NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

By

Mogale City Local Municipality (MCLM)

THE DECISION

At its meeting held on 22 May 2026, the Regulator Executive Committee (REC) considered the Mogale City Local Municipality (MCLM) tariff application. Based on the facts and evidence presented, REC approved the tariff increases for the 2026/27 financial year as set out on the tariff analysis section 7 (page 33) below.

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

a) to approve the tariffs 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;
b) to note the COS study submitted by the municipality;
c) that the municipality is required to submit a report accounting for all the costs that have been noted in its COS study, to enable the Regulator to perform its independent verification/audit process by 31 January 2027; and
d) The municipality must submit quarterly progress reports on the efficiency improvement measures taken to reduce high energy losses and deficits to enable NERSA to monitor the implementation thereof by 30 September 2026.

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ABBREVIATIONS AND ACRONYMS

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

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA), in accordance with its statutory mandate, regulates electricity prices and tariffs and assesses tariff applications submitted by licensees on an annual basis. As part of this process, municipal electricity tariffs must be approved by the Energy Regulator prior to implementation, which typically takes effect on 1 July of each financial year.

1.2. Mogale City Local Municipality, located in Gauteng Province, has 31 793 customers with electricity sales largely driven by domestic customers, which contributed 55,34% of total electricity sales in the 2024/25 financial year, while commercial customers accounted for 37,96%.

1.3. The Municipality provides Free Basic Electricity (FBE) of 50 kWh per month to registered indigent customers, in line with national policy objectives to ensure access to basic energy services for low-income households. Detailed customer statistics and consumption patterns are reflected in Table 1 below.

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

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic (Prepaid)	43 076	8,48	10 607
Domestic (Conventional)	238 172	46,86	18 151
Manufacturing	21 192	4,17	239
Commercial	192 927	37,96	2 796
Street Lighting	12 842	2,53	n/a
TOTAL	**508 209**	**100,00**	**31 793**
FBE	**1 779**	**0,63**	**3 438**

1.4. NERSA received the municipality's tariff application, together with its Cost of Supply (COS), on 20 April 2026.

1.5. The Cost of Supply study confirms cross-subsidisation, with Commercial and Industrial customers effectively subsidising Residential customers. While such subsidisation is permitted to protect vulnerable households, the municipality should develop a bylaw or subsidy framework that is fair and transparent to regulate its scope and progressively move towards cost-reflective tariffs, in which each customer category pays its cost of supply, thereby reducing the burden on Commercial and Industrial customers.

1.6. NERSA followed the notice and comment consultation process. MCLM's tariff application was published on the NERSA website on 20 April 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties.

1.7. The Energy Regulator's decision was made on 22 May 2026, taking into account the written comments received from affected stakeholders and the analysis conducted 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 the Eskom Retail Tariff and Structural Adjustment decision, and is undertaken annually to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

2.1.3. In addition, the municipal tariff approval process has recently been the subject of judicial scrutiny in the High Court of South Africa (Gauteng Division, Pretoria) in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620), which resulted in structural directives governing the timing and conduct of NERSA's tariff approval process.

2.1.4. This section provides the legal and policy context within which the Energy Regulator evaluated and determined the municipal electricity tariff application for the 2026/2027 municipal financial year.

2.2. Statutory Mandate of the Energy Regulator

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 Energy Regulator's electricity regulatory mandate 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:

- Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions.
- Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs.
- 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:

- must enable an efficient licensee to recover the full cost of the licensed activity;
- must allow for a reasonable return commensurate with the risk of the licensed activity;
- may provide incentives for continued improvement of technical and economic efficiency;
- must avoid undue discrimination between customer categories;
- may permit cross-subsidies of tariffs to certain classes of customers; and
- may have regard to the need to ensure security of supply, diversity of supply and the promotion of renewable energy.

2.3.3. These statutory requirements form the core legal principles that guide the determination of electricity tariffs in the South African electricity supply industry.

2.4. Administrative Law Requirements

2.4.1. The approval of municipal electricity tariffs constitutes administrative action as defined in section 1 of 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 accurately reflect the efficient cost of providing electricity services, and that the average tariff level must be set to recover the approved revenue requirement.

2.6. Cost of Supply Studies

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

2.6.2. Paragraph 8.1 of the EPP notes that 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 seeking to vary the timelines set by the Court on 4 December 2025, in light of the practical difficulties arising in relation to NERSA's compliance with the Court order. The court, having heard NERSA's application, granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines below are applicable with respect to the 2026/27 municipal tariff approvals:

Table 2: Court-Directed Timelines

Activity	Proposed dates
Submission of tariff application	20 April 2026
NERSA publication of the application	20 April 2026
Closing date for public participation	10 May 2026
NERSA submits comments received for reply by Mogale City	11 May 2026
Mogale City submits replies to comments to NERSA	14 May 2026
Finalisation of the public participation process	15 May 2026
Consideration of the application and decision	23 May 2026
Communication of the decision	24 May 2026

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

- written notice of bulk electricity tariffs be communicated by 31 January each year;
- municipal tariff applications must be submitted to NERSA by 20 March each year;
- municipal tariff approvals and the tariff reasons for the 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 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).

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. <u>Level of reliability of information</u>

3.1.1. In evaluating the financial and technical performance of MCLM, the assessment was based on the 2024/25 Distribution forms (D forms) submitted with the tariff application. The data was verified against supporting documents, including the Trial Balance and the Audited

Annual Financial Statements, and is therefore considered reliable for tariff analysis.

