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

Rand West City Local Municipality

THE DECISION

At its meeting held on 9 May 2026, the Regulator Executive Committee (REC) considered Rand West City Local Municipality's (RWCLM) 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 section 6 of this document.

Based on the available information and the analysis performed, the REC decided:

a) to approve the tariffs that are based on the cost drivers, as recommended in the tariff analysis section, for implementation by the licensee with effect from 1 April 2026;
b) to note the cost drivers submitted by the licensee;
c) that the licensee must submit a report accounting for all the costs noted in its cost of supply study, to enable the National Energy Regulator of South Africa (NERSA) to perform its independent verification/audit process by 31 January 2027; and
d) that the licensee must submit quarterly progress reports on the efficiency improvement measures taken to reduce high energy losses and deficits to enable NERSA to monitor the implementation thereof by 30 September 2026.

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ABBREVIATIONS AND ACRONYMS

COS	Cost of Supply
D-form	Distribution form
ERTSA	Eskom Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IPP	Independent Power Producer
RWCLM	Rand West City Local Municipality
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications on a yearly 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 (FY).

1.2. Rand West City Local Municipality (RWCLM) is located in the Gauteng Province. The licensee has 105 545 customers, of which 59.54% are industrial customers, followed by domestic at 31.60%. The licensee applied for an 11.36% increase in the 2025/26 financial year and is proposing a 9.01% increase for the 2026/27 financial year.

1.3. The municipality provides its indigent customers with 50kWh of Free Basic Electricity (FBE) per month. The municipality further reports that it maintains an indigent register. The details regarding customer statistics are highlighted in **Error! Reference source not found.** below.

Table 1: Customer Statistics (Data obtained from the latest D-forms – 2024/25FY)

Customer categories	*MWh*	*% MWh*	*Customer numbers*
Domestic (Prepaid)	81 124	25.03%	46 579
Domestic (Conventional)	21 289	6.57%	35 193
Manufacturing	192 978	59.54%	6936
Commercial	22 392	6.91%	9 663
Own use	6 308	1.95%	7174
TOTAL	**324 091**	**100.00%**	**105 545**
FBE	**4032**	**3.94%**	**10185**

1.4. NERSA received RWCLM's tariff application together with its Cost of Supply (COS) study on 31 March 2026.

1.5. In considering the application, NERSA followed the notice and comment consultation process. RWCLM's tariff application was published on the NERSA website and social media platforms, as well as in national and local newspapers, on 31 March 2026 to solicit written comments from affected parties.

2. 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 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 the 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).

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 NERA. In terms of section 4 of NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. Therefore, NERSA's electricity regulatory mandate is 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:

a) section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions;

b) section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs; and
c) 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 that guide the determination of electricity tariffs in 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, NERSA 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 states that electricity tariffs must accurately reflect the efficient cost of providing electricity services, and that the average tariff level 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 relating to the 2025/26 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 assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

2.7.4. NERSA subsequently launched a variation application seeking to vary the timelines set by the Court on 4 December 2025, in light of the practical difficulties arising in relation 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 2026/27 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:

a) Written notice of bulk tariffs must be communicated by 6 March 2026.
b) Municipal tariff applications must be submitted by 31 March 2026.
c) Public participation processes must be concluded by 21 April 2026.
d) Publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from 2027/28 must comply with the following timelines:

a) Written notice of bulk electricity tariffs must be communicated by 31 January each year.
b) Municipal tariff applications must be submitted to NERSA by 20 March each year.
c) 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 NERSA must therefore be undertaken within a comprehensive regulatory framework consisting of the 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 reasons for decision 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. Level of Reliability of Information

3.1.1. In evaluating the financial and technical performance, NERSA relied on the 2024/25 Distribution forms (D-forms) information provided in analysing the licensee's tariff application. NERSA validated the D-forms' information against the relevant source documents submitted by the municipality [i.e. the trial balance and audited annual financial statement (AFS)]. Hence, the information provided in the D-forms is considered reasonable for the analysis of the tariffs.

3.1.2. Table 2 below shows RWCLM's technical and financial performance.

Table 2: Performance Indicators

Performance indicators	***2024/25FY***	***2023/24FY***
*Percentage surplus/(Deficit): **(%)***	-40.42	-28.91
*Energy Losses: (**%**)*	41.06	38.31

Percentage Surplus

3.1.3. The municipality operated at a deficit of 40.42% in 2024/25FY. The municipality indicated that this is due to the low collection rate, which is at 56%. The low collection rate is due to high levels of outstanding consumer debt and socio-economic pressures affecting payment levels. The municipality must implement structured debt recovery programmes, issue final demands and disconnection notices, take legal action where necessary (within the legislative framework) and engage with government departments to assist and use external collection agencies where appropriate.

