MUSINA
LOCAL MUNICIPALITY

PUBLIC NOTICE

2026/2027 ELECTRICITY TARIFFS AND COST OF SUPPLY STUDY REPORT

1. Notice is hereby given that the municipal council has approved the consultative draft 2026/27 electricity tariff adjustment proposal and the Cost of Supply Study Report on a Rate of Return methodology as directed by the National Electricity Regulator of South Africa (NERSA).
2. In line with sections 152(1)(e), 195(1)(e) of the Constitution of the Republic of South Africa of 1996; Sections 16(1)(a); 17; 19; 74 & 75 of the Local Government Municipal Systems Act 32 of 2000; and section 22 of the Local Government Municipal Finance Management Act Structures Act No. 56 of 2003 Musina Local Municipality hereby:
   (a) Publish a consultative draft 2026/27 electricity tariff adjustment proposal and the cost of supply study report based on a Rate of Return as per the National Electricity Regulator of South Africa's (NERSA) directive.
   (b) Invite members of the public, interested and affected persons / stakeholders to consider and submit to the municipality written representations and comments on the draft 2026/27 electricity tariff adjustment proposal and the cost of supply study based on a Rate of Return.
   (c) Invite the public to physical public participations meetings on the subject to be held as follows:

Date	Time	Venue	Ward no.
Thursday, 26 November 2026	10H00	Nancefield Multipurpose Centre	2, 3, 4, 5 & 6
Friday, 27 November 2026	10H00	Madimbo Thusong Centre	1, 7, 8, 9, 10, 11 & 12

3. Copies of the consultative draft 2026/27 electricity tariff adjustment proposal and the cost of supply study report are available for viewing on the municipal website from Monday, 26 October 2026.
4. Written representations and comments on the draft 2026/27 electricity tariff adjustment proposal and the cost of supply study report must be addressed to the Acting Municipal Manager and be submitted on or before close of business on Wednesday, 25 November 2026 through email to records@musina.gov.za or in person at Musina Local Municipality Records Management Office Number 47, Civic Centre, 21 Irwin Street, Musina, 0900.
5. Enquiries on the matter can be directed to the Manager: Electrical Services, Mr. C Mathoma, via email address collinsm@musina.gov.za or telephone number 015 534 6256 / 6190.

Notice Number: 17 / 2026-2027

Mr. PM Mudau
Acting Municipal Manager

SCHEDULE 8 - PROPOSED RATES AND TARIFFS - 2026/2027- Effective date 01 July 2026

SCHEDULE 8- PROPOSED RATES TARIFFS- 2026/2027- EFFECTIVE DATE 01 JULY 2026

No		SERVICE / FACILITY		UNIT	MUSINA Current Tariff 2025/2026 R c	MUSINA Proposed Tariff 2026/2027 R c	Increase %
		ELECTRICITY					
1	(a)	**Dosmetic Indigent**		c/kWh			
		Block 1 (0-50 kWh)		c/kWh	193.47		
		Block 2 (51-350 kWh)		c/kWh	248.73		
		Block 3 (351-600 kWh)		c/kWh	350.09		
		Block 4 (>600 kWh)		c/kWh	412.27		
	(b)	**Domestic Prepaid Avarage IBT**		c/kWh	301.14	292.90	-2.74%
	(c)	**Basic Charge on Pre Paid**		c/kWh	NEW	59.90	0.000%
2	(a)	**Dosmetic Pre-paid**		c/kWh			
		Block 1 (0-50 kWh)		c/kWh	193.47		
		Block 2 (51-350 kWh)		c/kWh	248.73		
		Block 3 (351-600 kWh)		c/kWh	350.09		
		Block 4 (>600 kWh)		c/kWh	412.27		
	(b)	**Domestic Prepaid Avarage IBT**		c/kWh	301.14	308.90	2.58%
	(c)	**Basic Charge on Pre Paid**		c/kWh	NEW	78.30	0.000%
3	(a)	**Domestic Conventional**		c/kWh			
		Block 1 (0-50 kWh)		c/kWh	193.47		
		Block 2 (51-350 kWh)		c/kWh	248.73		
		Block 3 (351-600 kWh)		c/kWh	350.09		
		Block 4 (>600 kWh)		c/kWh	412.27		
	(b)	**Avarage IBT**		c/kWh	301.14	332.70	10.48%
	(c)	**Basic Charge Domestic**		stand	109.43	179.30	63.85%
4	(a)	**Time of Use (All users above 80A supply)**					
	(b)	High Demand Season: Peak		c/kWh	840.72	840.30	-0.05%
	(c)	High Demand Season: Standard		c/kWh	282.44	297.40	5.30%
	(d)	High Demand Season: Off-peak		c/kWh	155.40	184.20	18.53%
	(e)	Low Demand Season: Peak		c/kWh	303.12	614.90	102.86%
	(f)	Low Demand Season: Standard		c/kWh	206.67	217.60	5.29%
	(g)	Low Demand Season: Off-peak		c/kWh	130.89	134.80	2.99%
	(h)	**Maximum Demand Charge**		R/kVA/month	160.75	164.30	2.21%
	(i)	**Fixed Charge**		R/month	3359.17	4 315.90	28.48%
5	(a)	**Commercial Prepaid**		c/kWh	430.70	308.80	-28.30%
	(b)	**Basic charge**		Stand	238.87	271.90	13.83%
6	(a)	**Commercial Conventional**		c/kWh	396.15	424.20	7.08%
	(b)	**Basic Charge**		Stand	238.87	756.50	217%

