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

Dihlabeng Local Municipality

THE DECISION

At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered the Dihlabeng 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 below.

1. 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 2026;
2. to note the COS study submitted by the municipality;
3. 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 (NERSA) to perform its independent verification or audit process by 29 January 2027;
4. that the municipality must submit an audited financial report that reflects the impact of its COS-based tariffs on customers, the licensee's sustainability and local economy by 29 January 2027; and
5. that the municipality must submit quarterly SMART energy loss reduction progress reports for NERSA to monitor implementation thereof by 29 January 2027.

TABLE OF CONTENTS

THE DECISION **1**
ABBREVIATIONS AND ACRONYMS **4**
1. INTRODUCTION **5**
2. LEGAL AND REGULATORY FRAMEWORK **6**
3. FINANCIAL AND TECHNICAL PERFORMANCE **10**
4. DETERMINATION OF DIHLABENG LM'S TARIFFS BASED ON THE COS STUDY **11**
4. PUBLIC PARTICIPATION **18**
5. TARIFF ANALYSIS **19**
6. CONFIDENTIALITY **21**
7. CONCLUSION **21**

LIST OF TABLES

Table 1: Customer statistics (data obtained from the latest D-forms – 2024/25). 5
Table 2: Financial technical indicators 10
Table 3: Revenue foregone due to losses 11
Table 4: Revenue requirement components 14
Table 6: Breakdown of OPEX 16

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
LM	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 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. The Dihlabeng Local Municipality (Dihlabeng LM) is within the Thabo Mofutsanyane District Municipality in the Free State. The municipality provides its 5 912 indigent customers with 50 kWh of Free Basic Electricity (FBE) per month. The details regarding customer statistics are highlighted in Table 1 below.

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

Customer categories	2024/25			
	kWh	% kWh	Customer numbers	% Customer numbers
Domestic(Prepaid)	36 679 344	33%	10 969	90%
Domestic(Conventional)	3 458 235	3%	362	3%
Manufacturing/Industrial	53 484 735	48%	116	1%
Commercial Conventional	12 973 994	12%	772	6%
Sold to other departments	4 727 629	4%	25	0,20%
TOTAL	**111 323 936**	**100%**	**12 244**	**100%**
Free Basic Electricity	1 134 469	3%	5 912	54%

1.3. NERSA received Dihlabeng LM's tariff application together with its cost of supply (COS) study on 31 March 2026.

1.4. Dihlabeng LM implemented a 12,7% average price increase in the 2025/26 financial year (FY) and is applying for an average price increase of 30% for 2026/27FY.

1.5. In accordance with NERSA requirements, all tariff applications must include confirmation that the proposed tariffs have been approved by the municipal council and have undergone customer consultation.

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

1.7. 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 ('the ERA'), the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000) (PAJA) and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 (EPP).

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually 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. 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. 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 reflect the efficient cost of rendering electricity services accurately and that the average level of tariffs must be set to recover the approved revenue requirement.

2.6. **Cost of Supply Studies**

2.6.1. The EPP recognises that cost-reflective tariff structures require a sound understanding of the underlying cost drivers associated with electricity distribution.
2.6.2. Paragraph 8.1 of the EPP notes that COS methodologies have historically not been consistently applied across the electricity distribution industry.
2.6.3. Policy Position 23 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 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 2025/26 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 practical difficulties that arose 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 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 2026/27 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of Mafube LM, the assessment relied on the 2024/25 Distribution forms (D-forms) 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. The financial indicators for the 2023/24 and 2024/25 financial years demonstrate continued instability in the financial and operational performance of the electricity business of Dihlabeng LM as shown in Table 2 below

Table 2: Financial and technical indicators

	2023/24	2024/25
Percentage Surplus (%):	**10,79%**	**-16,17%**
Percentage Energy Losses:	**23,27**	**20,82**

3.3. The electricity business recorded a surplus of 10.79% in the 2023/24 financial year, indicating that revenues exceeded the cost of service during that period.

3.4. However, in the 2024/25 financial year, the position deteriorated significantly, with the electricity business moving into a deficit position of approximately 16.17%. This represents a substantial negative swing in financial performance within a single financial year.

3.5. Energy losses improved marginally from 23.27% in 2023/24 to 20.82% in 2024/25. However, the losses remain materially above acceptable regulatory benchmark levels and continue to indicate significant inefficiencies within the distribution network.

