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

Matzikama Municipality

THE DECISION

At its meeting held on 8 May 2026, the Regulator Executive Committee (REC) considered Matzikama Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year, as set out in Section 6 from page 20 of the RfD document.

Based on the available information, public comments and the analysis performed, the REC, at its meeting held on 8 May 2026, decided:

1. to approve the tariffs that are based on the Cost Drivers as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;

2. to note the cost information submitted by the municipality;

3. that the municipality must submit, by 31 January 2027, an audited financial report accounting for all costs that have been noted, to enable the National Energy Regulator of South Africa to perform its independent verification audit; and

4. that the municipality must submit a specific, measurable, achievable, realistic and time-bound (SMART) energy loss reduction report on a quarterly basis, commencing from 30 September 2026, to enable NERSA to closely monitor the implementation thereof.

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ABBREVIATIONS AND ACRONYMS

COS	Cost of Supply
D-form	Distribution form
EPP	Electricity Pricing Policy for the South African Electricity Supply Industry, 2008
ERA	Electricity Regulation Act, 2006
ERTSA	Eskom Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IDP	Integrated Development Plan
IPP	Independent Power Producer
LED	Local Economic Development
MFMA	Municipal Finance Management Act, 2003
MM	Matzikama Municipality
MTREF	Medium-Term Revenue and Expenditure Framework
NERA	National Electricity Regulation Act, 2004
NERSA	National Energy Regulator of South Africa
NMD	Notified Maximum Demand
OPEX	Operating Expenditure
PAJA	Promotion of Administrative Justice Act, 2000
RCA	Regulatory Clearing Account
SSEG	Small-Scale Embedded Generation

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications on an annual basis, in accordance with its mandate to regulate prices and tariffs. Municipal tariffs must be approved by NERSA to be implemented on 1 July of each financial year.

1.2. Matzikama Municipality (MM) is situated in the Western Cape. The municipality's customer base is predominantly domestic, with this category accounting for 47.49% of total electricity sales, closely followed by manufacturing at 30.32%. MM provides qualifying indigent customers with 50 kWh of Free Basic Electricity (FBE) per month and maintains an indigent register. Details of the municipality's customer statistics are set out in Table 1 below.

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

Customer Categories	***MWh***	***% MWh***	***Customer Numbers***
Domestic (Prepaid)	22 981	39.18	8 325
Domestic (Conventional)	4 874	8.31	929
Manufacturing/Industrial	17 784	30.32	54
Commercial Prepaid	3 247	5.54	588
Commercial Conventional	6 424	10.95	283
Other Consumers	629	1.07	34
Street Lighting	1	0.00	0
Sold to other departments	2 720	4.64	28
TOTAL	**58 660**	**100**	**10 241**
Free Basic Electricity (FBE)	2 390	8.58	1 733

1.3. NERSA received MM's tariff application on 31 March 2026. The application is based on an existing Cost of Supply (COS) study, valid from the 2024/25 to the 2028/29 financial years.

1.4. MM implemented an 11.32% average price increase in the 2025/26 financial year and is applying for an average price increase of 8.00% for the FY2026/27.

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

1.6. For this application, the municipality confirmed that its council meeting had been held on 31 March 2026. The municipality submitted the council resolution and proof of customer consultation together with the tariff application on 31 March 2026.

1.7. NERSA followed its own public consultation process. On 31 March 2026, NERSA published MM's tariff application on its website, its various social media platforms, as

well as in national and local newspapers, to solicit written comments from affected parties by 21 April 2026.

1.8. NERSA's decision was made on 8 May 2026, taking into consideration 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 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) (MFMA).

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 NERSA 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 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.

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; and
- section 14(1)(d) of the ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

2.2.3. Municipalities distributing electricity do so under electricity distribution licences issued by NERSA and are therefore subject to the tariff approval framework established under the ERA.

2.3. Tariff Determination Principles under the ERA

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

2.3.2. Section 15(1) provides that the Energy Regulator:

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

2.3.3. These statutory requirements form the core legal principles 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 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 NERSA 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 of the EPP 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 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.

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

2.7. Judicial Oversight of the Tariff Approval Process

2.7.1. The municipal tariff approval process administered by NERSA was the subject of litigation in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620) before the High Court of South Africa (Gauteng Division, Pretoria).

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process for the FY2025/26 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 help ensure municipal tariffs are approved on time and in line with the law, the Court issued a structural interdict to guide the 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, considering the practical difficulties which arose as they relate 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 FY2026/27 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:

- Written notice of bulk tariffs must be given by 6 March 2026.
- Municipal tariff applications must be submitted by 31 March 2026.
- Public participation processes must be concluded by 21 April 2026.
- NERSA decisions must be published by 11 May 2026.

