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

Beaufort West Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered the Beaufort West 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 6 from page 19 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 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 the National Energy Regulator of South Africa to closely monitor the implementation thereof.

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ABBREVIATIONS AND ACRONYMS

BWM	Beaufort West Municipality
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
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. The Beaufort West Municipality (BWM) is situated in the Western Cape. The municipality's customer base is predominantly domestic, accounting for 54.92% of total electricity sales. BWM 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	20 954	50,09%	10 880
Domestic Conventional	2 022	4,83%	329
Manufacturing	9 287	22,20%	216
Commercial Prepaid	1 353	3,23%	167
Commercial Conventional	5 521	13,20%	214
Street Lighting	1 632	3,90%	0
Sold to other departments	1 066	2,55%	62
Total	**41 835**	**100**	**11 868**

1.3. NERSA received BWM'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. BWM implemented an 11.32% average price increase in the 2025/26 financial year (FY) and is applying for an average price increase of 8.50% 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 31 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 BWM's tariff application on its website and 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 consideration 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 NERSA's 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 No. 3 of 2000) ("PAJA"), and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 ("EPP").

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually in order to align with the municipal budgeting process contemplated in the Municipal Finance Mmanagement 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 2026/2027 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, NERSA 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 COS 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 BWM, 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. BWM's electricity business operated at a percentage surplus margin of 2.32%[1] in the 2024/25 financial year, a material fall from 4.07% 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. The 11.9% revenue growth in the current reporting period has been eroded by the expenditure growth of 16.9%. This gap is the core driver of the declining surplus margin.

3.3. Table 2 below shows that BWM's energy losses, though still considered high, improved from 20.19% in the 2023/24 financial year to 17.63% in the 2024/25 financial year. The municipality cited theft, electricity bypassing and meter tampering as some of the causes of high energy loss. The licensee submitted and implemented its energy losses reduction plan during the reporting period, and this appears to be yielding positive results. Some of the measures the municipality identified and undertook in order to reduce its losses include the following:

a) Conduct meter audits in the coming financial year.
b) Identify and remove illegal connections.
c) Identify and replace faulty, tampered and unregistered meters.
d) Identify and rectify incorrect tariff codes.
e) Identify and correct metering errors.
f) Identify and correct billing errors.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
Performance Indicator	**FY2023/24 (Approved)**	**2024/25 (Actuals)**
Percentage Surplus (Deficit): (%)	4.07	2.32
Percentage Energy Losses: (%)	20.19	17.63

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

3.4. Based on the above information, the financial health of the municipality's electricity business is under pressure, as evidenced by the operating surplus margin declining to 2.32%. 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 the risks of long-term unsustainability. With the measures currently in effect, the energy losses have notably reduced.

3.5. Table 3 below provides a revenue impact analysis under three energy loss scenarios: actual (17.63%), when reduced to 12% and 6%.

Table 3: Energy Losses vs Revenue Impact Analysis

Parameters	Current Position FY2024/25	Scenario 1: Losses at 12% (Extrapolated D-Form Info)	Scenario 2: Losses at 6% (Extrapolated D-Form Info)
Energy Losses	17.63%	12%	6%
Surplus / Deficit Margin	2.32%	6.07%	9.76%
Revenue Impact of Energy Losses	R3 055 344.00	R5 248 704.68	R10 845 648.37

3.6. Under the current scenario, with actual electricity losses of 17.63%, the licensee records an operating surplus of approximately R3.05 million, which translates to a surplus margin of 2.32%, based on approved D-form inputs. This low surplus margin indicates that elevated energy losses continue to place pressure on the financial sustainability of the electricity business.

3.7. Based on the scenario analysis, should electricity losses be reduced to 12%, and assuming constant electricity purchases, operating costs, and tariff structures, total electricity sales revenue is projected to increase due to higher billable energy volumes. Under this scenario, the estimated revenue that could be recovered through loss reduction is estimated to increase by approximately R5.25 million, equivalent to a 6.07% surplus margin, reflecting improved revenue retention relative to the current position.

