"People's power in action"

ANNEXURE 'H'

BUDGET POLICY

MEETING TO BE HELD ON	24 JUNE 2022

"People's power in action"

BUDGET POLICY

Approved by Council on:

Resolution Number:

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1. INTRODUCTION

The objective of this policy is to secure sound and sustainable management of the budgeting and reporting practices of the municipality by establishing requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting processes and other relevant matters as required by the Act. This policy framework shall be read in the context of the provisions of the following Acts, Regulations and Administrative Guidelines:

- Municipal Budget and Reporting Regulations, Government Gazette No. 32141 dated 17 April 2009;
- Municipal Finance Management Act no 56 of 2003; and
- MFMA circulars as issued by national treasury.

2. DEFINITIONS

"Municipal Finance Management Act" – means the Local Government: Municipal Finance Management Act No.56 of 2003, and any regulations made under that Act;

"Municipal Council" or "Council" – means the Council of a municipality referred to in section 18 of the Municipal Structures Act;

"Budget year" means the financial year for which an annual budget is to be approved in terms of section 16 (1) of the MFMA;

"Accounting Officer" – means a person appointed in terms of section 54 (a) of the Municipal Systems Act (is the head of administration and also the accounting officer of the municipality);

"IDP" – means an Integrated Development Plan as envisaged in SECTION 25 OF THE Municipal Systems Act 32 of 2000;

"NGO" – means a Non-Government Organisation;

"SDBIP" – means a Service Delivery and Budget Implementation Plan;

"VAT" – means the Value Added Tax in terms of the Value Added Tax Act 89 of 1991;

"MTREF" – Medium Term Revenue and Expenditure Framework;

"MMC" – Member of Mayoral Committee;

"mSCOA" – means a Municipal Standard Chart of Accounts;

"Virement" – means the movement of funds between various function segments;

"Unauthorised Expenditure" – in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3), and includes -

(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
(e) a grant by the municipality otherwise than in accordance with this Act;

"Vote" means -
(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

3. POLICY OVERVIEW

The employees of the Municipality, involved directly in the handling of the budget, must possess an acute awareness of the budget process and show a strong commitment to the enforcement and maintenance of adequate internal controls to govern the process.

4. PURPOSE OF THE BUDGET

To facilitate the implementation and maintenance of a budget in the Moqhaka Municipality and to assist in formalising and standardising processes and procedures to ensure the following:

- Proper and adequate guidelines are instituted to regulate budgeting;
- Validity of budget transactions;

The key attributes of such a methodology should be its ability to focus on the major activities (cost drivers) required ensuring the objectives of government are achieved. In so doing, also determines the costs involved.

The process that can best achieve this milestone, is the implementation of the zero-based or activity based costing (ABC) methodology and performance budgeting.

The budget should be driven by developmental strategies that address political goals, rather than by administrative imperatives.

The Municipality must strengthen and evaluate the alignment between medium and long-term plans and funding proposals;

Revise its policy priorities, macro-economic framework and resource envelope;

Evaluate departmental plans and allocate available resources in line with policy priorities;

Develop programmes that will be linked to the set priorities;

The purpose of the budget process is to complete a medium-term expenditure framework that apportions resources in line with Government's policy priorities for the next three years.

Political oversight of the budget process is essential to ensure that:

- The political executive is responsible for policy and prioritization
- Policy priorities are linked to departmental spending plans and the delivery of quality services
- Formulating five –year strategic plans that will guide the policy prioritisation and budgeting process for the following year's MTREF.
- Matching policy priorities and resources by deciding and agreeing on the best allocation of scarce resources to fund Government's many social, economic and political goals.
- Reprioritising within the base line, presenting fiscal implications of new policy proposals, linking these to the strategic priorities of the Department and
- Providing the necessary motivation for proposed changes to the baseline (if any changes).
- Increasing the priority status of a particular objective that cannot be accommodated within the baseline allocation, such as a higher than anticipated acceleration in the delivery of an existing service
- New policies that the municipality plans to implement within the new MTREF period

The Accounting Officer is ultimately responsible for establishing and enforcing policies and procedures governing the budget process.

Personnel appointed must adopt, implement and adequately maintain appropriate processes and procedures to ensure the rigid enforcement of all stipulated policy directives.

5. BUDGET STEERING COMMITTEE

The Mayor of the Municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.

