NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Madibeng Local Municipality

THE DECISION

At its meeting held on 11 May 2027, the Regulator Executive Committee (REC) considered the Madibeng Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year, as set out in section 7 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 of supply (COS) study, as recommended in the tariff analysis section, for implementation by the municipality with effect from 1 July 2027;
b) to note the COS study submitted by the municipality;
c) that the municipality must submit a report accounting for all the costs identified in its COS study to enable the National Energy Regulator of South Africa to perform its independent verification or audit process; and
d) that the municipality must submit a quarterly smart efficiency plan with improvement measures for reducing high energy losses 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
MLM	Madibeng 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), in accordance with its statutory mandate, regulates electricity prices and tariffs and assesses tariff applications submitted by licensees on an annual basis. As part of this process, municipal electricity tariffs must be approved by the Energy Regulator prior to implementation, which typically takes effect on 1 July of each financial year.

1.2. The Madibeng Local Municipality (MLM), located in the North West, has 11 475 customers with an electricity sales profile largely driven by industrial customers, which contributed 63,76%of total electricity sales in the 2024/25 financial year, while domestic customers accounted for 19.42%.

1.3. The municipality provides Free Basic Electricity (FBE) of 50 kWh per month to registered indigent customers in line with national policy objectives aimed at ensuring access to basic energy services for low-income households. However, Table 1 below indicates that only 385 out of 10 541 domestic customers are registered for FBE.

1.4. Detailed customer statistics and consumption patterns are reflected in Table 1 below.

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

Customer categories	KWh	% KWh	Customer numbers
Domestic(Prepaid)	36 069	13,46%	9784
Domestic(Conventional)	15 961	5,96%	757
Agriculture	121	0,05%	6
Manufacturing	170 856	63,76%	227
Commercial	15 840	5,91%	621
Street Lighting	1 623	0,61%	
Sold to other departments	27 515	10,27%	80
TOTAL	**267 985**	**100,00%**	**11 475**
FBE	**109**	**0,21%**	**385**

1.5. NERSA received the municipality's tariff application and its cost of supply (COS) on 31 March 2027.

1.6. The COS study confirms the existence of cross-subsidisation, with commercial and industrial customers effectively subsidising residential customers. The municipality indicated that tariff increases for commercial and industrial customers are lower than for other customers. This is to reduce cross-subsidy or avoid burdening other customers, hence the different increases across tariffs.

1.1. NERSA followed the notice and comment consultation process. MLM's tariff application was published on 31 March 2027 on the NERSA website, on social media platforms and in national and local newspapers to solicit written comments from affected parties. The Energy Regulator's decision was made on 11 May 2027, considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) (NERA), the Electricity Regulation Act, 2006 (Act No. 4 of 2006), as amended ('the ERA'), the Promotion of Administrative Justice Act, 2000 (Act 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 the Energy Regulator 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, 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 the Energy Regulator 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 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 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 timelines below 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) NERSA decisions must be published 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 tariffs and the tariff reasons for decision documents 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 of MLM, the assessment was based on the 2024/25 Distribution forms (D forms) submitted with the tariff application. The data was verified against supporting documents, including the trial balance and audited annual financial statements, and is therefore considered reliable for tariff analysis purposes.

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

Table 2: Technical and financial performance

Performance indicators	**2023/24FY**	**2024/25FY**
Percentage surplus/(Deficit): **(%)**	45.88	65.48
Energy Losses: (**%)**	41.61	38.32

3.2. Percentage Surplus

3.2.1. The Madibeng Local Municipality recorded a deficit of 65.48% in the 2024/25 financial year (FY). From 2024/25FY, Autocast has been paying only 70% of its electricity bill. This has had a huge impact on municipal deficits, which have increased from 45.88%(2023/24) to 65.48%(2024/25).

3.2.2. MLM procures a portion of bulk energy via the City of Tshwane Metropolitan Municipality (City of Tshwane). The pricing applied by the City of Tshwane reflects the following components:

a) Eskom-equivalent energy and demand charges
b) Similar network/service components to Eskom
c) An additional ~5% surcharge.

3.2.3. The City of Tshwane operates as a secondary distributor or reseller, recovering Eskom supply costs together with an additional margin, which appears to be relatively high. This further elevates MLM's bulk purchase cost and must be recognised in the tariff determination. MLM's collection rate is below 70%, falling short of the 95% benchmark.