3.8. Further reduction of energy losses to 6% are expected to strengthen the surplus position by an additional R10.85 million, equivalent to a surplus margin of 9.76% subject to the sustainability and effectiveness of the implemented loss-reduction measures.

4. DETERMINATION OF BEAUFORT WEST 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 COS study included all requirements of NERSA's approved COS framework (i.e. Revenue Requirement, Costs Functionalisation, Costs Classification, Costs Allocation and Rate Setting).

4.2. Policy position 23 states that: *Electricity distributors shall undertake COS studies at least every five years, but at least when significant licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes. This must be done 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 4 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 R172.29 million in column 4 is for the 2025/26 financial year tariff review period and is the basis upon which the tariffs are adjusted for approval by the Energy Regulator, as shown in Table 4 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 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 used the budgeted figures to verify efficiencies and to ensure that municipalities do not over- or 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 R165.65 million for the FY2026/27 tariff review process, inclusive of an energy loss adjustment of R2.28 million. This results in a 3.85% reduction in allowable revenue for FY2026/27 relative to the previous financial period. The submitted application reflects a conservative cost- forecasting approach by the licensee, attributing its strategy to prioritising tariff affordability considerations over financial sustainability pressures, as well as the acknowledging continued migration of higher-end customers to alternative energy sources, thereby constraining future sales growth and revenue recovery prospects.

Table 4: 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	41 835 794	41 835 794	-	0%	44 164 552	44 164 552	0%	-	44 164 552
Eskom bulk purchases	kWh	50 788 041	50 788 041	-		51 194 345	51 194 345	0%	-	51 194 345
Independent Power Producers Conventional	kWh		-	-		-	-		-	-
Independent Power Producers Renewable Energy	kWh		-	-		-	-		-	-
Self Generation	kWh		-	-		-	-		-	-
Other			-	-		-	-		-	-
Total Energy Requirements	**kWh**	**50 788 041**	**50 788 041**	**0**	**0%**	**51 194 345**	**51 194 345**	**0%**		**51 194 345**
Total Losses	kWh		8 952 247			7 029 793	7 029 793			7 029 793
Technical losses	kWh		6 094 565			6 143 321	6 143 321		-	6 143 321
Non-technical losses	kWh		-2 857 682			-886 472	-886 472		-	-886 472
Allowed losses	%		**12.00%**			**12.00%**	**12.00%**			**12.00%**
Total Energy losses	%		17.63%			13.73%	13.73%			13.73%
Cost Drivers										
Energy purchases from Eskom	Rand	89 907 107	106 241 586	16 334 479		121 950 858	131 550 130	7%	-	131 550 130
Other energy purchases		-	-	-		-	-	0%	-	-
Total energy purchases	Rand	**89 907 107**	**106 241 586**	**16 334 479**	**18%**	**121 950 858**	**131 550 130**	**8%**	**0**	**131 550 130**
Cost of technical losses	Rand	13 653 334	12 748 990	(904 343)	-7%	14 634 103	15 786 016	8%	0	15 786 016
Non-Technical Losses	Rand		-5 977 877			-2 111 678	-2 277 897	8%	-2 277 897	-2 277 897
Other energy purchases	Rand					-	-		-	-
Capital expenditure	Rand	1 040 000	-	(1 040 000)	-100%	-	-	0%	-	-
Operational expenditure (incl. Depreciation)	**Rand**	**49 444 260**	**22 057 519**	**(44 605 194)**	**-55%**	**36 466 915**	**26 462 997**	**-27%**	**0.0**	**26 462 997**
General & Other	**Rand**	**38 308 300**	**15 344 077**	**(22 964 222)**	**-60%**	**19 816 709**	**19 616 670**	**-1%**	**0**	**19 616 670**
Salaries and allowances	Rand	10 973 553	9 187 459	(1 786 094)	-16%	11 462 724	11 079 139	-3%	-	11 079 139
Materials and supplies	Rand	3 523 155	1 443 004	(2 080 151)	-59%	2 080 250	2 172 500	4%	-	2 172 500
Contracted Services	Rand	2 271 394	1 550 991	(720 403)	-32%	2 340 004	2 172 500	-7%	-	2 172 500
Current year depreciation	Rand	4 523 158	3 162 624	(1 360 535)	-30%	3 933 731	4 192 531	7%	-	4 192 531
Repairs and Maintenance	Rand	16 768 102	0	(16 768 102)	-100%				0	
Shared OPEX	**Rand**	**28 354 413**	**6 713 441**	**(21 640 972)**	**-76%**	**16 650 206**	**6 846 327**	**-59%**	**0**	**6 846 327**
Bad debts (Allowance for Impairment)	Rand	6 694 486	2 261 401	(4 433 085)	-66%	12 281 293	2 331 890	-81%	-	2 331 890
FBE paid to Eskom	Rand	857 808	707 193	(150 615)	-18%	880 487	920 110	5%	-	920 110
Charges from other Municipal Departments	Rand	1 432 143	1 706 428	274 285	19%	1 850 000	1 853 000	0%	-	1 853 000
General expenses		**1 490 351**	**2 038 420**	**548 069**	**37%**	**1 638 426**	**1 741 327**	**6%**	**0**	**1 741 327**
3.Other Expenses	Rand	1 490 351	1 543 097	52 746	4%	1 528 412	1 625 812	6%	-	1 625 812
4. Safety Equipment and Protective Clothing	Rand	-	689	689	0%	110 014	115 515	5%	-	115 515
5. Impairment Losses	Rand	-	494 634	494 634	0%	0	0			0
Total Expediture before surplus	Rand	153 004 701	141 048 096	(29 175 058)	-8%	173 051 876	173 799 143	**0%**	0	173 799 143
Surplus	Rand	15 178 018	16 458 343	1 280 325	8%	18 551 844	6 951 966	**-63%**	-	6 951 966
Total Expenditure Including Surplus	**Rand**	**168 182 719**	**157 506 439**	**(27 894 733)**	**-6%**	**191 603 720**	**180 751 108**	**-6%**	**-**	**180 751 108**
Other Income	Rand	**-1 224 520**	**-13 852 245**	**(12 627 725)**	**1031%**	**-19 311 694**	**-15 099 559**	**-22%**	**0**	**-15 099 559**
5. Other Revenue - Illegal Connections	Rand		-	-		-	-		-	-
Total Allowable Revenue	**Rand**	**166 958 199**	**143 654 194**	**(27 894 733)**	**-14%**	**172 292 026**	**165 651 549**	**-4%**	**-**	**165 651 549**
Increase Required							***8.50%***			***8.50%***