The steering committee must consist of at least the following persons:

- MMC responsible for finance;
- The chief financial officer
- The senior managers responsible for at least the three largest function segments in the municipality; and
- The manager responsible for planning.

6. QUALITY CERTIFICATION

Whenever an annual budget and supporting documentation, an adjustments budget and supporting documentation or an in-year report of the municipality is submitted to the mayor, tabled in the municipal council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule A, B or C, as the case may be, and signed by the municipal manager.

7. GENERAL BUDGETING PRINCIPLES

The Budget and Budget Preparation process shall comply with the requirements of the Municipal Finance Management Act of 2003 and nothing contained in this policy shall contradict the said legislation.

The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.

Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget function segment.

When preparing its budget, Council must ensure that the budget is in accordance with its Integrated Development Plan.

8. BUDGET PREPARATION PROCESS

8.1 The Chief Financial Officer shall prepare a draft budget timetable for the ensuing financial year which shall be tabled by the Executive Mayor to Council for approval at least 10 months before the start of the next budget year (by 31 August each year). The budget timetable shall contain key deadlines for:

a) The annual review of the IDP
b) The review of budget related policies
c) The preparation, tabling and approval of the annual budget
d) The consultative processes forming part of the budget process.

Heads of Departments shall ensure that they meet the deadlines as set out in the Budget Timetable.

8.2 The Budget Steering Committee shall give general direction to the budget process and also indicate affordable budget growth and envisaged tariff increases as the base line of the budget process.

8.3 The Executive Mayor shall table the draft annual budget to Council at least ninety days before the start of the new financial year.

8.4 Immediately after the draft annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and invite the local community to submit representations in regard to such budget. The public participation process must be a formal process and must ensure adequate consultation as contemplated in the MFMA.

8.5 Council shall consider approval of the annual budget at least 30 days before the start of the financial year to which it relates. The resolutions and performance objectives referred to in Section 17 of the MFMA must simultaneously be adopted.

8.6 The annual budget must be approved before the start of the budget year to which it relates.

8.7 The budget tabled to Council for approval shall include the following supporting documents:

a) The budget must be in the format prescribed by National Treasury and must be divided into a capital and an operating budget.
b) The budget must be balanced and reflect the realistically anticipated revenues by major revenue source for the budget year concerned.
c) The expenses reflected in the budget must be divided into different categories (for operating budget) and different capital projects or services (for capital budget).
d) The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

8.8 The budget must be accompanied by all the following documents:

a) Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
b) Draft resolutions (where applicable) amending the IDP and the budget- related policies;
c) Measurable performance objectives for each budget function segment, taking into account the municipality's IDP;
d) The projected cash flows for the financial year by revenue sources and expenditure function segments broken down per month;
e) Any proposed amendments to the IDP;
f) the cost to the municipality for the budget year of the salaries, allowances and other benefits of its political office bearers and other councillors, the municipal manager, the chief financial officer, and other senior managers employed in terms of Section 57 of the Municipal Systems Act;
g) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on; and
h) particulars of the municipality's investments.

8.9 The Chief Financial Officer must within 14 days after approval of the budget submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget and insert it onto Council's website.

8.10 The Executive Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council. The SDBIP should include the following five components:

a) Monthly projections of revenue to be collected for each source
b) Monthly projections of expenditure (operating and capital) versus actual expenditure for each function segment

c) Quarterly projections of service delivery targets and performance indicators for each function segment
d) Ward information for expenditure and service delivery
e) Detailed capital works plan broken down by ward over three years

The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the previous three years, and the estimated revenues and expenses for the current year.

9. PUBLIC PARTICIPATION PROCESS

Immediately after the draft budget has been tabled, the municipality must convene hearings on the draft budget in April and invite the public and stakeholders to make representation at the council hearings and submit comments in response to the draft budget.

10. FUNDING OF CAPITAL AND OPERATING BUDGET

The budget may be financed only from:

(i) realistically expected revenues, based on current and previous collection levels,
(ii) cash-backed funds available from previous surpluses where such funds are not required for other purposes,
(iii) borrowed funds in respect of the capital budget only, and
(iv) grant funding from Provincial and National Government.

11. OPERATING BUDGET PREPARATION

The Chief Financial Officer, jointly with Heads of Departments, under the oversight of the Budget Steering Committee, shall develop a balanced operating budget before it is submitted to Council in March every year, according to the approved Budget Timetable and based on the IDP, legislative requirements, Budget Strategy and assumptions approved by Council.

