NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

by

Thembelihle Local Municipality

THE DRAFT DECISION

At its meeting held on 27 May 2026, the Regulator Executive Committee (REC) considered Thembelihle Local Municipality (TLM)'s tariff application. Based on the facts and evidence presented, REC approved the tariff increases for the 2026/27 financial year (FY) set out below.

a) to approve the tariffs that are based on the Cost of Supply (COS) study are approved as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026; and
b) that the municipality must submit a report accounting for all the costs that have been noted in its COS study, to enable the National Regulator of South Africa (NERSA) to perform its independent verification/audit process by 31 January 2027.

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The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9381/ThembelihleReasonsforDecisionforthe2026_27Final.pdf

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ABBREVIATIONS

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

1.2. The municipality has a population of 16,230 and the rest of the socio-economic information is listed in the figure below. The licensee provides 50 kWh Free Basic Electricity (FBE) to 135 indigent customers.

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

	2024/25		
Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic (Prepaid)	1 105	20,05%	748
Domestic (Conventional)	1 234	22,40%	259
Commercial Prepaid	22	0,00%	7
Commercial Conventional	2 879	52,24%	99
Street Lighting		0,00%	
Sold to other departments	56	1,02%	12
Other Consumers	215	3,90%	8
TOTAL	**5 511**	**100%**	**1 133**

Free Basic Electricity	**213**	**9,12%**	**135**

1.3. NERSA received TLM'S tariff application, together with its COS, on 31 March 2026. The municipality indicated that it had undertaken consultation with affected stakeholders and that its Council approved the proposed tariff increases. Proof of consultation was submitted.

1.4. NERSA followed the notice and comment consultation process as well as oral presentations. TLM'S tariff applications was published on the NERSA website on 31 March 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties.

1.5. NERSA's decision was made on 9 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 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).

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 2026/27FY.

2.2. Statutory Mandate of the Energy Regulator

2.2.1. NERSA is established as a juristic person in terms of section 3 of the NERA. In terms of section 4 of NERA, the Energy Regulator as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. The 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:

a) Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licenses and may issue licensees 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 authorizes the Energy Regulator to impose license conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

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

2.3. Tariff Determination Principles under the ERA

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

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

a) must enable an efficient licensee to recover the full cost of the licensed activity;

b) must allow for a reasonable return commensurate with the risk of the licensed activity;

c) may provide incentives for continued improvement of technical and economic efficiency.;

d) must avoid undue discrimination between customer categories;

e) may permit cross-subsidies of tariffs to certain classes of customers; and

f) may have regard to the need to ensure security of supply, diversity of supply and the promotion of renewable energy.

2.3.3. These statutory requirements form the core legal principles 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 PAJA. Procedural fairness requires that affected parties and the public be afforded a reasonable opportunity to make representations before a final decision is taken.

2.4.2. Public participation processes conducted by the Energy Regulator therefore form an essential component of the municipal tariff approval process and are intended to ensure transparency, accountability and fairness in regulatory decision-making.

2.5. Policy Framework: Electricity Pricing Policy (2008)

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

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

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

2.6. Cost of Supply (COS) Studies

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

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

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

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

2.7. Judicial Oversight of the Tariff Approval Process

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

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to the 2025/26FY municipal tariff approvals did not comply with the procedural requirements of section 4 of PAJA and was therefore unlawful.

2.7.3. However, recognizing 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 which were 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 2026/27FY municipal tariff approvals.

2.8. Court-Directed Timelines

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

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

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

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

2.9. **Conclusion**

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

2.9.2. The reasons 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 2026/2027FY municipal financial year.

3. Financial and technical performance

3.1. In evaluating the financial and technical performance of TLM, the assessment relied on the Distribution forms (D-forms) for the 2024/25YM 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. Table 3 below reflects the municipality's operational and financial performance indicators as obtained from the D-Form submissions for 2023/24FY and 2024/25FY.

3.3. The municipality's electricity business continued to operate at a deficit during the 2024/25FY, although the deficit improved significantly from 68.20% in 2023/24FY to 29,53% in 2024/25FY. This indicates some improvement in financial performance and cost recovery within the electricity service.

