

REVISED CONSUMPTIVE TARIFFS, RATES AND BASIC CHARGES FOR ELECTRICITY SERVICES, WATER AND SANITATION SERVICES AND SOLID WASTE MANAGEMENT SERVICES

1. ELECTRICITY

1.1 General

The proposed revisions to the tariffs have been formulated in accordance with the City of Cape Town Tariff and Rates Policy and comply with Section 74 of the Municipal Systems Act as well as the recommendations of the National Energy Regulator of South Africa (NERSA).

In terms of section 75A of the Local Government Municipal Systems Act, any fees, charges or tariffs which a municipality may wish to levy and recover in respect of any function or service of the municipality, must be approved by a resolution passed by the municipal council with a supporting vote of a majority of its members.

The Electricity Regulation Act requires that proposed revisions to the electricity consumption based tariffs be submitted to the Regulator for approval prior to implementation. Provisional approval will therefore be requested with the express proviso that any alterations required by Council will be submitted to the Regulator as soon as possible.

Consumptive Tariff Schedules now include a note indicating that the tariffs are applied in accordance with the terms and conditions as contained in the Electricity Tariff Policy.

On 25 February 2016, NERSA issued a statement allowing Eskom an average 9.4% increase. On 1 March 2016, NERSA approved a 7.86% increase on average to Local Authorities. This however, does not take into account any impact for system growth (either positive or negative). CPI was projected at 5.9%.

The above items result in the Electricity Department requiring a revenue increase from Sale of Electricity of 6.6%, which, when coupled to the negative system growth expected of -1%, results in a tariff increase requirement of an average of 7.78%.

Present electricity tariffs were approved by Council on 29 May 2015 and by NERSA (with amendments – not implemented) on 1 July 2015, and were implemented with effect from 1 July 2015.

1.2 Proposed Electricity Tariff Policy Changes

For the 2016/17 financial year, the following changes are proposed for the Electricity Tariff Policy:

- Clause 5.2.6 is added, whereby all new Large Power agreements shall be

- at one of the two new Large User Time of Use tariffs, and existing customers will have the option to migrate to these tariffs
- Clause 5.3.2 altered to state that customers with credit meters shall not take their supply at the Lifeline tariff, rather than stating they shall take their supply at the Domestic tariff. This is to facilitate the introduction of the new Home User tariff, which is applicable to the same customer category as the Domestic Tariff.
 - The addition of Section 6 in the policy, to deal with the expiry of prepaid electricity tokens, and under which circumstances replacement/monetization of tokens shall be permitted.

1.3 Consumptive Tariff Proposals

For the 2016/17 financial year, the following is proposed for the Residential tariffs.

An 8.26% tariff increase is required across all blocks of the Lifeline and Domestic Tariffs in order to achieve the required revenue from this customer group (the higher increase is what is required to compensate for the reduced sales being experienced by this customer category). It is further proposed that from 1 October 2016, all Lifeline customers with municipal property valuations of R1 million or more be migrated to the Domestic Tariff. This change will result in an over-recovery of revenue of approximately R72 million for the year, which will allow the tariff increase for residential customers to be reduced to 6.62% across all blocks on both Residential tariffs. This change will impact negatively on approximately 57 500 customers, who as a result of this change will see an additional increase in monthly account of a maximum of R260. However, with this change all the remaining Lifeline Customers (approximately 215 000 customers) and all the Domestic customers (around 300 000 customers) will receive the benefit of the lower increase. There will also be an additional benefit to the City of a reduction in the overall cost of the Free Basic Electricity that is funded from the Equitable Share Fund.

It is also proposed that a new Residential Tariff be introduced, the Home User Tariff. This tariff is designed along Cost Reflective principles, with a Network Access and Administration fee (to be charged as a fixed monthly amount on the consolidated monthly account), along with a two block inclining block energy tariff. No existing customers will initially be migrated to this tariff, and as such there is no impact to the customers at this stage. The tariff is designed as to be similar in monthly value to the existing Domestic tariff at consumption levels above 600kWh per month.

No further changes are proposed for the provision of Free Basic Electricity.

It is proposed that the Residential Small Scale Embedded Generation tariff be increased as follows:

- No change to the daily service charge (to be held as is until the Home User Tariff Network Access and Administration Charge attains parity with it)

- The consumption energy charges on both blocks increase by the same level as the other Residential tariffs, at 6.62%.
- The feed-in tariff increases by 7.86%, in line with the average Eskom increase, and remains set at the Eskom Megaflex Low Demand Season Standard Time rate.

The Small Power User 1 tariff sees a continuation of the process started in 2015/16 to make this tariff more cost reflective. As such, the Service fee for this tariff increases by 24.17%, while the energy charge increases by 1.88%. This change results in minimal impact to the customers on this tariff. The Small Power User 2 tariff (a subsidized tariff for smaller business users) increases by 10%, in order to prevent the crossover between these two tariffs from moving too far from the current 1000kWh per month average crossover.

The Off Peak tariff (which is only for existing customers on this tariff and is currently being phased out) increases by 18%. This will be the final year of this tariff being in operation, as from 2017/18 it will no longer be offered.

The Large Power User Low Voltage tariff sees an increase of 7.8% on the Service Charge and Demand Charge values. The Energy Charge increases by 9.57% to compensate for the reduced sales in this category. Only the energy charge is adjusted to move towards a more cost reflective level.