The principle of zero-based budgeting shall be applied in the preparation of the operating budget.

Heads of Departments shall establish budget requirements in respect of Maintenance of Assets, taking cognisance of backlogs and shall, in consultation with the Chief Financial Officer prepare a strategy to address such maintenance needs and backlogs.

Revenue projections shall be done by the respective Departments in consultation with the Chief Financial Officer, taking cognisance of actual performance, economic growth opportunities as well as affordable and acceptable tariff increases.

The municipality shall budget in each annual and adjustment budget for the contribution to:

- Provision for accrued leave entitlements equal to 100% of the accrued leave,
- Provision for bad debts in accordance with its rates and tariffs policies,
- Depreciation and finance charges shall be charged to or apportioned between the departments or function segments to which the projects relate
- An adequate percentage of the operating budget component of each annual and adjustments budget should be set aside for maintenance.

When considering the draft annual budget, council shall consider the impact which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.

The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

12. CAPITAL BUDGET PREPARATION

12.1 Every Head of Department shall, in respect of the activities of the Department, in consultation with the Chief Financial Officer, prepare:-

(a) when requested by the Municipal Manager, and/or the Mayoral Committee, a Capital Budget reflecting estimates and actual expenditure for the current financial year;

12.2 No capital project will be accepted for inclusion into the draft budget unless it is accompanied by the projected cost covering all financial years until the project is operational, future operational costs and revenue and a cash flow for the project.

12.3 Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and has a useful life in excess of one year.

12.4 The municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budge.

12.5 The envisaged sources of funding for the capital budget must be properly considered and the council must be satisfied that this funding is available and has not been committed for other purposes.

13. BUDGET IMPLEMENTATION

The Municipal Manager is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

- Funds are spent in accordance with the budget;

- Expenses are reduced if expected revenues are less than projected; and

- Revenues and expenses are properly monitored.

Heads of Departments are responsible for the management and control of the Budgets of their Departments in conjunction with the Chief Financial Officer and shall present reports to the Municipal Manager in this regard whenever requested to do so.

The Municipal Manager must prepare an adjustments budget when such budget is necessary and submit it to the Executive Mayor for consideration and tabling in Council.

The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

14. VIREMENTING OF FUNDS

The MFMA Circular No.51 highlighted the principles that must be incorporated into the municipal virement policies. It also emphasised that the policy must indicate how the virement process must be managed within the municipality to enable the tracking and reporting of funding shifts.

Budgets are approved reflecting different Function segments. In terms of the definitions of the Municipal Finance Management Act, a Function segment means:

a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

Changing circumstances and priorities may give rise to a need to shift (virement) funds within an approved Function segment (as defined in the MFMA).

A request for virementing of funds on shall be made by the affected Head of Department on the appropriate form, for recording by Budget & Treasury.

Approval of Virements in respect of Operating Budget and Capital Budget:

The following principles must be adhered to:

- Virements can only take place within a function or sub-function and the same source of funding;
- The creation of new projects or savings across functions can only take place through an adjustment budget;
- Virements should not be allowed from the repairs and maintenance project in the project segment;
- Budget amendments and virementing from Capital budgets to Operating Budgets are not permissible;
- Virements are not permitted in relation to the revenue side of the budget;
- Virements towards personnel expenditure are not permitted; however, virements within personnel expenditure are allowed;
- No virements from remuneration of councillors. However, virements within this category are allowed;

- Virements to and from the following are not permitted:
  - bulk purchases,
  - debt impairment,
  - interest charges,
  - depreciation,
  - grants to individuals,
  - revenue forgone,
  - insurance and
  - VAT.

- Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted,
- Virements to and from contracted services are allowed,
- Virements may not increase or decrease the total approved budget,
- Virements are not allowed if the IDP Objective or the SDBIP Target is affected. Such cases must be dealt with in the Adjustment budget,
- No virements are permitted within the first three months after the approval of the annual budget, except in exceptional circumstances where a motivation is submitted for approval by the CFO/Municipal Manager.

Sound motivations should be provided for all virement requests, as provided for on the virement form. Motivations for virements between projects should clearly state the reason for the saving within the "providing" project, as well as the reason for the additional amount required.

