NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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The Decision and Reasons for Decision

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The Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

By

Nkandla Local Municipality

THE DECISION

At its meeting held on 27 May 2026, the Regulator Executive Committee (REC) considered Nkandla Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year (FY) as set out in section 8 of the tariff analysis on page 22 of the RFD.

Based on the available information and the analysis performed thus far, the REC decided:

a) to approve the tariffs that are based on the Cost of Supply (COS) Study as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;
b) to note the COS Study submitted by the municipality;

c) that the municipality must submit a report accounting for all the costs that have been noted in its COS Study, to enable NERSA to perform its independent verification/audit process by 31 January 2027; and
d) that the municipality must submit a quarterly progress report on efficiency improvement measures taken to reduce high energy losses and deficit to enable NERSA to monitor the implementation thereof commencing from 30 September 2026.

TABLE OF CONTENTS

THE DECISION.....1
TABLE OF CONTENTS.....3
ABBREVIATIONS.....6
1. INTRODUCTION.....7
2. LEGAL AND REGULATORY FRAMEWORK.....8
3. FINANCIAL AND TECHNICAL PERFORMANCE.....11
4. DETERMINATION OF NKANDLA LOCAL MUNICIPALITY'S TARIFFS BASED ON THE COS STUDY.....13
4.4.1.**Revenue Requirement**.....14
Cost Functionalisation.....18
Cost Classification.....19
Cost Allocation.....20
4.4.21. **Rate Design**.....20
5. CONCLUSION ON THE COS.....21
6. PUBLIC PARTICIPATION.....22
7. THE OBJECTORS AND OTHER INTERVENING PARTIES.....22
8. TARIFF ANALYSIS.....23
9. CONFIDENTIALITY.....25
10. CONCLUSION.....25

LIST OF TABLES

Table 1: Customer Statistics (Data obtained from the latest D-forms - 2024/25 FY)..... 7
Table 2: Performance Indicators 12
Table 3: Revenue Loss Analysis 12
Table 4: Revenue Requirement Components 14
Table 5: Operational Expenditure Breakdown 16
Table 6: Tariff Analysis 23

LIST OF FIGURES

Figure 1: Five Steps of COS 14
Figure 2: Costs Breakdown by Functions 19
Figure 3: Cost Breakdown by Cost Structure (Classification) 19
Figure 4: Costs Allocated 20
Figure 5: Cross-subsidies 21
Figure 6: Rate Design 21

ABBREVIATIONS

COS	Cost of Supply
D-form	Distribution form
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
NLM	Nkandla Local Municipality
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications yearly, in accordance with the mandate of the Energy Regulator to regulate prices and tariffs. Municipal tariffs must be approved by the Energy Regulator to be implemented on 1 July of each financial year.

1.2. Nkandla Local Municipality is situated within the King Cetshwayo District in the KwaZulu-Natal Province.

1.3. Table 2 below shows the licensee's customer statistics, indicating a total of 1 489 customers as obtained from the D-forms. Domestic customers contribute the largest share of electricity sales at 34.86%, followed closely by manufacturing/industrial customers at 34.12%.

1.4. Eskom provides Free Basic Electricity (FBE) to indigent customers on behalf of the municipality, which then reimburses Eskom for the service rendered.

Table 1: Customer Statistics (Data obtained from the latest D-forms - 2024/25 FY)

CUSTOMER STATISTICS			
Consumer classification	**Sales (MWh)**	**%MWh**	**Number of consumers**
Domestic (Pre-paid)	1 090	34,86%	900
Commercial (Prepaid)	502	16,05%	480
Commercial (Conventional)	219	7,00%	104
Manufacturing/Industrial	1 067	34,12%	5
street lighting, Own Use & other dept	249	7,96%	N/A
Totals	**3 127**	**100%**	**1 489**
Free Basic Electricity		0,00%	0

1.5. NERSA received Nkandla Local Municipality's tariff application together with its COS Study on 30 March 2026.

1.6. The study is based on the Cost-Plus Methodology as indicated in the NERSA COS Framework.

1.7. Nkandla Local Municipality implemented an average tariff increase of 12.00% during the 2025/26 financial year. For the 2026/27 financial year, the municipality initially applied for a 12.90% average increase; however, following adjustments made to account for operational inefficiencies, this proposed increase was reduced to 10.50%.

1.8. For this application, the municipality submitted its Council resolution and proof of having conducted customer consultations together with its tariff application on 30 March 2026.

1.9. NERSA followed the notice and comment consultation process. Nkandla Local Municipality's tariff application was published on the NERSA website on 30 March 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties.