3.4. The continued deficit is attributed to several factors including high bulk electricity purchase costs from Eskom, insufficient revenue generated from electricity tariffs, high levels of energy losses, non-technical losses such as electricity theft and illegal connections, inadequate collection levels from consumers and increasing operational and maintenance costs. These factors continue to place financial pressure on the electricity business and impact the municipality's ability to achieve full cost recovery.

3.5. The continued increase in the operating deficit places pressure on the financial sustainability of the electricity business and may negatively affect the municipality's ability to adequately maintain, refurbish and expand electricity infrastructure.

Table 2: Performance indicators

Performance Indicators: Obtained from the D-Form		
Indicators	**2023/24FY**	**2024/25FY**
Percentage Surplus (Deficit)	**-68.20%**	**-29.53%**
Percentage Energy Losses	**23.52**	**20.66**

3.6. Energy losses also decreased from 23.52% in 2023/24FY to 20.66% in 2024/25FY. Despite the improvement, the reported losses remain substantially above the normative benchmark of 12%, indicating persistent technical and non-technical losses within the network. The elevated losses continue to place financial pressure on the electricity business and negatively affect revenue sustainability.

3.7. As shown in Table 4 below, the municipality recorded energy losses of 1 435 365 kWh during the 2023/24FY, representing a significant variance between electricity purchases and billed sales. Based on the Average Selling Price (ASP) of R2.80/kWh, the total estimated revenue loss attributable to energy losses amounted to approximately R4,016 million.

3.8. Although a portion of the losses falls within the NERSA allowance of 12%, the municipality incurred excess losses above the allowable threshold, resulting in an estimated unrecovered revenue of approximately R1,684 million. The high level of losses negatively affected the financial performance of the electricity business and contributed to the continued deficit position.

Table 3 : Foregone revenue due high losses

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	**401,39**		
Sales kWh	5 511 430	6 113 179,60	6 529 987,30
Purchases kWh	6 946 795	6 946 795,00	6 946 795,00
Losses kWh	1 435 364,80	833 615,40	416 807,70
Losses percentage	**20,66%**	**12,00%**	**6,00%**
Additional Energy (kWh)		601 749,40	1 018 557,10
Additional Revenue (Rands)		2 415 386,13	4 088 427,32
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	21 971 967	R 24 387 353,30	R 26 060 394,49
Total Expenses (Rands)	28 460 776	R 28 460 776,23	R 28 460 776,23
Net Profit (Loss)	R -6 488 809,06	R -4 073 422,93	R -2 400 381,74
Percentage Surplus/Deficit	**-29,53%**	**-16,70%**	**-9,21%**

3.9. The high level of energy losses is attributable to factors such as aging infrastructure, overloaded networks, electricity theft, illegal connections, metering inaccuracies and inadequate revenue management controls.

3.10. The municipality's electricity business is currently operating at a deficit position primarily due to high electricity losses. Based on the D-Form input, the municipality reported electricity losses of 20.66%, resulting in a net deficit of R6 488 809 and a deficit margin of 29.53%.

3.11. The analysis indicates that reducing electricity losses would significantly improve the financial position of the electricity business. If losses are reduced to the regulatory benchmark of 12.0%, additional energy of 601 749 kWh would become available for sale, resulting in additional revenue of approximately R2

415 386. Under this scenario, the net deficit would improve from R6 488 809 to R4 073 423, while the deficit margin would reduce from 29.53% to 16.70%.

3.12. A further reduction in electricity losses to 6.0% would result in additional recoverable energy of 1 018 557 kWh and additional revenue of approximately R4 088 427. Consequently, the net deficit would improve to R2 400 381, while the deficit margin would reduce to 9.21%.

3.13. The analysis demonstrates that excessive electricity losses remain a key driver of the municipality's financial under-recovery. High losses increase bulk electricity purchase requirements without corresponding revenue recovery and therefore place significant pressure on the affordability and sustainability of electricity tariffs.

