NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

By

Letsemeng Local Municipality

THE DECISION

At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered Letsemeng Local Municipality (LLM) tariff application. Based on the facts and evidence presented, REC approved the tariff increases for FY2026/27 set out in
below.

Table 1: Summary of the REC Decision

Tariff Category	FY2026/27 approved % Increase
Domestic Conventional	9.01%
Domestic Prepaid	9.01%
Commercial Tariffs	9.01%
Business Conventional > 50kVA	9.01%
Commercial Prepaid	9.01%
Industrial Medium	9.01%
Municipal Tariff	9.01%

Based on the information submitted and the analysis conducted, the REC decided:

a) To approve tariffs that are based on the Cost of Supply (COS) Report, as

recommended in the tariff analysis section, for implementation by the Municipality with effect from 1 July 2026;

b) To note the COS Report submitted by the Municipality;
c) That the Municipality must submit a report accounting for all the costs that have been noted in its COS study, to enable the National Energy Regulator of South Africa (NERSA) to perform its independent verification/audit process by 31 January 2027; and
d) That the Municipality is required to submit quarterly SMART energy losses reduction progress reports for the Regulator to monitor implementation thereof commencing from 3 September 2026.
e) The licensee is required to submit a quarterly smart efficiency plan with improvement measures identified in reducing high energy losses and submit it by 30 September 2026.

TABLE OF CONTENTS

THE DECISION 1
TABLE OF CONTENTS 3
ABBREVIATIONS 5
1. INTRODUCTION ..... **Error! Bookmark not defined.**
2. LEGAL AND REGULATORY FRAMEWORK ..... **Error! Bookmark not defined.**
3. FINANCIAL AND TECHNICAL PERFORMANCE 10
4. DETERMINATION OF LLM'S TARIFFS BASED ON THE COS ADJUSTED DATA 12
5. PUBLIC PARTICIPATION 17
6. THE OBJECTORS AND AND OTHER INTERVENING PARTIES 17
7. TARIFF ANALYSIS 18
8. CONFIDENTIALITY 19
9. CONCLUSION 19

TABLE OF TABLES

Table 1: Summary of the REC Decision....1
Table 2: Customer Statistics (Data obtained from the latest D-forms – FY2024/25....6
Table 3: Performance Indicators....11
Table 4: Energy Losses Analysis....11
Table 5: Municipality's Revenue Requirement....14
Table 6: Schedule of Tariffs....18

ABBREVIATIONS

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

1. INTRODUCTION

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

1.2. LLM is a licensee located in the Free State Province and dominated by domestic customers who account for 61% of its annual total electricity sales of 14,135 MWh. The Licensee provides 50 kWh of Free Basic Electricity (FBE) to 1,538 indigent customers.

Table 2: Customer Statistics (Data obtained from the latest D-forms – FY2024/25

Customer categories	**2024/25**			
	kWh	***% kWh***	***Customer numbers***	***Customer numbers***
Domestic(Prepaid)	7 764 166	58%	4 789	88%
Domestic(Conventional)	433 763	3%	162	3%
Manufacturing	1 287 296	10%	21	0,4%
commercial Prepaid	1 264 415	9%	345	6%
Commercial Conventional	2 030 284	15%	125	2%
Street Lighting	349 378	3%		0,00%
Sold to other departments	300 000	2%	6	0,11%
TOTAL	**13 429 301**	**100%**	**5 448**	**100%**
Free Basic Electricity	762 830	10%	1538	32%

1.3. NERSA received LLM's tariff application together with its COS on 31 March 2026.

1.4. LLM implemented an 11.3% average price increase in FY2025/26 and is applying for an average price increase of 13.4% for the FY2026/27.

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

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

1.7. NERSA's decision was taken on 11 May 2026, considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

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

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually in order 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 the Energy Regulator evaluated and determined the municipal electricity tariff application for FY2026/27.

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 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 provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and exercises regulatory authority over activities regulated under the ERA.

2.2.2. In particular:

a) section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions;

b) section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs; and

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

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

2.3. Tariff Determination Principles under the ERA

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

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

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

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

2.4. Administrative Law Requirements

2.4.1. The approval of municipal electricity tariffs constitutes administrative action as defined in section 1 of the PAJA. Accordingly, the Energy Regulator must ensure that its tariff determinations are lawful, reasonable and procedurally fair as required by sections 3 and 6 of the 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 (RR) 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 RR.

2.6. **COS 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 of the EPP requires electricity distributors to undertake COS studies at least every five years, or when significant structural changes occur in the customer base or cost structure.