2.8.2. Municipal tariff approvals from the FY2027/28 shall comply with the following timelines:

- Written notice of bulk electricity tariffs must 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 decision document 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 comprising NERA, ERA, PAJA, EPP and the binding judicial directives issued by the High Court in AfriForum NPC v NERSA (Case No. 2025/137620).

2.9.2. The reasons stated in this document demonstrate how NERSA complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of MM, the assessment relied on the Distribution forms (D-forms) for the 2024/25 financial year submitted as part of the licensee's tariff application. The information contained in the D-forms was verified against the supporting source documents provided by the municipality, including the Trial Balance and Annual Financial Statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

3.2. MM's electricity business operated at a surplus margin of 18.55%[1] in the 2024/25 financial year, a significant upturn from a deficit position of 2.65% in the 2023/24 financial year. This positive shift reflects enhanced financial performance, driven primarily by a significant 18.96% increase in sales revenue over the period, coupled with total expenditure that increased substantially below revenue growth at 9.29% during the FY2024/25 reporting period. Another positive contributor to this robust position is the waiver of approximately R33.53 million in municipal debt by Eskom. The operation maintained at this surplus margin signals a degree of financial resilience.

3.3. Table 2 below shows that MM's energy losses improved from 16.72% in the 2023/24 financial year to 14.86% in the 2024/25 financial year. This signals that the loss-reduction plans that are being implemented are effective. Among other factors is the credit collection rate that increased over the period. The licensee submitted its energy loss reduction plan in the reporting period, and further monitoring is required to ensure continued improvements.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
Performance Indicator	**FY2023/24 (Approved)**	**2024/25 (Actuals)**
Percentage Surplus (Deficit): (%)	-2.65	18.55
Percentage Energy Losses: (%)	16.72	14.86

3.4. Based on the above information, the financial position of the municipality's electricity business is on an upward curve and remains sustainable, as evidenced by the strong operating surplus margin of 18.55%. This strengthening margin highlights increased strength in financial and operational sustainability. Continued expenditure control and efficiency improvements will be essential to maintain strengthened long-term financial sustainability and safeguard future margins.

3.5. Table 3 below provides a revenue impact analysis under two energy loss scenarios: actual (14.86%) and when reduced to 12%.

[1] Percentage Surplus Formula = (Revenue from Electricity Sales Less Total Expenditure) divided by Revenue from Electricity Sales

Table 3: Energy Losses vs Revenue Impact Analysis

Parameters	Current Position FY2024/25	Scenario 1: Losses at 12% (Extrapolated D-Form Info)	Scenario 2: Losses at 6% (Extrapolated D-Form Info)
Energy Losses	14.86%	12%	6%
Surplus / Deficit Margin	18.55%	19.87%	22.51%
Revenue Impact of Energy Losses	R40 771 091.00	R3 624 788.28	R11 217 940.15

3.5.1 Under the current scenario, with actual electricity losses of 14.86%, the licensee records an operating surplus of approximately R40.77 million, which translates to a surplus margin of 18.55%, based on approved D-form inputs. This is considered a stable surplus margin and suggests that the municipality can cover its operating costs.

3.5.2 Based on the scenario analysis one, should electricity losses be reduced to 12%, and assuming constant electricity purchases, operating costs, and tariff structures, total electricity sales revenue is projected to increase due to higher billable energy volumes. Under this scenario, the estimated revenue that could be recovered through loss reduction is estimated to increase by approximately R3.62 million, equivalent to a surplus margin of 19.87%, reflecting improved revenue retention relative to the current position.

3.5.3 Further reduction of energy losses to 6% are expected to strengthen the surplus position by a further R11.22 million, equivalent to a surplus margin of 22.51% subject to the sustainability and effectiveness of the implemented loss-reduction measures.

4. DETERMINATION OF MATZIKAMA MUNICIPALITY'S TARIFFS BASED ON THE COST OF SUPPLY ADJUSTED DATA

4.1. The municipality submitted its existing COS study in support of its tariff application approved in the 2026/27 financial year. The municipality's cost of supply study was inclusive of all requirements of NERSA's approved COS framework (i.e. Revenue Requirement, Costs Functionalisation, Costs Classification, Costs Allocation and Rate Setting).

4.2. Policy position 23 states that: *Electricity distributors shall undertake COS studies at least every five years, but at least when significant licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes. This must be done according to the approved NERSA standard to reflect changing costs and customer behaviour. The cost-of-service methodology used to derive tariffs must accompany applications to the regulator for changes to tariff structures.*

4.3. Section 18.7 of the Cost of Supply Framework approved by NERSA in October 2023 states that:

An adjustment index will be issued to licensees to allow them to submit the tariff applications, which will be used to determine the costs that must increase with CPI, purchase costs, and other OPEX. Where annual plans, such as repairs and maintenance, and CAPEX plans, have been assessed and approved by NERSA, these can be adjusted based on that.