3.14. The municipality remains exposed to several financial and operational risks associated with the continued high loss levels. These risks include declining cash flow, increasing reliance on tariff increases to recover costs, infrastructure deterioration, higher Eskom bulk purchase costs and reduced ability to fund maintenance and capital investment programmes.

3.15. Non-technical losses associated with illegal connections, electricity theft, meter tampering and billing inefficiencies remain a significant concern as they do not contribute to revenue generation. Continued high losses may also negatively affect the municipality's long-term financial sustainability and ability to maintain reliable electricity service delivery.

3.16. Accordingly, the municipality will be required to implement effective loss reduction strategies, strengthen revenue protection measures, improve metering and billing systems and prioritise network maintenance and refurbishment programmes to improve operational efficiency and financial sustainability.

4. Determination of Thembelihle's Tariffs Based on the Cost of Supply Study

4.1 Analysis of Cost Data

4.1.1 TLM submitted its COS study which supported the implementation of tariffs approved in 2024/25FY. The municipality's COS 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).

4.1.2 Section 18.7 of October 2023 NERSA-approved Cost of Supply Framework states that:

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

4.1.3 In line with section 18.7 mentioned above, Table 3 below was developed and the definition of the columns is as follows:

a) Column 1: is the actual 2023/24 licensee performance and is sourced from the D-forms that are based on the audited annual statements;

b) Column 2: is for the 2024/25 revenues and electricity volume that are the base for 2025/26 tariffs. The figures were tested for reasonableness (since at the time of the approval, the figures were estimates) when the Regulator considered and approved the 2025/26 cost of supply base tariffs. Once the financial year ends, the actual figures will be verified using the audited statements;

c) Column 3: is for the licensee's submitted FY 2025/26 budgeted figures to be tested for reasonableness for determining tariffs for the control period under review;

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

e) Column 5: is for the NERSA's recommended amounts that sum up to allowable revenues the licensee must recover in 2025/26FY.

4.1.4 Table 3 reflects the municipality's energy balance and primary electricity cost drivers for the 2024/25 *actual* financial year, the 2025/26 submitted COS and the 2026/27 *budgeted* financial year.

4.1.5 The municipality projects electricity sales of 347.289 million kWh for the 2025/26FY and 2026/27FY, while total energy purchases from Eskom remain at 468.050 million kWh. The municipality therefore continues to rely entirely on Eskom for bulk electricity supply, with no contribution from independent power producers or self-generation initiatives.

4.1.6 Total energy losses are projected at 120.761 million kWh, translating to losses of 25.80%, which remains significantly above the NERSA allowable tolerable range of 12%. Although marginally lower than the actual losses of 26.85% recorded in 2024/25FY, the projected losses remain excessive and indicate continued operational inefficiencies within the electricity distribution network.

4.1.7 The municipality's bulk electricity purchases from Eskom increase from R901.1 million in the 2024/25FYto R1 billion in 2025/26FY and further to R1 billion in 2026/27FY. Bulk electricity purchases therefore remain the primary cost driver within the electricity business and account for the largest component of the revenue requirement.

4.1.8 Operational expenditure, including depreciation, increases from R254.5 million in 2024/25 to R270.1 million in 2025/26FY and R282.6 million in 2026/27FY. The increase in operational expenditure is primarily attributable to higher allocations for salaries and allowances, materials and supplies, contracted services and depreciation.

4.1.9 Depreciation expenses increase from R4.5 million in 2024/25 to R9.0 million in 2025/26FY and R10.5 million in 2026/27FY. This increase may indicate anticipated growth in the depreciable asset base and higher infrastructure replacement requirements within the electricity distribution network.

4.1.10 The municipality budgeted significant bad debt impairment provisions amounting to R53.7 million in 2025/26FY and R58.4 million in 2026/27FY. This reflects continued concerns regarding revenue collection levels and customer debt recovery within the electricity business.

4.1.11 Shared operating expenditure decreases from R122.7 million in 2024/25FY to R103.7 million in 2025/26FY, before increasing slightly to R104.5 million in 2026/27. The municipality also introduced allocations for charges from other municipal departments amounting to R39.8 million in 2025/26 and R42.8 million in 2026/27FY.

