Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Thaba Chweu Local Municipality

THE DECISION

1. At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered the Thaba Chweu Local Municipality tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year set out in section 7 (Page 19) below.

2. Based on the available information and analysis performed, the Regulator Executive Committee decided to:

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

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

   2.3 require the municipality to submit a quarterly smart efficiency plan, with improvement measures identified to reduce losses, by 30 September 2026; and

   2.4 require the municipality to submit a report on its Eskom debt.

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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
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 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. Thaba Chweu Local Municipality is located in Mpumalanga. The municipality has a total of 19 294 customers, with a residential customer base accounting for 53.63% of sales. The municipality applied for an average increase of 10% in the 2025/26 financial year, and an increase of 9.01% in the 2026/27 financial year. The municipality provides 50kWh of free basic electricity per month to the 1 441 registered indigent customers.

1.3. 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 Class	kWh	%kWh	Customer numbers
Domestic (pre-paid)	34 802 666	50.44	17 262
Domestic (conventional)	2 201 782	3.19	415
Manufacturing/Industrial	926 310	1.34	24
Commercial Prepaid	7 163 092	10.38	1 003
Commercial Conventional	2 134 428	3.09	230
Other customers	21 165 967	30.68	287
Electricity Department	601 368	0.87	73
Totals	**68 995 613**	**100.00**	**19 294**

Free Basic Electricity	458 331,00	1,24	1 441

1.4. NERSA received Thaba Chweu Local Municipality's tariff application, together with its existing Cost of Supply (COS) study based on the Cost-Plus methodology, on 31 March 2026.

1.5. For this application, the municipality indicated that its tariff application had been approved by Council. The Council meeting at which the application was approved took place on 31 March 2026, and the Council resolution was submitted to NERSA. Proof of the planned customer consultations, scheduled to take place from 12 April 2026 to 25 April 2026, was submitted on 1 April 2026. Proof that the customer consultations had taken place was submitted thereafter.

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

1.7. The asset value is estimated at R887 580 679, based on the audited annual financial statements, and depreciation is estimated at R9 553 329, based on the trial balance and calculated using the straight-line method.

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

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

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

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually 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 NERSA evaluated and determined the municipal electricity tariff application for the 2026/27 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. NERSA'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 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, NERSA 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. NERSA's public participation processes 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, NERSA must have regard to the EPP. The EPP establishes national policy principles for electricity tariff setting, including cost reflectivity, transparency, economic efficiency and equity.

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

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

2.6. **Cost of Supply Studies**

2.6.1. The EPP recognises that cost-reflective tariff structures require a sound understanding of the underlying cost drivers 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 NERSA-approved methodology 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, which sought to vary the timelines that had been set by the Court on 4 December 2025, considering the practical difficulties that arose as it relates 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 following timelines are applicable in respect of the 2026/27 municipal tariff approvals:

a) Written notice of bulk tariffs 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) The publication of NERSA decisions 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 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 NERSA 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 NERSA complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1 In evaluating the financial and technical performance of Thaba Chweu Local Municipality, the assessment relied on the Distribution forms (D-forms) for the 2024/25 financial year 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 tariff analysis purposes.

3.2 Table 2 below indicates that Thaba Chweu Local Municipality's electricity business recorded a decrease in percentage deficit from -108.80% in the 2023/24 financial year to -50.27% in the 2024/25 financial year.

3.3 Energy losses increased from 51.90% in the 2023/24 financial year to 53.16% in the 2024/25 financial year, as shown in Table 2 below. The municipality is encouraged to continue monitoring its energy losses.

Table 2: Performance Indicators

Indicators	Municipality 2023/24 D-form	Municipality 2024/25 D-form
Percentage Deficit (%):	**-108.80**	**-50.27%**
Energy Losses: %	**51.90**	**53.16**

3.4 Bulk electricity purchases for the municipality amounted to R393 242 474 (154 852 377 kWh), and electricity sales revenue amounted to R360 173 976 (72 535 809 kWh), which means that approximately R33 068 678 of the bulk purchase cost was not recovered from electricity sales.

