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

Theewaterskloof Local Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered Theewaterskloof Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27FY (FY) as set out on the tariff analysis section 7 on page 17 of the RfD.

Based on the information submitted and the analysis conducted, 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; and
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.

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ABBREVIATIONS

A	Amp
AFS	Annual Financial Statements
CAPEX	Capital Expenditure
COS	Cost of Supply
CPI	Consumer Price Index
D-form	Distribution form
ERTSA	Eskom Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
FY	Financial year
IBT	Inclining Block Tariff
IPP	Independent Power Producer
LV	Low voltage
MFMA	Municipal Finance Management Act
MV	Medium voltage
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
NMD	Notified Maximum Demand
OPEX	Operating Expenditure
REC	Regulator Executive Committee
ROR	Rate of Return
SSEG	Small-Scale Embedded Generation
TOU	Time-of-Use

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications on a yearly basis, 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. Theewaterskloof is situated in the Western Cape. The municipality is made up mostly of Domestic customers, which consume 49.64% of the total electricity sales. The municipality provides its indigent customers with 70 kWh 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	27 451	49.26	7 526
Domestic conventional	215	0.39	45
Manufacturing	17 205	30.87	50
Commercial Prepaid	5 009	8.99	555
Commercial Conventional	5 309	9.53	166
Street Lights	542	0.97	1
TOTAL	**55 731**	**100**	**8 343**
[1]FBE	2 040	7.37[2]	2 089

1.3. NERSA received Theewaterskloof's tariff application together with its existing Cost of Supply (COS) based on the cost-plus methodology on 31 March 2026.

1.4. Theewaterskloof implemented a 11.32% average price increase in 2025/26FY and is applying for an average price increase of 8.00% 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. Theewaterskloof's tariff application was published on 31 March 2026 on the NERSA website, on social media platforms and in national and local newspapers to solicit written comments from affected parties.

1.7. NERSA's decision was made on 6 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

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

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 Adjustments (ERTSA) 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; 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 NERA. In terms of section 4 of NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and execute the functions set out in ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by ERA. Section 3 of 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 ERA.

2.2.2. In particular:

a) section 4(a)(i) of ERA provides that the Energy Regulator must consider applications for licensees and may issue licenses subject to conditions;
b) section 4(a)(ii) of ERA provides that the Energy Regulator must regulate prices and tariffs; and
c) section 14(1)(d) of ERA authorises the Energy Regulator to impose license 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 licenses issued by the Energy Regulator and are therefore subject to the tariff approval framework established under ERA.

2.3. Tariff Determination Principles under ERA

2.3.1. When determining or approving electricity tariffs, the Energy Regulator must apply the principles contained in section 15(1) of 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. 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 COS methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. 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 2025/26FY 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, considering the practical difficulties which arose as it relates to the NERSA's compliance with the court order. Having heard NERSA's application, the Court 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 in respect of the 2026/27FY 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 2027/28FY are to comply with the following timelines:

a) written notice of bulk electricity tariffs to be communicated by 31 January each year;

b) municipal tariff applications to be submitted to NERSA by 20 March each year;
c) municipal tariff approvals and the tariff reasons for decision document to 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 NERA, ERA, PAJA, the 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 Theewaterskloof, 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 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. Table 2 below indicates that Theewaterskloof's electricity business recorded an increase in the percentage surplus from 0.14% in the 2023/24FY to 7.80% in the 2024/25FY. The increase is attributed to an increase in the revenue from the sale of electricity from R137 million in the 2023/24FY to R156 million in the 2024/25FY, which translates to a 14% increase.

3.3. The energy losses declined slightly from 3.70% in the 2023/24FY to 3.69% in the 2024/25FY as highlighted in table 2 below. The municipality is encouraged to keep energy losses at low levels

Table 2: Performance indicators

Performance indicators	***Municipality 2024/25 D-forms information***	***Municipality 2023/24 D-forms information***
*Percentage surplus **(%)**:*	7.80	0.14[3]
*Energy Losses **(%)**:*	3.69	3.70

3.4. Based on the above information, the licensee's electricity department demonstrates satisfactory financial and operational performance, as evidenced by the recorded surplus and relatively low energy losses. The surplus indicates prudent financial management and cost recovery, while the low level of energy losses suggests

[3] Total Electricity Purchases divided by Total Expenditure

effective network maintenance and operational efficiency. Collectively, these factors point to a stable and sustainable electricity service function.