3.6. **Error! Reference source not found.** below indicates that the municipality is operating at a significant deficit primarily due to excessive energy losses of 20,82%, which are substantially above the assumed allowable levels of 12% and targeted 6% performance.

3.7. At the current loss level of 20,82%, the municipality records a net deficit of approximately R57,83 million, resulting in a deficit margin of -16,17%.

3.8. Reducing energy losses to 12% would decrease losses by approximately 12,4 GWh, generating additional revenue of about R33,39 million and reducing the deficit to approximately R24,44 million (-6,25%).

3.9. Further reducing losses to 6% would result in additional energy sales of approximately 20,84 GWh and additional revenue of approximately R56,10 million. This would almost eliminate the deficit, reducing it to approximately R1,73 million (-0,42%) as shown in Table 3 below.

Table 3: Revenue foregone due to losses

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	269,16		
Sales kWh	111 323 936,00	123 728 935,44	132 164 999,22
Purchases kWh	140 601 063,00	140 601 063,00	140 601 063,00
Losses kWh	29 277 127,00	16 872 127,56	8 436 063,78
Losses percentage	**20,82%**	**12,00%**	**6,00%**
Additional Energy (kWh)		12 404 999,44	20 841 063,22
Additional Revenue (Rands)		33 389 728,92	56 096 532,26
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 357 710 377,46	R 391 100 106,37	R 413 806 909,72
Total Expenses (Rands)	R 415 541 046,00	R 415 541 046,00	R 415 541 046,00
Net Profit (Loss)	R -57 830 668,54	R -24 440 939,63	R -1 734 136,28
Percentage Surplus/Deficit	**-16,17%**	**-6,25%**	**-0,42%**

3.10. The analysis demonstrates that improving energy loss management could significantly improve the financial sustainability of the electricity business without requiring substantial tariff increases.

3.11. The results also suggest that technical and non-technical loss reduction initiatives should be prioritised as part of the municipality's financial recovery strategy.

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

4.1. The process followed in considering and approving Dihlabeng LM's tariff application was supported by a COS study.

4.2. Dihlabeng LM utilised the COS study model developed by Sustainable Energy Africa (SEA) 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 follows the NERSA COS Framework and utilises the latest available audited data, which is based on the 2024/25 financial year.

4.3.

4.4. below details the five steps considered in the determination of the COS study.

