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**BULK WATER TARIFF  
FOR THE  
2010/11 FINANCIAL YEAR**

WATER AND ENVIRONMENTAL AFFAIRS PORTFOLIO COMMITTEE

MAY 2010



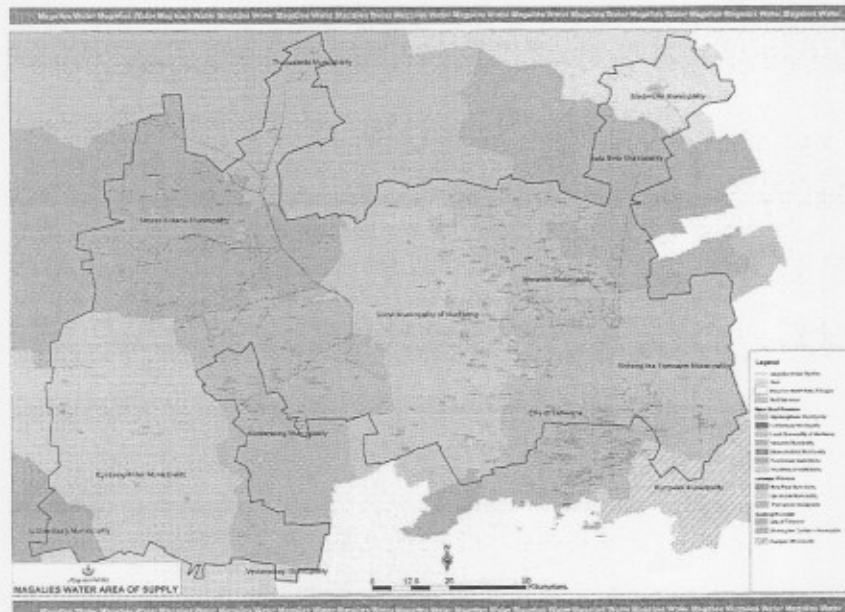
## **1. Magalies Water-the Organisation**

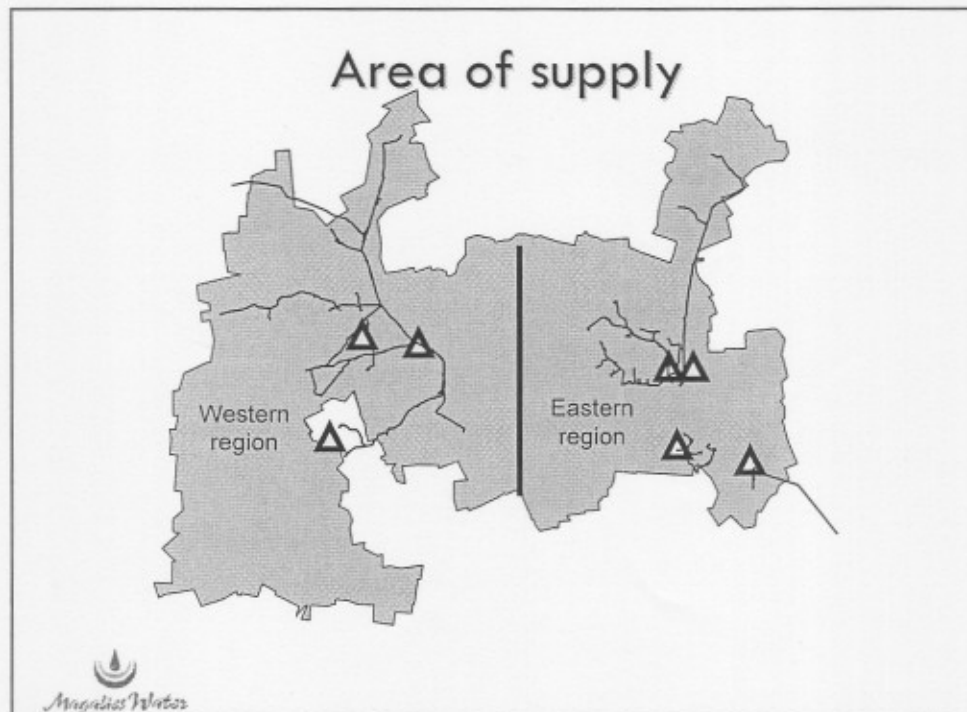
- **Established under the Water Services Act, 108 of 1997**  
Originally Vaalkop Water Board  
Schedule 3B Public Entity i.t.o PFMA
- **Primary Activity-Provider of Bulk Water Services**
- **Secondary Activities-Bulk sanitation services, implementing agent, etc**
- **Main sources of Raw Water abstraction**  
Penaars River  
Crocodile River