4. DETERMINATION OF THEEWATERSKLOOF'S TARIFFS BASED ON THE COS 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 COS 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:

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. Theewaterskloof 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, and not 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 COS Framework states:

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.

4.6. 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 2026/27FY tariffs. The figures were tested for reasonableness (since at the time of approval, the figures were estimates) when the Regulator considered and approved of 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 R212 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 3 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 check the reasonableness as well as the licensee'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 for the 2026/27FY, the licensee submitted its 2026/27FY cost (budgeted cost plus surplus) as requested by NERSA, and total budgeted required revenue that amounted to R228 million for the 2026/27FY tariff review process.

4.10. It is important to test the efficiency and prudency of the costs in the 2025/26FY 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 R152 million which accounts for 67% of total costs inclusive of the 3.69% energy loss allowance in line with the act that requires only the prudently and efficiently incurred cost 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 ERTSA.

4.14. The Eskom bills were analysed and there are no NMD exceedance penalties charged. Furthermore, the Municipality is up to date with its Eskom bulk account and therefore does not incur interest charges.

Table 3: 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	55 731 198	55 731 198	55 731 198	0	55 731 198
						0
Eskom bulk purchases	kWh	57 868 959	57 868 959	57 868 959	0	
Total Energy Requirements	**kWh**	**57 868 959**	**57 868 959**	**57 868 959**		**57 868 959**
Total Losses	kWh	2 137 761	2 137 761	2 137 761		2 137 761
Technical losses	kWh	2 137 761	2 137 761	2 137 761	-	2 137 761
Allowed losses	%	**3,69%**	**3,69%**	**3,69%**	**0,00%**	**3,69%**
Total Energy losses	%	3,69%	3,69%	3,69%	0,00%	3,69%
Cost drivers						
Energy purchases from Eskom	Rand	120 103 715	139 206 740	152 139 046	-	152 139 046
Other energy purchases		0	-	-	-	-
Total energy purchases		**120 103 715**	**139 206 740**	**152 139 046**	**0**	**152 139 046**
Cost of technical losses	Rand	4 436 801	8 352 404	9 128 343	0	9 128 343
Capital expenditure	Rand	3 040 348	1 277 437	700 000	-	700 000
Operational expenditure (incl. Depreciation)	**Rand**	**38 009 855**	**53 398 072**	**57 227 207**	**-7 210 080**	**50 017 127**
General & Other	0	16 464 390	18 229 940	20 847 195	0	20 847 195
Salaries and allowances	Rand	8 948 915	10 066 353	12 550 311	0	12 550 311
Materials and supplies	Rand	1 343 232	1 868 358	1 423 290	0	1 423 290
Contracted Services	Rand	2 041 774	2 364 072	3 170 548	0	3 170 548
Current year depreciation	Rand	4 130 469	3 931 157	3 703 046	0	3 703 046
Shared OPEX	Rand	21 545 466	35 168 132	36 380 012	-7 210 080	29 169 932
Bad debts (Allowance for Impairment)	Rand	1 421 015	1 901 001	2 053 080	0	2 053 080
FBE paid to Eskom	Rand	4 690 442	6 868 948	7 210 080	-7 210 080	0
Charges from other Municipal Departments	Rand	6 034 159	6 456 550	6 908 508	0	6 908 508
General expenses		**9 399 850**	**19 941 633**	**20 208 344**	0	**20 208 344**
Other Expenses	Rand	9 399 850	19 941 633	20 208 344	0	20 208 344
Total Expediture before surplus		162 550 371	200 957 216	218 494 596		211 284 516
Surplus	Rand	33 816 553	26 526 127	25 893 418	0	25 893 418
Total Expenditure Including Surplus		196 366 924	227 483 344	244 388 015	0	237 177 935
Other revenues	Rand	**-14 534 945**	**-15 166 920**	**-15 999 224**	**0**	**-15 999 224**
New connections	Rand	486 995	585 543	670 680	0	670 680
Free Basic Electricity (Equitable share)	Rand	11 106 241	14 312 308	14 628 544	0	14 628 544
Interest earned	Rand	204 761	269 069	0	0	0
Other Revenue - Government Grants and Subsidies	Rand	2 736 948	0	700 000	0	700 000
Total Allowable Revenus	**Rand**	**181 831 979**	**212 316 424**	**228 388 791**	**-7 210 080**	**221 178 711**
increase required				***7,57%***	***4,17%***	

Operating Expenditure (including depreciation)

4.15. The licensee applied for operational expenditure including depreciation R57 million as highlighted in Table 3 above.

