NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

by

Kannaland Local Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered Kannaland Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year, as set out in the Tariff Analysis Section 6 from page 19 of the RfD document.

Based on the available information, public comments and the analysis performed, the REC, at its meeting held on 6 May 2026, decided:

1. to approve the tariffs that are based on the Cost Drivers as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;

2. to note the cost information submitted by the municipality;

3. that the municipality must submit, by 31 January 2027, an audited financial report accounting for all costs that have been noted, to enable the National Energy Regulator of South Africa to perform its independent verification audit; and

4. that the municipality must submit a specific, measurable, achievable, realistic and time-bound (SMART) energy loss reduction report on a quarterly basis, commencing from 30 September 2026, to enable the National Energy Regulator of South Africa to closely monitor the implementation thereof.

TABLE OF CONTENTS

THE DECISION....1
ABBREVIATIONS AND ACRONYMS....5
1. INTRODUCTION....6
2. LEGAL AND REGULATORY FRAMEWORK....7
3. FINANCIAL AND TECHNICAL PERFORMANCE....10
4. DETERMINATION OF KANNALAND MUNICIPALITY'S TARIFFS BASED ON THE COST OF SUPPLY ADJUSTED DATA....13
5. PUBLIC PARTICIPATION....18
6. TARIFF ANALYSIS AND KEY FINDINGS....19
7. CONFIDENTIALITY....27
8. CONCLUSION....27

LIST OF TABLES

Table 1: Customer Statistics (Data obtained from 2024/25 D-forms) 6
Table 2: Performance Indicators 11
Table 3: Energy Losses vs Revenue Impact Analysis 12
Table 4: Revenue Requirement Components 15
Table 5: Municipal Impact 19

ABBREVIATIONS AND ACRONYMS

COS	Cost of Supply
D-form	Distribution form
EPP	Electricity Pricing Policy for the South African Electricity Supply Industry, 2008
ERA	Electricity Regulation Act, 2006
ERTSA	Eskom Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IPP	Independent Power Producer
KLM	Kannaland Local Municipality
MFMA	Municipal Finance Management Act, 2003
NERA	National Electricity Regulation Act, 2004
NERSA	National Energy Regulator of South Africa
NMD	Notified Maximum Demand
OPEX	Operating Expenditure
PAJA	Promotion of Administrative Justice Act, 2000
RCA	Regulatory Clearing Account
SSEG	Small-Scale Embedded Generation

1. INTRODUCTION

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

1.2. The Kannaland Local Municipality (KLM) is in the Western Cape. The municipality's customer base is predominantly manufacturing, accounting for 63.78% of total electricity sales. KLM provides qualifying indigent customers with 50 kWh of free basic electricity (FBE) per month and maintains an indigent register. Details of the municipality's customer statistics are set out in Table 1 below:

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

Customer categories	***MWh***	***% MWh***	***Customer Numbers***
Domestic (Prepaid)	7 394	23.79%	3 590
Domestic (Conventional)	841	2.71%	223
Manufacturing/Industrial	19 826	63.78%	21
Commercial (Prepaid)	439	1.41%	150
Commercial (Conventional)	2 360	7.59%	95
Street Lighting	226	0.73%	0
TOTAL	**31 086**	**100**	**4 079**
Free Basic Electricity (FBE)	996	12.09	1 992

1.3. NERSA received KLM's tariff application on 31 March 2026. The application is based on an existing Cost of Supply (COS) study, valid from the 2025/26 to the 2029/30 financial years.

1.4. KLM implemented a 9.70% average price increase in the 2025/26 financial year and is applying for the same average price increase for the FY2026/27.

1.5. In accordance with NERSA's requirements, all tariff applications must include confirmation that the proposed tariffs have been approved by the municipal council and have undergone a customer consultation process.

1.6. For this application, the municipality confirmed that its council meeting had been held on 31 March 2026. The municipality submitted the council resolution and proof of customer consultation together with the tariff application on 31 March 2026.

