



RAND WATER TARIFF CONSULTATION

TARIFF INCREASE EFFECTIVE FROM 1st JULY 2024



Change in Financial Year End



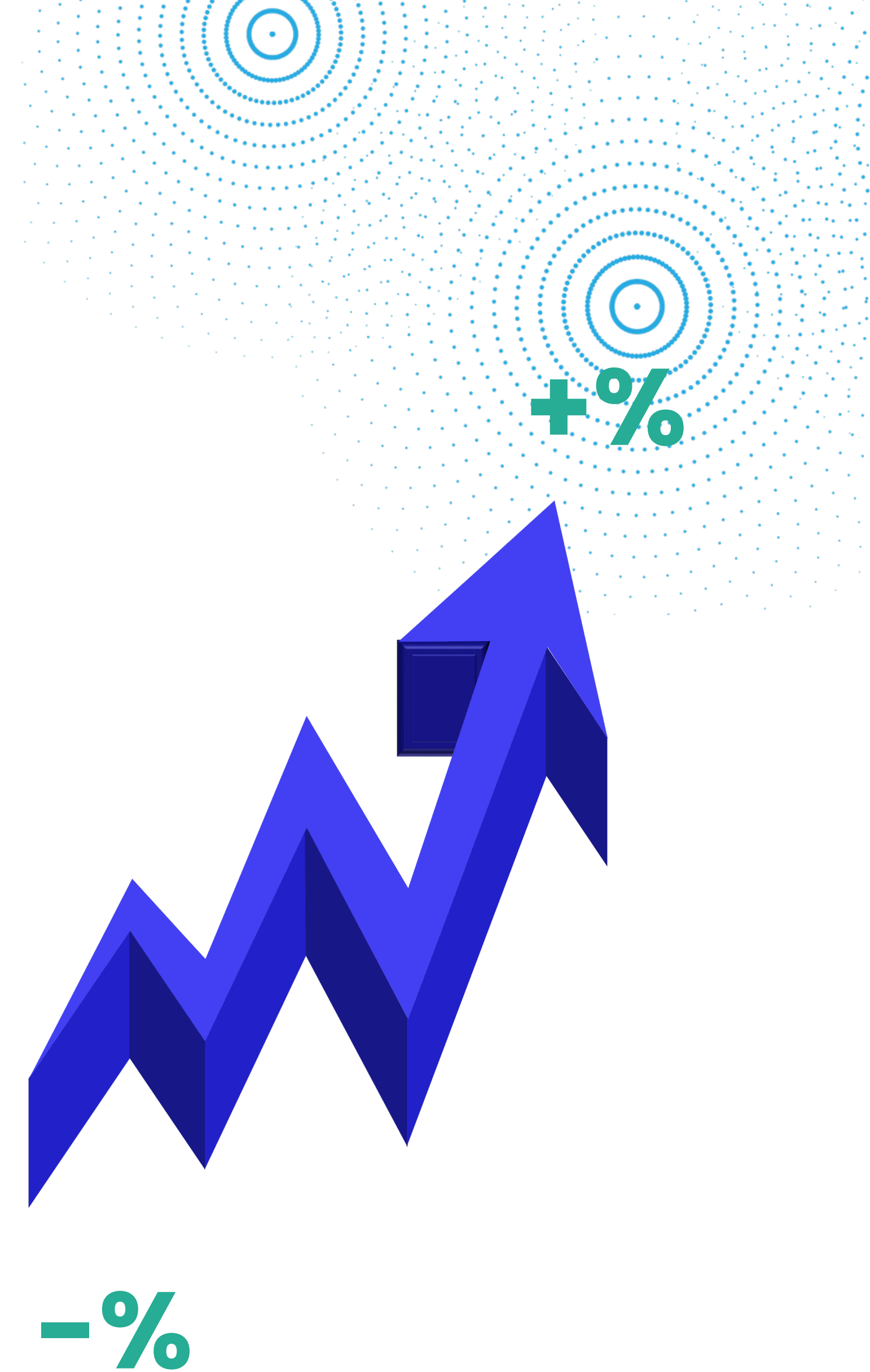
Background & Purpose

Rand Water derives its mandate mainly from the provisions of Waters Services Act with PFMA being the overarching legislation that is applicable to Rand Water as a public entity. Rand Water is a holding company that consists of the following:

- . Rand Water (RW) (Schedule 3B Public entity in terms of PFMA)
- . Rand Water Services (RWS)
- . Rand Water Foundation (RWF)

The Group's financial year end is 30 June in accordance with the WSA and PFMA, and applicable to wholly owned subsidiaries of Rand Water, Rand Water Services (Pty) Ltd (RWS) and Rand Water Foundation NPC (RWF), the South African Companies Act, No. 71 of 2008.

Through various engagement platforms with National Treasury (NT) and the Department of Water and Sanitation (DWS), water boards have at many times expressed the pressing need to review the financial year end period of 30 June.



REASONS FOR CHANGE

01



30 June Year end not synchronised

Water boards are regulated in terms of PFMA however the WSA's 30 June year is not synchronised with financial year end of other public institutions under the PFMA and more so, that of the Shareholder (DWS) being, 31 March.

Consistency in the National Treasury (NT) consolidated financial statements

National Treasury consolidates financial statements for all PFMA regulated institutions by 31 October every year. Due to water boards financial year ending on the 30 June each year, there is increased pressure to submit audited financial statements for NT consolidation purposes.

As a result , water boards have a 3-month lag that has made it difficult for water boards to align reporting activities, budgeting processes and benchmarking with other public institutions under PFMA and those under the same ministry impossible.

02



The misalignment between WSA and PFMA reporting requirements.

Annual report and financial statements In terms of PFMA, the accounting authority for a public entity must submit annual report, financial statements and the report of the auditors within five months of the end of a financial year (30 November 2023) to the relevant treasury, to the executive authority responsible for that public entity.

03



Increased credit risk impacting financial health of Rand Water

In the recent past financial years, the debt owed by local municipalities has continued to escalate consistently, as municipalities continue to have financial challenges with a large number struggling to pay on time. This has in turn resulted in Rand Water experiencing increased debtors' days affecting the organization financial performance.

Furthermore, Rand Water observed that the significant debt variance at its financial reporting date (30 June) is mainly caused by municipal customers who are not settling their overdue accounts on 30 June, only to pay shortly after the financial year end cut-off date. The municipal customers pay late to report improved cash position in the annual financial statement with financial year end of 30 June, similar to that of Rand Water. This practice is negatively impacting on Rand Water's financial health, sustainability and liquidity position for financial year end reporting as municipalities contribute close to 94% of Rand Water total revenue.

