NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

by

Kamiesberg Municipality

THE DECISION

1. At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered Kamiesberg 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 7 of the tariff analysison page 21 of the RFD.

2. Based on the information submitted and the analysis conducted, the REC decided at its meeting on 11 May 2026:

2.1. 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;

2.2. to note the COS study submitted by the municipality;

2.3. that the municipality must submit a report accounting for all the costs that have been noted in its COS study to enable the National Energy Regulator of South Africa to perform its independent verification/audit process by 31 January 2027; and

2.4. that the municipality must submit quarterly progress reports on the efficiency improvement measures taken to reduce high energy losses and deficits to enable NERSA to monitor their implementation by 30 September 2026.

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ABBREVIATIONS

AFS	Annual Financial Statements
COS	Cost of Supply
D-form	Distribution form
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
FY	Financial Year
IBT	Inclining Block Tariff
IPP	Independent Power Producer
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 annually, in accordance with its mandate 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. Kamiesberg is situated in the Northern Cape. The municipality is made up mostly of domestic customers, who consume 82.72% of the total electricity sales. The municipality provides its indigent customers with 50kWh of Free Basic Electricity (FBE) per month. The municipality further reports that it maintains an indigent register. The details regarding customer statistics are highlighted in Table 1 below.

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

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic Prepaid	5 741	82.32	1 132
Domestic Conventional	28	0.40	64
Commercial Prepaid	1 195	17.14	79
Commercial Conventional	10	0.14	31
TOTAL	**6 974**	**100%**	**1 306**
FBE[1]	1 283	22.24[2]	1 576

1.3. NERSA received Kamiesberg's tariff application together with its existing Cost of Supply (COS) on 31 March 2026.

1.4. Kamiesberg implemented an average price increase of 11.32% in the 2025/26FY and is applying for an average price increase of 9.01% for the 2026/27FY.

1.5. The Municipality submitted its council resolution and proof of having conducted customer consultation together with its tariff application on 31 March 2026.

1.6. NERSA followed the notice-and-comment consultation process. Kamiesberg's tariff application was published on the NERSA website on 31 March 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties.

[1] This information is already included in the customer statistics table above under domestic prepaid/conventional category.

[2] Percentage of Domestic MWh

1.7. NERSA's decision was made on 11 May 2026, following the written comments received from affected stakeholders and NERSA's analysis.

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 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 in order to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

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 2026/2027 municipal financial year.

2.2. Statutory Mandate of the Energy Regulator

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 Energy Regulator's electricity regulatory mandate 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 licensees and may issue licences subject to conditions.

b) Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs.

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 that guide the determination of electricity tariffs in 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 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 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 Cost of Supply methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23, therefore, requires electricity distributors to undertake Cost-of-Supply 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 2025/2026FY 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 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, given the practical difficulties arising in relation 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 2026/27FY municipal tariff approvals.

2.8. Court-Directed Timelines

2.8.1. The timelines below are applicable with respect to the 2026/27 municipal tariff approvals

- written notice of bulk tariffs by 6 March 2026;
- municipal tariff applications to be submitted by 31 March 2026;
- public participation processes to be concluded by 21 April 2026
- publication of NERSA decisions by 11 May 2026.

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

- written notice of bulk electricity tariffs 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 the 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 comprising 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 2026/27FY municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of Kamiesberg, the assessment relied on the Distribution forms (D-forms) for the 2024/25FY 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 the Annual Financial Statements. As a result, the data captured in the D-forms is considered reliable for the tariff analysis.

3.2. Table 2 below indicates that Kamiesberg's electricity business recorded a decline in percentage deficit from 74.84% in the 2023/24FY to 102.95% in the 2024/25FY. The deterioration in the municipality's financial position is driven by increasing total expenditure. This is primarily due to a 25% increase in bulk electricity purchase costs, compounded by the municipality's prior procurement under the more expensive Night Save Rural tariff and the lack of alignment of its tariffs with the current Eskom Retail Tariffs. In addition, a R5 million interest payment to Eskom has further strained the municipality's finances. Furthermore, the municipality's collection rate is 85%, which is below the NERSA acceptable range of 95% and this could also be contributing to the municipality's electricity business's poor financial performance.

3.3. The energy losses slightly increased from 8.63% in the 2023/24FY to 15.00% in the 2024/25FY as highlighted in Table 2 below. Energy losses have also increased due to electricity theft, meter bypassing and inadequate metering infrastructure because of funding constraints. The municipality is encouraged to keep energy losses at low levels.