3.5 The municipality has high energy losses of 53.16%, which significantly undermines its financial sustainability.

3.5.1 If losses were capped at 12%, the municipality would:

a) improve net profit by approximately R25 700 583;
b) reduce the deficit from -50.27% to -4.86%; and
c) generate additional revenue of R194 004 314.

3.5.2 If losses were capped at 6%, the municipality would:

a) improve net profit by approximately R 48 801 245;
b) reduce the deficit from -50.27% to 8.84%; and
c) generate additional revenue of R217 104 976.

Table 3: Sensitivity Analysis

	D-Form Input	**Energy Loss@12%**	**Energy Loss@6%**
Average Selling Price c/KWh	295,17		
Sales kWh	72 535 809	138 261 051	146 087 148
Purchases kWh	154 852 377	154 852 377	154 852 377
Losses kWh	82 316 568,00	16 591 326	8 765 229
Losses percentage	53,16%	12,00%	6,00%
Additional Energy (kWh)		65 725 242	73 551 339
Additional Revenue (Rands)		194 004 314	217 104 976
	D-Form Input	Energy Loss@12%	Energy Loss@ 6%
Total Revenue (Rands)	334 770 166	528 774 480	551 875 142
Total Expenses (Rands)	503 073 897	503 073 897	503 073 897
Net Profit (Loss)	-168 303 731	25 700 583	48 801 245
Percentage Surplus/Deficit	**-50,27%**	**4,86%**	**8,84%**

General Conclusion on the Financial and Technical Indicators

3.6 Based on the above information, the technical and financial performance of the electricity department within the municipality is not satisfactory.

3.7 The licensee’s electricity department does not demonstrate satisfactory financial and technical performance, as reflected in the increased deficit and relatively high energy losses. The deficit indicates poor financial management and lack of effective cost recovery, and the high level of energy losses suggests inefficient network operations and a lack of maintenance. Collectively, these factors lead to an unstable and unsustainable electricity service.

4. DETERMINATION OF THABA CHWEU LOCAL MUNICIPALITY'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1 The municipality submitted its existing COS study, which supports the tariff application for the 2026/27 financial year. 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).

4.2 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 The revenue requirement for Thaba Chweu Local Municipality was determined using a cost-plus methodology in accordance with the NERSA COS Framework.

4.4 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.

4.5 In line with section 18.7 mentioned above, Table 4 below was developed. The definitions of the columns are as follows:

i. Column 1 is the actual FY2024/25 licensee performance and is sourced from the D-forms that are based on the audited annual statements.

ii. Column 2 is for the FY2025/26 revenues and electricity volume that are the base for FY2026/27 tariffs. The figures were tested for reasonableness (since at the time of the approval, the figures were estimates) when NERSA considered and approved the FY2026/27 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 FY2026/27 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/justify the budgeted figures.

v. Column 5 is for NERSA's recommended amounts that sum up to the allowable revenues the licensee must recover in FY2026/27. The total allowable revenue of R683 636 070 is for the FY2026/27 tariff review and is based on the COS revenue and the volumes used to determine the tariffs that were approved by NERSA, as shown in Table 4 below.

4.6 The COS study is applicable for five years; however, municipalities must reflect the adjustments on their cost drivers for FY2026/27. NERSA used the budgeted figures submitted by the licensee to check the reasonableness as well as the licensee's current operational requirement to ensure that municipalities do not over- or under-recover during the FY2026/27 tariff review process.

4.7 The municipality cited the following reasons for the proposed price increase the third phase of its cost-of-supply phase-in, Municflex tariffs, normal inflationary increases and the municipality's financial position.

4.8 The total allowable revenue of R550 466 557 is recommended in Table 4 below for the 2026/27 tariff review period and forms the basis upon which the tariffs were approved by the Regulator. Since the COS study is valid for five years, municipalities must reflect adjustments to their cost drivers for each financial year under the existing COS study (i.e. FY2026/27). NERSA used the budgeted figures to verify efficiencies and ensure that municipalities do not over- or under-recover their operating overheads during the FY2026/27 tariff review process.

