NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Draft Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Maquassi Hills Local Municipality

THE DECISION

1. At its meeting held on 4 May 2026, the Regulator Executive Committee (REC) considered the Maquassi Hills Local 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 of this document below.

2. Based on the available information and the analysis performed, the REC decided:

   a) to approve the tariffs that are based on the cost drivers, as recommended in the tariff analysis section, for implementation by the Licensee with effect from 1 April 2026;
   b) to note the cost drivers submitted by the licensee;
   c) that the licensee must submit a report accounting for all the costs identified in its cost of supply (COS) study to enable the National Energy Regulator of South Africa (NERSA) to perform its independent verification or audit process by 31 January 2027; and
   d) that the licensee must submit quarterly progress reports on the efficiency improvement measures taken to reduce high energy losses and deficits to enable NERSA to monitor the implementation thereof by 30 September 2026.

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ABBREVIATIONS AND ACRONYMS

COS	Cost of Supply
D-form	Distribution form
ERTSA	Eskom Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IPP	Independent Power Producer
MHLM	Maquassi Hills 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 to be implemented on 1 July of each financial year.

1.2. The Maquassi Hills Local Municipality (MHLM) is located in the Northwest. The licensee has 5 646 customers, with 53.87% of total electricity sales attributed to industrial customers, followed by domestic customers at 31.02%.

1.3. The municipality provided its indigent customers with 50 kWh of Free Basic Electricity (FBE) per month. The municipality further reported 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	***KWh***	***% MWh***	***Customer numbers***
Domestic(Prepaid)	6 546	22,03%	2 494
Domestic(Conventional)	2 670	8,99%	508
Manufacturing	16 004	53,87%	57
Commercial	4 272	14,38%	2 587
Own use	216	0,73%	
TOTAL	**29 708**	**100,00%**	**5 646**
FBE	**11**	**0,12%**	**3**

1.4. NERSA received MHLM's tariff application and its cost of supply (COS) study on 31 March 2026.

1.5. The licensee applied for an increase of 11.6% in the 2025/26 financial year and is proposing an increase of 8,7% for the 2026/27 financial year.

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

2. LEGAL 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 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 the Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

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

2.1.4. This section provides the legal and policy context within which the Energy Regulator evaluated and determined the municipal electricity tariff application for the 2026/27 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 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:

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 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 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 the Energy Regulator form an essential component of the municipal tariff approval process and are intended to ensure transparency, accountability, and fairness in regulatory decision-making.

2.5. Policy Framework: Electricity Pricing Policy (2008)

2.5.1. In addition to the statutory framework, the Energy Regulator must have regard to the EPP. The EPP establishes national policy principles for electricity tariff setting, including cost reflectivity, transparency, economic efficiency and equity.

2.5.2. Policy Position 1 of the EPP provides that the revenue requirement for a regulated licensee must be set at a level that covers the full cost of production, including a reasonable risk-adjusted margin or return on appropriate asset values.

2.5.3. Policy Position 2 states that electricity tariffs must accurately reflect the efficient cost of providing electricity services, and that the average tariff level must be set to recover the approved revenue requirement.

2.6. Cost of Supply Studies

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

2.6.2. Paragraph 8.1 of the EPP notes that COS methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 requires electricity distributors to undertake COS studies at least every five years, or when significant structural changes occur in the customer base or cost structure.

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

2.7. Judicial Oversight of the Tariff Approval Process

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

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to the 2025/26 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 assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

2.7.4. NERSA subsequently launched a variation application seeking to vary the timelines set by the Court on 4 December 2025, in light of the practical difficulties arising in relation to NERSA's compliance with the Court order. The Court, having heard NERSA's application, granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. Court-Directed Timelines

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

a) Written notice of bulk tariffs must be communicated by 6 March 2026.
b) Municipal tariff applications must be submitted by 31 March 2026.
c) Public participation processes must be concluded by 21 April 2026.
d) NERSA decisions must be published by 11 May 2026.