7	(a)	**Manufacturing/Industrial**		c/kWh	396.15	420.70	6.20%
	(b)	Basic Charge Industrial		Stand	772.80	1 104.80	42.96%
8	(a)	**Street lights**		c/kWh	NEW	285.00	0.00%
9	(a)	**FBE**		c/kWh	55.00	FREE	0.00%
10	(a)	**Interdepartmental Sales**		c/kWh	New	292.90	
11	(a)	**Sector Department Low**		c/kWh	NEW	353.60	
	(b)	Sector Department Low Basic Charge			NEW	1 475.80	
12	(a)	**Sector Department High**		c/kWh	New	444.60	
	(b)	Sector Department High Basic Charge			NEW	4 625.50	

MUSINA
LOCAL MUNICIPALITY

Musina Local Municipality Cost of Supply Study Report

1. Introduction

A critical first step in understanding the operational performance of an electricity distributor is to conduct a Cost of Service (COS) study and sometimes referred to as a Cost to Serve (CTS) study. The objective of this study is to fairly and equitably allocate all costs associated with servicing customers among different customer classes. To support this objective, the National Energy Regulator of South Africa (NERSA) has developed a COS Framework for all licensed electricity distributors ('licensees'), in the country. This framework will serve as a guideline for licensees when conducting their own COS studies.

2. Study Area Overview

Musina Municipality is a Category B municipality found in the South African province of Limpopo and it has a population of 130 899. The total energy sales of the municipality were 83 633 614 kWh in the 2024/25 financial year. In 2024/25, most of the electricity sales (38%) came from domestic prepared customers, while 29% came from industrial customers. *Table 1 Municipal energy sales per customer category*

	Sales (kWh)		Number of customers
	Actual		Actual
Consumer classification	2024/25	% Sales	2024/25
Free Basic Electricity	1,966,855.00	2.4%	3 588
Domestic (pre-paid)	26,176,947.00	31%	4 970
Domestic (conventional)	6,598,720.00	7.8%	557
Manufacturing / Industrial	22,232,037.00	27%	69
Commercial (prepared)	7,035,951.00	8%	215
Commercial (conventional)	8,222,638.00	10%	164
Street lighting	1,092,000.00	1.3%	0
Interdepartmental sales	2,425,615.83	3%	31
Sector departments low	450,529.17	0.5%	7
Sector departments High	7,432,321.00	9%	2
Total	83 633 614	100%	9 603

3. COS Study Methodology

The Musina Local Municipality cost of supply study is a sophisticated study that is inclusive of all requirements of NERSA's current COS framework and goes beyond it to accommodate electricity distribution businesses transitioning to a more infrastructure availability-based business.

The NERSA Cost Plus methodology has been used for both the wires and retail business revenue requirement determinations. The model has functionality to use the allowable return on the regulated asset base or asset values annuitized at selected discount rates to calculate the revenue requirement of the wires business.

The COS study is a multi-year model spanning across 3 years, namely, the most recent audited financial statement. The years are described as follows:

- Year 0 (FY 23/24) - The data input test year with the recently audited financial statements
- Year 1 (FY 24/25) - The current year in which the study is taking place
- Year 2 (FY 25/26) - The following year for which tariffs are being designed

This multi-year approach introduces several complexities and requires forecasting of costs across years, but it does bring a range of benefits to the analysis.

4. Overview of COS Study Key Results

The following key results were noted from Musina Local Municipality's COS study:

Revenue requirement

- The revenue requirement in FY25/FY26 is estimated as R 262 305 251 (excluding the impact of subsidy), increasing from R273 101 975 in FY24/25
- The wires costs are dominated by network-related costs, namely energy purchases, cost of losses, network repairs and maintenance, depreciation, and other OPEX costs.
- With regards to the retail business, the dominant cost in this regard is energy purchases from Eskom, followed by depreciation and OPEX
- Overall, a greater proportion of total electricity costs are incurred by the retail part of the business (around 84%) whilst 16% of the cost is related to the wires business.

Cost functionalisation

- Energy purchases are significant within the cost breakdown and dominate when compared to other costs such as OPEX and Surplus
- CAPEX costs do not contribute significantly to the overall cost breakdown each year as result of the rate of return for the analysis assumed at 2%.

