DEPARTMENT OF MINERAL RESOURCES AND ENERGY

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NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Title: Regulatory Reporting Manual Volume 1:

General Regulatory Reporting Procedures and Administrative Matters

Version 3

Purpose: To prescribe and provide guidance to the regulated entities in the Energy Sector on the format, content, preparation and submission to the Energy Regulator of required information to perform its functions.

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LIST OF ABBREVIATIONS AND ACRONYMS

ABC	Activity Based Costing
CAM	Cost Allocation Manual
Capex	Capital expenditure
CFF	Cash flow from financing activities
CFI	Cash flow from investment activities
CFO	Cash flow from operating activities
DEE	Department of Electricity and Energy
ERP	Enterprise Resource Planning
FAQ	Frequently Asked Questions
FCF	Free Cash Flow
FVA	Fair value accounting
GRAP	Generally Recognised Accounting Practice
IFRS	International Financial Reporting Standards
IPP	Independent Power Producer
IRBA	Independent Regulatory Board for Auditors
MFMA	Municipal Finance Management Act
NBV	Net Book Value
NERSA	National Energy Regulator of South Africa
NFI	Non-Financial Information
Opex	Operational expenditure
PFMA	Public Finance Management Act
RRM	Regulatory Reporting Manual
RFR	Regulatory Financial Report
RA	Registered Auditor
RAB	Regulatory Asset Base
RV	Regulatory value
SA GAAP	South African Generally Accepted Accounting Practice
SLA	Service Level Agreement

TERMINOLOGY

1. Affiliate or Associate or Related Party – include corporations or business enterprises that are: [1] members of the same group of companies as the Corporate Entity, including subsidiaries, joint venture partners, joint venture companies and other similar arrangements, and the group's associated companies over which the Corporate Entity's ultimate shareholder (where ultimate shareholder excludes the Government) can exert significant influence; and [2] companies outside the group of companies of which the Corporate Entity is a member, over which the Corporate Entity's ultimate shareholder (where the ultimate shareholder excludes the Government) can exert significant influence.
2. Cash Flow from Financing Activities – arises from raising (or decreasing) cash through the issuance (or retraction) of additional shares, short-term or long-term debt for companies' operations.
3. Cash Flow from Investment Activities – arises from investment activities such as acquisition or disposition of current and fixed assets.
4. Cash Flow from Operating Activities – arises from normal operations such as revenues and cash operating expenses net of taxes.
5. Cost Allocation – the process of correctly assigning a single cost to more than one business unit, activity, process, product or service, based on the cost allocator, in a manner that prevents cross-subsidisation.
6. Cost Allocator – a formula or ratio for sharing the cost of an activity among those that cause the cost to be incurred.
7. Cost Driver – a measurable event or quantity that influences the level of costs incurred, which can be directly traced to the origin of the costs themselves.
8. Cross-subsidisation – when a firm producing more than one product uses the revenues from the sale of one product to cover the costs of producing another product, or the process of assigning costs between divisions/services/products in a manner that does not objectively reflect the manner in which the costs are incurred.
9. Direct Costs – costs that are specifically incurred on behalf of a specific entity with an identifiable causal relationship with a business unit, activity, process, product or service. Direct assignment is applied in case of direct costs.
10. DEE – Department of Electricity and Energy.
11. Electricity Regulation Act – Electricity Regulation Amendment Act, 2024 (Act No. 38 of 2024).
12. Energy Regulator – the structure that consists of nine members, five of whom are part-time and four are full-time, including the Chief Executive Officer (CEO).
13. Fair Value Accounting – the practice of periodically revaluing the Regulatory Asset Base, ideally by reference to current prices of similar assets.
14. Free Cash Flow – the money a company has left over after paying its operating expenses

(opex) and capital expenditures (capex).

15. Fully Allocated Cost – the total of all direct and indirect costs, including the cost of capital incurred in providing both regulated and non-regulated goods and/or services.
16. Gas Act – the Gas Act, 2001 (Act No. 48 of 2001).
17. Government – Government of the Republic of South Africa.
18. Historical Cost – 'actual cost' or 'original cost' or 'purchase price' of the asset. Where no historical cost information exists, the RAB is the deemed historical cost at the commencement of economic regulation.
19. Incremental Costing or Marginal Costing – a pricing approach based on the additional cost of producing a product/service.
20. Independent Power Producer (IPP) – any person in which the Government or any organ of state does not hold a controlling ownership interest (whether direct or indirect) that undertakes or intends to undertake the development of new generation capacity pursuant to a determination made by the Minister in terms of the Electricity Regulation Amendment Act, 2024 (Act No. 38 of 2024).
21. Indirect Costs – costs that are not directly assignable to a product or service but incurred by an entity or business unit in producing the regulated product or service. This includes, but is not limited to, overhead costs, administrative and general costs, and taxes. Indirect costs are allocated based upon a methodology as set forth in this Manual.
22. Joint Costs – costs that do not have a specific, identifiable causal relationship with a particular entity or affiliate, but which benefit all affiliates/business units, or more than one. Joint costs are also referred to as common costs and include corporate costs.
23. Licensee – a holder of a licence granted or deemed to have been granted by the Energy Regulator under the National Energy Regulator Act, 2004 (Act No. 40 of 2004), Electricity Regulation Amendment Act, 2024 (Act No. 38 of 2024), Gas Act, 2001 (Act No. 48 of 2001), Petroleum Pipelines Act, 2003 (Act No. 60 of 2003). 'Licensee' and 'Regulated Entity' shall be used interchangeably.
24. Long-lived asset – asset with an economic (service) life that spans over several years.
25. Manual – Regulatory Reporting Manual.
26. Minister – Minister of Mineral and Petroleum Resources or Minister of Electricity and Energy.
27. Modified Historical Cost/Trended Original Cost – historical cost indexed by inflation.
28. National Energy Regulator Act – National Energy Regulator Act, 2004 (Act No. 40 of 2004).
29. National Treasury – Department of National Treasury of the Republic of South Africa.
30. NERSA – National Energy Regulator of South Africa.
31. Petroleum Pipelines Act – Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).
32. Price – as defined in the Electricity Regulation Amendment Act, 2024 (Act No. 38 of 2024)

or the Gas Act, 2001 (Act No. 48 of 2001).