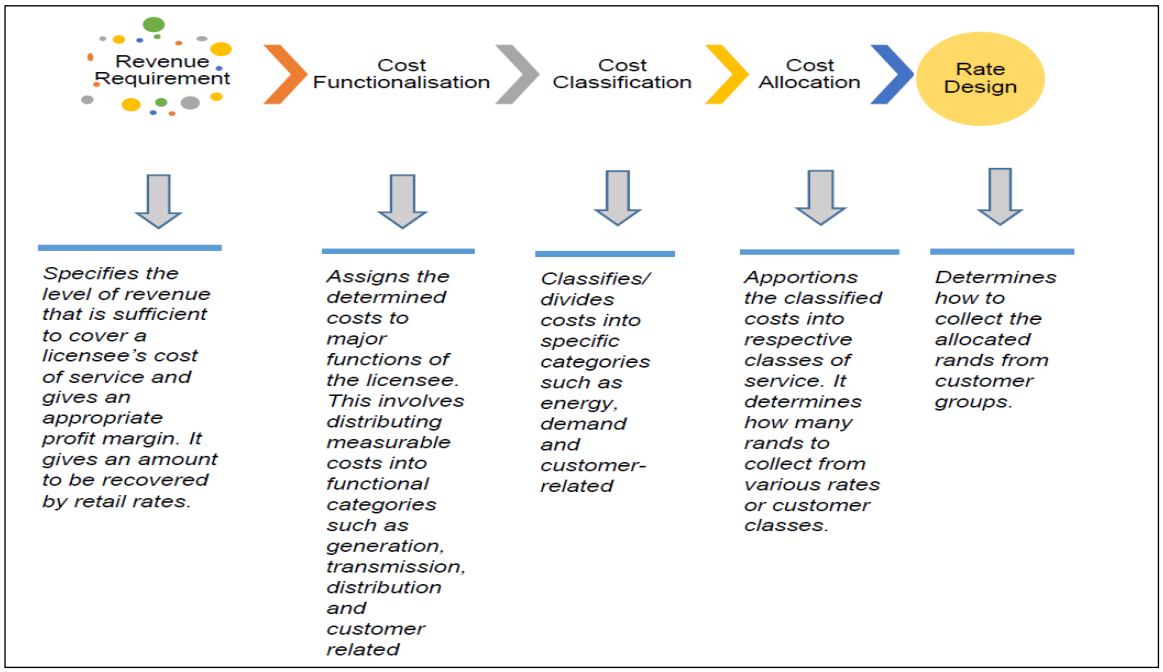


Figure 1: Five steps of COS study

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

4.5.1. **Revenue Requirement**

3.4.1.1 The municipality projects total energy losses of 18.13%, significantly above the 12% allowable loss benchmark reflected in the model. This includes projected non-technical losses of approximately 9.8 GWh, indicating continued exposure to theft, metering inaccuracies, or revenue management inefficiencies.

3.4.1.2 Operational expenditure appears materially overstated in certain line items. NERSA adjustments reduce operational expenditure from approximately R105.5 million to R54.9 million, reflecting the exclusion of costs considered inefficient or not prudently incurred.

3.4.1.3 Eskom debt interest costs of approximately R45.1 million are fully disallowed in the NERSA adjustment column, indicating that these costs are not considered appropriate for recovery through customer tariffs.

3.4.1.4 Shared operating expenditure is reduced from approximately R18.8 million to R13.3 million, suggesting the application of efficiency adjustments and the exclusion of non-core or unsupported allocations.

3.4.1.5 General expenses are also significantly reduced through the NERSA adjustment process, particularly:

a) rental equipment and operational costs;
b) Eskom small accounts; and
c) certain reconnection and ancillary costs.

3.4.1.6 The schedule reflects a reduction in total expenditure before surplus from approximately R496.7 million to R446.1 million after regulatory adjustments.

3.4.1.7 Although a surplus of approximately R24.3 million remains included, the overall allowable revenue is reduced from the municipality's requested R407.4 million to approximately R359.4 million following NERSA efficiency adjustments. This reflects a downward adjustment of approximately R23.7 million against the requested allowable revenue.

3.4.1.8 The inclusion of smart meter revenue and associated costs also appears inconsistent, requiring further reconciliation to confirm whether the treatment is cost-reflective and appropriately supported.

3.4.1.9 Overall, the schedule demonstrates that NERSA's efficiency adjustments are aimed at excluding costs associated with:

a) operational inefficiencies;
b) debt servicing arising from historical non-payment;
c) avoidable penalties;
d) unsupported shared costs; and
e) excessive operational expenditure.