3.1.2. Table 3 below shows MCLM's Technical and financial performance:

Table 3: Technical and financial performance

Performance indicators	***2023/24***	***2024/25***
*Percentage surplus/(Deficit): **(%)***	13,25	4,70
*Energy Losses: (**%**)*	10,20	14,36

3.2. Percentage Surplus

3.2.1. Mogale City Local Municipality recorded a surplus of 4,70% in 2024/25, compared to 13,25% in the 2023/24 financial year. The decline in the surplus is attributable not only to increased energy losses but also to additional financial and operational pressures that affect the sustainability of the electricity business.

3.2.2. These include a collection rate of 90%, which indicates that not all billed revenue is being converted into cash, rising bulk electricity purchase costs, pressure from operating expenditure, ageing infrastructure and deferred maintenance requirements, and affordability constraints that limit the municipality's ability to fully recover costs through tariffs. Collectively, these factors weakened the municipality's overall financial position and contributed to the lower surplus recorded during the year.

3.3. Energy Losses

3.3.1. The municipality's energy losses increased from 10,20% in the 2023/24 financial year to 14,36% in the 2024/25 financial year. The energy losses are due to Illegal electricity connections, meter tampering and bypassing, ageing electricity infrastructure, overloaded transformers and feeders and deferred maintenance due to financial constraints.

3.3.2. The Municipality indicated that the Development Bank of Southern Africa (DBSA) will assist with funding initiatives to address energy losses, while the Department of Cooperative Governance and Traditional Affairs (COGTA) will support the Municipality with revenue protection measures. Furthermore, the Municipality has appointed a service provider to analyse the energy losses, identify appropriate interventions, and determine the associated costing and funding

requirements. The municipality has already implemented several interventions, including the rollout of approximately 10,000 smart prepaid meters under the RT29 programme, the establishment of the Electricity Losses War Room, and the commencement of feeder statistical meter installations

3.3.3. Quarter 3 reflected the best performance of the reporting period, with losses reduced to approximately 8.44%, indicating that operational interventions implemented during the year are beginning to yield positive results. However, the increase in losses in Q4 highlights the network's continued vulnerability during peak demand periods.

Table 4: Assessment of Energy Losses and Revenue Impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	219,11		
Sales kWh	508 209 057,10	522 222 917,92	557 829 025,96
Purchases kWh	593 435 134,00	593 435 134,00	593 435 134,00
Losses kWh	85 226 076,90	71 212 216,08	35 606 108,04
Losses percentage	**14,36%**	**12,00%**	**6,00%**
Additional Energy (kWh)		14 013 860,82	49 619 968,86
Additional Revenue (Rands)		30 706 301,54	108 724 194,27
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 1 658 424 047,83	R 1 689 130 349,37	R 1 767 148 242,09
Total Expenses (Rands)	R 1 580 499 113,06	R 1 580 499 113,06	R 1 580 499 113,06
Net Profit (Loss)	R 77 924 934,76	R 108 631 236,30	R 186 649 129,03
Percentage Surplus/Deficit	**4,70%**	**6,43%**	**10,56%**

3.3.4. The municipality reported electricity energy losses of 85 226 076,90 kWh, which translates to 14,36% of total energy purchases. The level of losses exceeds prudent industry norms and indicates inefficiencies in the electricity distribution business.

3.3.5. The analysis further indicates that, should the municipality reduce energy losses to 12%, energy losses would decrease to 71 212 216,08 kWh. This would result in additional energy sales of approximately 14 013 860,82 kWh, which could generate approximately R30 706 301,54 in additional revenue.

3.3.6. Furthermore, if the municipality were to reduce losses to 6%, losses would decline to approximately 35 606 108,04 kWh. This reduction would make available approximately 49 619 968,86 kWh for sale and could generate additional revenue of approximately R108 724 194,27.

3.3.7. The municipality’s D-Form submission reflects total revenue of approximately R1 689 130 349,37, against total operating expenditure

of approximately R1 580 499 113,06. Consequently, the municipality reported a net surplus of approximately R77 924 934,76, representing a surplus margin of 4,70%.

3.3.8. Under the 12% loss scenario, the projected surplus increases to approximately R108 631 236,30, representing a surplus margin of approximately 6,43%.

3.3.9. Under the 6% loss scenario, the projected surplus further increases to approximately R186 649 129,03, representing a surplus margin of approximately 10,56%.

3.3.10. The Energy Regulator notes that the municipality's current level of losses materially impacts the financial sustainability of the electricity undertaking and places additional pressure on consumer tariffs. The municipality is therefore encouraged to implement appropriate technical and non-technical loss reduction measures, including network refurbishment, revenue protection initiatives, bulk and feeder metering, and improved energy balancing practices.

3.3.11. The Energy Regulator is of the view that efficient management and reduction of electricity losses would improve the municipality's financial position and reduce reliance on higher tariff increases to sustain operations.

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

4. DETERMINATION OF MCLM'S TARIFFS BASED ON THE COST OF (COS) SUPPLY STUDY

4.1. The process that the Energy Regulator followed in considering and approving MCLM's tariff application was supported by a cost of supply study.

4.2. MCLM utilised the revised COS study model developed by Sustainable Energy Africa (SEA) and other stakeholders to determine its revenue requirements for the 2026/27 financial year and to apportion the costs

required to service each customer class in a fair and equitable manner. The study diligently follows the NERSA COS framework and utilises the latest available audited data, which is based on the 2024/25 financial year

4.3.

4.4. below details the five steps considered in determining the COS study.