Cost classification

- Energy purchases and the cost of losses make up the energy-driven cost, with the highest amount of costs incurred during the Low Season and standard TOU – mostly due to the Low Season covering a greater proportion of the year
- Demand-driven costs are depreciation, network repairs and maintenance, along with energy purchase demand-related costs. The period of greatest demand-driven costs is during the Low Season.
- Finally, customer-driven costs are incurred through offering the electricity distribution service to the customers, which includes salaries.

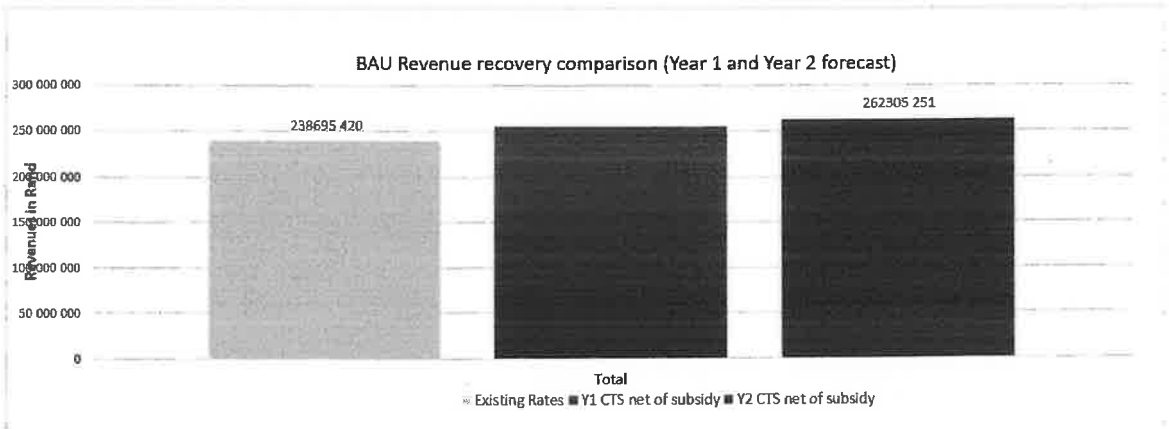
Cost allocation

- The domestic customer category carries the largest proportion of costs, followed by the commercial customers.
- Industrial customers and internal electricity requirements result in the lowest proportion of costs
- Differences in results between customer classes are mainly driven by differences in voltage of connection point, load factors, coincidence factors, and average specific consumption.

COS results

- Under the current rate regime, it is found that 113.8% cost-reflectivity is achieved for FY25/26
- There is no mismatch between the structure of the revenue breakdown and cost breakdown
- A 14.7% increase, with rate structure improvements and refined TOU pricing signals would make rates cost-reflective in FY2025/26.

Table 2: BAU revenue comparison (FY25/26 forecast)



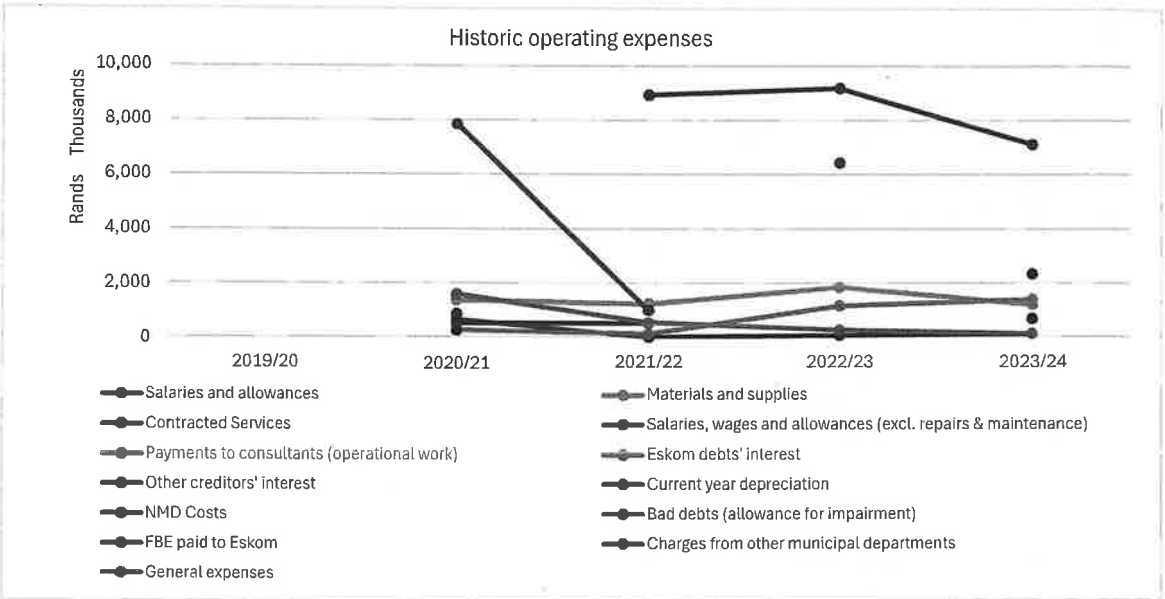
5. COS Study Analysis

Energy purchases analysis

The municipality purchases all its energy from Eskom via 2 points of delivery (PODs). The COS model captures the tariffs of each POD as well as the volumes purchased at each intake point.