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

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

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

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to FY2025/26 municipal tariff approvals did not comply with the procedural requirements of section 4 of the 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 which sought to vary the timelines set by the Court on 4 December 2025, considering the practical difficulties which arose as it relates to the 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 FY2026/27 municipal tariff approvals:

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

d) the publication of NERSA decisions by 11 May 2026.

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

a) written notice of bulk electricity tariffs to be communicated by 31 January each year;
b) municipal tariff applications to be submitted to NERSA by 20 March each year; and
c) municipal tariff approvals and the tariff RfD document, to be approved and published by 5 May of each year.

2.9. **Conclusion**

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

2.9.2. The reasons that follow in this RfD document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for FY2026/2027.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of LLM, the assessment relied on the Distribution forms (D-forms) for FY2024/25 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. LLM's electricity business operated at a deficit margin of -98.77% during FY2024/25, reflecting a further deterioration from the deficit margin of -64.66% recorded in FY2023/24. The decline in financial performance was primarily attributable to a substantial increase in operating expenditure, mainly driven by Eskom interest charges amounting to approximately R28.4 million, coupled with escalating electricity distribution and energy losses. These factors significantly increased the cost of electricity operations and eroded the Municipality's ability to recover costs through electricity revenue collections.

Table 3: Performance Indicators

Performance Indicators: Obtained From 2024/25 D-Form		
Indicators	**2023/24**	**2024/25**
Percentage Surplus/ (Deficit)	-64,66%	-98,77%
Percentage Energy Losses	12,03	14,93

3.3. LLM's energy losses increased from 12.03% in the FY2023/24 to 14.93% in FY2024/25. The elevated energy losses were attributable to both technical and non-technical factors, including ageing and inefficient network infrastructure, illegal electricity connections, meter bypassing, billing inaccuracies and unattended faulty meters. As a consequence of these losses, the municipality incurred an estimated electricity revenue loss of approximately R5.2 million during FY2023/24, which further increased to approximately R6.8 million in FY2024/25

Table 4: Energy Losses Analysis

Energy Losses Analysis	2023/24	2024/25
Purchases (kWh)	16 918 989	18 137 345
Sales (kWh)	14 882 960	15 429 301
Total Energy Losses (kWh)	2 036 029	2 708 044
Average Selling Price (Rands)	2,57	2,51
Total Foregone Revenue (Rands)	**5 241 049**	**6 792 245**

3.4. LLM's electricity business experienced a significant deterioration both in financial and operational performance during FY2024/25. The widening deficit margin, increasing Eskom-related obligations and rising energy losses indicate that the electricity function operate under severe financial strain and is becoming progressively less sustainable. The continued escalation in technical and non-technical losses further undermine revenue generation and cash flow, while increasing operating costs place additional pressure on the Municipality's financial position.

3.5. The overall performance highlights the urgent need for the Municipality to implement comprehensive revenue enhancement and loss-reduction interventions, strengthen billing and metering controls, improve electricity infrastructure maintenance and address outstanding Eskom debt obligations in order to restore the long-term financial viability and sustainability of the electricity business.

4. DETERMINATION OF LLM'S TARIFFS BASED ON THE COS OF ADJUSTED DATA

4.1. The Municipality submitted its existing COS study in support of the tariffs application which will be approved in FY2026/27. The Municipality's COS study was inclusive of all requirements of NERSA's approved COS framework (i.e. Revenue Requirement, Cost Functionalisation, Cost Classification, Cost Allocation and Rate Setting).

4.2. Policy Position 23 of the EPP states: '*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 October 2023 NERSA-approved Cost of Supply Framework states:
'*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, **Error! Reference source not found.** below was developed and the definition of the columns is as follows:

i. Column 1 represents the actual FY2024/25 Licensee performance and is sourced from the D-forms that are based on the audited annual financial statements.
ii. Column 2 reflects the FY2025/26 revenues and electricity volume that are the base for FY2026/27 tariffs. The figures were tested for reasonableness (since at the time of approval, the figures were estimates) when the Regulator considered and approved FY2026/27 COS base tariffs. Once the financial year ends, the actual figures will be verified using the audited financial statements.
iii. Column 3 represents the Licensee's submitted FY2026/27 budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.
iv. Column 4 represents NERSA's recommended adjustments after considering the reasons, facts and evidence the licensee provided to motivate/justify the budgeted figures.
v. Column 5 reflects NERSA's recommended amounts that sum up to allowable revenues the Licensee must recover in FY2026/27.

4.5. The total allowable revenue of R71.6 million is for the FY2025/26 tariff review and is based on the COS revenue and the volumes used to determine the tariffs that were approved by the Energy Regulator, as shown in Table 5 below.