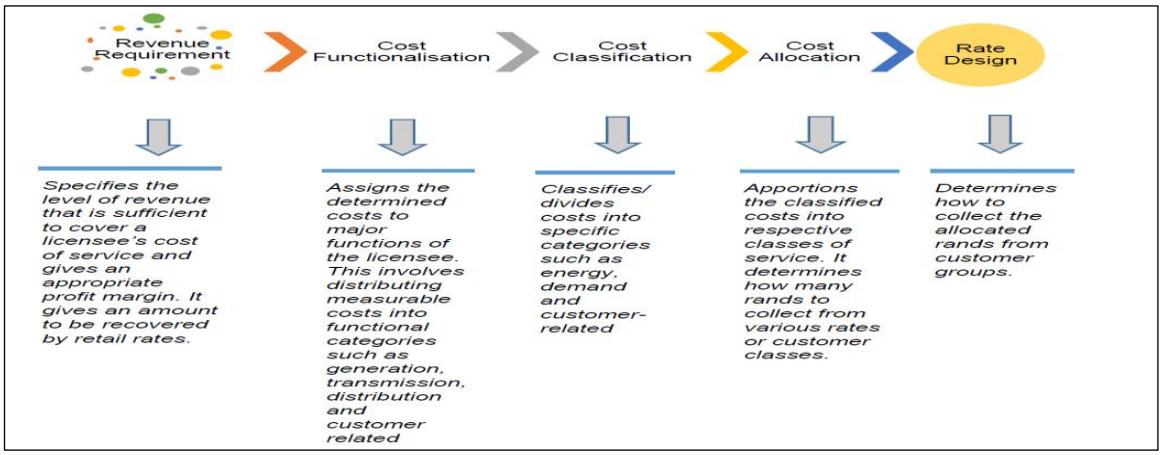


Figure 1: Five steps of COS

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

Revenue Requirement

4.6. The municipality applied for a total revenue requirement of R2 439 663 741 for the electricity undertaking. After assessing the submitted Cost of Supply study, D-Forms, and supporting financial information, the Energy Regulator determined allowable costs amounting to R2 009 146 921, as detailed in Table 5 below.

Table 5: Revenue Requirement components

	Total cost (R)					
Revenue Requirement components	Wires	Retail	Total	NERSA Adjustment	NERSA Recommended	% of Total
Allowable costs	**578 780 994**	**1 746 788 999**	**2 325 569 993**	**(316 423 072)**	**2 009 146 921**	**100%**
Energy purchases from Eskom - net of cost of losses	-	1 363 394 859	1 363 394 859		1 363 394 859	68%
Energy purchases from Eskom - cost of losses	143 966 206	57 509 513	201 475 719		201 475 719	10%
Other energy purchases	-	-	-			0%
Capital expenditure	-	-	-			0%
Operational expenditure (incl. Depreciation)	407 253 789	368 449 025	775 702 814	(310 423 901)	465 278 913	23%
Other revenues	-	(125 744 827)	(125 744 827)		(125 744 827)	-6%
Surplus	27 561 000	83 180 429	110 741 428	(5 999 171)	104 742 257	5%
Not allowable costs	**52 050 802**	**62 042 945**	**114 093 748**			
Cost of losses disallowed	52 050 802	62 042 945	114 093 748			
TOTAL COSTS	**630 831 797**	**1 808 831 944**	**2 439 663 741**			

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

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

Bulk purchases

4.9. The municipality applied for energy purchase costs amounting to R1 564 870 578. The applied amount comprises R1 363 394 859 for bulk energy purchases from Eskom, net of energy losses, and R201 475 719 relating to the cost of energy losses.

4.10. The Energy Regulator assessed the energy purchase costs against the approved Eskom bulk tariffs, the submitted consumption volumes, and the reported loss levels. The assessment indicated that a portion of the energy loss costs was attributable to losses that exceeded prudent benchmark levels and, therefore, were not fully recoverable from customers through tariffs.

4.11. To arrive at the 2026/27 estimate, the 2025/26 amount was adjusted by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

Operational Expenditure

4.12. The municipality applied for a total operational expenditure amounting to R775 702 814 for the 2026/27 financial year. Following the prudency assessment undertaken by the Energy Regulator, adjustments amounting to R310 423 901 were made, resulting in recommended operational expenditure of R465 278 913, as reflected in Table 6 below.

Table 6: Operating expenditures

Cost drivers	Units	Applied opex 2026/27	Adjustments	Approved Opex 2026/27
General costs and other	**R**	**198 984 385**	**(2 896 991)**	**196 087 394**
Salaries and allowances	R	67 135 358		67 135 358
Contracted Services	R	62 746 476		62 746 476
FBE paid to Eskom	R	2 896 991	(2 896 991)	
Materials and supplies	R	3 506 268		3 506 268
Current year depreciation	R	62 699 292		62 699 292
Shared OPEX	**R**	**576 718 429**	**(307 526 910)**	**269 191 519**
Baddebts		96 119 611		96 119 611
Charges from other Municipal Departments	R	461 936 238	(307 526 910)	154 409 328
General Expenses (Street lighting, Insurance premium, Oil and fuel)	R	18 662 580		18 662 580
Total Opex	**R**	**775 702 814**	**(310 423 901)**	**465 278 913**

General Costs and Other

4.13. The municipality applied for costs under general costs and other amounting to R198 984 385. An adjustment of R2 896 991 relating to Free Basic Electricity (FBE) paid to Eskom was made, resulting in recommended costs of R196 087 394. The Energy Regulator noted that the FBE costs are funded through government grants and should therefore not be recovered from electricity tariffs. Consequently, the amount was disallowed from the allowable cost base.

Shared Operating Expenditure

4.14. The municipality applied for shared operating expenditure amounting to R576 718 429. Following an assessment of the allocation methodology and the supporting information provided, the Energy Regulator made adjustments totaling R307 526 910, resulting in a recommended shared operating expenditure of R269 191 519.