3.3. Energy Losses

3.3.1. The municipality's energy losses were at 41.62% in 2023/24FY and 38,32% in 2024/25FY. Brits, one of MLM's towns, had the highest monthly cost burden for several months and the broadest mixed-use network. Letlhabile Town's absolute cost was lower, but it remains high risk for non-technical losses because it is predominantly residential. MLM has implemented Operation-Patela , a structured intervention programme aimed at addressing non-technical losses, particularly Illegal electricity connections, Meter tampering and bypassing, unmetered consumption, as well as billing and metering inaccuracies.

3.3.2. Key risks experienced by the Madibeng Local Municipality include the following:

a) High energy losses
b) Poor collection rates
c) Ageing infrastructure
d) Poor maintenance practices
e) Governance and compliance weaknesses
f) High levels of debt owed to creditors such as Eskom.

3.3.3. The residential and indigent character of the area makes it more vulnerable to non-technical losses, tampering, prepaid irregularities, collection weakness and overloaded low voltage (LV) infrastructure.

3.3.4. This area has been identified through energy balance analysis as the highest contributor to losses in cost terms. Letlhabile is also a problem area, but in cost terms, Brits municipal point of delivery (POD) leads. This is a priority intervention zone due to high consumption volumes, significant non-technical losses and concentration of illegal connections, especially in the Oukasie area.

3.3.5. The Loss Reduction Programme (priority) submitted by the municipality is as follows:

Table 3: Loss reduction programme

Network interventions	Metering and control	Analytics	Enforcement
○ Feeder balancing, reconductoring, transformer right-sizing ○ Preventative maintenance and fault reduction	Smart/prepaid meters in high-energy-loss areas caused by illegal connection, like residential areas, especially Oukasie, Letlhabile, Elandsrand and other COT-supplied areas. ○ Bulk metering at feeder/transformer level (energy balancing)	○ Feeder-level loss dashboards ○ Monthly energy balance (input vs billed vs collected)	○ Illegal connection removal campaigns ○ Tamper detection and penalties

3.3.6. Table 4 below shows the revenue impact analysis under the following two energy loss scenarios:

a) The actual losses of 38,32%, representing the current operating position

b) A reduced loss level of 12% and 6%, reflecting an efficient and regulatory-aligned scenario, for assessment purposes.

Table 4: Assessment of energy losses and revenue impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	249,71		
Sales kWh	267 985 094,20	382 344 928,24	408 413 900,62
Purchases kWh	434 482 873,00	434 482 873,00	434 482 873,00
Losses kWh	166 497 778,80	52 137 944,76	26 068 972,38
Losses percentage	**38,32%**	**12,00%**	**6,00%**
Additional Energy (kWh)		114 359 834,04	140 428 806,42
Additional Revenue (Rands)		285 564 807,82	350 660 924,39
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 693 773 819,35	R 979 338 627,17	R 1 044 434 743,74
Total Expenses (Rands)	R 1 148 026 058,71	R 1 148 026 058,71	R 1 148 026 058,71
Net Profit (Loss)	R -454 252 239,36	R -168 687 431,54	R -103 591 314,97
Percentage Surplus/Deficit	**-65,48%**	**-17,22%**	**-9,92%**

3.3.7. The assessment indicates that the municipality reported projected energy losses of 38.32%. At this level of losses, the municipality is expected to lose 166 497 778.80 kWh of purchased electricity, resulting in total revenue that is insufficient to recover the prudent costs of supplying electricity. Consequently, the municipality is projected to incur a deficit of R454 252 239,36, equivalent to 65.48% of the revenue requirement.

3.3.8. To evaluate the impact of improved efficiency, NERSA conducted a sensitivity analysis based on reduced energy loss scenarios. The analysis indicates that reducing energy losses to the NERSA benchmark of 12% would increase billable electricity sales to 382 344 928.24 kWh, resulting in additional energy sales of 114 359 834.04 kWh and additional revenue of approximately R285 564 807,82. Total revenue would increase to R979 338 627,17, reducing the projected deficit to R168 687 431,54, or 17.22% of the revenue requirement.

3.3.9. A further reduction in energy losses to 6% would increase billable electricity sales to 408 413 900.62 kWh, generating an additional 140 428 806.42 kWh of energy sales and approximately R350 660 924,39 in additional revenue. Under this scenario, total revenue would increase to R1 044 434 743,74, reducing the projected deficit to R103 591 314,97, equivalent to 9.92% of the revenue requirement.