4.1.12 Other revenues increase from R33.7 million in 2024/25 to R38.7 million in 2026/27FY, primarily driven by Free Basic Electricity allocations and interest from exchange transactions. These revenues partially offset the total revenue requirement.

4.1.13 The municipality's total allowable revenue increases from R1.1 billion in 2024/25FY to R1.2 billion in 2025/26FY and further to R1.3 billion in 2026/27FY. The municipality indicated that an overall tariff increase of 8% is required for 2026/27FY.

4.1.14 Based on the above analysis, the municipality's primary electricity cost drivers remain bulk energy purchases from Eskom, high energy losses, operational expenditure associated with network operations and increasing bad debt impairment provisions. The persistently high losses and growing operational costs continue to place pressure on the financial sustainability of the electricity business.

Table 5: Municipality's Revenue Requirement

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee	NERSA Adjustment (considering efficiencies)	FY2026/27 Allowable Revenue
Sales	kWh	5 511 430	6 062 573	6 971 959	-	6 971 959
Eskom bulk purchases	kWh	6 946 795	7 572 007	8 253 487	-	8 253 487
Independent Power Producers Conventional	kWh		-	-	-	-
Independent Power Producers Renewable Energy	kWh		-	-	-	-
Self Generation	kWh		-	-	-	-
Other			-	-	-	-
Total Energy Requirements	**kWh**	**6 946 795**	**7 572 007**	**8 253 487**		**8 253 487**
Total Losses	kWh	1 435 365	1 509 433	1 281 528		1 281 528
Technical losses	kWh	833 615	908 641	990 418	-	990 418
Non-technical losses	kWh	-601 749	-600 793	-291 109	-	-291 109
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	20,66%	19,93%	15,53%		15,53%
Cost drivers						
Energy purchases from Eskom	Rand	19 435 051	21 184 206	23 090 784	-	23 090 784
other energy purchases			-	-	-	-
total energy purchases		**19 435 051**	**21 184 206**	**23 090 784**	**0**	**23 090 784**
Cost of technical losses	Rand				2 770 894	2 770 894
Non-Technical Losses					-814 437	-814 437
Other energy purchases	Rand				-	-
Capital expenditure	Rand				-	-
Operational expenditure (incl. Depreciati	**Rand**	**9 025 725**	**5 522 734**	**5 729 291**	**0,0**	**5 729 291**
General & Other	0	6 982 791	3 418 512	3 534 067	0	3 534 067
Salaries and allowances	Rand	880 435	906 848	934 054	0	934 054
Materials and supplies	Rand	289 005	297 675	306 605	0	306 605
Contracted Services	Rand	194 266	200 094	206 097	0	206 097
Salaries, wages and allowances (exclu. Repairs and	Rand	880 435	906 848	934 054	0	934 054
Payments to consultants (operational work)	Rand		650 000	682 500	0	682 500
Eskom debts interest	Rand	4 294 916			0	0
Current year depreciation	Rand	443 734	457 046	470 757	0	470 757
Shared OPEX	Rand	2 042 934	2 104 222	2 195 224	0	2 195 224
Bad debts (Allowance for Impairment)	Rand	1 218 954	1 255 523	1 293 189	0	1 293 189
FBE paid to Eskom	Rand	386 615	398 213	438 034	0	438 034
Charges from other Municipal Departments	Rand				0	0
Operating Leases	Rand				0	
General expenses		**437 365**	**450 486**	**464 001**	**0**	**464 001**
1. Fuel	Rand	140 800	145 024	149 375	0	149 375
2. Vehicle maintenance	Rand	135 665	139 735	143 927	0	143 927
3. Training	Rand	86 500	89 095	91 768	0	91 768
4. Insurance	Rand	74 400	76 632	78 931	0	78 931
Total Expediture before surplus		28 460 776	26 706 939	28 820 075	1 956 457	30 776 532
Surplus	Rand	256 146 986	240 362 454	259 380 673	0	259 380 673
Total Expenditure Including Surplus		284 607 762	267 069 394	288 200 748	1 956 457	290 157 205
Other revenues	Rand	**-13 328**	**-2 783 728**	**-92 806**	**11 000**	**-81 806**
Reconnection fees	Rand	13 328	13 728	14 140	0	14 140
New connections	Rand		670 000	27 666	-11 000	16 666
Free Basic Electricity (Equitable share)	Rand		2 100 000	51 000	0	51 000
	Rand		0		0	
	Rand					
	Rand	0	0	0	-	**0**
Total Allowable Revenus	**Rand**	**284 594 434**	**264 285 665**	**288 107 942**	**1 967 457**	**290 075 399**
increase required				***9,01%***	***9,76%***	