04



Equitable share

Municipalities receive payment of the last tranche of the Local Government Equitable Share (LGES) mid-March every financial year and prioritise outstanding commitments at the time. Any commitments after March, are then deferred to July. With Rand Water having a 30 June financial year end, this results in many Municipalities delaying payments committed for the first tranche of payments in early July

2. Process of Consultation

Rand Water must, at least 40 (forty) days before making final submission to the Board, request SALGA and National Treasury to provide comments on the proposed tariff increase. Thereafter the Department of Water and Sanitation (DWS) must table proposed tariff increases by all water boards with National Parliament on or before 15th March 2024, for implementation on 1st July 2024.

DWS / TCTA raw water pricing	30 th September 2023
Board Approval of Proposed Tariff	6 th October 2023
Preliminary Consultation with DWS and National Treasury	13 th October 2023
Consultation with SALGA	17 th October 2023
Customer Consultation	18 th October 2023
Submission to National Treasury and SALGA for input	18 th October 2023



Process of Consultation cont.

Customer notification	1 st December 2023
Board Approval of Submission to DWS	23 rd January 2024
Submission to DWS for Parliamentary approval	23 rd January 2024
Parliamentary approval	15 th March 2024
Implementation of tariff increase	1 st July 2024



3. Capital Expenditure Programme

Augmentation and Renewal Projects

System	Augmentation (R'm)	Renewal (R'm)
Eikenhof	1,978	2,914
Mapleton	3,161	2,450
Palmiet	4,377	2,107
Primary	4,309	5,129
Zwartkopjes	1,385	3,102
All Systems	1,746	2,115
Total	16,956	17,818

The average ratio over the five-year planning horizon between Augmentation and Renewal investments is 46/54.

Over the next 5 years, Rand Water's capital expenditure program will exceed R35 billion.



Capital Expenditure Programmes cont.

Augmentation			Renewal		
Project	System	R/m	Project	System	R/m
Station 5B	Station 5	1,502	Replace pipeline A6	Zwatkopjes	813
Hydro & Solar	Various	1,348	Panfontein stock piling	Raw Water	653
Pipeline O6 Germiston to Lombardy	Palmiet	920	Raw water canal 2	Raw Water	631
Panfontein, blending ponds, settling ponds, buildings, canal.	Raw Water	860	Replace pipeline B1	Zwartkopjes	601
Meredal Reservoir 210 ml	Eikenhof	731	Replace pipeline B6	Palmiet	451
Top 5 Total		5,361			3,149

Over the years, Rand Water has continued to mention the impact of high non-revenue water.

In 2012, this stood at 36.8% according to the Water Research Commission's report on the State of Non-Revenue Water in South Africa.

According to presentations by DWS during the raw water tariff consultation meeting, this has increased almost 45% in 2022.

This continues to put great strain on infrastructure; and the ability of local municipalities to pay for bulk portable water.



4. Raw water tariff consultation

The raw water tariff consultation process is supposed to be concluded by 30th September each year.

Rand Water anticipates receiving formal notification of the proposed raw water tariff for the DWS / TCTA financial year commencing 1st April 2024.

The charges in the raw water tariff are implemented from 1st April each year to 31st March the following year. The financial years for water boards commence from 1st July to 30th June the following year. Given these mismatches, a raw water tariff affects not one, but two years.

Combined Vaal River Raw Water Tariff 2024/25 – Base Volume of 1 883 million m³/a

VRS	2023/24 Actual	2024/25 Proposed	Weighted Average Increase %
i) State schemes			
Existing Vaal O&M	R 0,8950	R 0,9120	1,90%
AMD O&M	R 0,0860	R 0,0939	9,23%
	R 0,9810	R 1,0059	2,54%
ii) Augmentation Schemes			
CUC	R 3,094	R 2,805	-9,35%
BO&RC incl recoveries	R 0,808	R 0,920	13,88%
	R 3,902	R 3,725	-4,54%
Total State and Augmentation Schemes	R 4,88	R 4,73	-3,12%

Normally the CUC is used to balance the combined impact to equate to CPI when the combined impact is below CPI, but this year the CUC can reduce.

5. Bulk Operating and Royalties Charge (BO&RC)

	Actual	Budget	Budget	Budget
	2022/23	2023/24	2024/25	2025/26
Royalties	1 403 558 022	1 389 980 000	1 451 834 110	1 516 440 728
Lesotho Operating Costs	106 376 897	250 989 000	332 988 261	242 996 470
LHDA operations and maintenance and related administration costs	79 944 615	180 000 000	189 000 000	198 450 000
RSA Contribution & Delegation Costs	26 336 221	36 000 000	37 800 000	39 690 000
Operations and maintenance in RSA	96 061	34 989 000	106 188 261	4 856 470
Total Lesotho Costs	1 509 934 919	1 640 969 000	1 784 822 371	1 759 437 197

Source: LHDA

There was also an over-recovery from the 2022/23 financial year which off-sets some of the increased costs. The increase in the BO&RC without the over-recoveries is 17,31% and the increase including the over-recoveries is 13.88%. The following was considered in the BO&RC tariff for 2024/25:

- higher actualised volumes (+13.3%) in water use for 2022/23 when compared to the forecast from the 2021/22 tariff model (2 039 million/m³ versus 1 800 million/m³);
- higher actualised royalties charges (+6.1%) for 2022/23 when compared to the forecast from the 2021/22 tariff model (R 1 404 million versus R1 323 million);
- higher actualised O&M (+16%) for 2022/23 when compared to the forecast from the 2021/22 tariff model (R106 million versus R92 million).



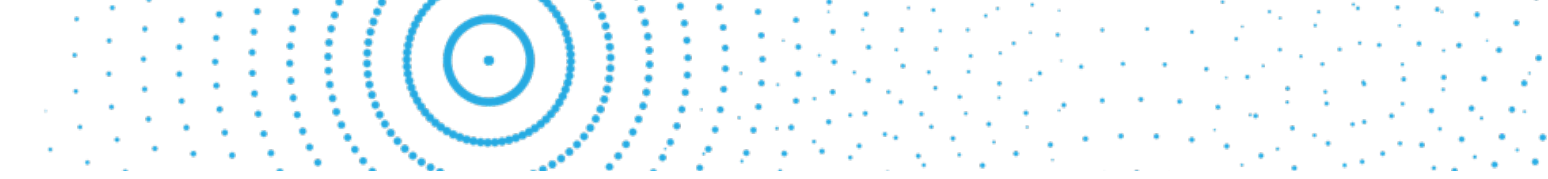
6. Cost components

Energy Cost: The timing of the announcement of the energy tariff continues to impact on Rand Water's tariff consultation process. At the beginning of the previous tariff cycle, Rand Water proposed a 7.3% tariff increase, subject to the energy tariff increment remaining the same. However, NERSA approved a higher tariff of 18.74%, leading Rand Water to revise its tariff increase from 7.3% to 9.2%.