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 R131.55 million, which accounts for 82% 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 R26.46 million for the 2026/27 financial year, including depreciation. This represents 15% of the Total Costs, adjusted downward from R36.46 million in the 2025/26 financial year. This translates to a 27.4% decline from the previous year. The licensee cited a conservative adjustment approach in its budgeting, noting that several electricity users have gone off the grid in recent times, among other factors.

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 R123 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 R3.2 million in FY2024/25, R3.9 million in FY2025/26 and projected at R4.2 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 R6.95 million, which is based on a 4% return on OPEX, including bulk purchases, and has decreased by 62.53% from the previous year relative to total expenditure.

4.18. The surplus position represents the critical financial buffer against several risks, allowing the municipality to maintain service delivery without resorting to emergency borrowing.

4.19. NERSA is of the view that the return applied for by the licensee is reasonable to keep the licensee just about sustainable, though it falls below the 10-20% target range as determined in the COS Methodology. The surplus level complies with the applicable principles, and it is justified in the manner in which BWM manages the risks associated with its service delivery. Thus, it is NERSA's decision to allow the revenue requirement as applied for.

Conclusion on Costs to Serve

4.20. While the COS study outcome reflected an average tariff increase of 38.8% for the licensee to achieve full 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.

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

4.22. This approach will help protect the municipality's revenue base and support its financial sustainability, as required by legislation.

