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

Laingsburg Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered Laingsburg 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 the Tariff Analysis Section 7 from page 18 of the RfD document.

Based on the available information, public comments and the analysis, the REC, at its meeting held on 6 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; and

3. that the municipality is required to 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.

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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
IPP	Independent Power Producer
LM	Laingsburg Municipality
MFMA	Municipal Finance Management Act, 2003
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. Laingsburg Municipality (LM) is situated in the Western Cape. The municipality's customer base is predominantly commercial, with this category accounting for 58.73% of total electricity sales. LM 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	1 473	22.34%	664
Domestic Conventional	1 133	17.18%	183
Manufacturing	1 709	47.37%	8
Commercial Prepaid	150	32.15%	30
Commercial Conventional	1 753	26.59%	87
Streetlights	71	1.08%	0
Own use	304	4.61%	17
Total	**6 593**	**100**	**989**
Free Basic Electricity (FBE)	207	7.94	345

1.3. NERSA received LM'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. LM implemented a 12.00% average price increase in the 2025/26 financial year and is applying for the same increase 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 30 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 LM'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 6 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 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 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 following timelines 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 LM, the assessment relied on the Distribution forms (D-forms) for the 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. LM's electricity business operated at a surplus margin of 23.78%[1] in the FY2024/25, a marginal decline from 25.35% in the FY2023/24. The decline in surplus is primarily attributed to the licensee's cost pressures outpacing its sales revenue during the reporting period. The 11.9% revenue growth in the current reporting period has been eroded by the expenditure growth of 16.9%. This gap is the core driver of the declining surplus margin, although this position is still considered sustainable.

3.3. Table 2 below shows that LM's energy losses improved from 9.99% in the FY2023/24 to 9.65% in the FY2024/25. This falls within moderate limits and ought to be monitored through existing controls and energy loss reduction plans.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
Performance Indicator	**FY2023/24 (Approved)**	**2024/25 (Actuals)**
Percentage Surplus (Deficit): (%)	25.35	23.78
Percentage Energy Losses: (%)	9.99	9.65

3.4. Based on the above information, the financial position of the municipality's electricity business, although declining, remains strong, as evidenced by the robust surplus margin of 23.78%, and its energy losses are maintained at moderate level of 9.65%. The financial controls in place are evidently effective, and the licensee is encouraged to continue managing these. The municipality should continue implementing its debt collection and credit control policy and intensify its auxiliary measures to remain in this position.

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

4. DETERMINATION OF LAINGSBURG 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 3 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 R26.11 million in column 4 is for the FY2025/26 tariff review period and is the basis upon which the tariffs are adjusted for approval by the Energy Regulator, as shown in Table 3 below.

4.6. The FY2024/25 variance between budgeted and actual Total Allowable Revenue in column 3 reflects lower than planned expenditure and lower than anticipated *other income* offsets, rather than regulatory adjustments. The municipality has incorporated these outcomes into the forward-looking FY2025/26 and FY2026/27 revenue requirements.

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 R32.03 million for the FY2026/27 tariff review process with no energy loss adjustment applicable. This results in a 22.68% increase in allowable revenue for FY2026/27 relative to the previous financial period. The submitted application reflects an ambitious operating cost forecast, with an aggressive 50% increase in the projected surplus position compared to the previous year, along with a projected 2% nominal growth in *other income*. The tariff increase will provide marginal relief to support

organisational operations, although substantial historical under-recovery pressures remain.

