

It's been an important couple of weeks for electricity tariff advocacy.

Electricity Tariff Increases: 2026/2027

Firstly, our submission to the Regulator re Msunduzi Municipality's application for tariff increases for the 2026/2027 year was due by the 21st April, and duly submitted on your behalf.

I received a copy of Msunduzi's Cost of Supply (CoS) submission 3 working days prior to the NERSA comments being due. It's a complex document to analyze and I finished just in time to submit comments, I would have preferred to have engaged the municipality prior to doing so, but unfortunately, given the time constraints, this was not possible.

Put very basically, the CoS is used to determine the additional revenue required to run an efficient electricity business - the total revenue required is calculated, and then the revenue to be raised via sales at the current tariffs (the Business as Usual Revenues/BAU's) are subtracted, and the difference is used to determine the % increase needed.

We identified some material errors in the CoS, the most notable relates to the BAU revenue calculation. We determined that the energy costs for the categories "Manufacturing/Industrial" and "Megaflex 132 KV 40 MVA and Above" were calculated using only Off-peak consumption for both the high season and the low season. Combined, this is a significant number, accounting for two thirds of overall planned sales for the period.

No standard or peak tariffs were used in the forecast – when you consider the difference in these tariffs (see table below), you can appreciate the level to which the BAU Revenue was understated and the consequent over-calculation of "Required Revenue".

Manufacturing / Industrial			
Manufacturing / Industrial	OffPeak	High Season	166,4
Manufacturing / Industrial	Standard	High Season	256,9
Manufacturing / Industrial	Peak	High Season	712,3
Manufacturing / Industrial	All	High Season	
Manufacturing / Industrial			
Manufacturing / Industrial	OffPeak	Low Season	152,0
Manufacturing / Industrial	Standard	Low Season	205,6
Manufacturing / Industrial	Peak	Low Season	272,0
Manufacturing / Industrial	All	Low Season	

Other required corrections relate to Bulk Cost and Interest Paid. Various operational cost escalations were queried. We await the Regulators' determination decision.

Redetermination of Msunduzi's Electricity Tariffs: 2024/2025

You'll remember that we legally challenged the Energy Regulator's approval of Msunduzi's 2024/2025 electricity tariffs. A judgement in the High Court declared NERSA's awarding of the tariffs unlawful and the Regulator was instructed in January to start the process over again and to re-determine the tariffs by the 30th June 2026.

On the 28th April, the Public Hearing for the redetermination of the tariffs was held, at which I presented.

We made the point that the reapplication was hardly an improvement on the original application, which was declared unlawful by Millar J. No information and/or evidence was included, showing compliance with the judgement of Her Ladyship Ms Justice Kubushi, on the 20th October 2022 and no evidence to show that the application conforms with the tariff principles prescribed by the ERA and EPP or any other legislative prescripts (MFMA/LGMSA/MFPFA). No credible financial information accompanied the application - no provision of audited financial information - no ring-fenced electricity accounts / D-Form information / Asset Base information, so the only conclusion that we can come to, is that there is no rational basis to the application.

It is impossible to consult meaningfully without a cost-based application and impossible for NERSA to determine an electricity tariff compliant with the Regulatory Framework. For the reasons stated, Msunduzi's 2024/2025 Application cannot form the basis of a lawful tariff determination by NERSA.

We then went on to say that even if such credible information were to be available, Msunduzi has made material errors in the application, rendering the CoS unreliable. Firstly, the BAU tariffs are materially under-stated, as they fail to include the tariff increase of 14.1% awarded in 2022/2023 – this alone reduces the Required Revenue from 30% to 13,6%. In addition, the manufacturing demand charges are subtracted from the revenue instead of being added – that's a R120 million+ error.

Losses are incorrectly claimed at 15.9% and should be limited to 10% (reflected as 10% in the CoS, but erroneously calculated on purchases including losses).

No Asset Register was supplied, which affects two numbers – depreciation of R108 million and the Reasonable Return.

A surplus of 20% was claimed - reflects as 17%, but erroneously calculated on the Required Revenue including the surplus (i.e. calculating a surplus on a surplus). We believe the surplus to be unlawful – municipalities are entitled to a Reasonable Return on assets, and not a surplus.

Their tariffs per customer category graph shows the following:

- Significant under-recovery in the domestic sector
- Hardly any recovery of streetlights and municipal usage
- 10% over-recovery from Industry
- 36% under-recovery from Commercial Prepaid
- 151% over-recovery from Conventional Commercial

Cross-subsidization is evident. Despite this, the municipality went ahead and applied for a 17% increase across all customer categories. The lack of restructuring of the tariffs embeds this unlawful cross-subsidization.

Contrary to EPP position 40, the municipality is substantially undercharging for its own electricity usage.

We concluded by saying, that, in the absence of a credible application, NERSA cannot redetermine lawful tariffs for Msunduzi for 2024/2025 – we submitted that NERSA is obliged to reject the 2024/2025 Application in its entirety and to correct subsequent years. We also advised, that should NERSA entertain an amended CoS, we reserve our rights to consult thereon and our right of reply.

I'll endeavour to keep you apprised of any developments.

Yours in Business,
Melanie

PS: I have not included copies of the actual submissions, because of the sensitivity of some of the data, but I'm happy for members to come in and peruse the responses should anyone like to.