4.9 To determine the applicable increase for the 2026/27 financial year, the licensee submitted its 2026/27 cost requirements, comprising budgeted costs plus surplus, as requested by NERSA. The total budgeted revenue requirement submitted for the 2026/27 tariff review process amounted to R683 636 070. After removing identified inefficiencies, the total allowable revenue was reduced to R550 466 557.

Table 4: 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	72 535 809	72 535 809	72 535 809	-	72 535 809
Total Energy Requirements	kWh	154 852 377	154 852 377	154 852 377		154 852 377
Total Losses	kWh	82 316 568	82 316 568	82 316 568		82 316 568
Technical losses	kWh	18 582 285	18 582 285	18 582 285	-	18 582 285
Non-technical losses	kWh	-63 734 283	-63 734 283	-63 734 283	-	-63 734 283
Allowed losses	%	12,00%	12,00%	12,00%		12,00%
Total Energy losses	%	53.16%	53.16%	53.16%		53.16%
Cost drivers						
Energy purchases from Eskom	Rand	326 837 902	240 177 050	395 242 474	-	395 242 474
total energy purchases		326 837 902	240 177 090	393 242 474	0	393 242 474
Cost of technical losses	Rand	39 220 548	28 821 246	47 189 097	0	47 189 097
Non-Technical Losses		134 520 242	98 852 290	161 851 097		-161 851 097
Operational expenditure (incl. Depreciation	Rand	193 548 436	215 731 280	219 587 045	-165 661 582	53 925 463
General & Other	0	142 217 185	128 104 238	151 587 018	-98 457 891	53 129 125
Salaries and allowances	Rand	20 884 742	13 929 055	21 295 796	0	21 295 796
Materials and supplies	Rand	3 395 808	9 345 290	8 000 000	0	8 000 000
Contracted Services	Rand	46 950 461	2 009 840	14 300 000	0	14 300 000
Eskom debts interest	Rand	58 486 183	90 320 054	98 457 891	-98 457 891	
Current year depreciation	Rand	12 500 000	12 500 000	9 533 329	0	9 533 329
Shared OPEX	Rand	51 331 240	87 827 041	88 000 029	-87 203 891	796 338
Bad debts (Allowance for Impairment)	Rand	9 854 318	1 022 723	2 047 925	-2 047 925	0
Charges from other Municipal Departments	Rand	33 987 603	39 798 764	34 229 720	-34 229 720	0
General expenses		7 489 319	46 805 555	31 722 384	-30 926 046	796 338
1.Commission Expense	Rand	7 260 514	35 474 793	30 926 046	-30 926 046	
3.Other Expenses	Rand	228 805	11 330 762	796 338	0	796 338
Total Expenditure before surplus		559 606 886	484 729 575	660 018 616	-165 661 582	494 357 034
Surplus(+)loss (-)	Rand	31 337 986	23 267 020	72 602 048		56 109 523
Total Expenditure Including Surplus		590 944 872	507 996 595	732 620 665	-165 661 582	550 466 557
Other revenues	Rand	-78 166 498	-22 190 663	-48 984 221	-48 984 221	0
New connections	Rand	374 980	2 425 062	486 104	-486 104	
Free Basic Electricity (Equitable share)	Rand	1 237 000	5 228 593	17 135 000	-17 135 000	
1.Interest earned	Rand	22 266 306	11 733 876	14 228 117	-14 228 117	
2. Other Revenue - Government Grants and Subsidies	Rand	54 288 212	5 228 393	17 135 000	-17 135 000	
Total Allowable Revenues	Rand	512 778 374	485 805 933	683 636 442	-214 645 803	550 466 557
Increase required				40,72%	13,31%	

4.10 The actual figures were verified using Eskom invoices and verified electricity-related operating costs (tested against 2024/25 D-Forms, Trial Balance and Audited AFS). Only prudently incurred and verified costs, supplemented by a reasonable surplus margin, are recommended for approval. This forms the basis from which costs for the 2026/27 financial year will be projected, using assumptions to calculate revenue requirements.

