NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

The Decision and Reasons for Decision (RfD)

In the matter regarding the
Municipal Tariff Application for the 2026/27 Financial Year

By
Govan Mbeki Local Municipality

THE DECISION

1. At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered Govan Mbeki Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year set out in Section 7 (Page 26) below.

2. Based on the available information and the analysis performed thus far, the Regulator Executive Committee decided to:

   2.1. 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 2026;
   2.2. note the COS study submitted by the municipality;

2.3. that the municipality must submit a report accounting for all the costs that have been noted in its COS study to enable the National Energy Regulator of South Africa to perform its independent verification/audit process by 31 January 2027; and

2.4. that the municipality must submit a quarterly smart efficiency plan with improvement measures identified in reducing high energy losses and submit by 30 September 2026.

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ABBREVIATIONS

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
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 the mandate of the Energy Regulator to regulate prices and tariffs. Municipal tariffs must be approved by the Energy Regulator to be implemented on 1 July of each financial year.

1.2. Govan Mbeki is situated in the Mpumalanga province. The municipality has a total of 14, 863 customers, with an industrial customer base accounting for 30.09% of sales. The municipality applied for an average increase of 12.72% in the 2025/26 financial year, and an average increase of 12.72% in the 2026/27 financial year. The municipality provides 50kWh free basic electricity per month to all 2, 374 registered indigent customers.

1.3. The details regarding customer statistics are highlighted in Table 1 below.

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

CUSTOMER STATISTICS (OBTAINED FROM DISTRIBUTION FORMS)			
	2024/25		
Consumer Classification	Sales (MWh)	%MWh	Number of consumers
Domestic (Prepaid)	25 798	10,68%	12 001
Domestic (Conventional)	31 145	12,89%	701
Agriculture	53 146	22,00%	199
Manufacturing/Industrial	72 681	30,09%	1 073
Commercial (Prepaid)	5 912	2,45%	501
Commercial (Conventional)	52 855	21,88%	388
Totals	**241 537**	**100%**	**14 863**
Free Basic Electricity	3 781	6,64%	2374

1.4. NERSA received Govan Mbeki's tariff application together with its existing Cost of Supply (COS), based on the Cost-Plus methodology, on 31 March 2026.

1.5. For this application, the municipality has indicated that the Council has approved the tariff application. The Council meeting at which this application was approved took place on 31 March 2026 and the Council resolution has been submitted to NERSA. Proof of customer consultation was also submitted on 31 March 2026.

1.6. NERSA followed the notice and comment consultation process. Govan Mbeki's tariff application was published on the NERSA website on 31 March 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties.

1.7. The asset value is estimated at R255, 636 million, depreciation at R67, 406 million, calculated using the straight-line method on the municipality's electrical assets such as substations, power lines and transformers. NERSA's decision was made on 11 May 2026, 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 ("ERA"), the Promotion of Administrative Justice Act, 2000 (Act 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 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 2026/2027 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 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:

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 the Energy Regulator 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 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 the 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. Public participation processes conducted by the Energy Regulator therefore 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 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 Cost of Supply methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 therefore requires electricity distributors to undertake Cost of Supply 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 the Energy Regulator.

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 2025/2026 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 which sought to vary the timelines which were set by the Court on 4 December 2025, considering the practical difficulties which arose as it relates to the 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 by 6 March 2026;
b) municipal tariff applications to be submitted by 31 March 2026;
c) public participation processes to be concluded by 21 April 2026; and
d) the publication of NERSA decisions by 11 May 2026.

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

a) written notice of bulk electricity tariffs be communicated by 31 January each year;

b) municipal tariff applications be submitted to NERSA by 20 March each year; and
c) municipal tariff approvals and the tariff Reasons for Decision document, 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 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 that follow in this Reasons for Decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/2027 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of Govan Mbeki, 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. below indicates that Govan Mbeki Municipality's electricity business recorded an increase in percentage deficit from 141.79% in the 2023/24 financial year to 83.81% in the 2024/25 financial year.