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

a) Written notice of bulk electricity tariffs must be communicated by 31 January each year.
b) Municipal tariff applications must be submitted to NERSA by 20 March each year.
c) Municipal tariffs and the tariff reasons for decision documents 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 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 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 2026/27 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In assessing the financial and technical performance, NERSA relied on the 2024/25 Distribution forms (D-forms) the licensee submitted with its tariff application. The D-forms' information was validated by NERSA against the relevant source documents submitted by the municipality (i.e. the trial balance/annual financial statement). Hence, the information provided in the D-forms is considered reasonable for the analysis of the tariffs.

Table 2: Performance indicators

Performance indicators	**2024/25**	**2023/24**
Percentage surplus/(Deficit): **(%)**	-22.82	-12,00
Energy Losses: (**%)**	28.54	10.99

Percentage Surplus

3.2. The municipality's deficit increased from 12% in the 2023/24 financial year to 22.82% in the 2024/25 financial year. MHLM attributes this decline to high energy losses, which negatively impacted cost recovery and the financial performance of the electricity business.

Energy Losses

3.3. MHLM's energy losses have increased from 10.99% in the 2023/24 financial year to 28.54% in 2024/25FY. The municipality indicated that the high energy losses are mainly non-technical losses due to non-payments, meters that were not working and could not be replaced on time, meter tampering, bypasses and old infrastructure. The municipality submitted the energy loss report in 2025/26FY, and the results will be visible in the next

financial year. The municipality must continue to monitor high energy losses in line with the plan to improve its financial and technical performance.

3.4. Table 3 below reflects the revenue impact analysis under two energy loss scenarios, namely:

3.4.1. the actual losses of 28.54%, representing the current operating position; and

3.4.2. a reduced loss level of 12% and 6%, reflecting an efficient and regulatory-aligned scenario, for assessment purposes.

Table 3: Assessment of energy losses and revenue impact – 2024/25FY

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	203,82		
Sales kWh	29 708 297,60	36 585 707,56	39 080 187,62
Purchases kWh	41 574 667,68	41 574 667,68	41 574 667,68
Losses kWh	11 866 370,08	4 988 960,12	2 494 480,06
Losses percentage	**28,54%**	**12,00%**	**6,00%**
Additional Energy (kWh)		6 877 409,96	9 371 890,02
Additional Revenue (Rands)		14 017 341,22	19 101 519,48
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 61 682 247,00	R 75 699 588,22	R 80 783 766,48
Total Expenses (Rands)	R 75 756 990,69	R 75 756 990,69	R 75 756 990,69
Net Profit (Loss)	R -14 074 743,69	R -57 402,46	R 5 026 775,79
Percentage Surplus/Deficit	**-22,82%**	**-0,08%**	**6,22%**

3.5. NERSA assessed the impact of the licensee's energy losses on the financial sustainability of the electricity undertaking by comparing the current loss level of 28.54% against scenarios where losses are reduced to the regulatory benchmark of 12% and a more efficient level of 6%.

3.6. The assessment indicates that, based on energy purchases of 41 574 667.68 kWh, the current energy losses amount to 11 866 370.08 kWh. At the approved loss level of 12%, energy losses would decrease to 4 988 960.12 kWh, resulting in an additional 6 877 409.96 kWh available for sale and generating approximately R14 017 341.22 in additional revenue. Under this scenario, the operating deficit would improve substantially from R14 074 743.69 (22.82%) to approximately R57 402.46 (0.08%), effectively achieving a financial break-even position.

3.7. Furthermore, if energy losses were reduced to 6%, losses would decrease to 2 494 480.06 kWh, making an additional 9 371 890.02 kWh available for sale. This would generate approximately R19 101 519.48 in additional

revenue, resulting in an operating surplus of R5 026 775.79, equivalent to 6.22% of total revenue.

3.8. The assessment demonstrates that the licensee's current financial deficit is primarily driven by excessive technical and non-technical energy losses rather than insufficient tariff revenue. Significant reductions in energy losses would materially improve revenue recovery without imposing additional tariff increases on consumers.

