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

Breede Valley Municipality

THE DECISION

1. At its meeting held on 04 May 2026, the Regulator Executive Committee (REC) considered Breede Valley Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year (FY) as set out in section 7 of the tariff analysis on page 21 of the RFD.

2. Based on the information submitted and the analysis conducted, the REC decided at its meeting on 4 May 2026:

2.1. to approve the tariffs that are based on the Cost-of-Supply (COS) study as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;

2.2. to note the COS study submitted by the municipality; and

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

TABLE OF CONTENTS

THE DECISION....1
1. INTRODUCTION....5
2. LEGAL AND REGULATORY FRAMEWORK....6
3. FINANCIAL AND TECHNICAL PERFORMANCE....10
4. DETERMINATION OF BREEDE VALLEY'S TARIFFS BASED ON THE COST-OF-SUPPLY STUDY....11
5. PUBLIC PARTICIPATION....19
6. THE OBJECTORS AND OTHER INTERVENING PARTIES....20
7. TARIFF ANALYSIS....21
8. CONFIDENTIALITY....39
9. CONCLUSION....39

LIST OF TABLES

Table 1: Summary of the REC Decision……5
Table 2: Performance Indicators……..10
Table 3: Revenue Requirement Components……11

ABBREVIATIONS

AFS	Annual Financial Statements
COS	Cost-of-Supply
D-form	Distribution form
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IPP	Independent Power Producer
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure

1. INTRODUCTION

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

1.2. Breede Valley is situated in the Western Cape. The municipality is made up mostly of commercial customers, who account for 36.63% of the total electricity sales. The municipality provides its indigent customers with 70kWh of Free Basic Electricity (FBE) per month. The municipality further reports that it maintains an indigent register. The details regarding customer statistics are highlighted in Table 1 below.

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

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic Prepaid	81 977	32.79	22 062
Domestic Conventional	4 141	1.66	502
Manufacturing	62 205	24.88	32
Commercial	1 993	0.80	11
Commercial	89 569	35.83	815
Street Lighting	3 329	1.33	0
Sold to other departments	6 776	2.71	114
TOTAL	**249 990**	**100**	**23 536**
FBE[1]	3 681	[2]4.27	7 750

1.3. NERSA received Breede Valley's tariff application together with its existing Cost-of-Supply (COS) on 31 March 2026.

1.4. Breede Valley implemented an average price increase of 15.49% in 2025/26FY and is applying for an average price increase of 9.01% for 2026/27FY.

1.5. The municipality submitted the Council resolution and proof of customer consultation together with its tariff application on 31 March 2026.

1.6. NERSA followed the notice-and-comment consultation process. Breede Valley's tariff application was published on the NERSA website on 31 March 2026 on

[1] This information is already included in the customer statistics table above under domestic prepaid/conventional category

[2] Percentage of Domestic MWh

social media platforms and in national and local newspapers to solicit written comments from affected parties.

1.7. NERSA's decision was made on 4 May 2026, following the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of Municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ("NERA), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended ("ERA), the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000) ("PAJA") and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 ("EPP).

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

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

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

2.2. 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 licensees and may issue them to licensees 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 license conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

2.2.3. Municipalities that distribute electricity do so under electricity distribution licenses issued by the Energy Regulator and are therefore subject to the tariff approval framework established under the ERA.

2.3. Tariff Determination Principles under the ERA

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

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

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

2.3.3. These statutory requirements form the core legal principles 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 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 of 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, considering 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 2026/27FY municipal tariff approvals.

2.8. **Court-Directed Timelines**

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

a) written notice of bulk tariffs by 6 March 2026;
b) municipal tariff applications to be submitted by 31 March 2026;
c) public participation processes to be concluded by 21 April 2026; and
d) publication of NERSA decisions by 11 May 2026.

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

a) written notice of bulk electricity tariffs be communicated by 31 January each year;
b) municipal tariff applications be submitted to NERSA by 20 March each year; and
c) municipal tariff approvals and the tariff reasons for 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 consisting of the NERA, ERA, PAJA, EPP and the binding judicial directives issued by the High Court in AfriForum NPC v NERSA (Case No. 2025/137620).