COS models and revenue forecasts are sensitive to sales forecasts. The Musina Local Municipality COS model assumes an increase in sales between Year 0 and Year 1 of 4.3%. Thereafter, sales are assumed to be flat, with a 1% sales increase per year.

Operating expenses analysis



When analysing the expenditure over the 5 years, the following observations were made:

- Salaries and allowances have fluctuated over the years, but had a maximum in the 2022/23 financial year
- Materials and supplies have remained relatively constant until 2022/23, where it has seen a slight increase.
- Contracted services have fluctuated over the years but have been consistently low.
- Payments to consultants ended in the 2021/22 financial year, possibly indicating an increase in in-house expertise.
- FBE paid to Eskom has been steadily increasing from R528,160 in 2020/21 to R726,088 in 2024/25.
- There have been no charges from other Municipal Departments in 2020/21.

- General expenses have decreased steadily over the years from R1,598,449 in 2020/21 to 140,109 in 2024/25.

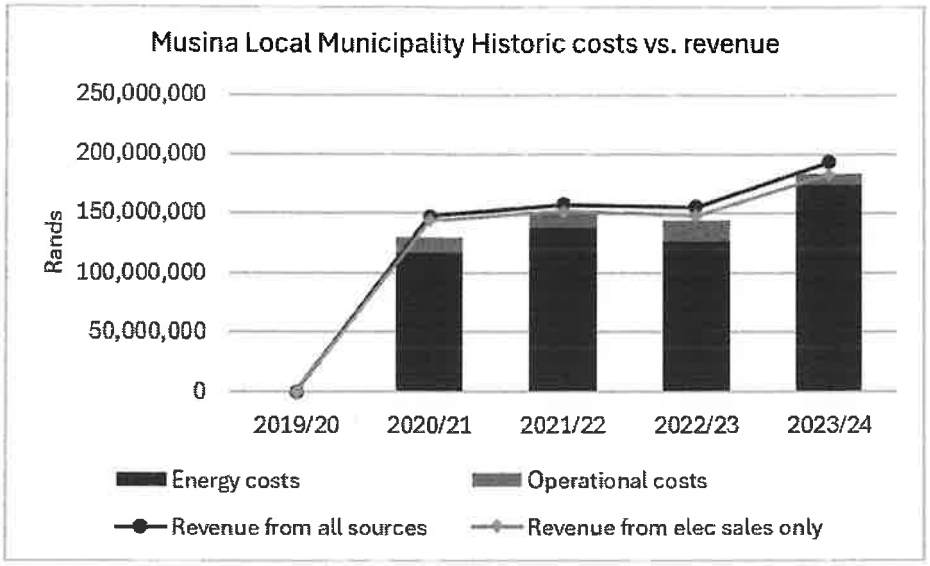


Figure 2: Historic energy costs and revenue comparison

The revenue showed the following trend:

- The revenue from electricity sales has steadily increased over the years, reaching a high of R190,580,586 in 2024/25. This suggests an increase in the number of customers or an increase in the rate of electricity consumption.
- The revenue growth rate showed a great increase over the years, especially from 2024 to 2025.
- The revenue from electricity sales has not exceeded the expenses, indicating a regulated profit in the electricity sales business, which is indicative of an allowable surplus set in the allowed range of 10-20%.

Overall, the analysis suggests that the cost of electricity purchases has been the main driver of the increase in expenses, and is balanced by the revenue from electricity sales, resulting in a regulated profit in the electricity sales of the municipality. Areas of concern include the significant increase in NMD Cost and the aging infrastructure, which may require attention to ensure the sustainability of the municipality.

