



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA

Implementation of Water Services Economic Regulation: Norms and Standards for Water Services Tariffs

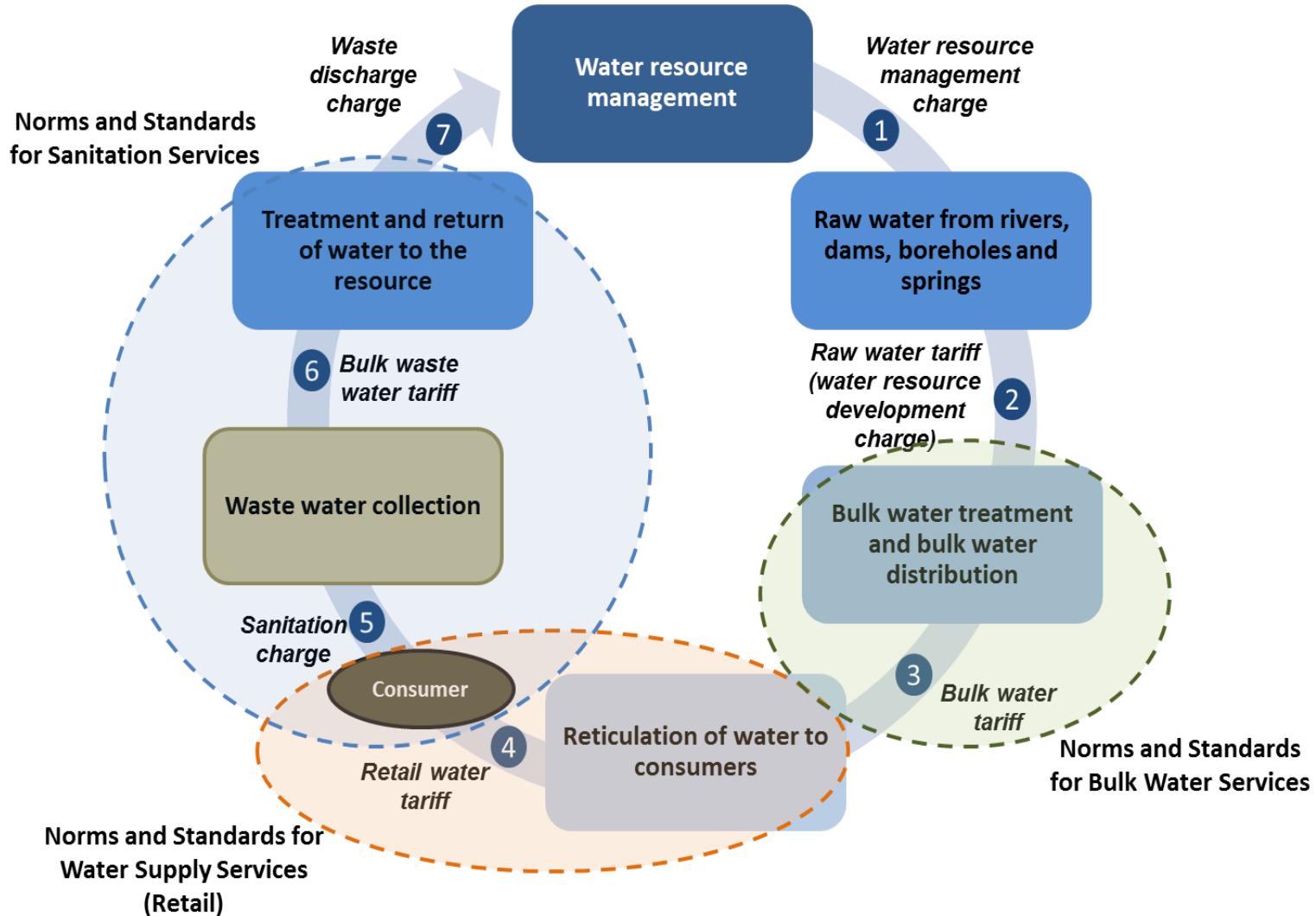
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BACKGROUND

- Gaps and limitations in the current Norms & Standards have warranted DWS to review the Norms & Standards
- Norms & Standards are a regulatory mechanism, intended to support WSAs and Bulk WSPs to set tariffs in a transparent and consistent manner
- Norms & Standards are intended to support the Economic and Social Regulator to –
 - Protect consumers by ensuring cost efficient and affordable tariffs
 - Improve performance of water services providers
- New Norms and Standards have primarily been compiled as a regulatory tool to ensure that WSI's comply with the regulatory requirements insofar as the setting of tariffs for water services is concerned
- Aligned timeframes for approval of raw water charges, bulk water supply tariffs and retail water tariffs