3.9. NERSA therefore emphasises that reducing energy losses should remain a strategic priority for the licensee. This should include targeted investment in network refurbishment and maintenance, replacement of ageing infrastructure, strengthening of metering systems, implementation of revenue protection initiatives, regular energy balancing and enhanced measures to address electricity theft and illegal connections. Such interventions will improve operational efficiency, enhance revenue collection, reduce pressure on future tariff increases and contribute to the long-term financial sustainability of the electricity distribution business.

General Conclusion on the Financial and Technical Indicators

3.10. Based on the above information, the technical and financial performance of the municipality's electricity department is not satisfactory. This is evidenced by the increase in energy losses from 10.99% in the 2023/24 financial year to 28.54% in the 2024/25 financial year.

4. DETERMINATION OF MHLM'S TARIFFS BASED ON THE EXISTING COS STUDY

4.1. The licensee submitted its existing COS study, which supports the tariff application that will be approved in the 2026/27 financial year. The licensee's COS study included all requirements of NERSA's approved COS Framework (i.e. revenue requirement, cost functionalisation, cost classification, cost allocation and rate setting).

4.2. The revenue requirement for MHLM was determined using a cost-plus methodology in accordance with the NERSA COS Framework. Aligned with the NERSA COS Framework, costs were built up from verified bulk purchases (Eskom invoices) and verified electricity-related operating costs (tested against D-Forms, trial balance and audited annual financial statement).

4.3. Section 18.7 of the October 2023 NERSA-approved COS 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 based on that.

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

i. Column 1 is the actual 2024/25 licensee performance and is sourced from the D-forms that are based on the audited annual statements.
ii. Column 2 is for the 2025/26 revenues and electricity volume that are the base for 2026/27 tariffs. The figures were tested for reasonableness (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 financial year ends, the actual figures will be verified using the audited statements.
iii. Column 3 is for the licensee's submitted 2026/27 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 or justify the budgeted figures.
v. Column 5 is for NERSA's recommended amounts that sum up to allowable revenues the licensee must recover in 2026/27FY.

4.5. The licensee submitted its COS study in 2025, developed by Sustainable Energy Africa (SEA) and various other stakeholders to determine electricity tariffs for 2026/27FY. The study complied with the NERSA-approved COS Framework and followed the five-step methodology (revenue requirement, cost functionalisation, cost classification, cost allocation and rate setting).

4.6. The licensee applied for a total allowable revenue (TAR) of R181 764 890 for the 2026/27 financial year. Following its assessment of the prudency and efficiency of the submitted costs, NERSA disallowed R12 809 068, resulting in an approved total allowable revenue of R168 955 822, representing a reduction of approximately 7.05% from the amount applied for.

Table 4: Revenue requirement components

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	29 708 298	30 005 381	30 605 488	-	30 605 488
Eskom bulk purchases	kWh	45 014 757	45 464 905	46 374 203	-	46 374 203
Total Energy Requirements	**kWh**	**45 014 757**	**45 464 905**	**46 374 203**		**46 374 203**
Total Losses	kWh	15 306 460	15 459 524	15 768 715		15 768 715
Technical losses	kWh	5 401 771	5 455 789	5 564 904	-	5 564 904
Non-technical losses	kWh	-9 904 689	-10 003 736	-10 203 811	-	-10 203 811
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	34,00%	34,00%	34,00%		34,00%
Cost drivers						
Energy purchases from Eskom	Rand	94 167 755	106 145 893	115 709 638	-	115 709 638
other energy purchases		-	-	-	-	-
total energy purchases		**94 167 755**	**106 145 893**	**115 709 638**	**-**	**115 709 638**
Cost of technical losses	Rand	-				
Non-Technical Losses						
Operational expenditure (incl. Depreciation)	**Rand**	**60 413 468**	**50 230 181**	**71 128 164**	**(34 738 333,97)**	**36 389 830**
General & Other	0	32 229 033	21 075 955	36 523 044	(12 809 068,15)	23 713 975
Salaries and allowances	Rand	5 480 087	5 754 091	6 005 566		6 005 566
Materials and supplies	Rand	5 209 411	5 490 719	5 787 218	-	5 787 218
Contracted Services	Rand	5 925 048	6 245 000	8 335 048	-	8 335 048
Current year depreciation	Rand	3 415 375	3 586 144	3 586 144	-	3 586 144
Eskom debts interest	Rand	12 199 113	-	12 809 068	(12 809 068,15)	-
Shared OPEX	Rand	28 184 435	29 154 226	34 605 121	-	12 675 855
Bad debts (Allowance for Impairment)	Rand	23 871 637	24 349 070	29 540 486		7 611 220
General expenses	Rand	4 312 798	4 805 156	5 064 635		5 064 635
Total Expediture before surplus	Rand	**144 676 534**	**146 372 338**	**176 633 992**	**-**	**176 633 992**
Surplus	Rand	4 340 296	4 391 170	5 299 020		5 299 020
Total Expenditure Including Surplus	Rand	149 016 830	150 763 509	181 933 012	-	181 933 012
Other revenues	Rand	**-86 582**	**-90 045**	**-168 122**	**-**	**-25 993 748**
Reconnection fees	Rand	86 582	90 045	168 122	-	168 122
Total Allowable Revenus	**Rand**	**148 930 249**	**150 673 464**	**181 764 890**	**(12 809 068)**	**168 955 822**
increase required				*20,63%*	*12,13%*	