Table 3: Assessment of Energy Losses and Revenue Impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	278,83		
Sales kWh	324 090 905,35	483 845 412,70	516 834 872,65
Purchases kWh	549 824 332,61	549 824 332,61	549 824 332,61
Losses kWh	225 733 427,26	65 978 919,91	32 989 459,96
Losses percentage	**41,06%**	**12,00%**	**6,00%**
Additional Energy (kWh)		159 754 507,35	192 743 967,30
Additional Revenue (Rands)		445 450 425,76	537 436 368,62
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 922 333 666,68	R 1 367 784 092,44	R 1 459 770 035,30
Total Expenses (Rands)	R 1 295 116 910,79	R 1 295 116 910,79	R 1 295 116 910,79
Net Profit (Loss)	R -372 783 244,11	R 72 667 181,65	R 164 653 124,51
Percentage Surplus/Deficit	**-40,42%**	**5,31%**	**11,28%**

Energy Losses

3.1.4. Under the current scenario of 41.06% losses, the municipality experiences a significant revenue shortfall, which adversely affects its financial sustainability. In the alternative scenario, where losses are reduced to 12%, the financial position improves materially from a deficit of 40.42% to a surplus of 5.31%, with net revenue increasing to approximately R72 667181,65. If the municipality were to reduce its energy losses to 6%, the municipality would have a surplus of 11.28% and realise revenue of R164 653 124,51. This indicates that energy losses is a major contributor to the municipality's deficit.

3.1.5. In accordance with the cost-plus methodology, only prudent and efficient costs are recognised. The comparison between the two scenarios demonstrates that the current level of losses is inefficient and not supportable for tariff-setting purposes. Accordingly, operational improvements, particularly the reduction of energy losses, are required. Tariff adjustments alone will not restore financial sustainability without the implementation of effective loss-reduction interventions.

3.1.6. The municipality shared progress on initiatives already implemented and planned measures aimed at reducing energy losses as follows:
- 3.1.6.1. Replace all old conventional meters with new split-type meters
- 3.1.6.2. Relocate all electricity meters inside properties to new pole protective structures; house owners must not have access to meters, only the keypads
- 3.1.6.3. Perform regular house/meter audits
- 3.1.6.4. Perform audits on 'no-buy' and 'low buy' customers
- 3.1.6.5. Install bulk check meters at all Eskom intake points to verify Eskom invoices
- 3.1.6.6. Install zonal meters to determine where the biggest losses occur
- 3.1.6.7. RWCLM has replaced 2000 x meters with new split-type meters in the 2025/26 financial year
- 3.1.6.8. RWCLM has appointed a service provider to revise electricity tariffs structures (to determine whether tariffs are still cost reflective).

3.1.7. The municipality submitted an energy loss reduction plan in the 2025/26FY and indicated that losses have improved to 35% in the current 2025/26 Financial year.

General conclusion on the financial and technical indicators

3.1.8. Based on the above indicators, it can be concluded that the municipality's financial sustainability is gradually improving, as is reflected by the positive

performance trends and continuous improvement over time shown in Table 3 above.

4. DETERMINATION OF RWCLM'S TARIFFS BASED ON THE EXISTING COST OF SUPPLY STUDY

4.1. The licensee submitted its existing COS study, supporting the tariff application for the 2026/27 financial year. The licensee's COS study included all requirements of NERSA's approved COS Framework (i.e. revenue requirement, cost functionalisation, cost classification, cost allocation and rate setting).

4.2. The revenue requirement for Rand West City Local Municipality was determined using a cost-plus methodology in accordance with the NERSA COS Framework. Aligned to the NERSA COS Framework, costs were built up from verified bulk purchases (Eskom invoices) and verified electricity-related operating costs (tested against D-forms, trial balance and audited AFS).

4.3. Section 18.7 of the October 2023 NERSA COS Framework states:

An adjustment index will be issued to licensees to allow them to submit the tariff applications, which will be used to determine the costs that must increase with CPI, purchase costs, and other OPEX. Where annual plans, such as repairs and maintenance, and CAPEX plans, have been assessed and approved by NERSA, these can be adjusted based on that.