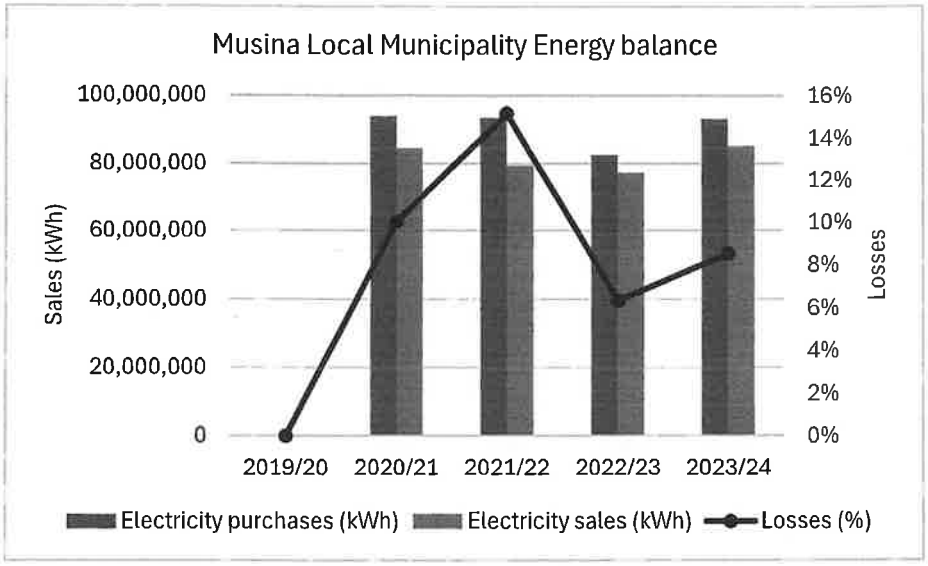


Figure 3 Energy balance and losses

Total energy purchased and total energy sales have remained relatively stable over the years, indicating potential stability in the organization's operations. Energy losses increased from 2020 t0 2021 but dropped in the 2022/23 financial year. It increased again in the 2024/25 financial year, suggesting potential issues with energy management or technical inefficiencies.

Revenue requirement analysis

Section 3.2.1.1 of the NERSA COS framework deals with the revenue requirement and states that NERSA adopted the Cost-Plus Methodology 'as an interim methodology for implementation by licensees, including small licensees with limited capacity and database challenges. This is because other regulatory methodologies such as the rate of return, price cap, revenue cap, yard stick regulation, will be difficult to implement for a number of reasons, including the fact that licensees might struggle to keep proper accounting and property records, among other reasons. Even though these are historical costs (since the test year for the study was FY23/FY24, it is important to adjust these costs for prudency and efficiency so that when they are allocated to different customers, the allocation results reflect the proper costs. The framework covers the key elements of the revenue requirement including purchases, operating costs, repairs and maintenance, and depreciation and return on assets or interest on loans.

Figure 4 below offers a breakdown of the revenue requirement based on the various functions that have been established and split between the wires and retail/trading parts of the electricity value chain. The data below is determined based on a forecast for the financial year 2025/26, or Year 2. Various aspects can be ascertained from the figure. These include:

- The revenue requirement in FY25/26 is estimated as R 262 305 (excluding the impact of subsidy)
- The wires costs are dominated by network-related costs, namely the cost of losses, depreciation and repairs and maintenance.
- About the retail business, the dominant cost in this regard is energy purchases from Eskom, and depreciation
- Overall, a greater proportion of total electricity costs are incurred by the retail part of the business, R 220 596 451 (84%), whilst the costs related to the wires business is R 41 708 801 (16%).

