



MFMA SECTION 33 PROCESS - INFORMATION STATEMENT

**ENTERING INTO A EXTENDED AGREEMENT WITH
CIGICELL
UNTIL 28 FEBRUARY 2034 WITH THE VISION TO “ ENHANCE
ELECTRICITY DISTRUBUTION SERVICES”.**

This document is prepared in accordance with the provisions of Sec 33 of the MFMA to enter into a Service Level Agreement between Cigicell and Kgatelopele Municipality

1. BACKGROUND:	3
2. SECTION 33 PROCESS:	3
3. PROPOSED MEMORANDUM OF AGREEMENT AND PROJECT BACKGROUND:	5
4. WHY THIS AGREEMENT IS PROPOSED TO EXTEND UNTIL 28 February 2034:	7
5. FINANCIAL IMPLICATIONS FOR KGATELOPELE MUNICIPALITY:	7
6. ACCES TO INFORMATION REGARDING THE MFMA S33 PROCESS:	9
7. WHERE TO SUBMIT COMMENTS:	9
8. NEXT STEPS:	10

1. BACKGROUND:

Section 33 of the MFMA prescribes that public participation is required whenever a local authority intends signing an agreement or contract beyond the three (3) municipal financial years in length. In such instance the MFMA also requires the Municipality to provide background information and to write to the relevant sector departments to obtain their comments.

2. SECTION 33 PROCESS:

Where a contract or agreement is intended to span more than three (3) municipal financial years, Section 33 of the Municipal Finance Management Act, No 56 of 2003 (MFMA) requires the municipality to provide background information and to invite written comments from the local community and effected parties or persons and to write to government departments to obtain their comments. Kgatelopele Municipality is required to initiate the public information process by advertising the matter at least 60 days prior to approving the agreement.

The public invitation to comment on the draft SLA is planned to be published on **2024/03/04** in the local media and on the municipal website.

The purpose of this document is to inform the public and certain government departments and affected stakeholders, parties or persons, as required by the MFMA, of the intention of the Kgatelopele Municipality to enter into an agreement with Cigicell for more than three municipal financial years.

Where a municipality intends to have an agreement with a service provider and the financial obligations span over more than three municipal financial years, it must follow procedure as set out under Sec 33 of the MFMA. This **Information Statement** sets out the requirements of Sec 33 and outlines the content, scope and objectives of the agreement involved.

Section 33 of the MFMA requires as follow:

Section 33 (1)(a) that the Municipal Manager must, at least 60 days before the Council meeting where an agreement or contract is to be approved, inform certain parties of the intention to enter in an agreement by:

- Section 33 (1)(a)(i) issuing an Information Statement summarizing the municipalities obligation and draft agreement documents to the public and invite comments and representations; and
- Section 33 (1)(a)(ii) soliciting the views of –
 - National and Provincial Treasury
 - National Department responsible for local government
 - National Department having functional responsibilities related to the service being delivered.

- Section 33 (1)(b) Council must prior to the approval of the agreement, consider:
 - Section 33 (1)(b)(i) the financial obligations for each financial year of the agreement.
 - Section 33 (1)(b)(ii) the impact of these obligations on its revenue.
 - Section 33 (1)(b)(iii) any comments received from the local community and other interested persons.
 - Section 33 (1)(b)(iv) written views and recommendations of the National and Provincial Departments referred above.

- Section 33 (1)(c) Council must adopt a resolution in which it:
 - Determines that it will have sufficient budget or revenue to pay for the agreement.
 - Approves the entire agreement and
 - Authorises the Municipal Manager to sign the agreement.

3. PROPOSED MEMORANDUM OF AGREEMENT AND PROJECT BACKGROUND:

In general terms, the services that will be agreed to between Cigicell and Kgatelopele Municipality cover the following:

Kgatelopele Municipality currently operating its Electricity distribution network at a loss. Numerous factors are affecting the operational cashflow of the services, including technical distribution losses and theft, non-cost reflective tariffs and cost of supply.

This project will aim to align municipality distribution to the NERSA sustainable distribution framework.



MUNICIPAL TARIFF GUIDELINE INCREASE, BENCHMARKS AND PROPOSED TIMELINES FOR THE MUNICIPAL TARIFF APPROVAL PROCESS FOR THE 2022/23 FINANCIAL YEAR

Table 1: Financial Indicators

Performance indicators	Benchmark	Acceptable range
Electricity Price Margin (%):	60	58 - 62
Bulk Purchase Cost / Total expenditure: (%)	75	58 - 78
Energy Losses: (%)	10	5 - 12
Revenue collection rate (%)	95	85 - 100
Repairs & Maintenance (% of revenue)	6	6 - 15
Net surplus percentage (%):	15	10 - 20

3.4.4. Municipalities that operate within these benchmarks are expected to be able to run a sustainable and an efficient electricity business.