4.11 In line with COS Framework requirements, shared municipal costs were ring-fenced and allocated strictly to the electricity business using the D-forms. Cost attribution was verified against the trial balance and audited financial statements, ensuring separation of electricity and non-electricity functions. Any costs not demonstrably related to electricity distribution were adjusted or excluded. This approach ensures compliance with the principle of cost causality and prevents cross-subsidisation between municipal functions.

4.12 It is important to test the efficiency and prudency of the costs in the 2025/26FY since this is the most recently considered revenue in support of the approved tariffs during this period. This forms the basis from which costs for the 2026/27FY will be projected, using assumptions to calculate the revenue requirements for that year.

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

Bulk Purchases

4.14 For the 2026/27 FY, the licensee applied for a bulk purchase expenditure of R393 242 474, which accounts for 91% of total bulk purchases in line with the Act, which requires that only prudently and efficiently incurred costs be passed through to customers.

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

4.16 The Eskom bills were analysed, and it was found that Eskom interest of R20 519 412 was paid by the municipality. This cost has been disallowed since it is deemed an inefficient cost

Operating Expenditure (including depreciation)

4.17 The operational costs consist of salaries and allowances (R21 295 796), materials and supplies (R8 000 000), contracted services (R14 300 000).

4.18 Inefficient costs, such as interest on the outstanding Eskom debt of R98 457 891, bad debts of R2 047 925, charges from other municipal departments of R34 229 720 and commission expenses of R30 926 046, have been disallowed.

4.19 The depreciation is R9 553 329, based on the trial balance and calculated using the straight-line method.

4.20 NERSA is satisfied that the approach taken by the licensee to forecast operational expenditure is reasonable. However, inefficient costs are not approved as applied for and have been eliminated.

4.21 Budgeted shared costs amounted to R68 000 029; after the removal of inefficiencies of R67 203 691, the allowable shared cost resulted in R796 338.

4.22 Total operating expenditure amounted to R219 587 045, after the removal of inefficiencies amounting to R165 661 582, the allowable operating expenditure was R53 925 463.

Table 5: Operating Expenditure

Cost drivers	Units	Applied Opex 2026/27	Adjustments	Recommended Opex 2026/27
General and other	**R**	**151 587 016**	**(98 457 891)**	**53 129 125**
Salaries and allowances	R	21 295 796		21 295 796
Materials and supplies	R	8 000 000		8 000 000
Contracted Services	R	14 300 000		14 300 000
Eskom debts interest	R	98 457 891	(98 457 891)	
Current year depreciation	R	9 533 329		9 533 329
Shared OPEX	R	**68 000 029**	**(67 203 691)**	**796 338**
Bad debts	R	2 047 925	(2 047 925)	
Charges from other municipal departments	R	34 229 720	(34 229 720)	
commision expense	R	30 926 046	(30 926 046)	
Other expenses(Indigent rebates;SDL&S&T and travel allowance)	R	796 338		796 338
Total	R	**219 587 045**	**(165 661 582)**	**53 925 463**

4.23 The municipality applied a cost-plus methodology, Under the cost-plus methodology, the allowable revenue is derived as follows:

a) efficient and prudently operating expenditure (OPEX) ;

b) depreciation (as a proxy for asset consumption and future replacement); and

c) a reasonable surplus margin.

4.24 The licensee applied for a surplus of R72 602 048. NERSA reduced the allowable surplus to R56 109 523, resulting in a difference of R16 492 525. NERSA is satisfied that the return applied for by the licensee is reasonable; therefore, this cost has been approved as applied for.

4.25 To ensure that the surplus is not excessive or detrimental to consumers, verification was undertaken by benchmarking the applied surplus margin of 10% against the established target range of 10 to 20%, in line with the approved NERSA Cost of Supply Framework, EPP policy position 1, D-Form and the trial balance.

4.26 To ensure that the surplus is commensurate with the level of risk, qualitative risk considerations were incorporated, including revenue collection risks (such as non-payment and bad debts), operational risks (including energy losses, ageing infrastructure and consideration of customer affordability) and broader financial sustainability requirements.

4.26 Therefore, the applied surplus is considered modest and commensurate with these risks, particularly in the context of a municipal distributor that is not profit-maximising but must remain financially viable. Thus, it is NERSA's decision to allow the revenue requirement as applied for.

