Swartland Municipality:

Cost of Supply (CoS) Study Methodology Applied in 2023/24

A Municipal Cost of Supply (CoS) study is undertaken to determine the actual cost of supplying electricity to different customer categories within a municipality. The study provides a technical and financial basis for tariff restructuring and forms a key component of the municipality's tariff application to the National Energy Regulator of South Africa (NERSA).

The process typically begins with **project initiation and data collection**, where historical financial statements, electricity purchase costs, operational expenditure (OPEX), capital expenditure (CAPEX), asset registers, customer data, and electricity sales information are gathered from the municipality. This information forms the foundation for the cost analysis.

The next step involves **functionalisation of costs**, where all electricity-related expenses are allocated to the main electricity supply functions, such as generation (if applicable), bulk purchase, transmission, distribution network, customer services, and administration. This ensures that costs are properly categorized according to the activities required to deliver electricity.

Following functionalisation, **cost classification** is performed. Costs are classified into categories such as demand-related costs, energy-related costs, and customer-related costs. This classification aligns costs with the drivers that cause them and helps in designing appropriate tariff components.

The process then proceeds to **cost allocation**, where the classified costs are distributed across different customer groups (e.g., residential, commercial, industrial, and municipal loads) based on appropriate allocation factors such as energy consumption, peak demand, or number of customers.

Once the costs have been allocated, **tariff design and analysis** is conducted. At this stage, the allocated costs are compared with current tariffs to determine whether they are cost reflective. Tariff structures may then be adjusted to improve fairness, sustainability, and compliance with NERSA guidelines.

Finally, the results of the study are **documented in a Cost of Supply report**, which includes the methodology, assumptions, cost allocations, and recommended tariffs. This report is submitted together with the municipality's tariff application to the National Energy Regulator of South Africa for review and approval.

During 2023/24 in preparation for the 2024/25 tariff application this exercise was conducted based on the 2022/23 Financial information. Swartland Municipality appointed **Elexpert (Pty) Ltd** who are regarded as a tariff setting expert with many years of experience as the Eskom pricing manager and in the wider industry.

After the study and before the submission of the application the municipality decided to implement Online Vending and to make provision for additional Maintenance cost to ensure

adequate expenditure in line with NERSA's requirement for maintenance of the network. Based on these additional provisions the required increase was adjusted to 12.81%. Extensive discussions were held with NERSA during a full day workshop to clarify any issues or concerns that they might have had with the CoS study. Following the NERSA public participation process and analysis of the Cost of Supply model the final applied for tariff increase of 12.81% was approved on the previous year's base.

For the 2025/26 tariff application the same study (unadjusted) was submitted as part of the tariff application process and once again NERSA granted the recommended increase of 12.72%. Swartland is thus confident that the Cost of Supply study gave an accurate reflection of the electricity business in Swartland and that there is no reason yet to update the model. In terms of the Electricity Pricing Policy and NERSA guideline it is also only necessary to update/do a new study every five (5) years.

Although there were recommendations in the cost of supply report to restructure the tariffs to be more cost reflective it was decided that further work is required on the restructured tariffs and that the replacement of a significant number of electricity meters would be required to accommodate the proposed tariffs.

Given the changes in the Eskom municipal tariffs, the finalisation of the De Hoop 132 kV project in 2027/28 as well as the possible implementation of a renewable IPP in 2027/28 it is recommended that a new cost of supply study be conducted in 2026/27 to take all these changes into consideration.

There has been a lot of discussions in the media over the past number of months due to the implementation of fixed charges, especially for prepaid customers and customers with Solar PV systems that are connected to the electrical grid (Eskom or Municipal). NERSA has initiated a Market Survey regarding the levying of Fixed and Capacity charges on electricity tariffs which should be concluded during the next few months. We are hopeful that the outcome of the survey will result in recommendations for consideration in determining future electricity tariffs.

Considering the international trend to recover network costs via fixed or capacity charges the outcome of this study should provide Municipalities, inclusive of Swartland, with a clear guideline on how to treat fixed and capacity charges. Since extensive public consultation would be required to engage on a new tariff structure it is proposed to initiate the new Cost of Supply study early in the new financial year to allow enough time to meaningfully engage with the customers and to determine the impact on the various customer categories before final proposals are made to the Council and included in the Tariff Increase application for 2027/28.

For the 2026/27 financial year Swartland proposes a tariff increase of 11.44% on the previous years base. It is to be noted that this increase is influenced by the short-term step changes of the 132 kV Self Build Project, and the Eskom connection charges for the Yzerfontein and Darling NMD increases.

The application for the 11.44% increase will be submitted to NERSA by 31 March 2026 in line with the latest NERSA timelines.

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