Table 2: Performance iIndicators

Performance iIndicators	***Municipality 2024/25 D-forms Information***	***Municipality 2023/24 D-forms Information***
Percentage surplus: (%)	-102.95	-74.84[3]
Energy Losses: (%)	15.00	8.63

3.4. Table 3 below provides a revenue impact analysis under three energy loss scenarios: (i) the actual loss level (15.00%), (ii) a reduced loss level of 12% and (iii) a further reduction to 6%.

[3] Total Electricity Purchases divided by Total Expenditure

Table 3: Assessment of Energy Losses and Revenue Impact (Data obtained from D-forms – 2024/25FY)

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	150,72		
Sales kWh	6 974 711,00	7 220 840,00	7 713 170,00
Purchases kWh	8 205 500,00	8 205 500,00	8 205 500,00
Losses kWh	1 230 789,00	984 660,00	492 330,00
Losses percentage	**15,00%**	**12,00%**	**6,00%**
Additional Energy (kWh)		246 129,00	738 459,00
Additional Revenue (Rands)		370 965,63	1 113 005,40
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 15 841 279,00	R 16 212 244,63	R 16 954 284,40
Total Expenses (Rands)	R 32 150 530,00	R 32 150 530,00	R 32 150 530,00
Net Profit (Loss)	R -16 309 251,00	R -15 938 285,37	R -15 196 245,60
Percentage Surplus/Deficit	**-102,95%**	**-98,31%**	**-89,63%**

3.5. Under the current scenario, with actual electricity losses of 15%, the licensee records an operating deficit of approximately R16 million, translating to a deficit level of 102.95%, based on approved D-form inputs. The revenue deficit of R16 million (-102.95%) indicates that current tariffs are not cost-reflective under prevailing inefficiencies. This negative surplus margin indicates that elevated energy losses continue to place pressure on the financial sustainability of the electricity business.

3.6. The analysis indicates that, should the municipality reduce energy losses to 12% and assuming all other factors, such as electricity purchases, operating costs and tariff structures, remain constant, the estimated revenue that could be recovered through the loss reduction is estimated to increase by approximately R1.1 million, reflecting improved revenue retention relative to the current position and a reduction in the deficit to 98.31%.

3.7. Furthermore, should the municipality reduce energy losses to 6% and assuming all other factors such as electricity purchases, operating costs and tariff structures remain constant, the estimated revenue that could be recovered through the loss reduction is estimated to increase by approximately R370 thousand, reflecting improved revenue retention relative to the current position and a reduction in the deficit to 89.63%.

3.8. The analysis indicates that, despite a reduction in energy losses to 6%, the municipality continues to operate at a deficit position. This suggests that the financial challenges facing the electricity undertaking extend beyond energy losses alone and may be attributable to broader structural and operational factors. These factors may include non-cost-reflective tariffs, weak revenue collection and customer non-payment, increasing bulk electricity purchase costs, high operational and employee-related expenditure, declining electricity sales volumes, as well as

infrastructure and financing obligations. Accordingly, while reducing in energy losses improves operational efficiency, it does not on its own ensure the financial sustainability of the electricity undertaking.

3.9. Based on the above information, the municipality's electricity department reflects unsatisfactory financial and operational performance, as evidenced by the reported deficit. This deficit suggests weaknesses in financial management and cost recovery and indicates that the electricity service function is neither stable nor financially sustainable. The municipality is, however, encouraged to sustain its current efforts to maintain low-energy losses and to implement cost-containment measures aimed at improving the financial sustainability of the electricity undertaking.

4. DETERMINATION OF KAMIESBERG'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The municipality submitted its existing COS study, which supports the tariffs application, which will be approved in the 2026/27FY. The municipality's cost-of-supply study was included 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 in accordance with 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. Kamiesberg Municipality's 2026/27FY tariff application is based on an existing COS study. The study is valid for five years and has been adjusted to reflect key cost drivers for the 2026/27FY in line with Section 18.7 of the COS Framework.

4.4. The municipality applied a cost-plus methodology, rather than a rate of return (ROR) approach. Under the cost-plus methodology, the allowable revenue is derived as follows:

4.4.1. Efficient and prudent operating expenditure (OPEX)

4.4.2. Plus, depreciation (as a proxy for asset consumption and future replacement)

4.4.3. Plus, a reasonable surplus margin

4.5. Section 18.7 of the October 2023 NERSA-approved Cost of Supply Framework 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, they can be adjusted accordingly."