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	111 323 936	78 681 280	131 000 000	-	131 000 000
Eskom bulk purchases	kWh	140 601 063	104 163 422	160 000 000	-	160 000 000
Independent Power Producers Conventional	kWh		-	-	-	-
ndependent Power Producers Renewable Energy	kWh		-	-	-	-
Self Generation	kWh		-	-	-	-
Other			-	-	-	-
Total Energy Requirements	**kWh**	**140 601 063**	**104 163 422**	**160 000 000**		**160 000 000**
Total Losses	kWh	29 277 127	25 482 142	29 000 000		29 000 000
Technical losses	kWh	16 872 128	12 499 611	19 200 000	-	19 200 000
Non-technical losses	kWh	-12 404 999	-12 982 531	-9 800 000	-	-9 800 000
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	20,82%	24,46%	18,13%		18,13%
Cost drivers						
Energy purchases from Eskom	Rand	294 830 810	329 537 649	369 538 650	-	369 538 650
other energy purchases			-	-	-	-
total energy purchases		**294 830 810**	**329 537 649**	**369 538 650**	**0**	**369 538 650**
Cost of technical losses	Rand	35 379 697	39 544 518	44 344 638	0	44 344 638
Non-Technical Losses		-26 012 435	-41 072 315	-22 634 242	0	-22 634 242
Other energy purchases	Rand				-	-
Capital expenditure	Rand				-	-
Operational expenditure (incl. Depreciati	**Rand**	**111 329 546**	**103 774 050**	**105 492 300**	**-50600000,0**	**54 892 300**
General & Other	**0**	**92 501 948**	**76 969 995**	**86 702 300**	**-45 100 000**	**41 602 300**
Salaries and allowances	Rand				0	0
Materials and supplies	Rand	14 605 440	10 914 869	16 000 000	0	16 000 000
Contracted Services	Rand	4 602 010	4 880 200	4 202 300	0	4 202 300
Salaries, wages and allowances (exclu. Repairs and	Rand	10 439 775	10 534 086	10 900 000	0	10 900 000
Payments to consultants (operational work)	Rand	0			0	0
Eskom debts interest	Rand	44 064 231	44 188 000	45 100 000	-45 100 000	
Other creditors' interest		9 119 220	0	0	0	0
Depreciation	Rand	9 119 220	6 452 840	10 500 000	0	10 500 000
NMD exceedance penatlies	Rand	552 052			0	0
Shared OPEX	**Rand**	**18 827 598**	**26 804 055**	**18 790 000**	**-18 170 000**	**13 290 000**
Bad debts (Allowance for Impairment)	Rand	305 758	159 500	450 000	0	450 000
FBE paid to Eskom	Rand	3 546 678	4 546 978	5 500 000	-5 500 000	0
Charges from other Municipal Departments	Rand			0	0	0
General expenses		**14 975 162**	**22 097 577**	**12 840 000**	**-12 670 000**	**12 840 000**
1. Rental Equipment and other operational costs	Rand	1 402 301	1 502 301	1 670 000	-1 670 000	
2.Eskom small accounts	Rand	10 852 570	13 441 633	11 000 000	-11 000 000	
Skills development	Rand	180 291	153 643	170 000	0	170 000
Smart meters		2 540 000	7 000 000	0		
	Rand				0	
Total Expediture before surplus		441 540 053	431 783 902	496 741 346	-50 600 000	446 141 346
Surplus	Rand	24 301 487	24 301 487	24 301 487	24 301 487	24 301 487
Total Expenditure Including Surplus		465 841 540	456 085 389	521 042 833	-26 298 513	470 442 833
Other revenues	Rand	**-58 066 991**	**-133 579 019**	**-113 622 320**	**2 550 663**	**-111 071 657**
Reconnection fees	Rand	1 056 359	2 559 438	2 550 663	-2 550 663	
New connections	Rand	0			0	
Free Basic Electricity (Equitable share)	Rand	8 976 000	36 198 918	37 692 673	0	37 692 673
Fines	Rand	389 365	675 416	347 446		347 446
Interest received	Rand	4 055 877	4 004 681	4 350 063		4 350 063
Rental of fixed assets	Rand	143 725	150 912	161 475		161 475
Smartmeters	Rand	43 445 665	89 989 654	68 520 000	0	68 520 000
	Rand		0			
	Rand		0	0	-	**0**
Total Allowable Revenue	**Rand**	**407 774 549**	**322 506 370**	**407 420 513**	**-23 747 850**	**359 371 176**
increase required				***26,33%***	***11,43%***	

4.5.2. **Bulk Purchases**

3.4.2.1 The cost of Eskom bulk purchases increases significantly from approximately R294.8 million in FY2024/25 to R369.5 million in FY2026/27.

3.4.2.2 Bulk electricity purchases account for the largest component of the municipality's allowable revenue requirement and represent the most significant cost pressure within the tariff application.

3.4.2.3 However, despite the increase in bulk purchases, projected electricity sales amount to only approximately 131 GWh, indicating that approximately 29 GWh of purchased energy is expected to be lost within the system.

3.4.2.4 This means that nearly one-fifth of all electricity purchased is not converted into billable revenue, significantly increasing the effective cost burden on paying customers.

3.4.2.5 The schedule further reflects that:

a) technical losses account for approximately 19.2 GWh; and
b) non-technical losses account for approximately 9.8 GWh.

3.4.2.6 This suggests that a substantial portion of bulk electricity purchases is effectively funding:

a) electricity theft;
b) illegal connections;
c) metering inaccuracies;
d) billing inefficiencies; and
e) weak revenue management controls.

3.4.2.7 Although Eskom bulk purchases are generally treated as a pass-through cost, the recoverability of associated losses and inefficiencies remains subject to regulatory prudency assessments. Excessive losses linked to bulk purchases may therefore justify efficiency adjustments to protect customers from funding avoidable operational inefficiencies through higher tariffs.

