

**MUNICIPAL TARIFF GUIDELINE INCREASE, BENCHMARKS AND PROPOSED
TIMELINES FOR MUNICIPAL TARIFF APPROVAL PROCESS FOR THE 2021/22
FINANCIAL YEAR**

Consultation Paper

Published on 12 March 2021

TABLE OF CONTENTS

- 1. EXECUTIVE SUMMARY 4**
- 2. BACKGROUND 4**
- 3. ALTERNATIVE REGULATION APPROACHES 6**
- 4. GUIDELINE INCREASE PERCENTAGE CALCULATION 11**
- 5. THE MUNICIPAL GUIDELINE APPROVAL PROCESS 13**
- 6. TARIFF APPROVAL PROCESS 14**
 - 6.1. Submission of D-Form Information 15
 - 6.2. Guideline Increase and Benchmarks Consultation and Approval 16
 - 6.3. Tariff Application Information 16
- ANNEXURE A: PROPOSED MUNICIPAL ELECTRICITY TARIFF BENCHMARKS FOR 2021/22 19**

TABLE OF TABLES

Table 1: Revenue forecast 8

Table 2: Financial indicators..... 9

Table 3: Calculation of the guideline for the 2021/22 financial year..... 11

Table 4: Municipal tariff guideline and benchmarks approval timelines 14

Table 5: Tariff schedule format..... 16

ABBREVIATIONS AND ACRONYMS

BP	Bulk Purchase
BPI	Bulk Purchase Increase
c/kWh	Cents per kilowatt-hour
CPI	Consumer Price Index
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
OE	Other Expenses
OEI	Other Expenses Increase
R	Repairs
RCA	Regulatory Clearing Account
RI	Repairs Increase
S	Salaries
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).
- 1.4. The total approved allowable revenue for Eskom for the 2021/22 financial year is R245 709m.
- 1.5. NERSA approved Eskom's Retail Tariff Structural Adjustment (ERTSA) on 5 March 2021, which resulted in an increase of 17.8% to municipalities and an overall average increase of 15.06% to Eskom's standard customers.
- 1.6. NERSA is requesting that stakeholders comment on the percentage guideline increase, the benchmarks, the proposed timelines and 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 30 March 2021.
- 1.7. NERSA will hold a public hearing on the key issues highlighted in the consultation paper on 9 April 2021, in line with section 4(3) of the Promotion to Administration Justice Act, 2000 (Act No. 3 of 2000).

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 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 need to 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.
- 2.6. However, the gap between the licensee's sustainability (cost reflectivity) and customer affordability has been increasing as evidenced by stakeholders' pleas with NERSA to move towards a cost-based approach when setting tariffs for municipalities. Although numerous stakeholders have made a comment to a similar effect, one of the stakeholders commented in the previous financial year and quoted a Deloitte report, which summarises this point succinctly, and reads thus:

Nersa should review its approach to the regulation of municipal electricity tariffs as its current approach of providing guideline tariffs in terms of standard percentage price increases across all municipalities will only serve to amplify historical differences. Deloitte further states, 'With Eskom tariffs set to continue to rise, it is questionable whether further increases in the already relatively high tariff charged by some municipalities can be justified'.

- 2.7. In its previous consultation paper, NERSA attempted to address this issue by benchmarking municipality tariffs to Eskom 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.
- 2.8. This meant that an approach was needed that would somehow translate municipalities' cost requirements to tariffs. NERSA, in addressing the above predicament developed a hybrid approach which incorporates the municipalities' Cost to Supply and revenue forecasts in rate setting for municipalities.