1.7. NERSA followed its own public consultation process. On 31 March 2026, NERSA published KLM's tariff application on its website, its various social media platforms, as well as in national and local newspapers, to solicit written comments from affected parties by 21 April 2026.

1.8. NERSA's decision was made on 6 May 2026, taking into consideration 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 NERSA's core regulatory function 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 ('the 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 NERSA 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:

- section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions;
- section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs; and
- 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 NERSA 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 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 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. Therefore, public participation processes conducted by NERSA 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 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 of the EPP 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 NERSA.

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 for the FY2025/26 municipal tariff approvals did not comply with the procedural requirements of section 4 of 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 help ensure municipal tariffs are approved on time

and in line with the law, the Court issued a structural interdict to guide the process going forward.

2.7.4. NERSA subsequently launched a variation application, seeking to vary the timelines set by the Court on 4 December 2025, considering the practical difficulties which arose as they relate 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 FY2026/27 municipal tariff approvals.

2.8. Court-Directed Timelines

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

- Written notice of bulk tariffs must be given by 6 March 2026.
- Municipal tariff applications must be submitted by 31 March 2026.
- Public participation processes must be concluded by 21 April 2026.
- NERSA decisions must be published by 11 May 2026.

2.8.2. Municipal tariff approvals from the FY2027/28 shall comply with the following timelines:

- Written notice of bulk electricity tariffs must be communicated by 31 January each year.
- Municipal tariff applications must be submitted to NERSA by 20 March each year.
- Municipal tariff approvals and the tariff reasons for decision document must 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 comprising 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 stated in this document demonstrate how NERSA 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 KLM, 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 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. KLM's electricity business operated at a percentage surplus margin of 15.66%[1] in the 2024/25 financial year, a material growth from 7.82% in the 2023/24 financial year. Attributable to the municipality's sales revenue growth of 18.2%, with its expenditure curbed below this rate during the review period, its financial performance is on an upward curve.

3.3. Table 2 below shows that KLM's energy losses, although still considered high, marginally improved from 14.54% in the 2023/24 financial year to 14.41% in the 2024/25 financial year. The municipality cited its electricity network being aged and under severe pressure, with significant portions of the infrastructure dating back several decades, as the major cause for high energy losses. The licensee submitted its energy losses reduction plan in the reporting period, with some of the measures identified and undertaken in order to reduce its losses being the following:

a) Infrastructure renewal;
b) Major system maintenance;
c) Long-term regulatory compliance.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
Performance Indicator	**FY2023/24 (Approved)**	**2024/25 (Actuals)**
Percentage Surplus (Deficit): (%)	7.82	15.66
Percentage Energy Losses: (%)	14.54	14.41

3.4. Based on the above information, the financial health of the municipality's electricity business is improving, as demonstrated by a 15.66% operating surplus. This strengthening margin highlights increased strength in financial and operational sustainability. The licensee ought to expedite its energy loss reduction plans to mitigate the risk of long-term unsustainability. With the measures currently in effect, the energy losses have reduced slightly.

3.5. Table 3 below provides a revenue impact analysis under two energy loss scenarios: actual (17.63%) and when reduced to 12%.

[1] Percentage Surplus Formula = (Revenue from Electricity Sales Less Total Expenditure) divided by Revenue from Electricity Sales

Table 3: Energy Losses vs Revenue Impact Analysis

Parameters	Current Position FY2024/25	Scenario 1: Losses at 12% (Extrapolated D-Form Info)	Scenario 2: Losses at 6% (Extrapolated D-Form Info)
Energy Losses	14.41%	12%	6%
Surplus / Deficit Margin	7.82%	9.80%	14.30%
Revenue Impact of Energy Losses	R5 796 716.00	R1 625 655.00	R11 404 119.04

3.6. Under the current scenario, with actual electricity losses of 14.41%, the licensee records an operating surplus of R5.80 million, which translates to a surplus margin of 7.82%, based on approved D-form inputs. This low surplus margin indicates that elevated energy losses continue to place pressure on the financial sustainability of the electricity business.