3.4.3 **Operational Expenditure**

3.4.3.1 The OPEX analysis reflects significant regulatory adjustments by NERSA aimed at improving operational efficiency and preventing the recovery of non-core or inefficient costs through electricity tariffs. The total requested OPEX of approximately R329.3 million for FY2026/27 was reduced by R184.3 million, resulting in an allowable OPEX of only R164.8 million. This represents a reduction of nearly 56%, indicating that NERSA considered a large portion of the submitted costs to be non-allowable or inefficient.

Table 5: Breakdown of OPEX

Operational Expenditure Cost Drivers	2024/25 Actuals (R)	2025/26 Budget (R)	2026/27 Applied (R)	NERSA Adjustments (R)	2026/27 Recommendation (R)
General & Other	**92 501 948**	**76 969 995**	**86 702 300**	**-45 100 000**	**41 602 300**
Materials and supplies	14 605 440	10 914 869	16 000 000	0	16 000 000
Contracted services	4 602 010	4 880 200	4 202 300	0	4 202 300
Salaries, wages and allowances (excluding repairs and maintenance)	10 439 775	10 534 086	10 900 000	0	10 900 000
Payments to consultants (operational work)	0	0	0	0	0
Eskom debts interest	44 064 231	44 188 000	45 100 000	-45 100 000	0
Other creditors' interest	9 119 220	0	0	0	0
Depreciation	9 119 220	6 452 840	10 500 000	0	10 500 000
NMD exceedance penalties	552 052	0	0	0	0
Shared OPEX	**18 827 598**	**26 804 055**	**18 790 000**	**-18 170 000**	**13 290 000**
Bad debts (allowance for impairment)	305 758	159 500	450 000	0	450 000
FBE paid to Eskom	3 546 678	4 546 978	5 500 000	-5 500 000	0
Charges from other municipal departments	0	0	0	0	0
General expenses	**14 975 162**	**22 097 577**	**12 840 000**	**-12 670 000**	**12 840 000**
Rental equipment and other operational costs	1 402 301	1 502 301	1 670 000	-1 670 000	0
Eskom small accounts	10 852 570	13 441 633	11 000 000	-11 000 000	0
Skills development	180 291	153 643	170 000	0	170 000
Smart meters	2 540 000	7 000 000	0	0	0
Total Operating Expenditure	**140 044 867**	**132 018 235**	**124 182 300**	**-23 747 850**	**124 182 300**

3.4.3.2 Operational expenditure is projected to decrease from R132 018 235 in the 2025/26 budget to R124 182 300 in the 2026/27 financial year. The decrease is mainly attributable to the exclusion of Eskom debt interest, Free Basic Electricity paid to Eskom and other non-prudent operational costs identified during the regulatory assessment.

3.4.3.3 General and other operating expenditure was projected at R86 702 300 for the 2026/27 financial year. Following the assessment of the supporting information submitted, NERSA made downward adjustments amounting to R45 100 000 relating to Eskom debt interest, resulting in recommended general and other operating expenditure of R41 602 300.

3.4.3.4 Materials and supplies are projected to increase from R10 914 869 in the 2025/26 budget to R16 000 000 in the 2026/27 financial year. The increase reflects the projected expenditure relating to operational activities, maintenance requirements and electricity infrastructure support. Salaries,

wages and allowances, excluding repairs and maintenance, are projected to increase from R10 534 086 to R10 900 000.

3.4.3.5 Contracted services are projected to decrease from R4 880 200 in the 2025/26 budget to R4 202 300 in the 2026/27 financial year, while no provision was made for payments to consultants relating to operational work.

3.4.3.6 The municipality projected Eskom debt interest amounting to R45 100 000 in the 2026/27 financial year. NERSA excluded the full amount from the allowable revenue determination on the basis that interest arising from overdue Eskom accounts is considered inefficient expenditure and should not be recovered from customers through tariffs.

3.4.3.7 Depreciation expenditure is projected to increase from R6 452 840 in the 2025/26 budget to R10 500 000 in the 2026/27 financial year, reflecting continued investment in electricity infrastructure assets and network-related capital expenditure.