4.15. The adjustment primarily relates to charges from other municipal departments, amounting to R461 936 238. The Energy Regulator found that a portion of these costs could not be adequately supported and justified for recovery through electricity tariffs.

4.16. Accordingly, only R154 409 328, relating to charges from other municipal departments, was considered prudent and allowed in determining the revenue requirement.

Salaries and Allowances

4.17. The municipality applied for salaries and allowances amounting to R67 135 358. The Energy Regulator assessed the costs against supporting financial information and found the costs to be reasonable and prudently incurred. The full amount was therefore allowed.

Contracted Services

4.18. The municipality applied for contracted services amounting to R62 746 476. The Energy Regulator found the expenditure to be adequately supported and directly attributable to the electricity undertaking. Accordingly, the full amount was allowed.

Materials and Supplies

4.19. An amount of R3 506 268 was applied for under materials and supplies. The Energy Regulator considered the expenditure prudent and necessary for the operation and maintenance of the electricity network and therefore allowed the full amount.

Depreciation

4.20. The municipality applied for the current year’s depreciation amounting to

R62 699 292. The Energy Regulator assessed the depreciation costs against the asset base and supporting financial information and found the costs to be reasonable. The full amount was therefore allowed.

Bad Debts

4.21. The municipality applied for bad debts amounting to R96 119 611. The Energy Regulator considered the costs reasonable and directly related to the electricity business and therefore allowed the full amount.

General Expenses

4.22. The municipality applied for general expenses amounting to R18 662 580, primarily for street lighting, insurance premiums, and oil and fuel. The Energy Regulator found the expenditure to be prudently incurred and allowed the full amount.

Conclusion

4.23. After consideration of the municipality's application and supporting information, the Energy Regulator approved operational expenditure amounting to R465 278 913. The approved costs are considered prudent, efficient and reasonably required for the rendering of electricity services.

Surplus

4.24. MCLM applied for a surplus amounting to R110 741 428. After eliminating all inefficiencies, the surplus amounts to R104 742 257, representing 5% of total costs for the 2026/27 financial year, as reflected in Table 5 above.

4.25. The Energy Regulator assessed the applied surplus against the municipality's financial performance, operational requirements, cost-reflectivity principles and the affordability impact on consumers. Following the assessment, an adjustment amounting to R5 999 171 was made, resulting in an approved surplus of R104 742 257.

4.26. The approved surplus represents approximately 5% of the allowable revenue requirement and is considered reasonable to support the sustainability of the electricity undertaking while balancing customer affordability considerations.

4.27. The Energy Regulator notes that maintaining an appropriate level of surplus is necessary to mitigate financial and operational risks associated with the

electricity business. An inadequate surplus may expose the municipality to risks such as:

4.27.1. insufficient cash flow to fund operations and maintenance activities;

4.27.2. deterioration of network infrastructure due to underinvestment;

4.27.3. increased reliance on borrowing or cross-subsidisation from other municipal functions;

4.27.4. inability to respond effectively to network failures and emergency repairs; and

4.27.5. weakening of the long-term financial sustainability of the electricity undertaking.

4.28. Accordingly, the approved surplus is considered prudent to enable the municipality to maintain operational stability, support efficient service delivery and reduce the risk of future financial distress within the electricity business.

4.29. In recommending a surplus, NERSA relied on section 15(1)(a) of the Electricity Regulation Act, which provides that tariffs must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return. In applying this provision, together with the Cost of Supply (COS) methodology, NERSA is required to ensure that MCLM recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation.

4.30. NERSA is satisfied that the surplus applied for by MCLM is reasonable and supports the financial sustainability of the electricity business, even though it is below the 10–20% target range prescribed in the Cost of Supply (CoS) Methodology. The municipality is encouraged to strengthen revenue collection, reduce energy losses, manage expenditure efficiently, and progressively align tariffs with the cost of supply to improve the surplus over time.

4.31. A core regulatory requirement under the COS Framework is that only efficient and prudently incurred costs may be passed through to tariffs. In compliance with this principle:

4.32. It is therefore recommended that the Energy Regulator approve an allowable revenue of R2 009 146 920, as set out in Table 5 above. This revenue will be used in the subsequent steps of cost functionalisation, classification, allocation, and rate setting. These steps have been verified to

be consistent with the approved revenue requirement and are discussed below.

Cost Functionalisation

4.33. The licensee has categorised its revenue requirements of R2 009 146 920 into two main functions: wires and retail business, which is in line with the NERSA COS framework as demonstrated in Figure 2 below. These costs align with revenue requirements upon verification.