3.7. Based on the scenario analysis one, should electricity losses be reduced to 12%, and assuming constant electricity purchases, operating costs, and tariff structures, total electricity sales revenue is projected to increase due to higher billable energy volumes. Under this scenario, the estimated revenue that could be recovered through loss reduction is estimated to increase by approximately R1.63 million, equivalent to a 9.80% surplus margin, reflecting improved revenue retention relative to the current position.

3.8. Further reduction of energy losses to 6% are expected to strengthen the surplus position by a further R11.40 million, equivalent to a surplus margin of 14.30% subject to the sustainability and effectiveness of the implemented loss-reduction measures.

4. DETERMINATION OF KANNALAND MUNICIPALITY'S TARIFFS BASED ON THE COST OF SUPPLY ADJUSTED DATA

4.1. The municipality submitted its existing COS study in support of its tariff application approved in the 2026/27 financial year. The municipality's cost of supply study was inclusive of all requirements of NERSA's approved COS framework (i.e. Revenue Requirement, Costs Functionalisation, Costs Classification, Costs Allocation and Rate Setting).

4.2. Policy position 23 states that: *Electricity distributors shall undertake COS studies at least every five years, but at least when significant licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes. This must be done according to the approved NERSA standard to reflect changing costs and customer behaviour. The cost-of-service methodology used to derive tariffs must accompany applications to the regulator for changes to tariff structures.*

4.3. Section 18.7 of the Cost of Supply Framework approved by NERSA in October 2023 states that:

An adjustment index will be issued to licensees to allow them to submit the tariff applications, which will be used to determine the costs that must increase with CPI, purchase costs, and other OPEX. Where annual plans, such as repairs and maintenance, and CAPEX plans, have been assessed and approved by NERSA, these can be adjusted based on that.

4.4. In line with section 18.7 mentioned above, Table 4 below was developed, and the definitions of the columns are as follows:

i. Column 1: represents the budgeted FY2024/25 costs submitted by the licensee as part of the COS revenue requirement and approved for tariff determination in FY2024/25.

ii. Column 2: reflects the actual FY2024/25 financial performance of the licensee, sourced from the D-Forms and aligned to the audited annual financial statements.

iii. Column 3.1: indicates the variance between the FY2024/25 approved budgeted figures and the audited actual values;

iv. Column 3.2: expresses the same variance in percentage terms. A positive variance indicates that actual expenditure exceeded the approved budget, while a negative variance indicates underspending relative to the budget. In the latter case, a clawback may be applicable, whereas in the former case, a disbursement may be considered, subject to regulatory assessment.

v. Column 4: reflects the FY2025/26 revenue and electricity volume figures used as the baseline for determining FY2026/27 tariffs (since at the time of the approval, the figures were estimates) when the Energy Regulator considered and approved the 2026/27 COS base tariffs. Once the 2025/26 financial year concludes, the actual figures will be verified against audited annual financial statements.

vi. Column 5: contains the licensee's submitted FY2026/27 budgeted figures, which are subject to reasonableness testing for purposes of tariff determination for the control period under review.

vii. Column 6: shows the percentage movement between the FY2025/26 baseline figures and the FY2026/27 budgeted amounts and forms the primary basis for proposed tariff adjustments for FY2026/27.

viii. Column 7: is intended for NERSA's recommended adjustments after considering the reasons, facts, and evidence that the licensee has provided to motivate/justify for the approval of the budgeted figures.

ix. Column 8: is intended to capture NERSA's recommended adjustments after considering the reasons, facts, and supporting evidence submitted by the licensee in support of the requested budget figures for the FY2026/27.

4.5. The Total Allowable Revenue of R131.17 million in column 4 is for the 2025/26 tariff review period and is the basis upon which the tariffs are adjusted for approval by the Energy Regulator as shown in Table 4 below.

4.6. The FY2024/25 variance between budgeted and actual Total Allowable Revenue in column 3 reflects lower than planned expenditure and higher than anticipated *other income* offsets, rather than regulatory disallowances. The municipality has incorporated these outcomes into the forward-looking FY2026/27 revenue requirements.