Sources: Approved Revenue (2024/25FY) / Budget (2025/26FY)

4.1.15 Table 5 above reflects the municipality's energy balance and electricity cost drivers for the 2024/25 *actual* financial year, the 2025/26 submitted COS and the 2026/27 *budgeted* financial year.

4.1.16 NERSA's analysis of the 2026/27FY electricity tariff application indicates that the municipality's electricity business remains characterised by high surplus levels relative to actual operating costs, despite improvements in energy loss performance.

4.1.17 The municipality projects electricity sales of 6,972 MWh against total energy purchases of 8,253 MWh, resulting in projected losses of 1,282 MWh or 15.53% for 2026/27FY. Although this reflects an improvement from the historical loss level of 20.66% in 2024/25FY, the projected losses remain above the NERSA benchmark allowance of 12%, indicating continued operational inefficiencies within the distribution network.

4.1.18 NERSA notes that technical losses amount to 990 MWh and are recognised as part of allowable costs, resulting in an approved technical loss cost adjustment of approximately R2,8 million. However, non-technical losses amounting to approximately R814 437 were not allowed for recovery through tariffs, consistent with the regulatory principle that inefficiencies such as theft, illegal connections, meter tampering and billing deficiencies should not be passed on to consumers.

4.1.19 The municipality's bulk electricity purchase costs increased from R19,4 million in 2024/25FY to R23,1 million in 2026/27FY, reflecting continued upward pressure from Eskom bulk supply costs. Operational expenditure, including depreciation, remains relatively low at R5,7 million when compared to the total allowable revenue requirement.

4.1.20 NERSA further notes that current year depreciation amounts to only R470 757, which appears significantly low relative to the scale of the electricity distribution infrastructure and the associated network replacement requirements. The low depreciation provision may indicate:

a) under-capitalisation of electricity assets;

b) incomplete asset registers;

c) inadequate asset valuation methodologies; or

d) insufficient long-term provision for infrastructure replacement and refurbishment.

4.1.21 A significant concern identified by NERSA is the exceptionally high surplus level included in the tariff application. The municipality projected a surplus of R259,4 million against total expenditure before surplus of only R28,8 million. This implies that the surplus constitutes approximately 90% of the total allowable revenue requirement.

4.1.22 NERSA notes that such a substantial surplus level may not be consistent with the principles of prudency, reasonableness and cost-reflectivity as contemplated in

the Electricity Pricing Policy and municipal tariff-setting framework. Municipal electricity tariffs are intended to recover prudently incurred and efficiently managed electricity service costs and should not result in excessive surpluses that place undue financial burden on consumers.

4.1.23 The analysis further indicates that:

a) Eskom debt interest costs were removed from the allowable revenue;

b) no charges from other municipal departments were approved;

c) adjustments were applied to new connection revenues; and

d) certain projected revenues and costs required prudency assessment.

4.1.24 NERSA is concerned that the tariff structure appears heavily reliant on surplus generation rather than direct recovery of efficient electricity distribution costs. This may increase the risk of cross-subsidisation between municipal functions and undermine tariff affordability, particularly for economically vulnerable consumers and businesses.

4.1.25 Accordingly, NERSA is of the view that the municipality should:

a) review and justify the basis for the proposed surplus levels;

b) strengthen alignment between the COS study and revenue requirement;

c) improve transparency regarding the utilisation of electricity surpluses;

d) strengthen asset management and depreciation methodologies;

e) improve the accuracy of the asset register;

f) accelerate interventions to reduce energy losses; and

e) ensure future tariff applications are more closely aligned to cost-reflective principles and prudently incurred electricity distribution costs.