4.16. The Municipality adjusted the expenditure linked to the 2025/26FY tariffs, increasing it from R53 million to a budgeted amount of R57 million, reflecting a 7% increase in costs.

General Costs and Other

4.17. 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 applied for charges increased by 25% from R10 million in the 2025/26FY to R12 million in the 2026/27FY.

4.18. 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 decreased by 24% from R1.8 million in the 2025/26FY to R1.4 million in the 2026/27FY.

4.19. 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 applied for charges increased by 34% from R2.3 million in the 2025/26FY to R3.1 million in the 2026/27FY.

Depreciation

4.20. 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 provision for depreciation is essential to ensure the long-term sustainability of the electricity undertaking and to facilitate the future refurbishment and replacement of aging network infrastructure.

4.21. The municipality reported an asset value of R124 807 206, 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.

4.22. Depreciation amounted to R4 130 469 million 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 2024/25FY Annual Financial Statements. The projected depreciation for 2025/26FY is R3 931 157 million, increasing to R3 703 046 million in the 2026/27FY budget, reflecting a decrease of approximately 6%.

Shared Operating Expenditure

4.23. Bad debts (Allowance for Impairment) comprise a provision made for amounts owed by customers that may not be recoverable. This operating expense is recognised to account for the risk of non-payment of electricity revenue and is typically based on the municipality's historical collection trends, ageing of debtor accounts and expected credit losses. The applied amount of R2 million represents 1% of the applied revenue requirement.

4.24. 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/month) to registered indigent customers as part of government social support programmes. Even though customers receive the electricity for free, the municipality still has to pay Eskom for that electricity purchased in bulk. The applied for charges increased by 5% from R6.8 million in the 2025/26FY to R7.2 million in the 2026/27FY. The FBE payments to Eskom have been disallowed, as these costs are considered to be funded through the FBE allocation under the Equitable Share, thereby ensuring that customers are not burdened with avoidable costs.

4.25. Charges from other municipal departments comprise costs allocated to the Electricity Department for support and shared services rendered by other departments within the municipality. These charges typically include services such as finance, human resources, information technology, legal services, fleet management, internal audit, facilities management and other corporate or administrative support functions provided to the electricity undertaking. The applied for charges increased by 7% from R6.4 million in the 2025/26FY to R6.9 million in the 2026/27FY.

4.26. Other expenses comprise miscellaneous operating costs incurred in the provision and administration of the electricity service that are not specifically classified under other expenditure categories. These expenses may include insurance, bank charges, communication costs, office and administrative expenses, staff training, licensing fees, security services, minor consumables, and other general operational support costs necessary for the functioning of the electricity undertaking. The applied for charges increased by 1% from R19.9 million in the 2025/26FY to R20.2 million in the 2026/27FY.

Surplus

4.27. The municipality applied for a surplus of R25 million which is based on a 11% 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;
- 4.28.5. and 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 Theewaterskloof 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 Theewaterskloof is reasonable and supports the financial sustainability of the electricity business, as it falls within the established target range of 10% to 20%, in line with the approved NERSA COS framework.

4.31. The applied surplus is considered proportionate to the risks associated with an inadequate surplus, particularly within 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.

Conclusion on Costs to Serve

4.32. While the COS study outcome reflected an average tariff increase of 8% in the energy charges and a reduction of 35% in the fixed charge for the municipality to reach cost-reflectivity, the municipality adopted a three-year phase in approach to implement tariff increases below the COS outcomes. Some of the considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to drive the demand for its electricity services.

4.33. Significantly higher tariffs could negatively impact on 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.

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

4.35. 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.

4.36. The cost adjustment tool (Table 3 above) indicates a justified increase of 7.57% for the 2026/27FY before taking out the inefficiencies. The FBE costs paid to Eskom, amounting to approximately R7.2 million, were disallowed on the basis that these costs are funded through the Free Basic Electricity allocation under the Equitable Share and, therefore, should not be recovered from customers through tariffs.