33. Registered Auditor – means an individual or firm registered as an auditor with the Independent Regulator Board of Auditors (IRBA).
34. Regulated Business – any licensee, service or activity that is subject to regulation by NERSA in terms of the National Energy Regulator Act, 2004 (Act No. 40 of 2004), the Electricity Regulation Amendment Act, 2024 (Act No. 38 of 2024), the Gas Act, 2001 (Act No. 48 of 2001), or the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).
35. Regulated Entity – Regulated Business.
36. Regulatory Reporting Manuals (RRMs) – detailed regulatory reporting procedures, requirements and guidelines to be implemented by the regulated entities.
37. Regulatory Financial Reports or Regulatory Financial Statements – financial records and reports or statements to be prepared and submitted to the Energy Regulator by a regulated entity as prescribed by this Regulatory Reporting Manual.
38. Tariff – as defined in the Electricity Regulation Amendment Act, 2024 (Act No. 38 of 2024), the Gas Act, 2001 (Act No. 48 of 2001), or the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).
39. Useful Life of Asset – is the estimated lifespan of a depreciable fixed asset, during which it can be expected to contribute to company operations.
40. Shared Services – services that are corporate or general purpose in nature and are used by various or all business units but are not operations related.
41. Transfer Pricing – the pricing of products/services that one affiliate/business unit supplies to another affiliate/business unit of the same organisation.
42. Unregulated Business – an entity, service or activity that is not subject to regulation by the Energy Regulator.

Other accounting terminologies used herein, unless defined otherwise in the RRMs, will take the same meaning as that given in the IFRS and/or South African GAAP/GRAP.

PART 1: GENERAL GUIDANCE

1.1. Background

The National Energy Regulator of South Africa (NERSA) requires sufficient and accurate information from regulated entities in order to make well-informed decisions on issues of market demand, competition development, service quality/availability, financial health of the regulated entities and setting/approval of fair and reasonable tariffs aligned with the public interest.

To gather that information, the Energy Regulator issues the Regulatory Reporting Manual (RRM), Volume 1, for implementation by licensees for recording and submitting financial and non-financial information regularly in a systematic and consistent manner. The goal is to have focused financial and non-financial information relevant to economic regulation to enhance the efficiency and transparency of the regulatory process.

The RRM not only provides a uniform system of regulatory reporting by regulated entities, but also requires accounting separation of financial information (also known as ring-fencing) when the regulated entity has other businesses that the Energy Regulator does not regulate or as the Energy Regulator may require separating different activities within a regulated entity.

The RRMs are divided into three sections:

- Section 1 (Volume 1) contains general administrative issues and instructions that apply to all entities in the regulated energy industry.
- Section 2 (Volume 2, Volume 3 and Volume 4) contains industry-specific charts of accounts, activity analysis and reporting templates.
- Section 3 (Volume 5, Volume 6 and Volume 7) contains industry-specific non-financial information for the regulated industries and reporting templates.

RRM Volume 1, which is this volume, is divided into two main parts, namely financial information, which is covered under Part 2 of this volume, and non-financial information, which is covered under Part 3. The regulatory financial information may, at times, differ from what is contained in statutory financial statements.

1.2. NERSA Legislative Mandate to Prescribe Reporting Requirements

In terms of section 14 of the Electricity Regulation Amendment Act, 2024 (Act No. 38 of 2024) ('the Electricity Regulation Act'), section 21 of the Gas Act, 2001 (Act No. 48 of 2001) ('the Gas Act'), and section 20 of the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003) ('the Petroleum Pipelines Act'), NERSA should prescribe licence conditions to regulated entities that may include, among other considerations, providing the Energy Regulator with required information to perform its functions. Section 21(1) (u) of the Gas Act and section 20(1) (u) of the Petroleum Pipelines Act provides that, as a condition of licence 'licensees must provide information necessary for the Regulator to perform its functions'. Section 14(1) (b) of the Electricity Regulation Act provides that 'The Regulator may make any licence subject to conditions relating to the furnishing of information, documents and details that the Energy Regulator may require for the purposes of this Act'. Section 20(1)(e) of the Petroleum Pipelines Act also provides that, as a condition of licence, 'the petroleum loading, pipeline and storage activities of vertically integrated companies may be required to be managed separately with separate accounts and data with no cross-subsidisation'. In addition, as a licence condition, the Energy Regulator can prescribe a tariff methodology. A tariff methodology can have implications for account structures.

Pursuant to section 35 of the Electricity Regulation Act, the Energy Regulator may, after consultation, make rules by notice in the *Gazette* that may relate to the keeping of information, the rendering of returns and the period for and format in which information must be kept, as well as the persons or institutions it must be rendered to.

Pursuant to section 34 of the Gas Act, after consultation and duly considering public comments, the Minister may, by notice in the *Gazette,* make regulations regarding, among others, the rendering of information to the Energy Regulator.

Pursuant to Gas Regulation 17(1) (a), a licensee must submit to the Gas Regulator, in addition to any other information required, detailed audited annual accounts consisting of a balance sheet, income statement and cash flow statement for each licensed gas facility and activity.

Pursuant to section 33 of the Petroleum Pipelines Act, after consultation and duly considering public comments, the Minister must, as appropriate, by notice in the *Gazette,* make regulations regarding, among others, the rendering of information to the Energy Regulator.

Section 33 of the Electricity Regulation Act and section 29 of both the Gas and Petroleum Pipelines Acts grant any person authorised by the Energy Regulator, in writing, the right of entry to inspect, among others, books, accounts or other documents relating to the regulated entity. Furthermore, the Energy Regulator may require any person to furnish the Energy Regulator with such information, returns or other particulars as may be necessary for the proper application of these Acts. The Energy Regulator may require the accuracy of that information, return or furnished particulars to be verified by way of oath/solemn declaration or require that the licensee ensure that the relevant governance approval process has been followed.