4.1.26 NERSA further emphasises that sustainable electricity pricing must balance municipal financial sustainability with customer affordability, infrastructure maintenance requirements and regulatory compliance.

Bulk purchases

4.1.27 The municipality's Eskom bulk electricity purchases remain the primary cost driver within the electricity business and continue to place significant pressure on the overall revenue requirement.

4.1.28 Bulk energy purchases are projected to increase from 6,947 MWh in 2024/25FY to 8,253 MWh in 2026/27FY, representing an increase of approximately 18.8%. This increase is materially higher than the projected growth in electricity sales, which only increase from 5,511 MWh to 6,972 MWh over the same period.

4.1.29 In monetary terms, Eskom bulk purchase costs increase from R19,4 million in 2024/25FY to R23,1 million in 2026/27FY, reflecting an increase of approximately R3,7 million or 18.8%.

4.1.30 The municipality's projected energy losses of 15.53% remain above the allowable benchmark of 12%. Although the municipality shows some improvement compared to prior years, the continued high losses result in excessive bulk purchase requirements and increase the amount of energy purchased that is not ultimately recovered through revenue collection.

4.1.31 NERSA recognised technical losses amounting to 990 MWh and approved associated technical loss costs of approximately R2,8 million as part of the allowable revenue. However, non-technical losses amounting to approximately R814 437 were excluded from allowable revenue, consistent with the principle that inefficiencies should not be passed directly to consumers through tariffs.

4.1.32 The analysis further indicates that Eskom bulk purchase costs alone account for approximately 80% of total expenditure before surplus.

4.1.33 This demonstrates the municipality's significant dependence on Eskom supply costs and highlights the sensitivity of the electricity business to Eskom tariff increases and network inefficiencies.

4.1.34 NERSA is further concerned that:

a) bulk purchases are increasing faster than customer sales growth;

b) the municipality continues to experience losses above regulatory tolerable ranges;

c) limited operational expenditure and depreciation provisions may constrain network refurbishment;

d) insufficient investment in infrastructure may contribute to ongoing technical losses; and

e) the electricity business appears increasingly reliant on tariff increases to absorb inefficiencies.

4.1.35 The municipality should therefore prioritise:

a) implementation of targeted technical and non-technical loss reduction programmes;

b) strengthening of metering, billing and revenue protection systems;

c) network refurbishment and maintenance investment;

d) improved energy balancing and demand forecasting; and

e) stronger alignment between bulk energy procurement and actual recoverable sales demand.

4.1.36 NERSA emphasises that sustainable electricity distribution requires municipalities to improve operational efficiency and reduce avoidable losses in order to limit the impact of escalating Eskom bulk purchase costs on consumers.

Operating Expenditure (including depreciation)

4.1.37 Operational expenditure, including depreciation, is projected to increase from R5 522 734 in the 2025/26FY submitted cost of supply to R5 729 291 in 2026/FY, representing an increase of approximately 3.7%. The increase is mainly attributable to higher employee-related costs, materials and supplies, contracted services and consultant expenditure as shown in Table below.

Table 6: Operating Expenditure

Operating Expenditure Component	2024/25 Actual (R)	2025/26 Submitted COS (R)	2026/27 Budgeted Costs (R)	NERSA Adjustments (R)	2026/27 Allowable Revenue (R)
Salaries and allowances	880 435	906 848	934 054	0	934 054
Materials and supplies	289 005	297 675	306 605	0	306 605
Contracted services	194 266	200 094	206 097	0	206 097
Salaries, wages and allowances (excluding repairs and maintenance)	880 435	906 848	934 054	0	934 054
Payments to consultants (operational work)	-	650 000	682 500	0	682 500
Eskom debts interest	4 294 916	-	-	0	0
Current year depreciation	443 734	457 046	470 757	0	470 757
Total Operating Expenditure (incl. depreciation)	**9 025 725**	**5 522 734**	**5 729 291**	**0**	**5 729 291**

4.1.38 Employee-related costs remain a key component of operational expenditure. Salaries and allowances are projected to increase from R906 848 to R934 054 in 2026/27FY. Materials and supplies are projected to increase from R297 675 to R306 605, reflecting ongoing operational and maintenance requirements within the electricity business.

