

ELECTRICITY COST OF SUPPLY

Public Participation Information Pack

Matjhabeng Local Municipality

For distribution via municipal website

Prepared by: Spectrum Utility Management (SUM)
Spectrum Consultants

PURPOSE OF THIS DOCUMENT

This document provides information on the electricity Cost of Supply (COS) study conducted for Matjhabeng Local Municipality and the resulting tariff application to NERSA.

1

Inform

Share the results of the COS study with residents and stakeholders

2

Explain

Why tariff adjustments are necessary and what drives the costs

3

Context

The court order and Financial Recovery Plan that govern the increase

4

Outcome

The application will be limited to 13.74% per year for two years

Important: NERSA (the national energy regulator) makes the final decision on all tariff increases.

WHAT IS A COST OF SUPPLY STUDY?

It answers one simple question:

"How much does it actually cost to deliver electricity to your home or business?"

56%

Buying Electricity

We buy power from Eskom – this is our biggest cost

32%

Network & Maintenance

Maintaining power lines, substations, and meters

12%

Running the Service

Staff, billing, customer service, and administration

The study uses a methodology prescribed by NERSA, the national energy regulator.

WHAT THE STUDY FOUND

**R1.09
Billion**

Total cost to supply electricity
per year

71.3%

How much of costs current
tariffs cover

**R350
Million**

Annual shortfall that needs to
be addressed

13.74%

Annual increase – court order
for 2 years

Why is there a shortfall?

- Electricity losses of 26.3% – more than double the NERSA norm (12%)
- R89 million in unpaid electricity bills written off
- R147 million in interest on money owed to Eskom
- R6.8 billion total Eskom debt (as at June 2025)
- Sales declining as customers and businesses leave the area

COURT ORDER & FINANCIAL RECOVERY PLAN

Legal and regulatory framework governing the tariff increase

Court Order

The court order governing Matjhabeng's Financial Recovery Plan determines that the electricity tariff increase should be **13.74% per year for two years** (2026/27 and 2027/28). This replaces the COS-calculated average increase of 23%. The municipality's NERSA application will be submitted in accordance with this court-ordered limit.

Financial Recovery Plan – Electricity Parameters

Parameter	2025/26	2026/27	2027/28
Service Charges Escalation	12.70%	13.74%	13.74%
Bulk Electricity Escalation	11%	13.74%	13.74%
Reduction in Distribution Losses	-7%	-10%	-5%
Collection Rate Target	85%	90%	95%

Source: Matjhabeng Financial Recovery Plan (October 2025), as ordered by the court.

ELECTRICITY – STATE OF AFFAIRS

Key facts from the Financial Recovery Plan

R6.8 Billion

Eskom debt (June 2025)

26%

Distribution losses (norm: 7–10%)

R204 Million

Annual cost of excess losses

42.3%

Collection rate (norm: >95%)

80 Years

Average infrastructure age

14,260

Prepaid meters converted (80%)

Key Electricity Risks

- Eskom debt relief (R5.25B) at risk – interest of R630M/year if not reinstated
- Tariffs not cost-reflective – cost of supply exceeds selling price
- Ageing infrastructure (80+ years) – safety and reliability at risk
- Illegal connections and electricity theft prevalent across the municipality

WHAT THE MUNICIPALITY IS DOING

Financial Recovery Plan – electricity rescue activities

Rescue Phase (0–12 months)

Reduce losses

7% reduction target through meter audits, theft detection

Install 5,000 meters

R15M investment, R720/meter, 4.2 month payback

Complete meter conversion

Upgrade remaining 20% to prepaid

COS study & NERSA application

Determine true cost; apply for tariff approval

Stabilisation Phase (13–24 months)

Further loss reduction

Additional 6% target; continued efficiency

5,000 more meters (Phase 2)

R15M; expand metering coverage

Demand side management

Geyser control; load management

Meter & customer audits

Revenue protection; verify all connections

WHAT THIS MEANS FOR YOU

In terms of the court order, the tariff increase is should be **13.74% per year for two years**. This is significantly lower than the COS-calculated increase of 23%. The municipality's application to NERSA will be submitted in accordance with this court-ordered limit.

Phased approach over 2 years:

Year 1 (2026/27)

13.74%

Effective 1 July 2026

Year 2 (2027/28)

13.74%

Effective 1 July 2027

Compound effect

29.4%

Total increase over 2 years

Free Basic Electricity protection: Qualifying households will continue to receive 50 kWh of free electricity per month. The most vulnerable residents are protected.

CONCLUSION

The COS study has established that Matjhabeng's electricity tariffs are not cost-reflective, with a 71.3% cost recovery rate and a R350 million annual shortfall.

Court Order Determination

The court order ascertains that the increase in electricity tariffs should be **13.74% per year for two years**. The COS application to NERSA will therefore be submitted in accordance with this determination, rather than the full COS-calculated increase of 23%.

This means:

- 1 The full cost recovery gap will not be closed in two years – a residual shortfall will remain after the phased increase
- 2 The municipality must simultaneously reduce costs through loss reduction, improved collections, and Eskom debt restructuring
- 3 A further multi-year tariff application will be required beyond 2027/28 to progressively achieve cost-reflectivity
- 4 Free Basic Electricity will continue to protect qualifying households throughout this process

WHAT HAPPENS NEXT?

1	Public Participation This information is shared with the community for input	NOW
2	Feedback Documented Community feedback is included in the NERSA submission pack	This week
3	NERSA Submission Application submitted at 13.74% per year for 2 years (per court order)	31 March 2026
4	NERSA Review NERSA reviews the application and makes the final decision	Q1/Q2 2026
5	Implementation If approved, new tariffs take effect 1 July 2026	1 July 2026

NERSA makes the final decision on all tariff increases. Your input forms part of the evidence they consider.

THANK YOU

For enquiries or feedback:

Spectrum Utility Management

Louwrens Dreyer

Pretoria Boardwalk Office Park

Tel: (+27) 12 991 3122

Spectrum Consultants

Rowland Moss – Consulting Lead

Leon Viljoen – Technical Lead

Ferdie Mocke – Advisor