1.3. Regulatory Functions of NERSA

The role of NERSA is to regulate the electricity, piped-gas and petroleum pipelines industries. The powers and duties/functions of NERSA in terms of section 4 of all three enabling Acts include the following:

a. Regulate electricity prices and tariffs; set tariffs for petroleum pipeline operation and approve tariffs for petroleum storage and loading facilities; regulate prices in terms of section 21(1) (p) of the Gas Act in the prescribed manner; monitor and approve and, if necessary, regulate gas transmission and storage tariffs in terms of section 4(h) of the Gas Act and take appropriate action when necessary to ensure that they are applied in a non-discriminatory manner as contemplated in section 22 of the Gas Act, and administer the agreement concerning the Mozambique gas pipeline.
b. Promote competition in the petroleum pipelines and gas industries as well as competitiveness and customer and end user choice in electricity.
c. In electricity, establish and manage monitoring and information systems and a national information system, and coordinate the integration thereof with other relevant information systems; gather and store information relating to construction, conversion and operation of petroleum pipelines, loading facilities, and storage facilities; and gather information relating to gas production, transmission, storage, distribution, trading, liquefaction and regasification.
d. Licensing in the electricity, piped-gas and petroleum pipelines industries.
e. Compliance in the electricity, piped-gas and petroleum pipelines industries.
f. Dispute resolution in the electricity, piped-gas, and petroleum pipelines industries.

To fulfil these functions, NERSA employs a range of regulatory tools, one being Regulatory Reporting, which involves the reporting of both financial and non-financial information to the Energy Regulator (ER) by licensees.

1.4. Purpose of Regulatory Reporting Manuals (RRMs)

The purpose of the Regulatory Reporting Manuals is to prescribe reporting procedures and requirements in order to achieve uniformity and consistent reporting of elements that are required for tariff setting, monitoring and/or tariff approval, such as: operating and maintenance expenses, capex/asset values, depreciation, taxes, return on investment, compliance, as well as profit commensurate with risk. Regulatory Financial Reports as set out in the Manuals [1] accommodate financial segregation between regulated activities/products/services in a vertically integrated business, [2] accommodate financial segregation of regulated business from non-regulated businesses, [3] incorporate current legislative requirements, [4] support the adopted regulatory methodologies in the regulated businesses, [5] provide guidance necessary for unbundling cost allocation and rate design, and [6] provide consistency of format in regulatory financial reports in the energy sector. The non-financial reports assist in bringing certainty to non-financial information requirements, providing an adequate information base required by the Energy Regulator, achieving uniformity in measurement, improving transparency and consistency in the regulatory process and enhancing regulatory efficiency. The implementation of the RRMs will assist in bringing certainty to regulatory reporting requirements, providing an adequate information base for future price/tariff setting, monitoring the financial health of the regulated entity, monitoring performance and improving transparency in the regulatory process, as well as monitoring compliance and enhancing regulatory efficiency.

Expected benefits from RRM implementation are the following:

a. Consistency of reported regulatory information

This provides for easier understanding and submission of tariff and maximum price applications. The RRMs also ensure that the information requested for regulatory purposes is submitted correctly, which should reduce further information requests. Reporting on a consistent basis from year to year is valuable, as it assists in providing the market trends.

b. Comparability of information over time both within and between regulated entities

It is much easier to compare information when it has been recorded on a

consistent basis, thereby improving the Energy Regulator's ability to test whether applications and budgets are reasonable. Standardisation allows the development and calculation of metrics and performance measures that can be used for comparison purposes and as a starting point to understanding variations.

c. More complete and comprehensive applications

To a great extent, it will help resolve the issue of how much and what type of information to include in a regulatory application, which in turn will result in reduced information requests. Both the regulated entity and the Energy Regulator will have greater certainty on regulatory reporting requirements.

d. Regulatory efficiencies

It will promote high standards, consistent submission of complete applications and an improved understanding of price/tariff application requirements. It will reduce information requests, leading to greater regulatory efficiency. The RRMs will save time spent in public hearings by shifting focus from 'what is contained in the application' to 'why.'

e. Monitoring compliance with Energy Regulator conditions/requirements

The regulatory financial reports will allow the Energy Regulator to detect compliance with decisions/reasons for decisions and whether licence conditions have been complied with.

f. Informing tariff reviews and setting/approving of tariffs

A clawback will be determined more efficiently due to the availability of actual figures from a previous period. Readily available data or trends may assist the Energy Regulator in knowing what is happening within the regulated entities, leading to more informed decisions regarding tariff setting/approval and reviews.

g. Detection of cross-subsidisation and discrimination within businesses

All or part of these are regulated. Trend analysis can allow for the detection of cross-subsidisation and discrimination within businesses.

Implementation of the RRMs assists in bringing certainty to regulatory reporting requirements, providing an adequate information base for future price/tariff approval, monitoring the financial health of the regulated entity, monitoring performance and improving transparency in the regulatory process and enhancing regulatory efficiency.

1.5. Applicability of the Regulatory Reporting Manual (RRM)

The RRM applies to all licensees/entities regulated by NERSA and has implications for the regulated entity's affiliates to the extent that there are transactions with the affiliate(s), and allocation of cost to/from/between these affiliates and the regulated entity.

In this regard, the RRM has been designed for use by:

a. each regulated entity's accounting, financial and regulatory personnel;
b. the regulated entity's auditors;
c. any person appointed by the Energy Regulator to conduct verifications/inspections envisaged by the Act; and
d. NERSA regulatory staff.

1.6. Disclaimer

Inclusion of any item or account in the prescribed RRM does not necessarily imply NERSA's acceptance for tariff setting/approval purposes of any expenditure, revenue, or procedure suggested by the use of such account or imply the adequacy of such information to enable the Energy Regulator to make a decision.

Although the implementation of RRM is expected to lead to more complete/comprehensive application filing and thereby reduce information requests, there will still be certain well-justified circumstances when additional information would be required in order to fully clarify a specific aspect of a requested revenue requirement in an application.

PART 2: FINANCIAL INFORMATION

This section of the RRM discusses the general preparation and reporting guidelines for the financial information to be submitted by all licensees to the Energy Regulator.

2.1 General Preparation and Reporting Guidelines

2.1.1 Reporting currency

The regulatory financial reports must be presented in South African Rand.

2.1.2 Basis of preparation of regulatory financial reports

The Energy Regulator requires information to perform its functions, such as maximum price/tariff setting/approval and performance monitoring. This information shall be prepared by a regulated entity/licensee and provided to the Energy Regulator. The information may differ from that prepared for the statutory financial statements.

The purpose of the RRMs is to provide guidance on additional details, calculations, content, structure and format of regulatory reporting needed specifically for energy regulation. The Regulatory Financial Reports (RFRs) should therefore be prepared in accordance with these RRMs in order to fulfil these information requirements.