4.4. In line with section 18.7 mentioned above, Table 4 below was developed, and the definitions of the columns are as follows:

i. Column 1: represents the budgeted FY2024/25 costs submitted by the licensee as part of the COS revenue requirement and approved for tariff determination in FY2024/25.

ii. Column 2: reflects the actual FY2024/25 financial performance of the licensee, sourced from the D-forms and aligned with the audited annual financial statements.

iii. Column 3.1: indicates the variance between the FY2024/25 approved budgeted figures and the audited actual values;

iv. Column 3.2: expresses the same variance in percentage terms. A positive variance indicates that actual expenditure exceeded the approved budget, while a negative variance indicates underspending relative to the budget. In the latter case, a clawback may be applicable, whereas in the former case, a disbursement may be considered, subject to regulatory assessment.

v. Column 4: reflects the FY2025/26 revenue and electricity volume figures used as the baseline for determining the FY2026/27 tariffs (since at the time of the approval, the figures were estimates) when the Energy Regulator considered and approved the 2026/27 COS base tariffs. Once the 2025/26 financial year concludes, the actual figures will be verified against the audited annual financial statements.

vi. Column 5: contains the licensee's submitted FY2026/27 budgeted figures, which are subject to reasonableness testing for purposes of tariff determination for the control period under review.

vii. Column 6: shows the percentage movement between the FY2025/26 baseline figures and the FY2026/27 budgeted amounts and forms the primary basis for proposed tariff adjustments for FY2026/27.

viii. Column 7: is intended for NERSA's recommended adjustments after considering the reasons, facts, and evidence that the licensee has provided to motivate/justify for the approval of the budgeted figures.

ix. Column 8: is intended to capture NERSA's recommended adjustments after considering the reasons, facts, and supporting evidence submitted by the licensee in support of the requested budget figures for the FY2026/27.

4.5. The Total Allowable Revenue of R279.84 million in column 4 is for the 2025/26 tariff review period and is the basis upon which the tariffs are adjusted for approval by the Energy Regulator, as shown in Table 4 below.

4.6. The FY2024/25 variance between budgeted and actual Total Allowable Revenue in column 3 reflects lower than planned expenditure, exponentially higher than the planned surplus position[2] and nominally higher than anticipated *other income* offsets, rather than regulatory adjustments. The municipality has incorporated these outcomes into the forward-looking FY2026/27 revenue requirement.

4.7. The COS study is valid for five years; however, municipalities need to reflect the adjustments in their cost drivers for each financial year under the existing COS (i.e. FY2026/27). NERSA utilised the budgeted figures to verify efficiencies and to ensure that municipalities do not over- or under-recover their operating overheads during the FY2026/27 tariff review process.

4.8. In determining the tariff adjustment applicable for the FY2026/27 financial year, the licensee submitted its FY2026/27 cost data, comprising budgeted operating costs plus surplus, as required by NERSA. The total budgeted revenue requirement submitted amounts to R247.08 million for the FY2026/27 tariff review process, with no energy loss adjustment applicable. This results in an 11.70% increase in allowable revenue

[2] Matzikama Municipality has historically operated at a loss, recording operational deficits largely attributable to historic pricing distortions, leading to its tariffs being set at low levels. This position remedied significantly at the implementation of its COS from FY2024/25.

for FY2026/27 relative to the previous financial period. The submitted application reflects a balance adjustment approach in its budgeting, attributing its strategy to prioritising the gradual achievement of revenue neutrality, as it has historically been under-recovering due to tariffs that have been kept low, coupled with historic pricing distortions, particularly where capacity-based charges and fixed charges were either misapplied or omitted.