2.9.2. The reasons set out in this Reasons for Decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27FY.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of Breede Valley, the assessment relied on the Distribution forms (D-forms) for the 2024/25FY 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 the Annual Financial Statements (AFS). As a result, the data captured in the D-forms is considered reliable for the tariff analysis.

3.2. Table 2 below indicates that Breede Valley's electricity business recorded a decline in percentage surplus from 12.04% in the 2023/24FY to 4.27% in the 2024/25FY. The decline is attributed to a 17% increase in Eskom's bulk purchases from 2023/24FY to 2024/25FY.

3.3. The energy losses increased from 5.92% in the 2023/24FY to 7.36% in the 2024/25 FY, as highlighted in Table 2 below. The municipality is encouraged to keep energy losses to a minimum.

Table 2: Performance indicators

Performance indicators	***Municipality 2024/25 D-forms Information***	***Municipality 2023/24 D-forms Information***
Percentage surplus: (%)	4.27	12.04[3]
Energy Losses: (%)	7.36	5.92

3.4. Based on the above information, the municipality's electricity department demonstrates satisfactory financial and operational performance, as evidenced by the recorded surplus and relatively low energy losses. The surplus indicates prudent financial management and cost recovery, while the low level of energy losses suggests effective network maintenance and operational efficiency. Collectively, these factors point to a stable and sustainable electricity service function.

[3] Total Electricity Purchases divided by Total Expenditure

4. DETERMINATION OF BREEDE VALLEY'S TARIFFS BASED ON THE COST-OF-SUPPLY STUDY

4.1. The municipality submitted its existing COS study which supports the tariffs application, which will be approved in the 2026/27FY. 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. Breede Valley Municipality's 2026/27FY tariff application is based on an existing COS study. The study is valid for five years and has been adjusted to reflect key cost drivers for the 2026/27FY in line with Section 18.7 of the COS Framework.

4.4. The municipality applied a cost-plus methodology, rather than a rate-of-return (ROR) approach. Under the cost-plus methodology, the allowable revenue is derived as follows:

4.4.1. Efficient and prudent operating expenditure (OPEX)

4.4.2. Plus, depreciation (as a proxy for asset consumption and future replacement)

4.4.3. Plus, a reasonable surplus margin

4.5. Section 18.7 of the October 2023 NERSA-approved Cost of Supply Framework states that:

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

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

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

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

2026/27FY cost of supply base tariffs. Once the financial year ends, the actual figures will be verified using the audited statements.

iii. Column 3 is for the licensees who submitted 2026/27FY budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.

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

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

4.7. The total allowable revenue of R776 million is for the 2025/26FY tariff review and is based on the cost-of-supply revenue and the volumes used to determine the tariffs that were approved by the Energy Regulator, as shown in Table 3 below.

4.8. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for the 2026/27FY. NERSA used the budgeted figures submitted by the licensee to check the reasonableness as well as the licensee's current operational requirement to ensure that municipalities do not over- or under-recover during the 2026/27FY tariff review process.

4.9. To determine an increase applicable to the 2026/27FY, the licensee submitted its 2026/27FY cost (budgeted cost plus surplus) as requested by NERSA and total budgeted required revenue that amounted to R855 million for the 2026/27FY tariff review process.