3.3. Energy losses reduced from 57.85% in the 2023/24 financial year to 48.07% in the 2024/25 financial year, as shown in Table 2 below. The municipality is encouraged to continue monitoring its energy losses due to the following:
a) high energy losses at 48.07%;
b) interest paid to Eskom accounts on the outstanding account; and
c) penalties paid for the exceedance of Notified Maximum Demand (NMD).

Remedial action

3.4. The municipality indicated that the high energy losses are due to unmetered supplies, unbilled customers, illegal connection, the tampering of the meters and metering infrastructure and defective metering.

3.5. The municipality will embark on the following measures to curb the losses:

a) installation of online Automated Meter Reader (AMR) check meters on the points of delivery;
b) over 36, 689 new smart meters are installed to date and counting;
c) removal of illegal connections meter bypass around, monitoring of installed meters for buying pattern; and
d) community awareness campaign.

Table 2: Performance indicators

Performance indicators	***Municipality 2024/25 D-forms Information***	***Municipality 2023/24 D-forms Information***
Percentage surplus: (%)	- 83.81	-141.79[1]
Energy Losses: (%)	48.07	57.86

3.6. Bulk electricity purchases for the municipality amounted to R1.1 billion (532 MWh), but electricity sales revenue amounted to R868, 390 million (276MWh), which means approximately R280 million (255 MWh) of the bulk purchase cost was not recovered. This reflects a revenue recovery rate of about 7.48% (i.e., 29.52% not recovered) from electricity sales.

[1] Total Electricity Purchases divided by Total Expenditure

Table 3: Energy Purchases vs Sales

Input Figures:	
	2024/25
Revenue from Sale of Electricity	868 390 385
Total MWh sold	276 080
Total MWh Purchases	531 638
Total Expenditure	2 036 908 689
Surplus/Deficit	-928 764 928
Total Purchases	1 148 645 645
Total Revenue	1 108 143 761

3.7. The municipality has high energy losses of 22.18%, which significantly undermines its financial sustainability.

3.5.1 If losses were capped at 12%, the municipality would:

a) improve net revenue by approximately R414 million; and

b) reduce the deficit from 83.81% to 83.74%.

3.5.2 If losses were capped at 6%, the municipality would:

a) improve net revenue by approximately R483 million; and

b) reduce the deficit from 83.81% to 83.73%.

Table 4: Sensitivity Analysis

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	216,06		
Sales kWh	276 080,25	467 841,67	499 739,96
Purchases kWh	531 638,26	531 638,26	531 638,26
Losses kWh	255 558,01	63 796,59	31 898,30
Losses percentage	**48,07%**	**12,00%**	**6,00%**
Additional Energy (kWh)		191 761,42	223 659,72
Additional Revenue (Rands)		414 319,72	483 239,18
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 1 108 143 760,84	R 1 108 558 080,56	R 1 108 627 000,02
Total Expenses (Rands)	R 2 036 908 689,00	R 2 036 908 689,00	R 2 036 908 689,00
Net Profit (Loss)	R -928 764 928,16	R -928 350 608,44	R -928 281 688,98
Percentage Surplus/Deficit	**-83,81%**	**-83,74%**	**-83,73%**

3.8. The fact that the deficit continues to increase even when energy losses are capped indicates that energy losses are not the primary driver of the municipality's surplus position. Other contributing factors may include weak revenue collection, under-recovery from tariffs that are not fully cost-reflective, high bulk electricity purchase costs, rising operating and maintenance expenditure, ageing infrastructure, historically low tariffs, exceedance of NMD (R523, 417 million) and interest charges on the Eskom account (R262, 443 million).

4. DETERMINATION OF GOVAN MBEKI'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The municipality submitted its existing COS study supporting the tariff application, which will be approved in the 2026/27 financial year. The municipality's Cost of Supply study was inclusive of 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. The Cost of Supply study confirms the existence of cross-subsidisation, with commercial, domestic, conventional and industrial customers effectively subsidising residential customers.

4.4. The revenue requirement for Govan Mbeki Local Municipality was determined using a cost-plus methodology in accordance with the NERSA COS Framework.

a) Bulk Purchases: R1.1 billion
b) OPEX: R468, 189 million
c) Shared OPEX: R58, 500 million
d) Depreciation: R67, 406 million
e) Surplus: R211, 500 million

4.5. Section 18.7 of October 2023 NERSA-approved Cost of Supply Framework 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.