4.23. Furthermore, the COS study is based on forecasts and, as such, does not guarantee that the results are in fact true costs to supply. Therefore, the licensee has reviewed the results and determined its own revenue requirements to ensure financial sustainability. In this regard, the municipality will be required to submit a report accounting for all unverified costs.

4.24. The cost adjustment tool indicates a 3.85% decrease in the revenue requirement for the 2026/27 financial year. Accordingly, the licensee has applied for a lower average tariff increase of 8.50% to review its tariffs for the 2026/27 financial year, down from 11.32% in FY2025/26. Taking into consideration the previously mentioned factors, this proposed increase is expected to keep the licensee just barely sustainable.

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Table 6: Municipal ilmpact

Application Item	Assessment
Profile	Rural area, economically constrained, low industrial base.
Proposed Increase	8.50%
Cos of Supply Result	38.87%
Customer Impact	Residential consumers face affordability pressure, but still well below true cost.
Revenue Impact (Approved)	Will provide modest cash relief only, continued under-recovery of approximately 30% will still persist.
Revenue Impact (Rejected)	Severe tariff shortfall, high risk to service sustainability.
Regulatory Considerations	Structural under-pricing vs COS, requires phased correction.

Clawback / disbursement mechanism

6.1.6. 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 8.50% tariff increase is therefore forward-looking, and not retrospective, as discussed in section 4.6 above.

6.2. **TARIFF ANALYSIS**

1. Domestic - Credit 1 & 3 Phase >20A (Scale 1.1A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	330.56	8.50%	358.66	358.66	8.50%
Per 5 Amp or Part (min 30A) (c/A/m)	76.69	8.50%	83.21	83.21	8.50%
Low Demand Energy Rate (c/kWh)	234.81	8.50%	254.77	254.77	8.50%
High Demand Energy Rate (c/kWh)	339.86	8.50%	368.75	368.75	8.50%

2. Domestic - Prepaid, 1 & 3 Phase >/=20A (Scale 1.1C)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Low Demand Energy Charge: 0-450 kWh (c/kWh)	356.37	8.50%	386.66	386.66	8.50%
Low Demand Energy Charge: >450kWh (c/kWh)	361.24	8.50%	391.95	391.95	8.50%
High Demand Energy Charge: 0-450 kWh (c/kWh)	393.13	8.50%	426.55	426.55	8.50%
High Demand Energy Charge: >450kWh (c/kWh)	398.50	8.50%	432.37	432.37	8.50%

3. Domestic - Indigent, Prepaid =20A (Scale 1.2)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Low Demand Energy Charge: 0-450 kWh (c/kWh)	252.30	8.50%	273.75	273.75	8.50%
Low Demand Energy Charge: >450kWh (c/kWh)	361.24	8.50%	391.95	391.95	8.50%
High Demand Energy Charge: 0-450 kWh (c/kWh)	265.42	8.50%	287.98	287.98	8.50%
High Demand Energy Charge: >450kWh (c/kWh)	398.50	8.50%	432.37	432.37	8.50%

4. Maximum Demand Users LV (Scale 2.1)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	1,991.59	8.50%	2,160.88	2,160.88	8.50%
Per kVA Notified Demand (c/kVA)	189.27	8.50%	205.36	205.36	8.50%
Per kVA Demand (minimum 25kVA) - Low Demand	167.73	8.50%	181.99	181.99	8.50%
Per kVA Demand (minimum 25kVA) - High Demand	268.60	8.50%	291.43	291.43	8.50%
Low Demand Energy Rate (c/kWh)	167.73	8.50%	181.99	181.99	8.50%
High Demand Energy Rate (c/kWh)	268.60	8.50%	291.43	291.43	8.50%

5. Maximum Demand Users MV (Scale 2.1A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	5 073.55	-100%	Move to TOU	Move to TOU	-100%
Per kVA Notified Demand (c/kVA)	174.54	-100%	Move to TOU	Move to TOU	-100%
Per kVA Demand (minimum 25kVA)	232.74	-100%	Move to TOU	Move to TOU	-100%
Low Demand Energy Rate (c/kWh)	154.75	-100%	Move to TOU	Move to TOU	-100%
High Demand Energy Rate (c/kWh)	247.85	-100%	Move to TOU	Move to TOU	-100%