Table 3: Municipality's Revenue Requirement

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee	NERSA Adjustment (considering efficiencies)	FY2026/27 Allowable Revenue
Sales	kWh	249 990 903	250 469 717	256 620 000	-	256 620 000
Eskom bulk purchases	kWh	268 818 464	283 323 531	285 900 000	-	285 900 000
Self Generation	kWh	1 041 036	667 293	1 100 000	-	1 100 000
Total Energy Requirements	**kWh**	**269 859 500**	**283 990 824**	**287 000 000**		**287 000 000**
Total Losses	kWh	19 868 597	33 521 107	30 380 000		30 380 000
Technical losses	kWh	19 868 597	33 521 107	30 380 000	-	30 380 000
Non-technical losses	kWh	0	0	0	-	0
Allowed losses	%	**7,36%**	**11,80%**	**10,59%**		**10,59%**
Total Energy losses	%	7,36%	11,80%	10,59%		10,59%
Cost drivers						
Energy purchases from Eskom	Rand	532 572 807	598 032 600	650 308 886	-	650 308 886
other energy purchases		965 163	578 400	1 111 614	-	1 111 614
total energy purchases		**533 537 969**	**598 611 000**	**651 420 500**	**0**	**651 420 500**
Cost of technical losses	Rand	44 867 608	54 787 015	55 000 000	0	55 000 000
Non-Technical Losses		3 393 649	5 291 000	0	0	0
Operational expenditure (incl. Depreciation)	**Rand**	**84 580 800**	**94 765 795**	**97 632 000**	**0,0**	**97 632 000**
General & Other	0	76 809 517	85 250 295	85 814 200	0	85 814 200
Salaries and allowances	Rand	24 409 519	32 207 247	36 051 600	0	36 051 600
Materials and supplies	Rand	8 515 177	9 290 300	8 826 400	0	8 826 400
Contracted Services	Rand	17 086 378	20 369 800	16 318 900	0	16 318 900
Current year depreciation	Rand	24 668 544	17 579 940	18 320 300	0	18 320 300
software	Rand	236 228	346 300	362 300	0	362 300
security	Rand	286 431	637 100	659 900	0	659 900
vehicle expense	Rand	663 521	564 000	26 500	0	26 500
insurance	Rand	943 719	818 901	385 000	0	385 000
Commission Paid	Rand	4 997 625	3 436 707	4 863 300	0	4 863 300
Shared OPEX	Rand	7 771 283	9 515 500	11 817 800	0	11 817 800
Bad debts (Allowance for Impairment)	Rand	-535 432	1 001 000	4 386 000	0	4 386 000
Charges from other Municipal Departments	Rand	0	0	1 280 600	0	1 280 600
Operating Leases	Rand	0	68 600	71 800	0	71 800
General expenses		**8 306 715**	**8 445 900**	**6 079 400**	0	**6 079 400**
Other Expenses	Rand	8 306 715	8 445 900	6 079 400	0	6 079 400
Total Expediture before surplus		662 986 376	753 454 810	804 052 500	0	804 052 500
Surplus	Rand	28 931 908	50 588 764	63 321 400	0	63 321 400
Total Expenditure Including Surplus		691 918 284	804 043 574	867 373 900	0	867 373 900
Other revenues	Rand	**-12 087 804**	**-27 561 500**	**-11 878 500**	0	**-11 878 500**
Reconnection fees	Rand	79 302	251 000	1 046 100	0	1 046 100
New connections	Rand	456 482	694 300	784 600	0	784 600
Free Basic Electricity (Equitable share)	Rand	9 475 100	10 185 800	10 047 800	0	10 047 800
Other Revenue - Government Grants and Subsidies	Rand	1 924 792	16 296 000	0		0
Other Revenue -	Rand	152 128	134 400	0	-	0
Total Allowable Revenus	**Rand**	**679 830 480**	**776 482 074**	**855 495 400**	**0**	**855 495 400**
increase required				***10,18%***	***10,18%***	

4.10. It is important to test the efficiency and prudency of the costs e for the 2025/26FY, as these are the most recently considered revenues in support of the approved tariffs during this period. This forms the basis for projecting costs for the 2026/27FY using assumptions to calculate revenue requirements for that year.

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

Bulk purchases

4.12. The licensee applied for a bulk purchase expenditure of R651 million which accounts for 76% of total costs, inclusive of the 10.59% energy loss allowance in line with the Act which requires only the prudently and efficiently incurred costs to be passed through to customers.

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

4.14. The Eskom bills were analysed, and no NMD exceedance penalties were charged. Furthermore, the municipality is up to date with its Eskom bulk account and therefore does not incur interest charges.

Operating Expenditure (including depreciation)

4.15. The licensee applied for operational expenditure, including depreciation of R97 million as highlighted in Table 3 above.