3. ALTERNATIVE REGULATION APPROACHES

- 3.1. The first approach requires municipalities to set their tariffs based on a comprehensive cost of supply studies. The second approach is a hybrid requiring municipalities to indicate their revenue forecast translated into tariffs. These would be regulated using the NERSA benchmarks currently in place to ensure that the revenue targets are met.
- 3.2. The first approach is desired in the long term and municipalities with the capabilities are encouraged to submit these comprehensive studies to be considered for setting the 2022/23 financial year's tariffs. These applications should be submitted at least six months before the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) deadline of 15 March 2022 to allow NERSA sufficient time to process them.
- 3.3. NERSA, in conjunction with Sustainable Energy Africa (SEA), Eskom, South African Local Government Association (SALGA), Department of Cooperative Governance and Traditional Affairs (CoGTA) and various other stakeholders have developed a tool that is able to assist municipalities in the development of cost of supply studies. This simplified tool was developed with the aim of assisting municipalities that lack the capacity to undertake a comprehensive study.
- 3.4. With the assistance of this specialised tool, it is envisaged that municipalities will be able to submit their cost-based tariffs to NERSA for approval. This tool will be made available on the NERSA website at www.nersa.org.za.

Approach 1

- 3.5. This approach requires municipalities to set their tariffs based on a comprehensive cost of supply to be assessed by NERSA for prudence and efficiency. These applications will be assessed using the Cost of Supply Framework, which sets out the parameters within which the applications will be considered.
- 3.6. This approach will ensure that electricity distributors have competitive capabilities, especially in light of the anticipated unbundling of Eskom into Generation, Transmission and Distribution businesses and in addressing the country's Economic Reconstruction and Recovery Plan that seeks to address the shortcomings identified in the Electricity Supply Industry in its entirety.
- 3.7. Upon approval of these revenues, municipalities should submit a schedule of revised retail tariffs and structural adjustments, which would recover the approved revenue.
- 3.8. Subsequent revenue applications would also consider the impact of forecast revenues not materialising. The revenue shortfall/excess would be taken into consideration in determining subsequent revenue requirements. Thereafter, the cycle will restart with the cost of supply consideration.
- 3.9. However, these restructured tariffs should be implemented in a manner that will not negatively impact the municipalities, their customers and the economy at large. This implies that these tariffs must be phased in over time on a case-by-case basis to allow for a just and smooth transition informed by an economic impact assessment study. However, this process of implementation should not take too long to an extent that it overcomplicates the revenues to be recovered or adversely affects the municipalities or the customers.
- 3.10. Policy position 23 of the Electricity Pricing Policy, 1998 (GG No. 31741 of 19 December 1998) ('the EPP') states that electricity distributors shall undertake Cost of Supply (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.

- 3.11. In support of the EPP, NERSA developed a COS Framework to be used by all licensed electricity distributors (licensees) in South Africa. The framework will be used as a guideline to licensees when developing their COS studies.
- 3.12. Municipalities that are unable to update these studies annually should apply for an increase in line with the municipal guideline increase (as determined in section 4 below) for a maximum of five years or until such time that circumstances warrant a need for a revised Cost of Supply study in line with paragraph 3.10 above, whichever occurs first. This implies that the rates approved based on the comprehensive Cost of Supply study will be increased by the approved guideline increase annually until such time that the next comprehensive study is approved.

Stakeholder Comment #1

Stakeholders are invited to comment on the potential impact of using the first approach to the regulation of municipalities and/or propose substitute variations that will achieve similar outcomes. Furthermore, stakeholders are invited to comment on the challenges foreseen from implementing this approach and propose solutions thereto. Moreover, stakeholders are invited to comment on key parameters to be used to evaluate these cost of supply studies.

Approach 2

- 3.13. Municipalities that are unable to submit comprehensive cost of supply studies in the interim should submit their revenue forecast translated into tariffs. This revenue forecast will be analysed and compared with municipal costs and revenue requirements and the tariffs regulated using the NERSA benchmarks.