Conclusion on Costs to Serve

4.27 The COS study is applicable for a five-year period. NERSA evaluated the adjustments to cost drivers for the 2026/27 financial year using the budgeted information submitted by the licensee to ensure the continued relevance, accuracy and reasonableness of the costs. This assessment was undertaken to ensure that the licensee neither over-recovers nor under-recovers its efficiently and prudently incurred costs.

4.28 The cost-to-serve analysis indicates that a 40.72% increase would be required to achieve cost reflectivity. However, the total allowable increase was determined at 13.31%, while the municipality applied for a weighted average increase of 13.31% with a 9.01% increase for residential customers, taking customer affordability into account for the 2026/27 financial year. This decision was informed by the licensee's need to maintain operations, cover Eskom bulk electricity costs and balance customer affordability with long-term financial sustainability and infrastructure refurbishment.

5. PUBLIC PARTICIPATION

5.1 NERSA complied with section 10 of PAJA; it received Thaba Chweu Local Municipality's tariff application on 31 March 2026 and published both the application and COS study on the NERSA website and social media platforms (Facebook, X and LinkedIn), as well as in local and national newspapers, along with an invitation to stakeholders to submit written comments by 21 April 2026 in line with the Court judgement of 20 February 2026.

5.2 The municipality also undertook its own public consultation process on the approval of the budget by Council.

6. THE OBJECTORS AND OTHER INTERVENING PARTIES

6.1 NERSA received objections from two customers.

6.2 The two comments from the customers stated that the cost of electricity was high, and the municipality is increasing the tariffs making them unaffordable.

NERSA ANALYSIS

6.3 NERSA noted concerns from the customers and took them into account in assessing the tariff application, including the reasonableness of the proposed increase and the need to avoid undue prejudice to customers.

7. TARIFF ANALYSIS

7.1 The licensee is applying for an overall weighted average increase of 13.31% for the 2026/27FY.

OVERALL TARIFF IMPACT ANALYSIS

7.2 The proposed overall electricity tariff increase of 9.01%, when assessed against the Eskom bulk purchase cost increase of 9.01%, reflects a below cost-reflective adjustment, resulting in an estimated over-recovery of approximately 27.41% relative to the primary cost driver.

7.3 The proposed tariff increase of 9.01% represents a figure that will allow the municipality to cover the Eskom bulk costs, protect customers against historically high costs and promote infrastructure refurbishments.

7.4 The tariff increase is further justified by the municipality’s approved phased implementation plan. The municipality is currently in phase 3 of its four-year plan to phase in tariffs and progressively align them with the cost of supply. This phased approach allows the municipality to move towards cost-reflective tariffs in a structured and predictable manner.

Table 6: TARIFF ANALYSIS

RESIDENTIAL: HOUSES/ FLATS (ALL TOWNS) CONVENTIONAL AND PREPAID CONSUMERS						
RESIDENTIAL: > 20 Amp Single or 3 Phase	**2025/26 Approved**	**Proposed% Increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % Increase**	**Analysis and Key Findings**
Energy charge (R/kWh) (<=50kWh)	0.0000	0,00%	0.0000	0.0000	0,00%	Municipality is proposing a weighted average increase of 20.54%
Energy charge (R/kWh) (51–350kWh)	2.2500	17,39%	2.6414	2.6414	17,39%	
Energy charge (R/kWh) (351–600kWh)	2.5220	10,61%	2.7896	2.7896	10,61%	
Energy charge (R/kWh) (>600kWh)	3.0206	1,35%	3.0614	3.0614	1,35%	
Basic charge (Rand/month)	183.25	30,41%	238.97	238.97	30,41%	
Capacity charge (Rand/Amp/phase/month)	6.90	63,52%	11.29	11.29	63,52%	

RESIDENTIAL: 20 Amp Single Phase Prepaid	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Energy charge (R/k=Wh) (<=50kWh)	1.9039	9.01%	2.0755	2.0755	9.01%	Uniform tariffs increase of 9.01% for customer protection.
Energy charge (R/kWh) (51–350kWh)	2.4478	9.01%	2.6684	2.6684	9.01%	
Energy charge (R/kWh) (351–600kWh)	3.4451	9.01%	3.7555	3.7555	9.01%	
Energy charge (R/kWh) (>600kWh)	4.0572	9.01%	4.4227	4.4227	9.01%	
Basic charge	111.31	9.01%	121.34	121.34	9.01%	

