



NATIONAL ENERGY REGULATOR OF SA (NERSA) – BRIEFING ON THE MUNICIPAL ELECTRICITY DISTRIBUTION INDUSTRY (EDI) ON WEDNESDAY, 26 NOVEMBER 2025

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Status of Municipal Cost of Supply Studies

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2020/21 Financial Year

- NERSA received 34 CoS studies in 2021/22 Financial year
- Out of the 34 Cos studies received, two studies were compliant with the CoS Framework , and were noted by the Energy Regulator

Challenges in conducting CoS studies

- Limited cooperation from municipal officials was a major obstacle preventing licensees from meeting the COS requirement.
- NERSA officials struggled to obtain studies aligned to the CoS framework.
- Assistance from the provincial treasury department and the Department of Cooperative Governance and Traditional Affairs (CoGTA) yielded limited results.



Status of Municipal Cost of Supply Studies

Status of Municipal Cost of Supply Studies

2024/25 Financial Year:

- Out of 178 licensed electricity distributors, only 76 licensees submitted their CoS studies. This indicates that compliance was 43%, showing significant gaps in meeting regulatory requirements.

2025/26 Financial Year:

- Compliance improved significantly due to support from NERSA and key partners, including SEA, GIZ, SALGA, and CoGTA. As a result, 100% **(Excludes Phumelela Municipality)** of tariff applications were submitted with compliant CoS studies and were subsequently noted by the Energy Regulator.
- This improvement suggests that collaborative interventions and technical assistance have been effective in ensuring municipalities align with the EPP and ERA requirements for cost-riffs.





Implementation of CoS



Implementation of CoS

Implementation of CoS

- Approved municipal tariffs now fully incorporate CoS studies, ensuring compliance with NERSA's regulatory framework.
 - For the 2025/26 cycle, all applications were supported by CoS analysis, marking a shift toward transparent, cost-reflective pricing and improved financial sustainability.
- Each CoS study yielded a distinct percentage outcome, accurately representing the municipality's individual cost structure.
- The upcoming slides will illustrate the varying percentage outcomes from the CoS studies of the municipalities, these range from approximately 10% to well over 100%.



Implementation of CoS

outcome of the CoS studies

- 2.82% of Municipal CoS studies results indicated a required tariff increase of less than 10%.
- 55.37% of Municipal CoS studies results indicated a required tariff increase 10% and 20%.
- 36.16% of Municipal CoS studies results indicated a required tariff increase between 21% and 50%.
- 5.65% of Municipal CoS studies results indicated a required tariff increase more than 51%





EDI Compliance to Licence Conditions

Adherence to distribution Licence conditions,

NERSA's compliance Enforcement Framework for Distribution

Objective of Framework

- To ensure compliance with license conditions;
- To improve service delivery; and
- To improve accountability across municipalities and Eskom.

The Enforcement Framework adopts a two-fold approach of **Enforcement** and **Incentive Program**:

Enforcement Mechanisms

- Issuance of fines and penalties for non-compliance (s18 of ERA)
- License condition amendments (s16 of ERA)
- License revocations (s17 of ERA)

Incentive Programs (s29 of ERA)

- Rewards for meeting performance targets, including tariff incentives and public recognition.



Adherence to distribution Licence conditions, status

Compliance Area	Percentage of Municipalities Compliant	Key Observations
Vacancy Rates	14% (1 out of 7 municipalities had no vacancies)	High vacancy rates observed, ranging from 20% to 73.75%.
Electricity Business Ring-Fenced	0% (None of the municipalities complied)	None of the municipalities had their electricity business ring-fenced.
Eskom Bulk Account Payment	43% (3 out of 7 municipalities were up to date)	Payment delays and debt accumulation were common among municipalities.
Responsible Person (OHS Act)	14% (1 out of 7 municipalities complied)	Most municipalities lacked a responsible person appointed under the OHS Act.
Maintenance Plan Implementation	14% (1 out of 7 municipalities fully implemented)	Maintenance plans were either absent or not fully implemented due to budget issues.
Energy Losses	43% (3 out of 7 municipalities reported acceptable losses)	Energy losses ranged from 6% to 32%, with some municipalities exceeding norms.
Load Forecasting	14% (1 out of 7 municipalities had a load forecast)	Most municipalities lacked a master plan for load forecasting and future planning.