4.16. The municipality adjusted the expenditure linked to the FY2025/26 tariffs, increasing it from R94.7 million to a budgeted amount of R97.6 million, reflecting a 3% increase in costs.

General Costs and Other

4.17. Salaries and allowances under the Electricity Department comprise employee-related costs incurred for staff involved in the operation, maintenance, administration and management of the electricity function. These costs typically include basic salaries, overtime, standby and travel allowances and other employee benefits for technical, operational, administrative and managerial personnel within the department. The charges applied for increased by 12% from R32 million in the 2025/26FY to R36 million in the 2026/27FY.

4.18. The Materials & supplies line item includes cables, transformers, switchgear, meters, poles, streetlight components, protective equipment, maintenance materials, network repair items, electrical consumables and replacement parts for the network. These costs are necessary to ensure continuity and reliability of supply and therefore form part of the prudent cost of service. The charges applied for decreased by 5% from R9.2 million in the 2025/26FY to R8.8 million in the 2026/27FY.

4.19. Contracted services form part of the municipality's prudent operating costs and are necessary to support the operation, maintenance, repair and technical management of the electricity network. The municipality indicated that it contracted consultants for engineering services and construction contractors for electrification and network upgrades. The charges applied for decreased by 20% from R20 million in the 2025/26FY to R16 million in the 2026/27FY.

4.20. Software expenses comprise costs associated with the acquisition, licensing, maintenance, support and use of software applications required for the operation and administration of the Electricity Department. These expenses may include billing systems, metering software, financial and reporting systems, cybersecurity software, subscription fees, software upgrades and technical support services. The charges applied for increased by 5% from R346 thousand in the 2025/26FY to R362 thousand in the 2026/27FY.

4.21. Security expenses comprise costs incurred to safeguard the Electricity Department's personnel, infrastructure, equipment, facilities and operations. These expenses typically include security guard services, alarm monitoring, access control systems, surveillance and CCTV systems, armed response services and other security-related measures aimed at protecting electricity assets and reducing the risk of theft, vandalism and unauthorised access. The charges applied increased by 4% from R637 thousand in the 2025/26FY to R659 thousand in the 2026/27FY.

4.22. Vehicle expenses comprise costs associated with the operation, maintenance and use of vehicles utilised by the Electricity Department in the delivery of electricity services. These expenses typically include fuel and oil, vehicle maintenance and repairs, tyres, insurance, licensing, leasing costs, tracking services and other transportation-related costs incurred for operational and administrative activities. The applied for charges decreased by 95% from R564 thousand in the 2025/26FY to R26 thousand in the 2026/27FY.

4.23. Insurance expenses comprise costs incurred to provide financial protection for the Electricity Department's assets, operations and liabilities against potential risks and losses. These expenses typically include premiums for the insurance of electricity infrastructure, vehicles, equipment, buildings, public liability, employee-related risks and other operational assets against events such as damage, theft, accidents, fire and natural disasters. The charges applied for decreased by 53% from R818 thousand in the 2025/26FY to R385 thousand in the 2026/27FY.

4.24. Commission paid comprises payments made to third parties or agents for services rendered in support of the Electricity Department's operations. These expenses typically include commissions paid for revenue collection services, vending and sales of prepaid electricity tokens, debt collection activities, or other outsourced services where compensation is based on a percentage or agreed fee structure. The charges applied for increased by 42% from R3.4 million in the 2025/26FY to R4.8 million in the 2026/27FY.

Depreciation

4.25. Depreciation is a key component of operational expenditure, as it enables the recovery of electricity infrastructure costs over the useful life of the assets. An adequate depreciation provision is essential to ensure the long-term sustainability of the electricity undertaking and to facilitate the future refurbishment and replacement of ageing network infrastructure.

4.26. The municipality reported an asset value of R908 975 964, as reflected in its submitted D-Forms for the 2024/25FY. This amount was verified against the audited AFS, the trial balance and supporting financial information.