4. DETERMINATION OF MLM'S TARIFFS BASED ON THE COS STUDY

4.1.1. The process that the Energy Regulator followed in considering and approving MLM's tariff application was supported by a COS study.

4.1.2. MLM utilised the revised COS study model developed by Sustainable Energy Africa (SEA) and various other stakeholders to determine its revenue requirements for the 2026/27 financial year and to apportion costs required to service each customer class in a fair and equitable manner. The study diligently follows the NERSA COS Framework and utilises the latest available audited data, which is based on the 2024/25 financial year.

4.1.3. Figure 1 below details the five steps considered in the determination of the COS study.

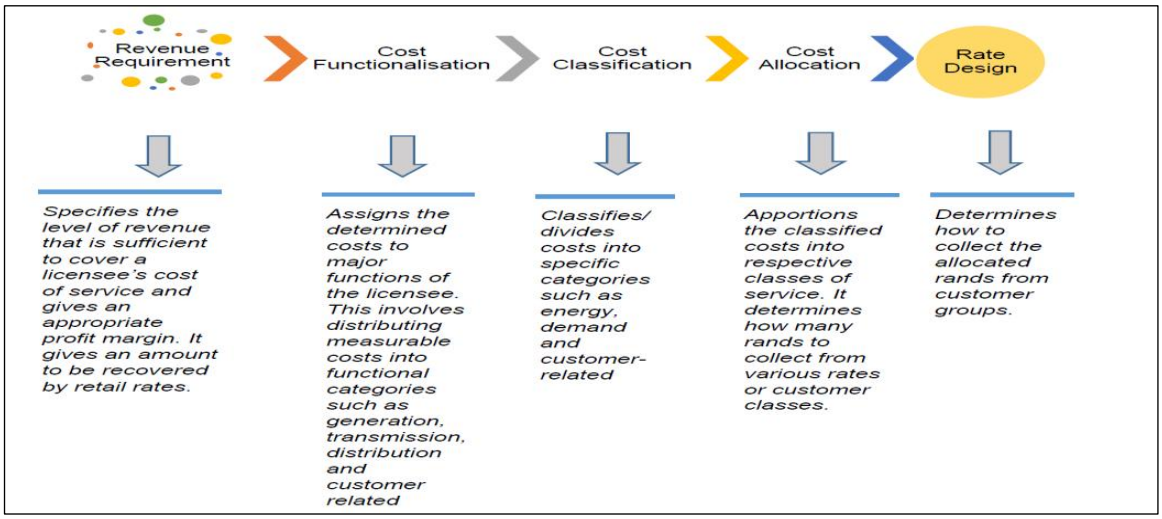


Figure 1: Five steps of COS study

4.1.4. The following steps are undertaken to analyse the cost of supply study:

Revenue Requirement

4.1.5. To achieve full cost reflectivity, the licensee needs a revenue requirement of R869 617 952 for the 2026/27 financial year, as detailed in Table 5 below.

Table 5: Revenue requirement components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	168 818 410	700 799 542	869 617 952	100%
Energy purchases from Eskom - net of cost of losses	-	351 940 618	351 940 618	40%
Energy purchases from Eskom - cost of losses	- 10 134 399	108 439 899	98 305 500	11%
Other energy purchases	-	178 369 678	178 369 678	21%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	164 093 136	23 376	164 116 511	19%
Other revenues	- 487 455	- 1 683 077	- 2 170 532	0%
Surplus	15 347 128	63 709 049	79 056 177	9%
Not allowable costs	- 6 860 579	212 868 424	206 007 846	
Cost of losses disallowed	- 6 860 579	212 868 424	206 007 846	
TOTAL COSTS	**161 957 831**	**913 667 966**	**1 075 625 798**	
	15%	85%		

4.1.6. It is important to test the efficiency of the costs in the 2024/25 financial year since this is the most recent available actual data. This forms the basis for projecting costs for the 2026/27 financial year, using assumptions to calculate revenue requirements.

4.1.7. 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 below.

Bulk Purchases

4.1.8. The licensee applied for a bulk purchase expenditure of R628 615 796, which accounts for 72% of the total costs. Bulk purchases were verified against the 2024/25 Eskom invoices.