4.6. In line with Section 18.7 mentioned above, Table 5 below was developed, and the definition of the columns is as follows:

a) Column 5 is the actual FY2024/25 licensee performance and is sourced from the D-forms that are based on the audited annual statements.
b) Column 6 is for the FY2025/26 revenues and electricity volume that are the base for FY2026/27 tariffs. The figures were tested for reasonableness (since at the time of the approval, the figures were estimates) when the Regulator considered and approved the FY2026/27 cost of supply base tariffs. Once the financial year ends, the actual figures will be verified using the audited statements.
c) Column 7 is for the licensee's submitted FY2026/27 budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.

Column 7 is for the NERSA's recommended amounts that sum up to allowable revenues the licensee must recover in FY2026/27. The total allowable revenue of R2.2billion is for the FY2025/26 tariff review and is based on the cost of supply revenue and the volumes used to determine the tariffs that were approved by the Energy Regulator, as shown in

4.7. Table 5 sets out the municipality's revenue requirement as submitted in support of the 2026/27 tariff application. The revenue requirement was developed using the cost-plus methodology and includes the major cost drivers of the electricity business, namely bulk purchases, operating expenditure, shared operating costs, depreciation and the applied-for surplus.

4.8. NERSA assessed the revenue requirement to determine whether the costs included were prudently and efficiently incurred, directly attributable to the licensed electricity distribution function, and consistent with the NERSA-approved Cost of Supply Framework. The assessment considered the municipality's 2024/25 actual performance, the 2025/26 base year information and the 2026/27 budgeted figures submitted by the municipality.

4.9. The analysis indicates that the municipality applied for a total allowable revenue of approximately R2.2 billion. However, NERSA identified costs that should not be fully passed through to customers, particularly costs associated with excessive energy losses and interest paid on the Eskom account. These costs were considered avoidable and within management control. Accordingly, NERSA adjusted the revenue requirement to exclude inefficient costs, resulting in a recommended revenue requirement of approximately R1.8 billion, as indicated in Table 6 below.

4.10. The adjusted revenue requirement in Table 6 therefore reflects only those costs that NERSA considers necessary, efficient and reasonably incurred for the provision of the licensed electricity distribution service. This approach ensures that tariffs remain cost-reflective while protecting customers from bearing the cost of operational inefficiencies.

d) 6 below.

4.11. The COS study is applicable for five years. However, municipalities need to reflect the adjustments on their cost drivers for the FY2026/27. NERSA used the budgeted figures submitted by the licensee to check the reasonableness as well as the licensee's current operational requirement to ensure that municipalities do not over- or under-recover during the FY2026/27 tariff review process.

4.12. The Total Allowable Revenue of R2.2 billion in Column 7 in Table 6 below is for the 2026/27 tariff review period and is the basis upon which the tariffs were approved by the Regulator. Since the COS study is valid for five years, however, municipalities need to reflect the adjustments on their cost drivers for each financial year under the existing COS (i.e. FY 2026/27). NERSA utilised the budgeted figures to verify efficiencies and to ensure that municipalities do not over- / under-recover their operating overheads during the FY2026/27 tariff review process.

4.13. The FY2024/25 variance between forecasted and actual Total Allowable Revenue in Column 4 reflects lower than planned expenditure. The municipality has incorporated these outcomes into the forward looking FY2026/27 revenue requirement.

4.14. Table 5 sets out the municipality's revenue requirement as submitted in support of the 2026/27 tariff application. The revenue requirement was developed using the cost-plus methodology and includes the major cost drivers of the electricity business, namely bulk purchases, operating expenditure, shared operating costs, depreciation and the applied-for surplus.

4.15. NERSA assessed the revenue requirement to determine whether the costs included were prudently and efficiently incurred, directly attributable to the licensed electricity distribution function, and consistent with the NERSA-approved Cost of Supply Framework. The assessment considered the municipality's 2024/25 actual performance, the 2025/26 base year information and the 2026/27 budgeted figures submitted by the municipality.