Table 4: Revenue Requirement Components

Energy Balance	Unit	FY2024/25 Budgeted Costs (COS) (1)	FY2024/25 Actual Costs (2)	FY2024/25 Budget to Actual Variance (R) (3.1)	FY2024/25 Budget to Actual Variance (%) (3.2)	FY2025/26 Tariffs per submitted Municipal Budget (4)	FY2026/27 Budgeted Costs as per the Licensee (5)	FY2025/26 to FY2026/27 Variance (%) (6)	NERSA Adjustment (considering efficiencies) (7)	FY2026/27 Allowable Revenue (8)
Sales	kWh	67 157 879	58 377 935	-	-13%	45 984 704	45 984 704	0%	-	45 984 704
Eskom bulk purchases	kWh	79 335 178	68 902 124	-	-13%	69 591 145	51 194 345	-26%	-	51 194 345
Independent Power Producers Conventional	kWh		-	-		-	-		-	-
Independent Power Producers Renewable Energy	kWh		-	-		-	-		-	-
Self Generation	kWh		-	-		-	-		-	-
Other			-	-		-	-		-	-
Total Energy Requirements	**kWh**	**79 335 178**	**68 902 124**	**0**	**-13%**	**69 591 145**	**51 194 345**	**-26%**		**51 194 345**
Total Losses	kWh		10 524 189			23 606 441	5 209 641			5 209 641
Technical losses	kWh		8 268 255			8 350 937	5 209 641		-	5 209 641
Non-technical losses	kWh		-2 255 934			-15 255 504	0		-	0
Allowed losses	%		**12.00%**			**12.00%**	**10.18%**			**10.18%**
Total Energy losses	%		15.27%			33.92%	10.18%			10.18%
Cost Drivers										
Energy purchases from Eskom	Rand	146 427 381	149 729 878	3 302 497	2%	165 055 762	186 584 271	12%	-	186 584 271
Other energy purchases			-	-		-	-	0%	-	-
Total energy purchases	Rand	**146 427 381**	**149 729 878**	**3 302 497**	**2%**	**165 055 762**	**186 584 271**	**13%**	**0**	**186 584 271**
Cost of technical losses	Rand	17 571 286	17 967 585	396 300	2%	19 806 691	18 987 196	-4%	0	18 987 196
Non-Technical Losses	Rand	-	-	-	0%	-	-	0%	-	-
Other energy purchases	Rand					-	-		-	-
Capital expenditure	Rand	-	-	-	0%	-	-	0%	-	-
Operational expenditure (incl. Depreciation)	**Rand**	**39 298 366**	**29 291 266**	**(12 877 452)**	**-25%**	**29 499 680**	**49 647 068**	**68%**	**-**	**49 647 068**
General & Other	**Rand**	**21 500 588**	**18 107 183**	**(3 393 405)**	**-16%**	**22 515 187**	**31 460 249**	**40%**	**0**	**31 460 249**
Salaries and allowances	Rand	14 082 120	11 896 617	(2 185 503)	-16%	13 971 591	16 100 284	15%	-	16 100 284
Materials and supplies	Rand	3 654 665	2 545 581	(1 109 084)	-30%	3 673 547	4 339 264	18%	-	4 339 264
Contracted Services	Rand	1 598 847	703 865	(894 982)	-56%	1 231 651	2 527 308	105%	-	2 527 308
Salaries, wages and allowances (excl. Repairs and Maintenance)	Rand	-	1 236 752	1 236 752	#DIV/0!	1 311 070	0	-100%	-	0
Payments to consultants (operational work)	Rand	-	-	-		-			-	0
Eskom debts interest	Rand		-	-		-	-		-	-
Current year depreciation	Rand	2 164 956	1 724 368	(440 588)	-20%	2 327 328	8 493 393	265%	-	8 493 393
Repairs and Maintenance	Rand		0	0					0	
Other creditors interests	Rand	-	0	0	#DIV/0!	0	0	#DIV/0!	0	0
									0	
Shared OPEX	**Rand**	**56 914 016**	**11 184 083**	**(9 484 047)**	**-80%**	**6 984 493**	**18 186 819**	**160%**	**0**	**18 186 819**
Bad debts (Allowance for Impairment)	Rand	1 175 000	4 096 316	2 921 316	249%	0	0	#DIV/0!	-	0
FBE paid to Eskom	Rand		221 780	221 780	#DIV/0!	251 469	288 000	15%	-	288 000
Charges from other Municipal Departments	Rand	11 792 906	0	(11 792 906)	-100%	0	11 308 091	#DIV/0!	-	11 308 091
Operating Expenses	Rand			0						0
Administration charges	Rand		0	0						
Operating Leases	Rand		-	-		-	-		-	-
General expenses		**43 946 110**	**6 865 988**	**(834 237)**	**-84%**	**6 733 024**	**6 590 728**	**-2%**	**0**	**6 590 728**
1.Bulk NMD Charges	Rand		1 897 980	-	#DIV/0!	591 304	0	#DIV/0!	-	0
2. Fleet Costs / Fuel	Rand		483 598	-	#DIV/0!	816 234	0	#DIV/0!	-	0
3.Other Expenses	Rand	4 829 872	111 084	(4 718 788)	-98%	293 127	6 590 728	2148%	-	6 590 728
4. Prepaid Vendors	Rand		3 884 551	3 884 551	0%	4 421 901	0	-100%	-	0
5. Impairment Losses	Rand			0	#DIV/0!			#DIV/0!	-	0
6. Employee Related Cost / Internal Usage	Rand		316 787			383 710	0			
7. Safety Equipment and Protective Clothing	Rand		171 988			226 748	0			
	Rand		-			-			0	0
Total Expediture before surplus	Rand	203 297 033	196 988 729	(9 178 656)	-3%	214 362 133	255 218 535	**19%**	0	255 218 535
Surplus	Rand	12 197 822	40 771 091	28 573 269	234%	110 881 113	-3 390 059	**-103%**	-	-3 390 059
Total Expenditure including Surplus	**Rand**	**215 494 855**	**237 759 821**	**19 394 613**	**10%**	**325 243 245**	**251 828 476**	**-23%**	**-**	**251 828 476**
Other Income	Rand	**-44 674 865**	**-41 185 676**	**3 489 189**	**0%**	**-45 404 706**	**-4 744 664**	**-90%**	**0**	**-4 744 664**
5. Other Revenue - Illegal Connections	Rand		-	-		-	-		-	-
Total Allowable Revenue	**Rand**	**170 819 990**	**196 574 145**	**19 394 613**	**15%**	**279 838 539**	**247 083 812**	**-12%**	**-**	**247 083 812**
Increase Required							***8.00%***			***8.00%***