2.1.3 Reporting convention – historical cost

The Regulatory Financial Reports should be prepared under the historical cost convention and as specified in the RRM. Where no historical cost information exists, the regulatory asset base (RAB) is the deemed historical cost at the commencement of economic regulation as explained in the following paragraph.

Use of historical costs requires information dating back to when the oldest assets in service were first commissioned. For long-lived pipeline assets, this may be some time ago, and the relevant information may not be readily available. Similarly, some gas pipelines/electricity lines businesses' asset registers may be incomplete or/and incorporate inconsistent assumptions about depreciation. To address these limitations, the Energy Regulator may make specific decisions in this regard to determine a vesting RAB of the assets in question. This is expected to be a one-off valuation (i.e. based on independent valuator and approved by NERSA) at the start of economic regulation. A form of modified historical cost valuation approach or trended original cost, taking into account the estimated remaining useful life, will be applied to determine the vesting RAB of the affected long-lived assets. The so-determined vesting RABs become the proxy for historical cost going forward and for the asset's remaining useful life. Any re-

evaluation of the RAB should be submitted to NERSA for approval before the tariff/maximum price application.

2.1.4 Reporting convention – fair value accounting (FVA)

Fair value accounting (FVA) is added as an alternative to historical cost. The inclusion of FVA is to accommodate the replacement cost methodology. The use of the FVA should be in line with the relevant methodology in consultation with the Energy Regulator. However, if the licensee is using historical cost (as is the case currently with most licensees) there is no need to revalue (i.e. FVA), unless the methodology requires it.

2.1.5 Reporting convention – accrual basis

The regulatory financial reports should be prepared on an accrual basis.

2.2 Cost Allocation and Separation Principles

The allocation (assignment and attribution) of costs should ensure that separation and no cross-subsidisation occurs between regulated and non-regulated lines of business and between regulated businesses themselves, products or services. The cost of each activity should be distributed among the business units based on direct assignment when possible, and based on cost drivers when not.

The cost allocation method, affiliate transactions and transfer pricing policies should be documented in a Cost Allocation Manual (CAM) and reviewed every five years, or whenever necessary, to reflect any changes in cost relationships and cost allocators/cost drivers.

The Energy Regulator may review the standardised CAM as and when required, possibly more frequently than the envisaged five-year formal review cycle. The CAM should be approved by the Energy Regulator as specified in this Manual.

The CAM should be prepared using the fully allocated cost approach, and the allocation methodology should adhere to the principles listed below.

2.2.1 Causality

Causality means there is a causal relationship between the cost driver and the costs incurred in performing the activity. Revenues, costs, assets and liabilities must be attributed in accordance with the activities that cause the revenues to be earned or costs and liabilities to be incurred or the assets to be acquired.

Where cost causation cannot be easily ascertained or established, cost drivers should be selected based on benefits received.

2.2.2 Objectivity

The attribution methods should be objective, prevent cross-subsidisation and ensure equitable cost sharing among the entity's regulated businesses, non-regulated business and its affiliates without unduly benefiting any of them.

2.2.3 Consistency

The attribution/allocation methods should be consistent from year to year. Where there are changes to the methodology, the regulated entity should restate the previous year's (or any other applicable comparative figures') Regulatory Financial Reports to reflect the impact of the changes.

2.2.4 Transparency

The attribution method should be transparent. All direct and allocated costs, revenues, assets and liabilities separately distinguishable from each other should be traceable on the accounting records of the regulated entity to the applicable regulatory financial reports submitted by the entity.

2.3 Cost Allocation and Separation Methodology

2.3.1 Methodology overview

The regulated entities should adopt the fully allocated cost approach (sum of direct cost plus a share of indirect costs) whereby direct costs are assigned directly to the product/services while indirect costs are traced to an activity centre or cost pool from where the primary cost driver or relevant proxy must be identified and used to allocate the costs between regulated and non-regulated lines of business, products or services.

One of the fundamentals behind the fully allocated cost approach is to eliminate arbitrary cost allocations and instead use cost drivers, work orders and other such instruments to ensure direct assignment to the maximum extent possible.

2.3.2 Fully allocated cost approach

The fully allocated cost approach entails two steps to distribute costs among business units:

1. Direct Assignment
2. Allocation based on a Cost Allocator

1. Direct assignment

Direct assignment should be applied when the portion of an activity used by a business unit can be reasonably established. Direct assignment is preferable to allocation because it is based on a more direct relationship.

2. Allocation based on a cost allocator

Allocation will apply where more than one business unit uses an activity, but the portions of the activity that each use cannot be directly established. In this case, a cost driver must be identified and a cost allocator assigned to distribute the costs of the activity. A cost allocator is a formula for sharing the cost of an activity among those who cause the cost to be incurred according to the causality principle mentioned above.

It is acknowledged that some amount of cost allocation is unavoidable. However, best practice suggests that when it comes to cost allocations, less is better. Therefore, allocations will only be allowed when there is no other feasible alternative for direct assignment.

Clearing accounts may be used for indirect costs that are to be allocated to more than one account, from which they are then allocated on a determined cost-driver basis. The clearing accounts must be zeroed at the end of each regulatory reporting period of the regulated entity.

Discussions on the activity analysis for each of the three regulated businesses are found in the respective industry specific manuals (see Volume 2, Volume 3 and Volume 4).

2.4 Affiliate Transactions and Transfer Pricing Policies

2.4.1 Overview

The basic principle to govern transactions between the regulated entity and affiliates and/or between business divisions, whether carrying out regulated activities or not, is that only costs relating to the operation of the licensed activity are allowed for tariff-setting/approval and other regulatory purposes. Vertically integrated businesses shall, where required, keep separate accounts for separate business units and shall separate these between regulated and non-regulated businesses. The principal objectives of this separation are to:

1. minimise the potential for a utility to cross-subsidise these activities; and
2. ensure there is no preferential access to regulated entity services.

2.4.2 Affiliate transactions – sale price to affiliate

The sale price to an affiliate/division should not be less than fair market value. Where no market value exists, no less than cost-based price should be charged. Cost-based price should follow the RRM cost allocation guidelines. When a regulated product or service is provided, the transaction should be recorded in the regulated revenue accounts at the prevailing approved tariff rate.