1.10. NERSA's decision was made on 27 May 2026, considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of Municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ("NERA"), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended ("ERA"), the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000) ("PAJA"), and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 ("EPP").

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) ("MFMA").

2.1.3. In addition, the municipal tariff approval process has recently been the subject of judicial scrutiny in the High Court of South Africa (Gauteng Division, Pretoria) in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620), which resulted in structural directives governing the timing and conduct of NERSA's tariff approval process.

2.1.4. This section provides the legal and policy context within which the Energy Regulator evaluated and determined the municipal electricity tariff application for the 2026/27 municipal financial year.

2.2. NERSA's Statutory Mandate

2.2.1. NERSA is established as a juristic person in terms of section 3 of the NERA. In terms of section 4 of the NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by the ERA. Section 3 of the ERA particularly provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and exercises regulatory authority over activities regulated under the ERA.

2.2.2. In particular:

a) section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue them subject to conditions;
b) section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs; and
c) section 14(1)(d) of the ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

2.2.3. Municipalities distributing electricity do so under electricity distribution licences issued by the Energy Regulator and are therefore subject to the tariff approval framework established under the ERA.

2.3. Tariff Determination Principles under the ERA

2.3.1. When determining or approving electricity tariffs, the Energy Regulator must apply the principles contained in section 15(1) of the ERA.

2.3.2. Section 15(1) provides that the Energy Regulator:

a) must enable an efficient licensee to recover the full cost of the licensed activity;
b) must allow for a reasonable return commensurate with the risk of the licensed activity;
c) may provide incentives for continued improvement of technical and economic efficiency;
d) must avoid undue discrimination between customer categories;
e) may permit cross-subsidies of tariffs to certain classes of customers; and
f) may have regard to the need to ensure security of supply, diversity of supply and the promotion of renewable energy.

2.3.3. These statutory requirements form the core legal principles guiding the determination of electricity tariffs within the South African electricity supply industry.

2.4. Administrative Law Requirements

2.4.1. The approval of municipal electricity tariffs constitutes administrative action as defined in section 1 of the PAJA. Accordingly, the Energy Regulator must ensure that its tariff determinations are lawful, reasonable and procedurally fair as required by sections 3 and 6 of the PAJA. Procedural fairness requires that affected parties and the public be afforded a reasonable opportunity to make representations before a final decision is taken.

2.4.2. Public participation processes conducted by the Energy Regulator therefore form an essential component of the municipal tariff approval process and are intended to ensure transparency, accountability and fairness in regulatory decision-making.

2.5. **Policy Framework: Electricity Pricing Policy (2008)**

2.5.1. In addition to the statutory framework, the Energy Regulator must have regard to the Electricity Pricing Policy (EPP). The EPP establishes national policy principles for electricity tariff setting, including cost reflectivity, transparency, economic efficiency and equity.

2.5.2. Policy Position 1 of the EPP provides that the revenue requirement for a regulated licensee must be set at a level that covers the full cost of production, including a reasonable risk-adjusted margin or return on appropriate asset values.

2.5.3. Policy Position 2 states that electricity tariffs must reflect the efficient cost of rendering electricity services accurately and that the average level of tariffs must be set to recover the approved revenue requirement.

2.6. **Cost of Supply Studies**

2.6.1. The EPP recognises that cost reflective tariff structures require a sound understanding of the underlying cost drivers associated with electricity distribution.

2.6.2. Paragraph 8.1 of the EPP notes that COS methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 therefore requires electricity distributors to undertake COS studies at least every five years, or when significant structural changes occur in the customer base or cost structure.

2.6.4. Such studies must be conducted in accordance with the methodology approved by NERSA and must accompany tariff structure applications submitted to the Energy Regulator.

2.7. **Judicial Oversight of the Tariff Approval Process**

2.7.1. The municipal tariff approval process administered by NERSA was the subject of litigation in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620) before the High Court of South Africa, Gauteng Division, Pretoria.

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to the 2025/26 municipal tariff approvals did not comply with the procedural requirements of section 4 of the PAJA and was therefore unlawful.

2.7.3. However, recognising the potentially disruptive consequences of setting aside tariff determinations already implemented by municipalities, the Court declined to invalidate the tariffs. Instead, to assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

2.7.4. NERSA subsequently launched a variation application which sought to vary the timelines which were set by the Court on 4 December 2025, considering the practical difficulties which arose as it relates to NERSA's compliance with the Court order. The court, having heard NERSA's application, granted the variation

application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines below are applicable in respect of the 2026/27 municipal tariff approvals

a) written notice of bulk tariffs by 6 March 2026;
b) municipal tariff applications to be submitted by 31 March 2026;
c) public participation processes to be concluded by 21 April 2026; and
d) the publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from the 2027/28 financial year are to comply with the following timelines:

a) written notice of bulk electricity tariffs be communicated by 31 January each year;
b) municipal tariff applications be submitted to NERSA by 20 March each year; and
c) municipal tariff approvals and the tariff reasons for decision document be approved and published by 5 May of each year.

