NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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The Decision and Draft Reasons for Decision

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Polokwane Local Municipality

THE DECISION

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1. At its meeting held on 30 April 2026, the Regulator Executive Committee (REC) considered Polokwane Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year set out in Section 7 (Page 20) below.

2. Based on the available information and the analysis performed thus far, the Regulator Executive Committee decided to:

   2.1. approve the tariffs that are based on the Cost of Supply (COS) Study as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;
   2.2. note the COS study submitted by the municipality;
   2.3. that the municipality must submit a report accounting for all the costs that have been noted in its COS study to enable the National Energy Regulator of South Africa to perform its independent verification/audit process by 31 January 2027; and
   2.4. that the municipality must submit a quarterly smart efficiency plan with improvement measures identified in reducing high energy losses and submit by 30 September 2026.

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ABBREVIATIONS

COS	Cost of Supply
D-form	Distribution form
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IPP	Independent Power Producer
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications on a yearly basis, in accordance with the mandate of the Energy Regulator to regulate prices and tariffs. Municipal tariffs must be approved by the Energy Regulator to be implemented on 1 July of each financial year.

1.2. The Municipality is a large municipality situated in the Limpopo province. The Municipality has a total of 53 291 customers, with the industrial customer base accounting for 50.44% of sales, as indicated in Table 1 below. In the 2025/26 financial year the Municipality increased its tariffs by 11.32% and is proposing an average increase of 10.01% for the 2026/27 financial year.

1.3. The Municipality has confirmed that it does have an indigent register, and 8 601 indigent customers are supplied 100 kWh Free Basic Electricity (FBE) per month by Eskom on behalf of the Municipality.

1.4. Table 1 below reflects statistical data that gives a customer outlook of the Municipality's electricity supply in the region. This information is derived from the 2024/25 D-form as provided by the Licensee.

Table 1 : Customer Statistics (Data obtained from latest D-forms)

Consumer Categories	(MWh)	%MWh	Number of consumers
Domestic (Prepaid)	222 863	40,87	46 462
Domestic (Conventional)	4 382	0,80	593
Commercial (Prepaid)	30 661	5,62	4 507
Commercial (Conventional)	6 535	1,20	513
Manufacturing/Industrial	275 064	50,44	615
Own Use	5 808	1,07	601
Totals	**545 313**	**100**	**53 291**
[1]Free Basic Electricity (FBE)	9 281	1,70	8 906

1.5. NERSA received The Municipality's tariff application accompanied by a revised Cost of Supply (COS) study, on 31 March 2026 for the 2026/27 financial year. The municipality attributed the revision of the COS study to Eskom's implementation of approved retail and municipal bulk tariff structural changes, arising from the approved Eskom's Retail Tariff and Structural Adjustment (ERTSA) decision for the 2025/26 financial year.

1.6. NERSA followed the notice and comment consultation process. The Municipality's tariff application was published on the NERSA website on 31 March 2026, on social media

[1] This information is already included in the customer statistics table above under domestic prepaid/conventional category

platforms and national and local newspapers to solicit written comments from affected parties.

1.7. NERSA's decision was made on 30 April 2026, considering 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 Proce Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually to align with the municipal budgeting process contemplated in the Municipal finance management Act, 2003 (Act No. 56 of 2003).

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 2026/2027 municipal financial year.

2.2. NERSA's Statutory Mandate

2.2.1. NERSA is established as a juristic person in terms of section 3 of the 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 the ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by the ERA. Section 3 of the 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, the Energy Regulator exercises its authority through the powers conferred by the ERA as follows:

a) Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions
b) Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs
c) Section 14(1)(d) of the 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 the ERA.

2.3. Tariff Determination Principles under the ERA

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

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

a) must enable an efficient Licensee to recover the full cost of the licensed activity;
b) must allow for a reasonable return commensurate with the risk of the licensed activity;
c) may provide incentives for continued improvement of technical and economic efficiency;
d) must avoid undue discrimination between customer categories;
e) may permit cross-subsidies of tariffs to certain classes of customers; and
f) 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 the 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 taken.

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 (Electricity Pricing Policy) 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 applied consistently 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 whenever 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 relates to the NERSA's compliance with the Court order. The court having heard NERSA's application, 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:

a) Written notice of bulk tariffs must be communicated by 6 March 2026;
b) Municipal tariff applications to be submitted by 31 March 2026;
c) Public participation processes to be concluded by 21 April 2026
d) NERSA's decisions must be published by 11 May 2026.