4.7. The COS study is valid for five years; however, municipalities need to reflect the adjustments in their cost drivers for each financial year under the existing COS (i.e., FY2026/27). NERSA used the budgeted figures to verify efficiencies and to ensure that municipalities do not over- or under-recover their operating overheads during the FY2026/27 tariff review process.

4.8. In determining the tariff adjustment applicable for the 2026/27 financial year, the licensee submitted its FY2026/27 cost data, comprising budgeted operating costs plus surplus, as required by NERSA. The total budgeted revenue requirement submitted amounts to R125.39 million for the FY2026/27 tariff review process, inclusive of an upward energy loss adjustment of R34 million, partially offsetting the reduction in budgeted bulk purchase costs. The licensee forecasted reduced power purchase costs to create fiscal space for the contracting and commissioning of a solar power station during the FY2026/27. The submitted application reflects a 4.41% reduction in allowable revenue for FY2026/27 relative to the previous financial period. The submitted application reflects an ambitious operating cost forecast, with a conservative deficit position. However, this is offset by the substantial additional forecasted income to address longer-term financial sustainability constraints and support planned infrastructure investment.

Table 4: Revenue Requirement Components

Energy Balance	Unit	FY2024/25 Budgeted Costs (COS) (1)	FY2024/25 Actual Costs (2)	FY2024/25 Budget to Actual Variance (R) (3.1)	FY2024/25 Budget to Actual Variance (%) (3.2)	FY2025/26 Tariffs per submitted Municipal Budget (4)	FY2026/27 Budgeted Costs as per the Licensee (5)	FY2025/26 to FY2026/27 Variance (%) (6)	NERSA Adjustment (considering efficiencies) (7)	FY2026/27 Allowable Revenue (8)
Sales	kWh	31 086 051	31 086 051	-	0%	31 840 500	32 527 565	2%	-	32 527 565
Eskom bulk purchases	kWh	36 318 115	36 318 115	-	0%	38 885 000	36 469 000	-6%	-	36 469 000
Independent Power Producers Conventional	kWh		-	-		-	-		-	-
Independent Power Producers Renewable Energy	kWh		-	-		-	-		-	-
Self Generation	kWh		-	-		-	-		-	-
Other			-	-		-	-		-	-
Total Energy Requirements	**kWh**	**36 318 115**	**36 318 115**	**0**	**0%**	**38 885 000**	**36 469 000**	**-6%**		**36 469 000**
Total Losses	kWh		5 232 064			7 044 500	3 941 435			3 941 435
Technical losses	kWh		4 358 174			4 666 200	3 941 435		-	3 941 435
Non-technical losses	kWh		-873 890			-2 378 300	0		-	0
Allowed losses	%		**12.00%**			**12.00%**	**10.81%**			**10.81%**
Total Energy losses	%		14.41%			18.12%	10.81%			10.81%
Cost Drivers										
Energy purchases from Eskom	Rand	74 740 239	63 322 682	(11 417 557)	-15%	82 476 000	75 364 000	-9%	34 000 000	109 364 000
Other energy purchases			-	-		-	34 000 000	0%	-	-
Total energy purchases	Rand	**74 740 239**	**63 322 682**	**-11 417 557**	**-15%**	**82 476 000**	**109 364 000**	**33%**	**34 000 000**	**109 364 000**
Cost of technical losses	Rand	10 527 911	7 598 722	(2 929 189)	-28%	9 897 120	11 819 658	19%	0	11 819 658
Non-Technical Losses	Rand	-	-	-	0%	-	-	0%	-	-
Other energy purchases	Rand					-	-		-	-
Capital expenditure	Rand	-	-	-	0%	-	-	0%	-	-