2.4.3 Affiliate transactions – purchase price from affiliate

Purchases from an affiliate/division should not exceed fair market value. Where no market value exists, payment reflected should be no more than the cost-based price. Cost-based price should follow RRM cost allocation guidelines. When a regulated product or service is received, the transaction should be recorded in the regulated expense accounts at the prevailing approved tariff rate.

2.4.4 Asset transfers

The regulated entity should sell assets to an affiliate/division at no less than Net Book Value (NBV), and the regulated entity should buy assets from the affiliate/division at no more than NBV. For public entities, there may be cases where the National Treasury may prescribe the values at which a regulated public entity should buy, sell or transfer assets. If such values prescribed by the National Treasury are derived on a historical cost basis or, where original costs are not available, on a modified historical cost basis, then those values may become the Regulatory Asset Value (RAV) at the commencement of economic regulation.

2.4.5 Shared services joint costs

To the maximum extent possible, shared costs should be assigned directly to licensees/affiliates on the basis of causation or usage, and where cost causation cannot be easily ascertained or established, cost drivers should be selected based on the benefits received.

A key element is to ensure that transactions are at arms-length. Market testing is usually used to determine that an at arm's length transaction is taking place. An at arm's length contract, such as a Service Level Agreement (SLA), should be entered into. Wide market tendering [every three years or as specified by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) or industry best practice] should be used to ensure competitive inter-business/division charging. Where no market exists, allocation of shared costs should use a reasonable method for a fair and equitable split as envisaged in the RRM on cost allocation and transfer pricing.

2.4.6 Loans

The interest charges between a regulated entity and its affiliate should be based on the regulated entity's fully allocated cost of debt derived as the sum of actual cost plus an allocated treasury function cost, using a cost driver selected on the basis of 'benefit received'. However, where the regulated entity's fully allocated cost of debt is lower than the prevailing interest rate that the affiliate can obtain elsewhere, the higher rate should be used by the regulated entity to calculate interest charges to the affiliate.

2.4.7 Disclosure requirements for affiliate[1] transactions

The regulated entity should keep its accounts and records of all affiliates' transactions that are material in nature so as to be able to furnish accurate and expeditious reports of all transactions with affiliates. The reports are required to show:

a. an explanation of the affiliate relationship, a detailed description of the nature and purpose of transactions with the affiliate entity;
b. the total amounts involved;
c. a breakdown of the charges to and from each affiliate clearly split between the operating expenditure (opex) (excluding depreciation), depreciation, capital expenditure (capex) and revenues – this breakdown should clearly indicate the amounts included in each account prescribed in the RRM with respect to such

[1] See under Terminology, point number 1, definition of 'affiliation'.

transactions; and

d. any other information about affiliate transactions necessary for an understanding of the financial statements, e.g. disclose those affiliate transactions valued at fair market value, tariff rates, and those valued using fully allocated cost-based recovery.

However, there are instances where the Energy Regulator may waive disclosure of information about transactions between public/government entities where the transactions are consistent with normal operating relationships between the entities and are undertaken on terms and under conditions that are normal for such transactions in these circumstances.

2.5 Audit of Regulatory Financial Reports

2.5.1 Role of the auditor in regulatory financial reports

An independent audit of the Regulatory Financial Reports enhances the quality, objectivity, and credibility of the regulatory financial reports for the Energy Regulator's and other stakeholders' use.

2.5.2 Appointment of auditors for regulatory financial reports

Section 33 of the Electricity Regulation Act and section 29 of both the Gas and Petroleum Pipelines Acts grant any person authorised by the Energy Regulator in writing right of entry to inspect, among others, books, account or other documents relating to the regulated entity found thereat. Furthermore, the Energy Regulator may require any person to furnish to the Regulator such information, returns or other particulars as may be necessary for the proper application of these Acts. The Energy Regulator may require the accuracy of that information, return or furnished particular be verified by way of oath/solemn declaration. Such an oath/solemn declaration shall be made by the responsible official that would normally sign the audited statutory accounts for the entity or, in the case of a Municipality, by the Municipal Manager, and shall constitute part of the regulatory financial statements being audited.

Annual Regulatory Financial Reports must be audited at the same frequency as, and preferably by the same auditors that are auditing, the regulated entity's statutory accounts. Using the same auditors will be more cost-effective as the auditors already have knowledge of the regulated entity's business and would avoid duplicating some of the work performed for statutory audits. Using the same auditors may also enhance the timeliness of regulatory reporting. However, this would not preclude the Energy

Regulator from appointing an auditor, in terms of section 33 of the Electricity Regulation Act and section 29 of both the Gas and Petroleum Pipelines Acts to audit the Regulatory Financial Reports, where the Energy Regulator deems it appropriate to use a different auditor from the regulated entity's incumbent auditors.

2.5.3 Form and content of auditor's engagement letter

There will be an Engagement Letter between the Energy Regulator (as acknowledging party) and the Auditor as contemplated in section 33 of the Electricity Regulation Act and section 29 of both the Gas and Petroleum Pipelines Acts. The Engagement Letter shall be between the Licensee, the auditors involved and the Energy Regulator (as acknowledging party).

The Engagement Letter between the Energy Regulator and the Auditor may specify the duty of care the Auditor owes the Energy Regulator and require the Auditor to carry out the audit with due consideration of the objectives of the Energy Regulator as contemplated in the enabling Acts. The Engagement Letter may also clarify the position on issues related to unique needs for economic regulation in line with the RRMs and the communication process between the Auditor, the regulated entity being audited and the Energy Regulator.

2.5.4 Scope of the audit

The Energy Regulator's preferred audit process of the RFRs shall be performed in accordance with the International Standards on Auditing or, in the case of public entities and municipalities, as prescribed by the Auditor-General. The regulatory reports audited would have been prepared in accordance with the RRMs.

Where a full audit is not possible, the procedure should be done according to the NERSA agreed-upon procedures (AUPs), with the aim of including those procedures in the statutory audit of a licensee. The Energy Regulator may revert to the AUPs where the statutory audit does not provide enough information for the execution of its mandate.

The licensee must grant the auditor unlimited access to the accounting and other records, as well as any information and explanations required for an audit of regulatory financial reports.

