

# Memorandum to the Minister of Water and Sanitation

## Ministerial Memorandum #6

**Subject:** Raw Water Tariffs for 2024/25

### 1 Background and purpose

The Regulator Commission was established in terms of Section 99 of the National Water Act No 108 of 1997 and Section 76 of the Water Services Act No 108 of 1997 with the purpose of advising the Minister on aspects related to the economic and social regulation of the water sector.

The purpose of this memorandum is to advise the Minister with respect to the proposed 2024/25 raw water tariffs and appropriate recommendations.

### 2 Context

The Minister is advised that on the current cycle of 24/25 raw water tariffs, the Regulator Commission has engaged with DWS Directorate: Economic and Social Regulation (ESR) on the 24/25 Raw Water Tariffs.

On review of the Directorate's consolidated analysis, the Regulator Commission recommended that as a minimum the following two fundamental pricing principals be well-considered to inform price determinations on the 24/25 Raw Water Tariffs:

*Principal 1: No water management institution should budget for a deficit unless there was pre-approved fiscal support to cover this deficit.*

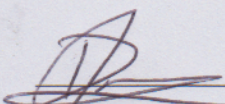
*Principal 2: All tariffs should be increased by a minimum of the Producer Price Index (PPI) for April 2023 as mandated by the current Raw Water Pricing Strategy.*

*Note: Tariffs need to be indexed to inflation and tariff increases presented net of inflation. That is, if inflation is 5%, all tariffs should be adjusted by at least 5% (this is a neutral or zero increase) and a 6% tariff increase should be presented as a 1% real increase.*

The Regulator Commission is therefore encouraged to have noted the Department's efforts in confidently outlining indexed tariffing, through the 24/25 Raw Water Tariff National Consultation. Improvements in sector consultation processes have also been noted by the Commission, for which the Department is commended.

As the Department moves forward, it is recommended that mechanisms for data verification on submitted raw water tariff proposals be prioritized. Improved data will support tariff determination that moves the sector towards full cost recovery. Whilst the impetus is to move the water sector towards full cost recovery, the Regulator Commission notes the importance of prioritizing efficiencies in the process.

The Commission looks forward to the opportunity to engage with the Minister as required.



Daveshini Padayachee

Date: 31/08/2023

Chairperson, Water Regulatory Commission (for the Water Regulatory Commission)