4.4. 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 is the actual 2024/25 licensee performance and is sourced from the D-forms that are based on the audited annual statements.
ii. Column 2 is for the 2025/26 revenues and electricity volume that are the base for 2026/27 tariffs. The figures were tested for reasonableness (since at the time of the approval, the figures were estimates) when NERSA considered and approved the 2026/27 COS base tariffs. Once the financial year ends, the actual figures will be verified using the audited statements.
iii. Column 3 is for the licensee's submitted 2026/27 budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.
iv. Column 4 is for NERSA's recommended adjustments after considering the reasons, facts and evidence the licensee provided to motivate/justify the budgeted figures.
v. Column 5 is for NERSA's recommended amounts that sum up to the allowable revenues the licensee must recover in 2026/27FY.

4.5. The licensee applied for a total revenue requirement of R1 575 632 158 for 2026/27FY. Following the assessment of the COS study, D-forms and supporting

financial information, NERSA made adjustments amounting to R43 394 874, resulting in an approved revenue requirement of R1 532 237 283, as shown in Table 4 below.

Table 4: Revenue Requirement Components

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee	NERSA Adjustment (considering efficiencies)	FY2026/27 Allowable Revenue
Sales	kWh	324 091 364	326 646 335	336 445 725	-	336 445 725
Eskom bulk purchases	kWh	549 824 845	511 302 140	526 641 204	-	526 641 204
Total Energy Requirements	**kWh**	**549 824 845**	**511 302 140**	**526 641 204**		**526 641 204**
Total Losses	kWh	225 733 481	184 655 805	190 195 480		190 195 480
Technical losses	kWh	65 978 981	61 356 257	63 196 945	-	63 196 945
Non-technical losses	kWh	-159 754 500	-123 299 549	-126 998 535	-	-126 998 535
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	41,06%	36,11%	36,11%		36,11%
Cost drivers						
Energy purchases from Eskom	Rand	1 132 289 522	1 276 316 749	1 391 312 888	-	1 391 312 888
total energy purchases		**1 132 289 522**	**1 276 316 749**	**1 391 312 888**	**-**	**1 391 312 888**
Non-Technical Losses						
Operational expenditure (incl. Depreciation)	**Rand**	**170 817 899**	**134 597 376**	**188 720 199**	**(43 394 874)**	**125 552 964**
General & Other	Rand	170 294 203	134 052 732	188 148 323	(31 995 913)	125 552 964
Salaries and allowances	Rand	36 563 878	38 392 072	39 927 755		39 927 755
Contracted Services	Rand	39 017 908	41 358 983	43 840 522	15 267 372	28 573 150
Payments to consultants (operational work)	Rand	4 552 736	4 825 901	5 067 196		5 019 392,00
Eskom debts interest	Rand	42 963 792		47 363 285	(47 263 285)	
Other creditors' interest	Rand	7 990 510	8 310 130	8 725 637		8 808 738,22
Current year depreciation	Rand	39 205 378	41 165 647	43 223 929	-	43 223 929
Shared OPEX	Rand	523 696	544 644	571 876	(571 876)	0
FBE paid to Eskom	Rand	523 696	544 644	571 876	(571 876)	-
Total Expediture before surplus	Rand	**1 303 107 421**	**1 410 914 125**	**1 580 033 087**	**-**	**1 516 865 852**
Surplus	Rand	13 031 074	14 109 141	15 800 331		15 168 659
Total Expenditure Including Surplus	Rand	1 316 138 495	1 425 023 267	1 595 833 418	-	1 532 034 511
Other revenues	Rand	**-18 656 654**	**-19 412 977**	**-20 201 260**	**(10 827 086)**	**-9 374 174**
Reconnection fees	Rand	8 825 495	9 090 260	9 362 968	-	9 362 968
Fines and Penalties	Rand	10 673	11 207	11 207	-	11 207
Free Basic Electricity (Equitable share)	Rand	9 820 486	10 311 510	10 827 086	(10 827 086)	-
Total Allowable Revenus	**Rand**	**1 297 481 841**	**1 405 610 290**	**1 575 632 158**	**(43 394 874)**	**1 532 237 283**
increase required				***12,10%***	***9,01%***	

4.6. Figures were verified using Eskom invoices and verified electricity-related operating costs (tested against 2024/25 D-forms, trial balance and audited AFS). Only prudently incurred and efficiently verified costs, supplemented by a reasonable surplus margin, are recommended for approval. This forms the basis for projecting costs for the 2026/27 financial year, using assumptions to calculate the revenue requirements.