2.5.5 Materiality and audit framework of specialised areas

In a situation where the materiality level used for the audit of group-level statutory accounts may be significantly larger than its individually licensed activities to the extent that transaction tests will not sufficiently test Regulatory Financial Report items, the auditor should conduct further transaction testing for the Regulatory Financial Reports beyond that already performed for statutory accounts. The transaction testing on regulatory financial reports should, as a minimum, be equivalent to that performed on statutory accounts as if the auditor were only engaged to audit the regulatory financial reports.

Appendix 1 as attached to this RRM shows some of the specialised high-level areas that may constitute part of the scope of the audit for regulatory financial reports. The actual scope of the audit is to be discussed between the licensee and the Regulator at the time when the audit takes place.

2.5.6 Audit opinion

The audited regulatory financial reports will be addressed to the Energy Regulator. The auditors will express an opinion on whether the annual Regulatory Financial Report has been prepared in all material respects in accordance with the RRMs.

2.5.7 Cost of the audit

The regulated entity being audited will bear all the audit costs with provision that such costs may be recovered from tariffs.

2.6 Administrative Issues

2.6.1 Required regulatory financial reports.

Half-year regulatory financial reports

NERSA may, from time to time, request a licensee to provide half-year regulatory financial reports (RFRs) for monitoring purposes. This information should be in columns accompanied by explanatory notes showing:

a. actual performance for reporting period;
b. estimates (projections) as used in NERSA's allowable revenue decision as the basis on which to set/approve revenue/tariffs; and
c. a declaration that the information presented is complete and accurate and complies with the RRM signed by the responsible person as indicated in section 2.6.1. (f) below.

These half-year regulatory financial reports need not be audited.

Annual regulatory financial reports

The annual (full year) regulatory financial reports should provide annualised comparatives in columns of [a] current year actual against immediate previous year actual, and [b] estimates (projections) as used in NERSA's revenue decision as the basis on which to set/approve revenue/tariffs. The annual (full-year) regulatory financial reports shall include the following:

a. Balance sheet (statement of financial position)
b. Statement of retained earnings (statement of changes in net assets)
c. Income statement (statement of financial performance/comprehensive income)
d. Statement of changes in financial position (statement of cash flow)
e. Commentary explaining the financial statements, which should include:
    i. a comparison between actual current period results and assumption made during tariff application/approval;
    ii. an explanation of variances between current period actual results, the results of the previous year and the assumptions made in setting/approving tariffs;
    iii. a discussion of the results against the plan and an outline of the forward plans for key business drivers such as capex, financing arrangements, organisational shape and operational performance;
    iv. a formal statement from the directors of the licensee that the licensee has complied with licence obligations and that licensee has not cross-subsidised or discriminated;
    v. detailed disclosure of basis of preparation of Regulatory Financial Reports;
    vi. a discussion of asset valuation basis and depreciation;
    vii. detailed cost attribution, cost allocation and inter-affiliate business charges,
    viii. reconciliation between information in the Regulatory Financial Reports and statutory accounts; and
    ix. the entity's statutory accounts with their supporting documents and/or notes
f. A signed declaration to the effect that the information presented is complete and accurate and complies with the RRM, which shall be signed by a suitable official that normally signs the statutory accounts for the entity, or the Municipal Manager in the case of a Municipality or as per the Licensee's relevant Governance approval process
g. Other surveillance/monitoring reports that NERSA may specifically request for the ongoing evaluation of performance, tariffs and revenues.

The annual Regulatory Financial Reports shall be audited. Estimates used in tariff setting/approval should be included in the Regulatory Financial Reports, but would not be subject to an audit. However, the Energy Regulator may specify in the Engagement Letter for the auditor to verify that the same estimates (projections) as were used in NERSA's revenue decision as the basis on which to set/approve revenue/tariff, are replicated in the comparative column for estimates of the Regulatory Financial Reports.

2.6.2 Implementation plan

Each licensee will be required to submit an RRM Implementation Plan and Implementation Cost Estimates to the Energy Regulator for approval when starting to implement the RRM. The RRM Implementation Plan and Implementation Cost Estimates enable the regulated entity to claim the approved Implementation Costs from the maximum price/tariffs. In approving the submitted Implementation Plan and Cost Estimates, the Energy Regulator will take into consideration, among others, [1] the Overall Approach, [2] Project/Work Plan, [3] Feasibility of the Solution Proposed, [4] Compliance with RRM (and especially demonstrate more direct cost assignments and minimise cost allocations), [5] Budget/Cost Containment, [6] Risk Management, and [7] Whether it is a new implementation or customisation.

2.6.3 Cost Allocation Manual (CAM)

Licensees shall be exempted from the submission of the CAM on a case-by-case basis. Unless otherwise exempted by the Energy Regulator, each licensee is also required to submit to the Energy Regulator a CAM for approval, as soon as the RRM is approved for implementation and before the licensee makes its first filing to the Energy Regulator under the RRM. Regulated entities so exempted from submitting their own CAM will be required to adopt a standardised CAM provided by the Energy Regulator. Thereafter, a licensee is required to submit a revised CAM to the Energy Regulator every five years or as and when required, possibly more frequently than the envisaged five-year formal review cycle.

2.6.4 Accounting period

Each regulated entity shall maintain its accounting records on an ongoing basis. For each regulatory reporting period, all transactions applicable thereto shall be entered in the accounting records of the regulated entity. Amounts applicable or assignable to specific business divisions shall be segregated for each regulatory period. Each regulated entity shall close its accounting records at the end of each financial year. This

financial year-end date should align with annual dates used in the tariff application for ease of analysis and monitoring.

The Energy Regulator may specify other allowed accounting periods to cater for specific dispensations as deemed appropriate to ensure the regulatory reporting burden is not unnecessarily onerous.

2.6.5 Records

Each regulated entity must keep its books of accounts, and all other records supported by detailed information as will permit ready identification, examination, analysis and verification of all facts thereto. All amounts included in the accounts for capex and opex as well as any payments disallowed by the Energy Regulator shall be tracked separately within each account prescribed by RRM. The records shall be filed in such a manner as to be readily accessible for examination by authorised representatives of the Energy Regulator. These records must be retained by the licensee for at least five years.