4.6. In line with section 18.7 mentioned above, **Error! Reference source not found.** below was developed and the definition of the columns is as follows:

i. Column 1 is the actual 2024/25FY licensee performance and is sourced from the D-forms that are based on the audited annual statements.

ii. Column 2 is for the 2025/26FY revenues and electricity volume that are the base for 2026/27 tariffs. The figures were tested for reasonableness (since at the time of approval, they were estimates) when the Regulator considered and approved the 2026/27FY cost-of-supply base tariffs. Once the financial year ends, the actual figures will be verified using the audited statements.

iii. Column 3 is for the licensee's submitted 2026/27FY budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.

iv. Column 4 is for NERSA's recommended adjustments after considering the reasons, facts, and evidence the licensee provided to motivate/justify the budgeted figures.

v. Column 5 is for the NERSA's recommended amounts that sum up to allowable revenues the licensee must recover in 2026/27FY.

4.7. The total allowable revenue of R33 million is for the 2025/26FY tariff review and is based on the cost-of-supply revenue and the volumes used to determine the tariffs that were approved by the Energy Regulator, as shown in Table 4 below.

4.8. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for the 2026/27FY. NERSA used the budgeted figures submitted by the licensee to assess the reasonableness as well as the municipality's current operational requirement to ensure that municipalities do not over- or under-recover during the 2026/27FY tariff review process.

4.9. To determine an increase applicable to the 2026/27FY, the licensee submitted its 2026/27FY cost (budgeted cost plus surplus) as requested by NERSA, and the total budgeted required revenue that amounted to R39 million for the 2026/27FY tariff review process.

Table 4: Municipality's Revenue Requirement

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee	NERSA Adjustment (considering efficiencies)	FY2026/27 Allowable Revenue
Sales	kWh	8 018 648	8 018 648	8 736 441	-	8 736 441
Eskom bulk purchases	kWh	10 553 723	10 553 723	11 504 604	-	11 504 604
Total Energy Requirements	**kWh**	**10 553 723**	**10 553 723**	**11 504 604**		**11 504 604**
Total Losses	kWh	2 535 075	2 535 075	2 768 163		2 768 163
Technical losses	kWh	1 266 447	1 266 447	1 380 552	-	1 380 552
Non-technical losses	kWh	-1 268 629	-1 268 629	-1 387 610	-	-1 387 610
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	24,02%	24,02%	24,06%		24,06%
Cost drivers						
Energy purchases from Eskom	Rand	15 573 459	15 573 459	16 990 644	-	16 990 644
Total energy purchases		**15 573 459**	**15 573 459**	**16 990 644**	**0**	**16 990 644**
Operational expenditure (incl. Depreciation)	**Rand**	**17 085 447**	**18 425 624**	**22 869 016**	**-12 165 944**	**10 703 073**
General & Other	**0**	**16 747 328**	**18 135 067**	**22 507 866**	**-11 804 793**	**10 703 073**
Salaries and allowances	Rand	2 983 992	2 983 992	3 020 210	0	3 020 210
Materials and supplies	Rand	362 030	380 000	400 000	0	400 000
Contracted Services	Rand	714 913	179 128	185 848	0	185 848
Eskom debts interest	Rand	7 914 980	7 914 980	11 804 793	-11 804 793	0
Current year depreciation	Rand	4 771 413	3 418 910	3 545 409	0	3 545 409
Meter reading	Rand	1 991 149	3 258 057	3 551 606	0	3 551 606
Shared OPEX	**Rand**	**338 119**	**290 557**	**361 151**	**-361 151**	**0**
FBE paid to Eskom	Rand	338 119	290 557	361 151	-361 151	0
General expenses	**Rand**	**0**	**0**	**0**	**0**	**0**
Total Expediture before surplus	Rand	32 658 906	33 999 083	39 859 660	-12 165 944	27 693 717
Surplus	Rand	-16 309 251	2 907 913	3 767 170	0	3 767 170
Total Expenditure Including Surplus	Rand	16 349 654	36 906 996	43 626 830	-12 165 944	31 460 887
Other revenues	Rand	**-1 590 087**	**-3 704 013**	**-4 135 646**	**0**	**-4 135 646**
Reconnection fees	Rand	0	0	0	0	0
New connections	Rand	16 921	16 921	22 114	0	22 114
Free Basic Electricity (Equitable share)	Rand	1 573 166	2 113 926	2 304 391	0	2 304 391
Interest earned	Rand	0	1 573 166	1 809 141	0	1 809 141
Total Allowable Revenus	**Rand**	**14 759 567**	**33 202 983**	**39 491 184**	**-12 165 944**	**27 325 241**
Increase Required				***18,94%***	***-17,70%***	

4.10. It is important to test the efficiency and prudency of the costs in the 2025/26FY financial year since this is the most recently considered revenues in support of the approved tariffs during this period. This forms the basis on which costs for the 2026/27FY will be projected using assumptions to calculate revenue requirements for that year.

