandis*, regardless of the source of funding to cover the costs. In the case of the primary services, the Council may include the percentage of a surplus to be included or added to be incorporated into the cost structure of the service for the purpose of calculating the applicable tariff of the service. Generally, the reason for the surplus is twofold:

- As appropriation to capital reserves
- Relief to rates and general services which covers the costs, in full or in part, of the secondary services.

9.2 VAT: VAT is not excluded in the tariff and shall be charged accordingly, in terms of the applicable legislation.

## **10. Unit of Measure**

- Electricity Consumption: Kilowatt hour
- Electricity Demand Charge: Kilovolt Ampere

## **11. Short Title and Repeal**

This policy shall be called Electricity Tariff Policy 2023 of Abaqulusi municipality and shall remain in force until dully amended or repealed

### **Annexure “A”**

#### **Indicative Tariff Calculation/Breakdown**

##### **Electricity**

- Availability tariff +kWh units consumed
- kWh units consumed (pre-payment meters)
- Maximum Demand kVA + Availability tariff + kWh units consumed

In the deciding the applicable tariff, consideration shall be given to the Guidelines issued by the National Electricity Regulator (NERSA) and the level of electricity service on the household concerned. Technical factors, on the advice of an Electrical Engineer, must be taken into consideration.

##### **POLICY ADOPTION**

This Policy is adopted and approved by the full Council of AbaQulusi Municipality for implementation as follows:

Resolution Number: \_\_\_\_\_

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

##### **EFFECTIVE DATE**

This Policy shall become effective as from the following Date: 1/07/2023