2.9. **Conclusion**

2.9.1. The determination of municipal electricity tariffs by the Energy Regulator must therefore be undertaken within a comprehensive regulatory framework consisting of the NERA, ERA, PAJA, EPP and the binding judicial directives issued by the High Court in AfriForum NPC v NERSA (Case No. 2025/137620).

2.9.2. The reasons that follow in this Reasons for Decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of Nkandla Local Municipality, the assessment relied on the Distribution forms (D-forms) for the 2024/25 financial year submitted as part of the licensee's tariff application. The information contained in the D-forms was verified against the supporting source documents provided by the municipality, including the Trial Balance and Audited Annual Financial Statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

3.2. Nkandla Local Municipality's electricity business operated at a percentage deficit of 51,51% in the 2024/25 financial year, increasing from a deficit of 19,83% in the 2023/24 financial year. The deficit is mainly attributable to the following factors: decline in revenue collection, Notified Maximum Demand (NMD) exceedance

penalties, interest on Eskom debt, increased spending on bulk purchases, and high energy losses.

3.3. Table 2 below reflects Nkandla Local Municipality's performance indicators. The municipality's energy losses increased to 72,42% in the 2024/25 financial year from 64,37% in the 2023/24 financial year. High energy losses were primarily driven by unmetered and illegal connections. To combat this, the municipality implemented several strategic measures during the year, including meter audits, targeted disconnections, and the TID (Token Identifier) rollover. These interventions remain part of an ongoing initiative to reduce the energy losses.

Table 2: Performance Indicators

Performance Indicators: Obtained from the D-Form		
Indicators	**2023/24**	**2024/25**
Percentage Surplus(Deficit)	-19,83%	-51,51%
Percentage energy Losses	64,37%	72,42%

3.4. Table 3 below reflects the revenue impact analysis under three energy loss scenarios, namely: the actual losses of 72.42%, representing the current operating position; a reduced loss level of 12%, reflecting an efficient and regulatory-aligned scenario, and a reduced loss level of 6% for assessment purposes.

3.5. Nkandla Local Municipality's reported electricity losses of 8 218 359 kWh, representing losses of 72.42% based on the 2024/25 D-form input. The reported losses are significantly above the normative energy loss benchmarks generally applied within the electricity distribution industry and indicate substantial inefficiencies within the electricity business.

Table 3: Revenue Loss Analysis

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	399,57		
Sales kWh	3 130 128,00	10 132 577,68	10 706 119,81
Purchases kWh	11 348 487,00	11 348 487,00	11 348 487,00
Losses kWh	8 218 359,00	1 215 909,32	642 367,19
Losses percentage	**72,42%**	**12,00%**	**6,00%**
Additional Energy (kWh)		7 002 449,68	7 575 991,81
Additional Revenue (Rands)		27 979 688,18	30 271 390,48
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 23 780 265,00	R 51 759 953,18	R 54 051 655,48
Total Expenses (Rands)	R 36 030 413,00	R 36 030 413,00	R 36 030 413,00
Net Profit (Loss)	R -12 250 148,00	R 15 729 540,18	R 18 021 242,48
Percentage Surplus/Deficit	**-51,51%**	**30,39%**	**33,34%**

3.6. The analysis further demonstrates that if electricity losses were reduced to 12%, electricity sales would increase to 10 132 577.68 kWh while purchases remain at 11 348 487.00 kWh. This would result in additional energy sales of 7 002 449.68

kWh and additional revenue of approximately R27 979 688.18. Under this scenario, total revenue would increase to R51 759 953.18 against total expenses of R36 030 413.00, resulting in a projected surplus of R15 729 540.18 and a surplus margin of 30.39%.

3.7. Furthermore, if electricity losses were reduced to 6%, electricity sales would increase to 10 706 119.81 kWh, resulting in additional energy sales of 7 575 991.81 kWh and additional revenue of approximately R30 271 390.48. Total revenue would increase to R54 051 655.48 while total expenses remain unchanged at R36 030 413.00. This would result in a projected surplus of R18 021 242.48 and a surplus margin of 33.34%.

3.8. The analysis indicates that the current financial deficit position of the electricity business is largely attributable to excessive electricity losses. The reduction of technical and non-technical losses may significantly improve the financial sustainability of the electricity business without requiring additional tariff increases.