4.27. Depreciation amounted to R24 668 544 in the 2024/25FY calculated using the straight-line method over the useful lives of the respective assets. This amount was extracted from the submitted 2024/25FY D-Form and verified against the audited 2024/25 Annual Financial Statements. The projected depreciation for 2025/26FY is R17 579 940, increasing to R18 320 300 in the 2026/27FY budget, reflecting approximately 4% growth.

Shared Operating Expenditure

4.28. Bad debts (Allowance for Impairment) comprise a provision made for amounts owed by customers that may not be recoverable. This operating expense is recognised to account for the risk of non-payment of electricity revenue and is typically based on the municipality's historical collection trends, ageing of debtor accounts and expected credit losses. The applied amount of R4.3 million represents 0.51% of the applied revenue requirement.

4.29. Charges from other municipal departments comprise costs allocated to the Electricity Department for support and shared services rendered by other departments within the municipality. These charges typically include services such as finance, human resources, information technology, legal services, fleet management, internal audit, facilities management and other corporate or administrative support functions provided to the electricity undertaking. The charges applied for are R1.2 million for the 2026/27FY.

4.30. Operating lease expenses comprise costs incurred by the Electricity Department for the rental or leasing of assets used in its operations without obtaining ownership of those assets. These expenses typically include lease payments for office buildings, vehicles, equipment, machinery, printers and other operational assets required to support the provision and administration of electricity services. The charges applied for increased by 5% from R68 thousand in the 2025/26FY to R71 thousand in the 2026/27FY.

4.31. Other expenses comprise miscellaneous operating costs incurred in the provision and administration of the electricity service that are not specifically classified under other expenditure categories. These expenses may include insurance, bank charges, communication costs, office and administrative expenses, staff training, licensing fees, security services, minor consumables and other general operational support costs necessary for the functioning of the electricity undertaking. The applied for charges decreased by 28% from R8.4 million in the 2025/26FY to R6 million in the 2026/27FY.

Surplus/Profit Margin

4.32. The municipality applied for a surplus of R63 million which is based on a 7% return on OPEX including bulk purchases. The applied surplus was assessed against the municipality's financial performance, operational requirements, cost-reflectivity principles and the affordability impact on consumers.

4.33. 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:

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

4.33.2. deterioration of network infrastructure due to underinvestment;

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

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

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

4.34. To ensure that the surplus is not excessive or detrimental to consumers, 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 COS methodology, NERSA is required to ensure that BLM recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation.

4.35. NERSA is satisfied that the surplus applied for by Breede Valley is reasonable and supports the financial sustainability of the electricity business, notwithstanding that it falls below the established target range of 10–20%, in line with the approved NERSA Cost of Supply framework.

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DETAILS OF TARIFFS APPLIED FOR						
2.Small Power Users 1: Single Phase (≤100 ampere)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Energy Charge (c/kWh)	427.76	466.31	9.01%	466.31	9.01%	While an increase on an over-recovering tariff is not aligned with strict cost-reflectivity principles, the proposed adjustment may be considered within the broader context of overall revenue requirements and tariff rebalancing across customer categories. In particular, maintaining the proposed increase may support revenue neutrality and enable the licensee to address under-recovery in other tariff categories, thereby contributing to a more balanced and sustainable tariff structure. Accordingly, the recommended tariff is accepted as proposed, subject to the condition that the municipality progressively corrects the over-recovery in this category over time, as part of a phased migration toward cost-reflective tariffs.

DETAILS OF TARIFFS APPLIED FOR						
3. Small Power Users 2: Three Phase (≤100 ampere)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Energy Charge (c/kWh)	427.76	466.31	9.01%	466.31	9.01%	While an increase in an over-recovering tariff is not aligned with strict cost-reflectivity principles, the proposed adjustment may be considered within the broader context of overall revenue requirements and tariff rebalancing across customer categories. In particular, maintaining the proposed increase may support revenue neutrality and enable the licensee to address under-recovery in other tariff categories, thereby contributing to a more balanced and sustainable tariff structure. Accordingly, the recommended tariff is accepted as proposed, subject to the condition that the municipality progressively corrects the over-recovery in this category over time, as part of a phased migration toward cost-reflective tariffs.