4.9. It is important to test the efficiency and prudency of the costs in the FY2025/26, as this represents the most recently considered revenue in support of the approved tariffs during this period. This forms the basis on which costs for the FY2026/27 have been projected, using assumptions to calculate revenue requirements for that year.

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

Bulk Purchases

4.11. For the 2026/27 financial year, the licensee has applied for a bulk purchase expenditure of R186.58 million, which accounts for 82% of total costs inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices in the 2024/25 financial year.

4.12. To arrive at the FY2026/27 estimate, the licensee projected the full-year amount for the FY2025/26 and then estimated that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.13. Analysed Eskom bills showed no Notified Maximum Demand (NMD) exceedance penalties had been charged. Furthermore, the municipality did not include the Eskom interest charges on the outstanding account. All verifications have been satisfactory to NERSA, and therefore, this cost has been approved as applied for.

Operating Expenditure (including depreciation)

4.14. The licensee seeks an Operational Expenditure of R49.65 million for the 2026/27 financial year, inclusive of depreciation. This represents 20% of the Total Costs, and reflects a substantial upward movement from R29.50 million in the 2025/26 financial year, equating to a year-on-year increase of 68.30%. The licensee cited a balanced adjustment approach in its budgeting, prioritising the gradual achievement of revenue neutrality, as it has historically been under-recovering due to tariffs that have been kept low. Notwithstanding, it is forecasting a sharp increase in its depreciation provisions, as large assets have been capitalised in line with its approved capital projects for the asset infrastructure revamp plan.

4.15. The licensee's depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The asset base is valued at approximately R81 million as at FY2024/25, as reported in its D-forms and verified against its audited AFS and supporting financial information. The resulting depreciation and amortization provisions amounted to R1.7 million in FY2024/25, R2.3 million in FY2025/26 and projected at R8.4 million for the 2026/27 financial year.

4.16. The approach taken by the licensee is satisfactory to NERSA for forecasting operational expenditure. As a result, this cost has been approved as applied for.

Surplus

4.17. The licensee is projecting a dramatic deficit position of R3.90 million, which is based on a negative 1% return on OPEX including bulk purchases, and significantly decreased by 103% from the previous year relative to Total Expenditure. This outcome is driven by a combination of conservative tariff adjustments, rising cost demands, and a deliberate decision to avoid short-term over-recovery and to progressively correct historical under-recovery. Notably, the projected deficit is partially offset by a forecast of exceptionally high *other income*, which provides short-term financial support and a buffer to the electricity function.

4.18. The surplus position represents the critical financial buffer against several risks, allowing the municipality to maintain service delivery without resorting to emergency borrowing. In the case of its deficit position, MM's cumulative surplus reserves are expected to insulate the municipality from a liquidity risk in the intervening period.

4.19. From a regulatory and financial governance perspective, the projected deficit is consistent with prudency and going-concern principles.

4.20. NERSA is of the view that the return applied for by the licensee is reasonable to keep the licensee just about sustainable, though it falls below the 10-20% target range as determined in the COS Methodology. The deficit position complies with the applicable principles, and it is justified in the manner in which MM manages the risks associated with its service delivery. Thus, it is NERSA's decision to allow the revenue requirement as applied for.

Conclusion on Costs to Serve

4.21. While the COS study outcome reflected an average tariff increase of 190% for the licensee to achieve full cost reflectivity, the municipality adopted a multi-year phase-in approach to implement tariff increases below the COS outcomes. Some of the considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to drive the demand for its electricity services.