Table 1: Revenue forecast

Tariff Name	Tariff Number	Number of consumers	Revenue derived from energy charges (R)	Revenue derived from demand charges (R)	Revenue derived from fixed charges (R)	Total Revenue (R)	Energy Sales (kWh)	Average Tariff
ELECT:RESIDENTIAL								
ELECT:BUSINESS/INDUSTRIAL								
ELECT:BUSINESS<25KWH-CONVENTIONAL								
ELECT:HIGHVOLT MORE THAN 200KVA+								
ELECT:MUNICIPAL								
PREPAID ELECTRICITY								
Total								

- 3.14. Municipalities should apply using table 1 above as a minimum template. Municipalities are already reporting on this information historically in the D-Form submissions, so it is anticipated that compliance in this regard will not be a hurdle. This approach will allow NERSA to balance the revenue requirement

of the municipality and customer impact using the benchmarks (see Annexure A). A comprehensive template will be made available on the NERSA website (www.nersa.org.za) and upon request by email.

- 3.15. The financial and technical indicators in table 2 below will be used to assess financial performance and the parameters are explained in the paragraphs that follow.

Table 2: Financial indicators

Performance indicators	Benchmark	Acceptable range
Gross surplus percentage (%) :	60	58 - 62
Net surplus percentage (%) :	15	10 - 20
Percentage Power Cost: (%)	75	58 - 78
Energy Losses: (%)	10	5 - 12
Revenue collection rate (%)	95	85 - 100
Repairs & Maintenance (% of revenue)	6	6 - 15

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

3.16.1. Gross surplus percentage: This is calculated using the following formula $\text{electricity sales revenue less bulk purchase costs} / \text{electricity sales revenue}$. This will be used to assess the municipality's electricity business performance purely from an electricity purchase and sale perspective.

3.16.2. Percentage power costs: This is calculated using the following formula $(\text{bulk purchase cost} / \text{total electricity department costs})$. This will be used to assess the municipality's expenditure on bulk purchases relative to total expenditure.

3.16.3. Energy losses percentage: This is calculated using the following formula $(\text{electricity kWh purchases less electricity kWh sales})$. This will be compared against set targets and used to assess the efficiency of the municipality's network and billing functions.

3.16.4. Estimated revenue collection rate: This is calculated using the following formula $(\text{billed revenue less bad debts written off})$ or $(\text{billed revenue plus bad debts recovered})$. 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.

3.16.5. 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.

3.16.6. 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.

3.17. These performance targets will ensure that municipalities are encouraged to improve on their revenue collection, improve on 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.

Stakeholder Comment #2

Stakeholders are invited to comment on the potential impact of using the second alternative approach to regulation of municipalities and/or propose substitute variations that will achieve similar outcomes. Furthermore, stakeholders are invited to comment on the challenges foreseen from implementing this approach and propose solutions thereto. Stakeholders are also invited to comment on the relevance of the performance targets set, their calculation, the potential impact thereof and to propose additional or alternative indicators and targets if applicable.

4. GUIDELINE INCREASE PERCENTAGE CALCULATION

- 4.1. To calculate the guideline increase for the 2021/22 financial year, NERSA grouped the municipalities' costs into the various categories as outlined in table 3 below. The Rand figures are a representation of costs as submitted by municipalities in their 2018/19 financial D-Forms.
- 4.2. These costs are then increased by a relevant index to achieve an average guideline increase of 14.59%.

Table 3: Calculation of the guideline for the 2021/22 financial year

GI	Expenses	2018/19	Contribution	% Increase	Guideline
BP	Bulk Purchases	42 289 531 275	76.0%	17.8%	13.5%
R	Repairs and Maintenance	3 430 761 825	6.2%	4.4%	0.3%
S	Salaries	2 234 874 745	4.0%	6.5%	0.3%
FC	Finance Costs	948 105 195	1.7%	0.0%	0.0%
NMD	NMD Costs	120 940 710	0.2%	4.4%	0.0%
BD	Bad Debts Provision	1 491 338 074	2.7%	4.4%	0.1%
FBE	FBE Paid to Eskom	310 847 818	0.6%	4.4%	0.0%
OMD	Charges from other Municipal Departments	1 169 776 572	2.1%	4.4%	0.1%
OE	General Expenditure	3 653 590 625	6.6%	4.4%	0.3%
Total expenditure		55 649 766 841	100%		14.59%