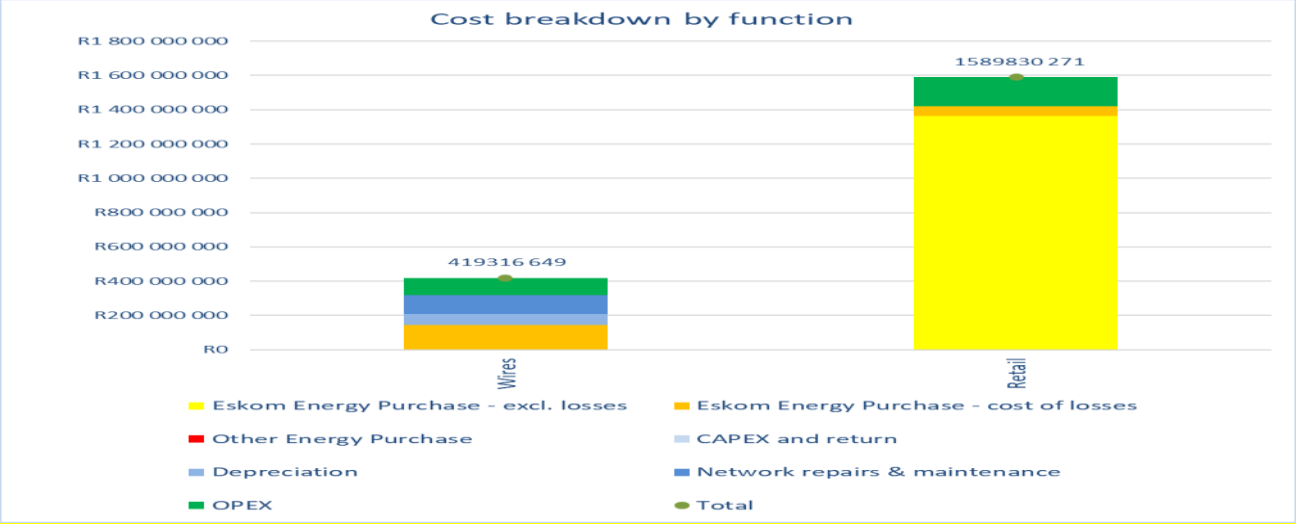


Figure 2: Cost breakdown by functions

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

Cost Classification

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

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

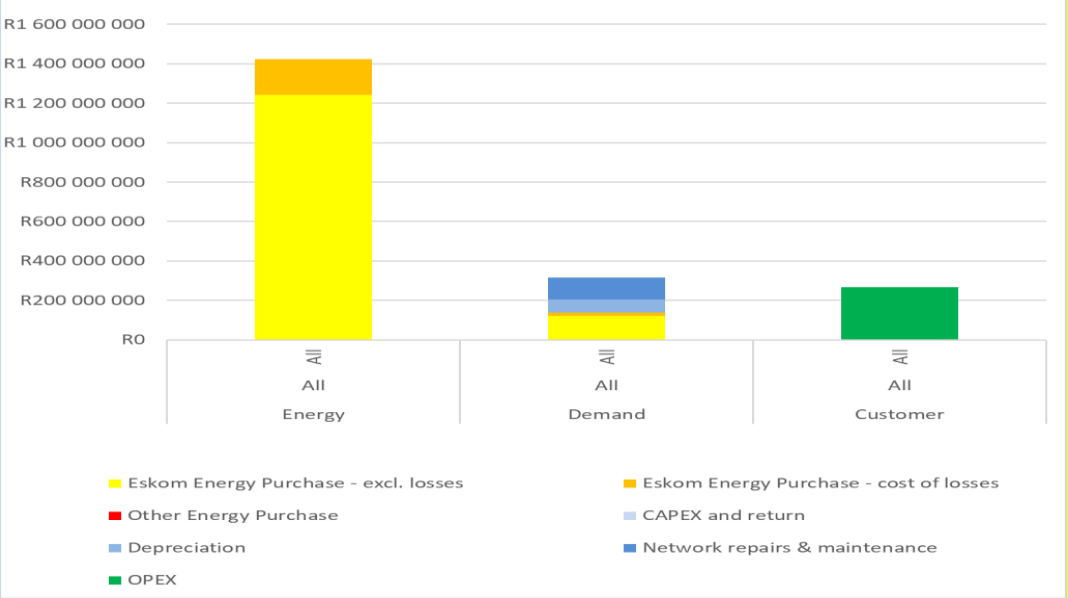


Figure 3: Cost classification

Cost Allocation

4.37. In this step, the licensee's revenue requirements are allocated across customer categories, in line with the NERSA COS framework, and the costs align with revenue requirements, cost functionalization, and cost classification upon verification.

4.38. All shared municipal costs were ring fenced and strictly allocated to the electricity distribution function using the D Form cost allocation methodology, consistent with COS requirements. Verification against the Trial Balance and the Audited AFS confirmed that only electricity related costs were included in the revenue requirement.