4.7. The reduction in the allowable revenue is primarily attributable to the disallowance of Eskom debt interest of R12 809 068, which NERSA determined does not constitute an efficient cost of providing the regulated electricity distribution service. Financing costs arising from overdue debt do not form part of the efficient cost base and should therefore not be recovered through customer tariffs. Consequently, the associated operational expenditure was reduced from R71 128 164 to R36 389 830, while the general and other cost category was reduced from R36 523 044 to R23 713 975.

4.8. The approved allowable revenue provides for the recovery of prudent and efficient costs necessary to render the regulated electricity distribution service.

Bulk Purchases

4.9. For the 2026/27 financial year, the licensee has applied for a bulk purchase expenditure of R115 709 638, which accounts for 68% of total costs inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices.

4.10. The licensee projected bulk electricity purchases of 46 374 203 kWh for the 2026/27 financial year, compared to 45 464 905 kWh submitted in the COS study and 45 014 757 kWh recorded in the 2024/25 financial year. The projected energy purchases reflect an increase of approximately 2% over the COS submission and are intended to meet forecast electricity demand while accommodating projected technical and non-technical energy losses.

4.11. To arrive at the 2026/27 estimate, the licensee provided the year-to-date figures for 2024/25 and estimated that this cost item would increase by 9,01%, in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

Operating Expenditure (Including Depreciation)

4.12. The licensee applied for operational expenditure (including depreciation) of R71 128 164 for the 2026/27 financial year.

4.13. However, NERSA found that Eskom's debt interest amounting to R12 809 068 does not constitute an efficient cost of providing the regulated electricity distribution service. Interest charges arise from historical financing arrangements and overdue debt and should not be recovered through electricity tariffs. Accordingly, this cost was disallowed in full.

4.14. Following the regulatory adjustment, the approved operational expenditure amounts to R36 389 830, representing a reduction of R34 738 334 (approximately 48.8%) from the amount applied for. The adjustment also resulted in the reduction of the general and other cost category from R36 523 044 to R23 713 975.

Surplus

4.15. The licensee applied for an operating surplus of R5 299 020 for the 2026/27 financial year. The projected surplus reflects a prudent increase to support

the long-term financial sustainability of the electricity distribution business.

4.16. NERSA assessed the proposed surplus in the context of the licensee's operational requirements, the condition of the electricity distribution network and the need to maintain a financially sustainable electricity undertaking. The assessment considered that a reasonable operating surplus is necessary to provide a financial buffer against unforeseen operational and financial risks that may arise during the financial year.

4.17. Given the municipality's high energy losses, increasing bulk electricity purchase costs, aging electricity infrastructure, and constrained financial position, the surplus serves as a financial buffer to mitigate operational and financial risks rather than representing excess profitability.

