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

Knysna Local Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered Knysna 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 7 from page 20 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 (NERSA) 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 NERSA to closely monitor the implementation thereof.

TABLE OF CONTENTS

THE DECISION....1

ABBREVIATIONS AND ACRONYMS....6

1. INTRODUCTION....7

2. LEGAL AND REGULATORY FRAMEWORK....8

3. FINANCIAL AND TECHNICAL PERFORMANCE....12

4. DETERMINATION OF KNYSNA LOCAL MUNICIPALITY's TARIFFS BASED ON THE COST OF SUPPLY ADJUSTED DATA....13

5. PUBLIC PARTICIPATION....17

6. THE OBJECTORS AND OTHER INTERVENING PARTIES....18

7. TARIFF ANALYSIS AND KEY FINDINGS....20

8. CONFIDENTIALITY....31

9. CONCLUSION....31

LIST OF TABLES

Table 1: Customer Statistics (Data obtained from 2024/25 D-forms) 7
Table 2: Performance Indicators 12
Table 3: Revenue Requirement Components 15
Table 4: Consolidated Thematic Analysis of Objections and NERSA Response 18
Table 5: Municipal Impact 21

LIST OF FIGURES

Figure 1: Tariff vs Revenue Impact per Customer Category..... 20

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	Knysna 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. Knysna Local Municipality (KLM) is situated in the Western Cape. The municipality's customer base is predominantly domestic, with this category accounting for 50.09% 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)	55 032	38.59%	22 844
Domestic (Conventional)	16 399	11.50%	3 174
Commercial Prepaid	4 606	3.23%	530
Commercial Conventional	53 103	37.24%	832
Street Lighting	3 192	2.24%	0
Sold to other departments	10 271	7.20%	635
TOTAL	**142 603**	**100**	**28 015**
Free Basic Electricity (FBE)	17 915	25	13 446

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 an 11.32% average price increase in the 2025/26 financial year and is applying for an average price increase of 11.50% 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 30 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 considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of Municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) (NERA), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended (the 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 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 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 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 4.85%[1] in the 2024/25 financial year, a material fall from 6.25% in the 2023/24 financial year. The decline in surplus is primarily attributed to the licensee's cost pressures outpacing its sales revenue during the reporting period. Although the municipality reported a 22% growth in its electricity sales revenue in the year under review, the benefit of higher core revenue was offset by a significant 44% reduction in its *Other Income* and its total expenditure that rose by 15%. This gap is the core driver of the declining surplus margin, but this position is still considered sustainable.

3.3. Table 2 below shows that KLM's energy losses improved from 13.60% in the 2023/24 financial year to 12.70% in the 2024/25 financial year. The municipality cited theft, electricity bypassing and meter tampering as some of the causes of high energy losses. This is an indication that the measures the licensee undertook to curb its losses are yielding positive results, with an improved 2% revenue collection rate being an example. The licensee is encouraged to maintain lower levels of its losses and increase its collection rate to remain sustainable.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
Performance Indicator	**FY2023/24 (Approved)**	**2024/25 (Actuals)**
Percentage Surplus (Deficit): (%)	6.25	4.85
Percentage Energy Losses: (%)	13.60	12.70

3.4. Based on the above information, the financial position of the municipality's electricity business, although declining, remains stable as indicated by the surplus margin of 4.85%, and its energy losses are on the decrease at 12.70%. This weakening margin highlights increased vulnerability to financial and operational risks. The licensee ought to apply strong financial controls and continue implementing its energy loss reduction plans to mitigate risks of long-term unsustainability. With the measures currently in effect, the energy losses have notably reduced.

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

4. DETERMINATION OF KNYSNA LOCAL 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 3 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 with 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 the 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 the 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 R498.42 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 3 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 adjustments. The municipality has incorporated these outcomes into the forward-looking FY2025/26 and 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 utilised the budgeted figures to verify efficiencies and to ensure that municipalities do not over-/under-recover their operating overheads during the FY2026/27 tariff review process.