4.1.9. In order to get to the 2026/27 estimation, the 2025/26 amount was adjusted by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

Operational Expenditure

4.1.10. MLM applied for operational expenditure amounting to R293 107 029. However, after taking out all inefficiencies, the operational expenditure is reduced to R164 116 511, representing 29% of the total costs for the 2026/27 financial year, as shown in Table 6 below.

Table 6: Operating expenditures

Cost drivers	Units	Applied opex 2026/27	Adjustments	Recommended Opex 2026/27
General costs and other	**R**	**293 060 278,30**	**- 128 990 518,20**	**164 069 760,10**
Salaries and allowances	R	44 585 716,22		44 585 716,22
Contracted Services	R	69 039 606,65	-	69 039 606,65
Eskom debts' interests	R	128 990 518,20	- 128 990 518,20	-
Current year depreciation	R	50 444 437,23	-	50 444 437,23
Shared OPEX	**R**	**46 751,10**	**-**	**46 751,10**
Charges from other Municipal Departments	R	26 152,76	-	26 152,76
General Expenses (Accomodation)	R	20 598,34	-	20 598,34
Total Opex	**R**	**293 107 029,40**	**- 128 990 518,20**	**164 116 511,20**

4.1.11. During the assessment, NERSA identified that interest and finance charges amounting to R128 990 518,20 had been included in the operating expenditure. In accordance with the NERSA COS Framework, financing costs are not recoverable as operating expenditure through electricity tariffs, as they are not directly related to the efficient operation of the regulated electricity distribution business. Consequently, NERSA disallowed the full amount.

4.1.12. Following this adjustment, the allowable operating expenditure was reduced from R293 107 029,40 to R164 116 511,20. The approved operating expenditure includes prudent and reasonable costs necessary for the provision of electricity distribution services.

Surplus

4.1.13. The licensee applied for a surplus of R91 955 229 for the 2026/27 financial year, comprising R15 347 128 for the wires business and R76 608 101 for the retail business. The proposed surplus represents approximately 9% of the total allowable cost of R1 011 507 522.

4.1.14. Following the regulatory adjustments, the approved surplus amounts to R79 056 177, comprising R15 347 128 for the wires business and R63 709 049 for the retail business. The reduction in the retail surplus reflects NERSA's exclusion of inefficient costs from the allowable revenue while maintaining a prudent level of surplus to support the sustainability of the electricity undertaking.

4.1.15. The approved surplus is reasonable and does not constitute excessive profit. Instead, it provides an appropriate financial buffer to strengthen the municipality's electricity distribution business by:

a) funding preventative and corrective maintenance of the electricity network;
b) supporting the refurbishment and replacement of ageing distribution infrastructure;
c) financing emergency repairs arising from network failures and equipment breakdowns;
d) improving network reliability, quality of supply and system resilience;
e) strengthening cash flow and working capital to ensure the continued procurement of bulk electricity and the efficient operation of the electricity undertaking; and
f) providing financial resilience against unforeseen operational costs without placing immediate pressure on future tariff increases.

4.1.16. NERSA emphasises that the approved surplus should be utilised to improve the performance and sustainability of the electricity distribution network rather than to offset operational inefficiencies.

Cost Functionalisation

4.1.17. The licensee has categorised its revenue requirements of R290.093 million into two main functions: wires and retail business, which is in line with the NERSA COS Framework, as demonstrated in Figure 2 below. These costs align with revenue requirements upon verification.