4.16. The analysis indicates that the municipality applied for a total allowable revenue of approximately R2.2 billion. However, NERSA identified costs that should not be fully passed through to customers, particularly costs associated with excessive energy losses and interest paid on the Eskom account. These costs were considered avoidable and within management control. Accordingly, NERSA adjusted the revenue requirement to exclude inefficient costs, resulting in a recommended revenue requirement of approximately R1.8 billion, as indicated in Table 6 below.

4.17. The adjusted revenue requirement in Table 6 therefore reflects only those costs that NERSA considers necessary, efficient and reasonably incurred for the provision of the licensed electricity distribution service. This approach ensures that tariffs remain cost-reflective while protecting customers from bearing the cost of operational inefficiencies.

Table 5: Municipality's Revenue Requirement Per Application

Energy balance	Unit	Forecasted FY 2024/25	variance	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee
Sales	kWh	251544557		276 080 249	293 000 000	310 000 000
Eskom bulk purchases	kWh	596898116		531 638 260	470 596 477	440 000 000
Independent Power Producers Conventional	kWh			-	-	-
Indepeendent Power Producers Renewable Energ	kWh				-	-
Self Generation	kWh				-	-
Other					-	-
Total Energy Requirements	**kWh**	**596898116**		**531 638 260**	**470 596 477**	**440 000 000**
Total Losses	kWh	345353559		255 558 011	177 596 477	130 000 000
Technical losses	kWh	71627773,92		63 796 591	56 471 577	52 800 000
Non-technical losses	kWh	-273725785,1		-191 761 420	-121 124 899	-77 200 000
Allowed losses	%	12%		**12,00%**	**12,00%**	**12,00%**
Total Energy losses	%	57,86%		48,07%	37,74%	29,55%
Cost drivers						
Energy purchases from Eskom	Rand	601601761		1 148 645 645	990 000 000	1 150 000 000
other energy purchases				-	-	-
total energy purchases		601601761		**1 148 645 645**	**990 000 000**	**1 150 000 000**
Cost of technical losses	Rand	171 129 321		137 837 477	118 800 000	106 920 000
Non-Technical Losses		275 882 784,55		414 315 403	254 812 045	178 368 431
Other energy purchases	Rand					
Capital expenditure	Rand			101 240 000	77 208 168	35 000 748
Operational expenditure (incl. Deprec	**Rand**	**494 280 787**	**-R 182 459 540**	**311 821 247**	**302 314 290**	**675 582 907**
General & Other	0	410 237 599	-32 190 211	642 433 358	587 698 007	617 082 907
Salaries and allowances	Rand	71 007 412	1 787 991	72 795 403	76 435 174	80 256 933
Materials and supplies	Rand	128 941 175	-50 617 244	78 323 931	81 600 000	85 680 000
Contracted Services	Rand	192 623 168	-31 921 255	160 701 913	162 693 635	170 828 317
Salaries, wages and allowances (exclu. Repairs a	Rand	2 229 183	1 150 684	3 379 867	3 214 581	3 375 310
Payments to consultants (operational work)	Rand			1 942 925	25 106 919	26 362 265
Eskom debts interest	Rand			262 443 045	174 451 388	183 173 957
Current year depreciation	Rand	15 436 661	47 409 613	62 846 274	64 196 310	67 406 126
software	Rand					
security	Rand					
vehicle expense	Rand					
insurance	Rand					
other general expenditure	Rand					
Commission Paid	Rand					
Meter reading	Rand					
Shared OPEX	Rand	63 665 498	-17 956 000	45 709 498	53 588 263	58 500 000
Bad debts (Allowance for Impairment)	Rand	60 173 277	-16 133 631	44 039 646	50 690 952	55 000 000
FBE paid to Eskom	Rand			0	0	
Charges from other Municipal Departments	Rand			0	0	
Operating Leases	Rand					
General expenses		**3 492 221**	**-1 822 369**	**1 669 852**	**2 897 311**	**3 500 000**
1.Commission Expense	Rand					
2. Fleet Costs	Rand					
3.Other Expenses	Rand					
	Rand					
Total Expediture before surplus		1 267 011 869	331 292 500	1 598 304 369	1 665 926 335	2 110 871 338
Surplus	Rand	117 445 331	387 335 906	504 781 237	245 230 566	211 500 000
Total Expenditure Including Surplus		1 384 457 200	718 628 406	2 103 085 606	1 911 156 901	2 322 371 338
Other revenues	Rand	-88 742 717	84 951 474	**-239 753 376**	**-140 763 349**	**-137 127 917**
Reconnection fees	Rand	710917	3 080 326	3 791 243	5 411 576	7 000 000
New connections	Rand	88 031 800	-88 031 800	0	0	
Free Basic Electricity (Equitable share)	Rand			822 171	76 312 302	80 127 917
1.Interest earned	Rand			235 139 962	59 039 471	50 000 000
2. Other Revenue - Illegal Connections	Rand					0
Total Allowable Revenus	**Rand**	**1 295 714 483**	**567 617 747**	**1 863 332 230**	**1 770 393 552**	**2 185 243 421**
increase required						***23,43%***

