NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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The Decision and Reasons for Decision

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Private Distributor Tariff Applications for the 2026/27 Financial Year

By

AECI Modderfontein (AECI MODDERFONTEIN)

THE DECISION

At its meeting held on 8 May 2026, the Regulator Executive Committee (REC) considered AECI Modderfontein's tariff application. Based on the facts and evidence presented, REC approved the tariff increases for the 2026/27FY set out in
Table 1 below.

Table 1: Summary of the REC decision

Tariff Category	2026/27 approved % increase
Acacia Properties < 100 kW: Summer charge	8.76%
Acacia Properties < 100 kW: Winter charge	8.76%
Acacia Properties > 100 kW: Summer charge	8.76%
Acacia Properties > 100 kW: Winter charge	8.76%
Shanghai Zendia < 100 kW: Summer charge	8.76%
Shanghai Zendia < 100 kW: Winter charge	8.76%
Shanghai Zendia > 100 kW: Summer charge	8.76%
Shanghai Zendia > 100 kW: Winter charge	8.76%

Based on the available information and the analysis performed thus far, the REC decided at its meeting on 8 May 2026 that:

a) The tariffs that are based on the cost drivers are approved as recommended in the tariff analysis section for implementation by the licensee with effect from 1 July 2026.
b) The cost drivers submitted by the Licensee are noted.
c) The licensee is required to submit a report accounting for all the costs that have been noted, to enable the Regulator to perform its independent verification/audit process by 31 January 2027.

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ABBREVIATIONS

AFS	annual financial statements
CAPEX	Capital Expenditure
COS	Cost of Supply
D-form	distribution form
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
FY	financial year
IBT	Inclining Block Tariff
IPP	Independent Power Producer
AECI	AECI Modderfontein
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure
RAB	Regulatory Asset Base
REC	Regulator Executive Committee
ROR	rate of return

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA), in accordance with its statutory mandate regulate electricity prices and tariffs, assesses tariff applications submitted by licensees on an annual basis. As part of this process, municipal electricity tariffs must be approved by the Energy Regulator prior to implementation, which typically takes effect on 1 July of each financial year.

1.2. AECI Modderfontein is a licensed private electricity distributor located in Modderfontein in the Gauteng Province. The company is owned by African Explosives Limited and receives its electricity supply directly from Eskom. The licensee has a total of 115 customers, with the own-use customer category accounting for 95.2% of total electricity sales, while commercial customers account for the remaining 4.8%.

1.3. Table 2 below shows AECI customer statistics obtained from D-forms: The licensee has a total of 115 customers with the own-use customer base accounting for 95.2% of the total electricity sales followed by commercial customers at 4.8%. This is a strong indication of the licensee's reliance on its own factory consumption.

Table 2: Customer statistics (data obtained from the latest D-forms – 2024/25)

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Commercial	2 642	4.8%	114
Own use	52 868	95.2%	1
TOTAL	**55 510**	**100%**	**115**

1.4. NERSA received AECI Modderfontein's tariff application together with its Cost of Supply (COS) on 31 March 2026.

1.5. NERSA followed the notice and comment consultation process. AECI Modderfontein's tariff application was published on 31 March 2026 on the NERSA website, on social media platforms and in national and local newspapers to solicit written comments from affected parties.

1.6. The Energy Regulator's decision was made on 8 May 2026, after considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004; NERA), the Electricity Regulation Act, 2006 (Act No. 4

of 2006) as amended (ERA), the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000; PAJA), and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 (EPP).

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-year Price Determination and Eskom Retail Tariff and Structural Adjustment (ERTSA) decision, and is undertaken annually in order to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003; MFMA).

2.1.3. In addition, the municipal tariff approval process has recently been the subject of judicial scrutiny in the High Court of South Africa (Gauteng Division, Pretoria) in *AfriForum NPC v National Energy Regulator of South Africa and Others* (Case No. 2025/137620), which resulted in structural directives governing the timing and conduct of NERSA's tariff approval process.

2.1.4. This section provides the legal and policy context within which the Energy Regulator evaluated and determined the municipal electricity tariff application for the 2026/27 municipal financial year.

