

COST OF SUPPLY (COS) STUDY FOR APPLIED TARIFFS FOR THE 2026/27 TARIFF APPLICATION

LEGISLATION

In terms of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), municipalities are required to submit their electricity tariffs to the National Energy Regulator (NERSA)

The Electricity Regulation Act as Amended (ERAA) prescribes principles that governs the setting and approval of tariffs. These include the requirement that tariffs and revenues must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return. Tariffs must also give end-users proper information on the costs that their consumption imposes on the utility's business.

BACKGROUND

The cost of supply study is a measure used by all electricity distributors to demonstrate a tariff that is cost reflective as required by the ERAA.

All electricity distributors must complete a COS study at least every five years, as part of the prescribed NERSA tariff application process. The forecasting is not so simple over an extended period. Therefore, the Dr BNLM completes the COS study every year to remain updated and relevant with the cost and future forecasts. The last COS study was performed in February 2025 for the 2025/26 financial year.

The COS study seeks to ensure that the related tariff is cost reflective. An over-recovery places unnecessary strain on the customers where an under-recovery places additional strain on an already strained desire to run a sustainable electricity business.

The Municipality intends to become more transparent in how applied electricity tariffs are calculated and to communicate the recommended 2026/27 electricity tariffs to the public, for both their input and changes to the COS recommendations, where required.

The proposed tariff increase for 2026/27 is noted below;

- 14% increase to domestic (pre-paid) and Industrial time-of-use customers. (2024/25 increase – 14.3%)
- 6% increase for indigent tariffs. (2024/25 increase – 0%)
- 8,76%* increase proposed for all others. (2024/25 increase – 11.3%)

*** Subjected to the final Eskom increase by NERSA**

Annexure A belows provides the average new electricity tariffs per customer category

Head Office

THE MUNICIPAL MANAGER
DR BEYERS NAUDÉ
LOCAL MUNICIPALITY
P O BOX 71
GRAAFF-REINET
6280

T 049 807 5700
F 049 892 4319

EXPOSITION OF FACTS

The attached COS calculation spreadsheet, refers.

- The 2024/25 Electricity revenue amounted to R186 244 214.
- The department's applied electricity tariffs are still under-cost reflective by some 14% and "business as usual" (BAU) is only expected to recover 86.96% of the department's running costs for the 2025/26 financial period.
- The calculated BAU income for 2025/26 is R211 090 782 whereas the cost to serve budget is R240 647 616.
- The table below shows that Dr BNLM requires R242 180 450 for the 2026/27 financial period to operate, with R1 532 833 of this amount is not accounted for in the COS calculations, as this falls outside NERSA's standard of 12% total electricity losses.

Revenue Requirement components	Total cost (R)			% of Total
	Wires	Retail	Total	
Allowable costs	59 293 995	181 353 621	240 647 616	100%
Energy purchases from Eskom - net of cost of losses	-	142 397 765	142 397 765	59%
Energy purchases from Eskom - cost of losses	18 230 230	1 931 555	20 161 785	8%
Other energy purchases	-	2 813 916	2 813 916	1%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	33 349 428	13 089 413	46 438 841	19%
Other revenues	- 19 663	- 2 533 849	- 2 553 511	-1%
Surplus	7 733 999	23 654 820	31 388 820	13%
Not allowable costs	1 288 057	244 776	1 532 833	
Cost of losses disallowed	1 288 057	244 776	1 532 833	
TOTAL COSTS	60 582 052	181 598 398	242 180 450	

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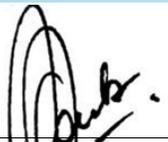
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ANNEXURE A – RECOMMENDED NEW ELECTRICITY TARIFFS FOR 2026/27

This recommended new tariff below is an average over various customers per the customer category and assumes block 2 where applicable. The impact assessment is most accurate when each customer applies the percentage increase on an existing bill.

	RATE COMPARISON								REVENUE COMPARISON	
	<i>New rates for Year 2 (dashboard) (Wires+Retail)</i>				<i>Existing rates in Year 1 (Wires + Retail)</i>					
	Basic charge	Average demand rate	Average energy rate	Total average rate	Basic charge	Average demand rate	Average energy rate	Total average rate	Revenue from new rates	Revenue from existing rates
Customer Categories	Rand/month	Rand/kVA/month	c/kWh	c/kWh	Rand/month	Rand/kVA/month	c/kWh	c/kWh	R million	R million
Domestic (pre-paid)	-	-	316	316	-	-	278	278	68,0	59,6
Domestic (conventional)	574	-	284	450	528	-	262	414	17,6	16,2
Agriculture	1 244	-	367	476	1 144	-	337	438	3,6	3,3
Manufacturing/Industrial	2 681	534	215	405	2 465	491	197	373	32,7	30,0
Commercial (pre-paid)	-	-	472	472	-	-	434	434	16,3	15,0
Commercial (conventional)	1 019	-	330	392	937	-	303	360	41,1	37,8
FBE	-	-	247	247	-	-	233	233	-	-
Industrial TOU	870	279	146	248	763	245	128	218	27,1	23,8
Sold to other municipal departments	612	506	231	476	563	465	212	438	27,6	25,4



MR. JOUBERT
CHIEF FINANCIAL OFFICER
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