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

Tswelopele Local Municipality

THE DECISION

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1. At its meeting held on 27 May 2026, the Regulator Executive Committee (REC) considered Tswelopele 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 8 (Page 17-21) below.

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

   2.1. to approve the tariffs that are based on the Cost of Supply (COS) report as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;
   2.2. to note the COS report 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 (NERSA) to perform its independent verification/audit process by 31 January 2027

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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
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 annually, in accordance with its mandate 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. Tswelopele local municipality is a licensee in the Free State Province. The industrial customers are dominant, accounting for 39% of total sales of MWh while commercial customers account for.

2. LEGAL AND REGULATORY FRAMEWORK

Table 1: Customer base and consumption

Customer categories	2024/25			
	kWh	%kWh	Customer numbers	% Customer numbers
Domestic (Prepaid)	8 194 114	38,16%	1 234	79,51%
Domestic (Conventional)	124 502	0,58%	128	8,25%
Manufacturing/Industrial	10 507 728	48,94%	6	0,39%
Commercial Conventional	710 050	3,31%	142	9,15%
Sold to other departments	470 129	2,19%	25	1,61%
Other Consumers	1 466 264	6,83%	17	1,10%
TOTAL	**21 472 787**	**100%**	**1552**	**100%**
Free Basic Electricity	**9 000**	**0,11%**	**15**	0,97%

2.1. NERSA received Tswelopele's tariff application together with its COS on 31 March 2026.

2.2. Tswelopele implemented an average price increase OF 12,70% in THE 2025/26FY and is applying for an average price increase of 12% for the 2026/27FY.

2.3. 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.

2.4. NERSA followed the notice-and-comment consultation process as well as oral presentations. The Tswelopele tariff applications were 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.

2.5. NERSA's decision was made on 27 May 2026, having considered the written comments received from the affected stakeholders and the analysis performed by NERSA.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. Background

3.1.1. 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").

3.1.2. 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 in order to align with the municipal budgeting process contemplated in the Municipal finance management Act, 2003 (Act No. 56 of 2003).

3.1.3. 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.

3.1.4. 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.

3.2. NERSA's Statutory Mandate

3.2.1. NERSA was established as a juristic person in terms of section 3 of the NERA. In terms of section 4 of the NERA, the Energy Regulator as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by the ERA. Section 3 of the ERA particularly provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and exercises regulatory authority over activities regulated under the ERA.

3.2.2. In particular:

a) section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licensees and may issue licences to licensees 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 license conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

3.2.3. 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.

3.3. Tariff Determination Principles under the ERA

3.3.1. When determining or approving electricity tariffs, the Energy Regulator must apply the principles contained in section 15(1) of the ERA.

3.3.2. 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.

3.3.3. These statutory requirements form the core legal principles guiding the determination of electricity tariffs within the South African electricity supply industry.

3.4. Administrative Law Requirements

3.4.1. 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.

3.4.2. 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.

3.5. **Policy Framework: Electricity Pricing Policy (2008)**

3.5.1. 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.

3.5.2. 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.

3.5.3. 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.

3.6. **COS Studies**

3.6.1. The EPP recognises that cost-reflective tariff structures require a sound understanding of the underlying cost drivers associated with electricity distribution.

3.6.2. Paragraph 8.1 of the EPP notes that COS methodologies have historically not been consistently applied across the electricity distribution industry.

3.6.3. Policy Position 23 therefore requires electricity distributors to undertake COS studies at least every five years, or when significant structural changes occur in the customer base or cost structure.

3.6.4. Such studies must be conducted in accordance with the methodology approved by NERSA and must accompany tariff structure applications submitted to the Energy Regulator.

3.7. **Judicial Oversight of the Tariff Approval Process**

3.7.1. 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.

3.7.2. 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.

3.7.3. 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.

3.7.4. 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 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.

3.8. **Court-directed Timelines**

3.8.1. 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
d) The publication of NERSA decisions by 27 May 2026.