2.2. Statutory Mandate of the Energy Regulator

2.2.1. NERSA is established as a juristic person in terms of section 3 of NERA. In terms of section 4 of NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and execute the functions set out in ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by ERA. Section 3 of ERA particularly provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and exercises regulatory authority over activities regulated under the ERA.

2.2.2. In particular:

- Section 4(a)(i) of ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions.
- Section 4(a)(ii) of ERA provides that the Energy Regulator must regulate prices and tariffs.
- Section 14(1)(d) of ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

2.2.3. Municipalities distributing electricity do so under electricity distribution licences issued by the Energy Regulator and are therefore subject to the tariff approval framework established under ERA.

2.3. **Tariff Determination Principles Under ERA**

2.3.1. When determining or approving electricity tariffs, the Energy Regulator must apply the principles contained in section 15(1) of ERA.

2.3.2. Section 15(1) provides that the Energy Regulator:

- must enable an efficient licensee to recover the full cost of the licensed activity;
- must allow for a reasonable return commensurate with the risk of the licensed activity;
- may provide incentives for continued improvement of technical and economic efficiency;
- must avoid undue discrimination between customer categories;
- may permit cross-subsidies of tariffs to certain classes of customers; and
- may have regard to the need to ensure security of supply, diversity of supply and the promotion of renewable energy.

2.3.3. These statutory requirements form the core legal principles guiding the determination of electricity tariffs within the South African electricity supply industry.

2.4. **Administrative Law Requirements**

2.4.1. The approval of municipal electricity tariffs constitutes administrative action as defined in section 1 of PAJA. Accordingly, the Energy Regulator must ensure that its tariff determinations are lawful, reasonable and procedurally fair as required by sections 3 and 6 of PAJA. Procedural fairness requires that affected parties and the public be afforded a reasonable opportunity to make representations before a final decision is made.

2.4.2. Public participation processes conducted by the Energy Regulator therefore form an essential component of the municipal tariff approval process and are intended to ensure transparency, accountability and fairness in regulatory decision-making.

2.5. **Policy Framework: Electricity Pricing Policy (2008)**

2.5.1. In addition to the statutory framework, the Energy Regulator must have regard to the EPP. The EPP establishes national policy principles for electricity tariff-setting, including cost reflectivity, transparency, economic efficiency and equity.

2.5.2. Policy Position 1 of the EPP provides that the revenue requirement for a regulated licensee must be set at a level that covers the full cost of production, including a reasonable risk-adjusted margin or return on appropriate asset values.

2.5.3. Policy Position 2 states that electricity tariffs must reflect the efficient cost of rendering electricity services accurately and that the average level of tariffs must be set to recover the approved revenue requirement.

2.6. **Cost-of-Supply Studies**

2.6.1. The EPP recognises that cost-reflective tariff structures require a sound understanding of the underlying cost drivers associated with electricity distribution.

2.6.2. Paragraph 8.1 of the EPP notes that Cost-of-Supply methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 therefore requires electricity distributors to undertake Cost-of-Supply studies at least every five years, or when significant structural changes occur in the customer base or cost structure.

2.6.4. Such studies must be conducted in accordance with the methodology approved by NERSA and must accompany tariff structure applications submitted to the Energy Regulator.

2.7. **Judicial Oversight of the Tariff Approval Process**

2.7.1. The municipal tariff approval process administered by NERSA was the subject of litigation in *AfriForum NPC v National Energy Regulator of South Africa and Others* (Case No. 2025/137620) before the High Court of South Africa, Gauteng Division, Pretoria.

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to the 2025/2026 municipal tariff approvals did not comply with the procedural requirements of section 4 of PAJA and was therefore unlawful.