Table 6: Municipality's Revenue Requirement with adjustments

Energy balance	Unit	Forecasted FY 2024/25	variance	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee	NERSA Adjustments	Variance
Sales	kWh	251544557		276 080 249	293 000 000	310 000 000		
Eskom bulk purchases	kWh	596898116		531 638 260	470 596 477	440 000 000		
Independent Power Producers Conventional	kWh			-	-	-		
Independent Power Producers Renewable Energ	kWh			-	-	-		
Self Generation	kWh			-	-	-		
Other				-	-	-		
Total Energy Requirements	**kWh**	**596898116**		**531 638 260**	**470 596 477**	**440 000 000**		
Total Losses	kWh	345353559		255 558 011	177 596 477	130 000 000		
Technical losses	kWh	71627773,92		63 796 591	56 471 577	52 800 000		
Non-technical losses	kWh	-273725785,1		-191 761 420	-121 124 899	-77 200 000		
Allowed losses	%	12%		**12,00%**	**12,00%**	**12,00%**		
Total Energy losses	%	57,86%		48,07%	37,74%	29,55%		
Cost drivers								
Energy purchases from Eskom	Rand	601601761		1 148 645 645	990 000 000	1 150 000 000		
other energy purchases				-	-	-		
total energy purchases		601601761		**1 148 645 645**	**990 000 000**	**1 150 000 000**		
Cost of technical losses	Rand	171 129 321		137 837 477	118 800 000	106 920 000	414 319,72	
Non-Technical Losses		275 882 784,55		414 315 403	254 812 045	178 368 431		
Other energy purchases	Rand							
Capital expenditure	Rand			101 240 000	77 208 168	35 000 748		
Operational expenditure (incl. Deprec	**Rand**	**494 280 787**	**-R 182 459 540**	**311 821 247**	**302 314 290**	**492 408 950**		
General & Other	0	410 237 599	-32 190 211	379 990 313	413 246 619	433 908 950		
Salaries and allowances	Rand	71 007 412	1 787 991	72 795 403	76 435 174	80 256 933		
Materials and supplies	Rand	128 941 175	-50 617 244	78 323 931	81 600 000	85 680 000		
Contracted Services	Rand	192 623 168	-31 921 255	160 701 913	162 693 635	170 828 317		
Salaries, wages and allowances (exclu. Repairs a	Rand	2 229 183	1 150 684	3 379 867	3 214 581	3 375 310		
Payments to consultants (operational work)	Rand			1 942 925	25 106 919	26 362 265		
Eskom debts interest	Rand					0	262 443 045	
Current year depreciation	Rand	15 436 661	47 409 613	62 846 274	64 196 310	67 406 126		
software	Rand							
security	Rand							
vehicle expense	Rand							
insurance	Rand							
other general expenditure	Rand							
Commission Paid	Rand							
Meter reading	Rand							
Shared OPEX	Rand	63 665 498	-17 956 000	45 709 498	53 588 263	58 500 000		
Bad debts (Allowance for Impairment)	Rand	60 173 277	-16 133 631	44 039 646	50 690 952	55 000 000		
FBE paid to Eskom	Rand			0	0			
Charges from other Municipal Departments	Rand			0	0			
Operating Leases	Rand							
General expenses		**3 492 221**	**-1 822 369**	**1 669 852**	**2 897 311**	**3 500 000**		
1.Commission Expense	Rand							
2. Fleet Costs	Rand							
3.Other Expenses	Rand							
	Rand							
Total Expediture before surplus		1 267 011 869	331 292 500	1 598 304 369	1 665 926 335	1 927 697 381		
Surplus	Rand	117 445 331	387 335 906	504 781 237	245 230 566	211 500 000		
Total Expenditure including Surplus		1 384 457 200	718 628 406	2 103 085 606	1 911 156 901	2 139 197 381		
Other revenues	Rand	-88 742 717	84 951 474	**-238 931 205**	**-62 830 714**	**-53 980 805**		
Reconnection fees	Rand	710917	3 080 326	3 791 243	3 791 243	3 980 805		
New connections	Rand	88 031 800	-88 031 800	0	0			
Free Basic Electricity (Equitable share)	Rand					0		
1.Interest earned	Rand			235 139 962	59 039 471	50 000 000	NMD 523 417	
2. Other Revenue - Illegal Connections	Rand					0		
Total Allowable Revenus	**Rand**	**1 295 714 483**	**568 439 918**	**1 864 154 401**	**1 848 326 186**	**2 085 216 576**		**1 821 835 794**
Increase required						***12,82%***		**12,80%**