4.6. The COS study is applicable for five years; however, municipalities need to reflect the adjustments in their cost drivers for FY2026/27. 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-recover or under-recover during the FY2026/27 tariff review process.

4.7. To determine an increase applicable for FY2026/27, the Licensee submitted its FY2026/27 cost (budgeted cost plus surplus) as requested by NERSA, together with the total budgeted required revenue that amounted to R75.2 million for the FY2026/27 tariff review process.

Table 5: Municipality's RR

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	15 429 301	**17 126 524**	17 897 218	-	17 897 218
Eskom bulk purchases	kWh	**18 137 345**	**20 132 453**	21 038 413	-	21 038 413
Independent Power Producers Conventional	kWh		-	-	-	-
Independent Power Producers Renewable Energy	kWh		-	-	-	-
Self Generation	kWh		-	-	-	-
Other			-	-	-	-
Total Energy Requirements	**kWh**	**18 137 345**	**20 132 453**	**21 038 413**		**21 038 413**
Total Losses	kWh	2 708 044	3 005 929	3 141 195		3 141 195
Technical losses	kWh	2 176 481	2 415 894	2 524 610	-	2 524 610
Non-technical losses	kWh	-531 562	-590 034	-616 586	-	-616 586
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	14,93%	14,93%	14,93%		14,93%
Cost drivers						
Energy purchases from Eskom	Rand	44 652 421	49 260 551	57 142 239	-	57 142 239
other energy purchases					-	
total energy purchases		**44 652 421**	**49 260 551**	**57 142 239**	**0**	**57 142 239**
Cost of technical losses	Rand	5 358 291		6 857 069	0	6 857 069
Non-Technical Losses		-1 308 656		-1 674 703	0	-1 674 703
Other energy purchases	Rand				-	-
Capital expenditure	Rand	14 716 423	15 356 153	15 231 498	-	15 231 498
Operational expenditure (incl. Depreciati	**Rand**	**38 028 544**	**22 191 673**	**25 816 014**	**-16388539**	**9 427 474**
General & Other	**0**	**36 944 088**	**20 794 189**	**24 553 149**	**-15 178 847**	**9 374 302**
Salaries and allowances	Rand				0	0
Materials and supplies	Rand	4 432 679	2 189 986	4 558 285	0	4 558 285
Contracted Services	Rand				0	0
Salaries, wages and allowances (exclu. Repairs and	Rand	1 933 432	1 991 435	2 170 664	0	2 170 664
Payments to consultants (operational work)	Rand				0	0
Eskom debts interest	Rand	28 371 677	14 185 839	15 178 847	-15 178 847	
Current year depreciation	Rand	2 206 299	2 426 929	2 645 353	0	2 645 353
software	Rand				0	0
security	Rand				0	0
vehicle expense	Rand				0	0
insurance	Rand				0	0
other general expenditure	Rand				0	0
Commission Paid	Rand				0	0
Meter reading	Rand				0	0
Shared OPEX	**Rand**	**1 084 456**	**1 397 484**	**1 262 864**	**-1 209 692**	**53 172**
Bad debts (Allowance for Impairment)	Rand				0	0
FBE paid to Eskom	Rand	1 037 116	1 348 251	1 209 692	-1 209 692	0
Charges from other Municipal Departments	Rand				0	0
Operating Leases	Rand				0	
General expenses		**47 340**	**49 234**	**53 172**	**0**	**53 172**
1.Commission Expense	Rand				0	
2. Fleet Costs	Rand				0	
3.Other Expenses	Rand	47 340	49 234	53 172	0	53 172
	Rand				0	
Total Expediture before surplus		88 039 255	71 452 224	88 140 619	-16 388 539	71 752 079
Surplus	Rand	8 803 926	3 572 611	881 406	5 576 281	6 457 687
Total Expenditure including Surplus		96 843 181	75 024 835	89 022 025	-10 812 258	78 209 766
Other revenues	Rand	**-4 507 136**	**-3 450 426**	**-3 692 366**	**0**	**-3 692 366**
Reconnection fees	Rand	55 311	58 077	60 980	0	60 980
New connections	Rand	93 487	98 161	103 069	0	103 069
Free Basic Electricity (Equitable share)	Rand	1 513 338	1 558 739	1 636 675	0	1 636 675
1.Interest earned	Rand	0	0	0	0	
. Other Revenue - Government Grants and Subsidie	Rand	2 845 000	1 735 450	1 891 641	0	1 891 641
2. Other Revenue - Illegal Connections	Rand	0	0	0	0	**0**
Total Allowable Revenus	**Rand**	**92 336 044**	**71 574 409**	**85 329 659**	**-10 812 258**	**74 517 401**
Increase required				***19,22%***	***4,11%***	

4.8. It is important to test the efficiency and prudency of the costs in FY2025/26 since this is the most recently considered revenue in support of the approved tariffs during this period. This forms the basis on which costs for FY2026/27 financial year will be projected using assumptions to calculate RR for that year.