Labour cost: The labour market remains turbulent coming out of a high inflation environment that has pervaded the economy over the past three years. There is also an anticipated lagged response even as inflation declines. Therefore, it is anticipated that labour and wage rates will remain at or above the higher inflation target range of 6%.



6. Cost components



Over the past decade, chemical costs have continued to rise above CPI, with notable increases between 2021 and 2023 financial years. The organisation has initiated a chemical optimisation study to address these chemical-related challenges. This programme aims to streamline chemical consumption from an informed assessment of decision variables and economic factors, while maintaining drinking water quality production specifications.

The attributable salient factors that influence chemical costs are:

- Higher rainfall levels experienced during the wet season have resulted in increased raw water turbidity and colour. Heavy rainfall create substantial movement of colloidal material and increases the level of the Vaal Dam, submerging vegetation. This results in higher turbidity and colour, which translate to higher chemical dosages, principally organic coagulants and chlorine.
- Additionally, the nature of natural organic matter in the Vaal Dam has changed in recent years, also increasing the chlorine demand.
- Notably, both organic coagulants and chlorine experienced substantial price hikes. Concerning chlorine, the constrained national supply of this chemical has presented difficulties in its procurement, consequently contributing to a surge in its unit price.
- Additionally, the deteriorating exchange rate and inflation of supplier prices also contribute to the increase in the chemical costs for Rand Water.

7. Growth Projects

The projects are classified according to six strategic growth pillars, and their relevance to the innovation driven risk-based strategy of Rand Water

Growth projects (Implementation phase)									
P Number	Projects with commitments (projects >R50 million)	Infrastructure Type	Size	2024	2025	2026	2027	2028	Total
No. P Num	Install Hypo generation plants	Hypochlorite		1	5	15	80		101
P.05551, P.05550, P.05640, P.05642, P.05689	Cogen ~20 MW: Hydro and Solar: (PV@CD, Vg, Zb)	Cogen		51	184	200	300	613	1,348
P.05689	Control Valves	Valves		30	30				60
P.05689	Control Valves	Valves		1	10	49			60
P.05689	Control Valves	Valves		1	10	50	150		211
				84	239	314	530	613	1,780
Growth projects (Investigation phase)									
Pillar 1: Integrated Monitoring	Establishment of Emhlangeni Workshop			2	8	20	70	30	130
Pillar 3: Wastewater Resources Programme	Ekhuruleni Reclamation			5	240	240	150	2	
Pillar 3: Wastewater Resources Programme	Emfuleni Reclamation (Sebokeng)				368	612	980	490	
Pillar 3: Wastewater Resources Programme	Northern Treatment Works Reclamation			1	10	115	125	275	
Pillar 4: Water Schemes Programme	Mine Fissure Water.				2	200	200	200	
Pillar 4: Water Schemes Programme	Pipe and purification: Hartebeespoort to Rustenburg	Reclamation	50 MI/d	0	1	10	100	170	281
Pillar 4: Water Schemes Programme	30 x Boreholes & plant in Ekurhuleni Metro area	Reclamation	100 MI/c	1	45	45	45		135
Pillar 5: Waste Water Schemes	Lanseria Regional Wastewater Scheme	Purification	50 MI/d			2	250	500	752
Pillar 6: Vertical Integration	Water Treatment Residue	Sanitation	60 MI/d		200	100	100		400
				8	873	1.344	2.020	1.667	5.912

Pillar 1: Integrated Monitoring - This pillar is focused on integrating the national water infrastructure on one platform. This will enable the Department of Water & Sanitation, Water Boards and Local Municipalities to view and manage the integrated infrastructure system on one platform to ensure equitable supply.

Pillar 2: Non-Revenue Water - The project entails installation of automated control valves or Pressure Reducing/Releasing Valves (PRVs) on the supply to identified internal and/or external points with excessive consumptions.

Pillar 3: Wastewater Resources Programme - To reduce the burden on the Integrated Vaal River System (IVRS), reclamation of effluent from Wastewater Treatment works as an alternative water source was explored. Rand Water signed MOUs with Johannesburg Water to assess the viability of a reclamation plant in the vicinity of Johannesburg Water's Northern Works.

Pillar 4: Water Schemes Programme - Rand Water identified municipalities in Gauteng and the North West wherein opportunities for alternative water sources will be explored, and memorandums of understanding were entered into with those municipalities, to ensure raw water security to meet future demands.

Pillar 5: Wastewater Schemes - The regional wastewater treatment scheme was conceived out of the original Lindley WWTW that was proposed by Mogale City. In addition, Rand Water is successfully implementing the Section 63 Intervention in Emfuleni.

Pillar 6: Vertical Integration - is central to enhancing efficiencies in a business. Through this pillar Rand Water seeks to optimizing production inputs and increase self reliance

- a. Hydropower
- b. Solar power
- c. Emhlangeni fabrication workshop
- d. Water treatment residue
- e. On-site production of chemicals