4.7. Furthermore, NERSA has verified all expense items included in the revenue requirements to ensure that they relate only to the licensee's electricity function. In instances where expenses are deemed inflated or unjustified, these have been adjusted accordingly.

4.8. In line with COS Framework requirements, shared municipal costs were ring-fenced and allocated strictly to the electricity business using the D-forms. Cost attribution was verified against the trial balance and audited AFS, ensuring separation of electricity and non-electricity functions. Any costs not demonstrably related to electricity distribution were adjusted or excluded. This approach ensures compliance with the principle of cost causality and prevents cross-subsidisation between municipal functions.

4.9. The difference between 'Contracted Services' and 'Payments to Consultants (Operational Work)' is mainly based on the nature and purpose of the service provided, as detailed below.

Contracted Services

4.10. Refers to services outsourced to external service providers to perform operational or technical functions on behalf of the municipality. These are usually ongoing or project-based services, for example meter reading, security services, maintenance work, revenue collection, IT support and grass cutting.

Payments to Consultants (Operational Work)

4.11. This refers to payments made to professional experts or specialists who provide advisory, technical, analytical or professional support services. Consultants usually provide expertise rather than performing routine operational functions. This includes engineers, financial advisors, legal consultants, tariff or COS specialists, auditors and project management consultants.

Bulk Purchases

4.12. For the 2026/27FY, the licensee has applied for a bulk purchase expenditure of R1 391 312 888, which accounts for 91% of total costs, inclusive of the 12% energy loss allowance. Bulk purchases were verified against the 2024/25 Eskom invoices.

4.13. To get to the 2026/27 estimate, the licensee provided the year-to-date figures for 2025/26, then estimated that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

Operating Expenditure (Including Depreciation)

4.14. The Rand West City Local Municipality applied for operational expenditure of R146 376 427, as shown in Table 5 below.

Table 5: Operating Expenditure

Cost drivers	Units	2024/25FY Actuals	2025/26FY Budgeted	2026/27FY Applied	NERSA Adjustments	2026/27FY Recommended
General costs and other	**R**	**131 295 939**	**138 432 507**	**145 793 919**	**(1 967 581)**	**143 826 338**
Salaries and allowances	R	46 563 878	49 563 878	52 563 878	-	52 563 878
Materials and supplies	R	1 736	1 823	1 896	-	1 896
Contracted Services	R	39 017 908	40 968 803	43 017 243	-	43 017 243
Payments to consultants (operational work)	R	4 552 736	4 780 373	5 019 392		5 019 392
Eskom debts interest	R	1 954 302	1 951 982	1 967 581	(1 967 581)	-
Current year depreciation	R	39 205 378	41 165 647	43 223 929	-	43 223 929
Shared OPEX	**R**	**528 352**	**554 769**	**582 508**	**(5 133)**	**577 375**
Bad debts (Allowance for Impairment)	**R**	523 696	549 881	577 375		577 375
FBE paid to Eskom	**R**	4 656	4 889	5 133	(5 133)	-
Total Opex	**R**	**131 824 291**	**138 987 276**	**146 376 427**	**(1 972 714)**	**144 403 713**

4.15. The licensee applied for total operational expenditure of R146 376 427 for 2026/27FY, compared to the R138 987 276 budgeted in 2025/26FY.

4.16. On assessment, NERSA found that the Eskom interest charges were inefficient and had not been prudently incurred for tariff-setting purposes. FBE paid to Eskom was disallowed, as it is funded from the equitable share. Accordingly, the full amount of R1 967 581 and R5 133 were disallowed. Following this adjustment, the allowable operational expenditure was reduced to R144 403 713.

4.17. NERSA notes that the remaining operational expenditure, comprising salaries and allowances, materials and supplies, contracted services, depreciation, bad debt provision and charges from other municipal departments, was reasonable and necessary for the efficient operation of the electricity distribution business.

Surplus

4.18. NERSA assessed the surplus applied for by the licensee, taking into account sections 74(2)(d) and (e) of the Local Government: Municipal Systems Act, 2000, which require municipal tariff policies to promote the financial sustainability of municipal services and support the efficient, effective and sustainable delivery of those services. NERSA also considered section 15(1)(e) of the Electricity Regulation Act, which provides that an efficient licensee should be permitted to recover a reasonable margin or return commensurate with the risks associated with the licensed activity.