- 4.3. In order to calculate the guideline increase percentage of 14.59% in table 3 above, the formula below is used:

$$GI = (B \times BPI) + (R \times I) + (S \times WA) + (FC \times FCI) + (NMD \times I) + (BD \times I) + (FBE \times I) + (OMD \times I) + (GE \times I)$$

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) WA = % increase in line with the Salary and Wage Collective Agreement
- h) FC = % Finance costs
- i) FCI = % Finance cost increase
- j) NMD = Notified Maximum Demand costs
- k) BD = Bad Debts expenses
- l) FBE = Free Basic Electricity expenses paid to Eskom
- m) OMD = Charges from other municipal departments
- n) GE = General expenditure

- 4.4. The bulk purchases represents 76% of total costs incurred by licensees. For the 2021/22 financial year, an increase of 17.8% is applied in line with the approved ERTSA submission. The difference between Eskom's increase of 15.06% and that of the municipalities of 17.8% is 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 2021 and not 1 April 2021. This time lag leads to an under-recovery by Eskom from sales to municipalities, which requires a higher price increase to municipalities. The higher 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 6.2% of total costs incurred by licensees. For the 2021/22 financial year, an increase of 4.4% is applied in line with the BER inflation figures.
- 4.7. The salaries and wages represents 4% of total costs incurred by licensees. For the 2021/22 financial year, an increase of 6.5% is applied in line with the Salary and Wage Collective Agreement for the period 1 July 2018 to 30 June 2021, as published by the South African Local Government Bargaining Council.
- 4.8. The finance costs represents 1.7% of total costs incurred by licensees. For the 2021/22 financial year, a decrease of 0 basis points (0.0%) is applied on finance costs in line with the announcement by the Reserve Bank Governor to keep the repo rate the same on 24 February 2021.
- 4.9. The NMD cost represents 0.2% of total costs incurred by licensees. For the 2021/22 financial year, an increase of 4.4% is applied in line with the BER inflation figures.
- 4.10. The other expenses represents 11.9% of total costs incurred by licensees. For the 2021/22 financial year, an increase of 4.4% is applied in line with the BER inflation figures.
- 4.11. The application of the formula in 4.3 above results in a guideline increase of 14.59%, as indicated in table 3 above.

Stakeholder Comment #3

Stakeholders are invited to comment on the approach taken to calculate the average annual increase (guideline increase) for licensees and propose any alternatives where applicable.

5. THE MUNICIPAL GUIDELINE APPROVAL PROCESS

5.1. The figure below outlines the process followed in the development of the Municipal Guideline and Benchmarks for the 2021/22 financial year.



Figure 1: Municipal guideline approval process

5.2. 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. This process is dependent on the approval of Eskom's revenues and ERTSA.

5.3. The total approved allowable revenue for Eskom for the 2021/22 financial year is R245 709m. Eskom submitted its ERTSA application on 22 February 2021, which the Energy Regulator analysed and approved on 5 March 2021. The liquidation of the approved revenues resulted in an increase of 15.06% to Eskom and a bulk purchase increase of 17.8% for municipalities.

5.4. Table 4 below outlines the processes to be followed in approving the guideline and benchmarks and proposed timelines by 28 April 2021.

Table 4: Municipal tariff guideline and benchmarks approval timelines

Municipal benchmarks and guidelines	DEPENDENCIES/OUTPUT	DELIVERY RESPONSIBILITY	Date
Approval of Consultation Paper by ELS	RSU circulating the submission on time	RSU	2021/03/09
Conduct Microsoft Teams Public Hearing	Stakeholders register to present	EPT/RSU/ER	2021/04/09
ELS to approve recommendations to ER	Receiving comments and team incorporating comments	EPT	2021/04/16
Approval by Energy Regulator	ER members deliberating on submission and making a decision	RSU	2021/04/28

5.5. According to NERSA’s timelines, the municipal tariff guideline and benchmarks will be approved on 28 April 2021. The Reasons for Decision (RfD) will be published on the NERSA website, Facebook, Twitter, Government Gazette and various local newspapers.