4.8. In determining the tariff adjustment applicable for the FY2026/27 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 R554.77 million for the FY2026/27 tariff review process with no energy loss adjustment applicable. This results in an 11.30% increase in allowable revenue for FY2026/27 relative to the previous financial period. The submitted application reflects an ambitious operating cost forecast, with an aggressive 77% reduction in the projected surplus position. However, this is offset by the substantial additional forecasted income to support the licensee's operations and address potential longer-term financial sustainability constraints.

Table 3: 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	142 603 928	142 603 928	-	0%	179 451 200	158 123 588	-12%	-	158 123 588
Eskom bulk purchases	kWh	163 358 572	163 358 572	-	0%	181 850 762	165 534 591	-9%	-	165 534 591
Independent Power Producers Conventional	kWh		-	-		-	-		-	-
Independent Power Producers Renewable Energy	kWh		-	-		-	-		-	-
Self Generation	kWh		-	-		-	-		-	-
Other			-	-		-	-		-	-
Total Energy Requirements	**kWh**	**163 358 572**	**163 358 572**	**0**	**0%**	**181 850 762**	**165 534 591**	**-9%**		**165 534 591**
Total Losses	kWh		20 754 644			2 399 562	7 411 003			7 411 003
Technical losses	kWh		19 603 029			2 399 562	7 411 003		-	7 411 003
Non-technical losses	kWh		-1 151 615			0	0		-	0
Allowed losses	%		**12.00%**			**1.32%**	**4.48%**			**4.48%**
Total Energy losses	%		12.70%			1.32%	4.48%			4.48%
Cost Drivers										
Energy purchases from Eskom	Rand	441 100 031	328 988 074	(112 111 957)	-25%	357 093 221	406 069 901	12%	-	406 069 901
Other energy purchases			-	-		-	-	0%	-	-
Total energy purchases	Rand	**441 100 031**	**328 988 074**	**-112 111 957**	**-25%**	**357 093 221**	**406 069 901**	**14%**	**0**	**406 069 901**
Cost of technical losses	Rand	68 679 312	39 478 569	(29 200 743)	-43%	4 711 926	18 179 797	286%	0	18 179 797
Non-Technical Losses	Rand	-	-	-	0%	-	-	0%	-	-
Other energy purchases	Rand					-	-		-	-
Capital expenditure	Rand	-	-	-	0%	-	-	0%	-	-
Operational expenditure (incl. Depreciation)	**Rand**	**163 686 121**	**153 569 720**	**27 019 629**	**-6%**	**147 529 339**	**176 435 050**	**20%**	**-**	**176 435 050**
General & Other	**Rand**	**66 465 326**	**58 752 819**	**(7 712 507)**	**-12%**	**69 558 034**	**86 937 639**	**25%**	**0**	**86 937 639**
Salaries and allowances	Rand	13 861 835	11 657 998	(2 203 837)	-16%	13 116 373	18 624 189	0	-	18 624 189
Materials and supplies	Rand	3 368 008	2 294 861	(1 073 147)	0	2 309 909	3 084 752	0	-	3 084 752
Contracted Services	Rand	28 482 100	27 727 324	(754 776)	-3%	25 177 442	37 345 673	0	-	37 345 673
Salaries, wages and allowances (excl. Repairs and Maintenance)	Rand	3 237 167	1 727 669	(1 509 498)	-47%	3 082 735	2 400 908	0	-	2 400 908
Payments to consultants (operational work)	Rand		-	-		-			-	0
Eskom debts interest	Rand		-	-		-	-		-	-
Current year depreciation	Rand	10 715 060	9 039 709	(1 675 351)	-16%	20 346 474	20 566 676	0	-	20 566 676
Repairs and Maintenance	Rand		0	0					0	
Other creditors interests	Rand	6 801 156	6 305 258	(495 898)	-7%	5 525 101	4 915 441	0	0	4 915 441
									0	
Shared OPEX	**Rand**	**97 220 795**	**94 816 901**	**34 732 135**	**-2%**	**77 971 305**	**89 497 411**	**15%**	**0**	**89 497 411**
Bad debts (Allowance for Impairment)	Rand	833 896	0	(833 896)	-100%	3 501 750	486 777	-86%	-	486 777
FBE paid to Eskom	Rand	14 991 110	17 914 880	2 923 770	20%	16 000 099	17 840 110	11%	-	17 840 110
Charges from other Municipal Departments	Rand	37 449 678	39 643 417	2 193 739	6%	34 672 925	34 960 310	1%	-	34 960 310
Operating Expenses	Rand			0						0
Administration charges	Rand		0	0						
Operating Leases	Rand		-	-		-	-		-	-
General expenses		**43 946 110**	**37 258 604**	**30 448 523**	**-15%**	**23 796 531**	**36 210 214**	**52%**	**0**	**36 210 214**
1.Insurance	Rand		394 797	-	#DIV/0!	616 807	606 428	#DIV/0!	-	606 428
2. Fleet Costs	Rand		4 884 967	-	#DIV/0!	-	-	#VALUE!	-	-
3.Other Expenses	Rand	1 530 317	965 412	(564 905)	-37%	1 097 746	1 531 139	39%	-	1 531 139
4. Safety Equipment and Protective Clothing	Rand	-	0	0	0%	110 014	115 515	5%	-	115 515
5. Impairment Losses	Rand	-	31 013 428	31 013 428	#DIV/0!	21 971 964	33 957 132	55%	-	33 957 132
6. Employee Related Cost	Rand									
7. Safety Equipment and Protective Clothing	Rand									
	Rand		-			-			0	0
Total Expediture before surplus	Rand	673 465 463	522 036 363	(114 293 071)	-22%	509 334 486	600 684 749	**18%**	0	600 684 749
Surplus	Rand	63 700 559	24 611 910	(39 088 649)	-61%	49 114 645	11 357 032	**-77%**	-	11 357 032
Total Expenditure including Surplus	**Rand**	**737 166 022**	**546 648 273**	**(153 381 720)**	**-26%**	**558 449 131**	**612 041 780**	**10%**	**-**	**612 041 780**
Other Income	Rand	**-36 459 868**	**-53 205 041**	**(16 745 173)**	**46%**	**-60 028 824**	**-57 275 846**	**-5%**	**0**	**-57 275 846**
5. Other Revenue - Illegal Connections	Rand		-	-		-	-		-	-
Total Allowable Revenue	**Rand**	**700 706 154**	**493 443 232**	**(170 126 893)**	**-30%**	**498 420 307**	**554 765 934**	**11%**	**-**	**554 765 934**
Increase Required							***11.50%***			***11.50%***