## 2. Municipalities served (bulk)

Municipality	Province
• Modimolle Local Municipality (MoLM)	Limpopo
• Nokeng Tsa Taemane Local Municipality (NTTLM)	Gauteng
• Thabazimbi Local Municipality (TLM)	Limpopo
• Moses Kotane Local Municipality (MKLM)	North West
• Rustenburg Local Municipality (RLM)	North West
• Bela Bela Local Municipality (BBLM)	Limpopo
• City of Tshwane Metro Municipality (CTMM)	Gauteng





### 3. Funding Philosophy

- Self-funding Entity
- No reliance on National Government Grants or Subsidies
- Accumulation of sufficient reserves to be an ongoing Entity
- Operating on a commercial basis on business principles

## 4. Section 42 of MFMA

- Consultation process on increase in price of bulk resources with Municipalities and at intergovernmental level (with SALGA and National Treasury)
- Importance of Section 42 of MFMA from the governance point of view
  - transparency
  - accountability and reporting
  - co-operative governance



## 5. Considerations in determination of tariffs

- National Water Pricing Strategy i.t.o water use charges (raw water costs)
- Administered Prices – regulation by National Government
- Affordability to end Consumers – not passing increases that are not affordable to the end customer
- Financial sustainability- inherently embedded within the tariff setting process and setting a sustainable tariff
- Inflation targeting-reasonable rate of inflation for some of the cost drivers especially those that are not competitive



## 6. Tariff principles and approach

- **Tariff Structure**  
Fixed charge  
operations and maintenance charges (will compose of fixed and variable o+m costs)
- **Scheme based tariff-Magalies Water supply from four various schemes across provinces**
- **Computation of costs, benchmarking of data and determination of unit costs**
- **Cash flow projection, computation of pro-forma tariffs and compliance with legislative processes.**



## 7. Operational cost drivers- per scheme

Cost Driver	Vaalkop r/kl	Walmannsthal r/kl	Klipdrift r/kl	Cullinan r/kl
- Raw water	0.77	0.47	0.48	0.56
- Direct staff and labour costs	0.30	0.93	0.28	0.47
- Direct electricity and energy costs	0.42	0.64	0.39	0.54
- Chemicals	0.22	0.19	0.29	0.27
- Maintenance costs	0.05	0.18	0.15	0.09
- Refurbishment/Minor CAPEX	0.13	0.08	0.22	0.65
-Transport	0.02	0.05	0.14	0.08
- Depreciation	0.23	0.08	0.71	0.11
- Head Office allocation	0.33	0.45	0.43	0.37



## 8. Costs and percentage to total

Cost Driver	total costs/unit	percentage to total
- Raw water	2.28	19%
- Direct staff and labour costs	1.98	17%
- Direct electricity and energy costs	1.95	17%
- Chemicals	0.97	8%
- Maintenance costs	0.47	4%
- Refurbishment/Minor CAPEX	1.08	9%
-Transport	0.29	2%
- Depreciation	1.13	10%
- Overheads allocation	1.58	13%
Total	11.77	100%



## 9. Tariff increase- per scheme

Bulk Water Supply Scheme	% increase
- Vaalkop	15
- Walmannsthal	12
- Cullinan	11
- Kilpdrift	16



## 10. Tariff increase- per municipality

Municipality	% increase
- Rustenburg Local Municipality	15
- Thabazimbi Local Municipality	15
- Moses Kotane Local Municipality	15
- City of Tshwane Local Municipality	16
- Bela Bela Local Municipality	16
- Modimolle Local Municipality	16
- Nkeng tsa Taemane Local Municipality – Cullinan	11
- Nkeng tsa Taemane Local Municipality - Walmannethal	12
- Nkeng tsa Taemane Local Municipality - Klipdrift	16



## 11. Impact of Major CAPEX programmes

- Capital tariff determined in terms of the share of beneficiary Municipalities in terms of the Pilanesberg Scheme
- Capital Tariff averaging of R7/kl to recover capital costs of R55m/year
- R55m being a fixed costs on debt servicing
- External funding should be obtained to implement the scheme



## 12. Challenges during the tariff determination process

- Economic indicators that may change as planning is performed long before the tariffs take effect
- Scaling down of activities by consumers having an impact on the intended CAPEX programme-due to economic recession
- Attempt to cut costs by the consumers hitherto being resistant to the proposed increases
- Cost drivers are competitive- increased by more than the Government Inflation target of 3%-6% (e.g-Electricity, Chemicals, raw water costs)
- Municipalities not able to afford the capital tariff associated with the implementation of huge CAPEX programmes



## 13. Way forward

- Have robust interactions with affected Municipalities on implementation of CAPEX programmes-assist with application of infrastructure grants from National Government
- Municipalities and Magalies Water are strategic partners in service delivery-consultation process is therefore essential and can be performed bi-annually – and not wait for the legislated process
- Multi-year tariff approach-tariffs to be confirmed annually over the MTEF period





## 14. for comments

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# THANK YOU

