



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA

Briefing the Portfolio Committee on Water and Sanitation on the 2017/18 Water Tariffs

**Presented by:
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PURPOSE OF PRESENTATION

For PC to approve the 2017/18:

- Bulk Water Tariffs

And note the approved

- Raw Water Tariffs

CONTENTS

- **Approved Raw Water Tariffs**
- **Process of determining Bulk Water Tariffs**
 - Legislation and background
 - Process followed
 - 2017/18 tariffs
 - Recommendations

CONSULTATION PROCESS

- **The consultation sessions took place as follows:**
 - Regional level from the 06 July to 20 August 2015
 - Purpose to solicit buy in from the stakeholders and report back on the status of the previous cycle activities and projects
 - Sector specific consultation held on the 27 August 2015
 - Purpose: to have sectoral approach and have key issues addressed holistically
 - National consultation took place on the 10th September 2015
 - Purpose: to inform the users about the recommended tariffs prior to approval and seek final inputs or comments

WATER RESOURCE MANAGEMENT CHARGE 2017/18

Tariff increase ranging between 7% and 17%

DESCRIPTION		APPROVED TARIFFS 2016/17 FY			APPROVED TARIFFS 2017/18 FY			% TARIFF INCREASE 2017/18 FY		
#	9 CMA	DOMESTIC & INDUSTRIAL 2016/17	IRRIGATION 2016/17	FORESTRY 2016/17	DOMESTIC & INDUSTRIAL 2017/18	IRRIGATION 2017/18	FORESTRY 2017/18	DOMESTIC & INDUSTRIAL 2017/18	IRRIGATION 2017/18	FORESTRY 2017/18
		c/m3	c/m3	c/m3	c/m3	c/m3	c/m3	%	%	%
1	Limpopo	4.29	2.51	1.48	4.72	2.69	1.73	10%	7%	17%
2	Olifants	4.41	2.29	1.63	4.41	2.45	1.90	0%	7%	17%
3	Inkomati	2.14	1.52	0.87	2.50	1.63	1.02	17%	7%	17%
4	Pongola-Mzimkulu	1.91	1.52	0.90	2.23	1.63	1.05	17%	7%	17%
5	Vaal	2.50	1.49	1.44	2.50	1.71	1.68	0%	14%	17%
6	Orange	1.11	0.60	-	1.30	0.70	-	17%	17%	0%
7	Mzimvubu-Tsitsikama	2.21	2.02	1.14	2.59	2.16	1.34	17%	7%	17%
8	Breede-Gouritz	4.46	1.97	0.88	4.46	2.11	1.03	0%	7%	17%
9	Berg-Olifants	4.35	1.99	1.44	4.64	2.00	1.69	7%	0%	17%

CAPITAL UNIT CHARGE INCREASE

PROJECTS		2016/17 Actual (R)	2017/18 Proposed (R)	% Increase /(decrease)
MCWAP				
	Eskom CUC	R11.34	R12.02	6.0
	Exxaro CUC	R11.34	R12.02	6.0
	Marginal tariff	R19.13	R20.28	6.0
VRESAP	Eskom-User tariff (R/M3)	R1.04	R1.13	8.6
	Sasol-User tariff (R/M3)	R1.85	R2.00	8.0
	Marginal tariff (R/M3)	R3.46	R3.82	6.0
LHWP	LHWP -1 CUC	1.83	2.17	18.37
	LHWP -1 BO&R Charge	0.67	0.54	-19.25
	TOTAL	2.50	2.71	8.26
	Marginal CUC (R/M3)	4.22	4.35	3.2
KWSAP	User tariff (R/M3)	R1.22	R1.32	8.2
	Marginal tariff (R/M3)	R2.82	R3.05	8.2

ACID MINE DRAINAGE

- The approved cost apportionment ratio for AMD is **67:33** where government and mining sector covers 67% of the cost, and 33% is collected through tariffs
- The 33% imply that:
 - In 2016/17 the charge was 13.7c/m³ (recovery of 2015/16 together with 2016/17)
 - In 2017/18 the charge will be 7.9c/m³



STATUS OF BULK WATER TARIFFS PROCESSES FOR 2017/2018

BACKGROUND: legislative Mandate

Section 28 (WSA 108 of 1997)

- WBs are bulk water providers to other water entities and are established by the Minister for Water & Sanitation.