2.7.3. However, recognising the potentially disruptive consequences of setting aside tariff determinations already implemented by municipalities, the Court declined to invalidate the tariffs. Instead, to assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

2.7.4. NERSA subsequently launched a variation application which sought to vary the timelines which were set by the Court on 4 December 2025, considering the practical difficulties which arose as it related to NERSA's compliance with the court order. Having heard NERSA's application, the Court granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines below are applicable in respect of the 2026/27 municipal tariff approvals:

- written notice of bulk tariffs by 6 March 2026;
- municipal tariff applications to be submitted by 31 March 2026;
- public participation processes to be concluded by 21 April 2026; and

- the publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from 2027/28 are to comply with the following timelines:

- written notice of bulk electricity tariffs to be communicated by 31 January each year;
- municipal tariff applications to be submitted to NERSA by 20 March each year; and
- municipal tariff approvals and the tariff reasons for decision document to be approved and published by 5 May of each year.

2.9. **Conclusion**

2.9.1. The determination of municipal electricity tariffs by the Energy Regulator must therefore be undertaken within a comprehensive regulatory framework consisting of NERA, ERA, PAJA, the EPP and the binding judicial directives issued by the High Court in *AfriForum NPC v NERSA* (Case No. 2025/137620).

2.9.2. The reasons that follow in this Reasons for Decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. **Level of reliability of information**

3.1.1. In assessing the financial and technical performance, NERSA relied on the 2024/25FY's Distribution forms (D-forms) information provided in analysing the licensee's tariff application. The information from the D-forms was validated by NERSA against the relevant source documents submitted by the municipality (i.e., the Trial Balance/Annual Financial Statement). Hence, the information provided on the D-forms is considered reasonable for the analysis of the tariffs.

3.2. Table 3 below shows AECI Modderfontein's Technical and Financial Performance.

Table 3: Performance indicators

Performance indicators	***2024/25***	***2023/24***
Percentage surplus/(deficit) **(%)**:	0.87	2.22
Energy Losses **(%)**:	3.42	3.42

Percentage Surplus

3.3. The municipality recorded a surplus margin of 2.22% in the 2023/24FY, which declined to 0.87% in the 2024/25FY. This indicates a decline in the municipality's financial performance.

Energy Losses

3.4. AECI Modderfontein's energy losses remained low at 3.42% in both the 2023/24 and 2024/25 financial years. This indicates that the licensee continues to maintain efficient network operations and effective energy management practices. The consistently low level of losses reflects good technical performance and limited non-technical losses within the distribution network.

General conclusion on the financial and technical indicators

3.5. Based on the above information, the technical and financial performance of the electricity department within the municipality is satisfactory.

4. DETERMINATION OF AECI MODDERFONTEIN'S TARIFFS BASED ON THE EXISTING COST-OF-SUPPLY STUDY

4.1. The licensee submitted its existing COS study, which supports the tariff application to be approved in the 2026/27FY. The licensee's COS study was inclusive of all requirements of NERSA's approved COS framework (i.e., Revenue Requirement, Costs Functionalisation, Costs Classification, Costs Allocation and Rate Setting).

4.2. Policy Position 23 states:

Electricity distributors shall undertake COS studies at least every five years, but at least when significant licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes. This must be done according to the approved NERSA standard to reflect changing costs and customer behaviour. The cost-of-service methodology used to derive tariffs must accompany applications to the regulator for changes to tariff structures.

4.3. AECI Modderfontein's 2026/27 tariff application is based on an existing COS study. The study is valid for five years and has been adjusted to reflect key cost drivers for the 2026/27FY in line with section 18.7 of the NERSA COS Framework.

4.4. The revenue requirement for AECI Modderfontein was determined using a cost-plus methodology in accordance with the COS Framework.

4.5. Section 18.7 of the October 2023 NERSA-approved COS Framework states:

An adjustment index will be issued to licensees to allow them to submit the tariff applications, which will be used to determine the costs that must increase with CPI, purchase costs, and other OPEX. Where annual plans, such as repairs and maintenance, and CAPEX plans have been assessed and approved by NERSA, these can be adjusted based on that.

4.6. In line with section 18.7 mentioned above, Table 4 was developed, and the definition of the columns is as follows:

i) Column 1 is the actual 2024/25 licensee performance and is sourced from the D-forms that are based on the audited annual statements.

ii) Column 2 is for the 2025/26 revenues and electricity volume that upon which the 2026/27 tariffs are based. The figures were tested for reasonableness (since at the time of the approval, the figures were estimates) when the Regulator considered and approved the 2026/27 COS base tariffs. Once the financial year ends, the actual figures will be verified using the audited statements.

iii) Column 3 is for the licensee's submitted FY 2026/27 budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.

iv) Column 4 is for NERSA's recommended adjustments after considering the reasons, facts and evidence the licensee provided to motivate/justify the budgeted figures.

v) Column 5 is for NERSA's recommended amounts that total up to allowable revenues the licensee must recover in FY 2026/27.