Virements will be approved on condition that the requirements of all mSCOA segments are met;

- **mSCOA (Standard Chart of Accounts) Requirements: Any virements between existing line items or from existing line items to new line items as prescribed in the Standard Chart of Accounts be allowed to eventually comply fully with the line items as per the Chart.**

Expenditure may only be incurred after approval as set out above.

The accountability to ensure that virement application forms are completed in accordance with Council's approved policy and are not in conflict with the directorate's strategic objectives vests with the head of the relevant directorate.

The Chief Financial Officers be authorized to approve virements up to R250 000 (per virement request).

The Municipal Manager to approve virements above R250 000 up to R1 000 000 (per virement request). Any virements above R1 000 000 should be corrected through the adjustment budget process.

A quarterly report, indicating all virements effected must be compiled and submitted to Council for monitoring.

15. UNSPENT FUNDS/ROLL-OVER OF BUDGET

- The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, except for funds relating to multi-year capital expenditure/projects.
- Only unspent grants (if the conditions for such grant funding allows), Capital replacement reserve or loan funded capital budget may be rolled over to the next budget year.
- Conditions of the grant fund shall be considered in applying for the rollover of funds.
- Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after considering expenditure up to the previous financial year.
- No funding for projects funded from the capital replacement reserve shall be rolled over to the next budget year except in cases where a commitment has been made ninety (90) days (31 March each year) prior the end of that particular financial year.
- No unspent operating budget shall be rolled over to the next budget year.

16. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

(a) In the case of an emergency or any other exceptional circumstances, virements shall be submitted by the accounting officer to the executive mayor to authorize any possible unforeseeable and unavoidable expenditure for which no provision was made in an approved budget only if the delay that will be caused pending approval of an adjustment budget may:

- result in significant financial loss for the municipality
- cause a disruption, a suspension or a serious threat to the continuation of a basic municipal service; lead to loss of life or serious injury or significant change to property; or
- obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

(b) The executive mayor must report on such expenditure to the council at its next meeting and pass an adjustment budget within sixty (60) days after the expenditure was incurred.

17. ADJUSTMENT BUDGETS

A Budget amendment means the shifting of funds between Function segments as defined in the MFMA. Only Council may approve Budget amendments after having considered a recommendation from the Executive Mayor.

The Executive Mayor may table an adjustment budget before Council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year. An adjustment budget can be tabled upon a change in needs or priorities when it becomes necessary in the following instances (MFMA Chapter 4 (28)):

- Material under-collection of revenue;

- to appropriate additional reserves that have become available but only to revise or accelerate spending programmes already budgeted for.
- Unforeseen and unavoidable expenditure recommended by the Executive Mayor within a prescribed framework.

All recommendations for budget amendments must contain the financial comment from the Chief Financial Officer prior to consideration and approval thereof.

Expenditure may only be incurred on amended budgets after approval by Council of such Budget amendment, except in case of emergency or other exceptional circumstances as defined in Section 29 of the MFMA.

Only one adjustments budget may be tabled in Council during a financial year, except when the additional revenues contemplated in section 28(2)(b) in the Act are allocations to a municipality in a national or provincial adjustments budget, in which case the Mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget to appropriate these additional revenues.

The municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation which must be in the format specified in Schedule B or the Municipal Budget and Reporting Regulations. This should thus include all the required tables, charts, and explanatory information, considering any guidelines issued by the Minister in terms of section 168(1) of the Act.

The Adjustments budget must be submitted within ten working days after the mayor has tabled it in the municipal council.

The Adjustment budget must be submitted to National and Provincial Treasury in both printed and electronic form.

Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting information, as well as the resolutions referred to.

18. REPORTING

Monthly budget statements

The accounting officer with the assistance with the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

Quarterly and Mid-Year Reports:

(a) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

(b) The Accounting officer must submit a report on such assessment to the Executive Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.

(c) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

19. CONCLUSION

The following documentation must be placed on the municipality's website:

- The annual and adjustments budgets and all budget related documents
- All budget related policies
- The Integrated Development Plan
- The annual report
- All performance agreements
- All service delivery agreements
- All long-term borrowing contracts
- All quarterly and mid-year reports submitted to Council on the implementation of the budget and the financial state of affairs of the municipality.

20. POLICY APPLICATIONS

This policy affects the whole municipality.