6. Small Commercial and Industrial - Credit Meter (incl. Municipal Water Pumps) >60A (Scale 2.2)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	802.61	8.50%	870.83	870.83	8.50%
Per 5 Amp or Part thereof (Minimum 30A) (c/A/m)	176.23	8.50%	191.21	191.21	8.50%
Low Demand Energy Rate: 0-450kWh (c/kWh)	238.51	8.50%	258.78	258.78	8.50%
Low Demand Energy Rate >450kWh (c/kWh)	240.04	8.50%	260.44	260.44	8.50%
High Demand Energy Rate 0-450kWh (c/kWh)	298.69	8.50%	324.08	324.08	8.50%
High Demand Energy Rate >450kWh (c/kWh)	300.61	8.50%	326.16	326.16	8.50%

7. Small Commercial and Industrial - Prepaid (incl. Municipal Water Pumps) >/=20A (Scale 2.2)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	797.48	8.50%	865.27	865.27	8.50%
Per 5 Amp or Part thereof (Minimum 30A) (c/A/m)	175.45	11.50%	190.36	190.36	11.50%
Low Demand Energy Rate: 0-450kWh (c/kWh)	236.81	8.50%	256.94	256.94	8.50%
Low Demand Energy Rate >450kWh (c/kWh)	240.04	8.50%	260.44	260.44	8.50%
High Demand Energy Rate 0-450kWh (c/kWh)	296.56	8.50%	321.77	321.77	8.50%
High Demand Energy Rate >450kWh (c/kWh)	300.61	8.50%	326.16	326.16	8.50%

8. Small Commercial and Industrial Prepaid (incl. Municipal Water Pump) >/=20A (Scale 2.2B)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Low Demand Energy Charge: 0-450 kWh (c/kWh)	400.49	8.50%	434.53	434.53	8.50%
Low Demand Energy Charge: >450kWh (c/kWh)	403.07	8.50%	437.33	437.33	8.50%
High Demand Energy Charge: 0-450 kWh (c/kWh)	435.85	8.50%	472.90	472.90	8.50%
High Demand Energy Charge: >450kWh (c/kWh)	438.65	8.50%	475.94	475.94	8.50%

9. All Public Lights (Municipal and Private) (Scale 4.1)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Maintenance Charge: ≤150 Watt (c/Lum/month)	143.36	8.50%	155.55	155.55	8.50%
Maintenance Charge: >150 Watt (c/Lum/month)	172.53	8.50%	187.20	187.20	8.50%
Low Demand Energy Rate (c/kWh)	271.38	8.50%	294.45	294.45	8.50%
High Demand Energy Rate (c/kWh)	372.51	8.50%	404.17	404.17	8.50%

10. Availability Charges (Scale 6)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Charge per vacant serviced stand per month	437.79	8.50%	475.00	475.00	8.50%

11. Domestic Time of Use 1 & 3 Phase (Scale 7)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	335.03	8.50%	363.51	363.51	8.50%
Per 5 Amp or Part thereof (Minimum 15A) (c/A/m)	77.75	8.50%	84.36	84.36	8.50%
Energy Charge (c/kWh): Peak					
Low Season	247.50	8.50%	268.54	268.54	8.50%
High Season	699.35	8.50%	758.79	758.79	8.50%
Energy Charge (c/kWh): Standard					
Low Season	179.32	8.50%	194.56	194.56	8.50%
High Season	231.89	8.50%	251.60	251.60	8.50%
Energy Charge (c/kWh): Off-peak					
Low Season	124.26	8.50%	134.82	134.82	8.50%
High Season	139.09	8.50%	150.91	150.91	8.50%