Cigicell aims to enhance the sustainability and affordability of electricity for municipality and local consumers. In doing this it has to:

1. Deploy cost effective Smart Metering Equipment:

The deployment of smart metering equipment is key in collection of accurate billing data and activation of services that will ensure municipality can deliver on constitutional mandate of delivery reliable cost-effective electricity services to all residents. This equipment will include smart meter, enclosures, and related equipment.

This equipment will assist in the reduction on non-technical losses and detection of possible theft.

The statistical metering equipment will assist municipality in determining any technical or distribution losses.

2. Activated Small Scale Embedded Generation (SSEG) Services

The activation of SSEG will allow consumers that have invested in alternative green electricity generation to trade any additional unit with the municipality in near -real-time.

The mentioned trading will allow the municipality to purchase electricity at a reduced rate increasing the current energy price margin. Residence will receive a credit on account for units supplied and therefore receive electricity units at a discounted rate.

Consumers can sign up to purchase the green electricity at a reduced rate as well, enabling consumers who do not have the financial means to do own generation to benefit from the green electricity trading as well.

2. Activated Municipality Self Generation

With the implementation of smart meters, it can then be calculated what the true requirements are at any time, this analysis will then determine if the municipality need to follow a self-generation strategy.

The self-generation strategy will include the set-up of funded green energy plants to contribute to the electricity need of municipality.

It is the intension of the municipality to enter into an agreement with Cigicell and to have the advantage and benefits of services that Cigicell offer and can provide to the Municipality to enhance service delivery. Cigicell may be utilized but not limited to the following activities:

- Increase of revenue collection services.
- Increase of energy price margin services.
- Compliance to NERSA distribution framework services.
- Cost of supply reduction services.
- Electricity Network management services.
- Reliability of electricity supply services.
- Affordability of electricity supply services.

The cost for the services will be recovered on a above the baseline recovery model. The baseline is set as the average usage and billing per customer for the previous 12 months. As this agreement will have many benefits for the Council, the current operational budget can be reallocated, if required. Any services that will be activated, will be subject to the approval of municipality.

4. WHY THIS AGREEMENT IS PROPOSED TO EXTEND UNTIL 28 February 2034:

Kgatelopele municipality current have a limited budget available for the services required and requires a funded model with reference to the deployment of hardware, software and services.

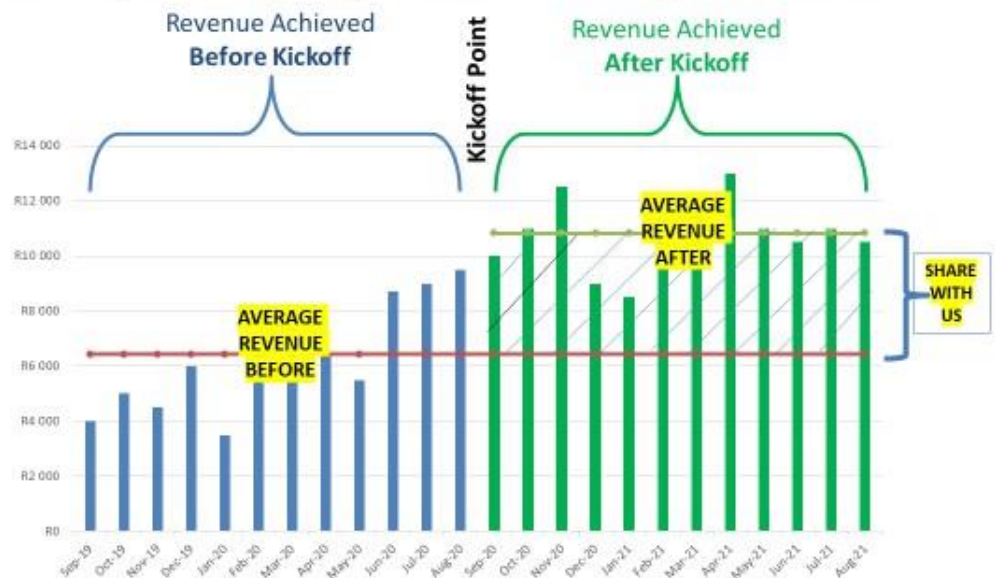
The service provider will recover investment based on a above the baseline recovery model and the standard term of 36 months will not allow for the recovery of the investment.