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 R406.06 million, which accounts for 69% of total costs inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices in the 2024/25 financial year.

4.12. To arrive at the 2026/27 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 R176.43 million for the 2026/27 financial year, including depreciation. This represents 29% of the Total Costs, adjusted upward from R147.52 million in the 2025/26 financial year, and translates to a 19.59% increase from the previous year. The licensee has applied a moderate adjustment approach in its budgeting to run its operations.

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 R353 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 R9 million in FY2024/25, R20 million in FY2025/26 and projected at R20 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 surplus position of R11.35 million, which is based on a 2% return on OPEX including bulk purchases, and decreased by 76.88% from the previous year relative to Total Expenditure.

Page 17 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/9220/KnysnaMunicipality.pdf

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/9220/KnysnaMunicipality.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/9220/KnysnaMunicipality.pdf

Page 20 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/9220/KnysnaMunicipality.pdf

7.1.3. From a tariff-impact perspective, this structure means that high-consumption conventional customers absorb most of the revenue uplift, while prepaid and low-consumption households face proportionally higher affordability pressure relative to income, despite contributing less to total revenue. On the municipal revenue side, the projected income of R540.1 million exceeds the cost-reflective requirement of approximately R532.0 million, generating a surplus of around R8.1 million. This indicates that the current tariff design does not merely recover costs but creates a buffer primarily funded by conventional energy users.