3.8.2. 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
c) municipal tariff approvals and the tariff reasons for decision document, be approved and published by 5 May of each year.

3.9. **Conclusion**

3.9.1. The determination of municipal electricity tariffs by the Energy Regulator must therefore be undertaken within a comprehensive regulatory framework comprising the NERA, ERA, PAJA, EPP and the binding judicial directives issued by the High Court in AfriForum NPC v NERSA (Case No. 2025/137620).

3.9.2. The reasons set out 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.

4. DETERMINATION OF TSWELOPELE LM TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. In evaluating the financial and technical performance of Tswelopele Local Municipality, 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 audited Annual Financial Statements (AFS). As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

4.2. Tswelopele electricity business operated at a surplus of 4,5% in the 2024/25 financial year, reflecting an improvement from the -24,2% deficit recorded in the 2023/24 financial year. This reduction in the deficit can mainly be attributed to

improved revenue due to the introduction of a season tariff for their commercial customers and a relatively lower reduction in the energy losses. The improvement indicates enhanced cost recovery and improved financial sustainability within the electricity business.

4.3. The Municipality's energy losses also improved from 11,06% in the 2023/24 financial year to 8,64% in the 2024/25 financial year. The reported losses indicate improved operational efficiency and effective management of technical and non-technical losses within the electricity distribution network.

4.4. The improvement in both the financial performance and energy loss levels may be attributable to improved revenue collection, enhanced operational controls, better network management, and effective implementation of loss reduction initiatives. The Municipality should continue strengthening preventative maintenance programmes, revenue management controls, and loss reduction interventions to sustain the positive performance and ensure the long-term financial sustainability of the electricity business.

Table 2: Performance indicators

Performance Indicators: Obtained from the D-Form		
Indicators	**2023/24**	**2024/25**
Percentage Surplus (Deficit)	-24,20%	4,50%
Percentage energy Losses	11,06%	8,64%

4.5. From an operational perspective, energy losses remained relatively stable, decreasing marginally from 11,06% to 8,64%, which is still within acceptable industry norms. However, the associated financial impact remains substantial, with revenue losses amounting to approximately R2,3 million if the energy loss was capped at 6%.

4.6. If the energy loss was capped at 6% and the Eskom bulk purchase account was up to date and there was no interest, the surplus was going to be 19,08%

4.7. Overall, while the licensee is on a path toward improved financial sustainability, continued focus on revenue enhancement and further reduction of energy losses will be critical to strengthening both financial viability and operational efficiency in the future.

Table 3: Energy Loss Analysis and Eskom Debts Interest

	D-Form Input	Energy Loss@6%	Zero Eskom Debts Interest
Average Selling Price c/KWh	324,31		
Sales kWh	21 472 786,96	22 174 010,38	22 174 010,38
Purchases kWh	23 504 451,00	23 504 451,00	23 504 451,00
Losses kWh	2 031 664,05	1 330 440,62	1 330 440,62
Losses percentage	8,64%	6,00%	6,00%
Additional Energy (kWh)		701 223,42	701 223,42
Additional Revenue (Rands)		2 274 147,02	2 274 147,02
	D-Form Input	Energy Loss@ 6%	Energy Loss@ 6%
Total Revenue (Rands)	75 028 384,46	77 302 531,48	77 302 531,48
Total Expenses (Rands)	71 654 005,50	71 654 005,50	62 552 181,50
Net Profit (Loss)	3 374 378,96	5 648 525,98	14 750 349,98
Percentage Surplus/Deficit	**4,50%**	**7,31%**	**19,08%**

5. DETERMINATION OF TSWELOPELE TARIFFS BASED ON THE COS STUDY

5.1. The Municipality submitted its existing COS study which supports the tariffs application which will be approved in the 2026/27 financial year. The Municipality's cCOS 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).