Operational expenditure (incl. Depreciation)	**Rand**	**18 411 488**	**10 170 161**	**(1 869 142)**	**-45%**	**14 736 895**	**17 630 515**	**20%**	**-**	**17 630 515**
General & Other	**Rand**	**15 092 180**	**6 807 987**	**(3 700 998)**	**-55%**	**6 960 521**	**13 755 000**	**98%**	**0**	**13 755 000**
Salaries and allowances	Rand	3 897 543	3 278 191	(619 352)	-16%	3 278 191	4 215 000	29%	-	4 215 000
Materials and supplies	Rand	1 067 976	681 865	(386 111)	-36%	1 000 000	1 230 000	23%	-	1 230 000
Contracted Services	Rand	3 420 726	98 470	(3 322 256)	-97%	200 000	2 500 000	1150%	-	2 500 000
Salaries, wages and allowances (excl. Repairs and Maintenance)	Rand	-	-	-		-	-		-	-
Payments to consultants (operational work)	Rand		-	-		-			-	0
Eskom debts interest	Rand	4 583 194	-	-	100%	-	-		-	-
Current year depreciation	Rand	2 122 740	2 749 461	626 721	30%	2 182 330	3 310 000	52%	-	3 310 000
Repairs and Maintenance	Rand		0	0				#DIV/0!	0	
Other creditors interests	Rand	-	0	0	0%	300 000	2 500 000	733%	0	2 500 000
									0	
Shared OPEX	**Rand**	**1 530 317**	**3 362 174**	**1 831 856**	**120%**	**7 776 374**	**3 875 515**	**-50%**	**0**	**3 875 515**
Bad debts (Allowance for Impairment)	Rand	-	35 950	35 950	100%	0	735 000	100%	-	735 000
FBE paid to Eskom	Rand			0					-	0
Charges from other Municipal Departments	Rand			0					-	0
Operating Expenses	Rand			0						0
Administration charges	Rand		0	0						
Operating Leases	Rand		-	-		-	-		-	-
General expenses		**1 530 317**	**3 326 224**	**1 795 906**	**117%**	**7 776 374**	**3 140 515**	**-60%**	**0**	**3 140 515**
1.Commission Expense	Rand		-	-		-	-		-	-
2. Fleet Costs	Rand		-	-		-	-		-	-
3.Other Expenses	Rand	1 530 317	1 683 813	153 496	10%	1 637 240	1 685 000	3%	-	1 685 000
4. Safety Equipment and Protective Clothing	Rand	-	0	0	0%	110 014	115 515	5%	-	115 515
5. Impairment Losses	Rand	-	0	0	0%	0	990 000	100%		990 000
6. Employee Related Cost	Rand		1 642 410	1 642 410	100%	6 029 120	0	-100%		
7. Safety Equipment and Protective Clothing	Rand		0	0	0%	0	350 000	100%		350 000
	Rand		-			-			0	0
Total Expediture before surplus	Rand	103 679 638	81 091 564	(16 215 888)	-22%	107 110 015	138 814 173	**30%**	34 000 000	138 814 173
Surplus	Rand	10 352 227	13 650 890	3 298 663	32%	27 495 800	-4 021 740	**-115%**	-	-4 021 740
Total Expenditure Including Surplus	**Rand**	**114 031 865**	**94 742 454**	**(12 917 225)**	**-17%**	**134 605 815**	**134 792 433**	**0%**	**-**	**134 792 433**
Other Income	Rand	**-157 365**	**-3 291 337**	**(3 133 972)**	**1992%**	**-3 439 529**	**-9 404 251**	**173%**	**0**	**-9 404 251**
5. Other Revenue - Illegal Connections	Rand		-	-		-	-		-	-
Total Allowable Revenue	**Rand**	**113 874 500**	**91 451 118**	**(16 051 197)**	**-20%**	**131 166 286**	**125 388 182**	**-4%**	**-**	**125 388 182**
Increase Required							***9.70%***			***9.70%***

4.9. It is important to test the efficiency and prudency of the costs in the FY2025/26, as this represents the most recently considered revenue in support of the approved tariffs during this period. This forms the basis on which costs for the FY2026/27 have been projected, using assumptions to calculate revenue requirements for that year.