7.1.4. It might be necessary to assess whether the full 11.50% increase is necessary for all customer categories, or whether revenue neutrality could be achieved through more targeted adjustments that protect vulnerable prepaid households while still securing overall financial sustainability.

Municipal Impact Analysis

7.1.5. Table 5 below illustrates the municipal impact in the event of either approval or rejection of its application.

Table 5: Municipal Impact

Application Item	Assessment
Profile	Tourism-driven economy with strong commercial load.
Proposed Increase	11.50%
Cost of Supply Results	19.40%
Customer Impact	Commercial sector can absorb the increase, residential customers have mixed income base.
Revenue Impact (Approved)	Will achieve full cost reflectivity, recovery is neutral.
Revenue Impact (Rejected)	Immediate under-recovery will expose the municipality to bulk purchase escalation risk.
Regulatory Considerations	COS gap requires phasing-in otherwise the municipality may face financial sustainability risk.

Clawback / disbursement mechanism

7.1.6. 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 11.50% tariff increase is therefore forward-looking, and not retrospective, as discussed in section 4.6 above.

7.2. **TARIFF ANALYSIS**

1. Meter Connections	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Credit Meter Connections: 1 Phase (R/Connection)	1,219.85	11.32%	1,360.13	1,360.13	11.50%
Credit Meter Connections: 3 Phase (R/Connection)	3,226.72	11.50%	3, 597.80	3, 597.80	11.50%
Prepaid Metering: 1 Phase & 3 Phase (R/Connection)	1,377.25	11.50%	1,535.64	1,535.64	11.50%
Change from 3 Phase, Credit or Prepaid to 1 Phase Prepaid Metering only (R/Connection)	4,230.13	11.50%	4,716.60	4,716.60	11.50%

2. Domestic - Indigent Consumption Charges, 1 Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	202.89	11.50%	226.22	226.22	11.50%
Block 2 (51 - 350 kWh)	257.54	11.50%	287.15	287.15	11.50%
Block 3 (351 - 600kWh)	369.50	11.50%	411.99	411.99	11.50%
Block 4 (>600 kWh)	410.45	11.50%	457.65	457.65	11.50%

3. Domestic - Basic Charges	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
30A: 1 Phase: Domestic Pre-paid (c/day)	469.00	11.50%	523.00	523.00	11.50%
60A: 1 Phase: Domestic Pre-paid (c/day)	891.00	11.50%	994.00	994.00	11.50%
30A: 3 Phase: Domestic Pre-paid (c/day)	1,307.00	11.50%	145.80	145.80	11.50%
60A: 1 Phase: Domestic Pre-paid (c/day)	2,565.92	11.50%	286.10	286.10	11.50%
30A: 1 Phase: Credit Meter (R/month)	228.61	11.50%	254.90	254.90	11.50%
60A: 1 Phase: Credit Meter (R/month)	432.52	11.50%	482.26	482.26	11.50%
30A: 3 Phase: Credit Meter (R/month)	636.42	11.50%	709.61	709.61	11.50%
60A: 1 Phase: Credit Meter (R/month)	1,248.09	11.50%	1,391.62	1,391.62	11.50%

4. Domestic - Consumption Charges, 3 Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	202.89	11.50%	226.23	226.23	11.50%
Block 2 (51 - 350 kWh)	257.54	11.50%	287.15	287.15	11.50%
Block 3 (351 - 600kWh)	369.50	11.50%	411.99	411.99	11.50%
Block 4 (>600 kWh)	410.45	11.50%	457.65	457.65	11.50%

5. Domestic - All Inclusive Energy Charges, 1 Phase =60A	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	267.68	11.50%	298.46	298.46	11.50%
Block 2 (51 - 350 kWh)	293.12	11.50%	326.83	326.83	11.50%
Block 3 (351 - 600kWh)	376.90	11.50%	420.25	420.25	11.50%
Block 4 (>600 kWh)	418.66	11.50%	466.81	466.81	11.50%