4.11. Furthermore, NERSA has verified all expense items included in the revenue requirement 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.

Bulk purchases

4.12. The licensee applied for a bulk purchase expenditure of R16 million, which accounts for 43% of total costs inclusive of the 12% energy loss allowance, in line with the act that requires only the prudently and efficiently incurred costs to be passed through to customers.

4.13. To get to the 2026/27FY estimate, the licensee projected the year-to-date amount for 2025/26FY since complete financial year data is unavailable, then made an estimate that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.14. The municipality currently has an outstanding Eskom debt of approximately R170 million, inclusive of interest. The municipality indicated that it did not qualify for the National Treasury debt relief programme, as one of the qualifying requirements was for municipalities to be current on their Eskom accounts, which the municipality was unable to meet. No NMD exceedance penalties have been charged.

4.15. The municipality further indicated that it has initiated a revenue recovery programme, which includes the replacement of conventional meters with prepaid meters, aimed at improving revenue collection and strengthening financial sustainability.

Operating Expenditure (including depreciation)

4.16. The licensee applied for operational expenditure, including depreciation, of R22.8 million as highlighted in Table 4 above.

4.17. The municipality adjusted the expenditure linked to the 2025/26FY tariffs, increasing it from R18.4 million to a budgeted amount of R22.8 million, reflecting a 24% increase in costs.

General Costs and Other

4.18. Salaries and allowances under the Electricity Department comprise employee-related costs incurred for staff involved in the operation, maintenance, administration, and management of the electricity function. These costs typically include basic salaries, overtime, standby and travel allowances, and other employee benefits for technical, operational, administrative, and managerial personnel within the department. The charges applied for increased by 1% from R2.9 million in the 2025/26FY to R3.0 million in the 2026/27FY.

4.19. The Materials & supplies line item includes cables, transformers, switchgear, meters, poles, streetlight components, protective equipment, maintenance materials, network repair items, electrical consumables and replacement parts for the network. These costs are necessary to ensure continuity and reliability of supply and therefore form part of the prudent cost of service. The applied for charges increased by 5% from R380 thousand in the 2025/26FY to R400 thousand in the 2026/27FY.

4.20. Contracted services form part of the municipality's prudent operating costs and are necessary to support the operation, maintenance, repair, and technical management of the electricity network. The municipality indicated that it contracted consultants for engineering services and construction contractors for electrification and network upgrades. The municipality indicated that the contracted services expenditure includes third-party vendors contracted to sell electricity on behalf of the municipality, for which the vendors charge a 6% commission. The municipality further indicated that it contracts external technicians to undertake repair and maintenance activities, as it currently only has one permanently employed technician. The applied for charges decreased by 4% from R179 thousand in the 2025/26FY to R185 thousand in the 2026/27FY.

4.21. Eskom debt interest comprises interest charges levied by Eskom on overdue bulk electricity account balances owed by municipalities. These charges arise when municipalities fail to settle their bulk electricity accounts within the required payment period. The applied for charges increased by 49% from R7.9 million in the 2025/26FY to R11.8 million in the 2026/27FY. The Eskom debt interest charges have been disallowed, as they are considered to be within the municipality's control, thereby ensuring that customers are not burdened with avoidable costs.

4.22. Meter reading operating expenses comprise costs associated with the collection, recording, and management of customer electricity consumption data. These expenses typically include labour costs for meter readers, transportation and fuel costs, handheld meter-reading devices and systems, data capturing and processing costs, as well as maintenance and support of metering infrastructure and related software systems. The applied for charges increased by 9% from R3.2 million in the 2025/26FY to R3.5 million in the 2026/27FY.

Depreciation

4.23. Depreciation is a key component of operational expenditure, as it enables the recovery of electricity infrastructure costs over the useful life of the assets. An adequate depreciation provision is essential to ensure the long-term sustainability of the electricity undertaking and to facilitate the future refurbishment and replacement of ageing network infrastructure.