2.8.2. Municipal tariff approvals from 2027/28 onwards must comply with the following timelines:

a) Written notice of bulk electricity tariffs be communicated by 31 January each year;
b) Municipal tariff applications be submitted to NERSA by 20 March each year;
c) Municipal tariff approvals and the Reason for Decision document must 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 the NERA, ERA, PAJA, 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 2026/2027 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In assessing the financial and technical performance of the Municipality, the assessment relied on the Distribution forms (D- forms) for the 2024/25 financial year submitted as part of the Licensee's tariff application. The information contained in the D-forms was verified against the supporting source documents provided by the Municipality, including the Trial Balance and Annual Financial Statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

3.2. The Municipality's electricity business operated at a percentage surplus of 16.97% in the 2024/25 financial year which is an improvement from a surplus of 10.64%. This positive performance is driven by improved billing accuracy, enhanced alignment between tariffs and the underlying efficient cost drivers as well as improved recovery of network -related costs.

3.3. Table 2 below shows that the Municipality's energy losses indicate an increase of 0.42% on energy losses for the 2024/25 financial year from the previous financial year of 11.88%. The Municipality will have to monitor its energy losses to improve network efficiency as this will reflect positively on the municipality's operational performance.

Table 2: Performance indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
INDICATORS	**2024-25FY (Actuals)**	**2023-24 FY (Approved)**
Percentage Surplus (Deficit)%	16,97%	10,64%
Percentage Energy Losses %	12,33%	11,88%

4. DETERMINATION OF THE MUNICIPALITY'S TARIFFS BASED ON THE COS STUDY

i. The process that the Energy Regulator followed in considering and approving the Municipality's tariff application was supported by a cost of supply study. The revised study aimed to improve cost reflectivity, by aligning tariffs with Eskom's unbundled cost.

ii. The study diligently follows the NERSA COS framework and utilises the latest available audited data which is based on the 2024/25 financial year.

iii. **Error! Reference source not found.** below details the five steps considered in the determination of the COS study.

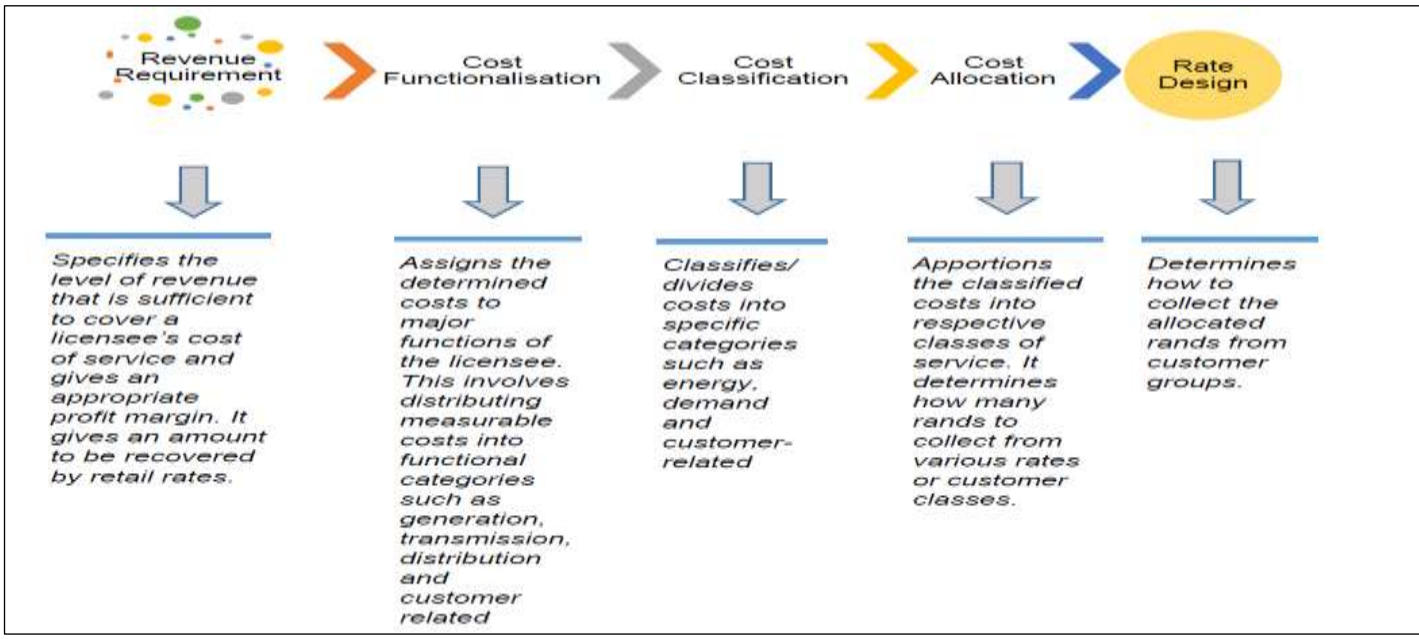


Figure 1: Fives steps of COS

iv. The following steps are undertaken to analyse the cost of supply study submitted by the municipality:

4.1. Revenue Requirement

4.1.1. To be fully cost reflective, the Licensee's revenue requirement is R1.9 billion for the 2026/27 financial year. This revenue requirement is predominantly Eskom purchases accounting for 79% including energy losses allowance. Operational expenditure accounts for 20%.

Table 3: Revenue Requirement Components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	787 218 901	1 508 380 796	1 916 078 920	100%
Energy purchases from Eskom - net of cost of losses	-	1 346 038 575	1 346 038 575	70%
Energy purchases from Eskom - cost of losses	111 549 725	69 251 676	180 801 401	9%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	323 047 986	56 472 792	379 520 778	20%
Other revenues	**- 2 483 267**	**- 23 183 926**	**- 25 667 193**	**-1%**
Surplus	32 056 472	3 328 887	35 385 358	2%
Not allowable costs	-	-	-	
Cost of losses disallowed	-	-	-	
TOTAL COSTS	**787 218 901**	**1 508 380 796**	**1 916 078 920**	

4.1.2. The efficiency costs for the 2024/25 financial year have been assessed, as this constitutes the most recent set of actual data. This assessment serves as the baseline for projecting costs for the 2026/27 financial year, applying stated assumptions to determine the revenue requirement for that period.

4.1.3. All expenses included in the revenue requirements have been examined to ensure that they are directly attributable to the electricity distribution function of the Licensee. Where costs were identified as inflated, inefficient, or not sufficiently justified, such amounts were adjusted or excluded accordingly. These adjustments are detailed and motivated below.

Bulk Purchases

4.1.4. The Municipality applied for bulk purchase expenditure amounting to R1.5 billion, representing 79% of total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

4.1.5. To derive the 2026/27 bulk purchase estimate, the 2025/26 Cost of Supply amount was escalated by 9.01%, consistent with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.1.6. The methodology applied in forecasting bulk purchase costs is deemed reasonable. Accordingly, the bulk purchase expenditure has been recommended for approval as submitted.

T*able 4: Operational Expenditure*

General & Other	R	291 551 402	R	308 922 421	R	320 352 550
Salaries and allowances	R	85 736 988	R	121 597 544	R	126 096 653
Materials and supplies	R	61 307 004	R	32 883 277	R	34 099 958
Contracted Services	R	13 851 962	R	14 683 080	R	15 226 354
Salaries, wages and allowances (exclu. Repairs a	R	1 674 730	R	3 038 959	R	3 151 400
Current year depreciation	R	128 980 718	R	136 719 561	R	141 778 185
Shared OPEX	R	43 281 417	R	57 057 114	R	59 168 227
Bad debts written-off	R	14 147 450	R	28 569 750	R	29 626 831
FBE paid to Eskom	R	16 236 718	R	17 210 921	R	17 847 725
General Expenses	R	12 897 249	R	11 276 443	R	11 693 671
Total	**R**	**334 832 819**	**R**	**365 979 535**	**R**	**379 520 778**

4.1.7. The Licensee applied for operational expenditure of R379.5 million which accounts for 20% of total costs as reflected in Table 4 above.

4.1.8. The approach adopted by the Licensee in forecasting operational expenditure is reasonable and has been approved as applied for. Costs deemed to be inefficient and within the municipality's control, such as Notified Maximum Demand (NMD) exceedance penalties and interest on Eskom debt, are excluded from the cost base.

4.1.9. However, Polokwane municipality does not exceed NMD and does not pay interest on Eskom debt.

Surplus

4.1.10. The Licensee applied for a surplus of R35 385 million, in recommending a surplus, NERSA relied on section 15(1)(a) of the Electricity Regulation Act, which provides that tariffs must enable an efficient Licensee to recover the full cost of its licensed activities, including a reasonable margin or return. In applying this provision, together with the COS methodology, NERSA is required to ensure that the Licensee recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation.