4. DETERMINATION OF NKANDLA LOCAL MUNICIPALITY'S TARIFFS BASED ON THE COS STUDY

4.1. The process followed in considering and approving Nkandla Local Municipality's tariff application was supported by a revised COS Study.

4.2. Nkandla Local Municipality utilised the COS Study model developed by Sustainable Energy Africa (SEA) to determine its revenue requirements for the 2026/27 financial year and to apportion costs required to service each customer's class fairly and equitably. The study follows the NERSA COS framework and utilises the latest available audited data, which is based on the 2024/25 financial year.

4.3.

4.4. below details the five steps considered in the determination of the COS Study.

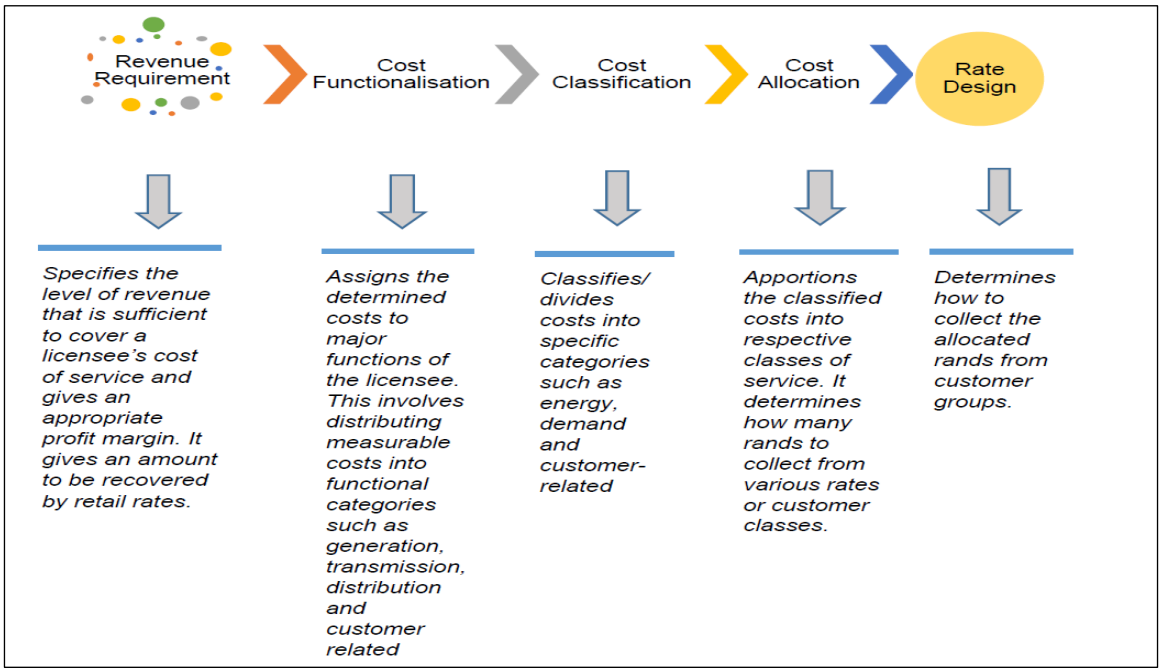


Figure 1: Five Steps of COS

4.5. The following steps are undertaken to analyse the COS Study:

4.5.1. Revenue Requirement

4.5.1.1. The Licensee submitted a total revenue requirement of R36 698 409 for the period under review. The revenue requirement consisted mainly of energy purchase costs, operational expenditure including depreciation, surplus, and costs associated with electricity losses. Following its prudency assessment and regulatory evaluation, NERSA applied downward adjustments amounting to R21 307 253, resulting in an approved revenue requirement of R15 391 156.

Table 4: Revenue Requirement Components

Revenue Requirement components	Wires	Retail	Total	NERSA Adjustment	NERSA Decision	% of Total
Allowable costs	1 951 101	17 298 431	19 249 532	(3 858 376)	15 391 156	100%
Energy purchases from Eskom - net of cost of losses	-	7 336 609	7 336 609		7 336 609	48%
Energy purchases from Eskom - cost of losses	701 677	2 678 162	3 379 839		3 379 839	22%
Other energy purchases	-	-	-		-	
Capital expenditure	-	-	-		-	
Operational expenditure (incl. Depreciation)	1 135 840	6 621 508	7 757 349	(3 507 614)	4 249 735	28%
Other revenues						
Surplus	113 584	662 151	775 735	(350 762)	424 973	3%
Cost of losses disallowed	587 817	16 861 060	17 448 877			
TOTAL COSTS	2 538 918	34 159 490	36 698 409			

4.5.1.2. The efficiency of costs for the 2024/25 financial year (base year) has been assessed, as this constitutes the most recent set of actual data. This

assessment serves as the baseline for projecting costs for the 2026/27 financial year, applying stated assumptions to determine the revenue requirement for that period.