4.37. The municipality applied for a revenue requirement of R228 million, including a surplus of R25 million. However, following the disallowance of identified inefficiencies, the revenue requirement decreased to R221 million. Consequently, operating expenditure was reduced from R57 million to R50 million. As a result of these

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2. Domestic single-phase prepaid & credit: > 20 A	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Energy charge (c/kWh)	228.58	258.72	13.19%	258.72	13.19%	The COS indicates that the domestic single-phase credit tariff is over-recovering by 13%, while the prepaid tariff is under-recovering by approximately 22%. The proposed reductions in the basic charge (-4.22%) and capacity charge (-1.98%) are noted and represent a partial rebalancing of tariff components, which may assist in moderating the overall impact on customers. While the increase does not fully eliminate the under and over-recovery, it reflects a phased-in approach to tariff alignment. Overall, the proposed tariff balances affordability and cost-recovery considerations and can therefore be supported for approval.
Basic Charge (R/month)	182.74	175.02	-4.22%	175.02	-4.22%	
Capacity Charge (R/A/month)	13.10	12.84	-1.98%	12.84	-1.98%	

3. Domestic three-phase credit & prepaid	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Charge (R/month)	277.35	260.52	-6.07%	260.52	-6.07%	The COS indicates that the domestic three-phase credit tariff is over-recovering by 87%, while the prepaid tariff is under-recovering by approximately 22%. The proposed reductions in the basic charge (-6.07%) and capacity charge (-1.98%) are noted and represent a partial rebalancing of tariff components, which may assist in moderating the overall impact on customers. While the proposed increases do not fully eliminate the under and over recovery, it reflects a phased in approach to tariff alignment. Overall, the proposed tariff balances affordability and cost recovery considerations and can therefore be supported for approval**.**
Capacity Charge (R/Amp/month)	13.10	12.84	-1.98%	12.84	-1.98%	
Energy charge (c/kWh)	227.01	257.91	13.61%	257.91	13.61%	

4. Commercial 25 kVA	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Charge (R/month)	247.57	258.68	4.49%	258.68	4.49%	The COS indicates that this tariff is over-recovering by 39%. The proposed tariff adjustments reflect a mixed approach, with a reduction in the capacity charge (-13.00%), alongside increases in the basic charge (4.49%) and a more material increase in the energy charge (11.18%). The reduction in the capacity charge contributes toward partial correction of over-recovery. Overall, the proposed tariff balances affordability and cost-recovery considerations and can therefore be supported for approval.
Capacity Charge (R/A/month)	17.46	15.19	-13.00%	15.19	-13.00%	
Energy charge (c/kWh)	224.09	249.15	11.18%	249.15	11.18%	

5. Commercial > 26-50 kVA	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Charge (R/month)	664.89	775.53	16.64%	775.53	16.64%	The COS indicates that this tariff is under-recovering by 8%, suggesting a moderate gap between current tariffs and the cost of supply. The proposed tariff adjustments reflect a mixed structure, comprising a significant increase in the basic charge (16.64%), a reduction in the capacity charge (-13.00%), and an increase in the energy charge (11.18%). Collectively, these adjustments contribute toward improving revenue recovery, although the magnitude and distribution of increases are uneven across components. The increase in the energy charge is considered justified, as it aligns with the need to address under-recovery and reflects bulk supply cost pressures. Overall, the proposed tariff balances affordability and cost-recovery considerations and can therefore be supported for approval.
Capacity Charge (R/Amp/month)	17.46	15.19	-13.00%	15.19	-13.00%	
Energy charge (c/kWh)	224.09	249.15	11.18%	249.15	11.18%	

6. Commercial > 51-100 kVA	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Charge (R/month)	728.25	912.38	25.28%	912.38	25.28%	The COS indicates that this tariff is over-recovering by 78%. The reduction in the capacity charge contributes toward partial correction of over-recovery. Overall, the proposed tariff balances affordability and cost-recovery considerations and can therefore be supported for approval
Capacity Charge (R/month)	17.46	15.19	-13.00%	15.19	-13.00%	
Energy charge (c/kWh)	224.09	249.15	11.18%	249.15	11.18%	

7. Commercial one-part prepaid: (20 A single-phase)	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Energy charge (c/kWh)	406.64	439.17	8.00%	439.17	8.00%	The COS indicates that this tariff is under-recovering by 99%. This level of under-recovery reflects a substantial misalignment between the tariff and the cost of supply, necessitating progressive upward adjustments to improve cost reflectivity and reduce reliance on cross-subsidisation. The proposed increase is considered reasonable and appropriate, as it contributes toward narrowing the revenue gap, while adopting a phased approach that avoids significant tariff shock for customers. Although the adjustment does not fully eliminate the under-recovery, it represents a prudent step toward cost alignment.