4.1.11. The decision to approve the revenue requirement as applied for will then be used in the next steps which are Cost Functionalisation, Classification, Allocation and Rate Setting. These steps have been verified and confirmed to align the revenue requirement. Further details of these steps are discussed below.

4.2. **Cost Functionalisation**

4.2.1. The Licensee has categorised its revenue requirement of R1,9 billion into two primary functional components, namely wires and retail business, in accordance with the NERSA COS framework as demonstrated in Figure 2 below. Upon verification, the allocation of these functional costs was found to be consistent with the stated revenue requirement.

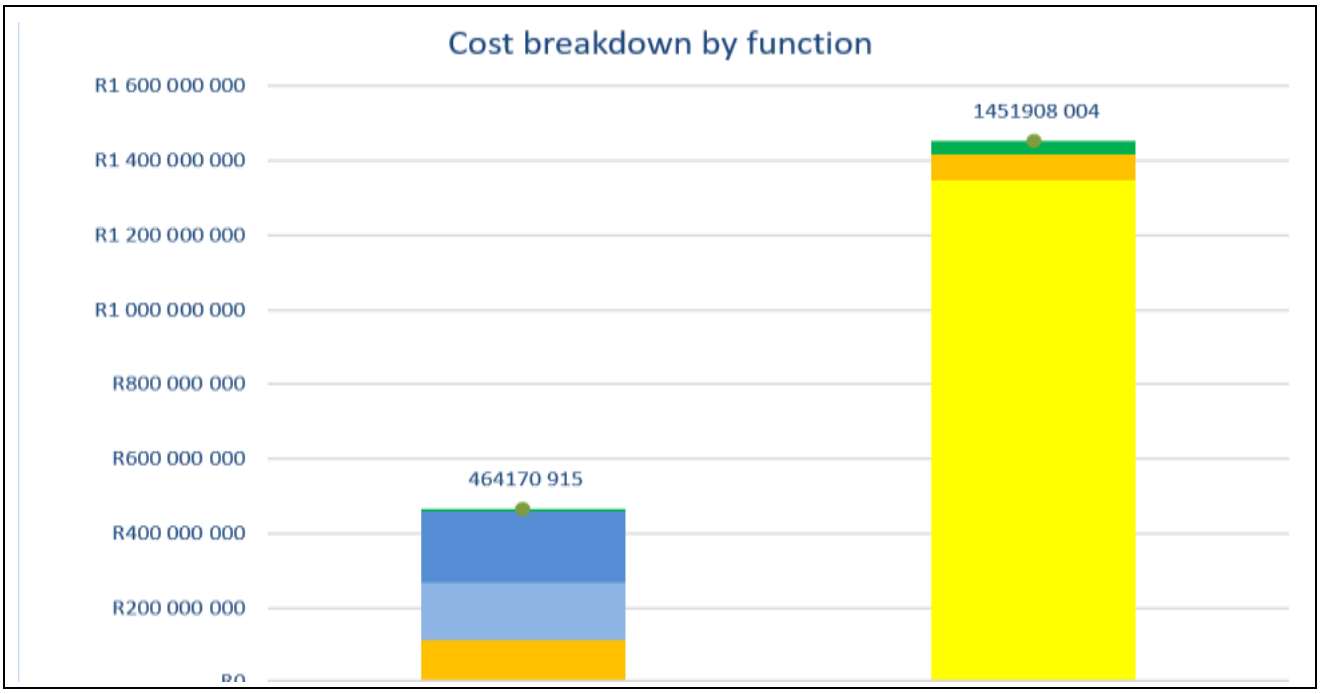


Figure 2: Costs breakdown by Functions

4.2.2. These costs, upon verification, are consistent with the approved revenue requirements. Network repairs and maintenance constitute the predominant cost drivers within the wires business, while energy purchases represent the primary cost driver within the retail business.

4.3. **Cost Classification**

4.3.1. The Licensee classified its costs into energy, demand and customer-related costs, which is in line with the NERSA COS framework. The costs align with revenue requirements and cost functionalization upon verification.