4.18. The approved surplus of R5 299 020 is considered reasonable and appropriate as it will assist the licensee in funding critical electricity network maintenance, refurbishment and replacement of ageing infrastructure that may not be fully accommodated through routine operating expenditure. The surplus also provides financial flexibility to respond to emergency network failures, strengthen preventative maintenance programmes, improve system reliability and support initiatives aimed at reducing technical and non-technical energy losses.

Conclusion on Costs to Serve

4.19. NERSA assessed the licensee's cost to serve for the 2026/27 financial year in accordance with the COS Framework, taking into account the prudency, efficiency and reasonableness of all cost components. The assessment included a detailed evaluation of projected energy purchases, operational expenditure, shared operating costs, other revenues and the proposed operating surplus.

4.20. Following the assessment, NERSA disallowed R12 809 068 relating to Eskom debt interest, as this expenditure does not constitute an efficient cost directly associated with the provision of the regulated electricity distribution service. Consequently, the total allowable revenue was reduced from R181 764 890 to R168 955 822.

4.21. The approved cost to serve provides for the recovery of prudent and efficient costs required to procure electricity from Eskom, operate and maintain the electricity distribution network, fund depreciation and support the day-to-day delivery of electricity services. It also includes a reasonable operating surplus of R5 299 020, which provides a financial buffer to support preventative and corrective maintenance, refurbishment of ageing

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3. Domestic: Prepaid	2025/26FY Approved Tariffs	2026/27FY Proposed % Increase	2026/27FY Proposed Tariffs	2026/27FY Recommended Tariffs	2026/27FY Recommended % Increase	Analysis and Key Findings
Block 1 (0-50 kWh)	159,2192	10,90%	176,58	176,58	10,90%	The tariff is rebalanced toward energy recovery, with the lower fixed charge increase pulling the weighted average down to 9.40%. The lower fixed charge increase provides some relief.
Block 2 (51 – 350 kWh)	173,2864	10,90%	192,18	192,18	10,90%	
Block 3 (351 – 600 kWh)	315,672	10,90%	350,08	350,08	10,90%	
Block 4 (>600kWh)	288,9936	10,90%	320,49	320,49	10,90%	
Basic/Fixed Charge (R/Month)	257,43	3,40%	266,18	266,18	3,40%	

4. Domestic: Rural: Scale 2:Conventional	2025/26FY Approved Tariffs	2026/27FY Proposed % Increase	2026/27FY Proposed Tariffs	2026/27FY Recommended Tariffs	2026/27FY Recommended % Increase	Analysis and Key Findings
Block 1 (0-50) kWh	194,25	10,90%	215,43	215,43	10,90%	The 9.40% average is achieved through downward weighting of fixed charges, while energy, being the dominant cost driver, rises above average. Rural conventional customers face a systematically higher tariff burden, raising equity concerns. The lower fixed charge increase provides some relief.
Block 2 (51 – 350) kWh	248,93	10,90%	276,05	276,05	10,90%	
Block 3 (351 – 600) kWh	343,53	10,90%	380,97	380,97	10,90%	
Block 4 (>600) kWh	413,23	10,90%	458,25	458,25	10,90%	
Basic Charge: (R/Month)	433,9	3,40%	448,65	448,65	3,40%	

Commercial Customers

5. Commercial Conventional	2025/26FY Approved Tariffs	2026/27FY Proposed % Increase	2026/27FY Proposed Tariffs	2026/27FY Recommended Tariffs	2026/27FY Recommended % Increase	Analysis and Key Findings
Basic Charge: R/month	644,00	1,51%	653,72	665,9	3,40%	The 7.15% average is materially diluted by the lower fixed charge increase, while the core cost driver (energy) rises significantly above the average. Although the headline increase is 7.15%, the effective increase for most commercial customers is significantly higher, driven by the 10.90% rise in energy charges.
Energy Charge: c/kWh	305,33	12,14%	342,40	338,61	10,90%	