4.7. The Total Allowable Revenue of R160.154 million is recommended in Table 4 below for the 2026/27 tariff review period and is the basis upon which the tariffs were approved by the Regulator. The COS study is valid for five years; however, it needs to reflect the adjustments on their cost drivers for each financial year under the existing COS (i.e., 2026/27FY). NERSA used the budgeted figures to verify efficiencies and to ensure that municipalities do not over-/under-recover their operating overheads during the 2026/27FY tariff review process.

Table 4: Revenue Requirement components

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee	NERSA Adjustment (considering efficiencies)	FY2026/27 Allowable Revenue
Sales	kWh	56 998 814	58 112 370	59 247 933	-	59 247 933
Eskom bulk purchases	kWh	59 017 177	59 370 943	60 531 099	-	60 531 099
Total Energy Requirements	kWh	59 017 177	59 370 943	60 531 099		60 531 099
Total Losses	kWh	2 018 363	1 258 573	1 283 166		1 283 166
Technical losses	kWh	2 018 363	1 258 573	1 283 166	-	1 283 166
Non-technical losses	kWh	0	0	0	-	0
Allowed losses	%	3,42%	2,12%	2,12%		2,12%
Total Energy losses	%	3,42%	2,12%	2,12%		2,12%
Cost drivers						
Energy purchases from Eskom	Rand	123 299 243	141 465 030	157 224 438	-	157 224 438
total energy purchases		123 299 243	141 465 030	157 224 438	0	157 224 438
Operational expenditure (incl. Depreciati	Rand	2 440 533	2 573 396	2 663 465	0,0	2 663 465
General & Other	0	2 368 211	2 497 675	2 585 094	0	2 585 094
Salaries and allowances	Rand	1 815 846	1 919 349	1 986 526	0	1 986 526
Materials and supplies	Rand	552 365	578 326	598 568	0	598 568
Shared OPEX	Rand	72 322	75 721	78 371	0	78 371
Operating Leases	Rand				0	
General expenses		72 322	75 721	78 371	0	78 371
3.Other Expenses	Rand	72 322	75 721	78 371	0	78 371
Total Expediture before surplus		125 739 776	144 038 426	159 887 903	0	159 887 903
Surplus	Rand	244 053	257 340	266 347	0	266 347
Total Expenditure Including Surplus		125 983 829	144 295 766	160 154 250	0	160 154 250
Total Allowable Revenus	Rand	125 983 829	144 295 766	160 154 250	0	160 154 250
increase required				*10,99%*	*10,99%*	

4.8. The actual figures were verified using Eskom invoices and verified electricity-related operating costs [tested against 2024/25 D-forms, Trial Balance and Audited Annual

Financial Statements (AFS)]. Only prudently incurred and efficiently verified costs, supplemented by a reasonable surplus margin, are recommended for approval .This forms the basis on which costs for the 2026/27FY will be projected using assumptions to calculate revenue requirements.

4.9. Furthermore, NERSA has verified all expense items included in the revenue requirements to ensure that they relate only to the electricity function of the licensee. In instances where expenses are deemed inflated or unjustified, these have been adjusted accordingly.

BULK PURCHASES

4.10. For the 2026/27FY, the licensee has applied for a bulk purchase expenditure of R157.224 million, which accounts for 98.17% of total costs, inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices in the 2024/25FY.

4.11. To get to the 2026/27 estimate, the licensee provided the year-to-date figures for 2025/26, then made an estimate that this cost item would increase by 9,01% in line with the approved ERTSA.

4.12. All verifications have been satisfactory to NERSA and, therefore, this cost has been approved as applied for.

OPERATING EXPENDITURE (INCLUDING DEPRECIATION)

4.13. The licensee applied for a bulk purchase expenditure of R2.663 million for the 2026/27FY, which accounts for 1.66% of total costs.