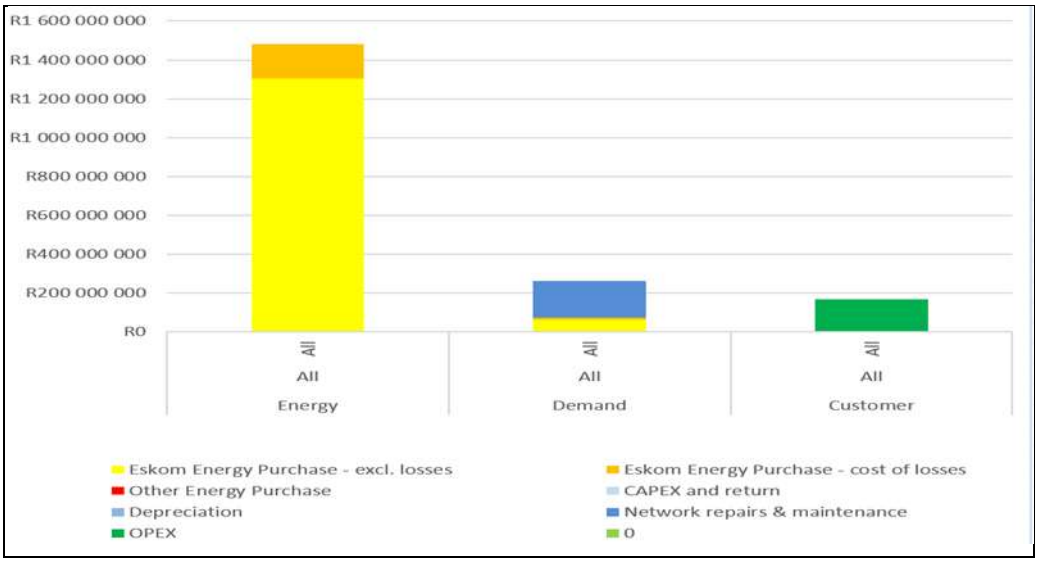


Figure 3: Costs breakdown by cost structure (Classification)

4.3.2. Energy purchases constitute energy-driven costs, with the highest expenditure occurring during summer period under standard time of use profile, due to the longer duration of the season within the tariff year. Demand-driven costs are likewise predominantly incurred in summer period. Customer-driven costs are primarily attributed to 'Other OPEX', which encompasses expenses related to the provision of electricity distribution services to customers.

4.4. COST ALLOCATION

4.4.1. In this step, the Licensee's revenue requirement is allocated across customer categories, in accordance with the NERSA COS framework. Upon verification, the allocated costs were found to be consistent with the revenue requirement, cost functionalization and cost classification outcomes.

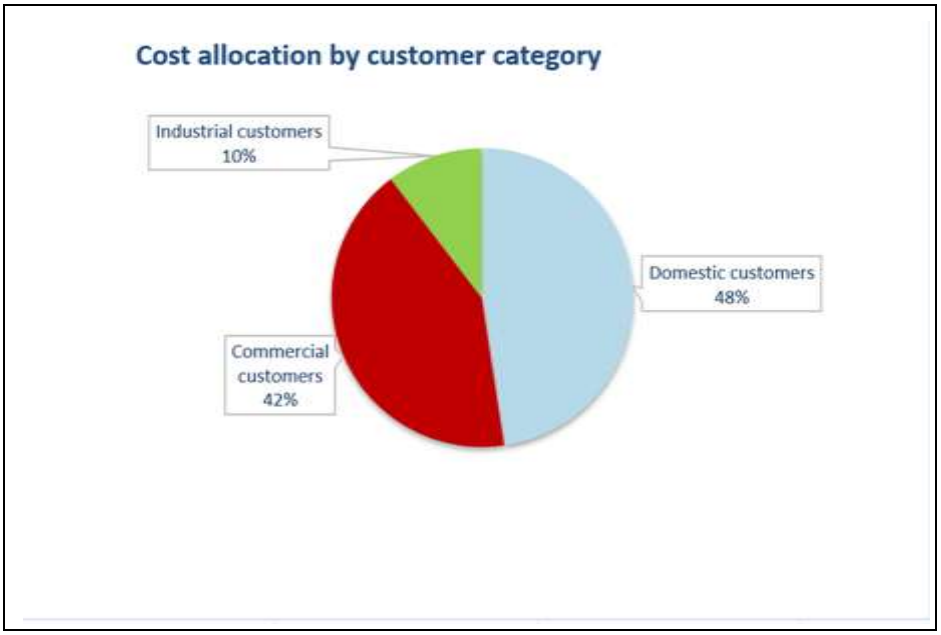


Figure 4: Costs Allocated

4.5. Rate Design

4.5.1. Figure 5 below reflects the outcome of the COS study, indicating that certain customer categories require upward adjustments, while others warrant reductions. A comparison between the COS study and the revenue generated per tariff category highlights the extent of over- or under-recovery within each tariff category, as illustrated in Figure 5.