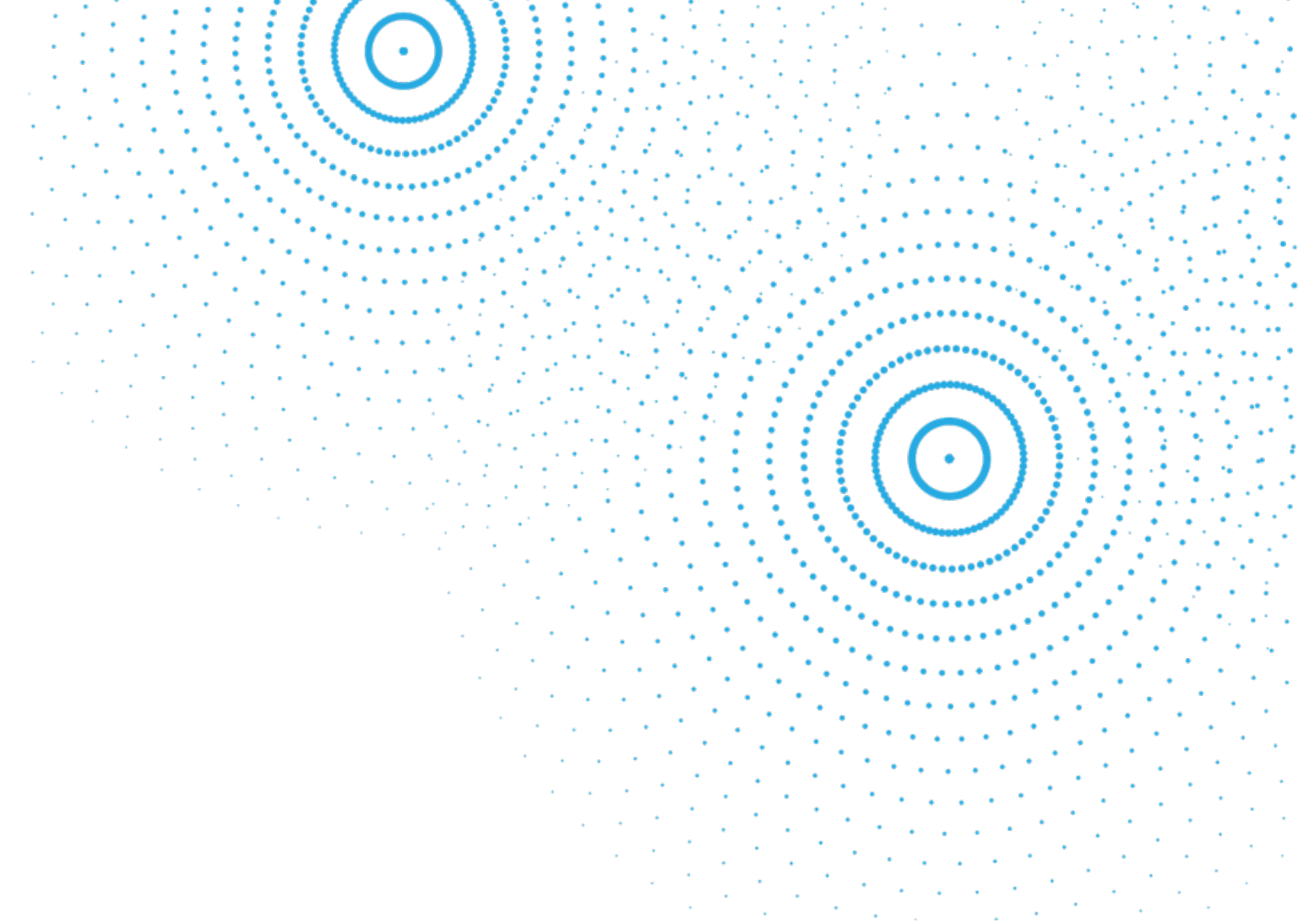
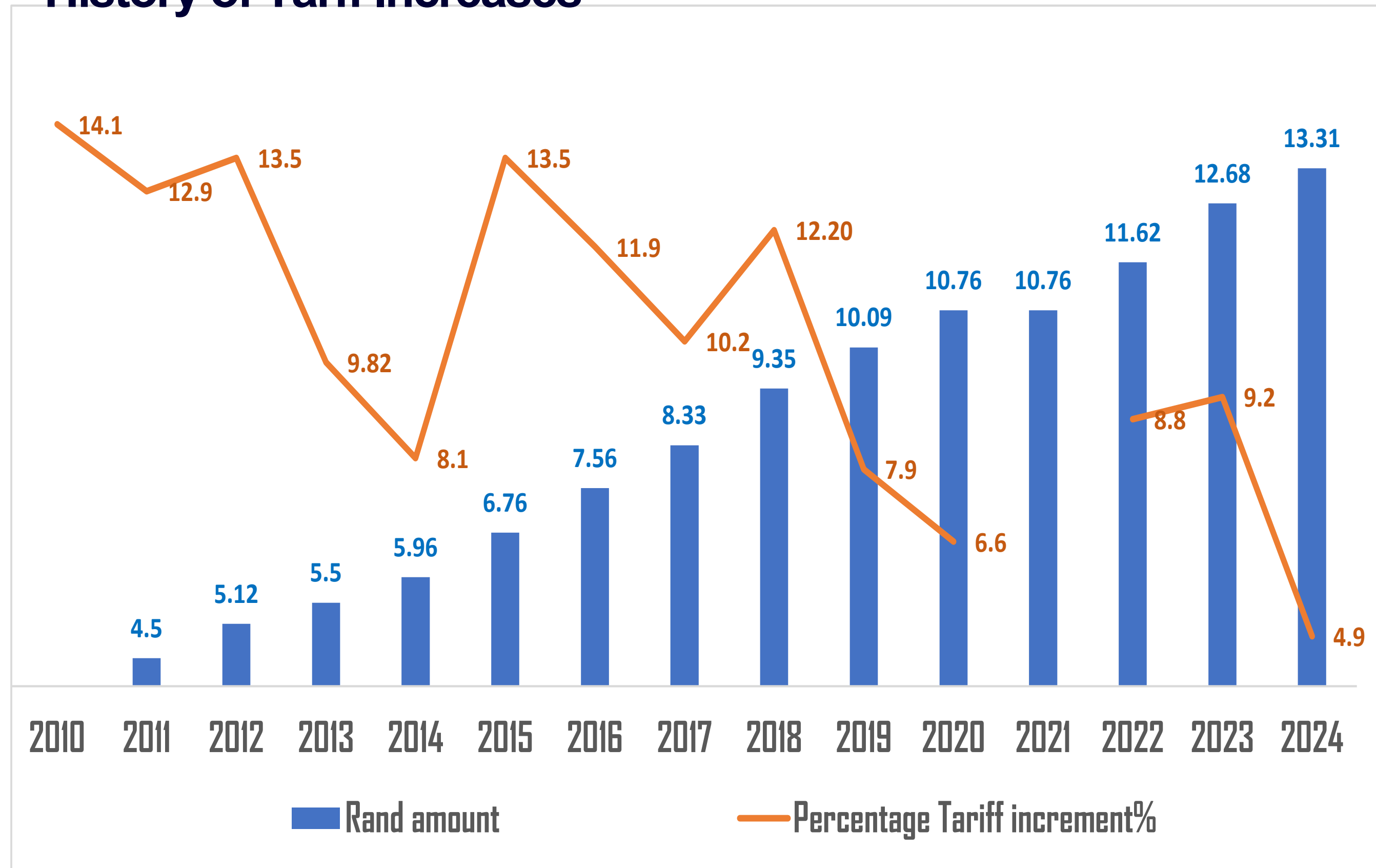
8. Proposed Tariff

Rand Water Tariff = Rand Water Internal Inflation for Financial Year Ending 30th June 2025				
	%	Forecast	Percent	Weighted
Year-End ~ 30 June	Increase	2025	of total	
	%	R m	%	%
DWS	-0.8%	1622	9.2%	-0.1%
TCTA	-3.7%	5593	32.8%	-1.2%
Raw Water	-3.1%	7215	42.0%	-1.3%
Energy - Eskom	12.0%	2772	14.0%	1.7%
Energy - Municipalities	13.5%	2298	11.4%	1.5%
Chemicals	29.0%	926	4.0%	1.2%
Multi-Partnered Uncontrollable Costs	4.4%	13211	71.4%	3.1%
Labour	6.1%	3095	16.5%	1.0%
Depreciation	13.3%	694	3.5%	0.5%
Other	4.3%	1598	8.6%	0.4%
Total		18598	100.0%	4.9%
				4.9%

Rand Water's current gazetted tariff is **1268** cents per kilolitre. Therefore, Rand Water's new proposed gazetted tariff is **1331** cents per kl - a **4.9** per cent tariff increment.