4.22. Significantly higher tariffs could negatively impact the licensee by reducing customer demand and sales. The licensee also considered its ability to service its Eskom account and the broader affordability impact on customers in determining the pace of its tariff adjustments.

4.23. This approach will help protect the municipality's revenue base and support its financial sustainability, as required by legislation.

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ii. Customers who were incorrectly charged on the 20 Amp tariff without fixed charges and have to move to the 20 Amp tariff with fixed charges will experience high increases.
iii. Customers who were on the pre-paid >20 Amp where the basic charge was incorrectly charged this year will experience an increase generally above the average.
iv. All other consumers will experience less than the average if they have high levels of consumption with low capacity and more than the average if they have high capacity and low levels of consumption.

6.1.6. A similar consumption-capacity relationship applies to commercial customers. Businesses with high electricity usage relative to their connection capacity generally benefit from below average increases, while those with high capacity but lower consumption experience above average increases.

6.1.7. Overall, from a financial sustainability perspective, approval of the tariff application would generate an additional R 5.63 million in revenue, significantly strengthening Matzikama's ability to recover costs, manage operating pressures, and meet its bulk electricity purchase obligations to Eskom. Rejection of the application would leave this revenue shortfall unresolved, leading to under-recovery, operating losses, and an inability to fully service bulk supply accounts. In such a scenario, the municipality risks financial distress and the need for more severe tariff adjustments in future years.

Municipal Impact Analysis

6.1.8. Table 6 below illustrates the municipal impact in the event of either approval or rejection of its application.

Table 6: Municipal Impact

Application Item	Assessment
Profile	Sparsely populated with high network cost structure per customer.
Proposed Increase	8.00%
Cost of Supply Results	190%
Customer Impact	Any large increase is unsustainable across energy consumer groups.
Revenue Impact (Approved)	Will have little impact on revenue sustainability, with the wide under-recovery gap still persistent.
Revenue Impact (Rejected)	Rejection materially weakens revenue sustainability and raises medium-term financial risk for Matzikama.
Regulatory Considerations	Current tariff model requires subsidy or structural reform, which the municipality is gradually addressing.

Clawback / Disbursement Mechanism

6.1.9. It is important to note that currently, there is no formal Regulatory Clearing Account (RCA) mechanism for municipalities. Although the FY2024/25 tariffs were set to recover costs based on approved forecasts, the higher actual expenditure resulted in a higher allowable revenue outcome in the year under review. Accordingly, (i) in the absence of a clawback or disbursement mechanism, the FY2024/25 over-recovery cannot be automatically disbursed; and (ii) the impact is addressed through forward-looking tariff determinations, subject to prudency, affordability, and actual cash collection assessments. The proposed 8.00% tariff increase is therefore forward-looking, and not retrospective, as discussed in section 4.6 above.

6.2. **TARIFF ANALYSIS**

1. Availability Charge - Residential	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
	c/kWh				
Availability Charge R/POS/month)	262.27	12.69%	295.53	295.53	12.69%

2. Low Domestic - Indigent Prepaid, 20 Amps	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	252.11	8.00%	272.28	272.28	8.00%
Block 2 (51 - 250 kWh)	252.11	8.00%	272.28	272.28	8.00%
Block 3 (251 - 600kWh)	320.29	8.00%	345.91	345.91	8.00%
Block 4 (>600 kWh)	414.69	8.00%	447.86	447.86	8.00%

3. Domestic - Indigent Prepaid, 20 Amps, 1 Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	266.94	8.00%	288.29	288.29	8.00%
Block 2 (51 - 250 kWh)	266.94	8.00%	288.29	288.29	8.00%
Block 3 (251 - 600kWh)	371.29	8.00%	400.99	400.99	8.00%
Block 4 (>600 kWh)	445.06	8.00%	480.66	480.66	8.00%

4. Domestic - Prepaid, >20 Amp / Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	249.79	18.00%	291.77	291.77	18.00%
Block 2 (51 - 250 kWh)	269.08	10.00%	291.77	291.77	10.00%
Block 3 (251 - 600kWh)	303.86	-2.21%	291.77	291.77	-2.21%
Block 4 (>600 kWh)	328.46	-8.64%	291.77	291.77	-8.64%
Basic Monthly Charge per Meter (R/POS/month)	4.48	1114.64%	54.45	54.45	1114.64%
Capacity Charge (R/A/p/m)	4.48	62%	7.26	7.26	62%
Average Tariff Impact		*-0.62%*	*291.77*		