Section 29 (WSA 108 of 1997)

- The primary activity of a WB is to provide water services to other water services institutions within its area of operations.

Section 30 (WSA 108 of 1997)

- A WB may perform an activity other than its primary activity, only if it is not likely to limit the WB's capacity to perform its primary activity.

Section 32 (a) (WSA 108 of 1997)

- Provide for the WB to give priority to its primary activity

Section 10 of the Water Services Act.

- Provides for Norms and Standards for tariff setting.

BACKGROUND CONT.....

Section 42 of the MFMA

-any national or provincial organ of state which supplies water to a municipality or municipal entity for the purpose of providing a municipal service must prepare a proposal or a submission for any amendment of their pricing structure....
- the WB must request NT and SALGA to provide written comments on the proposed amendments within stipulated dates in terms of MFMA Circular 23.
- either WSA or SALGA or both must make written submissions on the bases of the proposed tariffs,
- tabling of the amended pricing structure in parliament by the Executive Authority (Minister of W&S. S42(4) on **OR** before 15 March every year.(...effective July same year.)

BACKGROUND CONT.....

Circular 23 OF MFMA

- WB has a duty to submit tariff proposals to amend bulk water tariff every year and to adhere to timelines in terms of the circular and s42(5) of MFMA
- WB must consult **extensively and in a comprehensive** manner on any proposed changes in the tariffs that may impact on the municipal services.(esp. Water Services Authorities)

WB's tariff guidelines

- Cost drivers, pro forma statement, financial models must be prepared
- Proposal package must be submitted to the Minister for approval and tabling to parliament

PROCESS FOLLOWED

- DWS engaged on 2016/17 tariffs feedback sessions with all 9 WBs to prepare for 2017/18 WBs' tariff cycle – August 2016
- DWS conducted pre-tariff consultation sessions with WBs 9 just before they consult any other stakeholder- Sept/Oct 2016
- WBs consulted with municipalities on the proposed 2017/18 tariffs – Oct/Nov 2016 with DWS observing.
- Tariff proposals packages were sent to SALGA and National Treasury for their inputs and comments- Dec 2016
- All WBs submitted proposals to the Minister by 25 January (in terms of the Circular 23) – except Overberg Water

PROCESS FOLLOWED.....

- The complete proposal comprises of:-
 - Covering letter with proposed tariffs to DWS
 - Presentation to support & motivation for the proposal (as presented to stakeholders, consultation tool)
 - Notices of consultation with customers (communication with stakeholders & invitations)
 - Actual consultations with customers (Confirmation & evidence of consultative sessions having occurred)
 - Comments from customers and the WB's response (Only written comments)
 - Comments from National Treasury (NT) & SALGA and the WB's response to the comments. (written as evidence)
 - Cost break down schedule, projections (assumptions) as required by the WB tariff guidelines)

ROLE OF THE CHIEF DIRECTORATE: ECONOMIC REGULATION (Internal)

- Makes a final analysis on the proposal and recommends the final tariffs for the Minister to table in Parliament,
- Strives to maintain a balance between 'sustainability' of WBs and 'affordability' of the tariffs,
- Resolve disputes and recommend a reasonable tariff between WBs and the customer on the tariff.

(a rational consumer will always buy into the lowest possible price whereas the supplier will bid for the highest possible price until the market settles the price where there is competition, without then the regulator determines the final price)

- monitors compliance with provisions set for bulk tariff determination process both in the Municipal Financial Management Act and Water Board guidelines

ECONOMIC OUTLOOK

- The country faces “drought” which disadvantages everyone
 - shortage of water inflates the prices of food,
 - shortage of water does not reduce the fixed costs of purification- water gets expensive,
 - Lower water levels in the dams increase operational costs (electricity & chemicals)
- The current economic outlook in the country
 - Unstable CPI figure averaged at the high of 6%,
 - The weaker SA Rand/dollar exchange rate – possible underestimation of chemicals for water treatment,
 - Possible increase of Repo rate with most WBs engaged in capital projects through borrowings,
 - Tight budgets and cost-containment in the public institutions