Municipalities	<i>Current Tariff</i> (1 July 2023 – 30 June 2024)	<i>New Tariff</i> (1 July 2024 – 30 June 2025)
Tariff Increment		4.9%
	<i>C/kl</i>	<i>C/kl</i>
Tariff	1268.398034	1330.549538
	<i>Excluding VAT at 15 per cent</i>	<i>Excluding VAT at 15 per cent</i>

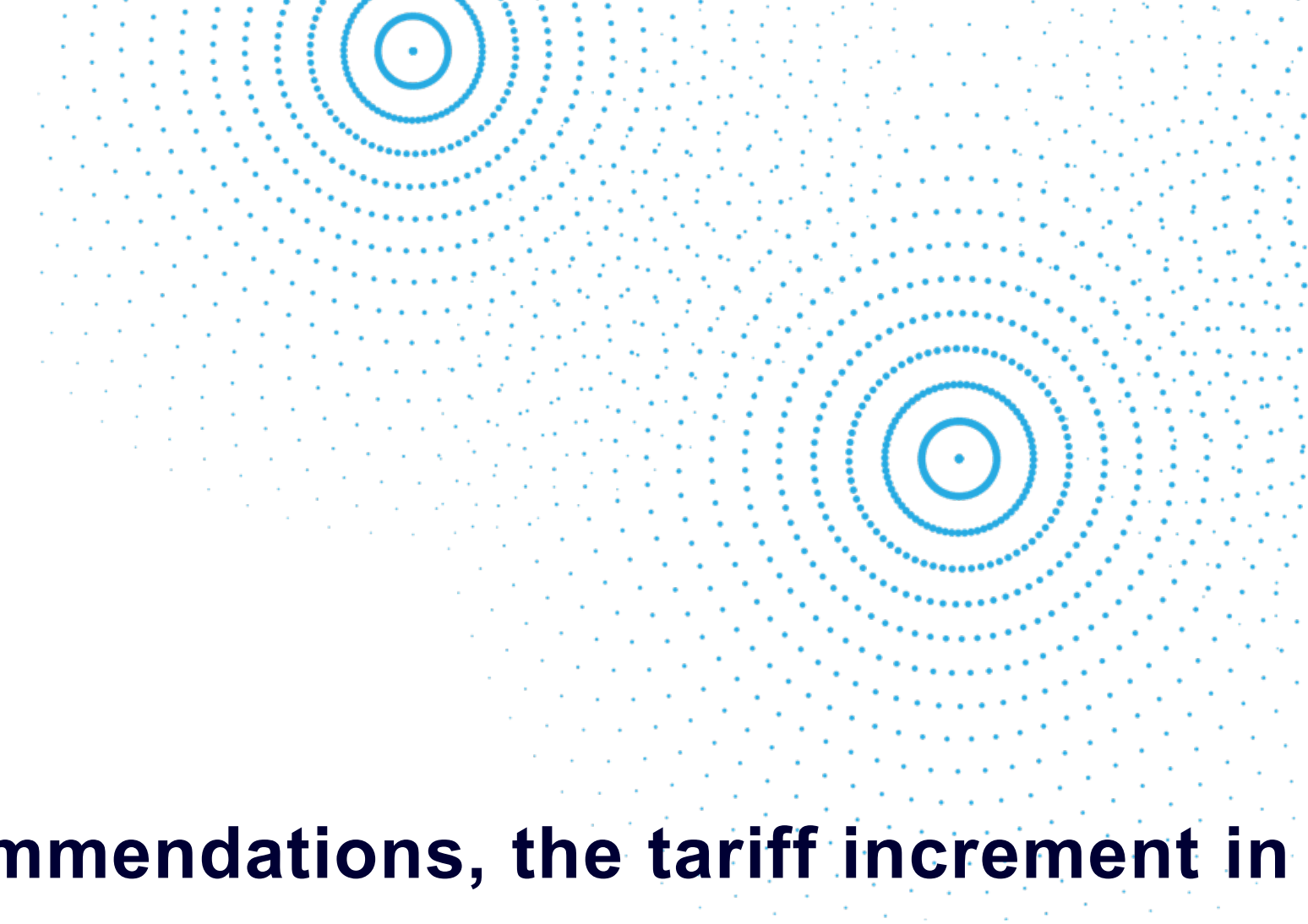
History of Tariff Increases



Rand Water’s current gazetted tariff is **1268** cents per kilolitre. **Therefore, Rand Water’s new proposed gazetted tariff is 1331 cents per kl - a 4.9 per cent tariff increment.**

Municipalities	<i>Current Tariff</i> <i>(1 July 2023 – 30 June 2024)</i>	<i>New Tariff</i> <i>(1 July 2024 – 30 June 2025)</i>
Tariff Increment		4.9%
	C/kl	C/kl
Tariff	1268.398034	1330.549538
	Excluding VAT at 15 per cent	Excluding VAT at 15 per cent