4.19. The licensee has included a surplus of R15 800 331 in the revenue requirement. Following its assessment, NERSA adjusted the surplus to R15 168 659, which represents approximately 1.0% of the total expenditure before surplus of

R1 516 865 852. Following the disallowance of R1 972 714 relating to Eskom interest charges and FBE paid to Eskom, the allowable surplus was reduced to R46 054 177, which remains within a reasonable range to support the financial sustainability of the electricity distribution business.

4.20. NERSA is satisfied that the approved return is reasonable and commensurate with the risks associated with the provision of regulated electricity distribution services. The approved return supports the financial sustainability of the electricity undertaking, enables continued investment in the maintenance and renewal of electricity infrastructure, and allows the municipality to manage its operational and financial risks.

4.21. The non-approval of the surplus may adversely affect the financial sustainability of the electricity distribution business. A surplus provides a modest financial buffer that enables the utility to absorb unforeseen operational expenditure, revenue shortfalls and other financial shocks. The absence of a surplus may also constrain the utility's ability to fund future network refurbishment, maintenance and asset replacement programmes from internally generated funds. This could contribute to the deterioration of infrastructure, increased equipment failures and reduced quality and reliability of electricity supply over time.

4.22. However, these risks must be balanced against the principle that customers should not be required to fund inefficiencies. Where a utility is experiencing excessive energy losses, poor revenue collection or operational inefficiencies, the approval of a surplus may not be prudent unless there is sufficient evidence that the utility is taking reasonable steps to improve its performance.

Conclusion on Costs to Serve

4.23. NERSA assessed the COS study in accordance with the approved COS methodology and determined that the costs proposed by the licensee were generally reflective of the cost of providing electricity services. The assessment confirmed that bulk electricity purchases remain the primary cost driver, accounting for approximately 83% of the total allowable revenue requirement.

4.24. The licensee applied for a total allowable revenue of R1 575 632 158 for the 2026/27 financial year based on forecast electricity sales of 336 445 725 kWh and total energy purchases of 526 641 204 kWh. NERSA assessed the revenue requirement and identified certain costs that were not considered prudent for recovery from customers. Adjustments were made to operational expenditure amounting to R43 394 874, primarily related to contracted services, Eskom debt interest and Free Basic Electricity costs. Consequently, the allowable expenditure was reduced from R1 580 033 087 to R1 516 865 852.

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https://www.nersa.org.za/file/9337/RandwestCityLocalMunicipality_ReasonsforDecisionontariffappl

2. Domestic consumers with prepaid electricity meters. (Non-indigents)	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Block 1 (0 – 50) kWh	192,43	9,01%	209,77	209,77	9,01%	The increase achieves a pure cost-reflective outcome, balancing affordability and cost recovery, with minimal impact on demand but no enhancement to the licensee's financial position beyond bulk cost recovery. The 9.01% increase results in a moderate rise in household electricity costs, with higher-usage customers more affected. The impact is manageable, and demand is expected to remain largely stable with minor efficiency adjustments.
Block 2 (51 – 350) kWh	247,56	9,01%	269,87	269,87	9,01%	
Block 3 (351 - 600) kWh	346,99	9,01%	378,25	378,25	9,01%	
Block 4 (600) kWh	404,81	9,01%	441,28	441,28	9,01%	
Basic Charge(R/Month)	123,67	9,01%	134,81	134,81	9,01%	

3. Domestic consumers with Conventional electricity meters (indigent households)	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Block 1 (0 – 50) kWh	192,43	9,01%	209,77	209,77	9,01%	The increase achieves a pure cost-reflective outcome, balancing affordability and cost recovery, with minimal impact on demand but no enhancement to the licensee's financial position beyond bulk cost recovery. The 9.01% increase results
Block 2 (51 – 350) kWh	245,34	9,01%	267,44	267,44	9,01%	
Block 3 (351 - 600) kWh	348,73	9,01%	380,15	380,15	9,01%	

Block 4 (600) kWh	410,06	9,01%	447,01	447,01	9,01%	in a moderate rise in household electricity costs, with higher-usage customers more affected. The impact is manageable, and demand is expected to remain largely stable with minor efficiency adjustments.