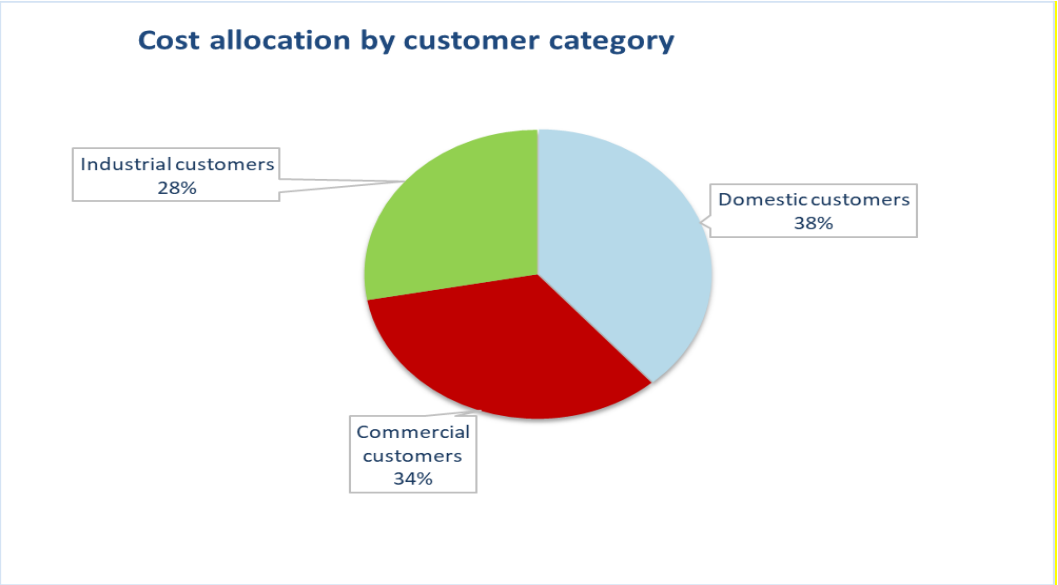


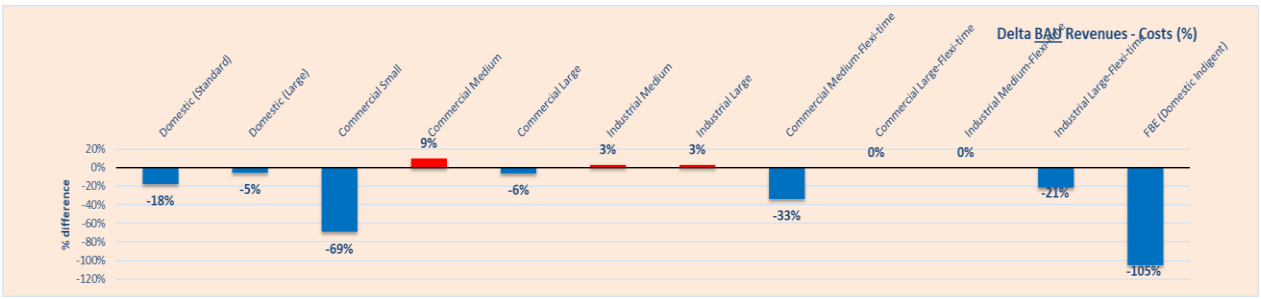
Figure 4: Allocation of costs between customer categories

4.39. The domestic customer category accounts for the largest share of allocated costs at 38%, followed by commercial customers at 34%, and industrial customers at 28%. The variation in cost allocation across customer categories is primarily driven by differences in supply characteristics, including connection voltage levels, load factors, coincidence factors, and average consumption patterns.

Rate Design

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

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



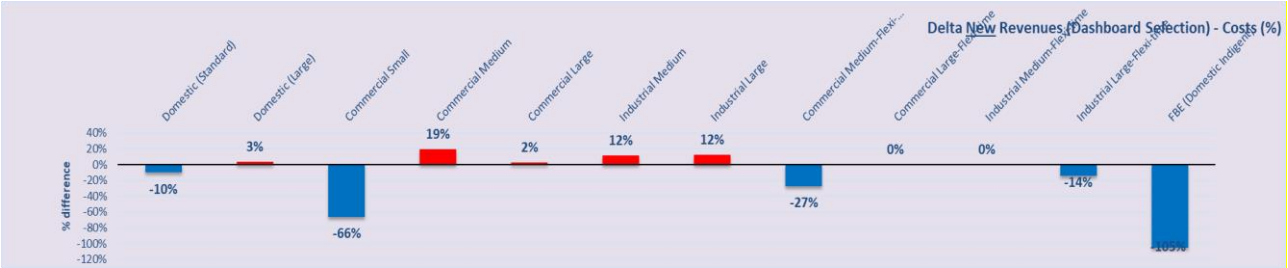


Figure 5: Revenue recovery by customer category

4.42. The licensee is proposing structural changes to all domestic tariffs and the Commercial Small tariff by converting them from Inclining Block Tariffs (IBT) to flat-rate tariffs. The impact analysis conducted indicates that customers are expected to benefit from the proposed restructuring.

CONCLUSION ON THE COS STUDY

4.43. The COS study results suggest 27,4% before taking out inefficiency. However, after all inefficiencies were removed, the study recommended 16,4%, as indicated in Figure 6 below. The municipality is proposing an average increase of 9,01% to review its tariffs for the 2026/27 financial year. Some of the considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to stimulate demand, the ability to cover Eskom's bulk electricity costs and ensure customer affordability, and the need to maintain long-term financial stability.

Results BEFORE phasing

	BAU	CTS (net of subsidies)	New rates (Dashboard selection)
Total revenue forecast (with new rates)	1 726 223 687	2 009 146 921	**1 881 756 441**
		Delta =	- 127 390 480
Average increase in rates	**9,01%**		
Average increase in rates to reach overall cost-reflectivity	16,4%		
Share of total cost recovered with the new rates	**93,7%**		
Share of total costs recovered (existing rates)	**85,9%**		

Figure 6: Rate Design

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Domestic or Residential Customer receiving single-phase low voltage electricity supply with up to 63A Circuit Breaker and not registered as indigent in Mogale City Indigent Register. Customer who select Prepayment billing option will not be charged a Service Charge.						
3. DOMESTIC STANDARD	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed tariffs**	**Recommended 2026/27 tariffs**	**2026/27 Recommended %increase**	**Analysis and key findings**
Energy charge c/kWh	251,00	12,20%	281,62	273,62	9,01%	Increase of 9,01% ensures protection of low-to consumption households, consistent with affordability objectives. The alignment of higher block tariffs also simplifies the tariff structure, although it may reduce municipal revenue recovery from higher-consuming customers.
Service Charge R/Month	414,00	12,20%	464,51	451,30	9,01%	