DETAILS OF TARIFFS APPLIED FOR						
4. Small Power Users 2: Conventional Single-Phase (≤100 amperes)	**2025/26 Approved**	**2026/27 Proposed**	***% increase***	***Recommended Tariff***	***Recommended % increase***	***Analysis and Key findings***
Basic Charge (R/month)	895.90	978.26	9.19%	978.26	9.19%	The COS study indicates that this tariff category is under-recovering by approximately 11%, reflecting a gap between current tariff levels and the cost of service. These adjustments are directionally aligned with the need to improve cost recovery and move the tariff closer to cost-reflectivity. The increase in the basic charge supports the recovery of fixed network and service-related costs, while the adjustment to the energy charge contributes to the recovery of variable costs. This balanced approach is consistent with COS principles. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.
Energy Charge (c/kWh)	338.35	368.84	9.01%	368.84	9.01%	

DETAILS OF TARIFFS APPLIED FOR						
5. Small Power Users 2: Conventional Three Phase (≤100 amperes)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	895.90	978.26	9.19%	978.26	9.19%	The COS study indicates that this tariff category is under-recovering by approximately 5%, suggesting a relatively small gap between current tariffs and the cost of service. These adjustments are directionally aligned with the need to improve cost recovery and move the tariff closer to cost-reflectivity. The increase in the basic charge supports the recovery of fixed network and service-related costs, while the adjustment to the energy charge contributes to the recovery of variable costs. This balanced approach is consistent with COS principles. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.
Energy charge (c/kWh)	335.41	368.84	9.01%	368.84	9.01%	

6. Municipal Conventional/Pre-payment	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Energy Charge (c/kWh)	353.70	385.58	9.01%	385.58	9.01%	The COS study indicates that this tariff category is significantly under-recovering by approximately 77%, reflecting a substantial misalignment between current tariff levels and the cost of service. While this adjustment is in the correct direction, it is materially below the level required to address the extent of under-recovery identified in the COS. A tariff with such a high level of under-recovery would typically warrant more substantial adjustments to move toward cost-reflectivity. However, given the magnitude of the required correction, implementing the full increase in a single financial year may result in significant tariff shock and adverse affordability impacts. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.

7. Public lighting	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Energy Charge (c/kWh)	305.11	332.60	9.01%	332.60	9.01%	The COS study indicates that this tariff category is significantly under-recovering by approximately 80%, reflecting a substantial misalignment between current tariff levels and the cost of service. While this adjustment is in the correct direction, it is materially below the level required to address the extent of under-recovery identified in the COS. A tariff with such a high level of under-recovery would typically warrant more substantial adjustments to move toward cost-reflectivity. However, given the magnitude of the required correction, implementing the full increase in a single financial year may result in significant tariff shock and adverse affordability impacts. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.

8. Illuminated road and advertisement signs	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	166.36	182.61	9.77%	182.61	9.77%	The COS study indicates that this tariff category is revenue neutral, implying that current tariff levels are appropriately aligned with the cost of service. Tariffs that are already cost-reflective should be maintained at existing levels or adjusted only marginally, where justified by verifiable changes in costs (e.g., bulk purchases, operating expenses, or network costs). For this tariff, Eskom's bulk increase is 9.01%, which justifies the increase in this tariff. Accordingly, the proposed tariff adjustment may be supported**.**

9. Low-capacity Services-robots, cameras (10 Amp) R/month	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	166.36	182.61	9.77%	182.61	9.77%	The COS study indicates that this tariff category is revenue neutral, implying that current tariff levels are appropriately aligned with the cost of service. Tariffs that are already cost-reflective should be maintained at existing levels or adjusted only marginally, where justified by verifiable changes in costs (e.g., bulk purchases, operating expenses, or network costs). For this tariff, Eskom's bulk increase is 9.01%, which justifies the increase of this tariff. Accordingly, the proposed tariff adjustment may be supported.