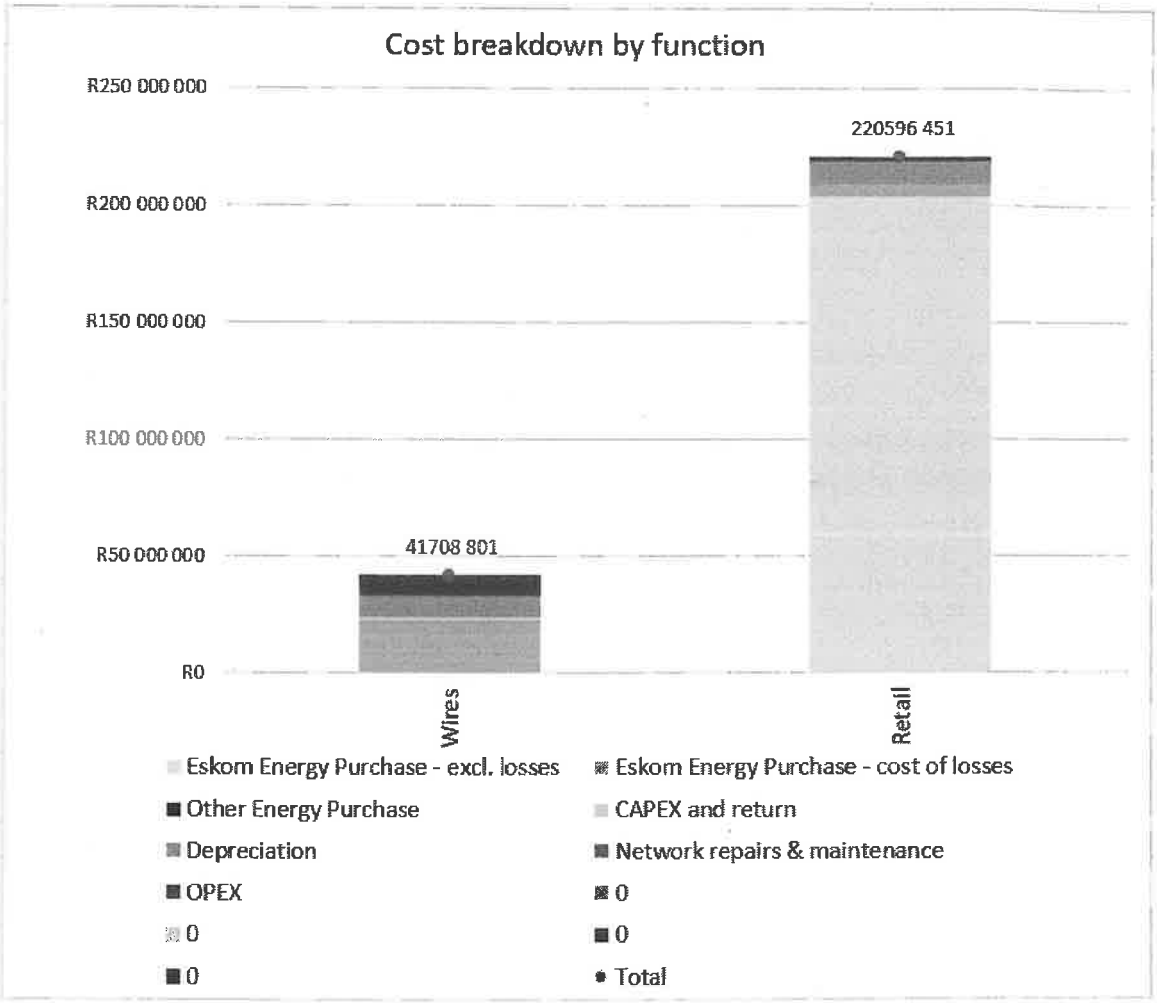


Figure 4 Cost breakdown by function

Energy Purchases

Musina Local Municipality has two incoming electricity supplies from Eskom that it uses for distribution, namely Musina Town and Musina Nancefield Ext 8.

The municipal energy purchases have been adjusted for losses since the COS framework only allows for only 12% of losses as per the benchmark. The municipality's projected losses

for FY25/26 are 12%. The municipality buys electricity from Eskom and the total energy purchases were projected to be R 220 510 080 in FY25/26

The licensee used the purchases for the test period to forecast sales for the financial year that it is applying for. The forecasted purchases include street lighting electricity, own use electricity and the allowable loss factor.

Cost functionalisation, classification, and allocation

The model follows the NERSA COS framework methodology for these methodological steps. Costs are first split into their function, and then classified according to their cost drivers, and finally allocated to the customer categories according to usage. These methodological steps are sound, and the key results have been summarised in the previous section.

COS results

The key finding is that the municipality needs to increase its tariffs by **25.1%** to achieve full cost-reflectivity in FY2025/26.

The municipality's COS results are shown per tariff category in the figure below. The prepaid customers are the costliest to service.

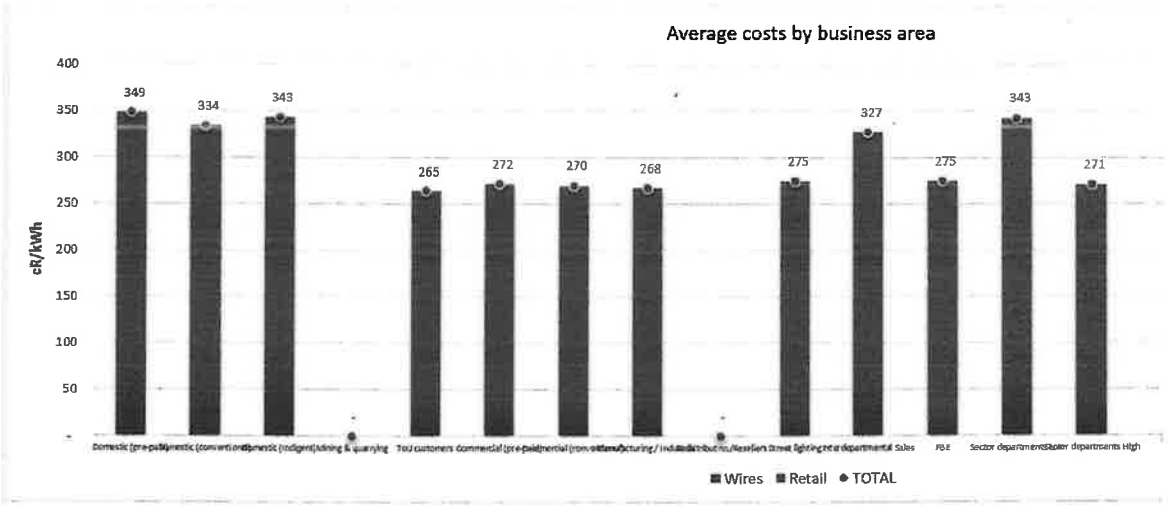


Figure 5 average costs by business area

Comparing these costs to the income per tariff category reveals the over or under recovery per tariff category, as shown in the figure below. When reading this graph, it is important to note that it is presented in % terms and not absolute Rand terms.