5.2. 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'.*

5.3. Section 18.7 of the October 2023 NERSA-approved COS 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 tha't.*

5.4. In line with section 18.7 mentioned above, **Error! Reference source not found.** below was developed, and the definition of the columns is as follows:

i. Column 1 is the actual 2024/25 licensee performance and is sourced from the D-forms that are based on the audited annual statements.

ii. Column 2 is for the 2025/26 revenues and electricity volume that are the base for 2026/27 tariffs. The figures were tested for reasonableness (since at the time of the approval, the figures were estimates) when the Regulator considered and approved the 2026/27 cost of supply base tariffs. Once the

financial year ends, the actual figures will be verified using the audited statements.

iii. Column 3 is for the licensee's submitted 2026/27 financial year budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.

iv. Column 4 is for NERSA's recommended adjustments after considering the reasons, facts, and evidence the licensee provided to motivate/justify the budgeted figures.

v. Column 5 is for the NERSA's recommended amounts that sum up to allowable revenues the licensee must recover in the 2026/27 financial year.

5.5. The total allowable revenue amounting to R72,2 million is for the 2025/26 financial tariff review and is based on the COS revenue and the volumes used to determine the tariffs that were approved by the Energy Regulator, as shown in Table 4 below. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for the 2026/27 financial year. 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 2026/27 financial year tariff review process.

5.6. To determine an increase applicable for the 2026/27 financial year, the licensee submitted its 2026/27 financial year cost (budgeted cost plus surplus) as requested by NERSA, and the total budgeted required revenue that amounted to R87,5 million for the 2026/27 financial year tariff review process and after the NERSA adjustments of R4,8 million it amounted to R80,8 million due to the elimination of inefficiencies.

Table 4: Municipality's Revenue Requirement

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	21 472 787	24 156 886	26 572 575	-	26 572 575
Eskom bulk purchases	kWh	23 504 451	26 442 507	28 822 333	-	28 822 333
Independent Power Producers Conventional	kWh		-	-	-	-
Independent Power Producers Renewable Energy	kWh		-	-	-	-
Self Generation	kWh		-	-	-	-
Other			-	-	-	-
Total Energy Requirements	**kWh**	**23 504 451**	**26 442 507**	**28 822 333**		**28 822 333**
Total Losses	kWh	2 031 664	2 285 621	2 249 758		2 249 758
Technical losses	kWh	2 031 664	2 285 621	2 249 758	-	2 249 758
Non-technical losses	kWh	0	0	0	-	0
Allowed losses	%	**8,64%**	**8,64%**	**7,81%**		**7,81%**
Total Energy losses	%	8,64%	8,64%	7,81%		7,81%
Cost drivers						
Energy purchases from Eskom	Rand	49 028 000	55 274 167	60 248 842	-	60 248 842
other energy purchases			-	-	-	-
total energy purchases		**49 028 000**	**55 274 167**	**60 248 842**	**0**	**60 248 842**
Cost of technical losses	Rand			4 702 787	0	4 702 787
Non-Technical Losses		0	0	0	0	0
Operational expenditure (incl. Depreciati	**Rand**	**22 626 006**	**16 454 041**	**16 957 662**	**- 3 818 729,71**	**13 138 932**
General & Other	**0**	**17 685 080**	**10 628 254**	**10 947 101**	**0**	**10 947 101**
Materials and supplies	Rand	1 415 303	2 257 762	2 325 495	0	2 325 495
Contracted Services	Rand	156 151	160 836	165 661	0	165 661
Salaries, wages and allowances (exclu. Repairs and	Rand	4 955 504	5 104 169	5 257 294	0	5 257 294
Payments to consultants (operational work)	Rand		987 500	1 017 125	0	1 017 125
Eskom debts interest	Rand	9 101 824			0	
Current year depreciation	Rand	2 056 298	2 117 987	2 181 527	0	2 181 527
	Rand				0	0
Shared OPEX	**Rand**	**4 940 926**	**5 825 788**	**6 010 561**	**-3 818 729**	**2 191 831**
Bad debts (Allowance for Impairment)	Rand	1 197 339	1 233 259	1 270 257	0	1 270 257
FBE paid to Eskom	Rand	3 599 519	3 707 505	3 818 730	-3 818 730	0
General expenses		**144 068**	**885 024**	**921 574**	**0**	**921 574**
1. Fuel and Oil	Rand	113 612	453 000	466 590	0	466 590
2. Protective Clothing	Rand	9 269	9 547	19 833	0	19 833
3.Other Expenses	Rand	21 187	422 477	435 151	0	435 151
	Rand				0	
Total Expediture before surplus		71 654 006	71 728 208	81 909 291	-3 818 730	78 090 561
Surplus	Rand	6 448 861	6 168 626	8 190 929	-1 006 597	7 184 332
Total Expenditure including Surplus		78 102 867	77 896 834	90 100 220	-4 825 327	85 274 893
Other revenues	Rand	**-5 418 754**	**-5 698 689**	**-4 397 417**	**0**	**-4 397 417**
Reconnection fees	Rand	12 722	13 994	14 694	0	14 694
New connections	Rand	13 289	153 953	161 651	0	161 651
Free Basic Electricity (Equitable share)	Rand	5 276 000	5 434 280	4 119 788	0	4 119 788
1.Interest earned	Rand	85 960	94 556	99 284	0	99 284
. Other Revenue - Government Grants and Subsidie	Rand	1 732	1 905	2 000		2 000
2. Other Revenue - Illegal Connections	Rand	29 051	0	0	-	**0**
Total Allowable Revenus	**Rand**	**72 684 112**	**72 198 145**	**85 702 803**	**-4 825 327**	**80 877 476**
increase required				***18,70%***	***12,02%***	