5. Domestic - Conventional, 1 Phase >20 Amp / Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	245.44	18.87%	291.77	291.77	18.87%
Block 2 (51 - 250 kWh)	264.13	10.46%	291.77	291.77	10.46%
Block 3 (251 - 600kWh)	298.36	-2.21%	291.77	291.77	-2.21%
Block 4 (>600 kWh)	319.37	-8.64%	291.77	291.77	-8.64%
Basic Monthly Charge per Meter (R/POS/month)	194.26	-57.95%	81.68	81.68	-57.95%
Capacity Charge (R/A/p/m)	4.48	62.00%	7.26	7.26	62.00%
Average Tariff Impact		*1.50%*	*291.77*		

6. Domestic - Conventional, 3 Phase >20 Amp / Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	245.44	18.87%	291.77	291.77	18.87%
Block 2 (51 - 250 kWh)	264.13	10.46%	291.77	291.77	10.46%
Block 3 (251 - 600kWh)	298.36	-2.21%	291.77	291.77	-2.21%
Block 4 (>600 kWh)	319.37	8.00%	291.77	291.77	8.00%
Basic Monthly Charge per meter (R/POS/month)	224.68	-48.19%	116.41	116.41	-48.19%
Capacity Charge (R/A/p/m)	4.48	62.00%	7.26	7.26	62.00%
Average Tariff Impact		*1.50%*	*291.77*		

7. Availability Charge - Commercial	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
	c/kWh				
Availability Charge R/POS/month)	1,156.77	-8.03%	1,063.93	1,063.93	-8.03%

8. Commercial - Prepaid, 1 Phase >20 Amp / Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
	c/kWh				
Energy Charge: c/kWh	389.52	0%	Discontinued	Discontinued	0%

9. Commercial - Prepaid, Conventional 1 Phase >20 Amp / Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
	c/kWh				
Basic Monthly Charge per Meter: (R/POS/m)	320.46	-74.51%	81.68	81.68	-74.51%
Energy Charge (R/kWh)	3.0554	-3.77%	2.9401	2.9401	-3.77%
Capacity Charge (R/A/p/m)	18.20	62.00%	29.49	29.49	62.00%

10. Commercial - Conventional 1 Phase >20 Amp / Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
	c/kWh				
Basic Monthly Charge per Meter: (R/POS/m)	Migrate to 11	0%	0.00	0.00	0%
Energy Charge (R/kWh)	Migrate to 11	0%	0.00	0.00	0%
Capacity Charge (R/A/p/m)	N/A	0%	0.00	0.00	0%

11. Commercial - Prepaid / Conventional 3 Phase >20 Amp / Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
	c/kWh				
Basic Monthly Charge per Meter: (R/POS/m)	554.92	-79.02%	116.41	116.41	-79.02%
Energy Charge (R/kWh)	3.0087	-2.28%	2.9401	2.9401	-2.28%
Capacity Charge (R/A/p/m)	18.20	62.00%	29.49	29.49	62.00%
Average Tariff Impact		*-4.77%*	*296.13*		

12. Schools and Churches	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
	c/kWh				
Basic Monthly Charge per Meter: (R/POS/m)	534.79	-79.02%	116.41	116.41	-79.02%
Energy Charge (c/kWh)	290.01	1.38%	294.01	294.01	1.38%
Capacity Charge (R/A/p/m)	18.20	62.00%	29.49	29.49	62.00%

13. Streetlights	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
	c/kWh				
Basic Monthly Charge per Meter: (R/POS/m)	57.02	29.60%	73.90	73.90	29.60%
Energy Charge (c/kWh)	333.20	17.31%	390.88	390.88	17.31%
Average Tariff Impact		*23.46%*	*232.09*		

14. Municipal Consumers	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
	c/kVA/m				
Basic Monthly Charge per Meter (R/POS/m)	346.37	62.00%	561.12	561.12	62.00%
Capacity Charge (c/kVA/m)	495.60	62.00%	802.90	802.90	62.00%
Maximum Demand (R/kVA/m)	100.07	60.93%	161.04	161.04	60.93%
Hi-Demand: Peak kWh Unit Charge (c/kWh)	626.00	36.65%	844.00	844.00	36.65%
Hi-Demand: Standard kWh Unit Charge (c/kWh)	291.71	3.87%	279.61	279.61	3.87%
Hi-Demand: Off Peak kWh Unit Charge (c/kWh)	225.43	-5.88%	216.96	216.96	-5.88%
Low Demand: Peak kWh Unit Charge (c/kWh)	302.86	16.75%	403.69	403.69	16.75%
Low Demand: Standard kWh Unit Charge (c/kWh)	254.16	2.15%	267.08	267.08	2.15%
Low Demand: Off Peak kWh Unit Charge (c/kWh)	254.16	2.15%	267.08	267.08	2.15%
Reactive Energy Charge (c/kvarh)	26.58	9.01%	28.98	28.98	9.01%
Average Tariff Impact		*24.96%*	*407.93*		