3.4.3.8 Shared operating expenditure was projected at R18 790 000 for the 2026/27 financial year. Following the assessment, NERSA made downward adjustments amounting to R18 170 000, resulting in recommended shared operating expenditure of R13 290 000. The adjustments mainly related to Free Basic Electricity paid to Eskom and other operational expenditure items that were not considered prudent for recovery through tariffs.

3.4.3.9 General expenses were projected at R12 840 000. NERSA applied downward adjustments amounting to R12 670 000 relating mainly to rental equipment and Eskom small accounts. Consequently, only skills development expenditure amounting to R170 000 was recommended for inclusion in the allowable revenue determination.

3.4.3.10 Although the municipality's operational expenditure profile reflects efforts to contain costs, the continued increase in materials and supplies expenditure, coupled with high electricity losses and Eskom-related financial pressures, may place additional strain on the financial sustainability of the electricity business. The municipality will therefore be required to strengthen cost containment measures, improve operational efficiencies and ensure that operational expenditure remains prudent, efficient and directly attributable to electricity service delivery.

3.4.4. **Surplus**

3.4.4.1 The municipality projected a surplus of R24 301 487 for the 2026/27 financial year, which remained unchanged following the assessment and adjustments applied by NERSA. The projected surplus indicates that the electricity business is expected to generate sufficient revenue to recover its allowable costs while maintaining a positive financial position.

3.4.4.2 The surplus may provide a financial buffer against operational and financial risks, including escalating Eskom bulk electricity purchase costs, revenue under-collection, infrastructure maintenance requirements and unforeseen

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Energy Charge	353,29	30,00%	459,28	11,43%	393,67
Commercial Prepaid	**2025/26 Approved**	**2026/27 Proposed % Increase**	**2026/27 Proposed**	11,43%	**2026/27 Recommended Tariffs**
Energy Charge	303,95	30,00%	395,14	11,43%	338,69
Industrial below 500kVA	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Approved % Increase**	**2026/27 Approvedd Tariffs**
Commercial Prepaid	2 416,23	30,00%	3 141,10	11,43%	2 692,41
Energy Charge	277,16	30,00%	360,31	11,43%	308,84
Demand Charge	144,94	30,00%	188,42	11,43%	161,51
Industrial above 500kVA	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Approved % Increase**	**2026/27 Approvedd Tariffs**
Commercial Prepaid	17 514,65	30,00%	22 769,05	11,43%	19 516,58
Energy Charge	321,07	30,00%	417,39	11,43%	357,77
Demand Charge	163,35	30,00%	212,35	11,43%	182,02
Business from Home	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Approved % Increase**	**2026/27 Approvedd Tariffs**
Basic Charge	870,57	30,00%	1 131,75	11,43%	970,08
Energy Charge	353,29	30,00%	459,28	11,43%	393,67
Departmental	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Approved % Increase**	**2026/27 Approvedd Tariffs**
Basic Charge	1 086,79	30,00%	1 412,83	11,43%	1 211,01
Energy Charge	327,01	30,00%	425,11	11,43%	364,39
Industrial Bulk Departmental above 500kVA	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Approved % Increase**	**2026/27 Approvedd Tariffs**
Basic Charge	3 059,26	30,00%	3 977,04	11,43%	3 408,94

Energy Charge	150,71	30,00%	195,93	11,43%	167,94
Time-of-Use Bulk above 500kVA	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Approved % Increase**	**2026/27 Approvedd Tariffs**
Basic Charge	17 668,29	30,00%	22 968,78	11,43%	19 687,78
Summer	-		-	11,43%	-
Peak	258,42	30,00%	335,95	11,43%	287,96
Standard	174,49	30,00%	226,84	11,43%	194,44
Off-peak	122,74	30,00%	159,56	11,43%	136,77
Demand Charge	346,79	30,00%	450,83	11,43%	386,43
	-		-		
Winter	-		-		
Peak	839,50	30,00%	1 091,35	11,43%	935,46
Standard	265,06	30,00%	344,58	11,43%	295,36
Off-peak	169,96	30,00%	220,95	11,43%	189,39
Demand Charge	354,28	30,00%	460,57	11,43%	394,78

6. CONFIDENTIALITY

6.1. None.

7. CONCLUSION

7.1. The Energy Regulator, having considered Dihlabeng LM's tariff application, supporting information, stakeholder inputs and applicable legal framework, approves the tariff adjustments, as set out in this reasons for decision document.

End.