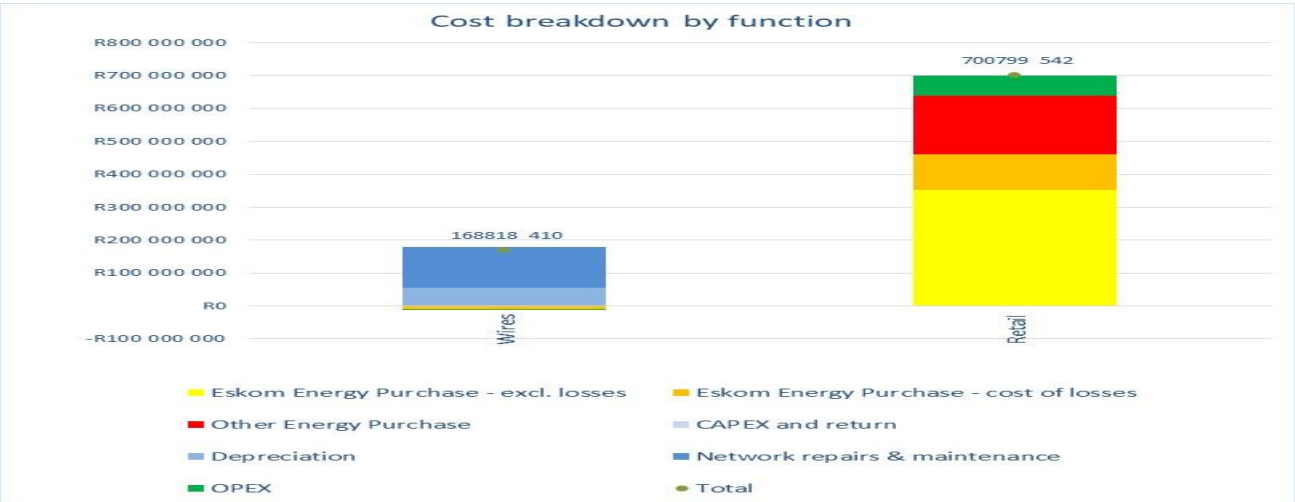


Figure 2: Cost breakdown by functions

4.1.18. These costs align with revenue requirements upon verification. Network repairs and maintenance dominate the wires business, while the energy purchases are the primary cost driver for the retail business.

Cost Classification

4.1.19. The licensee classified its costs into energy, demand and customer-related costs, which is in line with the NERSA COS Framework. The costs align with revenue requirements and cost functionalisation upon verification.

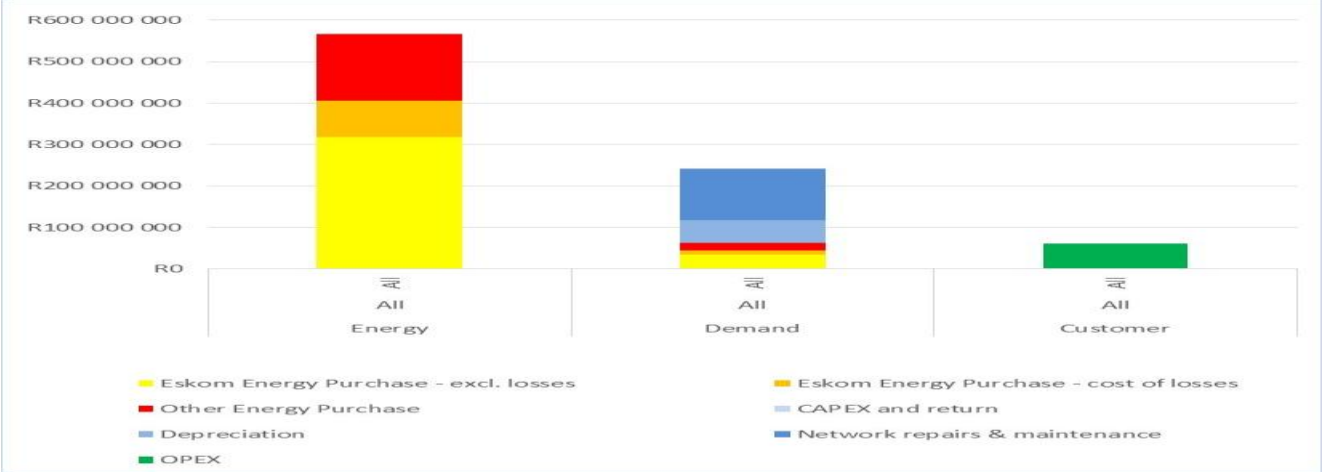


Figure 3: Cost classification

4.1.20. Energy purchases constitute energy-driven costs, with the highest expenses occurring during summer under standard time of use, mainly because summer spans a larger portion of the year. Demand-driven costs are also predominantly incurred in summer. Customer-driven costs are primarily attributed to 'Other OPEX', which includes expenses associated with providing electricity distribution services to customers.

Cost Allocation

4.1.21. In this step, the licensee's revenue requirements are allocated across customer categories, which is in line with the NERSA COS Framework, and the costs align with revenue requirements, cost functionalisation and cost classification upon verification.

