

FREQUENTLY ASKED QUESTIONS

Cost of Supply Study – Public Participation

Matjhabeng Local Municipality | 2026

About the Study

What is a Cost of Supply study?

A Cost of Supply (COS) study calculates the true cost of delivering electricity to customers. It looks at everything – buying electricity from Eskom, maintaining the network, paying staff, and running the billing system. The study follows a methodology set by NERSA (the National Energy Regulator of South Africa) to ensure consistency and fairness.

Why is this study being done?

NERSA requires all municipalities that want to set their own electricity tariffs to submit a COS study. This helps NERSA assess whether proposed tariffs are fair, reasonable, and based on actual costs. Without a COS study, the municipality cannot apply for tariff adjustments.

Who conducted the study?

The study was conducted by Spectrum Utility Management (SUM), an independent consulting firm, using the NERSA-prescribed COS Tool v3.4. All data was cross-referenced with the municipality's financial records, Eskom invoices, and billing systems.

About the Findings

How much does it cost to supply electricity in Matjhabeng?

The total cost of supplying electricity is approximately R1.09 billion per year. The biggest cost is buying electricity from Eskom (56%), followed by network maintenance (32%) and operations (12%).

What does “71.3% cost recovery” mean?

It means that for every R1.00 it costs to supply electricity, the municipality currently collects only 71.3 cents through tariffs. The remaining 28.7 cents is a loss. Over a year, this adds up to approximately R350 million.

What are “electricity losses” and why do they matter?

Electricity losses are the difference between what the municipality buys from Eskom and what it bills to customers. In Matjhabeng, 26.3% of purchased electricity is lost – through technical losses (6.2%) and non-technical causes like theft, illegal connections, and meter errors (20.1%). The regulator allows up to 12% losses. Everything above 12% cannot be recovered through tariffs, which means R132.6 million is absorbed by the municipality each year.

Why is bad debt a problem?

R89.3 million in unpaid electricity bills was written off in the last financial year – that's 30.5% of operating costs. When customers don't pay, the municipality still has to pay Eskom for the electricity that was consumed. This creates a cycle of debt that hurts all ratepayers.

About the Court Order & Financial Recovery Plan

What is the Financial Recovery Plan?

Matjhabeng Local Municipality is under a court-ordered Financial Recovery Plan. This plan sets out specific targets and parameters for the municipality's financial recovery, including electricity. It covers tariff escalation, loss reduction targets, collection rate improvements, and debt management. The plan was finalized in October 2025 and governs how the municipality may adjust its tariffs.

Why is the increase 13.74% and not 23%?

The Cost of Supply study calculated that a 23% average increase would be needed to achieve full cost-reflectivity. However, the court order governing the Financial Recovery Plan determines that the electricity service charge escalation should be 13.74% per year for two years (2026/27 and 2027/28). The municipality's NERSA application will therefore be submitted at 13.74%, not 23%. This means the cost recovery gap will narrow but not close completely within two years.

What about the Eskom debt?

As at June 2025, Matjhabeng owed Eskom approximately R6.8 billion. Of this, R5.25 billion is potentially eligible for write-off under the national debt relief program (Circular 124), subject to the municipality meeting compliance conditions. If debt relief is not reinstated, the municipality faces potential interest charges of approximately R630 million per year. The Financial Recovery Plan includes specific actions to reinstate compliance and manage the Eskom relationship.

What else is the municipality doing besides increasing tariffs?

The Financial Recovery Plan requires the municipality to simultaneously reduce electricity distribution losses (targets of 7%, 10%, and 5% reduction over three years), improve collection rates from 42.3% to 95% over three years, install 10,000 new meters in two phases, implement automated meter reading for large users, complete the prepaid meter conversion program, and negotiate Eskom debt restructuring. Tariff increases alone will not solve the problem – these operational improvements are essential.

About Tariffs

Will my electricity go up by 23%?

No. While the Cost of Supply study calculated that a 23% average increase would be needed to fully recover costs, the court order governing Matjhabeng Financial Recovery Plan adjusts the electricity tariff increase to 13.74% per year for two years (2026/27 and 2027/28). The municipality's application to NERSA will be submitted in accordance with this court-ordered increase. This means the full cost recovery gap will not be closed in two years, but the increase is phased to manage affordability.

Which customers will be most affected?

Domestic pre-paid customers currently have the largest gap (70.8%) between what they pay and the true cost. Commercial customers are closest to cost-reflective levels (12.1% gap). Under the court-ordered 13.74% annual increase, all categories will move towards cost-reflectivity over time. The most vulnerable households will continue to be protected through Free Basic Electricity.

Does the municipality decide the tariff increase?

No. The municipality submits a tariff application to NERSA based on the COS study. NERSA then reviews the application, may request additional information, and makes the final decision on what increases are approved. The municipality cannot implement any increase without NERSA's approval.

Is this process approving the tariff increase?

No. This is an information and consultation process. Its purpose is to share the COS findings with the community and gather feedback. All input received will be documented and included in the submission to NERSA. The decision on tariffs is made by NERSA, not by the municipality or through the public participation process.

Affordability & Protection

What is Free Basic Electricity (FBE)?

FBE is a government program that provides 50 kWh of free electricity per month to qualifying indigent households. This is enough to cover basic lighting, a small fridge, a TV, and phone charging. If your household qualifies, you will not pay for this basic allocation regardless of tariff changes.

How do I qualify for Free Basic Electricity?

You need to be registered on the municipality's indigent register. You can enquire at the municipal offices in Welkom. Generally, households with a total income below a specified threshold qualify.

What if I can't afford to pay my electricity bill?

If you are struggling to pay, please contact the municipal offices to discuss payment arrangements. Switching to a prepaid meter can also help you manage your consumption and avoid accumulating debt.

What You Can Do

How can I reduce my electricity costs?

You can reduce consumption by switching to energy-efficient lighting (LED bulbs), using appliances efficiently, insulating your home, using a gas or solar geyser, and switching off appliances at the wall when not in use. Prepaid meters help you track your daily usage and manage your budget.

How can I report illegal connections or electricity theft?

You can report suspected illegal connections to the municipality's electricity department. Theft increases costs for everyone – every unit stolen is a unit that law-abiding customers eventually pay for through higher tariffs.

How can I make my voice heard?

You can submit your questions, concerns, or feedback to the municipality's electricity department or via the contact details provided on the municipal website. You may also attend any scheduled public participation sessions. All feedback will be included in the consultation report submitted to NERSA as part of the tariff application.