NEED TO REGULATE TARIFFS



MANDATE TO REGULATE TARIFFS

Bulk Water Tariffs

- Governing Boards of bulk WSPs have authority for setting tariffs
- Minister has mandate to regulate tariffs
 - Mandate and power to perform functions of Executive Authority of water boards
 - Exercising power as Executive Authority
 - Accountable to Parliament for water board as a public entity
 - Accountable as shareholder of water board within context of shareholder's compact to set, control, monitor and enforce tariffs and charges

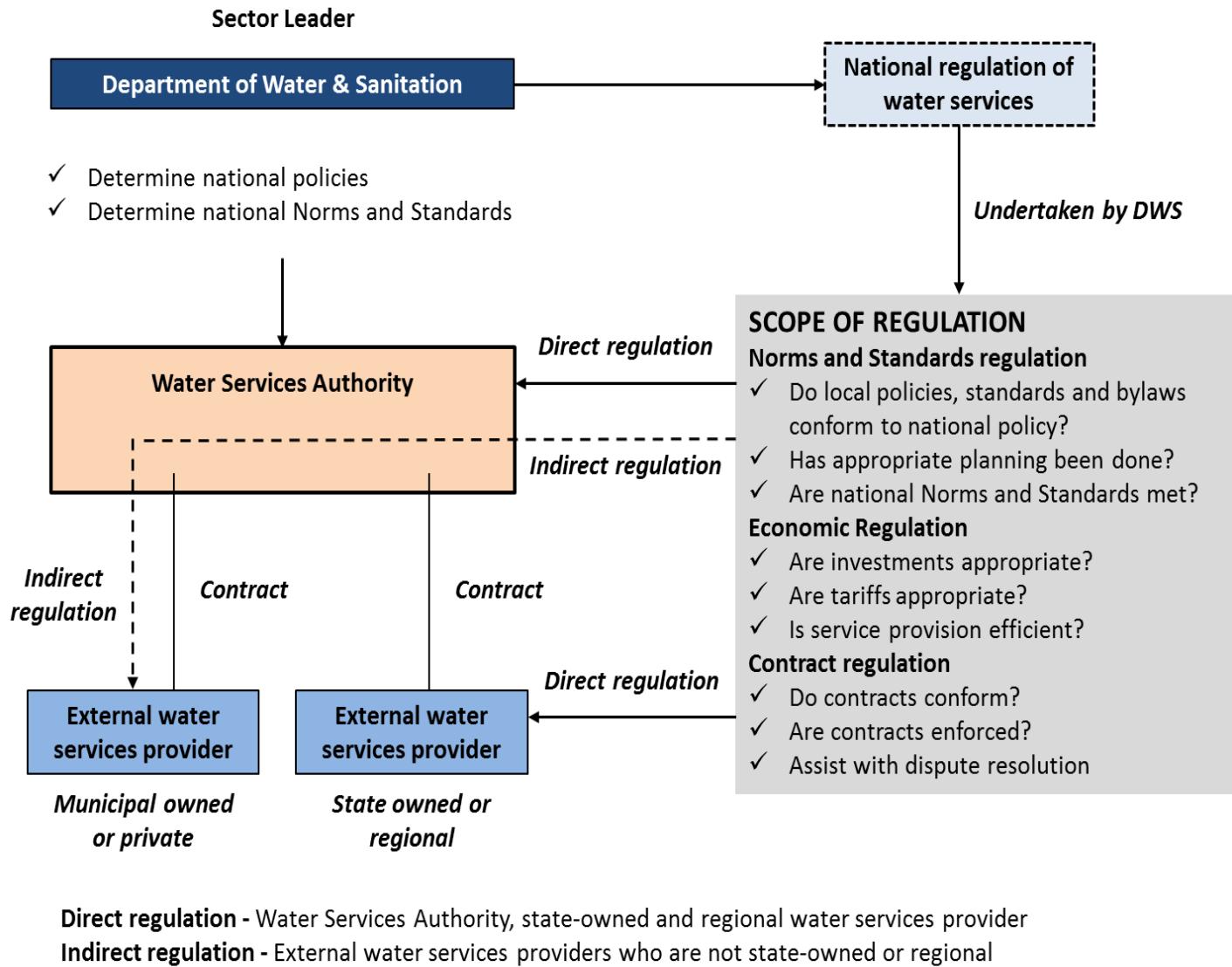
MANDATE TO REGULATE TARIFFS

Retail and Sanitation Tariffs

- Municipal Council has authority to determine retail water and sanitation tariffs
- Minister has mandate for setting framework within which water services institutions can set their tariff structures
 - Section 10 of Water Services Act
 - Rely on Norms & Standards for regulating water services institutions