6. Commercial prepaid	2025/26FY Approved Tariffs	2026/27FY Proposed % Increase	2026/27FY Proposed Tariffs	2026/27FY Recommended Tariffs	2026/27FY Recommended % Increase	Analysis and Key Findings
Basic Charge: R/month	631,83	3,40%	653,31	653,31	3,40%	The 7.15% average is materially diluted by the lower fixed charge increase, while the core cost driver (energy) rises significantly above the average. Although the headline increase is 7.15%, the effective increase for most commercial customers is significantly higher, driven by the 10.90% rise in energy charges.
Energy Charge: c/kWh	308,75	10,90%	342,40	342,40	10,90%	

Industrial Customers

7. Industrial >100	2025/26FY Approved Tariffs	2026/27FY Proposed % Increase	2026/27FY Proposed Tariffs	2026/27FY Recommended Tariffs	2026/27FY Recommended % Increase	Analysis and Key Findings
Basic Charge: R/month	1 627,28	3,40%	1682,61	1682,610415	3,40%	The tariff is heavily weighted toward variable cost recovery (energy + demand), both increasing at the full Eskom-aligned rate (10.90%), while fixed charges are moderated. However, this results in material effective increases for industrial customers, significantly above any moderated average. The structure sends strong efficiency and demand-management signals, but also introduces competitiveness and revenue risks, particularly if large users respond by reducing grid dependence.
Energy Charge: c/kWh	185,74	10,90%	205,99	205,9865472	10,90%	
Demand Charge (R/kVA)	450,96	10,90%	500,12	500,116929	10,90%	

8. Time of Use	2025/26FY Approved Tariffs	2026/27FY Proposed % Increase	2026/27FY Proposed Tariffs	2026/27FY Recommended Tariffs	2026/27FY Recommended % Increase	Analysis And Key Findings
Basic Monthly: R/month	1553,37	3,40%	1606,18	1606,182	3,40%	Structurally, customers are primarily exposed to the 10.90% increase (energy-driven tariff). While the 3.40% fixed charge increase provides limited relief, most customers will experience effective increases close to the energy escalation level. The tariff strongly incentivises load shifting, efficiency, and power factor correction, but also introduces cost pressures for peak-dependent users and potential demand-side responses that could affect future revenue stability.
Energy charges: Low season						
Peak c/kWh	614,92	10,90%	681,94	681,94	10,90%	
Standard c/kWh	220,88	10,90%	244,95	244,95	10,90%	
Off-peak c/kWh	127,44	10,90%	141,33	141,33	10,90%	
Energy charges: High Season						
Energy charges:						
Peak c/kWh	646,86	10,90%	717,37	717,37	10,90%	
Standard c/kWh	247,72	10,90%	274,72	274,72	10,90%	
Off-peak c/kWh	143,93	10,90%	159,62	159,62	10,90%	
Reactive charge c/kvarh	22,22	10,89%	24,64	24,64	10,89%	

9. Time of Use	2025/26FY Approved Tariffs	2026/27FY Proposed % Increase	2026/27FY Proposed Tariffs	2026/27FY Recommended Tariffs	2026/27FY Recommended % Increase	Analysis and Key Findings
Tau Mills						The Tau Mills TOU tariff reflects a uniform escalation of all variable components, while fixed charges are moderated. While the 3.40% fixed charge increase offers minimal relief, most customers will experience effective increases close to the energy escalation level. The tariff continues to provide strong incentives for load shifting, seasonal management and power factor correction, but also introduces significant cost pressure for peak-dependent and inflexible industrial users.
Basic Monthly: R/month	1553,37	3,40%	1606,18	1606,1821	3,40%	
Energy charges: Low Season						
Peak c/kWh	609,87	10,90%	676,35	676,35	10,90%	
Standard c/kWh	212,33	10,90%	235,47	235,47	10,90%	
Off-peak c/kWh	100,08	10,90%	110,99	110,99	10,90%	
Energy charges: High Season						
Energy charges:						
Peak c/kWh	648,3	10,90%	718,97	718,97	10,90%	
Standard c/kWh	236,43	10,90%	262,2	262,2	10,90%	
Off-peak c/kWh	100,08	10,90%	110,99	110,99	10,90%	
Reactive charge c/kvarh	22,42	10,93%	24,87	24,87	10,93%	

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 MHLM's tariff application for 2026/27 financial year, as set out in this reasons for decision document.

End.