Adherence to distribution Licence conditions, status

Key issues based on actual audits

- **High Vacancy Rates:** Majority of municipalities reported vacancy rates ranging from 20% to 73.75%, impacting operational efficiency.
- **Lack of Ring-Fencing:** None of the municipalities had their electricity business ring-fenced from other municipal operations.
- **Delayed Eskom Payments:** 57% of municipalities were not up to date with their Eskom bulk account payments, leading to debt accumulation.
- **No Responsible Person (OHS Act):** 86% of municipalities failed to appoint a responsible person as required by the Occupational Health and Safety Act.
- **Inadequate Maintenance Plans:** Most municipalities either lacked maintenance plans or did not fully implement them due to budget constraints.
- **Energy Losses:** Several municipalities reported energy losses exceeding acceptable levels, with some as high as 32%.
- **Absence of Load Forecasting:** Only one municipality had a load forecast or master plan for future electricity demand and infrastructure planning.

****Licensees often cite financial constraints as a barrier to implementing corrective action plans.****





Action Taken on Non-Compliant Licencees



EDI Compliance to Licence Conditions

Action Taken on Non-Compliant Licencees

- 20 licensees were referred to the tribunal.
- Rules enabling the tribunal to convene were recently gazetted.
- This will enable the tribunal to sit and adjudicate on matters referred to it.
- The regulator is busy with final preparation for the tribunal to convene and deal with the referred non-compliant Licensees in accordance to section 17,18&19 of the ERA.





Outline conditions for acquiring a distribution Licence

Conditions for acquiring a distribution Licence

Requirement for a Distribution Licence application

Under the ERA, a person wishing to operate a **distribution facility** must obtain a Licence from NERSA (Section 7(1)(a))

To obtain such a Licence, the applicant must meet the following **statutory conditions**:

1. Submit a Formal Licence Application
2. In terms of Section 10(2), an application must include the following information and documentation:
 - a) Corporate and Ownership Structure - Business Plan outlining running of electricity distribution and trading including establishment of the Electricity Department;
 - b) Proof of Capacity – Administrative, Technical and Financial;
 - c) Bulks In-take Point paid quotation from Eskom ;
 - d) the Department of Energy and Electricity (DEE) funding and support letter;
 - e) Maps and Diagrams of the Area of Supply.



Conditions for acquiring a distribution Licence

Requirement for a Distribution Licence application

4. Describe the facility, customers and tariff policy.
5. Show compliance with labour, safety, and environmental laws (Section 10(2)(e)).
6. Publish a 30-day public notice on least two official languages in newspapers or media circulating nationally and in the activity area (Section 11(1)).
7. Respond to objections submitted to NERSA (Section 12(a)).
8. Comply with licence conditions set by NERSA (Section 14)
 - Tariff and pricing compliance
 - Quality of supply standards
 - Information and reporting obligations
9. Provide fair third-party network access and Base access charges on published tariffs (Section 21(3) & 21(4A)).





**Monitoring and evaluation of
distribution license conditions, how
this is being done?**

Monitoring and evaluation of distribution license conditions.

Monitoring and evaluation of distribution license conditions is done through:

1. Compliance Audits

- Conduct regular audits and site inspections.
- Assess causes of non-compliance.
- Verify adherence to license conditions.
- Provide technical assistance and guidance.
- Update compliance dashboard annually.

2. Notices of non-compliance, Fines and Penalties (Issued according to s18 of the Act)

- Notices of non-compliance issued by the Tribunal once operationalized.
- Fines to be issued by the tribunal-based on non-compliance with the notice and based on the severity of the non-compliance

3. License Revocation (According to s17 & s19)

- Investigations conducted under Section 32 of ERA prior to revocation.
- Tribunal adjudication for gross non-compliance.
- Revocation is a last measure if fines are not paid and non-compliance persists and is severely affecting service delivery.



Thank you

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