4.1.39 Contracted services are projected to increase from R200 094 to R206 097, while payments to consultants relating to operational work are projected to increase from R650 000 to R682 500. The continued reliance on external consultants and service providers may place pressure on operational efficiency and cost containment if not effectively managed.

4.1.40 Depreciation expenditure is projected to increase from R457 046 to R470 757 in 2026/27FY, reflecting ongoing investment in electricity infrastructure and network assets.

4.1.41 The municipality did not include Eskom debt interest in 2026/27FY, compared to actual Eskom debt interest of R4 294 916 incurred during 2024/25FY. This indicates an improvement in the management of Eskom-related obligations and reduced reliance on overdue account financing.

4.1.42 No adjustments were made by the Energy Regulator to the projected operational expenditure, resulting in allowable operational expenditure of R5 729 291 for 2026/27FY.

4.1.43 Although the operational expenditure profile remains relatively stable, the municipality continues to face risks associated with rising electricity purchase costs, electricity losses and revenue collection challenges. The municipality will therefore be required to maintain prudent expenditure management and strengthen operational efficiencies to ensure the long-term sustainability of the electricity business.

Surplus

4.1.44 The municipality projected a surplus of R259 380 673 for 2026/FY, compared to a projected surplus of R240 362 454 in 2025/26FY submitted cost of supply. The increase in the projected surplus indicates that the electricity business is expected to remain financially viable and capable of recovering its allowable costs.

4.1.45 The projected surplus may serve as a financial buffer against operational and financial risks, including increases in Eskom bulk electricity purchase costs, revenue under-collection, infrastructure maintenance backlogs and unforeseen operational expenditure. The surplus may also support future network refurbishment and infrastructure replacement programmes aimed at improving reliability and reducing electricity losses.

4.1.46 The municipality's electricity losses remain high at 15.53%, exceeding the allowable regulatory benchmark of 12.0%. Although losses declined from 20.66% in 2024/25FY, excessive losses continue to pose a financial risk as electricity purchased from Eskom is not fully recovered through billed sales revenue. High non-technical losses associated with electricity theft, illegal connections and meter tampering may further weaken the sustainability of future surpluses.

4.1.47 Bulk electricity purchase costs are projected to increase from R21 184 206 in 2025/26FY submitted cost of supply to R23 090 784 in 2026/27FY. Continued increases in Eskom-related costs may place pressure on the affordability and sustainability of electricity tariffs, particularly if electricity sales volumes decline or customer affordability deteriorates.

4.1.48 The municipality also remains exposed to revenue collection and liquidity risks. Weak collection levels, increasing consumer debt and delayed customer payments may negatively affect cash flow and limit the municipality's ability to fund operational requirements and infrastructure maintenance.

4.1.49 In addition, there is a risk that the projected surplus may not materialise if electricity demand declines due to economic pressures, energy efficiency measures or increased customer migration towards alternative energy sources and embedded generation technologies.

4.1.50 While the projected surplus strengthens the financial position of the electricity business, excessive surpluses may indicate potential over-recovery from

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The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9381/ThembelihleReasonsforDecisionforthe2026_27Final.pdf

7. Tariff Analysis

1.1 7.1. NERSA's analysis of the proposed FY2026/27 tariffs for Thembelihle indicates that the municipality applied a uniform increase of approximately 9,01% across all major customer categories, including domestic, commercial, municipal departments and street lighting tariffs.

1.2 7.2. The proposed and recommended tariffs are aligned, indicating that NERSA found the proposed tariff adjustments to be broadly consistent with the approved allowable revenue determination and tariff restructuring principles.