RESIDENTIAL: INDIGENT ALL TOWNS (20 Amp Single Phase Prepaid)	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Energy charge (R/kWh) (<=50kWh)	1.9039	9.01%	2.0755	2.0755	9.01%	Uniform tariffs increase of 9.01% for customer protection.
Energy charge (R/kWh) (51–200kWh)	1.9039	9.01%	2.0755	2.0755	9.01%	
Energy charge (R/kWh) (201–350kWh)	2.4478	9.01%	2.6684	2.6684	9.01%	
Energy charge (R/kWh) (351–600kWh)	3.4451	9.01%	3.7555	3.7555	9.01%	
Energy charge (R/kWh) (>600kWh)	4.0572	9.01%	4.4227	4.4227	9.01%	
Basic charge (Rand /month)	111.31	9.01%	121.34	121.34	9.01%	

BUSINESS / PUBLIC SERVICE PURPOSES/ RESIDENTIAL WITH MORE THAN ONE DWELLING INCLUDING: SPECIAL CONSENT USE/GUESTHOUSES / B & B / AGRI / ECT. (ALL TOWNS)

2.1 Up To 40A 1P (PREPAID METER ONLY)	**2025/26 Approved**	**Proposed% Increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month):	423.47	-4,77%	403.26	403.26	-4,77%	Municipality is increasing the tariffs by a weighted average tariff increase of 17.46%
Energy charges (R/kWh):						
Low season:	2.7932	6,84%	2.9842	2.9842	6,84%	
High season:	2.9384	4,25%	3.0633	3.0633	4,25%	
Capacity charge: R/Amp/month	6.45	63,51%	10.54	10.54	63,51%	

2.2 41 To 60A 1P	**2025/26 Approved**	**Proposed% Increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month):	735.17	-22,04%	573.15	573.15	-22,04%	Municipality is increasing the tariffs by a weighted average tariff increase of 13.14%
Energy charges (R/kWh):						
Low season:	2.7932	6,84%	2.9842	2.9842	6.84%	
High season:	2.9384	4,25%	3.0633	3.0633	4.25%	
Capacity charge: R/Amp/month	6.45	63,51%	10.54	10.54	63.45%	

2.3 61 to 80A 1P	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Basic charge (R/month):	913.65	-26.62%	670.43	670.43	-26.62%	Municipality is increasing the tariffs by a weighted average tariff increase of 12%.
Energy charges (R/kWh):						
Low season:	2.7932	6.84%	2.9842	2.9842	6.84%	
High season:	2.9384	4.25%	3.0633	3.0633	4.25%	
Capacity charge: R/Amp/month	6.4485	63.52%	10.5443	10.5443	63.52%	

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2.4 Up to 60A 3P	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Basic charge (R/month):	1, 102.80	-29.86%	773.53	773.53	-29.86%	Municipality is increasing the tariffs by a weighted average tariff increase of 11.19%
Energy charges (R/kWh):						
Low season:	2.7932	6.84%	2.9842	2.9842	6.84%	
High season:	2.9384	4.25%	3.0633	3.0633	4.25%	
Capacity charge: R/Amp/month	6.4485	63.52%	10.5443	10.5443	63.52%	

2.5 61 to 80A 3P	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Basic Charge (R/month):	1; 415.29	-33,31%	943.85	943.85	-33.31%	Municipality is increasing the tariffs by a weighted average of 10.32%
Energy charges (R/kWh):						
Low season:	2.7932	6,84%	2.9842	2.9842	6.84%	
High season:	2.9384	4,25%	3.0633	3.0633	4.25%	
Capacity Charge: R/Amp/month	6.45	63,51%	10.54	10.54	63.51%	