4.24. The municipality reported an asset value of R45 108 000, as reflected in its submitted D-Forms for the 2024/25FY. This amount was verified against the audited AFS, the trial balance and supporting financial information.

4.25. Depreciation amounted to R3 418 910 in the 2024/25FY calculated using the straight-line method over the useful lives of the respective assets. This amount was extracted from the submitted 2024/25FY D-Form and verified against the audited 2024/25 Annual Financial Statements. The projected depreciation for 2025/26FY is R3 418 910, increasing to R3 545 409 in the 2026/27FY budget, reflecting 4% growth.

Shared Operating Expenditure

4.26. FBE paid to Eskom refers to the cost associated with FBE units supplied to qualifying indigent households, where the municipality purchases the electricity from Eskom in bulk. Municipalities provide a certain amount of free electricity (for example, 50 kWh per month) to registered indigent customers as part of government social support programmes. Even though customers receive electricity for free, the municipality still has to pay Eskom for the electricity it purchases in bulk. The applied for charges increased by 24% from R290 thousand in the 2025/26FY to R361 thousand in the 2026/27FY. The FBE payments to Eskom have been disallowed, as these costs are considered to be funded through the Free Basic Electricity allocation under the Equitable Share, thereby ensuring that customers are not burdened with avoidable costs.

Surplus

4.27. The municipality applied for a surplus of R3.7 million, which is based on a 9% return on OPEX, including bulk purchases. The applied surplus was assessed against the municipality's financial performance, operational requirements, cost-reflectivity principles and the affordability impact on consumers.

4.28. The Energy Regulator notes that maintaining an appropriate level of surplus is necessary to mitigate financial and operational risks associated with the electricity business. An inadequate surplus may expose the municipality to risks such as:

4.28.1. insufficient cash flow to fund operations and maintenance activities;

4.28.2. deterioration of network infrastructure due to underinvestment;

4.28.3. increased reliance on borrowing or cross-subsidisation from other municipal functions;

4.28.4. inability to respond effectively to network failures and emergency repairs; and

4.28.5. the weakening of the long-term financial sustainability of the electricity undertaking.

4.29. To ensure that the surplus is not excessive or detrimental to consumers, NERSA relied on section 15(1)(a) of the Electricity Regulation Act, 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 COS methodology, NERSA is required to ensure that Kamiesberg recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation.

4.30. NERSA is satisfied that the surplus applied for by Kamiesberg is reasonable and supports the financial sustainability of the electricity business, notwithstanding that it falls below the established target range of 10–20%, in line with the approved NERSA Cost-of-Supply framework.

4.31. The applied surplus is considered proportionate to the risks associated with an inadequate surplus, particularly in the context of a municipal distributor that is not profit-maximising but is required to remain financially sustainable. Accordingly, NERSA has decided to approve the revenue requirement as applied for.

4.32. Furthermore, the surplus was approved on the basis that a reasonable surplus margin is necessary to support the financial sustainability and ongoing operation of the electricity business, even where the municipality is currently experiencing a deficit position. The approved surplus, therefore, does not represent excessive profit-making but rather provides limited financial capacity to support operational cash flows, future capital requirements, and unforeseen expenditure pressures within the electricity service. The approval also considered the municipality's existing financial challenges, including increasing bulk electricity purchase costs, elevated energy losses, and Eskom debt obligations. In the absence of a reasonable surplus margin, the municipality's financial position and ability to

sustain the electricity service may deteriorate further, potentially affecting service reliability and long-term infrastructure sustainability.

Conclusion on Costs to Serve

4.33. While the COS study outcome reflected an average tariff increase of 12.80% for the licensee to achieve full cost reflectivity, the municipality adopted a two-year phase-in approach to implement tariff increases below the COS outcomes. Some of the considerations for this decision include the municipality's requirement to maintain a sustainable tariff level to drive the demand for its electricity services.

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

4.35. This approach will assist in protecting the municipality's revenue base and support its financial sustainability, as required by legislation.

4.36. Furthermore, the COS is based on a forecast, therefore resulting in a higher average percentage increase for the municipality to reach cost-reflectivity. It is for this reason that the municipality will be requested to submit a report accounting for all the costs that have been noted in its COS study, to enable the Regulator to perform its independent verification/audit process.