21. POLICY IMPLEMENTATION AND REVIEW

This policy shall be implemented once approved by the Municipal Council and may be reviewed annually for amendments if any.

MOQHAKA MUNICIPALITY

"People's power in action"

SMALL-SCALE EMBEDDED GENERATION (SSEG)

Approved by Council on:

Resolution Number:

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1. OBJECTIVES

This policy facilitates the inclusion of Small-Scale Embedded Generation (SSEG) onto the electricity distribution network of Moqhaka Local Municipality, so that safety, power quality, grid operation and municipal revenue issues are adequately addressed, and that the local renewable energy industry and green economy is promoted at the same time, supporting job creation.

2. Background

2.1 Steep increases in the price of electricity, elevated environmental awareness, rapidly decreasing costs of photovoltaic (PV) panels, and the high risk of national power blackouts have all resulted in electricity distributors around the country receiving numerous requests to allow electricity consumers to connect PV and other Small-Scale Embedded Generators (SSEGs) to the electricity grid. Such SSEGs are intended to be connected to the wiring on the consumer's premises which is in turn connected to, and supplied by, the Municipality's electricity network. Such generators are hence considered to be 'embedded' in the local municipal electricity grid.

2.2 The parallel (or embedded) connection of any generator to the electrical grid, however powered, has numerous implications for the local electricity utility. The most significant implications are the safety of the utility staff, the public and the user of the generator. Further implications include the impact on the quality of the local electrical supply, and metering and billing issues. In terms of the Municipal Structures Act, No. 117 of 1998, municipalities are therefore obliged to regulate the installation of SSEGs to uphold responsible management of the distribution network, as well as for the general benefit and protection of citizens.

2.3 Although the electricity distribution industry is highly regulated, SSEG's have not yet been adequately covered in national policy or legislation. The AMEU has developed standardized approaches and documentation to support municipalities in this regard, aligned with national policies and regulation, and this Policy is consistent with the AMEU approach and recommendations.

3. SCOPE OF THE POLICY

3.1 This policy document provides a framework for the approval and registration of Small Scale Embedded Generators of electricity as well as the regulation thereof relative to the requirements of the Municipality and all other Policies, By-laws and Legislation applicable thereto.

3.2 The policy is applicable to all customers wishing to install systems categorised as Small Scale Embedded Generators.

3.3 The policy covers:

- The conditions under which SSEG will be accepted onto the Municipal distribution network
- The Application and Commissioning process
- Contractual arrangements between the SSEG customer and the Municipality
- Metering and tariffs for SSEG

3.4 The policy covers all prospective SSEG customers in the municipal distribution area connected to the municipal distribution network.

4. <u>Constitutional, regulatory and policy context</u>

4.1 Section 156 (1) and Schedules 4B and 5B of the Constitution assign municipalities authority and administration over 'Electricity and gas reticulation'. The municipality has legislative and executive authority in this area, and thus must develop a regulatory environment which ensures the safe and proper functioning of their electricity grid in terms of the Municipal Structures Act, No. 117 of 1998.

4.2 This environment must not contradict the national regulatory framework. Since embedded generators are connected to, and impact on the local distribution grid, municipalities must develop an appropriate regulatory framework for such generators. The electricity reticulation function extends to providing open and non-discriminatory access to the municipal distribution system and to permit the connection of embedded generation systems[1].

4.3 Section 74 of the Municipal Systems Act requires the municipality to set appropriate tariffs for municipal services. The use of the municipal distribution grid by embedded generators therefore requires that the municipality sets a suitable tariff for such generators.

4.4 The National Energy Regulatory of South Africa issues electricity generation licenses in terms of the Electricity Regulation Act. Schedule 2 of this act specifies that only systems over 100 MW capacity require licensing. This also applies to embedded generators.

[1] Paragraph 4 of the Distribution Code sets out the responsibilities of distributors and stipulates in paragraph 4(1) that the distributor shall make capacity available on its networks and provide open and non-discriminatory access for the use of this capacity to all customers including embedded generators.

4.5 Technical specifications and standards have been developed to guide the implementation of embedded generation such that safety, power quality, and grid operational parameters are not negatively impacted, centering around the NRS097-2 series of specifications, and the SANS 10142-1-2: The wiring of premises; Specific requirements for embedded generation installations connected to the low voltage distribution Network in South Africa.