Table 3: 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	6 593 639	6 593 639	-	0%	6 705 210	6 705 211	0%	-	6 705 211
Eskom bulk purchases	kWh	7 298 197	7 298 197	-	0%	7 349 284	8 231 198	12%	-	8 231 198
Independent Power Producers Conventional	kWh		-	-		-	-		-	-
Independent Power Producers Renewable Energy	kWh		-	-		-	-		-	-
Self Generation	kWh		-	-		-	-		-	-
Other			-	-		-	-		-	-
Total Energy Requirements	**kWh**	**7 298 197**	**7 298 197**	**0**	**0%**	**7 349 284**	**8 231 198**	**12%**		**8 231 198**
Total Losses	kWh		704 558			644 074	1 525 987			1 525 987
Technical losses	kWh		704 558			644 074	987 744		-	987 744
Non-technical losses	kWh		0			0	-538 243		-	-538 243
Allowed losses	%		**9.65%**			**8.76%**	**12.00%**			**12.00%**
Total Energy losses	%		9.65%			8.76%	18.54%			18.54%
Cost Drivers										
Energy purchases from Eskom	Rand	11 102 860	14 818 560	3 715 699	33%	16 700 000	18 400 200	9%	-	18 400 200
Other energy purchases			-	-		-	-	0%	-	-
Total energy purchases	Rand	**11 102 860**	**14 818 560**	**3 715 699**	**33%**	**16 700 000**	**18 400 200**	**10%**	**0**	**18 400 200**
Cost of technical losses	Rand	1 440 423	1 430 564	(9 859)	-1%	1 463 550	2 208 024	51%	0	2 208 024
Non-Technical Losses	Rand	-	-	-	0%	-	-	0%	-	-
Other energy purchases	Rand					-	-		-	-
Capital expenditure	Rand	-	-	-	0%	-	-	0%	-	-
Operational expenditure (incl. Depreciation)	**Rand**	**13 079 275**	**2 017 053**	**(926 994)**	**-85%**	**4 510 354**	**4 988 725**	**11%**	**-**	**4 988 725**
General & Other	**Rand**	**1 873 933**	**1 396 454**	**(477 480)**	**-25%**	**2 000 700**	**1 797 125**	**-10%**	**0**	**1 797 125**
Salaries and allowances	Rand	0	465 824	465 824	444913533806%	671 200	714 125	6%	-	714 125
Materials and supplies	Rand	953 105	27 011	(926 094)	-97%	60 000	70 000	17%	-	70 000
Contracted Services	Rand	107 648	233 825	126 176	117%	600 000	343 500	-43%	-	343 500
Salaries, wages and allowances (excl. Repairs and Maintenance)	Rand	474 869		(474 869)	-100%	0	0	#DIV/0!	-	0
Payments to consultants (operational work)	Rand		-	-		-			-	0
Eskom debts interest	Rand		-	-		-	-		-	-
Current year depreciation	Rand	338 311	669 793	331 482	98%	669 500	669 500	0%	-	669 500
Repairs and Maintenance	Rand		0	0					0	
Other creditors interests	Rand			0	#DIV/0!			#DIV/0!	0	0
									0	
Shared OPEX	**Rand**	**1 070 114**	**620 599**	**(449 514)**	**-42%**	**2 509 654**	**3 191 600**	**27%**	**0**	**3 191 600**
Bad debts (Allowance for Impairment)	Rand	867 519	305 112	(562 407)	-65%	817 040	2 006 400	146%	-	2 006 400
FBE paid to Eskom	Rand	202 595	67 262	(135 332)	-67%	298 100	265 200	-11%	-	265 200
Charges from other Municipal Departments	Rand	-	0	0	#DIV/0!	920 000	920 000	0%	-	920 000
Operating Expenses	Rand	-		0						0
Administration charges	Rand		0	0						
Operating Leases	Rand		-	-		-	-		-	-
General expenses		**0**	**248 225**	**248 225**	**0%**	**474 514**	**0**	**-100%**	**0**	**0**
1.Insurance	Rand			-	#DIV/0!			#DIV/0!	-	0
2. Fleet Costs	Rand			-	#DIV/0!			#DIV/0!	-	0
3.Other Expenses	Rand		248 225	248 225	#DIV/0!	364 500	0	-100%	-	0
Total Expediture before surplus	Rand	25 622 558	18 266 176	2 778 846	-29%	22 673 904	25 596 949	**13%**	0	25 596 949
Surplus	Rand	2 523 588	5 252 272	2 728 684	108%	6 102 960	9 165 027	**50%**	-	9 165 027
Total Expenditure including Surplus	**Rand**	**28 146 147**	**23 518 449**	**5 507 530**	**-16%**	**28 776 864**	**34 761 976**	**21%**	**-**	**34 761 976**
Other Income	Rand	**-386 676**	**-1 624 708**	**(1 238 032)**	**320%**	**-2 670 567**	**-2 734 180**	**2%**	**0**	**-2 734 180**
5. Other Revenue - Illegal Connections	Rand		-	-		-	-		-	-
Total Allowable Revenue	**Rand**	**27 759 471**	**21 893 741**	**4 269 498**	**-21%**	**26 106 296**	**32 027 796**	**23%**	**-**	**32 027 796**
Increase Required							***12.00%***			***12.00%***

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 FY2026/27, the licensee has applied for a bulk purchase expenditure of of R18.40 million, which accounts for 59% of total costs, inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices in the FY2024/25.