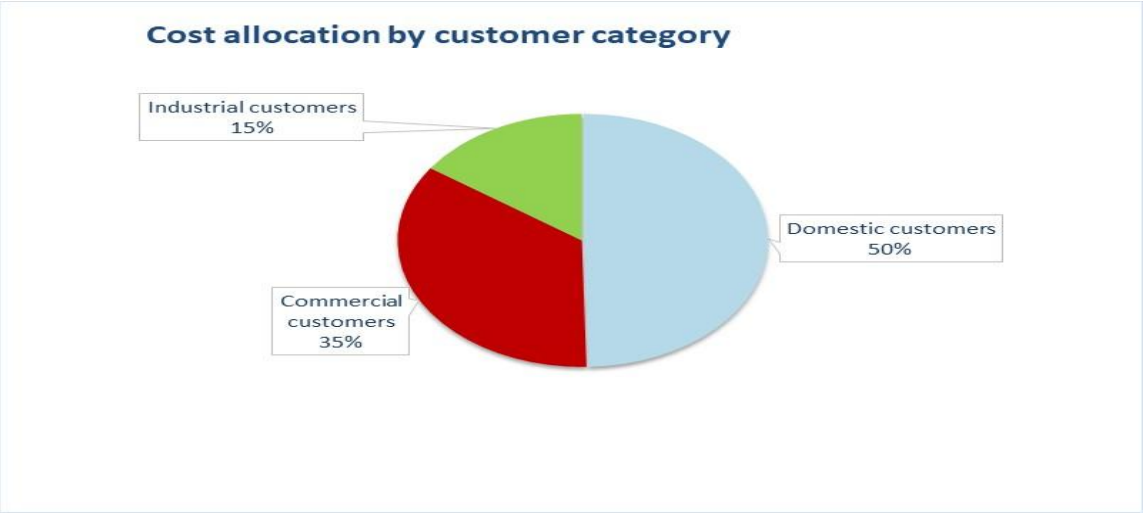


Figure 4: Allocation of costs across customer categories

4.1.22. The domestic customer category accounts for the largest share of allocated costs at 50%, followed by commercial customers at 35% and industrial customers at 15%. The variation in cost allocation across customer categories is primarily driven by differences in supply characteristics, including connection voltage levels, load factors, coincidence factors and average consumption patterns.

Rate Design

4.1.23. The COS analysis demonstrates the total costs against revenue impact of the various tariffs. Figure 5 below compares the current tariff components with the corresponding costs and indicates that certain rates should increase while others decrease.

4.1.24. Comparing these costs to the income per tariff category reveals the over- or under-recovery per tariff category, as shown in Figure 5. When reading this graph, it is important to note that it is presented in % terms and not absolute Rand terms.



Figure 5: Revenue recovery by customer category

4.1.25. The licensee is not proposing any structural changes to its tariffs.

Conclusion on the COS Study

4.1.26. The COS study results suggest 28% before taking out inefficiency. However, after all inefficiencies were removed, the study proposes 10.1%, and the municipality is proposing an average increase of 8.5% to review its tariffs for the 2026/27 financial year. Some of the considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to stimulate demand, the ability to cover Eskom bulk electricity costs and ensure customer affordability while maintaining long-term financial stability.

Results BEFORE phasing

	BAU	CTS (net of subsidies)	New rates (Dashboard selection)
Total revenue forecast (with new rates)	789 904 957	869 482 982	850 246 501
		Delta =	- 19 236 481
Average increase in rates	8,5%		
Average increase in rates to reach overall cost-reflectivity	10,1%		
Share of total cost recovered with the new rates (by the end of the transition period)	97,8%		
Share of total costs recovered (existing rates)	90,8%		

Figure 6: Rate design

4.1.27. In its evaluation for assessment of the tariff applications, NERSA considered the following principles:

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Domestic Bulk Conventional	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Service Charge (R/m)	302,00	9,01%	329,21	329,21	9,01%	The proposed tariff adjustment is aligned with the Eskom bulk electricity increase of 9,01%, indicating that the municipality is largely passing through the increase in bulk supply costs to customers within this tariff category. The increase is expected to raise electricity costs for domestic bulk conventional customers, particularly those with higher electricity consumption.
Energy Charge (c/kWh)	135,56	9,01%	147,77	147,77	9,01%	

Domestic Three Phase	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Basic Charge (R/Amp)	22,12	8,99%	24,11	24,11	8,99%	The proposed tariff adjustments are broadly aligned with the Eskom bulk electricity increase of 9,01%, indicating that the municipality is largely passing through the increased bulk supply costs to domestic three-phase customers. The increase is expected to raise electricity costs for customers with higher electricity demand and larger residential properties.
Service Charge (R/m)	145,83	8,90%	158,81	158,81	8,90%	
Energy Charge (c/kWh)	161,74	9,01%	176,31	176,31	9,01%	

Residential Vacant Stand	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Energy Charge (c/kWh)	135,56	9,01%	147,77	147,77	9,01%	The proposed tariff adjustment is aligned with the Eskom bulk electricity increase of 9,01%, indicating that the municipality is recovering the increased bulk electricity supply costs through this tariff category. The increase is expected to raise electricity-related costs for owners of residential vacant stands with electricity connections.