5. FINANCIAL IMPLICATIONS FOR KGATELOPELE MUNICIPALITY:

Cigicell has proposed a unique Funding Model to the Municipality to be used as a payment mechanism for portions of the Scope of Work

The diagram below describes the essence of how the Funding Model is designed.

We-Pay-for-Everything, Please Share the Upside with Us!



How the Funding Model works

1. Before the execution of the Scope of Work, Cigicell must establish the Baseline Revenue of each Consumer in collaboration and agreement with the Municipality.
2. If it is determined during the process of establishing the Baseline Revenue, that the Consumer has been on a more expensive tariff than they should have been, and that they need to be moved onto a cheaper tariff, the Baseline Revenue will be adjusted down accordingly.
3. If it is determined during the process of establishing the Baseline Revenue, that the Consumer has been on a cheaper tariff than they should have been in the past, and that they need to be moved onto a more expensive tariff, the Baseline Revenue will NOT be adjusted upward.
4. Any ad hoc credits or anomalies which appear on the Billing System within the period used to establish the Baseline Revenue for a particular Consumer, will be extracted from and/or normalised in the Baseline Revenue calculation
5. The Baseline Revenue will be adjusted by annual tariff changes implemented by the Municipality. The Baseline Revenue is locked in for the duration of the Contract, Calculated on the baseline kWh usage and applicable tariff. Note: all exceptions impacting baseline will be incorporated on baseline calculation.
6. Once the Baseline Revenue is agreed upon, the portions of the Scope of Work required to be paid for using the Funding Model as indicated in Annexure A -Scope of Work Prices, can begin, unless otherwise agreed upon by both Parties.
7. Scope of Work portions under the Funding Model will be funded in full upfront by Cigicell, with no liability to the Municipality, except for the Funding Model Return payment.
8. Cigicell will invoice the Municipality the Funding Model Return on a monthly basis per Consumer, for the duration of this Contract, where the Billing Revenue is more the Baseline Revenue per Consumer.
9. If the Billing Revenue is found to be lower than the Baseline Revenue in any particular month for a particular Consumer, then there will be no amount invoiced by Cigicell to the Municipality for that particular month, for that particular Consumer.
10. Kgatelopele shall not be held liable in any way if the monthly Billing Revenue of a Consumer is below the Baseline Revenue in any particular month for the duration of the Contract.
11. All Infrastructure Hardware installed by Cigicell as part of the Funding Model is owned by Cigicell and ownership transfers to the Municipality only once the Contract has endured for a minimum period of 36 months from the Commencement Date.
12. Should the Contract be terminated within 36 months from the Commencement Date for any reason whatsoever, Cigicell shall determine the outstanding recovery of investment and invoice Kgatelopele for the outstanding amounts.
13. Cigicell reserves the right not to perform Scopes of Work under the umbrella of the Funding Model if it deems that there will not be a return on investment by the Termination Date of the Contract.

14. Cigicell reserves the right to request that the Municipality Council give written approval for any/all Scope of Work which falls within the ambit of the Funding Model.
15. Cigicell reserves the right to ensure that any Scope of Work which falls within the ambit of the Funding Model is in accordance with the MFMA or any Municipality legislation.

6. ACCESS TO INFORMATION REGARDING THE MFMA S33 PROCESS:

Copies of the Section 33 Explanatory Documents and the Draft Memorandum of Agreement with Cigicell will be available during office hours at all offices of the Kgatelopele Municipality from 08h00 to 16h00, Monday to Thursday and 08h00 to 15h00 on Fridays.

A copy of all documentation will also be available on the municipal website www.kgatelopele.gov.za

7. WHERE TO SUBMIT COMMENT

Written comments must be submitted on or before **2024/04/04** in a sealed envelope that must be deposited in TENDER BOX.

All submissions must be addressed to:

The Municipal Manager
Tender Box
Kgatelopele Municipality
222 Baker Street
Danielskuil

Submissions must be clearly marked: "SECTION 33 PROCESS – Memorandum of Agreement with Cigicell".

8. NEXT STEPS:

Members of the local communities and other interested parties or persons are invited to present their comments or representations in respect of the proposed agreement and the granting of the right to work with Cigicell according to the condition set in the proposed agreement.

Kgatelopele municipality will finalize the agreement with the service provider and will solicit the views and recommendations of stakeholders, including National and Provincial Treasuries, National Department responsible for local government (COGTA) and the National Department of Energy.

The agreement and all comments and views received relevant to the proposed agreement will be based and assessed and included in the report to be presented to Council for the final decision as to whether to enter into an agreement with Cigicell.

Drafted and issued by:

Adv. W. Blundin
Municipal Manager

Date: 04 March 2024