4. Domestic consumers with prepaid electricity meters. (indigents)	**2025/26FY Approved Tariffs**	**2026/27FY Proposed % increase**	**2026/27FY Proposed tariffs**	**2026/27FY Recommended Tariffs**	**2026/27FY recommended % Increase**	**Analysis and key findings**
Block 1 (0-50) kWh	192,61	9,01%	209,96	209,96	9,01%	The increase achieves a pure cost-reflective outcome, balancing affordability and cost recovery, with minimal impact on demand but no enhancement to the licensee's financial position beyond bulk cost recovery. The 9.01% increase results in a moderate rise in household electricity costs, with higher-usage customers more affected. The impact is manageable, and demand is expected to remain largely stable with minor efficiency adjustments.
Block 2 (51 – 350) kWh	245,56	9,01%	267,69	267,69	9,01%	
Block 3 (351 - 600) kWh	349,05	9,01%	380,50	380,50	9,01%	
Block 4 (600) kWh	410,44	9,01%	447,42	447,42	9,01%	

Commercial

5.Commercial Prepaid meter Tariffs	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Energy charge : c/kWh	411,52	9,01%	448,60	448,60	9,01%	The 9.01% increase results in a moderate rise in electricity costs for small businesses, placing manageable pressure on operating margins. Most businesses are likely to absorb or partially pass on the increase, with demand remaining stable and only minor efficiency adjustments
Basic Charge : c/kWh	348,23	9,01%	379,61	379,61	9,01%	

6. Commercial Conventional Tariffs	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Energy charge : c/kWh	343,80	9,01%	374,77	374,77	9,01%	The 9.01% increase results in a moderate rise in electricity costs for small businesses, placing manageable pressure on operating margins. Most businesses are likely to absorb or partially pass on the increase, with demand remaining stable and only minor efficiency adjustments
Basic Charge : c/kWh	851,21	9,01%	927,90	927,90	9,01%	

7. Street lighting tariff	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
	325,04	9,01%	354,32	354,32	9,01%	The 9.01% increase for street lighting tariffs results in a proportional rise in municipal costs, with no impact on demand as it is a fixed service. Municipalities must absorb the increase, while the licensee achieves full bulk cost recovery with no additional margin.

Industrial

8. Industrial < 1000 kVA	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Energy Charge : c/kWh	172,45	9,01%	187,99	187,99	9,01%	The 9.01% increase for industrial customers (<1000 kVA), aligned with the Eskom bulk increase, results in a moderate rise in energy and demand costs, placing manageable pressure on operating margins. Most users are likely to implement minor efficiency and load management measures, with overall demand remaining stable and limited impact on operations.
Demand Charge : R\kVA	457,78	9,01%	499,02	499,02	9,01%	
Basic / Fix charge : R/month	4 666,08	9,01%	5 086,49	5 086,49	9,01%	

9. Industrial > 1000 kVA	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Energy Charge : c/kWh	175,55	9,01%	191,37	191,37	9,01%	The 9.01% increase for industrial customers (>1000 kVA), aligned with the Eskom bulk increase, results in a moderate rise in energy and demand charges, increasing production costs but remaining manageable for large-scale operations. Customers are likely to apply load management and efficiency measures, with demand remaining largely stable and minimal impact on operational continuity.
Demand Charge : R\kVA	467,14	9,01%	509,23	509,23	9,01%	
Basic / Fix charge : R/month	4 666,08	9,01%	5 086,49	5 086,49	9,01%	

10. Time of Use above 70 kVA : Bulk TOU MV supply at Bulk substations	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Basic / Fix charge : R/kVA	9 332,17	9,01%	10 173,00	10173,00	9,01%	
Demand Charge : R/kVA/months	247,10	9,01%	269,37	269,37	9,01%	
Access Charge : R/kVA/months	197,68	9,01%	215,49	215,49	9,01%	
Reactive energy : c/kvarh	7,55	9,03%	8,23	8,23	9,03%	
Energy Charges: Low season:						
Energy Charge : Low Demand : Peak (c/KWh)	212,85	9,01%	232,03	232,03	9,01%	
Energy Charge : Low Demand : Standard (c/kWh)	153,44	9,01%	167,27	167,27	9,01%	
Energy Charge: Low Demand: Off-peak (c/kWh)	105,75	9,01%	115,28	115,28	9,01%	
Energy Charges:High season:						The 9.01% TOU increase (>70 kVA, MV bulk) leads to a proportional rise in peak, standard, and demand charges, with higher impact during peak periods. Customers may shift load and optimise demand, while consumption remains stable. The licensee achieves full bulk cost recovery, but no margin for non-bulk costs.
Energy Charge : High Demand : Peak (c/kWh)	606,43	9,01%	661,07	661,07	9,01%	
Energy Charge : High Demand : Standard (c/kWh)	199,29	9,01%	217,24	217,24	9,01%	
Energy Charge : High Demand : Off-peak (c/kWh)	136,76	9,01%	149,08	149,08	9,01%	