8. Streetlight Tariff	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Charge (R/light/month)	130.09	137.26	5.51%	137.26	5.51%	The COS indicates that this tariff is under recovering by 2481%. The proposed tariff adjustments include a moderate increase in the basic charge (5.51%) and a substantial increase in the energy charge (60.02%). The increase in the energy charge is justified, given the extent of under-recovery, and represents a necessary step toward improving cost reflectivity. The approach is therefore consistent with a phased correction, balancing the need for financial sustainability with budgetary constraints typically associated with municipal street-lighting services. Accordingly. The tariff is approved as applied.
Energy charge (c/kWh)	165.69	265.13	60.02%	265.13	60.02%	

9. Nonstandard tariffs: TOU						
Bulk: TOU tariff, LV (400 V)	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Monthly: R/month	1 965.06	1 912.91	-2.65%	1 912.91	-2.65%	The COS indicates that this tariff is over-recovering by approximately 10%, suggesting that current charges exceed the cost of service. The proposed tariff adjustments reflect a partial rebalancing of cost components, including reductions in the basic monthly and demand charges, alongside increases in energy, access and reactive charges. While the increases in certain components are above inflation, they are aimed at improving cost alignment and pricing signals, particularly for peak usage and network access. Overall, the proposed structure represents a moderated approach to correcting over-recovery while maintaining revenue stability and appropriate time-of-use price signals. Accordingly, the recommended tariffs are supported as a phased adjustment toward cost reflectivity.
Low season energy charges:						
Peak (c/kWh)	288.82	345.03	19.46%	345.03	19.46%	
Standard (c/kWh)	202.02	219.97	8.89%	219.97	8.89%	
Off-peak (c/kWh)	150.55	163.50	8.60%	163.50	8.60%	
High season energy charges:						
Peak (c/kWh)	719.98	829.58	15.22%	829.58	15.22%	
Standard (c/kWh)	240.22	247.77	3.14%	247.77	3.14%	
Off-peak (c/kWh)	160.25	168.74	5.30%	168.74	5.30%	
Demand charge (R/kVA)	141.41	135.03	-4.51%	135.03	-4.51%	
Access charge (R/kVA)	103.74	127.43	22.84%	127.43	22.84%	
Reactive energy charge (c/kVArh)	28.93	38.26	32.25%	38.26	32.25%	

10. Nonstandard tariffs: TOU						
Bulk: TOU tariff, MV (11 000 kV)	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Monthly: R/month	4 786.75	6 344.26	32.54%	6 344.26	32.54%	The COS indicates that this customer category is under-recovering by approximately 13%. In this context, the higher increases in energy charges are justified, as they support improved cost reflectivity and align with rising bulk supply costs, particularly TOU energy costs. The relatively modest increases in fixed and demand-related charges help to avoid excessive cost burdens on capacity while maintaining tariff stability. The TOU structure remains intact, preserving appropriate price signals that encourage efficient consumption and load shifting, particularly during peak periods. Overall, the proposed tariff demonstrates a balanced approach to addressing under-recovery while maintaining economic efficiency and can therefore be supported for approval.
Low season energy charges:						
Peak (c/kWh)	283.74	339.23	19.56%	339.23	19.56%	
Standard (c/kWh)	196.93	214.17	8.75%	214.17	8.75%	
Off-peak(c/kWh)	145.47	157.70	8.41%	157.70	8.41%	
High season energy charges:						
Peak (c/kWh)	714.89	823.79	15.23%	823.79	15.23%	
Standard (c/kWh)	235.13	241.97	2.91%	241.97	2.91%	
Off-peak (c/kWh)	155.17	162.94	5.01%	162.94	5.01%	
Demand charge (R/kVA)	104.09	101.53	-2.46%	101.53	-2.46%	
Access charge (R/kVA)	83.20	103.76	24.71%	103.76	24.71%	
Reactive energy charge (c/kVArh)	28.93	38.26	32.25%	38.26	32.25%	

11. Geyser control exclusion	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic charge (R/month)	205.67	222.12	8.00%	222.12	8.00%	The COS indicates that this tariff is revenue neutral, meaning that current charges are appropriately aligned with the cost of service. The proposed increase of 8.00% is consistent with underlying cost drivers, including bulk purchase adjustments, and is therefore considered reasonable. Accordingly, the recommended tariff is supported, as it maintains cost reflectivity while ensuring stability and predictability for consumers.