4.10. Furthermore, NERSA has verified all expense items included in the revenue requirements to ensure that they relate only to the electricity function of the licensee. In instances where expenses are deemed inflated or unjustified, these have been adjusted accordingly and expanded on below.

Bulk Purchases

4.11. For the 2026/27 financial year, the licensee has applied for a bulk purchase expenditure of R109.36 million, which accounts for 90% of total costs, inclusive of the 19% energy loss allowance, translating to the R34 million earmarked for the infrastructure investment. Bulk purchases were verified against Eskom invoices in the 2024/25 financial year.

4.12. To arrive at the 2026/27 financial year estimate, the licensee projected the full-year amount for the 2025/26 financial year, then estimated that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.13. Analysed Eskom bills showed no Notified Maximum Demand (NMD) exceedance penalties had been charged. Furthermore, the municipality did not include the Eskom interest charges on the outstanding account. All verifications have been satisfactory to NERSA, and therefore, this cost has been approved as applied for.

Operating expenditure (including depreciation)

4.14. The licensee seeks an Operational Expenditure of R17.63 million for the 2026/27 financial year including depreciation. This represents 13% of the Total Costs, adjusted upward from R14.73 million in the 2025/26 financial year. This translates to a 27.4% decline from the previous year. The licensee cited an aggressive adjustment approach in its budgeting to cater for the upcoming infrastructure buildout plans, to respond to a number of electricity users seeking to move off grid, among other factors.

4.15. The licensee's depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The asset base is valued at approximately R440 million as at FY2024/25, as reported in its D-forms and verified against its audited AFS and supporting financial information. The resulting depreciation and amortization provisions amounted to R2.7 million in FY2024/25, R2.2 million in FY2025/26 and projected at R3.3 million for the 2026/27 financial year.

4.16. The approach taken by the licensee is satisfactory to NERSA for forecasting operational expenditure. As a result, this cost has been approved as applied for.

Surplus

4.17. The licensee is projecting a deficit position of R4.02 million, which is based on a -3% return on OPEX including bulk purchases, and has decreased by 114.63% from the previous year relative to Total Expenditure. The municipality is rendering the electricity function at a loss due to functional challenges, which it intends to address through its upcoming detailed COS study, infrastructure revamping and auditing.

4.18. The surplus position represents the critical financial buffer against several risks, allowing the municipality to maintain service delivery without resorting to emergency borrowing. In the case of its deficit position, KLM's cumulative surplus reserves are expected to insulate the municipality from a liquidity risk in the intervening period.

4.19. From a regulatory and financial governance perspective, the projected deficit is consistent with prudency and going-concern principles.

4.20. NERSA is of the view that the return applied for by the licensee is reasonable to keep the licensee just about sustainable, though it falls below the 10-20% target range as determined in the COS Methodology. The deficit position complies with the applicable principles, and it is justified in the manner in which KLM manages the risks associated with its service delivery. Thus, it is NERSA's decision to allow the revenue requirement as applied for.

Conclusion on Costs to Serve

4.21. The licensee's COS study outcome reflected an average tariff increase of 9.70% for the licensee to achieve full cost-reflectivity, and the municipality is applying for an average tariff increase of 9.70%. The licensee considered its ability to service its Eskom account and the broader affordability impact on customers in determining its tariff adjustments.

4.22. Significantly higher tariffs could negatively impact the licensee by reducing customer demand and sales. The licensee also considered its ability to service its Eskom account and the broader affordability impact on customers in determining the pace of its tariff adjustments.

4.23. This approach will help protect the municipality's revenue base and support its financial sustainability, as required by legislation.

4.24. Furthermore, the COS study is based on forecasts and, as such, does not guarantee that the results are in fact true costs to supply. Therefore, the licensee has reviewed the results and determined its own revenue requirements to ensure financial sustainability. In this regard, the municipality will be required to submit a report accounting for all unverified costs.

Page 18 withheld by Unmapped Dataworks.

This page is part of the decision's record of public participation, objections or comments, which names members of the public. We do not republish it.