4.9. Furthermore, NERSA has verified all expense items included in the RR 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

4.10. The Licensee applied for a bulk purchase expenditure of R57.1 million which accounts for 71% of total costs, inclusive of the 8% energy loss allowance, in line with the Act that requires only the prudently and efficiently incurred cost to be passed through to customers.

4.11. To derive the FY2026/27 estimate, the Licensee projected the year-to-date amount for FY2025/26, since complete financial year data was unavailable, and estimated that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.12. The Eskom bills were analysed. Eskom interest charges on the outstanding account of R15.2 million were detected and adjusted within the allowable revenue.

Operating Expenditure (OPEX) (including depreciation)

4.13. The Licensee applied for R88.1 million on operational expenditure including depreciation as highlighted in **Error! Reference source not found.** above.

Commented [ED1]: Please confirm whether this should be referenced as Table 5 instead of Table 3.

4.14. The Municipality adjusted the expenditure linked to the FY2025/26 tariffs, increasing it from R71.6 million to a budgeted amount of R88.1 million, reflecting a 23% increase in costs.

4.15. Operational expenses include depreciation amounting to R2.7 million which was verified against asset values in the financial position using a straight-line method.

4.16. NERSA adjusted operating expenses on Eskom interest charge on the outstanding account of R15.2 million, which were detected and adjusted within the allowable revenue.

Surplus

14.17. LLM's electricity RR included a surplus provision of approximately R8.8 million, calculated by applying a surplus factor of 10% to the electricity business operating expenditure, inclusive of bulk electricity purchase costs. In determining the allowable RR, the Licensee had included certain inefficient and non-allowable costs, specifically interest charges associated with Eskom-related debt obligations. The municipality was in arrears on its bulk electricity account with Eskom, amounting to approximately R15.2 million at the time of assessment. These interest-related costs were verified against Eskom invoices and supporting documentation and were subsequently excluded from the allowable RR on the basis that they arose from operational inefficiencies and did not constitute prudently incurred costs recoverable through electricity tariffs.

14.18. The applied surplus margin of 10% was benchmarked against the established target range of 10% – 20% prescribed in the approved NERSA COS Framework, EPP Policy Position 1, D-Form submissions and the Trial Balance to ensure that the return remains commensurate with the level of risk associated with the electricity business. Qualitatively risk consideration included revenue collection risks, such as non-payment, indigent levels and bad debts. The Municipality has budgeted R0 for bad debt write-offs in FY2026/27.

14.19. Operational risks were identified, particularly those relating to high energy losses and ageing infrastructure and financial deficits. Municipal energy losses for FY2026/27 are projected at 14.93%.

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

14.21. Following adjustments arising from inefficient costs, NERSA revised the surplus downwards from R8.8 million (10%) to R6.5 million (9%).

Page 17 withheld by Unmapped Dataworks.

This page is part of the decision's record of public participation, objections or comments, which names members of the public. We do not republish it.

The whole decision is on NERSA's website: https://www.nersa.org.za/file/9248/LetsemengLM2026_27RFD.pdf

Page 18 withheld by Unmapped Dataworks.

This page is part of the decision's record of public participation, objections or comments, which names members of the public. We do not republish it.

The whole decision is on NERSA's website: https://www.nersa.org.za/file/9248/LetsemengLM2026_27RFD.pdf

Municipal Tariff	2025/26 Approved Increase	Proposed % Increase	2026/27 Proposed Increase	2026/27 Recommended Increase	2026/27 Recommended % Increase
Energy Charge (R/kwh)	3,10	13,40%	3,52	3,38	9,01%

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. The Energy Regulator, having considered the LLM's tariff application, supporting information, stakeholder inputs and applicable legal framework, approves the tariff adjustments as set out in this RfD.

9.2. The results of the Cost Adjustment Structure reflected an adjusted tariff increase of 4.11% after the exclusion of inefficient costs. However, considering the Licensee's financial sustainability and the need to ensure its ability to meet obligations related to bulk electricity purchases, NERSA approved a tariff increase of 9.01% in line with ERTSA. This approval was intended to enable the Licensee to adequately service its bulk electricity purchase account while maintaining the continued provision of electricity services.

End.