15. Bulk Industrial TOU	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
	c/kWh				
Basic Monthly charge per meter (R/POS/m)	1,266.03	-55.68%	561.12	561.12	-55.68%
Capacity Charge (c/kVA/m)	495.60	62.00%	802.90	802.90	62.00%
Maximum Demand (c/kVA/m)	2,673.70	-39.77%	1,6104	1,6104	-39.77%
Hi-Demand: Peak kWh Unit Charge (c/kWh)	594.83	43.82%	843.60	843.60	43.82%
Hi-Demand: Standard kWh Unit Charge (c/kWh)	260.94	17.28%	279.61	279.61	17.28%
Hi-Demand: Off Peak kWh Unit Charge (c/kWh)	194.66	8.62%	216.96	216.96	8.62%
Low Demand: Peak kWh Unit Charge (c/kWh)	272.08	28.15%	403.69	403.69	28.15%
Low Demand: Standard kWh Unit Charge (c/kWh)	223.38	15.78%	267.08	267.08	15.78%
Low Demand: Off Peak kWh Unit Charge (c/kWh)	184.04	8.62%	216.96	216.96	8.62%
Reactive Energy Charge (c/kvarh)	26.54	9.01%	28.98	28.98	9.01%
Average Tariff Impact		*9.78%*	*281.50*		

Small Scale Embedded Generation Tariffs (SSEG)

This is the wheeling arrangement between generators and off-takers, which are done in line with the Matzikama Municipality Wheeling Guideline and with the approval by the Director: Engineering Services, Director: Financial Services and the Municipal Manager.

The proposed SSEG export charge is disbursed back to the customer and applies to all tariff categories.

16. Bulk Industrial (Small Consumer) TOU: SSEG	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Import / Feed-in	***c/kWh***				
Basic Monthly Charge per Meter - 1 Phase (R/POS/m)	276.14	-70.74%	81.68	81.68	-70.74%
Basic Monthly Charge per Meter - 3 Phase (R/POS/m)	276.14	-58.30%	116.41	116.41	-58.30%
Capacity Charge (R/kVA/m)	11.342	62.00%	18.3747	18.3747	62.00%
Maximum Demand (c/kVA/m)	0.00	0%	0.00	0.00	0%
Hi-Demand: Peak kWh Unit Charge (c/kWh)	635.42	40.71%	894.12	894.12	40.71%
Hi-Demand: Standard kWh Unit Charge (c/kWh)	278.66	6.35%	296.36	296.36	6.35%
Hi-Demand: Off Peak kWh Unit Charge (c/kWh)	207.88	10.62%	229.96	229.96	10.62%
Low Demand: Peak kWh Unit Charge (c/kWh)	290.56	47.26%	427.87	427.87	47.26%
Low Demand: Standard kWh Unit Charge (c/kWh)	238.55	18.67%	283.08	283.08	18.67%
Low Demand: Off Peak kWh Unit Charge (c/kWh)	196.54	17.06%	229.96	229.96	17.06%
Reactive Energy Charge (c/kvarh)	0.00	0%	0.00	0.00	0%
Average Tariff Impact		*8.18%*	*266.80*		

16. Bulk Industrial TOU: SSEG	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Export / Credit	***c/kWh***				
Basic Monthly Charge per Meter (R/POS/m)	100.00	-100%	0.00	0.00	-100%
Capacity Charge (R/kVA/m)	0.00	0%	0.00	0.00	0%
Maximum Demand (R/kVA/m)	0.00	0%	0.00	0.00	0%
Hi-Demand: Peak kWh Unit Charge (c/kWh)	581.42	12.70%	620.24	620.24	12.70%
Hi-Demand: Standard kWh Unit Charge (c/kWh)	162.15	12.70%	187.87	187.87	12.70%
Hi-Demand: Off Peak kWh Unit Charge (c/kWh)	115.58	12.70%	102.05	102.05	12.70%
Low Demand: Peak kWh Unit Charge (c/kWh)	254.39	12.70%	202.30	202.30	12.70%
Low Demand: Standard kWh Unit Charge (c/kWh)	152.84	12.70%	139.24	139.24	12.70%
Low Demand: Off Peak kWh Unit Charge (c/kWh)	115.58	12.70%	88.30	88.30	12.70%
Reactive Energy Charge (c/kvarh)	0.00	0%	0.00	0.00	0%
Average Tariff Impact		*-3.40%*	*134.00*		

7. CONFIDENTIALITY

7.1. None.

8. CONCLUSION

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

End.