2017/18 PROPOSED TARIFFS

Water Board	Customer	17/18 proposed tariff(Average)	% increase
OVERBERG	HESSEQUA	R8.72	7.5% (CPI+1%)
	TWK	R7.87	7.5% (CPI+1%)
	AGRICULTURAL	R15.77	7.5% (CPI+1%)
AMATOLA	AMATHOLE	R9.89	10%
	BUFFALO CITY	R9.89	10%
	NDLAMBE	R11.58	10%
UMGENI	ALL WSAs	R6.27	15%
	SIZA	R8.34	15%
RAND WATER	ALL WSAs	R8.33	10.2%
	BUSHBUCKRIDGE	R5.30	5.8%
MLHATHUZE	MLHATHUZE	R4.99	10.20%
BLOEM	ALL WSAs	R7.48	9%
LEPELLE	ALL WSAs	R6.02	8.5 %

2017/18 PORPOSED TARIFFS

Water Board	Customer	17/18 proposed tariff(Average)	Average % increase
MAGALIES	VALKOP	R5.79	9.66%
	WALMANADTHAL	R9.67	9.67%
	KLIPDRIFT	R10.27	10.27%
	CULLINAN	R9.14	9.14%
SEDIBENG	NAMAKWA	R15.88	6.3%
	PELLA DRIFT	R4.41	9.5%
	VAAL GAMAGARA	R9.57	8%
	NORTH WEST	R6.46	8%
	FREE STATE	R10.07	8%

2017/18 RECOMMENDED TARIFFS

Water Board	Customer	17/18 Recommended (Average)	% increase
OVERBERG	HESSEQUA	R8.24	0.00%
	TWK	R7.37	0.00%
	AGRICULTURAL	R14.77	0.00%
AMATOLA	AMATHOLE	R9.89	10%
	BUFFALO CITY	R9.89	10%
	NDLAMBE	R11.58	10%
UMGENI	ALL WSAs	R6.27	15%
	SIZA	R8.34	15%
RAND WATER	ALL WSAs	R8.28	9.5%
	BUSHBUCKRIDGE	R5.62	5.8%
MLHATHUZE	MLHATHUZE	R4.99	10.20%
BLOEM	ALL WSAs	R7.48	9%
LEPELLE	ALL WSAs	R6.02	8.5%

2017/18 RECOMMENDED TARIFFS

Water Board	Customer	16/17 proposed tariff(Average)	Average % increase
MAGALIES	VALKOP	R5.79	11.63%
	WALLMANSTAL	R9.19	12.33%
	KLIPDRIFT	R6.98	12.08%
	CULLINAN	R6.57	9.65%
SEDIBENG	NAMAKWA	R15.88	6.3%
	PELLA DRIFT	R4.41	9.5%
	VAAL GAMAGARA	R9.44	8%
	NORTH WEST	R6.46	8%
	FREE STATE	R10.07	8%

2017/18 Recommended tariffs

AMATOLA WATER

Proposed a tariff increase of 10%, which is R10.45 Average

- Amatola Water is currently operating at a loss; therefore reducing their proposed tariffs will affect the sustainability of the water board.
- Most of the CAPEX projects that Amatola Water planned are funded from revenue generated from primary and secondary services or grant funding since the water board does not have the capacity to borrow from the markets.
- Amatola Water's liquidity measure is currently good, however profitability measure and debt or gearing measure is in bad condition, which means that reducing the tariffs will leave the water board struggling to raise funds to meet their overall targets

2017/18 Recommended tariffs

RAND WATER

- The 5 year projections of the water board which begins in 2016/17 anticipate a continuous growth in the surplus despite the declining costs and sales volumes. Over the last 5 years Rand Water tariffs has increased by 39.8% at an average of 10.2% p.a. With the trend of costs declining over recent years the proposed tariffs are yet to yield surpluses more than those anticipated.
- Rand Water surplus has been growing steadily for the years 2014/15, 2015/16, 2016/17 and 2017/18 as proposed at 7.01%; 21.14%; 21.71% and 22.56% of the costs respectively whilst sales volumes are declining.
- Capital expenditure has been funded directly from the tariffs in the form of a capital charge as was done in the 2016/17 tariff at R1.51 but has been excluded in the current proposed tariff. Relative to the projected costs for 2017/18, about 20% of the proposed tariff is surplus.
- Rand water proposed increase rate is recommended from a decrease of 10.2% to 9.5%.