9. Recommendations 1

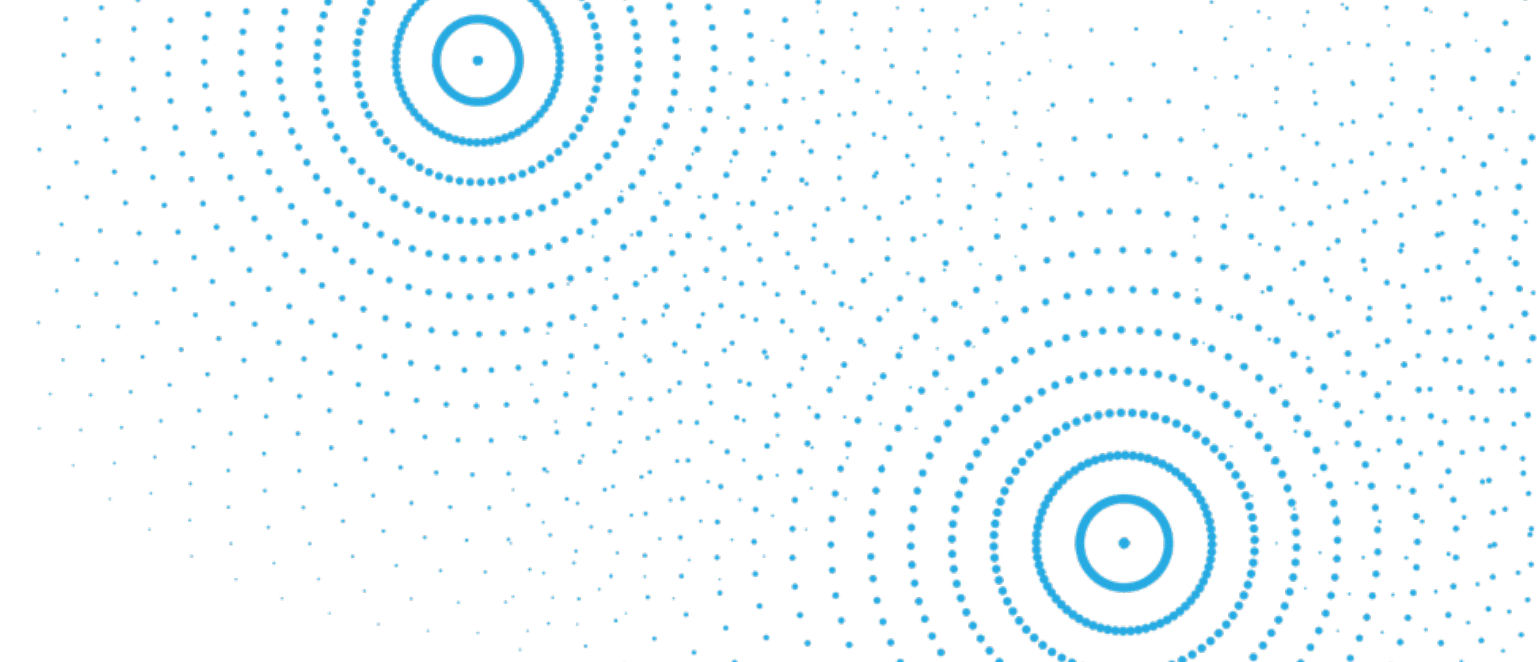


There are 3 sets of recommendations. They are separated to allow for crucial recommendations, the tariff increment in particular, to be approved and eventually gazetted.

Rand Water proposes the following.

- Rand Water proposes a 4.9 per cent tariff increment (subject to BER projections).**
- This tariff may be significantly affected by the energy tariff increment. This is a pass-through cost that will affect Rand Water's proposed tariff if it is different from current energy tariff increment projections.**



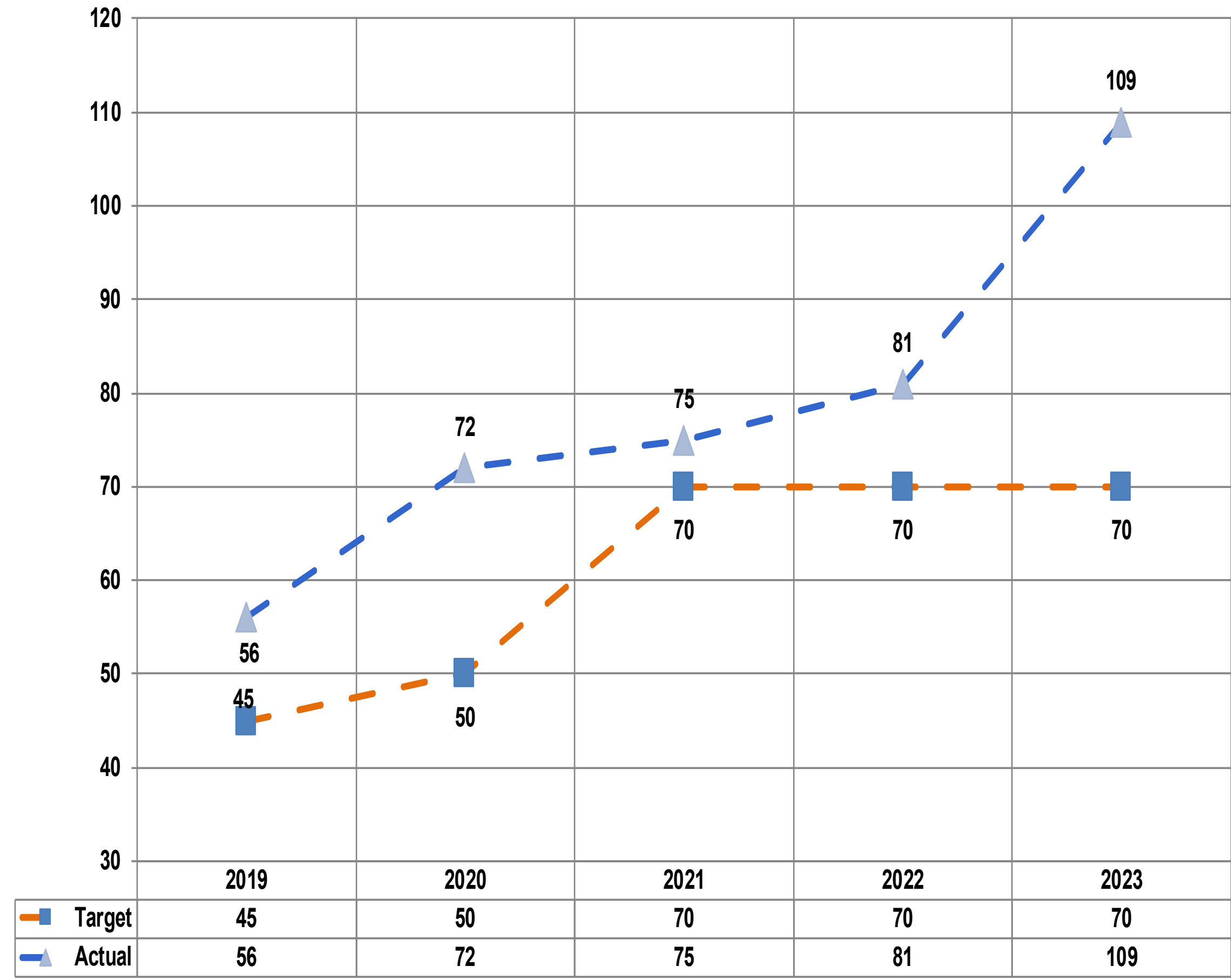


10. Water Demand Management Fund

- Non-revenue water among Rand Water’s municipal customers has continued to worsen rather than improve.
- The table below shows that non-revenue water in Gauteng has worsened from 21.8% in 2005 to 35.9% in the 2011.
- According to DWS, this has deteriorated to 45% in 2022. There is no detailed information per each municipality.