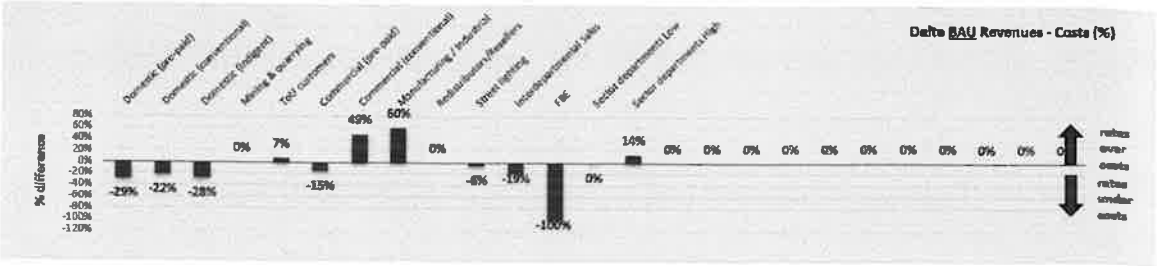


Figure 6 % Over/under recovery of customers

The key insight is that prepaid customers are currently receiving electricity services at a price below cost (i.e., being cross-subsidized) while business scale customers and sector departments are paying above cost for electricity. Interestingly, all the time-of-use tariffs are close to cost reflectivity.

The business as usual (BAU) rates as shown in the graph below indicate that existing tariff structures are cost reflective. More than 80% of costs are recovered through a variable energy charge, and this makes the municipality less susceptible to volumetric risk. The cost of supply (CTS) results indicates that, to maintain cost reflectivity, the municipality must keep recovering less than 80% of its costs through variable energy charges, with the remainder of costs through stable or fixed demand and customer charges. As the uptake of distributed generation increases in electricity distribution networks, a move towards TOU tariff setting is proposed.

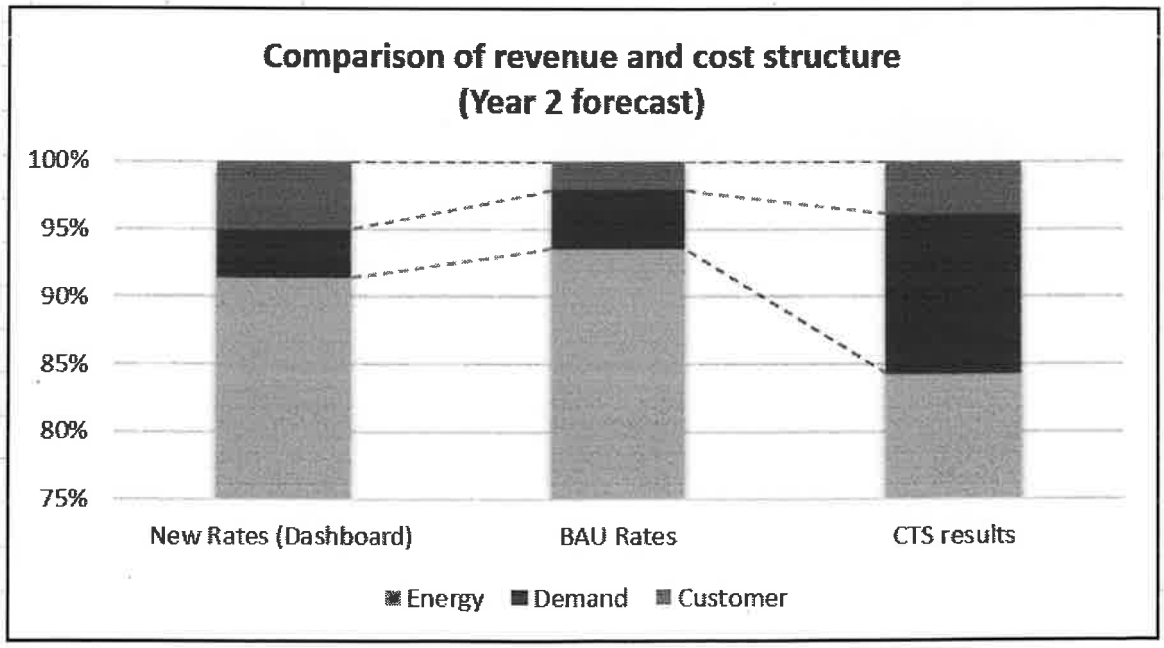


Figure 7 Comparison of revenue and cost structure

Cost reflective charges are shown in the table below. These are the result of the cost of supply study and indicate what the municipality should be charging customers to recover 100% of their revenue. However, due to South Africa's socio-economic conditions and the

municipality's revenue recovery strategy, the municipality may deviate from these cost-reflective tariffs in the tariff design stage of the cost of supply study. Rate design is discussed in the next section and may deviate from these results based on the municipality's maximum tolerable tariff increase, subsidy policy, price signals, tariff design choices, etc.