“No water services institution may use a tariff which is substantially different from any prescribed norms and standards”

MANDATE TO REGULATE TARIFFS



OBJECTIVES OF NORMS & STANDARDS

Critical tool to support WSAs, Water Boards and the Economic Regulator to set and evaluate water services tariffs

- Ensure affordable water services tariffs through transparent and predictable tariff development processes
- Ensure that tariffs are cost reflective and can facilitate financial viability of WSIs
- Standardised processes for setting tariffs throughout water value chain to enable effective evaluation and regulation of tariffs
- Ensure equitable provision of services through sustainable provision of FBW and FBSan to households on municipal indigent register
- To facilitate accountability, as well as reporting and disclosure of tariffs determinations in a structured manner.
- To develop, implement and enforce economic regulations for water services that encourages efficient, affordable water service provision

AMENDMENTS TO EXISTING NORMS & STANDARDS

Existing Norms & Standards were developed in 2003; there are gaps, limitations and misalignments as a result of changes in water sector

- **Differentiation:** Differentiate between WSAs, WSPs, Bulk WSPs (Water Boards), water supply, domestic sanitation, industrial waste water, etc.
- **Accounting for costs:** Defines and introduces detailed cost structures that must be considered for setting tariffs
- **Tariff setting procedures:** Provides clear guidelines, procedures and mechanisms required for setting and regulating water tariffs
- **Disclosure:** Defines disclosure requirements and aligns tariff setting time frames for different WSIs
- **Exceptions and emerging applications:** Provides for municipalities that also act as bulk WSPs, the potential impact and treatment of AMD and other
- **Improvement and clarification of definitions to avoid vagueness:** Aligned definitions with existing terminology, legislation and regulations

KEY PRINCIPLES BEHIND NEW NORMS & STANDARDS

Based on sound principles and aim to provide a greater degree of transparency on how water services are priced, it recognises the developmental context of the water sector and it promotes the provision of affordable and sustainable services

- **Sustainability:** Can only be achieved with cost reflective tariffs. Water scarcity and quality challenges affect ecological sustainability
- **Affordability:** Ensure that a basic water supply is affordable and that the poor is protected by making provision for FBW and FBSan for indigents
- **Equity:** Ensure that all water users are on an equal footing, that everybody is treated fairly and that specific needs are taken into account
- **Transparency and predictability:** Guidelines on how water will be priced for social equity, environmental or affordability reasons, and how water management will be sustainably financed
- **Multi-year tariffs:** Facilitate longer term planning and greater levels of certainty for water institutions and users

OVERVIEW OF NORMS & STANDARDS

Structured in three separate, yet intrinsically linked, sets of regulations

Volume 1: Norms and Standards for water supply services supplied directly to consumers

Volume 2: Norms and Standards for sanitation services supplied directly to consumers

Volume 3: Norms and Standards for bulk water services supplied by Bulk WSP or Regional Bulk Water Utilities to other WSIs