Commercial Tariffs

Commercial Single Phase	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Basic Charge (R/Amp)	32,38	8,63%	35,17	35,17	8,63%	The proposed tariff increases are below the Eskom bulk electricity increase of 9,01%, which may lessen the financial impact on commercial single-phase customers, particularly small businesses and commercial enterprises with moderate electricity consumption. Lower increases may assist businesses in managing operational costs and limiting the extent to which electricity cost increases are passed on to consumers.
Service Charge (R/m)	262,26	8,60%	284,81	284,81	8,60%	
Energy Charge (c/kWh)	295,09	8,60%	320,47	320,47	8,60%	

Commercial Three Phase	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Basic Charge (R/Amp)	33,28	8,59%	36,14	36,14	8,59%	The proposed tariff increases are below the Eskom bulk electricity increase of 9,01%, which may reduce the financial impact on commercial three-phase customers and support business affordability and competitiveness. Lower increases may also assist in limiting the extent to which businesses pass increased electricity costs on to consumers.
Service Charge (R/m)	236,33	8,11%	255,49	255,49	8,11%	
Energy Charge (c/kWh)	262,42	8,01%	283,45	283,45	8,01%	

Municipal	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Energy Charge (c/kWh)	299,23	9,01%	326,19	326,19	9,01%	The tariff adjustment is expected to increase electricity expenditure for municipal operations and facilities, which may place additional pressure on the municipality's operating budget. Higher electricity costs could affect the provision of municipal services such as street lighting, water pumping and other electricity-dependent functions.

Industrial Tariffs

Agriculture	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Basic Charge: R/month	2471,4442	8,50%	2681,51	2681,51	8,50%	The proposed tariff increases are below the Eskom bulk electricity increase of 9,01%, which may lessen the financial impact on agricultural customers and provide some relief to farming operations with high electricity consumption. Lower tariff increases may assist in supporting agricultural productivity and limiting upward pressure on production costs.
Block 1: Energy Charge (0-1000kWh) c/kWh	487,121	8,50%	528,53	528,53	8,50%	
Block 2 Energy Charge (>1000kWh) c/kWh	271,41	8,80%	295,29	295,29	8,80%	

Industrial Low-Voltage User	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Basic Charge (R/month)	3272,30	7,90%	3530,81	3530,81	7,90%	The proposed tariff increase is below the Eskom bulk electricity increase of 9,01%, which may reduce the financial impact on industrial low-voltage customers and support the competitiveness of industrial activities within the municipal area. However, although customers benefit from an increase lower than the bulk supply increase, the municipality may experience pressure on its electricity trading surplus and cost-recovery levels if the lower increase is not fully sufficient to absorb rising bulk purchase and operational costs.
Energy Charge (c/kWh)	222,00	7,90%	239,54	239,54	7,90%	
Demand Charge (R/kVA)	337,45	7,90%	364,11	364,11	7,90%	

Industrial Medium-Voltage User	2025/26 FY Approved Tariffs	2026/27 FY Proposed % Increase	2026/27 FY Proposed Tariffs	2026/27 FY Recommended Tariffs	2026/27 FY Recommended % Increase	Analysis and Key Findings
Basic Charge (R/month)	5045,25	7,90%	5443,82	5443,82	7,90%	The proposed tariff increase is below the Eskom bulk electricity increase of 9,01%, which may lessen the financial impact on industrial medium-voltage users and support business sustainability and industrial competitiveness. Lower tariff increases for industrial customers may also encourage economic activity and reduce the risk of declining electricity sales.
Energy Charge (c/kWh)	230,52	7,90%	248,73	248,73	7,90%	
Demand Charge (R/kVA)	337,25	7,90%	363,89	363,89	7,90%	

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. 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 MLM's tariff application for the 2026/27 financial year, as set out in this reasons for decision document.

End.