5.6. The publication of the 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

The figure below outlines the process followed in the tariff approval process for 2021/22 financial year.

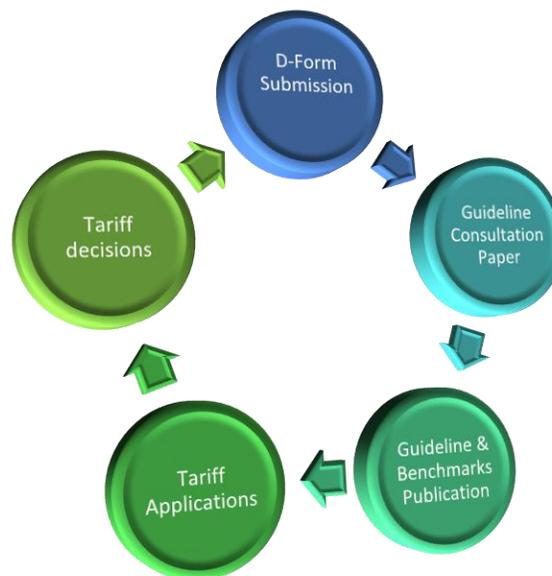


Figure 2: Tariff approval process

6.1. Submission of D-Form Information

- 6.1.1. NERSA held virtual workshops in 2020 and considered one-on-one interactions with municipalities that needed further assistance with the completion of the 2018/19 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.
- 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, which has been signed off by an authorised person. The D-forms should be accompanied by the following source documents:
 - a) 2018/19 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) 2018/19 audited annual financial statements
 - e) 2018/19 trial balance (electricity only)
 - f) 2018/19 electricity asset register.

Stakeholder Comment #4

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 and Benchmarks on its website once the Energy Regulator approves it on 28 April 2021, in line with the timelines in table 4 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 2012.

6.3. Tariff Application Information

- 6.3.1. Municipalities are required to submit their tariff schedules in line with table 5 below. A clear description of the applicability of the tariff should be provided.

Table 5: 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, as well as projected revenues from projected rates and volumes.

Stakeholder Comment #5

Stakeholders are invited to comment on the availability of the above information and the ability to supply it in the required format and 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. Licensees applying for an increase that is above the guideline are requested to submit a comprehensive revenue requirement application in line with section 3 above.
- 6.3.3.2. NERSA reserves a right to request any additional information to assist in assessing a tariff application.
- 6.3.3.3. Failure to submit a comprehensive application will result in the tariff application being considered as a guideline increase application. However, requirements of section 6.3. above remain applicable.
- 6.3.3.4. The municipalities are encouraged to develop time-of-use, and seasonal tariffs in order to enable customers to benefit from load shifting and to allow municipalities to recover costs in a manner reflective of how Eskom charges them.

Stakeholder Comment #6

Stakeholders are invited to comment on the approach taken to assess applications above the 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 export power back to grid.
- 6.3.4.2. NERSA is developing a benchmark for this type of customers and objectives are as follows:
 - 6.3.4.2.1. Set tariffs that incentivise customers to feed into the grid.
 - 6.3.4.2.2. The tariffs should be set at a level that will not worsen the licensees' declining sales.
- 6.3.5. In developing such a tariff, NERSA is considering two options as follows:
 - 6.3.5.1. Taking the national average selling price (ASP) and discounting it by 58% (derived from APP: ASP ratio of 1:1.58). This seeks to ensure

that there are no excessive mark-ups as this is aligned to NERSA's approved financial and technical indicators.

- 6.3.5.2. The second alternative is developing benchmarks based on tariffs currently being implemented by municipalities nationally (peer to peer municipality benchmarking).

Stakeholder Comment #7

Stakeholders are invited to comment on the reasonableness of the approach taken to develop the SSEG benchmarks, propose enhancements to the proposed approaches or propose alternative approaches.