12. Small Commercial Time of Use 1 & 3 Phase (Scale 7.1)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Levy per month (R/month)	849.98	8.50%	922.23	922.23	8.50%
Per 5 Amp or Part thereof (Minimum 30A) (c/A/m)	168.82	8.50%	183.17	183.17	8.50%
Energy Charge (c/kWh): Peak					
Low Season	247.50	8.50%	268.54	268.54	8.50%
High Season	699.35	8.50%	758.79	758.79	8.50%
Energy Charge (c/kWh): Standard					
Low Season	179.32	8.50%	194.56	194.56	8.50%
High Season	231.89	8.50%	251.60	251.60	8.50%
Energy Charge (c/kWh): Off-peak					
Low Season	124.26	8.50%	134.82	134.82	8.50%
High Season	139.09	8.50%	150.91	150.91	8.50%

13. Unmetered Usage (Telkom) (Scale 8)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Fixed Charge per month (R/month)	3,410.51	8.50%	3,700.40	3,700.40	8.50%

14. Large MV - (Medium Voltage 11-22KV), TOU (Scale 10.1)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	7,493.12	8.50%	8,130.014	8,130.014	8.50%
Per KV Notified Demand (kVA)	160.84	8.50%	174.51	174.51	8.50%
Per kVA DEMAND (minimum 100 kVA)	214.50	8.50%	232.73	232.73	8.50%
Reactive Energy Charge (c/kvarh)	6.35	8.50%	6.89	6.89	8.50%
Energy Charge (c/kWh): Peak					
Low Season	235.85	8.50%	255.29	255.29	8.50%
High Season	652.02	8.50%	707.44	707.44	8.50%
Energy Charge (c/kWh): Standard					
Low Season	172.67	8.50%	187.35	187.35	8.50%
High Season	221.13	8.50%	239.93	239.93	8.50%
Energy Charge (c/kWh): Off-peak					
Low Season	121.92	8.50%	132.28	132.28	8.50%
High Season	149.81	8.50%	162.54	162.54	8.50%

15. Large LV - (Low Voltage 400V), TOU (Scale 10.2)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge per month (R/month)	2,245.99	8.50%	2,436.90	2,436.90	8.50%
Per KV Notified Demand (kVA)	172.08	8.50%	186.71	186.71	8.50%
Per kVA DEMAND (minimum 100 kVA)	229.36	8.50%	248.86	248.86	8.50%
Reactive Energy Charge (c/kvarh)	6.35	8.50%	6.89	6.89	8.50%
Energy Charge (c/kWh): Peak					
Low Season	246.73	8.50%	267.70	267.70	8.50%
High Season	683.05	8.50%	741.11	741.11	8.50%
Energy Charge (c/kWh): Standard					

Low Season	180.90	8.50%	196.28	196.28	8.50%
High Season	231.66	8.50%	251.35	251.35	8.50%
Energy Charge (c/kWh): Off-peak					
Low Season	127.71	8.50%	138.57	138.57	8.50%
High Season	156.95	8.50%	170.29	170.29	8.50%

Export tariffs: Small-scale embedded generation (SSEG)

The proposed SSEG export charge is disbursed back to the customer and applies only to Large User tariff categories.
The licensee is introducing the SSEG tariffs for the first time in the FY2026/27 in line with the re-metering and migration of some customers off the grid to solar power.

16. SSEGs: Feed-in Rates / Export Credits - Subject to policy provisions (Scale 9)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Additional Fixed Monthly Charge, added to existing Basic Charge (R/month)	186.84	-100%	0.00	0.00	-100%
Energy Credit (c/kWh): Peak					
Low Season	0.00	100%	253.36	253.36	100%
High Season	0.00	100%	578.12	578.12	100%
Energy Credit (c/kWh): Standard					
Low Season	0.00	100%	152.49	152.49	100%
High Season	0.00	100%	161.74	161.74	100%
Energy Credit (c/kWh): Off-peak					
Low Season	0.00	100%	115.48	115.48	100%
High Season	0.00	100%	115.48	115.48	100%

7. CONFIDENTIALITY

7.1. None.

8. CONCLUSION

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

End.