11. Bulk TOU MV supply from MV Networks: Above 70kVA	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Basic / Fix charge : R/kVA	4 666,08	9,01%	5 086,49	5086,49	9,01%	The 9.01% increase for Bulk TOU MV supply (>70 kVA, from MV networks) results in a proportional rise in energy (peak, standard, off-peak) and demand charges, with greater cost impact during peak and winter periods. Customers are likely to shift load and optimise demand, while overall consumption remains stable. For the licensee, the increase ensures full recovery of Eskom bulk costs, but no additional margin for non-bulk costs, limiting financial flexibility.
Demand Charge : R/kVA/months	259,49	9,01%	282,87	282,87	9,01%	
Access Charge : R/kVA/months	207,59	9,01%	226,30	226,30	9,01%	
Reactive energy : c/kvarh	7,55	9,03%	8,23	8,23	9,03%	
Energy Charges: Low season:						
Energy Charge : Low Demand : Peak (c/kWh)	217,11	9,01%	236,67	236,67	9,01%	
Energy Charge : Low Demand : Standard (c/KWh)	156,52	9,01%	170,63	170,63	9,01%	
Energy Charge : Low Demand : Off-peak (c/kWh)	107,53	9,01%	117,22	117,22	9,01%	
Energy Charges: High season:						
Energy Charge : High Demand : Peak (c/kWh)	618,57	9,01%	674,30	674,30	9,01%	
Energy Charge : High Demand : Standard (c/kWh)	203,27	9,01%	221,59	221,59	9,01%	

Energy Charge : High Demand : Off-peak (c/kWh)	139,50	9,01%	152,06	152,06	9,01%	

12. Bulk TOU LV supply: Above 70kVA	2025/26FY Approved Tariffs	2026/27FY Proposed % increase	2026/27FY Proposed tariffs	2026/27FY Recommended Tariffs	2026/27FY recommended % Increase	Analysis and key findings
Basic / Fix charge : R/kVA	2 333,05	9,01%	2 543,26	2543,26	9,01%	The 9.01% increase for Bulk TOU LV supply (>70 kVA) results in a proportional rise in energy (peak, standard, off-peak) and demand charges, with higher cost exposure during peak and winter periods. Customers are likely to shift load and optimise demand, while overall consumption remains stable. For the licensee, the increase ensures full recovery of bulk costs, but provides no margin for non-bulk costs, limiting financial flexibility.
Demand Charge : R/kVA/months	284,40	9,01%	310,02	310,02	9,01%	
Access Charge : R/kVA/months	213,70	9,01%	232,96	232,96	9,01%	
Reactive energy : c/kvarh	8,45	8,97%	9,21	9,21	8,97%	
Energy Charge: Low Season:						
Energy Charge : Low Demand : Peak (c/kWh)	227,98	9,01%	248,53	248,53	9,01%	
Energy Charge : Low Demand : Standard (c/KWh)	164,33	9,01%	179,14	179,14	9,01%	
Energy Charge : Low Demand : Off-peak (c/kWh)	112,98	9,01%	123,16	123,16	9,01%	
Energy Charge: High Season:						

Energy Charge : High Demand : Peak (c/kWh)	649,50	9,01%	708,02	708,02	9,01%	
Energy Charge : High Demand : Standard (c/kWh)	213,43	9,01%	232,66	232,66	9,01%	
Energy Charge : High Demand : Off-peak (c/kWh)	146,47	9,01%	159,67	159,67	9,01%	

7. CONFIDENTIALITY

7.1. None.

8. CONCLUSION

8.1. From a conspectus of the facts and evidence presented to the REC, supporting information, stakeholder inputs and applicable legal framework, it is appropriate to consider and approve RWCLM's tariff application as set out in this Reasons for Decision document for the 2026/27 financial year.

END.