ANNEXURE A: PROPOSED MUNICIPAL ELECTRICITY TARIFF BENCHMARKS FOR 2021/22

The proposed benchmarks for the 2021/22 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	R1.24 - R1.35	R1.63 - R1.74	R2.32 - R2.45	R2.79 - R2.88
Incl VAT	R1.43 - R1.56	R1.87 - R2.00	R2.67 - R2.82	R3.21 - R3.32

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	R1.58 - R1.66	R2.29 - R2.40
Incl VAT	R1.82 - R1.91	R2.63 - R2.76

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	R1.53 - R1.63	R2.26 - R2.35
Incl VAT	R1.76 - R1.87	R2.59 - R2.71

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	R1.74 - R1.85	R2.19 - R2.27
Incl VAT	R2.00 - R2.13	R2.52 - R2.61

Table 10: Average commercial prepaid: Single phase

Commercial Prepaid (2 000 kWh)			
R.c/kWh			
Excl VAT	R2.90	-	R3.01
Incl VAT	R3.34	-	R3.47

Table 11: Average commercial conventional low: Single phase

Commercial Low (2 000 kWh)			
R.c/kWh			
Excl VAT	R2.69	-	R2.77
Incl VAT	R3.10	-	R3.19

Table 12: Average commercial conventional medium: Single phase

R.c/kWh			
Excl VAT	R1.75	-	R1.83
Incl VAT	R2.01	-	R2.11

Table 13: Average commercial conventional high: Single phase

Commercial High (7 000 kWh)			
R.c/kWh			
Excl VAT	R2.00	-	R2.10
Incl VAT	R2.30	-	R2.41

Table 14: Average commercial prepaid: Three phase

Commercial Low (5500 kWh)			
R.c/kWh			
Excl VAT	R2.53	-	R2.63
Incl VAT	R2.91	-	R3.02

Table 15: Average commercial conventional low: Three phase

Commercial Low (5500 kWh)			
R.c/kWh			
Excl VAT	R2.29	-	R2.39
Incl VAT	R2.63	-	R2.74

Table 16: Average commercial conventional medium: Three phase

Commercial Medium (11500 kWh)			
R.c/kWh			
Excl VAT	R2.18	-	R2.27
Incl VAT	R2.50		R2.61

Table 17: Average commercial conventional high: Three phase

Commercial High (22 000 kWh)			
R.c/kWh			
Excl VAT	R2.13	-	R2.22
Incl VAT	R2.45	-	R2.56

Table 18: Average agriculture low

Agriculture Low (2000 kWh)			
R.c/kWh			
Excl VAT	R3.13	-	R3.22
Incl VAT	R3.60	-	R3.71

Table 19: Average agriculture medium

Agriculture Medium (3000 kWh)			
R.c/kWh			
Excl VAT	R2.97	-	R3.06
Incl VAT	R3.41	-	R3.52

Table 20: Average agriculture high

Agriculture High (7000 kWh)			
R.c/kWh			
Excl VAT	R2.53	-	R2.63
Incl VAT	R2.91	-	R3.02

Table 21: Average industrial low

Industrial Low (43 800 kWh)			
R.c/kWh			
Excl VAT	R2.63	-	R2.76
Incl VAT	R3.02	-	R3.17

Table 22: Average industrial medium

Industrial Medium (98 550 kWh)			
R.c/kWh			
Excl VAT	R2.58	-	R2.68
Incl VAT	R2.97	-	R3.08

Table 23: Average industrial high

Industrial High (730 000 kWh)			
R.c/kWh			
Excl VAT	R2.32	-	R2.42
Incl VAT	R2.67	-	R2.78

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

Industrial TOU (1 323 MWh)			
R.c/kWh			
Excl VAT	R2.01	-	R2.11
Incl VAT	R2.31	-	R2.43

Table 25: Average ToU: Nightsave

Industrial TOU (1 323 MWh)			
R.c/kWh			
Excl VAT	R2.97	-	R3.07
Incl VAT	R3.41	-	R3.53