6. Commercial - Prepaid	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Energy Consumption Charge (c/unit)	372.19	11.50%	414.99	414.99	11.50%
30 Amp : 1 phase : Commercial Prepaid (c/d)	127.38	11.50%	142.00	142.00	11.50%
60 Amp : 1 phase : Commercial Prepaid (c/d)	248.80	11.50%	277.40	277.40	11.50%
30 Amp : 3 phase : Commercial Prepaid (c/d)	352.10	11.50%	392.60	392.60	11.50%
60 Amp : 3 phase : Commercial Prepaid (c/d)	698.05	11.50%	778.30	778.30	11.50%
100 Amp : 3 phase : Commercial Prepaid (R/kWh)	115.97	11.50%	129.31	129.31	11.50%

7. Commercial - Credit Meter, 1 Phase	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*R/month*				
30 Amp : 1 phase : Commercial Credit meter (R/month)	516.66	11.50%	576.08	576.08	11.50%
60 Amp : 1 phase : Commercial Credit meter (R/month)	940.38	11.50%	1,048.52	1,048.52	11.50%
30 Amp : 1 phase : Commercial Credit meter (R/month)	222.70	11.50%	248.31	248.31	11.50%
60 Amp : 1 phase : Commercial Credit meter (R/month)	421.33	11.50%	469.79	469.79	11.50%

8. Commercial - Credit Meter, 3 Phase	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*R/month*				
30 Amp : 3 phase : Commercial Credit meter (R/month)	1,277.06	11.50%	1,423.92	1,423.92	11.50%
60 Amp : 3 phase : Commercial Credit meter (R/month)	2,599.48	11.50%	2,898.42	2,898.42	11.50%
100 Amp : 3 phase : Commercial Credit meter (R/month)	4,208.93	11.50%	4,692.96	4,692.96	11.50%
60 Amp : 3 phase : Commercial Credit meter (R/month)	619.96	11.50%	691.26	691.26	11.50%
60 Amp : 3 phase : Commercial Credit meter	1,215.81	11.50%	1,355.63	1,355.63	11.50%

9. Small Scale Embedded Generation (SSEGs): Small customers (NMD less than 66kVA, 100A) and Commercial	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***R/month or:***				
Domestic SSEG Single Phase:					
Basic charge (R/month)	276.21	11.50%	307.98	307.98	11.50%
Energy Charge (c/kWh)	295.00	11.50%	329.00	329.00	11.50%
Export Energy Charge (c/kWh)	99.00	11.50%	110.00	110.00	11.50%
Domestic SSEG Single Phase:					
Basic charge (R/month)	795.19	11.50%	886.63	886.63	11.50%
Energy Charge (c/kWh)	295.00	11.50%	329.00	329.00	11.50%
Export Energy Charge (c/kWh)	99.00	11.50%	110.00	110.00	11.50%
Commercial SSEG Single Phase:					
Export Energy Charge (c/kWh)	96.00	11.50%	108.00	108.00	11.50%
Commercial SSEG Single Phase:					
Export Energy Charge (c/kWh)	96.00	11.50%	108.00	108.00	11.50%
Bulk customer (NMD > 66kVA, 100A - Only available from 2019/2020		11.50%	1,355.63	1,355.63	11.50%
Basic charge	0.00	0%	0.00	0.00	0%
Municipality buy back rate	109.00	11.50%	121.00	121.00	11.50%

9. Bulk Supply - Conventional, Min NMD = 66kVA	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***R/kWh***				
Maximum Demand Charge: LV, 400V, 3 Phase (R/month)	458.29	11.50%	511.00	511.00	11.50%
Network Access Charge (c/kWh)	878.89	11.50%	979.80	979.80	11.50%
Energy Charge: Low <500V (c/kWh)	160.00	11.50%	178.91	178.91	11.50%
Basic Charge (R/month)	1,709.38	11.50%	1,905.96	1,905.96	11.50%