4.37. The cost adjustment tool indicates a justified increase of 18.94% for the 2026/27FY before taking out the inefficiencies. The Eskom debt interest amounting to R11 million, together with the Free Basic Electricity (FBE) costs paid to Eskom, amounting to approximately R361 thousand, resulted in a total disallowed amount of approximately R12 million. These costs were disallowed on the basis that they were considered inefficiencies and therefore should not be recovered from customers through tariffs.

4.38. The municipality applied for a revenue requirement of R39 million, including a surplus of R3.7 million. However, following the disallowance of identified inefficiencies, the revenue requirement decreased to R27 million. Consequently, operating expenditure was reduced from R22.8 million to R10.7 million. As a result of these adjustments, the calculated required tariff adjustment changed from an increase of 18.94% to a decrease of 17.70%.

4.39. This adjustment limits the municipality's ability to recover costs associated with inefficient operations through tariffs and places pressure on the municipality to improve operational and financial efficiency. At the same time, the reduction protects customers from bearing the burden of avoidable or unjustified costs through higher electricity tariffs, thereby promoting cost-reflective and fair pricing.

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2. Domestic Conventional	***2025/26 Approved***	***2026/27 Proposed***	***%Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/m	431.09	469.93	9.01%	469.93	9.01%	The COS indicates that this tariff category is under-recovering by approximately 37%, reflecting a significant gap between current tariffs and the cost of supply. The proposed adjustments include a 9.01% increase in the basic charge and a corresponding increase in the energy charge, which collectively contribute toward improving cost recovery. These increases are considered justified, as they align with the need to reduce the identified under-recovery and support the financial sustainability of the electricity service. While the adjustments represent a positive movement toward cost reflectivity, they do not fully eliminate the under-recovery**,** indicating that further phased adjustments will be required in future tariff cycles. The proposed increases, however, are moderate and appropriate, balancing the need for cost recovery with customer affordability considerations.
Energy charge (c/kWh)	322.54	351.60		351.60		

3. Commercial Conventional	***2025/26 Approved***	***2026/27 Proposed***	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	1 117.26	1 217.93	9.01%	1 217.93	9.01%	The Cost of Supply (COS) indicates that this tariff category is over-recovering by approximately 100%**.** Notwithstanding this position, the proposed tariff adjustments reflect a 9.01% increase in both the basic and energy charges, which is aligned with the Eskom bulk supply increase and broader cost pressures faced by the municipality. In this context, it is recognised that municipalities are experiencing rising input costs, particularly from bulk electricity purchases, which necessitate tariff adjustments to maintain financial sustainability and service continuity. The proposed increases are therefore considered reasonable as a pass-through of bulk cost escalations, rather than a structural change to the tariff design.
Energy charge (c/kWh)	330.89	360.70		360.70		

4. Commercial Prepaid	***2025/26 Approved***	***2026/27 Proposed***	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Energy charge (c/kWh)	405.13	441.63	9.01%	441.63	rising	The Cost of Supply (COS) indicates that this tariff category is over-recovering by approximately 39%**.** Notwithstanding this position, the proposed tariff adjustments reflect a 9.01% increase in both the basic and energy charges, which is aligned with the Eskom bulk supply increase and broader cost pressures faced by the municipality. In this context, it is recognised that municipalities are experiencing rising input costs, particularly from bulk electricity purchases, which necessitate tariff adjustments to maintain financial sustainability and service continuity. The proposed increases are therefore considered reasonable as a pass-through of bulk cost escalations, rather than a structural change to the tariff design.

5. Commercial Three Phase	***2025/26 Approved***	***2026/27 Proposed***	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	1 705.97	1 859.68	9.01%	1 859.68	9.01%	The Cost of Supply (COS) indicates that this tariff category is over-recovering by approximately 125%. Notwithstanding this position, the proposed tariff adjustments reflect a 9.01% increase in both the basic and energy charges, which is aligned with the Eskom bulk supply increase and broader cost pressures faced by the municipality. In this context, it is recognised that municipalities are experiencing rising input costs, particularly from bulk electricity purchases, which necessitate tariff adjustments to maintain financial sustainability and service continuity. The proposed increases are therefore considered reasonable as a pass-through of bulk cost escalations, rather than a structural change to the tariff design.
Energy charge (c/kWh)	360.70	360.70		360.70		

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

From a conspectus of the facts and evidence presented to the REC, supporting information, stakeholder inputs and applicable legal framework, it is appropriate to consider and approve Kamiesberg's tariff application as set out in this Reasons for Decision for the 2026/27FY.

End.