4.18. The actual 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 on which costs for the 2026/27 financial year will be projected, using assumptions to calculate revenue requirements.

4.19. 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.

4.20. In line with COS framework requirements, shared municipal costs were ring-fenced and allocated strictly to the electricity business using the D-Form. 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.

4.21. It is important to test the efficiency and prudency of the costs in the 2025/26FY, since this is the most recently considered revenues in support of the approved tariffs during this period. This forms the basis on which costs for the 2026/27FY will be projected, using assumptions to calculate revenue requirements for that year.

4.22. Furthermore, NERSA has verified all expense items included in the revenue requirement 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.

4.23. The costs that were adjusted from the R2.2 billion are the energy losses curbed at 12%, amounting to R414 million, and the interest paid to Eskom amounting R262, 443 million, resulting in RR of R1.8 billion.

Bulk Purchases

4.24. For the 2026/27 FY, the licensee applied for a bulk purchase expenditure of R1.1 billion, inclusive of the 12% energy loss allowance in line with the act that requires only the prudently and efficiently incurred cost to be passed through to customers.

4.25. To get to the 2026/27FY estimate, the licensee projected the year-to-date amount for 2025/26FY, since complete financial year data is unavailable, then made an estimate that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.26. The Eskom bills were analysed and there is an Eskom interest amount of R262, 443 million paid by the municipality and NMD of R523, 417 million. These costs have been disallowed since it is deemed an inefficient cost and are within management control and should have been paid on time to avoid such costs.

Operating Expenditure (including depreciation)

4.27. The licensee applied for operational expenditure of R492 409 million, including depreciation of R67, 406 million as highlighted in Table 6 above, and accounts for of total costs.

4.28. The approach taken by the licensee is satisfactory to NERSA to forecast operational expenditure. As a result, this cost has been recommended for approval as applied for.

Surplus

4.29. The licensee applied for a surplus of R211, 500 million.

4.30. The applied-for surplus cannot be regarded as commensurate with the municipality's risk profile where the underlying revenue requirement includes costs arising from operational inefficiencies that are within management control. Accordingly, NERSA assessed the surplus only after excluding inefficient and avoidable costs, including excessive energy losses and interest paid to Eskom, to ensure that customers are not required to fund inefficiencies under the guise of a risk-adjusted return.

4.31. The municipality is required to implement effective measures to reduce excessive energy losses, including the continued rollout of smart meters and other loss-reduction interventions, in order to address operational inefficiencies. It must also ensure the timely payment of its Eskom account to avoid further interest charges and prevent inefficient costs from being passed on to customers.

4.32. Therefore, the recommended surplus is considered modest and commensurate with these risks, particularly in the context of a municipal distributor that is not profit-maximising but must remain financially viable.