[Source of below table in model: "5) COS Results (Year 2)" sheet: cells: AM61:AO81]

Table 3 Cost reflective results by business area, class, season, TOU

	COS results per type of charge (energy, demand and customer) in c/kWh, R/kVA, R/POD/month respectively		
Business area:	**Total**	**Total**	**Total**
Cost class:	**Energy**	**Demand**	**Customer**
Season:	**All**	**All**	**All**
TOU:	**All**	**All**	**All**
Unit:	*c/kWh*	*R/kVA/month*	*R/POD/month*
Customer Categories			
Domestic (pre-paid)	271	117	80
Domestic (conventional)	271	115	107
Domestic (Indigent)	271	113	80
Mining & quarrying	-	-	-
ToU customers	237	92	507
Commercial (pre-paid)	237	91	133
Commercial (conventional)	237	92	160
Manufacturing / Industrial	237	92	133
Redistributors/Resellers	-	-	-
Street lighting	271	-	-
Interdepartmental Sales	271	116	160
FBE	271	-	-
Sector departments Low	271	103	160
Sector departments High	237	84	160
	-	-	-

5. Rate design

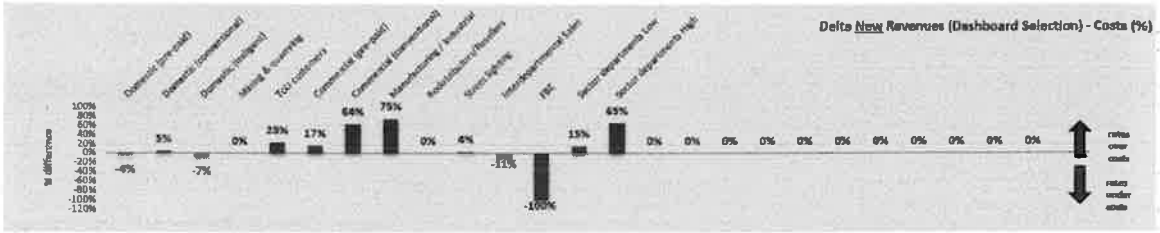
Municipal tariff setting is guided by Municipal Tariff Policy, which is developed with reference to various pieces of legislation, but in particular Sections 4 and 74 of the Municipal Systems Act (32 of 2000) and the National Electricity Pricing Policy (2008), which also outlines the General Tariff Principles as set out in S16 of the Electricity Regulation Act of 2006. The regulatory framework on tariffs seeks to balance the often competing or contradictory tariff principles of revenue sufficiency, economic efficiency, equity, fairness and simplicity.

The COS is an important, but not deterministic, input to tariff design. It enables a municipality (and the Regulator) to assess:

a. Revenue sufficiency of proposed tariffs and the financial sustainability of the utility.

b. That tariffs reflect the costs associated with rendering the services and those customers are treated equitably and pay in general proportion to use of services.
c. The reasonableness of the low-income tariff determination in line with guiding policy: including access to a free basic service plus lifeline tariff based on operation and maintenance only.
d. Whether environmental objectives are being encouraged; and
e. The transparency of subsidies and surcharges.

The municipality is proposing increasing its tariffs by **14.7%** to achieve cost-reflectivity. In doing so, it will increase some categories more than others to manage the cross-subsidies in the system. After the proposed changes are implemented, the under- and over-recovery per tariff category is as follows:



The key takeaway from the proposed tariffs is that the time-of-use tariffs have moved above cost-reflectivity and are now able to subsidise the smaller prepaid customers.

The municipality is not proposing basic charges and TOU tariffs for industrial customers and the sector departments. Tariff structures are increased by 10 to 35% to achieve the overall average increase of 25.1%.

The new proposed tariff schedule is included as Annexure A in this report, and the tariffs will be phased in over two (2) years to cushion customers from high electricity prices and any structural changes.

6. Key Assumptions

This section of the report outlines key assumptions that were made in the development of this Cost of Supply study. These assumptions were essential due to granular data unavailability and lack of clear planning approaches in the municipality. These assumptions are as follows:

- The energy forecasts will increase year on year by 1-3%
- The D-Form expenses will increase year on year by 0-4%
- The total maximum demand of the municipality is 29.5 MVA.
- For customers with multiple tariffs within a single customer category, the tariffs on which most electricity is sold were used as an input into the model

- The actual municipal energy losses for FY2023/24 were 12%; however, energy losses were capped at 12% as per the COS framework.

7. Data description and improvements

- Based on our analysis, we classify our electricity sales data as "good" in terms of accuracy. We have identified some areas where data quality can be improved, particularly about prepaid customers, where sales data is sometimes under-reported or incorrectly reported.

To improve the accuracy of our electricity sales data, we plan to implement the following measures:

- Improved data collection processes: We will work with vendors to ensure that they provide accurate and complete data, including kWh values for prepaid customers.
- Enhanced data validation and verification: We will implement additional checks and balances to ensure that data is accurate and consistent.
- Regular audits and reviews: We will conduct regular internal audits and reviews of our data to ensure that it remains accurate and reliable.
- Attend trainings on improving the quality of D-form data capturing
- Work closely with GOGTA, SALGA, National Treasury, and Sustainable Energy Africa for support and guidance