Sources: Approved Revenue (FY 2024/25) / Budget (FY 2025/26)

5.7. The licensee applied for a bulk purchase expenditure of R60,2 million which accounts for 68% of the total costs inclusive of the 9% energy loss allowance in line with the Act that requires only the prudently and efficiently incurred cost to be passed through to customers.

5.8. To get to the 2026/27financial year estimate, the licensee projected the year-to-date amount for the 2025/26 financial year since complete financial year data was 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).

5.9. The Eskom bills were analysed and there were Eskom interests charged and it was eliminated.

5.10. Shared operating expenditure amounts to approximately R6 million in the 2026/27 financial year, while general expenses amount to approximately R10,4 million. Following the assessment, allowable shared operating expenditure was adjusted downward to approximately R2,1 million to align with prudent and efficient cost recovery principles.

5.11. The Municipality's total expenditure before surplus amounts to approximately R78 million for the 2026/27 financial year. A surplus provision of approximately R7,1 million was included, increasing total expenditure including surplus to approximately R85,2 million. The inclusion of a surplus provision supports the financial sustainability of the electricity business and provides for future operational and infrastructure requirements.

5.12. Other revenues amounting to approximately R4,3 million were offset against the total expenditure requirement, resulting in a total allowable revenue requirement of approximately R80,7 million for the 2026/27 financial year.

5.13. It is important to test the efficiency and prudency of the costs in the 2025/26 financial year 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 2026/27 financial year will be projected using assumptions to calculate revenue requirements for that year.

5.14. 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.

Bulk purchases

5.14.1.1. Tswelopele submitted an application for bulk purchase expenditure amounting to R60,2 million following ERTSA approval, representing 68% of the total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

5.14.1.2. To derive the 2026/27 bulk purchase estimate, the 2025/26 COS amount was escalated by 9,01%, consistent with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

5.14.1.3. The methodology applied by Tswelopele in forecasting bulk purchase costs is deemed reasonable. Accordingly, the bulk purchase expenditure has been recommended for approval as submitted.

Operational Expenditure

5.15. The licensee applied for operational expenditure including depreciation R16,9 million as highlighted in Table 4 above.