4.6 Local government is given a key role in implementation within the following documents:

- The White Paper on Energy Policy (1998)
- The National Climate Change Response White Paper (2011)
- In addition, the Integrated Resource Plan directing electricity supply in the country increasingly recognizes the role of local government and of embedded generation.

4.7 In addition to the above obligations, local government should align with:

- White Paper on the Promotion of Renewable Energy and Clean Energy Development (2003)
- The transition to a green economy
- National carbon mitigation intentions

5. AMEU / SALGA Standard Documentation

The Association of Municipal Electricity Utilities and SALGA has developed a set of Standard documents which provide a sound approach for engaging with SSEG by municipalities. The documents have been reviewed by a municipal SSEG Working Group, and provide a framework to facilitate the establishment of systems to process and integrate SSEG into municipal operations. This Policy is in accord with this SALGA/AMEU framework.

6. DEFINITIONS:

"Bi-directional meter" A meter that separately measures electricity flow in both directions (import and export). Such a meter displays the balance of the imported and exported electrical flow energy in a single register meter (net metering) or displays both imported and exported electrical flow energy in separate registers.

"Consumer" In the context of this document, consumers who also generate will be referred to as "consumers" although in actual fact they are "consumer/generators".

"Embedded Generator" An entity that operates one or more generation sources that include energy conversion device(s), static power converter(s), if applicable and the control and protection gear within s customer's network that operates in synchronism with the utility's network.

"Export tariff" A payment for every kilowatt-hour (kWh) of surplus electricity a customer system exports to the electricity grid.

"Import tariff" A payment for every kilowatt-hour (kWh) of electricity imported to a customer from the electricity grid.

"Municipality" Moqhaka Local Municipality.

"Reverse power flow" The flow of energy from the consumer electricity installation onto the utility grid as a result of the instantaneous generation exceeding the instantaneous consumption at the generation site in question.

"SSEG" Small Scale Embedded Generation. For the purpose of this policy; an embedded generator with a generation capacity of up to 100 000kVA (100MVA) (definition further elaborated below).

"Tariff" A combination of charging parameters applied to recover measured quantities such as consumption and capacity costs as well as service costs.

7. ACRONYMS AND ABBREVIATION

EG: Embedded Generation
ESD: Electrical Services Department
IRP: Integrated Resource Plan
kVA: kilo-Volt Ampere (unit of electrical apparent)
kW: kilo-Watt (unit of electrical real power)
kWp: kilo-Watt peak (the rated peak output of solar PV panels)
MVA: Mega-Volt Amperes (1 000 kVA)
MW: Mega-Watts (1 000 kW)
NERSA: National Energy Regulator of South Africa
PV: Photovoltaic
SSEG: Small Scale Embedded Generation/Generator

8. SMALL SCALE EMBEDDED GENERATION DEFINTION

8.1 Small-scale embedded generation (SSEG) refers to power generation up to 100 MVA/MW peak output capacity, such as PV systems or small wind turbines which are located on residential, commercial or industrial sites where electricity is also consumed. SSEG is in contrast to large-scale wind farms and solar parks that generate large amounts of power, typically in the multi-MW range. Most of the electricity generated by an SSEG is consumed directly at the site but times arise when generation exceeds consumption and a limited amount of power is allowed to flow in reverse - from the consumer onto the utility grid.

8.2 An SSEG therefore generates electricity that is "embedded" in the local electricity distribution network in that it is connected to the consumers wiring, typically behind the consumers meter, which is in turn connected to the distribution network.

9. Policy principles

9.1 Consumers are not allowed to connect SSEG to the municipal grid without the written consent of the Municipality. Consumers found to have illegally connected SSEG to the grid (either before or after their electricity meter) will be instructed to have the installation disconnected from the grid. Should the consumer fail to have the SSEG disconnected from the grid, the Electricity department reserves the right to disconnect the electricity supply as stipulated within the Electricity By-laws.

9.2 The document *'REQUIREMENTS FOR SMALL-SCALE EMBEDDED GENERATION: Conditions and application process to become an embedded generator in Moqhaka Local Municipality'* (hereinafter 'REQUIREMENTS document') specifies detailed technical, procedural and other conditions and parameters that must be adhered to. The latest version of this 'REQUIREMENTS' document must be consulted, and adherence to the provisions therein complied with.

9.3 Consumers who wish to connect SSEG to the municipal grid are required to follow the application procedure as detailed in the REQUIREMENTS document.