10. Bulk Supply - Conventional, Min NMD = 66kVA	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***R/kWh***				
Maximum Demand Charge: HV, >=400V and <=22kV, 3 Phase (R/month)	435.54	11.50%	485.62	485.62	11.50%
Network Access Charge (c/kWh)	835.78	11.50%	931.20	931.20	11.50%
Energy Charge: High >500V (c/kWh)	153.00	11.50%	170.09	170.09	11.50%
Basic Charge (R/month)	1,728.17	11.50%	1,926.91	1,926.91	11.50%

11. Bulk Supply - LV (<=400V) (TOU)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh or:***				
Basic Monthly Charge per meter (R/month)	1,709.38	11.50%	1,905.96	1,905.96	11.50%
Network Demand Charge (R/kVA)	116.06	11.50%	129.40	129.40	11.50%
Network Access Charge (R/kVA)	87.88	11.50%	97.98	97.98	11.50%
Active Energy Charge per meter - TOU (c/kWh)					
High Season (June to August):					
Peak	766.00	11.50%	853.95	853.95	11.50%
Standard	245.00	11.50%	273.37	273.37	11.50%
Off-peak	142.00	11.50%	158.05	158.05	11.50%
Low Season (September to May):					
Peak	263.00	11.50%	292.74	292.74	11.50%
Standard	187.00	11.50%	208.02	208.02	11.50%
Off-peak	125.00	11.50%	139.69	139.69	11.50%
Reactive Energy Charge (c/kvarh)	32.00	11.50%	36.17	36.17	11.50%

12. Bulk Supply - HV (>400V & <=22kV (TOU)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Monthly Charge per meter (R/month)	1,728.15	11.50%	1,926.89	1,926.89	11.50%
Network Demand Charge (R/kVA)	109.10	11.50%	121.64	121.64	11.50%
Network Access Charge (R/kVA)	82.61	11.50%	92.11	92.11	11.50%
Active Energy Charge per meter - TOU (c/kWh)					
High Season (June to August):					
Peak	720.00	11.50%	802.71	802.71	11.50%
Standard	231.00	11.50%	257.17	257.17	11.50%
Off-peak	133.00	11.50%	148.54	148.54	11.50%
Low Season (September to May):					
Peak	247.00	11.50%	275.19	275.19	11.50%
Standard	175.00	11.50%	195.55	195.55	11.50%
Off-peak	118.00	11.50%	131.32	131.32	11.50%
Reactive Energy Charge (c/kvarh)	32.00	11.50%	36.17	36.17	11.50%

13. Bulk Supply - Residential / Housing Development	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/stand)	1,774.03	11.50%	1,978.05	1,978.05	11.50%
Network Access Charge (R/kVA)	91.22	11.50%	101.71	101.71	11.50%
Energy Charge (c/kWh)	280.00	11.50%	312.30	312.30	11.50%

14. Street Lighting	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Energy Charge (c/kWh)	387.78	11.50%	432.37	432.37	11.50%

15. Sports Clubs - Credit and Prepaid	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***R/month***				
Private Sports Fields:					
Basic charge: 30 Amp : 1 phase SPORTS CLUBS (R/month)	219.38	11.50%	244.61	244.61	11.50%
Basic charge: 60 Amp : 1 phase SPORTS CLUBS (R/month)	415.07	11.50%	462.80	462.80	11.50%
Basic charge: 30 Amp : 3 phase SPORTS CLUBS (R/month)	610.74	11.50%	680.98	680.98	11.50%
Basic charge: 60 Amp : 3 phase SPORTS CLUBS (R/month)	1,197.73	11.50%	1,335.47	1,335.47	11.50%
Energy charge (c/kWh)	355.00	11.50%	395.37	395.37	11.50%

16. Availability Charges	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
- Single residential (R/month)	488.01	11.50%	544.13	544.13	11.50%
- Single residential (R/month)	5,856.10	11.50%	6,529.55	6,529.55	11.50%
- Other (R/month)	1,307.31	11.50%	1,457.65	1,457.65	11.50%
- Other (R/month)	15,687.73	11.50%	17,491.82	17,491.82	11.50%

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

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

End.