MUNICIPAL BUILDINGS (ALL TOWNS)
Same tariffs as above tariffs 2.1 to 2.5

3. INDUSTRIAL (ALL TOWNS):						
3.1 Up to 80A Single Phase	**2025/26 Approved**	**Proposed% Increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month):	1, 700.19	-37.68%	1,059.49	1,059.49	-37.68%	Municipality is increasing the tariffs by a weighted average of 10.53%
Energy charges (R/kWh):						
Low season:	2.6728	9.42%	2.9246	2.9246	9.42%	
High season:	2.8029	6.87%	2.9955	2.9955	6.87%	
Capacity charge: R/Amp/month	10.55	63.52%	17.26	17.26	63.52%	

3.2 Up to 60A Three-phase	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Basic charge (R/month):	1, 958.85	-38.72%	1, 200.47	1, 200.47	-38.72%	Municipality is increasing the tariffs by a weighted average of 10.28%
Energy charges (R/kWh):						
Low season:	2.6728	9.42%	2.9246	2.9246	9.42%	
High season:	2.8029	6.9%	2.9955	2.9955	6.9%	
Capacity charge: R/Amp/month	10.55	63.52%	17.26	17.26	63.52%	

3.3 61A up to 80 Amps Three-phase	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Basic charge (R/month):	2, 217.49	-39.51%	1, 341.44	1, 341.44	-39.51%	
Energy charges (R/kWh):						
Low season:	2.6728	9.42%	2.9246	2.9246	9.42%	
High season:	2.8029	6.9%	2.9955	2.9955	6.9%	
Capacity charge: R/Amp/month	10.55	63.52%	17.26	17.26	63.52%	Municipality is increasing the tariffs by a weighted average of 10,08%

Public Benefits Organisations						
4.1 Public Benefit Organisations (All Towns) up to 80A Single Phase	**2025/26 Approved**	**Proposed% Increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month):	414.10	-3.85%	398.15	398.15	-3.85%	Municipality is increasing the tariffs the weighted average of 17.69%
Energy charges (R/kWh):						
Low season:	2.7932	6.84%	2.9842	2.9842	6.84%	
High season:	2.9384	4.25%	3.0633	3.0633	4.25%	
Capacity Charge: R/Amp/month	6.45	63.52%	10.54	10.54	63.52%	

4.2 Up to 80A three phase	**2025/26 Approved**	**Proposed% increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % increase**	**Analysis and Key findings**
Basic Charge (R/month):	514.32	-11.97%	452.78	452.78	-11.97%	Municipality is increasing the tariffs with the weighted average of 15.66%
Energy charges (R/kWh):						
Low season:	2.7932	6.84%	2.9842	2.9842	6.84%	
High season:	2.9384	4.25%	3.0633	3.0633	4.25%	
Capacity charge: R/Amp/month	6.45	63.52%	10.54	10.54	63.52%	

5 Undeveloped Stands (All Towns)	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Availability charge: (R/month)	168.25	27.46%	214.44	214.44	27.46%	Municipality is increasing the tariffs by a weighted average of 27.46%

6.TIME OF USE (ALL TOWNS):						
Low Voltage	**2025/26 Approved**	**Proposed% Increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % Increase**	**Analysis And Key Findings**
Basic Charge (R/month):	4, 137.78	-22.98%	3, 187.04	3, 187.04	-22.98%	Municipality is increasing the tariffs with the average of 33.69%
Energy Charges (Low Season)						
Energy: Low Demand: Peak: (R/kWh)	2.9375	23.17%	3.6181	3.6181	23.17%	
Energy: Low Demand: Standard: (R/kWh)	2.4150	8.62%	2.6231	2.6231	8.62%	
Energy: Low Demand: Off-peak: (R/kWh)	1.6638	22.74%	2.0422	2.0422	22.74%	
Energy Charges (High Season:)						
Energy: High Demand: Peak: (R/kWh)	5.2974	23.35%	6.5343	6.5343	23.35%	
Energy: High Demand: Standard: (R/kWh)	2.7014	0.43%	2.7131	2.7131	0.43%	
Energy: High Demand: Off-peak: (R/kWh)	1.7489	16.77%	2.0422	2.0422	16.77%	
Demand Charge (R/kVA):						
Maximum Demand: (R/kVA)	318.00	-25.74%	236.13	236.13	-25.74%	
Access charge (R/kVA/month) (notified demand)	68.00	63.52%	111.18	111.18	63.52%	
Reactive energy: >85% PF (R/kVArh)	0.09	227.03%	0.2950	0.2950	227.03%	