2.6.6 Account numbering system

Regulated entities should use account numbers and descriptions as provided in this RRM. Where it is not possible to use the account numbering system prescribed in the RRM, the regulated entities may opt to use a different system of account numbers for its own purposes, provided that a list of these account numbers is kept readily available together with a reconciliation of such account numbers with the numbers provided in this RRM. In this context, all submissions/applications/correspondence to the Energy Regulator must be referenced to in terms of the account numbering provided in this RRM.

2.6.7 Reporting time frame

Half-year regulatory financial reports (if requested for monitoring) should be submitted to NERSA within 60 days of the end of the licensee's half-year reporting period.

Annual Regulatory Financial Reports should be submitted to NERSA within six months of the financial year-end of the licensee.

All submissions of Regulatory Financial Reports must be in an electronic format for all documents. Electronic copies must include PDF and MS Excel files for materials that will form a permanent record, with the Excel files being for all financials. Any MS Word files made available to the Energy Regulator will function as working copies for all

parties to readily extract and analyse information. A hard copy should also be provided that will serve as a master copy.

2.6.8 Prior period restatement

An important tool that the Energy Regulator uses in assessing a licensee's application is the comparison of actual results to those of the prior year and/or forecasts. In order to permit this comparison, it is imperative that the forecasts, prior year and current period actual figures be recorded and reported on a similar basis. If licensees find themselves in a situation where the forecasts/prior year and actuals are prepared on a different basis, the licensee must restate, on an account-by-account basis, the forecasts/prior year in order to provide meaningful comparisons.

2.6.9 Publication and confidentiality

Section 8(9) (a) and section 10(2) of the National Energy Regulator Act, section 29 of the Gas Act and section 29 of Petroleum Pipelines Act contain specific provisions on confidentiality of information.

The Regulatory Financial Reports may be published on NERSA's website, but would exclude certain information contemplated in sections 8(9) (a) and 10(2) of the National Energy Regulator Act, section 29 of the Gas Act and section 29 of the Petroleum Pipelines Act, determined to be confidential by the Energy Regulator. It is the responsibility of the regulated entity to promptly notify the Energy Regulator of information that should not be in the public domain by clearly marking the relevant information as such. Regulated entities are also encouraged to publish the regulatory financial reports on their respective websites.

The Energy Regulator shall only share the publicly available Financial and Non-Financial Information with any person as defined in the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000).

2.6.10 Timelines (effective date) of the RRM

The RRM is effective from the date it is gazetted.

Regulated entities are required to report according to the RRM for all submissions to be made to NERSA from the date it is gazetted, although NERSA also will encourage those regulated entities that are able to comply with and report in accordance with RRM to do so immediately.

NERSA may consider categorising regulated entities and set staggered compliance dates according to regulated entities' implementation capacity. Such a categorisation will take into account licensees' different starting points, including licensees with experience in regulatory reporting vs new or future licensees, the learning period for both the Energy Regulator and licensees, different enterprise resource planning (ERP) systems whereby some can more easily implement the RRM, different costing systems like activity based costing (ABC) vs traditional, time to amend licence conditions if necessary, and entities that have multi-year filing applications/dispensations.

2.6.11 Review and modification of the RRM

The Energy Regulator will consult with regulated entities on an ongoing basis to ensure the objectives and requirements of the RRM are being met. To maintain uniformity of reporting, the licensee should submit questions of doubtful interpretation to the Energy Regulator for consideration and decision. The Energy Regulator will be responsible for advising licensees on the interpretation and application of the RRM. All interpretations issued by the Energy Regulator will be posted on the frequently asked questions (FAQ) section of the NERSA website. The Energy Regulator will also entertain detailed annual feedback from the regulated entities on aspects of the RRM that are working well and areas that need amendment, with suggested amendments. The Energy Regulator will publish feedback/comments with the response in the FAQ section of its website.

The Energy Regulator will continuously conduct formal reviews of the content of this RRM every five years to ensure that the contents of the RRM reflect the regulatory circumstances existing at the time of the review. The Energy Regulator also recognises that special circumstances may arise that may necessitate ongoing changes, possibly more frequently than the envisaged five-year formal review cycle. This provision would therefore not preclude on-going incorporation by the Energy Regulator of justifiable changes that are considered necessary to immediately capture clarity, transparency and regulatory efficiency benefits.

The Energy Regulator will make decisions on the interpretation of the various clauses of the RRM, but any party will be entitled at any stage to take decisions of the Energy Regulator on review or appeal as contemplated in the enabling legislations.

PART 3: NON-FINANCIAL INFORMATION

This section provides a high-level discussion of the Non-Financial Information (NFI) Manuals for this RRM. As outlined in section 1.4 of the RRM, Volume 1, the NFI Manuals will assist in clarifying the regulatory reporting requirements for non-financial information, providing the Energy Regulator with an adequate information base for regulatory oversight and improving transparency in the regulatory process. The NFI Manuals apply to the Electricity Supply Industry (NFI Volume 5), Piped-Gas Industry (NFI Volume 6) and Petroleum Pipeline Industry (Volume 7). A detailed discussion of the NFI requirements for each industry is provided in the respective industry-specific NFI Manuals mentioned above.

3.1 NFI Categories

The non-financial information is grouped into two categories, namely static (initial) information and dynamic information.

3.1.1 Static information

Static information is the NFI that has already been collected by NERSA (once off) from the licensees at the time of licence application. Static information may include details such as installed capacity, licence number and power station name. Licensees should therefore note that, after licensing, static information will not be collected again as long as it remains unchanged from what was originally submitted to the Energy Regulator. The static information section is included in the different industry-specific NFI Manuals in order to amalgamate all NFI required/used or in possession of NERSA into one point of reference. This amalgamation turns the Manual into a comprehensive single source of NFI, promoting regulatory efficiency for all users identified in section 1.5 of this Manual.

3.1.2 Dynamic information

Dynamic information is the NFI that changes more regularly while the licensee is in operation. It may include information such as volume sent out and fuel volume used. Dynamic information will be collected from the licensees periodically, for example daily, weekly, monthly, quarterly, annually or on the licence anniversary date, as the case may be. The dynamic information forms the core of the NFI Manuals and serves as the basis from which the Energy Regulator will derive performance and compliance monitoring metrics as illustrated by examples in the later parts of the three NFI Manuals (namely volumes 5, 6 and 7).