Conclusion on Costs to Serve

4.33. The COS study is applicable for a five-year period, NERSA evaluated the adjustments to cost drivers for the 2026/27 financial year using the budgeted information submitted by the licensee to ensure the continued relevance, accuracy, and reasonableness of the costs. This assessment was undertaken to ensure that the licensee neither over-recovers nor under-recovers its efficiently and prudently incurred costs.

4.34. The adjustment tool recommended an average tariff increase of 23.43% with a Revenue Requirement of R2.2 billion. After taking out the inefficiencies, the increase amounted to 11.51% after taking out inefficiencies, with a RR of R1.8 billion. The licensee is proposing a 12.72% increase to review its tariffs for the 2026/27 financial year. The 11.51% is recommended for approval as request by the municipality for the 2026/27FY tariff review process.

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Domestic Conventional & Prepaid	2025/26 Approved	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended	2026/27 Recommended % Increase	Analysis and key findings
Tariff Blocks						uniform increase across all components of the tariff
Block 1 (0 - 50kWh)	192.8	12.74%	217.36	217.36	12.74%	
Block 2 (51 - 350 kWh)	247.89	12.74%	279.47	279.47	12.74%	
Block 3 (351 -600kWh)	336.31	12.74%	379.16	379.16	12.74%	
Block 4 (>600 kWh)	403.65	12.74%	455.08	455.08	12.74%	
Basic Charge (R/month)						
Availability Charge: R/ POD	193.95	12.74%	218.66	218.66	12.74%	
Capacity charge - R/POD	123.52	12.74%	139.26	139.26	12.74%	
INDIGENT	**2025/26 Approved**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariff**	**2026/27 Recommended**	**2026/27 Recommended % Increase**	**Analysis and key findings**
Tariff Blocks	c/kWh		c/kWh	c/kWh		
Block 1 (0 - 50kWh)	180.26	12.74%	203.23	203.23	12.74%	uniform increase across all components of the tariff
Block 2 (>51 - 200 kWh)	219.41	12.74%	247.36	247.36	12.74%	
Block 3 (>201 -350kWh)	246.48	12.74%	277.88	277.88	12.74%	
Block 4 (>351 - 600 kWh)	336.31	12.74%	379.16	379.16	12.74%	
Block 5 (>600 kWh)	403.65	12.74%	455.08	455.08	12.74%	

Institution Conventional & Prepaid	2025/26 Approved	2026/27 Proposed % Increase	2026/27 Proposed Tariff	2026/27 Recommended	2026/27 Recommended % Increase	Analysis and key findings
Energy Charge: c/kWh- Low	321.52	12.74%	362.48	362.48	12.74%	uniform increase across all components of the tariff
Energy Charge: c/kWh- High	416.89	12.74%	470.00	470.00	12.74%	
Basic Charge: R/month	376.84	12.74%	424.85	424.85	12.74%	
Availability Charge - R/POD	193.95	12.74%	218.66	218.66	12.74%	
Capacity charge - R/POD	123.52	12.74%	139.26	139.26	12.74%	
Reactive Energy Charge (c/kVArh)	32.38	12.74%	36.51	36.51	12.74%	
Commercial Conventional & Prepaid (1Phase)	**2025/26 Approved**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariff**	**2026/27 Recommended**	**2026/27 Recommended % Increase**	**Analysis and key findings**
Energy Charge: c/kWh- Low	321.52	12.74%	362.48	362.48	12.74%	uniform increase across all components of the tariff
Energy Charge: c/kWh- High	416.89	12.74%	470.00	470.00	12.74%	
Basic Charge: R/month	1, 375.45	12.74%	1, 550.68	1, 550.68	12.74%	
Availability Charge - R/POD	193.95	12.74%	218.66	218.66	12.74%	
Capacity charge - R/POD	123.52	12.74%	139.26	139.26	12.74%	
Reactive Energy Charge (c/kVArh)	32.38	12.74%	36.51	36.51	12.74%	