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 R5 million for the FY2026/27 including depreciation. This represents 14% of the Total Costs, adjusted upward from R4.51 million in the FY2025/26, and translates to a 10.61% increase from the previous year. The licensee has applied a moderate adjustment approach in its budgeting to run its operations.

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 R25 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 R0.670 million in both the FY2024/25 and FY2025/26 and projected the same amount 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 surplus position of R9.16 million, which is based on a 26% return on OPEX including bulk purchases, and rose by 50.17% from the previous year relative to Total Expenditure. The licensee cited having submitted an unfunded budget for the FY2026/27, with the objective of achieving a funded position over the Medium-Term Revenue and Expenditure Framework (MTREF).

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.

4.19. NERSA is of the view that the return applied for by the licensee is reasonable to keep the licensee sustainable. Although not in line with the 10-20% target range as determined in the COS Methodology, the surplus level complies with the applicable principles, and it is justified in the manner in which LM 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

4.20. While the COS study outcome reflected an average tariff increase of 40.50% for the licensee to achieve full cost reflectivity, the municipality adopted a three-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.

4.21. 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.

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

4.23. Furthermore, the Cost of Supply study is based on forecasts and, as such, does not guarantee that the results are in fact true costs to supply. Therefore, the licensee has reviewed the results and determined its own revenue requirements to ensure financial sustainability. In this regard, the municipality will be required to submit a report accounting for all unverified costs.

4.24. The cost adjustment tool indicates an increase of 19.17% in the revenue requirement for the FY2026/27. However, the licensee has applied for a lower average tariff increase of 12.00% to review its tariffs for the FY2026/27, the same as in FY2025/26, as part of its phased-in strategy to getting closer to its tariffs being cost-reflective. Taking into consideration the previously mentioned factors, this proposed increase is expected to keep the licensee operational and sustainable.

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7.1.5. Due to the municipality's extremely small revenue base, and its heavy reliance on grants and traffic fines, with service charges contributing only 32% to total revenue, the allocation from the electricity function to administrative costs will require a 15% contribution. Therefore, it is of the utmost importance that the municipality secures at least an increase sufficient to cover the rise in bulk purchases, which will, in itself, still result in a shortfall due to the 15% allocation of administrative costs to be funded from electricity revenue.

7.1.6. From a regulatory perspective, approval of the application is warranted, as it aligns with an approved COS study, incorporates Eskom's approved bulk tariff increase, and follows a phased, affordability-conscious approach. Rejecting the application would likely worsen the cost under-recovery and financial sustainability risks.

Municipal Impact Analysis

7.1.7. 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	Very small customer base, rural area of supply, high network costs.
Proposed Increase	12.00%
Cost of Supply Results	40.50%
Customer Impact	Severe affordability constraints on households.
Revenue Impact (Approved)	Will present marginal relief only, but chronic under-recovery constraints remain.
Revenue Impact (Rejected)	High risk of financial failure of electricity service.
Regulatory Considerations	Extremely high COS due to scale inefficiency.

Clawback / disbursement mechanism

7.1.8. 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 lower actual expenditure resulted in a lower 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 clawed back; and (ii) the impact is addressed through forward-looking tariff determinations, subject to prudency, affordability, and actual cash collection assessments. The proposed 12.00% tariff increase is therefore forward-looking, and not retrospective, as discussed in section 4.6 above.