Commercial premise receiving single-phase or three phase low voltage electricity supply with Circuit Breaker rated up to 150A. (E.g., small convenient shops, barbershop, small libraries etc). Customer who select Prepayment billing option will not be charged a Service Charge.						
4. Commercial Small	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed tariffs**	**Recommended 2026/27 tariffs**	**2026/27 Recommended %increase**	**Analysis and key findings**
Energy charge c/kWh	251,00	12,20%	281,62	273,62	9,01%	The recommended tariffs increase Energy charge and the service charge. This improves affordability for higher-consuming commercial small customers and simplifies the tariff structure, although the increased service charge and reduced higher-block tariffs may affect revenue recovery.
Service Charge R/month	414,00	12,20%	464,51	451,30	9,01%	
Commercial premise receiving Three-Phase electricity supply with a capacity of more than 500kVA. (Commercial premises include Resellers, retail facilities, institutions providing public services like education and training, health services, Accommodation, libraries, recreational facilities, non-government or government offices and the likes). Customer premises that have manufacturing, processing, assembling or facilities of complex engineering nature must be classified as Industrial customers. The tariff is also suitable for Resellers at Commercial centres or residential complexes depending on the supply size.						
5. COMMERCIAL LARGE Three Phase	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed tariffs**	**Recommended 2026/27 tariffs**	**2026/27 Recommended %increase**	**Analysis and key findings**
Service Charge R/month	5625,00	12,20%	6311,25	6131,81	9,01%	The recommended tariffs moderate the proposed increases for commercial large customers by reducing all charges from 12,20% to 9,01%. This lessens the financial impact on businesses while supporting municipal revenue recovery and cost reflectivity.
Energy Charge c/kWh	203,13	12,20%	227,91	221,43	9,01%	
Demand Charge R/KVA	95,90	12,20%	107,60	104,54	9,01%	
Capacity Charge R/KVA	47,62	12,20%	53,43	51,91	9,01%	

Commercial premise receiving Three-Phase electricity supply with a capacity of up to 500kVA. (Commercial premises include Resellers, institutions providing public services like education and training, health services, Accommodation, libraries, recreational facilities, non-government or government offices and the likes). Customer premises that have manufacturing, processing, assembling or facilities of complex engineering nature must be classified as Industrial customers. The tariff is also suitable for Resellers at Commercial centres or residential complexes depending on the supply size.						
6. COMMERCIAL MEDIUM	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed tariffs**	**Recommended 2026/27 tariffs**	**2026/27 Recommended %increase**	**Analysis and key findings**
Service Charge R/month	*3000.00*	12,20%	3366,00	3270,30	9,01%	The recommended tariffs reduce the proposed increases from 12,20% to 9,01% across all charges for commercial medium customers. This moderates the financial impact on businesses while supporting municipal cost recovery and financial sustainability.
Energy Charge c/kWh	*267,12*	12,20%	299,71	291,19	9,01%	
Demand Charge R/KVA	*59,49*	12,20%	66,75	64,85	9,01%	
Capacity Charge R/KVA	47,54	12,20%	53,34	51,82	9,01%	

Industrial premise receiving Three-Phase electricity supply with a capacity between 100kVA - 600kVA and the customer does not qualify as neither domestic nor Commercial category and has services involving services like manufacturing, processing (including food or agro-processing), assembling or facilities of complex engineering nature.						
7. Industrial Medium	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed tariffs**	**Recommended 2026/27 tariffs**	**2026/27 Recommended %increase**	**Analysis and key findings**
Service Charge R/month	3360,00	12,20%	3769,92	3662,74	9,01%	The recommended tariffs reduce the proposed increases from 12,20% to 9,01% across all charges for industrial medium customers. This moderates the financial impact on industrial consumers while supporting municipal revenue recovery and financial sustainability.
Energy Charge c/kWh	242,00	12,20%	271,52	263,80	9,01%	
Demand Charge R/KVA	95,90	12,20%	107,60	104,54	9,01%	
Capacity Charge R/KVA	47,62	12,20%	53,43	51,91	9,01%	
Industrial premise receiving Three-Phase electricity supply with a capacity of over 600kVA and the customer does not qualify as neither domestic nor Commercial category and has services involving services like manufacturing, processing (including food or agro-processing), assembling or facilities of complex engineering operations.						
8. Industrial Large	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed tariffs**	**Recommended 2026/27 tariffs**	**2026/27 Recommended %increase**	**Analysis and key findings**
Service Charge R/month	14455,28	12,20%	16218,83	15757,71	9,01%	The recommended tariffs reduce the proposed increases from 12,20% to 9,01% across all charges for industrial large customers. This moderates the financial impact on large industrial consumers while supporting municipal cost recovery and financial sustainability.
Energy Charge c/kWh	203,00	12,20%	227,77	221,29	9,01%	
Demand Charge R/KVA	153,20	12,20%	171,89	167,01	9,01%	
Capacity Charge R/KVA	47,54	12,20%	53,34	51,82	9,01%	

Time of Use Tariff for Commercial premise receiving Three-Phase electricity supply with a capacity of up to 500kVA. (Commercial premises include Resellers, institutions providing public services like education and training, health services, Accommodation, libraries, recreational facilities, non-government or government offices and the likes). Customer premises that have manufacturing, processing, assembling or facilities of complex engineering nature must be classified as Industrial customer. The tariff is also suitable for Resellers at Commercial complex or centre.

9. Commercial Medium - FlexiTime	2024/25 Approved Tariffs	2025/26 Proposed % Increase	2025/26 Proposed tariffs	Recommended 2025/26 tariffs	2025/26 Recommended %increase	Analysis and key findings
Charge per account R/month	3360,00	12,20%	3769,92	3662,74	9,01%	The recommended tariffs reduce the proposed increases from 12,20% to 9,01% across all charges for Commercial Medium FlexiTime customers. This moderates the financial impact on businesses while maintaining time-of-use pricing signals and supporting municipal revenue recovery.
High Season off peak R/kWh	1,2232	12,20%	1,3724	1,3334	9,01%	
High Season standard R/kWh	2,6577	12,20%	2,9819	2,8971	9,01%	
High Season peak R/kWh	9,0136	12,20%	10,1133	9,8258	9,01%	
Low Season off peak R/kWh	1,2010	12,20%	1,3475	1,3092	9,01%	
Low Season Standard R/kWh	1,6881	12,20%	1,8941	1,8402	9,01%	
Low Season peak R/kWh	2,6667	12,20%	2,9920	2,9070	9,01%	
Demand Charge (R/KVA)	95,73	12,20%	107,41	104,35	9,01%	
Capacity charge R/kVA	47,54	12,20%	53,34	51,82	9,01%	