Commercial Conv & Prepaid (2 Phase & 3 Phase)	2025/26 Approved	2026/27 Proposed % Increase	2026/27 Proposed Tariff	2026/27 Recommended	2026/27 Recommended % Increase	Analysis and key findings
Energy Charge: c/kWh- Low	315.5	12.74%	355.69	355.69	12.74%	uniform increase across all components of the tariff
Energy Charge: c/kWh- High	416.89	12.74%	470.00	470.00	12.74%	
Basic Charge: R/month	2, 126.41	12.74%	2, 397.31	2, 397.31	12.74%	
Availability Charge - R/POD	193.95	12.74%	218.66	218.66	12.74%	
Capacity charge - R/POD	123.52	12.74%	139.26	139.26	12.74%	
Reactive Energy Charge (c/kVArh)	32.38	12.74%	36.51	36.51	12.74%	

Industrial & Commercial - HV	2025/26 Approved	2026/27 Proposed % increase	2026/27 Proposed Tariff	2026/27 Recommended Tariffs	2026/27 Recommended % Increase	Analysis and key findings
Basic Charge (R/month)	3, 357.15	12.74%	3, 784.85	3, 784.85	12.74%	uniform increase across all components of the tariff
Availability Charge - R/POD	193.95	12.74%	218.66	218.66	12.74%	
Capacity charge - R/POD	123.52	12.74%	139.26	139.26	12.74%	
Demand Charge (R/kVA)						
Network Low Demand	341.42	12.74%	384.92	384.92	12.74%	
Network High Demand	364.21	12.74%	410.61	410.61	12.74%	
Low Season						
Peak	183.60	12.74%	206.99	206.99	12.74%	
Standard	178.59	12.74%	201.34	201.34	12.74%	
Off-Peak	137.7	12.74%	155.24	155.24	12.74%	
High Season						
Peak	248.58	12.74%	280.25	280.25	12.74%	
Standard	242.03	12.74%	272.86	272.86	12.74%	
Off-Peak	156.07	12.74%	175.95	175.95	12.74%	
Reactive Energy Charge (c/kVArh)	32.38	12.74%	36.51	36.51	12.74%	

Industrial & Commercial - LV	2025/26 Approved	2026/27 Proposed % increase	2026/27 Proposed Tariffs	2026/27 Recommended	2026/27 Recommended increase	Analysis and key findings
Basic Charge (R/month)	3, 358.06	12.74%	3,785.88	3, 785.88	12.74%	uniform increase across all components of the tariff
Availability Charge - R/POD	193.95	12.74%	218.66	218.66	12.74%	
Capacity charge - R/POD	123.52	12.74%	139.26	139.26	12.74%	
Demand Charge (R/kVA)						
Network Low Demand	378.90	12.74%	427.17	427.17	12.74%	
Network High Demand	404.15	12.74%	455.64	455.64	12.74%	
Low Season						
Peak	199.30	12.74%	224.69	224.69	12.74%	
Standard	194.68	12.74%	219.48	219.48	12.74%	
Off-Peak	184.01	12.74%	207.45	207.45	12.74%	
High Season						
Peak	287.21	12.74%	323.80	323.80	12.74%	
Standard	263.27	12.74%	296.81	296.81	12.74%	
Off-Peak	177.01	12.74%	199.56	199.56	12.74%	
Reactive Energy Charge (c/kVArh)	32.38	12.74%	36.51	36.51	12.74%	

MUNICIPAL OWN USE	2025/26 Approved	2026/27 Proposed % increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and key findings
Energy Charge: c/kWh	334.49	12.74%	377.10	377.10	12.74%	uniform increase across all components of the tariff
Domestic Conventional & Prepaid- New	**2025/26 Approved**	**2026/27 Proposed % increase**	**2026/27 Proposed Tariffs**	**2026/27 Recommended Tariffs**	**2026/27 Recommended Increase**	
Basic Charge (R/month)	336.31	12.74%	379.16	379.16	12.74%	
Availability Charge - R/POD	193.95	12.74%	218.66	218.66	12.74%	
Capacity charge - R/POD	123.52	12.74%	139.26	139.26	12.74%	

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. The Energy Regulator, having considered the Govan Mbeki Local Municipality's application, supporting information, stakeholder inputs, and applicable legal framework, approve the tariff adjustments as set out in this Reasons for Decision.

End