7.Medium Voltage	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Basic charge (R/month):	5, 117.21	-6%	4, 788.56	4, 788.56	-6%	Municipality is increasing the tariffs by a weighted average of 35.30%
Energy Charges (Low Season)						
Energy: Low Demand: Peak: (R/kWh)	2.9375	23%	3.6181	3.6181	23%	
Energy: Low Demand: Standard: (R/kWh)	2.4150	9%	2.6231	2.6231	9%	
Energy: Low Demand: Off-peak: (R/kWh)	1.6638	22%	2.0377	2.0377	22%	
Energy Charges (High Season:)						
Energy: High Demand: Peak: (R/kWh)	5.2974	23%	6.5343	6.5343	23%	
Energy: High Demand: Standard: (R/kWh)	2.7014	0%	2.7131	2.7131	0%	
Energy: High Demand: Off-peak: (R/kWh)	1.7489	17%	2.0422	2.0422	17%	
Demand charge (R/kVA):						
Maximum Demand: (R/kVA)	318.00	-26%	236.13	236.13	-26%	
Access charge (R/kVA/month) (notified demand)	37.79	64%	61.79	61.79	64%	
Reactive energy: >85% PF (R/kVArh)	0.09	227%	0.2950	0.2950	227%	

SSEG TARIFFS 2026/27

NETWORKS AVAILABLE BUT NOT CONNECTED: Existing networks paid by owner	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Availability charge: (R/stand/month)		New	582.64	582.64	0%	New tariff introduction

Low Voltage: < 70 kVA: Compulsory for SSEG Consumers. Min Capacity 30 Amps						
This tariff is subject to buying of a bi-directional meter at own cost from the municipality only	**2025/26 Approved**	**Proposed% Increase**	**2026/27 Proposed**	**2026/27 Recommended**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month):		New	321.11	321.11	0.00%	New tariff introduction
Energy charges (Low season)						
Energy: Low Demand: Peak: (R/kWh)		New	3.8183	3.8183	0.00%	
Energy: Low Demand: Standard: (R/kWh)		New	2.6142	2.6142	0.00%	
Energy: Low Demand: Off-peak: (R/kWh)		New	2.1721	2.1721	0.00%	
Energy charges (high season)						
Energy: High Demand: Peak: (R/kWh)		New	7.6955	7.6955	0.00%	
Energy: High Demand: Standard: (R/kWh)		New	2.7246	2.7246	0.00%	
Energy: High Demand: Off-peak: (R/kWh)		New	2.1721	2.1721	0.00%	
Access charge (R/kVA/month) (notified demand)		New	10.92	10.92	0.00%	

SSEG Export Credit: 80% of Municflex Energy	2025/26 Approved	Proposed% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase	Analysis and Key Findings
Energy charges (Low season)						New tariff introduction
Energy: Low Demand: Peak: (R/kWh)		New	-2.7064	-2.7064	0.00%	
Energy: Low Demand: Standard: (R/kWh)		New	-1.6287	-1.6287	0.00%	
Energy: Low Demand: Off-peak: (R/kWh)		New	-1.2333	-1.2333	0.00%	
Energy charges (high season:)						
Energy: High Demand: Peak: (R/kWh)		New	-1.6287	-1.6287	0.00%	
Energy: High Demand: Standard: (R/kWh)		New	-1.2333	-1.2333	0.00%	
Energy: High Demand: Off-peak: (R/kWh)		New	0.0000	0.0000	0.00%	
Access charge (R/kVA/month) (notified demand)		New	10.92	10.92	0.00%	

8. CONCLUSION

8.1 NERSA, having considered the Thaba Chweu Local Municipality’s application, the supporting information, stakeholder inputs, and applicable legal framework, approves the tariff adjustments as set out in this Reasons for Decision document.

End