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**Revision of the Regulatory Reporting Manual Volume 1: General Regulatory Reporting  
Procedures and Administrative Matters**

**CONSULTATION PAPER**

**October 2024**

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## 1. EXECUTIVE SUMMARY

- 1.1. The National Energy Regulator of South Africa (NERSA) requires sufficient and accurate information from regulated entities 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.
- 1.2. To gather that information, NERSA issued this Regulatory Reporting Manual (RRM) for implementation by licensees for purposes of recording and submitting to NERSA financial and non-financial information regularly, systematically and consistently. 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 financial information may, at times, differ from what is contained in statutory financial statements.
- 1.3. 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). Ring-fencing is important when the regulated entity has other businesses that NERSA does not regulate or as NERSA may require separating different activities within a regulated entity.
- 1.4. The RRM's are divided into three sections as follows:
  - 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.
- 1.5. Clause 2.6.10 of Volume 1, Version 2, states: '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.'
- 1.6. Stakeholders are requested to comment, in writing, on the **Regulatory Reporting Manual Volume 1: General Regulatory Reporting Procedures and Administrative Matters** as highlighted in this paper. However, general comments on aspects not highlighted are also welcome. Written comments must be sent to [rrmreview@nersa.org.za](mailto:rrmreview@nersa.org.za), hand-delivered to Kulawula House, 526 Madiba Street, Arcadia, Pretoria, or posted to PO Box 40343, Arcadia, 0083, Pretoria, South Africa. The closing date for the submission of comments is Thursday, 5 December 2024 at 16:00.

## **2. BACKGROUND**

2.1. On 31 July 2008, the Energy Regulator approved the implementation of the following four volumes of the Financial Regulatory Reporting Manuals:

- Volume 1: General Regulatory Reporting Procedures and Administrative Matters
- Volume 2: Electricity Regulatory Reporting Manual
- Volume 3: Piped-Gas Regulatory Reporting Manual
- Volume 4: Petroleum Pipelines Regulatory Reporting Manual.

2.2. In 2011, NERSA decided that the RRM project should be extended to also cater for the non-financial information (NFI) collected by NERSA, mainly to perform the licensing and compliance functions, which constitute phase 2 of the RRM project. Some of the NFI is also used by NERSA for its tariff/pricing functions.

2.3. On 26 March 2015, the Energy Regulator approved the following three volumes of NFI RRM:

- Volume 5: Electricity Industry Non-Financial Information
- Volume 6: Piped-Gas Industry Non-Financial Information
- Volume 7: Petroleum Pipelines Industry Non-Financial Information.

2.4. The Energy Regulator further approved the following with regard to the approved NFI manuals:

2.4.1. The implementation of the three approved NFI volumes.

2.4.2. The reporting of the NFI should start a year after approval by the Energy Regulator.

2.4.3. The implementation phase should be allowed for at least three years, after which the first review of the manuals can be considered if needed, and they can be formally gazetted in the relevant government gazette.

2.4.4. Licensees should be allowed to report on the NFI using Microsoft Excel spreadsheets for at least three years, after which an automated system can be considered.

2.5. On 5 September 2016, the Energy Regulator approved the revised Regulatory Reporting Manual Volume 1, Version 2: General Regulatory Reporting Procedures and Administrative Matters.

## **3. NERSA'S LEGISLATIVE MANDATE TO PRESCRIBE REPORTING REQUIREMENTS**

3.1. In terms of section 15 of the Electricity Regulation Act, 2006 (Act No. 4 of 2006) ('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 provide that, as a condition of licence, 'licensees must provide information necessary for the Regulator to perform its functions'. Section 15(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 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.

#### **Stakeholder Question Cluster #1**

Stakeholders are requested to comment on whether the legislative prescripts identified in section 3.1 of this consultation paper are relevant for RRM. If not, what would be the most relevant and appropriate prescripts?

#### **4. REGULATORY FUNCTIONS OF NERSA**

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

#### **Stakeholder Question Cluster #2**

Stakeholders are requested to comment on the regulatory functions under section 1.3 of the RRM Volume 1.

#### **5. PURPOSE OF REGULATORY REPORTING MANUAL (RRM)**

- 5.1. The purpose of this Regulatory Reporting Manual is to prescribe reporting procedures and requirements in order to achieve uniformity and consistent reporting of elements required for tariff setting, monitoring and/or tariff approval to provide consistency of format in regulatory financial reports in the energy sector. In contrast, 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 amongst others.

- 5.2. The implementation of the RRM 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.

### **Stakeholder Question Cluster #3**

Stakeholders are requested to comment on the purpose of the RRM as outlined in detail under section 1.4 of the RRM Volume 1.