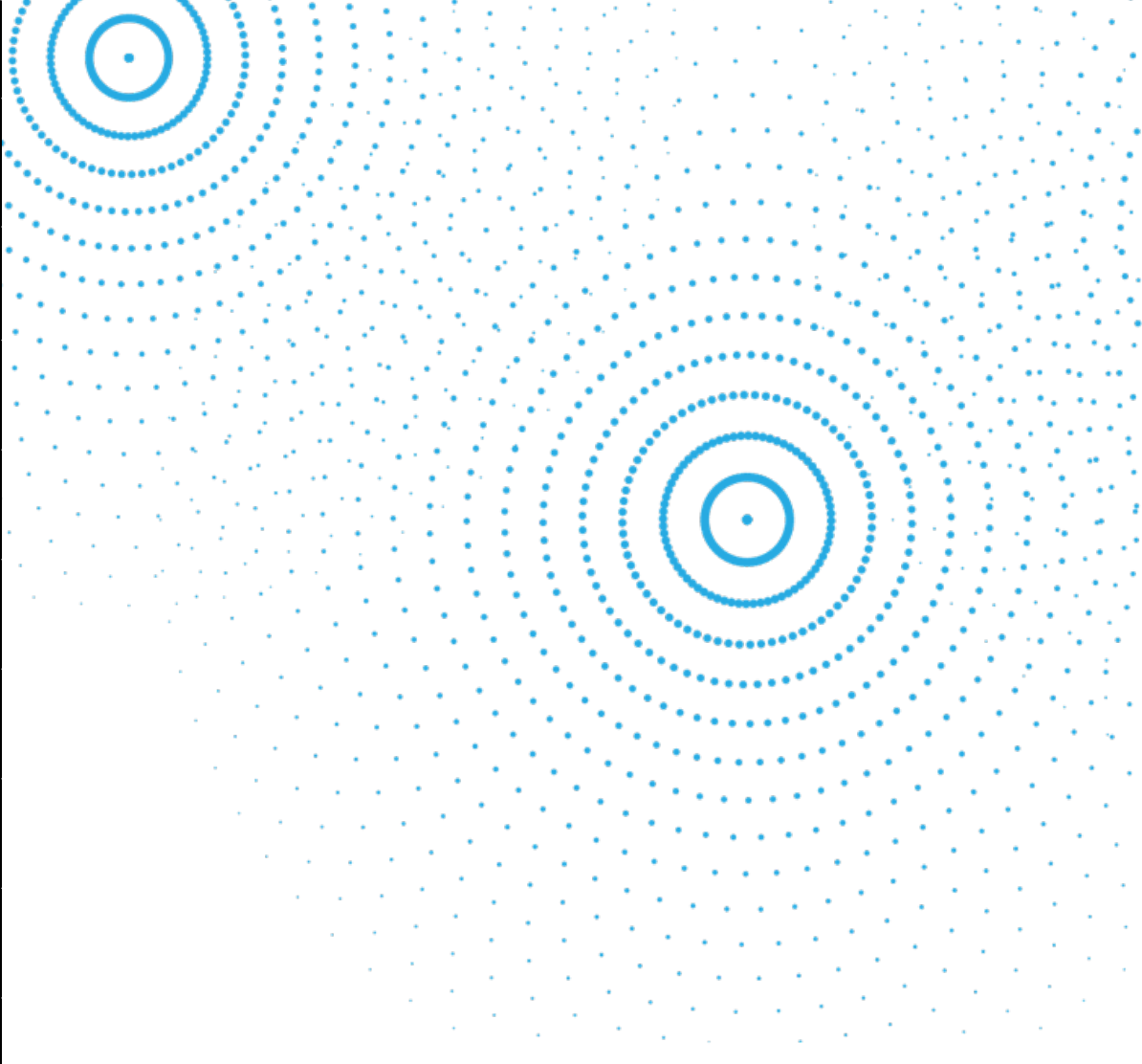
Name	2005	2011
Joburg Metro	20.6%	38.2%
Ekurhuleni Metro	23.8%	39.8%
Tshwane Metro	14.0%	26.5%
Emfuleni	47.6%	44.4%
Mogale	18.2%	26.0%
Metsimaholo	35.2%	17.2%
Rustenburg	32.3%	39.0%
Midvaal	23.0%	26.2%
Merafong	25.9%	26.0%
Randfontein	12.5%	21.9%
Westonaria	10.3%	29.7%
Lesedi	14.9%	8.2%
Ngwathe	1.2%	24.9%
Kungwini	28.7%	43.0%
Gauteng	21.80%	35.90%

12. Debtor Days



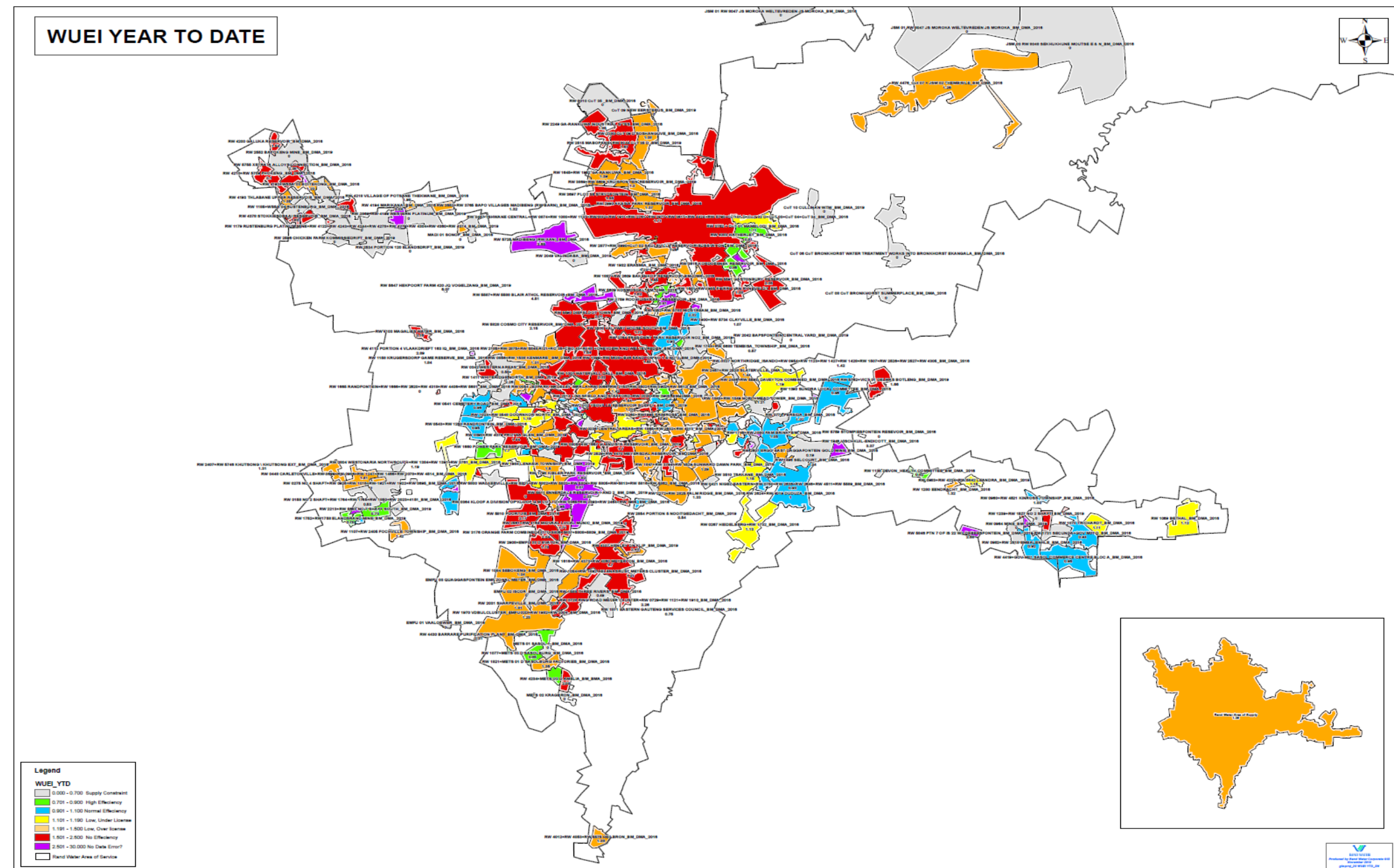
Source: Water Research Commission, The State of Non-revenue water in South Africa, 2012