4.5.1.3. All expenses included in the revenue requirement have been examined to confirm that they pertain exclusively to the licensee's electricity function. Where any amounts were found to be inflated or insufficiently substantiated, adjustments have been affected accordingly, as detailed below.

Bulk Purchases

4.5.1.4. The analysis of the revenue requirement components indicates that the electricity business remains largely driven by bulk electricity purchase costs from Eskom. Energy purchases from Eskom net of the cost of losses amount to R7 336 609 and constitute approximately 48% of the approved allowable revenue requirement. In addition, energy purchase costs associated with losses amount to R3 379 839 and represent approximately 22% of the approved allowable revenue requirement. The analysis confirms that the municipality's cost structure remains highly dependent on external bulk electricity supply costs and is therefore vulnerable to increases in Eskom bulk tariffs.

4.5.1.5. The municipality further applied for recovery of R17 448 877 relating to the cost of losses reflected under non-allowable costs. Following the assessment, NERSA fully disallowed the claimed cost of losses and applied a downward adjustment of R17 448 877. The magnitude of the loss-related costs suggests persistent technical and non-technical losses within the distribution network, including possible electricity theft, illegal connections, metering inaccuracies, billing inefficiencies, and network losses. Excessive electricity losses continue to place significant financial pressure on the electricity business and negatively affect cost reflectivity and the financial sustainability of the service.

4.5.1.6. Overall, the bulk purchase analysis highlights:

a) significant reliance on Eskom as the primary electricity supplier;
b) bulk energy costs as the largest contributor to the revenue requirement;
c) high exposure to Eskom tariff increases;
d) material financial pressure arising from energy losses; and
e) the need for stronger energy loss management and network efficiency improvements.

Operational Expenditure

4.5.2. The municipality applied for a total operational expenditure amounting to R7 757 349 for the 2026/27 financial year. Following the prudency and efficiency assessment, NERSA identified certain costs that were considered inefficient and therefore not allowable for tariff determination purposes.

Table 5: Operational Expenditure Breakdown

Cost drivers	2024/25 Actuals	2025/26 Budget	2026/27 Applied for	Adjustment	2026/27 Recommended
General & Other	R 3 882 902	R 4 033 765	R 5 281 131	(1 215 127)	R 4 066 004
Salaries, Wages and allowances (exclu. Repairs and Maintenance)	R 2 684 725	R 2 816 276	R 2 816 276	R -	R 2 816 276
Payments to consultants (operational work)	R 392 194	R 411 506	R 411 506	R -	R 411 506
Eskom debts interests		R -	R 76 107	(76 107)	
Current year depreciation	R 805 983	R 805 983	R 838 222	R -	R 838 222
NMD exceedance penalties		R -	R 1 139 020	(1 139 020)	
Shared OPEX	R 145 818	R 174 981	R 2 476 217	-R 2 292 487	R 183 730
FBE paid to Eskom		R -	R 2 292 487	(2 292 487)	
General Expenses	R 145 818	R 174 981	R 183 730	R -	R 183 730
Total	R 4 028 720	R 4 208 746	R 7 757 348	(3 507 614)	R 4 249 734

4.5.3. The disallowed costs relate primarily to Eskom debt interest amounting to R76 107, Notified Maximum Demand (NMD) exceedance penalties amounting to R1 139 020, and FBE paid to Eskom amounting to R2 292 487. These costs were excluded from the allowable revenue determination as they do not constitute

prudent and efficient operating expenditure recoverable from electricity consumers.

4.5.4. After applying the downward adjustments totalling R3 507 614, the recommended operational expenditure for the 2026/27 financial year amounts to R4 249 734.

Surplus

4.5.5. The municipality applied for a surplus amounting to R775 735 for the 2026/27 financial year. Following the assessment of the allowable revenue requirement, NERSA adjusted the surplus downward by R350 762, resulting in a recommended surplus of R424 973.

4.5.6. In recommending a surplus, NERSA relied on section 15(1)(a) of the Electricity Regulation Act ("ERA"), which provides that tariffs must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return. In applying this provision, together with the applicable tariff-setting methodology, NERSA is required to ensure that the municipality recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation through tariffs.

4.5.7. The recommended surplus represents approximately 3% of the approved allowable revenue requirement of R15 391 156. The assessment indicates that the municipality is not generating an excessive margin from electricity tariffs but rather maintaining a modest operating buffer within the electricity business.