Time of Use Tariff for Commercial premise receiving Three-Phase electricity supply with a capacity of more than 500kVA. (Commercial premises include Resellers, retail facilities, institutions providing public services like education and training, health services, Accommodation, libraries, recreational facilities, non-government or government offices and the likes). Customer premises that have manufacturing, processing, assembling or facilities of complex engineering nature must be classified as Industrial customers. The tariff is also suitable for Resellers at Commercial complex or centre.						
10. Commercial Large - FlexiTime	**2024/25 Approved Tariffs**	**2025/26 Proposed % Increase**	**2025/26 Proposed tariffs**	**Recommended 2025/26 tariffs**	**2025/26 Recommended %increase**	**Analysis and key findings**
Charge per account R/month	13185,02	12,20%	14793,59	14372,99	9,01%	The recommended tariffs reduce the proposed increases from 12,20% to 9,01% across all charges for Commercial Large FlexiTime customers. This moderates the financial impact on large businesses while maintaining time-of-use pricing signals and supporting municipal revenue recovery and cost reflectivity.
High Season off peak R/kWh	1,2800	12,20%	1,4361	1,3953	9,01%	
High Season standard R/kWh	2,6528	12,20%	2,9765	2,8919	9,01%	
High Season peak R/kWh	9,5718	12,20%	10,7396	10,4342	9,01%	
Low Season off peak R/kWh	1,3022	12,20%	1,4611	1,4195	9,01%	
Low Season Standard R/kWh	1,7564	12,20%	1,9707	1,9147	9,01%	
Low Season peak R/kWh	3,0141	12,20%	3,3818	3,2857	9,01%	
Demand Charge (R/KVA)	95,73	12,20%	107,41	104,35	9,01%	
Capacity charge R/kVA	47,54	12,20%	53,34	51,82	9,01%	
Time of Use tariff for Industrial premise receiving Three-Phase electricity supply with a capacity between 100kVA - 500kVA and the customer does not qualify as neither domestic nor Commercial category and has services involving services like manufacturing, processing (including food or agro-processing), assembling or facilities of complex engineering nature must be classified as Industrial customers. The tariff is also suitable for Resellers at Industrial Hubs.						
11. Industrial Medium - FlexiTime	**2024/25 Approved Tariffs**	**2025/26 Proposed % Increase**	**2025/26 Proposed tariffs**	**Recommended 2025/26 tariffs**	**2025/26 Recommended %increase**	**Analysis and key findings**

Basic Charge R/month	3360	12,20%	3769,92	3662,74	9,01%	The recommended tariffs reduce the proposed increases from 12,20% to 9,01% across all charges for Industrial Medium FlexiTime customers. This moderates the financial impact on industrial consumers while maintaining time-of-use pricing signals and supporting municipal revenue recovery and cost reflectivity.
High Season off peak R/kwh	1,4896	12,20%	1,6714	1,6239	9,01%	
High Season standard R/kwh	2,9221	12,20%	3,2786	3,1853	9,01%	
High Season peak R/kwh	11,2386	12,20%	12,6097	12,2512	9,01%	
Low Season off peak R/kwh	1,3471	12,20%	1,5115	1,4685	9,01%	
Low Season Standard R/kwh	1,9266	12,20%	2,1617	2,1002	9,01%	
Low Season peak R/kwh	3,1446	12,20%	3,5283	3,4280	9,01%	
Demand Charge (R/KVA)	95,73	12,20%	107,41	104,35	9,01%	
Capacity charge R/kVA	47,54	12,20%	53,34	51,82	9,01%	

Time of Use tariff for Industrial premise receiving Three-Phase electricity supply with a capacity of over 600kVA and the customer does not qualify as neither domestic nor Commercial category and has services involving services like manufacturing, processing (including food or agro-processing), assembling or facilities of complex engineering operations. The tariff is also suitable for Resellers at Industrial Hubs.

12. Industrial Large - FlexiTime	2024/25 Approved Tariffs	2025/26 Proposed % Increase	2025/26 Proposed tariffs	Recommended 2025/26 tariffs	2025/26 Recommended %increase	Analysis and key findings
Basic Charge R/month	14422,00	12,20%	16181,48	15721,42	9,01%	The recommended tariffs reduce the proposed increases from 12,20% to 9,01% across all charges for Industrial Large FlexiTime customers. This moderates the financial impact on large industrial consumers while maintaining time-of-use pricing signals and
High Season off peak R/kwh	1,5220	12,20%	1,7077	1,6592	9,01%	
High Season standard R/kwh	2,8500	12,19%	3,1974	3,1065	9,01%	
High Season peak R/kwh	10,9597	12,20%	12,2968	11,9472	9,01%	

Low Season off peak R/kwh	1,3184	12,20%	1,4793	1,4372	9,01%	supporting municipal revenue recovery and cost reflectivity.
Low Season Standard R/kwh	1,8853	12,20%	2,1153	2,0552	9,01%	
Low Season peak R/kwh	3,0777	12,20%	3,4532	3,3550	9,01%	
Demand Charge (R/KVA)	134,28	12,20%	150,66	146,38	9,01%	
Capacity charge R/kVA	47,54	12,20%	53,34	51,82	9,01%	

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

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

End.