The whole decision is on NERSA's website: https://www.nersa.org.za/file/9219/KannalandMunicipality.pdf

Page 19 withheld by Unmapped Dataworks.

This page is part of the decision's record of public participation, objections or comments, which names members of the public. We do not republish it.

The whole decision is on NERSA's website: https://www.nersa.org.za/file/9219/KannalandMunicipality.pdf

Clawback / disbursement mechanism

6.1.5. It is important to note that currently, there is no formal Regulatory Clearing Account (RCA) mechanism for municipalities. Although the FY2024/25 tariffs were set to recover costs based on approved forecasts, the lower actual expenditure resulted in a lower allowable revenue outcome in the year under review. Accordingly, (i) in the absence of a clawback or disbursement mechanism, the FY2024/25 over-recovery cannot be automatically clawed back; and (ii) the impact is addressed through forward-looking tariff determinations, subject to prudency, affordability, and actual cash collection assessments. The proposed 9.70% tariff increase is therefore forward-looking, and not retrospective, as discussed in section 4.6 above.

6.2. **TARIFF ANALYSIS**

The licensee is proposing a 9.70% tariff increase based on its Cost of Supply (9.70%), which is sustainable.

1. Domestic - Lifeline (0-20A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 Summer (0 - 350kWh)	238.38	9.70%	261.50	261.50	9.70%
Block 2 Summer (351 - 600 kWh)	262.62	9.70%	288.09	288.09	9.70%
Block 3 Summer (>600 kWh)	378.14	9.70%	414.82	414.82	9.70%
Block 1 Winter (0 - 350kWh)	286.87	9.70%	314.69	314.69	9.70%
Block 2 Winter (351 - 600 kWh)	317.36	9.70%	348.15	348.15	9.70%
Block 3 Winter (>600 kWh)	420.40	9.70%	455.73	455.73	9.70%

2. Domestic - Conventional (0-59A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Block 1 Summer (0 - 350kWh)	290.49	9.70%	318.67	318.67	9.70%
Block 2 Summer (>350 kWh)	329.76	9.70%	361.75	361.75	9.70%
Block 1 Winter (0 - 350kWh)	318.35	9.70%	349.23	349.23	9.70%
Block 2 Winter (>350 kWh)	355.87	9.70%	390.39	390.39	9.70%
Basic Fixed Charge	0.00	0%	0.00	0.00	0%

3. Domestic - Conventional (60-100A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Block 1 Summer (0 - 600kWh)	300.60	9.70%	329.76	329.76	9.70%
Block 2 Summer (>600 kWh)	329.76	9.70%	361.75	361.75	9.70%
Block 1 Winter (0 - 600kWh)	381.70	9.70%	418.72	418.72	9.70%
Block 2 Winter (>600 kWh)	406.90	9.70%	446.37	446.37	9.70%
Basic Fixed Charge	585.63	9.70%	642.4361	642.4361	9.70%

4. Domestic - Prepaid (0-100A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Block 1 Summer (0 - 350kWh)	291.30	9.70%	319.56	319.56	9.70%
Block 2 Summer (351 - 600 kWh)	300.60	9.70%	329.76	329.76	9.70%
Block 3 Summer (>600 kWh)	339.50	9.70%	372.43	372.43	9.70%
Block 1 Winter (0 - 350kWh)	343.90	9.70%	377.26	377.26	9.70%
Block 2 Winter (351 - 600 kWh)	356.30	9.70%	390.86	390.86	9.70%
Block 3 Winter (>600 kWh)	389.50	9.70%	427.28	427.28	9.70%

5. Commercial - Small to Medium, Conventional (30-60A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Net Billing Export Credit (c/kWh)					
Basic Fixed Charge (R/month)	982.23	9.70%	1,077.51	1,077.51	9.70%
Demand Charge per Amp	0.00	0%	0.00	0.00	0%
Energy Charge Summer (c/kWh)	324.38	9.70%	355.84	355.84	9.70%
Energy Charge Winter (c/kWh)	406.55	9.70%	445.99	445.99	9.70%