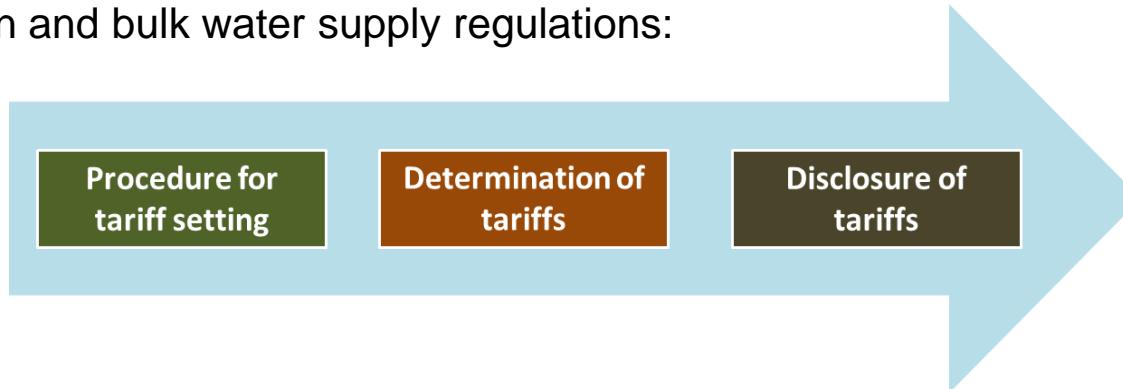
OVERVIEW OF NORMS & STANDARDS

General structure of new Norms and Standards

- 1. Mandate to regulate**
- 2. Definitions**
- 3. Roles and functions**
- 4. Separation of functions**
- 5. Compulsory metering and monitoring**
- 6. Procedure for setting tariffs**
- 7. Revenue requirements to provide services**
- 8. Categories and levels of services**
- 9. Allocate required revenue from providing services**
- 10. Tariffs for services (household, industrial and other)**
- 11. Fixed charges**
- 12. Seasonal tariffs**
- 13. Disclosure of tariffs and accounts**

OVERVIEW OF NORMS & STANDARDS – TARIFF SETTING PROCESS

Common theme for tariff determination process in each of the water supply, sanitation and bulk water supply regulations:



Tariff structure proposed should provide for:

- Revenue required for sustainable services
- Recover all reasonable costs
- Differentiate between categories and levels of consumers
- Take into account viability and sustainability of water supply services, affordability of basic water supply to poor households, and incentives to reduce wasteful water use

OVERVIEW OF NORMS & STANDARDS – TARIFF SETTING PROCESS

WSA tariffs – Water services supplied directly to consumers

Each WSA needs to budget separately, prepare separate Financial Statements, and set tariffs separately. They must follow the following process:

- i. Estimate revenue required to provide water services on a sustainable basis over a period of three years for each scheme
- ii. Estimate future water consumption or quantity of effluent discharged over a period of three years for each scheme
- iii. Propose a tariff structure that would provide required revenue
- iv. Consult with consumers on proposed tariffs and the assumptions used to determine proposed tariffs
- v. Submit assumptions and proposed tariffs to the Minister

OVERVIEW OF NORMS & STANDARDS – TARIFF SETTING PROCESS

Tariffs must be sufficient to recover –

- i. All reasonable costs (operation, maintenance, refurbishment, development, services)
- ii. Payments required to redeem water services related loans over a reasonable period
- iii. A net surplus of a minimum of 6% per annum on revenue

ITEM	Year 1	Year 2	Year 3
	(R'000)	(R'000)	(R'000)
Employee related costs			
Remuneration of councillors			
Debt impairment			
Depreciation and asset impairment			
Finance charges			
Bulk purchases raw water			
Bulk purchases bulk potable water			
Bulk purchases electricity			
Other materials			
Maintenance			
Contracted services			
Other expenditure			
Loss on disposal of PPE			
Sub-total Costs			
Return on capital			
Surplus			
Total revenue requirement			
Less operational transfers and grants			
Less other revenue			
Revenue requirement from tariffs			

**WSA mandatory
returnable template for
costs allocations and
revenue requirements**

OVERVIEW OF NORMS & STANDARDS – TARIFF SETTING PROCESS

Revenue required from tariffs is used to determine tariffs for each user category based on –

- Number of users
- Projected volumes of water to be sold / treated to each category of consumers

Revenue requirement from tariffs		(R'000)					
User Category	Number of consumers ('000)	Volume water sold per annum (KL'000)	Revenue required from tariffs (R'000)	Revenue required (Fixed Charges) (R'000)	Revenue required (Variable Charges) ('000)	Average Fixed Tariff (R/user)	Average Variable Tariff (R/KL)
Households: Communal							
Households: Individually metered							
Industrial							
Other							
<i>Total</i>							
Average tariff (all water sold)						(R/KL)	

**WSA mandatory returnable
template for water supply tariffs**

Tariffs for indigent households need to include at least a first tariff block with free basic water supply, as well as a ‘pro-poor’ tariff block

OVERVIEW OF NORMS & STANDARDS – TARIFF SETTING PROCESS

Bulk WSP or RBWU tariffs – Bulk water services supplied to other WSIs

Need to agree annual targets with Minister, including future capital needs and funding structures. For each bulk scheme or water supply area, it should –

- i. Determine full costs of providing bulk water supply services on a sustainable basis
- ii. Estimate future water consumption
- iii. Estimate unit cost of supplying water
- iv. Determine revenue required
- v. Benchmark costs per scheme or per management unit, and confirm that cost and capital expenditure forecasts are reasonable
- vi. Compile a cash flow and financial model
- vii. Propose a tariff structure that would provide the revenue determined
- viii. Consult with WSAs and all bulk water customers on tariffs and assumptions