12. Availability charge	***2025/26 Approved***	***2026/27 Proposed***	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic charge (R/month)	622.63	716.52	15.08%	716.52	15.08%	The COS indicates that this tariff is significantly under-recovering, reflecting a substantial misalignment between the current tariff level and the cost of service. While the proposed increase of 15.08% is directionally appropriate, it remains materially below the level required to address the extent of under-recovery. A full adjustment in a single year would likely result in severe tariff shock; accordingly, the recommended tariff supports a phased approach to cost reflectivity, balancing the need for improved cost recovery with affordability considerations.

13. Nonstandard TOU tariffs						
Small customer: TOU tariff, LV (< 50 kVA, 400/230 V)	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Basic Monthly: R/month	393.10	217.77	-44.60%	217.77	-44.60%	The COS indicates that this customer category is under-recovering by approximately 110%. In this context, the higher increases in energy charges are justified, as they support improved cost reflectivity and align with rising bulk supply costs, particularly TOU energy costs. The relatively modest increases in fixed and demand-related charges help to avoid excessive cost burdens on capacity while maintaining tariff stability. The TOU structure remains intact, preserving appropriate price signals that encourage efficient consumption and load shifting, particularly during peak periods. Overall, the proposed tariff demonstrates a balanced approach to addressing under-recovery while maintaining economic efficiency and can therefore be supported for approval.
Low season energy charges:						
Peak(c/kWh)	286.19	345.58	20.75%	345.58	20.75%	
Standard (c/kWh)	199.94	220.82	10.44%	220.82	10.44%	
Off-peak(c/kWh)	148.93	164.60	10.52%	164.60	10.52%	
High season energy charges:						
Peak (c/kWh)	693.76	828.11	19.37%	828.11	19.37%	
Standard (c/kWh)	237.71	248.39	4.49%	248.39	4.49%	
Off-peak (c/kWh)	158.52	169.77	7.10%	169.77	7.10%	
Network Capacity charges (R/A/month)	14.47	13.58	-6.15%	13.58	-6.15%	

14. Small-scale embedded generation (SSEG)						
	2025/26 approved	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Additional Basic Charge (R/month/POS)	114.11	0	-100%	0	-100%	The COS study indicates that the net metering tariff is revenue neutral, reflecting an appropriate balance between costs recovered from imports and credits provided for exports. This tariff is for customers who want to sell surplus renewable power to the municipality. This is subject to various conditions including the customer being on TOU and signing a new supply agreement. These amounts will be credited to the customers' energy component of the bill and not beyond in any month. Accordingly, the proposed rates are supported, as they maintain revenue neutrality while ensuring fairness and sustainability within the net metering framework.
***Low Season* Energy charges:**						
Peak(c/kWh)	(228.52)	(275.53)	20.57%	(275.53)	20.57%	
Standard (c/kWh)	(137.30)	(165.61)	20.62%	(165.61)	20.62%	
Off-peak(c/kWh)	(103.83)	(125.28)	20.66%	(125.28)	20.66%	
***High Season* Energy charges**:						
Peak (c/kWh)	(522.29)	(629.49)	20.52%	(629.49)	20.52%	
Standard (c/kWh)	(145.66)	(175.69)	20.62%	(175.69)	20.62%	
Off-peak (c/kWh)	(103.83)	(125.28)	20.66%	(125.28)	20.66%	

15. Co-generation tariff	***2025/26 approved***	***2026/27 proposed***	***% increase***	***Recommended tariff***	***Recommended % increase***	***Analysis and Key Findings***
Application Fee (R/once off)-	1 639.46	1 770.62	8.00%	1 770.62	8.00%	The COS study indicates that the net metering tariff is revenue neutral, reflecting an appropriate balance between costs recovered from imports and credits provided for exports. This tariff is for customers who want to sell surplus renewable power to the municipality. This is subject to various conditions including the customer being on TOU and signing a new supply agreement. These amounts will be credited to the customers' energy component of the bill and not beyond in any month. Accordingly, the proposed rates are supported, as they maintain revenue neutrality while ensuring fairness and sustainability within the net metering framework.
Inspection Fee (R/once off)	819.78	885.36		885.36		
Admin (R/month)	38.04	41.08		41.08		

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

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

End.