3.2 Measurements/Calculations

3.2.1 Units of measurement

The units of measurement shall be in metric (Electricity and Petroleum Pipelines industries) or both metric and non-metric for the Piped-Gas industry.

3.2.2 Measurements and calculations

Each industry's NFI contains a section that defines the information or items that are subject to different interpretations of measurement approaches to enable NERSA and the regulated industries to adopt one standard measure.

3.3 Responsibility for NFI Submission and Solemn Declaration

The NFI must be submitted to the Energy Regulator by an official appointed and duly authorised by the licensee. The Energy Regulator may, at its discretion, require that the appointed official affirm the accuracy of the NFI being submitted by way of oath or solemn declaration.

Annual NFI should be submitted within six months of the licensee's financial year-end. RRM Volume 1 takes preference over volumes 5 to 7 in this regard.

NFI must be submitted using the prescribed NFI template and sent electronically via email or any other agreed-upon method.

3.4 Record Keeping

Each regulated entity must keep records supported by detailed information that will permit identification, examination, analysis and verification of all facts thereto. The records shall be kept in such a manner as to be readily accessible for examination by authorised persons and shall remain available for at least every five years, or as mandated by the National Archives and Record Service of South Africa Act, 1996 (Act No. 43 of 1996).

3.5 Audit of NFI

As discussed in section 1.2 of this RRM, the Energy Regulator may audit the NFI submitted by the licensee for accuracy if deemed necessary.

3.6 Publication and Confidentiality of Information

The Energy Regulator may publish the non-financial information submitted by licensees on its website, but such publication will exclude information determined to be confidential as contemplated in sections 8(9) and 10(2) of the National Energy Regulator Act, 2004 (Act No. 40 of 2004), section 29(4) of the Gas Act, and section 29 of the Petroleum Pipelines Act, and determined to be confidential by the Energy Regulator. It is therefore the responsibility of the regulated entity to promptly notify the Energy Regulator of information that should not be in the public domain by clearly marking the relevant information as such. Regulated entities are also encouraged to publish the non-confidential NFI on their respective websites.

The Energy Regulator shall only share the publicly available NFI with any person as defined in the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000).

3.7 Effective Date and Implementation Costs

The Energy Regulator may approve a phased implementation to provide for any other justifiable circumstances that may warrant such an approach. Licensees are required to make appropriate arrangements to comply with the prescript and guidance contained in these NFI Manuals.

Costs related to reporting in accordance with this NFI Manual should be treated in a similar manner and recovered in a similar way as the licensee's other operating and maintenance expenses for the licensed activity.

Licensees are required to report on the NFI using a NFI template.

3.8 Review and Modification of the NFI Manual

The Energy Regulator will conduct an initial formal review of the content of these NFI manuals within three years of their approval and implementation by the Energy Regulator.

Subsequent reviews will be done every five years to ensure that the contents of the NFI Manuals reflect the legislative and regulatory circumstances existing at the time of the review.

The Energy Regulator also recognises that special circumstances may arise that may necessitate ongoing changes, possibly more frequently than the envisaged five-year formal review cycle. This provision would therefore not preclude on-going incorporation by the Energy Regulator of justifiable changes that are considered necessary to immediately capture clarity, transparency and regulatory efficiency benefits.

The Energy Regulator will provide decisions on the interpretation of the various clauses of NFI, but any party will be entitled at any stage to take decisions of the Energy Regulator on review or appeal as contemplated in the enabling legislation.

APPENDIX: SCOPE OF AUDIT FOR SPECIALISED AREAS

1 Audit – Test Year

- Defined:
  - ✓ Period of Measurement for a recent, consecutive 12-month period consisting of a full year of operations where data is readily available
- Historic or Future?
  - ✓ Current or past?
  - ✓ Representative of period in which rates will be in effect?

2 Audit – Test Year Adjustments

- Correcting
  - ✓ Removal of Prior Period Items from the Test Year
- Normalising
  - ✓ Adjusting Revenues for Normalised Conditions e.g. normalised weather
- Pro Forma
  - ✓ Reflection of Authorised Salary Increases
  - ✓ General purpose is to transform the relationship that exists between the revenue requirement elements to make it reflective of what is expected to take place during the time the rates are expected to be in effect.

3 Audit – Rate Base

- Rate base is the investment base to which a fair rate of return is applied to arrive at the Allowable Revenue (or Revenue Requirement) to be set or approved.
- Original Cost is the cost of the item at the time that the asset was first put into service, and it is the cost that remains with that asset throughout its life.

3.1 Audit of rate base – regulated plant in service: used and useful

- Plant should be functioning and necessary to be included in rate computation.
- Matching in-service date with timing included in rates – Regulator Policy
- Look at major additions since last rate case or review – Type, need, cost, date in service.

3.2 Audit of rate base – plant held for future use

- Plan for Use
  - ✓ Is there a definite plan to use this plant in the future?
- Date of Use
  - ✓ When will this plant be used?

3.3 Audit of rate base – construction work in progress (CWIP)

- What is the Policy of the Regulator?
  - ✓ Allow/Disallow Plant in rates prior to being in service.

3.4 Audit of rate base – acquisition adjustments

- Represents the difference between the original cost of plant and purchase price
- What is the Policy?
  - ✓ Allow or Disallow – Return on and Return of the Investment.

3.5 Audit of rate base – customer deposits

- Source of non-investor supplied capital
- Reduction in rate base – how should interest on these deposits be treated?
- Deposit policies – are they consistent with the Regulator's rules?
- Is the regulated entity doing what it can to minimise 'uncollectible' (bad debts)?

3.6 Audit of rate base – cash working capital

- Measure of funding the daily expenditures to sustain on-going operations of the utility until those expenditures can be recovered through revenues.
- Methods used to measure Cash Working Capital include:
  - ✓ Formula Method – most popular 45 days
  - ✓ Balance Sheet Method
  - ✓ Lead Lag Study

3.7 Audit of rate base – customer advances

- Source of non-investor supplied capital
- Accounting treatment different for different industries
  - ✓ Energy Industry – this is usually netted against costs in plant account
- Consistent with tariff
- Tax treatment

3.8 Audit of rate base

- Prepayments:
  - ✓ Type of payment: Related to Service?

- Materials and Supplies
  - ✓ Level of inventory: Reasonable or Excessive?
  - ✓ Use of 13-month average