4.14. The approach taken by the licensee is satisfactory to NERSA to forecast operational expenditure. Therefore, this cost has been recommended for approval as applied for.

SURPLUS

4.15. The licensee is applying for a surplus of R266 347, which is based on a 0.17% return on OPEX net of purchases.

4.16. NERSA is satisfied that the return applied for by the licensee is reasonable to keep the licensee sustainable, though it falls below the 10% to 20% target range as determined in the COS Methodology. Thus, it is NERSA’s decision to allow the revenue requirement as applied for.

4.17. The municipality applied a cost-plus methodology and not a rate of return (ROR) approach. Accordingly, no Regulatory Asset Base (RAB) was required or used in determining the revenue requirement. Under the cost-plus methodology, the allowable revenue is derived as follows:

4.17.1. efficient and prudent operating expenditure (OPEX);

4.17.2. plus depreciation (as a proxy for asset consumption and future replacement);

4.17.3. plus a reasonable surplus margin.

4.18. The surplus is not derived from a return on assets, but rather assessed as a margin on total cost, consistent with the COS framework.

4.19. To ensure that the surplus is not excessive or to the detriment of consumers, the following verification steps were undertaken:

4.19.1. There is no operational risk as the licensee operated at a surplus and energy losses are reducing.

CONCLUSION ON COSTS TO SERVE

4.20. The COS study is applicable for a five-year period. NERSA evaluated the adjustments to cost drivers for the 2026/27FY using the budgeted information submitted by the licensee to ensure the continued relevance, accuracy, and reasonableness of the costs. This assessment was undertaken to ensure that the licensee neither over- nor under-recovers its efficiently and prudently incurred costs.

4.21. The cost to serve recommends an average tariff increase of 10.99%. However, the licensee is proposing an 8,76% increase to review its tariffs for the 2026/27FY. Some of the considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to stimulate demand, ability to cover Eskom bulk electricity costs and ensure customer affordability while maintaining long-term financial stability.

4.22. Significantly higher tariffs could negatively impact the licensee by reducing customer demand and sales. The licensee also considered the broader affordability impact on customers in determining the pace of its tariff adjustments.

4.23. This approach will assist in protecting the municipality's revenue base and support its financial sustainability, as required by legislation.

4.24. Furthermore, The COS is based on a forecast, therefore resulting in a higher average percentage increase for the private distributor to reach cost reflectivity. It is for this reason that the private distributor will be requested to submit a report accounting for all the costs that have been noted in its COS study, to enable the Energy Regulator to perform its independent verification/audit process

4.25. The cost adjustment tool indicates a justified increase of 10,99% for 2026/27FY. However, the licensee has applied for a lower average tariff increase of 8.76% for the 2026/27FY, in consideration of the factors discussed above. The licensee will remain sustainable.

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The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9330/AECIModderfonteinPrivateDistributor_ReasonsforDecisionontar

Shanghai Zendai < 100kW	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Summer Energy Charge (c/kWh)	328,77	8,76%	357,57	357,57	8,76%
Winter Energy Charge (c/kWh)	440,82	8,76%	479,44	479,44	8,76%

Shanghai Zendai > 100kW	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Summer Energy Charge (c/kWh)	311,94	8,76%	339,27	339,27	8,76%
Winter Energy Charge (c/kWh)	454,54	8,76%	494,36	494,36	8,76%

7. ANALYSIS AND KEY FINDINGS FOR COMMERCIAL CUSTOMERS

7.1. An 8.76% increase is lower than the cost required for the private distributor (aligned with Eskom), is less onerous and is easing cost pressures especially for commercial customers and energy-intensive users. The lower increase reduces the risk of customers sharply reducing electricity use. Some efficiency improvements and self-generation may still occur, but the risk of lower sales volumes is more limited than under higher increases. A lower increase also supports local business competitiveness and reduces the risk of customers relocating or moving away from the network compared to higher tariffs.

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. From an overview of the facts and evidence presented to the REC, it is appropriate to consider and approve AECI Modderfontein's tariff application for 2026/27FY.

End.