The Large Power User Medium Voltage tariff sees an increase of 7.8% on the Service Charge and Energy Charge values. The Demand Charges increase by 6.3% in order to compensate for the change in sales levels in this tariff, and to move towards a more cost reflective tariff structure for this tariff.

The Time of Use Medium Voltage tariff sees no increase in the Service Charge and Demand Charge for 2016/17. The energy charges are increased to provide the additional revenue required from this tariff for 2016/17, and to remain on par with the Eskom Megaflex rates for 2016/17. This minor structural change also moves this tariff closer to the cost reflective levels for this customer group.

The Atlantis Time of Use tariff remains set at 10% below the Medium Voltage Time of Use tariff, and the High Voltage Time of Use Tariff remains set at 3% below the Medium Voltage Time of Use Tariff on the energy charges.

Two new Time of Use tariffs are introduced for 2016/17. These tariffs are intended to replace the Large Power User tariffs as from 1 July 2018, at which point the Atlantis TOU and HV TOU tariffs will be based on the Large User MV tariff. It is intended that the current MV TOU tariff will be discontinued at this point.

The Large User Low Voltage Time of Use tariff is introduced at a level that the subsidy provided by this tariff if all Large Power User Low Voltage customers migrated to this tariff would be at the average level of subsidy provided to Residential Customers. The energy component of this tariff is based on the Eskom Megaflex Low Voltage tariffs, plus the relevant subsidies. Demand and

Service fee are similarly based on the Cost reflective levels plus the relevant subsidies.

The Large User Medium Voltage Time of Use tariff is introduced at a level that were all customers currently on the Large Power User Medium Voltage tariff to migrate to this tariff that the revenue would be neutral. This is done to prevent this tariff from being more beneficial to most customers, which would result in a significant revenue loss unless compensated for by the remainder of the Commercial tariffs. Similar to the Low Voltage version, the energy charges are based on the applicable Eskom Megaflex tariff, plus the relevant subsidies.

The Commercial Small Scale Embedded Generation feed-in tariff increases by 7.86%, in line with the Eskom increase. It remains set at the same level as the Eskom Megaflex Low Demand Season Standard Time rate.

The Street Lighting and Traffic Signals tariff increases by 7.82%, slightly higher than the average of 7.78% as a result of rounding.

The Floodlighting of Private Buildings tariff is deleted from the schedule as this tariff is no longer utilized and must be removed.

1.4 Miscellaneous and Street Lighting Tariffs

The Miscellaneous Electricity Tariffs are levied to recover the costs of services provided directly to individual customers.

In terms of the Miscellaneous Tariff Schedule, each tariff was revisited in terms of its relevance and revenue generating potential.

The following tariff items were added to the schedule for the 2016/17 financial year:

- Item 4.1.2 to better cater for changes to the network segments
- Item 4.2.2 to further facilitate the above
- Item 8.13 to cater for Tariff and Load Profile investigations requiring equipment and personnel
- Item 14.1.1 to cater for the smallest commercially available circuit breakers of 1 Amp.
- Item 19, to cater for Burnt, Vandalised and Stolen meters.

The tariff relating to Close Circuit television cameras is deleted for the 2016/17 financial year, as this tariff is being replaced by Item 14.1.1

The following items on the Schedule are dependent on the Consumption Based tariffs, and are adjusted accordingly:

- Item 10.6 will increase by 10%, as it is listed as the Small Power User 2 tariff, which is proposed to increase at that percentage.
- Item 13.1, Bulk Residential and Small Power User deposits increase by

the average of 7.8%

- Item 13.2, Deposits for Large and Time of Use agreements increase by 6.3%, less than the average increase as a result of the inclusion of a change in the profile of the average customer on these tariffs
- Item 14.1, Unmetered Tariffs are recalculated in line with the proposed Small Power User 1 energy rate, and reduce slightly as a result of not being able to be adjusted timeously last year.
- Item 3.1 on the Streetlighting Schedule will increase by the average consumption tariff increase of 7.78%. It should also be noted that the usage of Green Energy Certificates will no longer be optional.

The following tariffs were reassessed in terms of the actual cost of supplying the service (recalculated annually from a zero base and dependent on external costs such as the cost of meter technology – may also in some instances include a consumption tariff component and may also result in a reduction in tariff):

- Item 1.7, replacement of unsafe ready board
- Item 2, unauthorised supplies
- Item 3, new residential supplies
- Item 4, Development Capital Tariffs
- Item 7.1, retrofitting of existing credit meter with 60A single phase split PPM
- Item 8.1, upgrading of commercial and industrial metering to incorporate AMI technology
- Item 14.2, connection fees for unmetered supplies.

The following tariffs remain unchanged, as they are mostly free services:

- Items 5.1, 5.2 and 5.3, quotation fees
- Item 11.1, temporary hire of MV switchgear equipment for breakdowns (these tariffs are dependent on the replacement value of the equipment only)
- Provision of the Electricity Supply By-law (available as a free download from the City's website)
- Green Energy Certificates

The remaining tariffs increase by CPI. Note that in some instances the rounding for VAT purposes may result in a slightly above or below increase for some items.

The increases are in accordance with the guidelines established in the Medium Term Revenue and Expenditure Framework.