OVERVIEW OF NORMS & STANDARDS – TARIFF SETTING PROCESS

- Tariffs must be sufficient to recover –
- All reasonable costs (operation, maintenance, refurbishment, development, services)
 - Generate sufficient cash flow to redeem its bulk water services related loans over a reasonable period
 - Achieve a targeted percentage return on capital per annum as set out in the Shareholder Compact
 - Achieve a targeted percentage net surplus per annum on revenue

Mandatory returnable template for a bulk WSP's cost allocations and revenue requirements

BULK WSP / SCHEME: COST ITEMS	Unit	Previous Year	Current Year	Next year	Projected Year 2	Projected Year 3
Raw water cost (purchased)						
Raw water cost (equated to volume supplied after losses)						
Staff and labour costs						
Energy costs (Total)						
- Energy costs: Eskom						
- Energy costs: Municipal						
Chemical costs						
Maintenance and repairs						
Refurbishments costs						
Depreciation						
Net finance costs						
Overheads						
Other costs (detail not described)						
Sub-total						
WRC charges						
Total costs	Unit					
Raw water purchased (volume)						
BULK WSP / SCHEME: REVENUE ITEMS	Unit	Previous Year	Current Year	Next Year	Projected Year 2	Projected Year 3
Revenue:	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)
- Bulk water supply						
- Raw water supply						
- Waste water						
- Retail supply						
- Secondary activities						
- Other income (interest, etc.)						
Total revenue						
Total costs						
Surplus / Deficit (Net Income/Loss)						
Accumulated Reserves						
Trade and other receivables						
Interest bearing borrowings						
PPE						
Capex	Unit	(KL '000)	(KL '000)	(KL '000)	(KL '000)	(KL '000)
Water sales (volume)						

APPROVAL TIMETABLES FOR WATER SERVICES

Activity	Proposed Date
Mayor tables in council a time schedule outlining key deadlines for budget and tariff process	August
Mayor establishes committees and consultation forums for budget and tariff determination process	
WSA determines revenue and expenditure projections, including levels for rates and tariffs based on strategic direction set in reviewed IDP and budget-related policies	September
WSA conducts an initial review of potential price movements of bulk resources	October
Council finalises policies for rates, tariffs and other service charges	December
WSA incorporates proposed national and provincial allocations into budget documentation	January
WSA reviews changes in prices for bulk resources subject to final date for communication by bulk providers	15 March
WSA publishes tabled budget including all required documentation and submits it to organs of state as required, and invites stakeholders to comment	March
WSA holds consultations with national and provincial treasuries and sector plans are finalised	April
WSA holds public hearings on budget and council debates budget and tariffs. Council considers approval of budget and tariffs at least 30 days prior to start of budget year	May
Council approves annual budget and tariffs before start of budget year	Before 1 July
WSA submits to DWS and National Treasury the pro-forma statements on water and sanitation tariff determination as reflected in norms and standards	July (after commencement of FY)

Can the public have access to these documents??

www.gpw.gov.za/

- Revision of the pricing strategy for water use charges – Gazette Notice number **1154 of 2015**
- Revision of the norms and standards for setting water services tariff - Gazette number **1153 of 2015**

OR

- http://www.gov.za/sites/www.gov.za/files/39411_gen1154.pdf
- http://www.gov.za/sites/www.gov.za/files/39411_gen1153.pdf

COMMENTS TO BE SENT TO:

PERRProjectOffice@dws.gov.za and copy the following officials

Direct Contact

Ms Sizani Moshidi: Acting Chief Director ESR

Tel: 012 336 6614

Mobile: 082 803 2953

Email: Moshidis@dwa.gov.za

Mr H Nevondo: Acting Director ESR

Tel: 012 336 6685

Mobile: 082 874 5534

Email: Nevondoh@dws.gov.za

Mr Collen Morodi

Tel: 012 336 7457

Mobile: 083 608 5376

Email: Morodic@dws.gov.za

Direct Contact

Ms Maumela A.D Acting CEO
Limpopo-Northwest Proto CMA

Tel: 015 290 1358

Mobile: 082 885 7193

Email: maumelad@dws.gov.za

Ms Mashaba Ceceilia Director WSR
Water Sector Regulation Directorate: Limpopo
Tel: 015 290 1213
Mobile: 082 802 7737
Email: mashabac@dws.gov.za