4.5.8. The surplus forms an important component of the municipality's electricity business sustainability as it contributes towards:

a) funding future infrastructure refurbishment and replacement;
b) strengthening cash flow and working capital requirements;
c) mitigating financial risks associated with bulk electricity price increases and revenue under-collection; and
d) supporting the long-term financial viability of the electricity undertaking.

4.5.9. However, the municipality's ability to realise the approved surplus remains dependent on several operational and financial factors, including:

a) the effectiveness of revenue collection;
b) the management of technical and non-technical energy losses;
c) the containment of operating expenditure; and
d) the municipality's ability to manage Eskom-related debt obligations and avoid additional interest charges and penalties.

4.5.10. The assessment further indicates that, despite the approved surplus, the electricity business remains under financial pressure due to the high level of electricity losses and the significant proportion of bulk electricity purchase costs within the revenue requirement. As a result, the approved surplus should not be interpreted as excessive profitability, but rather as a necessary provision to support the sustainability and resilience of the electricity business.

4.5.11. Conversely, excessively high surplus levels may place undue tariff pressure on consumers and raise concerns regarding affordability and cost reflectivity. NERSA therefore seeks to balance the financial sustainability of the municipality with the protection of customer interests through the assessment of prudent and reasonable surplus levels.

Depreciation

4.5.12. The municipality applied for current year depreciation amounting to R838 222 as part of operational expenditure for the 2026/27 financial year. The applied depreciation reflects a marginal increase when compared to the 2025/26 financial year budgeted amount of R805 983 and the 2024/25 financial year actual expenditure of R805 983.

4.5.13. The Energy Regulator assessed the depreciation provision against the municipality's asset base, historical expenditure trends, and supporting financial information. The assessment confirmed that the applied depreciation is reasonable and prudently incurred for the continued operation of the electricity undertaking. Accordingly, the depreciation amount of R838 222 was allowed in full.

4.5.14. Although the municipality's depreciation provision was found to be reasonable, the Energy Regulator is of the view that continued investment in maintenance, refurbishment, and replacement of ageing electricity infrastructure remains essential to support network reliability and long-term operational sustainability.

4.5.15. The municipality is therefore encouraged to strengthen its asset management practices and ensure that depreciation provisions remain aligned with future infrastructure replacement requirements, maintenance programmes, and the long-term sustainability of the electricity distribution network.

Cost Functionalisation

4.5.16. Nkandla Local Municipality has categorised its revenue requirement of R15 391 156 into two primary functional components, namely the wires business and the retail business, in accordance with the NERSA COS framework, as illustrated in Figure 2 below. Upon verification, the allocation of costs to these functional components is found to be consistent with the stated revenue requirement.