9.4 Any existing SSEG systems or applications submitted prior to the adoption of this Policy will have to demonstrate compliance with this Policy through following the application procedure specified herein.

9.5 Existing legislation requires that systems up to 100 MVA do not need a NERSA license. The Municipality will process applications for SSEG systems up to 100 MVA without evidence of a generating license. Anyone wanting to connect greater than 100 MVA must produce a generating license or exemption letter from NERSA with their application. Should the licensing regulations change, SSEG customers will be required to comply with the new regulations at their own cost.

9.6 All embedded generation systems installed within the Municipality's grid must be signed off on commissioning by appropriate personnel as defined in the REQUIREMENTS document.

10. MUNICIPAL MANAGER AS RESPONSIBLE AND ACCOUNTABLE OFFICER

10.1 The Municipal Manager is responsible and accountable for the implementation and enforcement of the provisions of this Policy and must take the necessary steps to do so.

10.2 The Municipal Manager shall from time to time report to the Executive Mayor on matters relating to this Policy, the efficacy of the tariffs set by the Council in terms hereof, the administrative mechanisms, resources, processes and procedures related to its implementation and the extent to which the Policy is achieving the objectives of the Council.

10.3 All the necessary power and authority is hereby delegated to the Municipal Manager to enable him/her to fulfil his/her functions, responsibilities and obligations in terms hereof, including appropriate revisions of the REQUIREMENTS document to keep up to date with this fast-changing field, with full authority to further delegate any specific responsibility.

11. IMPLEMENTATION

11.1 Application process

The Municipality requires that all prospective SSEG customers fill in the Municipality's SSEG application form and submit it to the relevant office for assessment. The Municipality will evaluate the application according to criteria in the NRS097-2-3 and other criteria as noted in the REQUIREMENTS document, and inform the applicant of the success or otherwise of the application. Should the application not be successful, the Municipality will advise the applicant regarding necessary measures to enable compliance with the criteria and SSEG connection. Further information or technical studies may be requested by the Municipality before a conclusion can be reached.

11.2 Commissioning

Approved SSEG systems, once installed, must be commissioned and signed off by suitable personnel as specified in the REQUIREMENTS document. A Commissioning Report must be provided to the Municipality on the prescribed form.

11.3 Metering

All SSEG systems must have approved bi-directional meters installed, as clarified in the REQUIREMENTS document.

11.4 Contractual agreements

All new SSEG customers must agree to the Municipality's GENERAL TERMS AND CONDITIONS: CONTRACT FOR CONNECTION OF AN EMBEDDED GENERATOR before generation may commence. This contract clarifies the legal responsibilities of both the customer and the Municipality.

11.5 SSEG Tariffs

The Municipality aims to implement SSEG tariffs which both cover municipal costs (fixed and variable) in different tariff categories, and will also be cognizant of a reasonable return-on-investment for the SSEG customer. The tariff will be implemented only once NERSA has approved such a tariff. Prior to such tariff implementation, reverse feed-in to the Municipal grid will be permitted, but no financial compensation will be given.

11.6 Standards

All SSEGs are to comply with the following standards:

1. NRS 097-2-1: *Grid interconnection of embedded generation: Part 2 Small Scale Embedded Generation, Section 1: Utility interface.*
2. NRS 097-2-3: *Grid interconnection of embedded generation: Part 2 Small Scale Embedded Generation, Section 3: Simplified utility connection criteria for low voltage connected generators.*

In addition, SSEG installations are to comply with the following standards, legislation and regulations:

1. *South African Renewable Power Plant Grid Code (although the NRS 097-2 series cover most issues relevant to SSEG).*
2. *NRS 048: Electricity Supply – Quality of Supply*
3. *SANS 10142-1, including SANS 10142-1-2: The wiring of premises (as amended and published).*
4. *SANS 474 / NRS 057 : Code of Practice for Electricity Metering*
5. *Municipality Electricity Supply by-law.*

The REQUIREMENTS document has specific information regarding compliance with the above standards or specifications.

12. EFFECTIVE DATE OF POLICY

This Policy will become effective from the date of approval by the Municipal Council. Tariffs contemplated within this Policy will be formulated as part of the annual budget approval process, and will become effective pursuant to the dates stipulated therein. Tariffs are subject to NERSA approval.