				Revenue		
	Project 1600 License target	YTD July 22-June 23 (Ml / d)	kl per annum	4.9% Tariff Increase	5.9% Tariff Increase	WDM Fund (R m)
Joburg Metro	1356	1731	631 886 994	8 407 569 475	8 487 717 897	80 148 422
Ekurhuleni Metro	1022	1003	366 077 668	4 870 844 715	4 917 277 934	46 433 219
Tshwane Metro	667	757	276 360 454	3 677 112 742	3 712 166 248	35 053 506
Emfuleni	239	293	106 776 378	1 420 712 599	1 434 256 094	13 543 495
Mogale	93	97	35 538 873	472 862 305	477 370 048	4 507 744
Metsimaholo	51	41	15 132 717	201 348 298	203 267 729	1 919 431
Rustenburg	68	97	35 236 734	468 842 203	473 311 624	4 469 420
Govan Mbeki	106	87	31 901 630	424 466 993	428 513 390	4 046 397
Mid Vaal	28	35	12 601 497	167 669 154	169 267 525	1 598 371
Merafong	86	70	25 583 934	340 406 919	343 651 980	3 245 061
Rand West	91	74	26 883 540	357 698 814	361 108 716	3 409 903
Lesedi	23	22	8 194 635	109 033 676	110 073 082	1 039 406
Ngwathe	7	8	2 926 615	38 940 066	39 311 277	371 211
Victor Khanye	17	16	5 986 410	79 652 147	80 411 462	759 315
Royal Bafokeng	10	15	5 572 668	74 147 110	74 853 946	706 836
Madibeng	8	14	4 998 362	66 505 685	67 139 676	633 991
Thembisile Hani	31	32	11 722 283	155 970 779	157 457 631	1 486 852
Grand Total	4172	4393	1 603 381 390	21 333 783 678	21 537 156 258	203 372 580



The volume bought by each municipality in the previous year (2023 - 24 financial year) will determine the allocation to each municipality. In line with the same thinking, Rand Water proposes that an additional 1% tariff increment above the 4.9% is allocated to this fund.

12. Water Use Efficiency Assessment for Rand Water Area of Supply



Analysis conducted using minimum night flow analysis confirms the areas, and municipal reservoir wastage levels. Interventions aimed at curtailing water losses in these categories should be prioritised and would typically entail pressure management. This forms the basis for projects for each municipality. In addition, the municipality will also be able to highlight through their own plans additional or priority areas.



13. Recommendation 2

<i>Current Tariff</i> <i>(1 July 2023 – 30 June 2024)</i>	<i>New Tariff</i> <i>(1 July 2024 – 30 June 2025)</i>	<i>New Tariff with Water Demand Management</i> <i>(1 July 2024 – 30 June 2025)</i>
	4.9%	5.9%
<i>C/kl</i>	<i>C/kl</i>	<i>C/kl</i>
1268.398034	1330.549538	1343.233519
<i>Excluding VAT at 15 per cent</i>	<i>Excluding VAT at 15 per cent</i>	<i>Excluding VAT at 15 per cent</i>

Rand Water proposes an additional 1 per cent increment allocated to the Water Demand Management Fund.



14. Stepped Tariff

In line with the water restriction challenges, Rand Water is proposing a Stepped tariff. Each customer will be allocated an amount that they must comply with. The split of allocation between customers is based on the data released to each customer. The model for the stepped tariff (using collective AADD, but applied to each customer's relative allocation) is:

- AADD up to 4500 MI/d = Normal tariff
- Step at AADD above from 4500 MI/d = Normal tariff + 10%

Rand Water, DWS and customers have been heavily invested in Project 1600. This is project to optimise the use of water by eliminating as much as possible non-revenue water. The table below demonstrates the expected allocation for each municipal customer.

However, demand remains above Project 1600 limits. For the financial year ending 30th June 2023, municipal customers purchased 4393 MI / d. Current demand during this financial year is above 4720 MI / d.



Given current dynamics and current demand levels, Rand Water is proposing a stepped tariff at 4500 MI / d. The table below allocates the proportionate demand for each municipal customer based on 4500 MI / d.

			Stepped Tariff Volume
	Project 1600 License target	YTD July 22-June 23 (MI / d)	Based on 4500 MI / d
Joburg Metro	1356	1731	1773
Ekurhuleni Metro	1022	1003	1027
Tshwane Metro	667	757	776
Emfuleni	239	293	300
Mogale	93	97	100
Metsimaholo	51	41	42
Rustenburg	68	97	99
Govan Mbeki	106	87	90
Mid Vaal	28	35	35
Merafong	86	70	72
Rand West	91	74	75
Lesedi	23	22	23
Ngwathe	7	8	8
Victor Khanye	17	16	17
Royal Bafokeng	10	15	16
Madibeng	8	14	14
Thembisile Hani	31	32	33
Grand Total	4172	4393	4500

For example, if Joburg Metro exceeds its monthly volume of 1,773 MI / d, then an additional 10 per cent is charged on the volume above 1,773 MI / d.

15. Recommendation 3

- Rand Water proposes the principle of a Stepped Tariff.
- Rand Water is given an opportunity to implement a stepped tariff (or a package to manage exceeding set limits) in the event of a drought being announced by the Honourable Minister.

Thank you!

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