7.2. **TARIFF ANALYSIS**

1. Domestic - Low Prepaid (20A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	300.00	12.00%	336.00	336.00	12.00%
Energy Charge (c/kWh)					
Domestic 0-450kWh	245.55	0%	N/A	N/A	0%
Domestic >450kWh	248.88	12.00%	278.00	278.00	12.00%

2. Domestic - High Prepaid (20A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	300.00	12.00%	336.00	336.00	12.00%
Energy Charge (c/kWh)					
Domestic 0-450kWh	289.20	0%	N/A	N/A	0%
Domestic >450kWh	293.11	12.00%	327.41	327.41	12.00%

3. Domestic - High Prepaid (30A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	300.00	12.00%	336.00	336.00	12.00%
Energy Charge (c/kWh)					
Domestic 0-450kWh	291.55	0%	N/A	N/A	0%
Domestic >450kWh	293.11	12.00%	327.41	327.41	12.00%

4. Domestic - High Prepaid (60A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	700.00	12.00%	780.00	780.00	12.00%
Energy Charge (c/kWh)					
Domestic 0-450kWh	291.55	0%	N/A	N/A	0%
Domestic >450kWh	293.11	12.00%	327.41	327.41	12.00%

5. Domestic - High Conventional (30A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	300.00	12.00%	336.00	336.00	12.00%
Energy Charge (c/kWh):					
Domestic 0-350kWh	287.36	12.00%	322.41	322.41	12.00%
Domestic >350kWh	291.55	12.00%	327.41	327.41	12.00%

6. Domestic - High Conventional (45A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	471.00	12.00%	528.00	528.00	12.00%
Energy Charge (c/kWh)					
Domestic 0-350kWh	287.36	12.00%	322.41	322.41	12.00%
Domestic >350kWh	293.11	12.00%	327.41	327.41	12.00%

7. Domestic - High Conventional (60A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	700.00	12.00%	780.00	780.00	12.00%
Energy Charge (c/kWh)					
Domestic 0-350kWh	287.36	12.00%	322.41	322.41	12.00%
Domestic >350kWh	293.11	12.00%	327.41	327.41	12.00%

8. Commercial - Prepaid (20A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	300.00	12.00%	340.00	340.00	12.00%
Energy Charge (c/kWh)	389.14	12.00%	435.84	435.84	12.00%

9. Commercial - Prepaid (60A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	700.00	12.00%	780.00	780.00	12.00%
Energy Charge (c/kWh)	394.61	12.00%	441.96	441.96	12.00%

10. Commercial - Prepaid (90A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	1,800.00	12.00%	2,020.00	2,020.00	12.00%
Energy Charge (c/kWh)	406.80	12.00%	455.62	455.62	12.00%

11. Commercial - Conventional (71-100A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	1,800.00	12.00%	2,020.00	2,020.00	12.00%
Energy Charge (c/kWh)	309.19	12.00%	346.29	346.29	12.00%

12. Commercial - Conventional (101-150A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	2,040.00	12.00%	2,280.00	2,280.00	12.00%
Energy Charge (c/kWh)	309.19	12.00%	346.29	346.29	12.00%

13. Commercial - Conventional (151-200A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	2,350.00	12.00%	2,630.00	2,630.00	12.00%
Energy Charge (c/kWh)	309.19	12.00%	366.29	366.29	12.00%

14. Commercial - Conventional (201-250A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	2,600.00	12.00%	2,910.00	2,910.00	12.00%
Energy Charge (c/kWh)	309.19	12.00%	366.19	366.19	12.00%

15. Industrial - Large Users (251-300A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	9,260.00	12.00%	10,370.00	10,370.00	12.00%
Energy Charge (c/kWh)	335.14	12.00%	375.36	375.36	12.00%

16. Industrial - Large Users (301-400A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	12,300.00	12.00%	13,780.00	13,780.00	12.00%
Energy Charge (c/kWh)	335.14	12.00%	375.36	375.36	12.00%

17. Industrial - Large Users (401-500A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	14,209.00	12.00%	15,910.00	15,910.00	12.00%
	335.14	12.00%	375.36	375.36	12.00%

18. Industrial - Large Users (501-600A)	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	19,880.00	12.00%	22,270.00	22,270.00	12.00%
Energy Charge (c/kWh)	335.14	12.00%	375.36	375.36	12.00%

19. Industrial - Large Users (601-700A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	21,940.00	12.00%	24,570.00	24,570.00	12.00%
Energy Charge (c/kWh)	335.14	12.00%	375.36	375.36	12.00%

20. Industrial - Large Users (701-800A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	28,260.00	12.00%	31,650.00	31,650.00	12.00%
Energy Charge (c/kWh)	335.14	12.00%	375.36	375.36	12.00%

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

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

End.