6. Commercial - Small to Medium, Prepaid (30-60A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Energy Charge Summer (c/kWh)	401.61	9.70%	440.57	440.57	9.70%
Energy Charge Winter (c/kWh)	416.09	9.70%	456.45	456.45	9.70%

7. Commercial - Large, Conventional (60-150A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Basic Fixed Charge (R/month)	1,101.57	9.70%	1,208.42	1,208.42	9.70%
Demand Charge per Amp	0.00	0%	0.00	0.00	0%
Energy Charge Summer (c/kWh)	347.20	9.70%	380.88	380.88	9.70%
Energy Charge Winter (c/kWh)	385.81	9.70%	423.23	423.23	9.70%

8. Commercial - Large, Prepaid (60-150A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Basic Fixed Charge (R/month)	592.40	9.70%	649.86	649.86	9.70%
Demand Charge per Amp	0.00	0%	0.00	0.00	0%
Energy Charge Summer (c/kWh)	382.19	9.70%	419.26	419.26	9.70%
Energy Charge Winter (c/kWh)	403.37	9.70%	442.50	442.50	9.70%

9. Commercial - Bulk <500kVA	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Basic Fixed Charge (R/month)	2,379.35	9.70%	2,610.15	2,610.15	9.70%
Demand Charge per Amp (R/kVA)	421.19	9.70%	462.05	462.05	9.70%
Energy Charge Summer (c/kWh)	212.82	9.70%	233.46	233.46	9.70%
Energy Charge Winter (c/kWh)	340.07	9.70%	373.06	373.06	9.70%

10. Commercial - Bulk >500kVA	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Basic Fixed Charge (R/month)	7,590.81	9.70%	8,327.12	8,327.12	9.70%
Demand Charge per Amp (R/kVA)	421.19	9.70%	462.05	462.05	9.70%
Energy Charge Summer (c/kWh)	202.95	9.70%	222.64	222.64	9.70%
Energy Charge Winter (c/kWh)	340.07	9.70%	373.06	373.06	9.70%

11. Bulk Supply - (50-500kVA) (TOU)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)					
Basic Charge (R/day)	89.99	9.70%	98.72	98.72	9.70%
Network Demand Charge (R/kVA)	188.13	9.70%	206.38	206.38	9.70%
Network Access Charge (R/kVA)	87.10	9.70%	95.55	95.55	9.70%
Active Energy Charge per meter - TOU (c/kWh)					
Low Season (September to May):					
Peak	259.77	9.70%	284.97	284.97	9.70%
Standard	195.49	9.70%	214.45	214.45	9.70%
Off-peak	123.74	9.70%	135.74	135.74	9.70%
High Season (June to August):					
Peak	763.51	9.70%	837.57	837.57	9.70%
Standard	247.37	9.70%	271.36	271.36	9.70%
Off-peak	136.03	9.70%	149.22	149.22	9.70%
Reactive Energy Charge (c/kvarh)	0.00	0%	0.00	0.00	0%

12. Bulk Supply - >500kVA (TOU)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Flat Variable Charge (c/kWh)	No SSEG for this Tariff				
Basic Charge (R/day)	469.49	9.70%	515.03	515.03	9.70%
Network Demand Charge (R/kVA)	183.94	9.70%	201.78	201.78	9.70%
Network Access Charge (R/kVA)	83.45	9.70%	91.54	91.54	9.70%
Active Energy Charge per meter - TOU (c/kWh)					
Low Season (September to May):					
Peak	287.41	9.70%	315.29	315.29	9.70%
Standard	205.25	9.70%	225.16	225.16	9.70%
Off-peak	146.89	9.70%	161.14	161.14	9.70%
High Season (June to August):					
Peak	819.02	9.70%	898.46	898.46	9.70%
Standard	264.38	9.70%	290.02	290.02	9.70%
Off-peak	172.89	9.70%	189.66	189.66	9.70%
Reactive Energy Charge (c/kvarh)	0.00	0%	0.00	0.00	0%

7. CONFIDENTIALITY

7.1. None.

8. CONCLUSION

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

End.