5.16. The Municipality adjusted the expenditure linked to the 2025/26 financial year tariffs, decreasing from R16,4 million to a budgeted amount of R13,1 million, reflecting a 9% increase in costs, having taken out the inefficient cost such as Eskom interest due late payment of the account.

The Municipality reported an asset value of R137 million, as reflected in its submitted Assets register for the 2024/25 financial year and depreciation amounting to R 2 million in the 2024/25 financial year. Furthermore, the projected depreciation for the 2025/26 financial year was R2,1 million, increasing to R2,2 million in the 2026/27 financial year budget, reflecting approximately R0,1 growth.

5.17. The approach adopted by Tswelopele in forecasting operational expenditure is considered reasonable, and the amount has therefore been approved as requested. However, inefficient cost components—such as interest incurred on Eskom-related debt—have been excluded from the total, as these items fall within the control of the Municipality.

Surplus

5.17.1.1. Tswelopele Local Municipality's revenue requirement includes a surplus of R7,8 million, calculated using a surplus factor of 9% applied to operating expenditure, inclusive of bulk electricity purchases for the electricity business. This figure excludes inefficient or non-allowable costs, including interest on Eskom-related debt, as the Municipality is currently in arrears on its bulk electricity account amounting to R9,1 million. These exclusions were verified against Eskom's bulk invoices.

5.17.1.2. The applied surplus margin of 9% was benchmarked against the established target range of 10%–20% prescribed in the approved NERSA COS Framework, EPP Policy Position 1, D-Form submissions, and the Trial Balance to ensure that the return remains commensurate with the level of risk associated with the electricity business.

5.17.1.3. Risk considerations incorporated qualitatively included: Revenue collection risks, such as non-payment, indigent levels, and bad debts. The Municipality has budgeted R1,2 million for bad debt write-offs in the 2026/27 financial year.

5.17.1.4. In recommending the surplus, NERSA relied on section 15(1)(a) of the Electricity Regulation Act, which provides that tariffs set by the Regulator *'must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return'*.

<u>Conclusion on Costs to Serve</u>

5.18. While the COS study outcome reflected an average tariff increase of 30,09% for the licensee to achieve full cost-reflectivity, the Municipality adopted a 3-year

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Non-Indigent Households Tariff Structure (Prepaid or Conventional).	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*Recommended % Increase*	*Analysis and Key Findings*
Tariff II: IBT Indigent Domestic (Indigent)						The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
SUMMER (R/kWh)						
Block 1 (0 - 50 kWh)	R1,97	18,70%	R2,34	R2,21	12,00%	
Block 2 (51 – 350 kWh)	R2,53	18,70%	R3,00	R2,83	12,00%	
Block 3 (351 – 600 kWh)	R3,57	18,70%	R4,24	R4,00	12,00%	
Block 4 (>600kWh)	R4,20	18,70%	R4,99	R4,70	12,00%	
WINTER (R/kWh)						
Block 1 (0 - 50 kWh)	R2,03	18,70%	R2,41	R2,27	12,00%	
Block 2 (51 – 350 kWh)	R2,61	18,70%	R3,10	R2,92	12,00%	
Block 3 (351 – 600 kWh)	R3,68	18,70%	R4,37	R4,12	12,00%	
Block 4 (>600kWh)	R4,33	18,70%	R5,14	R4,85	12,00%	

Tariff III: Business Flat Rate (Pre-Paid or Conventional)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*Recommended % Increase*	*Analysis and Key Findings*
Basic Charge: R/month	658,53	18,70%	781,68	737,55	12,00%	The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
SUMMER (R/kWh)						
Business, Guest Houses, Pre-paid or Conventional	R3,23	18,70%	R3,83	3,62	12,00%	
Hostels, Guest houses	R3,23	18,70%	R3,83	3,62	12,00%	
WINTER (R/kWh)						
Business, Guest Houses, Pre-paid or Conventional	R3,44	18,70%	R4,08	3,85	12,00%	
Hostels, Guest houses	R3,44	18,70%	R4,08	3,85	12,00%	