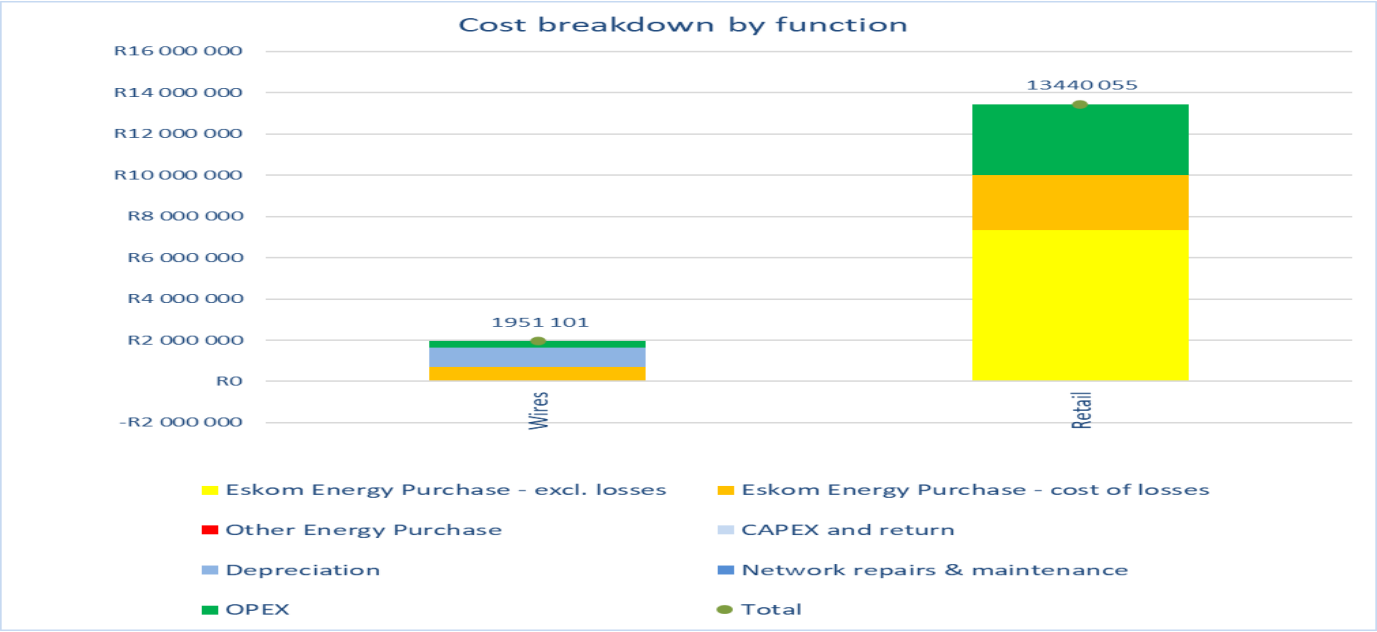


Figure 2: Costs Breakdown by Function

4.5.17. These costs, upon verification, are consistent with the recommended revenue requirements. Network repairs and maintenance constitute the predominant cost drivers within the wires business, while energy purchases represent the primary cost driver within the retail business.

Cost Classification

4.5.18. Nkandla Local Municipality classified its costs into energy, demand, and customer-related cost components, in accordance with the NERSA COS framework. The costs align with revenue requirements and cost functionalisation upon verification.

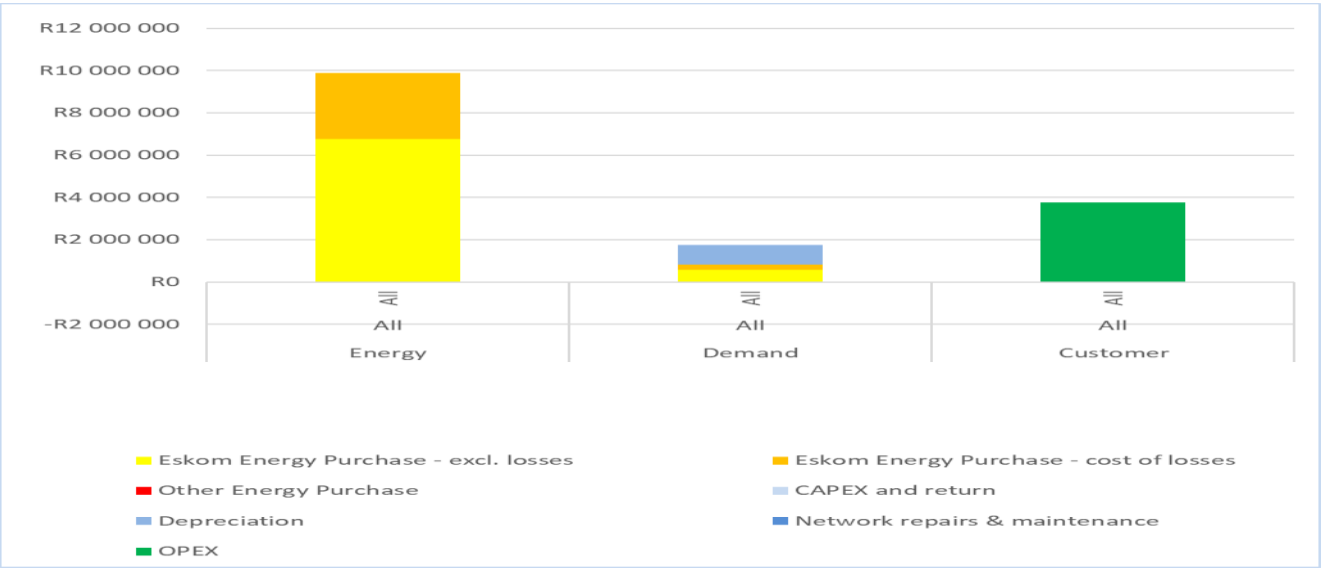


Figure 3: Cost Breakdown by Cost Structure (Classification)

4.5.19. Energy purchases constitute energy-driven costs, with the highest expenditure incurred during the summer period under the standard time-of-use structure, largely due to the longer duration of the summer season. Demand-driven costs are similarly concentrated in the summer period. Customer-driven costs are primarily associated with “Other OPEX,” which includes expenses related to the provision of electricity distribution services to customers.

Cost Allocation

4.5.20. In this step, the licensee’s revenue requirement is allocated across customer categories, in accordance with the NERSA COS framework. Upon verification, the allocation is found to be consistent with the stated revenue requirement and aligned with the principles of cost allocation. Domestic and commercial customers bear most of the municipality's costs, accounting for 54% and 42%, respectively.