10. Availability Charge Residential (Vacant Stand)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	469.45	512.17	9.10%	512.17	9.10%	The COS study indicates that this tariff category is revenue neutral, implying that current tariff levels are appropriately aligned with the cost of service. Tariffs that are already cost-reflective should be maintained at existing levels or adjusted only marginally, where justified by verifiable changes in costs (e.g., bulk purchases, operating expenses, or network costs). For this tariff, Eskom's bulk increase is 9.01%, which justifies the increase in this tariff. Accordingly, the proposed tariff adjustment may be supported**.**

11. Availability Charge Commercial (Vacant Stand)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	1 169.69	1 278.26	9.28%	1 278.26	9.28%	The COS study indicates that this tariff category is revenue neutral, implying that current tariff levels are appropriately aligned with the cost of service. Tariffs that are already cost-reflective should be maintained at existing levels or adjusted only marginally, where justified by verifiable changes in costs (e.g., bulk purchases, operating expenses, or network costs). For this tariff, Eskom's bulk increase is 9.01%, which justifies the increase of this tariff. Accordingly, the proposed tariff adjustment may be supported.

12. Small Power Users 3: Three-Pphase (NMD ≤100kVA at 400V)	**2025/26 Approved**	**2026/27 Proposed**	***% increase***	***Recommended Tariff***	***Recommended % increase***	***Analysis and Key findings***
Energy Charge (c/kWh)	312.78	340.97	9.01%	340.97	9.01%	The COS study indicates that this tariff category is significantly under-recovering by approximately 11%, reflecting a substantial misalignment between current tariff levels and the cost of service. While this adjustment is in the correct direction, it is materially below the level required to address the extent of under-recovery identified in the COS. A tariff with such a high level of under-recovery would typically warrant more substantial adjustments to move toward cost-reflectivity. However, given the magnitude of the required correction, implementing the full increase in a single financial year may result in significant tariff shock and adverse affordability impacts. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.
Demand Charge (R/KVA)	47.84	52.17	9.06%	52.17	9.06%	

13. Small Power Users 4: Three-phase (NMD>70kVA at 400V/11000V)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	762.80	835.43	9.52%	835.43	9.52%	The COS study indicates that this tariff category is significantly under-recovering by approximately 16%, reflecting a substantial misalignment between current tariff levels and the cost of service. While this adjustment is in the correct direction, it is materially below the level required to address the extent of under-recovery identified in the COS. A tariff with such a high level of under-recovery would typically warrant more substantial adjustments to move toward cost-reflectivity. However, given the magnitude of the required correction, implementing the full increase in a single financial year may result in significant tariff shock and adverse affordability impacts. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.
Energy Charge (c/kWh)	289.76	315.87	9.01%	315.87	9.01%	
Demand Charge (R/kVA)	76.04	82.96	9.10%	82.96	9.10%	

14. Small Power Users 5: Three-phase (NMD 1MVA at 400V/11000V)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Energy Charge (c/kWh)	297.43	324.23	9.01%	324.23	9.01%	The COS study indicates that this tariff category is significantly under-recovering by approximately 16%, reflecting a substantial misalignment between current tariff levels and the cost of service. While this adjustment is in the correct direction, it is materially below the level required to address the extent of under-recovery identified in the COS. A tariff with such a high level of under-recovery would typically warrant more substantial adjustments to move toward cost-reflectivity. However, given the magnitude of the required correction, implementing the full increase in a single financial year may result in significant tariff shock and adverse affordability impacts. Accordingly, the proposed tariff adjustment may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.

15. Large Power Users 1: Three phase (NMD>100kVA at 400V)	**2025/26 Approved**	**2026/27 Proposed**	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	1 330.79	1 455.65	9.38%	1 455.65	9.38%	The COS study indicates that this tariff category is significantly under-recovering by approximately 3%, reflecting a substantial misalignment between current tariff levels and the cost of service. While this adjustment is in the correct direction, it is materially below the level required to address the extent of under-recovery identified in the COS. A tariff with such a high level of under-recovery would typically warrant more substantial adjustments to move toward cost-reflectivity. However, given the magnitude of the required correction, implementing the full increase in a single financial year may result in significant tariff shock and adverse affordability impacts. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock. The revenue for this tariff should be monitored going forward to ensure that there is no over recovery.
Energy Charge (c/kWh)	257.29	280.48	9.01%	280.48	9.01%	
Demand Charge (R/kVA)	320.82	350.43	9.23%	350.43	9.23%	