## **6. REPORTING CONVENTION – HISTORICAL COST**

- 6.1. The Regulatory Financial Reports should be prepared using 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.

### **Stakeholder Question Cluster #4**

Section 2.1.3 of the RRM Volume 1 requires that the information be prepared using historical cost convention. Stakeholders are requested to comment on that approach adopted by NERSA and its implications.

## **7. COST ALLOCATION AND SEPARATION PRINCIPLES**

- 7.1. The cost allocation method, affiliate transactions and transfer pricing policies should be documented in a Cost Allocation Manual (CAM) to reflect any changes in cost relationships and cost allocators/cost drives. The CAM should be reviewed every five years. NERSA may review the standardised CAM as and when required, possibly more frequently than the envisaged five-year formal review cycle.

## Stakeholder Question Cluster #5

Licensees are required to document the Cost Allocation Manual and review it every five years.

- a) Stakeholders are requested to comment on the requirement to submit the CAM and provide motivation.
- b) Stakeholders are requested to comment on the cost allocation and separation principles.
- c) Stakeholders are requested to comment on the Cost Allocation and Separation Methodology.

## 8. AUDIT OF REGULATORY FINANCIAL REPORTS

- 8.1. An independent audit of the regulatory financial reports enhances the quality, objectivity and credibility of the regulatory financial reports for NERSA and other stakeholders' use.

## Stakeholder Question Cluster #6

Licensees are required to submit audited financial reports as per section 2.5 of the RRM Volume 1.

- a) Stakeholders are requested to comment on the form and content of the auditor's engagement letter and the fact that the engagement letter should be between the licensee, the auditors involved and NERSA (as acknowledging party).
- b) Stakeholders are requested to comment on the last paragraph of section 2.5.4 of the RRM Volume 1: *The audit shall be conducted based on the NERSA agreed upon procedures (AUP) with the aim to include those procedures in the statutory audit of a licensee.*

## 9. ADMINISTRATIVE ISSUES

### Stakeholder Question Cluster #7

Licensees are required to submit half-year Regulatory Financial Reports on request. It is mandatory for licensees to submit the CAM and annual Regulatory Financial Reports.

- a) Stakeholders are requested to comment on the fact that NERSA may, from time to time, request a licensee to provide half-year Regulatory Financial Reports for monitoring purposes under half-year Regulatory Financial Reports.
- b) Comment on the requirement to submit annual Regulatory Financial Reports.
- c) Comment on the requirement to submit the CAM for approval.
- d) Stakeholders are requested to comment on the requirement to submit the RFRs within six months after the end of the financial year.
- e) Stakeholder are requested to comment on requirements to develop charts of accounts and submit them to NERSA.

## 10. NON-FINANCIAL INFORMATION (NFI)

10.1. This section details a high-level discussion on 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, provide NERSA with an adequate information base for regulatory oversight and improve transparency in the regulatory process. The NFI manuals apply to the Electricity Supply Industry (Volume 5), Piped-Gas Industry (Volume 6) and Petroleum Pipeline Industry (Volume 7). The industry-specific NFI manuals mentioned above detail the NFI requirements for each industry.

### Stakeholder Question Cluster #8

Stakeholders are requested to comment on the requirements to submit non-financial information as outlined above.



## 10.2. Responsibility for NFI Submission and Solemn Declaration

The annual non-financial information 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.

### Stakeholder Question Cluster #9

Stakeholders are requested to comment on the requirement to submit the NFI within six months after the end of the financial year.

## 11. THE CONSULTATION PROCESS

11.1. NERSA will collate all comments received, which will be taken into consideration when the decision is made. In addition, public hearings will be held using MS Teams, where interested and affected parties may make presentations as follows:

PROVINCE	CITY	DATE
National, including all provinces	Virtual meeting	TBC

*Indicative timelines*

11.2. The consultation and decision-making process is outlined in the table below.

**Table 1: Review of the RRM, Volume 1 – Consultation and approval**

*Indicative timelines*

Task Name	Duration	Start	Finish
Revision of RRM volume 1	366 days	Mon 23/10/02	Fri 25/03/28
Discussion amongst the three division	107 days	Mon 23/10/02	Fri 24/03/08
Publication of consultation paper	183 days	Mon 24/03/11	Mon 24/12/02
Final RRM manual volume 1 presented to REC	38 days	Tue 24/12/03	Tue 25/02/04
Final RRM manual volume 1 presented to ER	25 days	Wed 25/02/05	Tue 25/03/11
RRM Manual Volume 1 successfully	13 days	Wed 25/03/12	Fri 25/03/28

## 12. ANNEXURE

### Annexure A: Regulatory Reporting Manual (RRM) Volume 1, Revision 3, with Track Changes