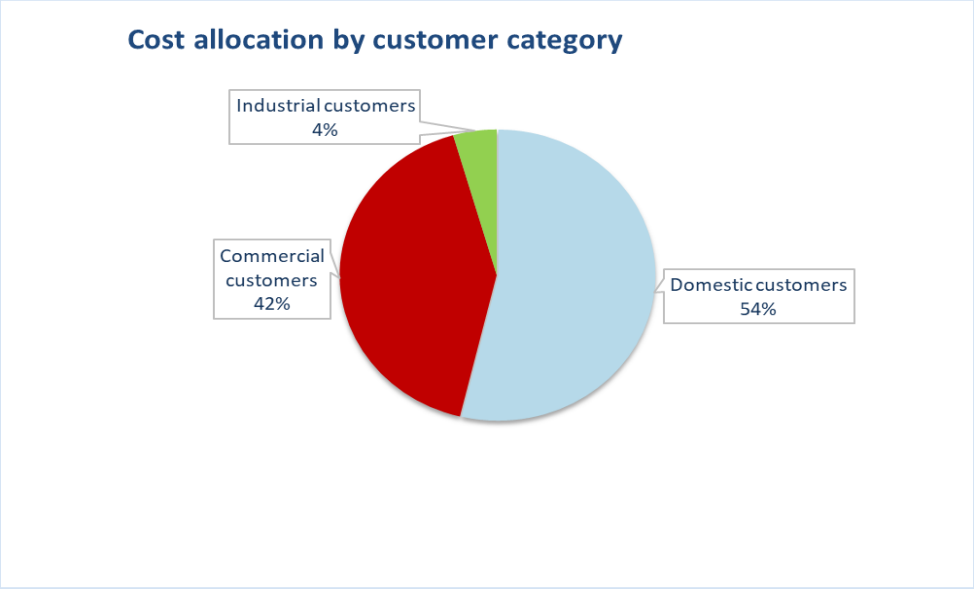


Figure 4: Costs Allocated

4.5.21. Rate Design

4.5.21.1. Nkandla Municipality maintains cross-subsidies between its domestic, commercial, and industrial customers.

4.5.21.2. Figure 5 below reflects the outcome of the COS Study, indicating that the licensee is over-recovering from industrial and commercial conventional customers while domestic customers and commercial prepaid are being subsidised.

4.5.21.3. To achieve full cost reflectivity, the municipality would be required to implement differentiated tariff adjustments across customer categories as highlighted above.



Figure 5: Cross-subsidies

5. CONCLUSION ON THE COS STUDY

5.1. After adjusting for inefficiencies, the updated COS model lowers the requirement to about 38.60% (as shown in Figure 6).

Results BEFORE phasing

	BAU	CTS (net of subsidies)	New rates (Dashboard selection)
Total revenue forecast (with new rates)	11 100 782	15 391 156	**12 266 364**
		Delta =	- 3 124 792
Average increase in rates	**10,5%**		
Average increase in rates to reach overall cost-reflectivity	38,6%		
Share of total cost recovered with the new rates	**79,7%**		
Share of total costs recovered (existing rates)	**72,1%**		

Figure 6: Rate Design

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Basic Charge (R/month)	1 827,53	*12,90%*	2063,28	*2019,42*	*10,50%*	The proposed tariff increase was revised downward from 12.90% to 10.50% in recognition of identified operational inefficiencies.
Energy Charge c/kWh	306,28	*12,90%*	*345,79*	*338,44*	*10,50%*	

4. Commercial Conventional with Maximum Demand	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key findings***
Basic Charge (R/month)	3512,97	*12,90%*	*3966,14*	*3881,83*	*10,50%*	The proposed tariff increase was revised downward from 12.90% to 10.50% in recognition of identified operational inefficiencies.
Energy Charge c/kWh	*157,62*	*12,90%*	177,96	*174,33*	*10,50%*	
Demand Charge (R/kVA)	502,86	*12,90%*	*567,73*	*555,66*	*10,50%*	

5. Industrial(>10KVA)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key findings***
Basic Charge (R/month)	4748,36	*12,90%*	*5360,89*	*5246,94*	*10,50%*	The proposed tariff increase was revised downward from 12.90% to 10.50% in recognition of identified operational inefficiencies.
Energy Charge c/kWh	*168,83*	*12,90%*	190,61	*186,56*	*10,50%*	
Demand Charge (R/kVA)	541,51	*12,90%*	*611,36*	*598,37*	*10,50%*	

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

10.1. From a conspectus of the facts and evidence presented to the REC, it is appropriate to approve Nkandla Local Municipality's tariff application for the 2026/27 financial year.

End.