2017/18 Recommended tariffs

LEPELLE NORTHERN WATER

- Owns only 4 schemes out of the 15 they operate,
- Most schemes cannot recover costs of operations yet overall making positive surplus,
- Scheme based tariffs yet signs of cross subsidisation among the schemes,
- Lepelle Northern Water has a planned CAPEX projects of R222 mill for 2017/18. Part of this amount will be funded from the tariffs and the rest from borrowings of about R350 mill.
- R100million for directives given to LNW by the department.
- Of the 14 schemes operated, some cannot recover the costs of operations. The various schemes are cross-subsidisation one another.
- The tariff is recommended to be approved as proposed while LNW is encouraged to improve their debt collection efforts.

2017/18 Recommended tariffs

UMGENI

- UMGENI has proposed a rate increase of 15% for 2017/18.
- It has been noted that Umgeni Water's proposal of 15% is inclusive of the additional 2% for recovering the costs incurred during the drought period going into the 2017/18 financial year; however these costs should be once-off
- It is also requested that UW should plan to make their water supply systems (new and existing) to be more resilient to the impact of drought. The WB should manage the decrease in water supply; meet the demand and changes in the water quality.
- An increase of 15% as proposed is recommended, on condition that if drought restrictions are lifted all the revenue on the basis will be rebated to the customers to deflate the following year's tariff.
- UW overheads costs are exorbitantly high at 36% which is worrisome, it is recommended that the water board documents any cost saving efforts and quantify, to the extent possible and any specific cost savings achieved from their respective efforts

2017/18 Recommended tariffs

MHLATHUZE

Mhlathuze Water has proposed a rate increase of 10.20%

- In terms of DWS analysis, 10.2% increase is reasonable, considering the fact that the Water Board must remain financially viable, the proposed tariff will be able to repay and service their debts, recover Operation & Maintenance (O & M) costs, provide for depreciation of assets and make provision for capital expansion programme for the 2017/18 financial year and renewal expenditure.
- The Water Board has made the tariffs as affordable as possible for their WSA customers since it serves poor communities.

2017/18 Recommended tariffs

MAGALIES

Magalies Water has proposed a rate increase of 9.7% Average

- Magalies Water has 3 (Wallmansthal, Klipdrift and Cullinan) of their schemes unable to recover the costs of all operations whereas only one scheme (Vaalkop) is making surplus, which is believed to be utilised for cross-subsidies.
- The combined major cost contributors which increased on average by 9.7% relative to the previous financial year are contributing a 74.5% (Raw water – 17.8%, Staff and labour - 29.9%, Energy – 20.8% and Chemicals – 6.0%) into the proposed tariff and has the biggest cost contribution of all the cost drivers.
- Magalies Water must develop a strategy to contain the exorbitant cost of overheads especially those attached to the shared services. Using this year's tariff projections as a benchmark, the calculated weighted average tariff increase of 9.7% is recommended for approval for 2017/18.

2017/18 Recommended tariffs

SEDIBENG WATER (ESR)

Sedibeng Water has proposed a tariff increase of 8.40% Average

- The Department of Water and Sanitation (DWS) has noted the huge cost of electricity specifically in Namakwa and the growing labour costs which all adds up to an already set of higher tariffs for the water board.
- The landscape in the entire Northern Cape relative to sources is a justification of the huge electricity cost and absorption of labour from the transferred water boards accounts for a noticeable increase in the staff cost.
- Of much importance is the realisation that Sedibeng does not recover the costs of provision for most of their municipal supply but utilising the presence of the mines in some areas to cross subsidize for the shortfalls in the municipal supplies.
- The huge debt in the water board's debtor's books is the persistent threat to the sustainable existence of Sedibeng Water however should the water board be permitted to implement restrictions to those debtors whose dues are long overdue, the situation can improve. Debts settlements agreements are in place but are not being honoured.
- The Sedibeng Water tariff are recommended for approval as proposed.

2017/18 Recommended tariffs:

OVERBERG

- Overberg Water proposed a rate increase of CPI+1%(7.5%)
- This increase has been proposed in an incomplete submission from Overberg Water.
- Overberg have not consulted the increase as required by law (S42 of MFMA, with their customers, National Treasury (NT) or South African Local Government Association (SALGA) as required.
- It is therefore recommended that Overberg Water implements the same 2016/17 tariff for 2017/18 as provided for in the Act when similar circumstances arise.
- An increase of 0.00% is approved towards the 2017/18 bulk tariff increase for Overberg Water.

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THANK YOU