Government properties	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Basic Charge: R/month	R740,85	18,70%	R879,39	R829,75	12,00%	The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
Energy charges:						
SUMMER						
Peak	R3,09	18,70%	R3,67	R3,46	12,00%	
Standard	R2,03	18,70%	R2,41	R2,27	12,00%	
Off-peak	R1,55	18,70%	R1,84	R1,74	12,00%	
WINTER						
Peak	R6,08	18,70%	R7,22	R6,81	12,00%	
Standard	R3,11	18,70%	R3,69	R3,48	12,00%	
Off-peak	R2,85	18,70%	R3,38	R3,19	12,00%	

NPO: Sports Bodies/ Old Age Home	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key findings
SUMMER						The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
Basic Charge: R/month	R378,70	18,70%	R449,52	R424,14	12,00%	
Energy charge	R1,37	18,70%	R1,63	R1,53	12,00%	
WINTER						
Basic Charge: R/month	R390,49	18,70%	R463,51	R437,35	12,00%	
Energy Charge	R2,52	18,70%	R2,99	R2,82	12,00%	

Tariff IV: Departmental	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key findings
Basic Charge	R223,52	18,70%	R265,32	R250,34	12,00%	The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
Energy Charge	2,52	18,70%	R2,99	R2,82	12,00%	

Tariff V: Vacant Stand/ Unbuilt Erven	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings

Basic Charge	R144,77	18,70%	R171,84	R162,14	12,00%	The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debtinterest and the FBE paid to Eskom.
		0,187	0			
Tariff VI: Bulk Supply	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
Basic Charge	R846,14	18,70%	R1 004,37	R947,68	12,00%	
Demand Charge	R264,72	18,70%	R314,22	R296,49	12,00%	
Summer Energy Charge	R1,72	18,70%	R2,04	R1,93	12,00%	
Winter Energy Charge	R2,10	18,70%	R2,49	R2,35	12,00%	
Tariff VI: Elecflex 2	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	
Basic Charge Monthly:	R4 499,43	18,70%	R5 340,82	R5 039,36	12,00%	
Network Access charge KVA	R99,84	18,70%	R118,51	R111,82	12,00%	The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
Demand Charge	R270,93	12,00%	R321,59	R303,44	12,00%	
			0			
Energy charges:						
SUMMER						
Peak	R3,09	18,70%	R3,67	R3,46	12,00%	
Standard	R2,03	18,70%	R2,41	R2,27	12,00%	
Off-peak	R1,55	12,00%	R1,84	R1,74	12,00%	
WINTER (New Tariffs)						
Peak	R6,08	18,70%	R7,22	R6,81	12,00%	
Standard	R3,11	18,70%	R3,69	R3,48	12,00%	
Off-peak	R2,85	18,70%	R3,38	R3,19	12,00%	
Tariff VII: Elecflex 3	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key findings***
Basic Monthly:	R3 425,81	18,70%	R4 066,44	R3 836,91	12,00%	

Network Access charge KVA	R104,30	18,70%	R123,80	R116,82	12,00%	
Demand Charge	R292,65	18,70%	R347,38	R327,77	12,00%	The Licensee applied for a tariff increase of 18,70%. The tariffs are reduced to a 12% increase to disallow inefficiencies such as the Eskom debt interest and the FBE paid to Eskom.
Energy charges:		18,70%				
SUMMER						
Peak	R3,25	18,70%	R3,86	R3,64	12,00%	
Standard	R2,13	18,70%	R2,53	R2,39	12,00%	
Off-peak	R1,90	18,70%	R2,26	R2,13	12,00%	
WINTER						
Peak	R6,09	18,70%	R7,23	R6,82	12,00%	
Standard	R3,11	18,70%	R3,69	R3,48	12,00%	
Off-peak	R2,90	18,70%	R3,44	R3,25	12,00%	

9. CONFIDENTIALITY

9.1 None.

10. CONCLUSION

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

End.