16. Large Power Users 1: Three - phase (NMD >100kVA at 11000V)	**2025/26 Approved**	**2026/27 Proposed**	**% Increase**	**Recommended Tariff**	**Recommended % Increase**	**Analysis and Key Findings**
Basic Charge (R/month)	1 330.79	1 455.65	9.38%	1 455.65	9.38%	The COS study indicates that this tariff category is significantly under-recovering by approximately 3%, reflecting a substantial misalignment between current tariff levels and the cost of service. While this adjustment is in the correct direction, it is materially below the level required to address the extent of under-recovery identified in the COS. A tariff with such a high level of under-recovery would typically warrant more substantial adjustments to move toward cost-reflectivity. However, given the magnitude of the required correction, implementing the full increase in a single financial year may result in significant tariff shock and adverse affordability impacts. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock. The revenue for this tariff should be monitored going forward to ensure that there is no over-recovery.
Energy Charge (c/kWh)	257.29	280.48	9.01%	280.48	9.01%	
Demand Charge (R/kVA)	292.29	319.13	9.18%	319.13	9.18%	

17. Large Power Users 2: Time of Use / Three Phase (NMD >1MVA at 11000V	***2025/26 Approved***	***2026/27 Proposed***	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	**Analysis and Key Findings**
Basic Charge: R/day	741.43	808.70	9.07%	808.70	9.07%	The COS study indicates that this tariff category is under-recovering by approximately 8%, reflecting a moderate gap between current tariff levels and the cost of service. The tariff maintains a Time-of-Use (TOU) design, with appropriate differentiation between peak, standard and off-peak periods, as well as between low and high seasons. This supports efficient price signalling and encourages load shifting, which is consistent with sound tariff design principles. This approach ensures improved cost recovery, maintains efficient pricing signals and avoids placing undue financial pressure on large industrial consumers. Accordingly, the proposed tariff adjustments may be considered reasonable and appropriate, as they advance cost-reflectivity while supporting a phased transition toward full cost recovery and limiting potential tariff shock.
Low Season Energy Charges:						
Peak(c/kWh)	303.21	330.53	9.01%	330.53	9.01%	
Standard c/kWh	212.20	231.32	9.01%	231.32	9.01%	
Off-peak(c/kWh)	138.77	151.27	9.01%	151.27	9.01%	
High Season Energy Charges:						
Peak(c/kWh)	945.42	1 030.60	9.01%	1 030.60	9.01%	
Standard c/kWh	282.39	307.84	9.01%	307.84	9.01%	
Off-peak(c/kWh)	158.51	172.80	9.01%	172.80	9.01%	
Capacity Charge R/kVA/month	70.10	76.52	9.16%	76.52	9.16%	
Demand Charge R/kVA/month	87.83	96.52	9.89%	96.52	9.89%	
Reactive Energy Charge [R/kVArh]	40.18	43.81	9.02%	43.81	9.02%	

18. Small Scale Embedded Generation (commercial or non-residential SSEG Connections)	***2025/26 Approved***	***2026/27 Proposed***	***% Increase***	***Recommended Tariff***	***Recommended % Increase***	**Analysis and Key Findings**
Energy Charge (c/kWh)	(89.61)	(97.69)	9.02%	(97.69)	9.02%	With the export energy tariff, the municipality has proposed an increase of 9.02%, in line with the Eskom bulk increase. Given that export tariffs are designed to compensate customers for energy supplied to the grid—typically at a rate lower than import tariffs to account for network costs—this lower increase is considered reasonable and does not raise concerns from a cost-reflective perspective. Accordingly, the proposed rates are supported, as they maintain revenue neutrality while ensuring fairness and sustainability within the net metering framework.

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 Breede Valley's tariff application as set out in this Reasons for Decision for the 2026/27FY.

End.