1.3 7.3. For domestic conventional single-phase customers, the inclining block tariff (IBT) structure remains in place, which supports affordability and protection of low-consumption households. The tariff structure continues to apply progressively higher energy charges as consumption increases, thereby promoting energy efficiency and protecting indigent consumers who consume lower electricity volumes.

1.4 7.4. NERSA notes that applying tariff increases to municipal departments may assist in improving internal municipal electricity cost accountability and budgeting transparency. However, municipalities should ensure that internal electricity consumption is properly monitored and managed to avoid inefficient consumption practices.

7.5. NERSA therefore expects the municipality to:

a) continue implementing loss reduction programmes;

b) improve billing and revenue collection efficiency;

c) strengthen infrastructure maintenance and refurbishment;

d) improve cost reflectivity within tariff structures; and

e) ensure future tariff increases remain reasonable, transparent and aligned with prudently incurred electricity distribution costs.

Table 7: Schedule of Tariffs

Domestic Conventional: Single Phase ***Tariff blocks***	**2025/26 Approved**	**2026/27 Proposed % Increase**	**2026/27 Proposed**	**2026/27 Recommended Tariffs**	**2026/27 Recommended % Increase**
Block 1 (0-50 kWh)	1,9264	9.01%	2,09997	2,09997	9.01%
Block 2 (51 – 350 kWh)	2,464	9.01%	2,68601	2,68601	9.01%
Block 3 (351 – 600 kWh)	3,4608	9.01%	3,77262	3,77262	9.01%
Block 4 (>600kWh)	4,088	9.01%	4,45633	4,45633	9.01%
Basic Charge(R/Month)	472,9984	9.01%	515,61556	515,61556	9.01%
Domestic Conventional: Three Phase ***Tariff blocks***	**2025/26 Approved**	**2026/27 Proposed % Increase**	**2026/27 Proposed**	**2026/27 Recommended Tariffs**	**2026/27 Recommended % Increase**
Block 1 (0-50 kWh)	1,9264	9.01%	2,09997	9.01%	2,09997
Block 2 (51 – 350 kWh)	2,464	9.01%	2,68601	9.01%	2,68601
Block 3 (351 – 600 kWh)	3,4608	9.01%	3,77262	9.01%	3,77262
Block 4 (>600kWh)	4,088	9.01%	4,45633	9.01%	4,45633
Basic Charge(R/Month)	192,72	9.01%	210,08407	9.01%	210,08407

Commercial Conventional and Prepaid - Single Phase	2025/26 Approved	2025/26 Approved	2026/27 Proposed % Increase	2026/27 Proposed	2026/27 Recommended Tariffs
Basic Charge (R/month):	949,21	9.01%	1034,73	1034,7338	9.01%
Summer: Energy Charge (R/kWh):	3,4496	9.01%	3,7604	3,7604	9.01%
Winter: Energy Charge (R/kWh)	3,696	9.01%	4,0290	4,0290	9.01%

2.2 Commercial Conventional	2025/26 Approved	2026/27 Proposed % Increase	2026/27 Proposed	2026/27 Recommended Tariffs	2026/27 Recommended % Increase
Basic Charge (R/month):	983,37	9.01%	1071,9716	1071,97	9.01%
Energy charge (c/kWh): Summer	3,5168	9.01%	3,8337	3,8337	9.01%
Energy charge (c/kWh): Winter	3,768	9.01%	4,1075	4,1075	9.01%

Municipal Department	2025/26 Approved	2026/27 Proposed % Increase	2026/27 Proposed	2026/27 Recommended Tariffs	2026/27 Recommended % Increase
Energy Charge (R/kWh):	3,8475	9.01%	4,19	4,19	9.01%

Street Lights	2025/26 Approved	2026/27 Proposed % Increase	2026/27 Proposed	2026/27 Recommended Tariffs	2026/27 Recommended % Increase
Energy Charge (R/kWh):	3,2000	9.01%	3,49	3,49	9.01%

5. CONFIDENTIALITY

5.1. None.

6. CONCLUSION

6.1. On a conspectus of the facts and evidence presented to the REC, it is appropriate to approve TLM'S tariff application for 2026/27FY.

End.