4.5.2. To achieve full cost reflectivity, the municipality would be required to implement differentiated tariff adjustments across the various customer categories.

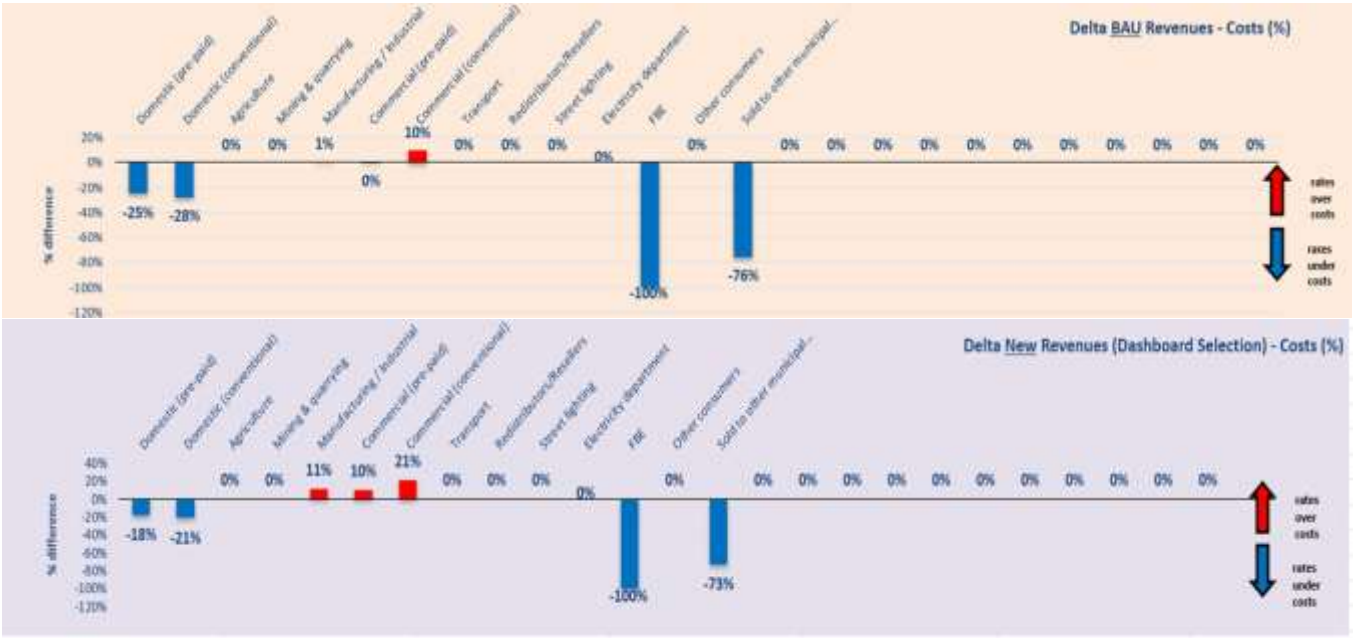


Figure 5: Revenue Recovery by Customer Category

5. CONCLUSION ON THE COS

5.1. The COS study indicates that full cost reflectivity requires an average increase of 13% for the 2026/27financial year tariff review, but the municipality proposes a lower 10.01% phased increase to balance financial sustainability with customer affordability.

5.2. The analysis recognises that excessively high tariff increases may reduce consumption, weaken revenue collection, and affect the municipality's ability to meet its financial obligations, including payments to Eskom. Furthermore, as the COS study is based on forecasts, there is inherent uncertainty regarding the realisation of projected costs and revenues.

5.3. This approach mitigates risks of reduced demand, revenue instability, and payment challenges to Eskom, while allowing gradual progression toward cost-reflective tariffs as conditions improve.

5.4. The Regulator finds that the CoS study submitted by The Municipality for the 2026/27 financial year tariff review is compliant with the NERSA approved CoS framework and is based on reliable D form/audited data, correctly identifying Eskom bulk purchases as the primary cost driver. While the proposed average tariff increase of 10.01% improves cost recovery, it remains below full cost reflectivity. The Municipality's improved surplus reasonably supports a phased transition towards cost reflectivity.

5.5. The Regulator is satisfied that, supported by the improved financial performance, the recommended/ approved increase appropriately balances cost reflectivity, financial sustainability, and customer affordability with COS reflectivity alignment to be achieved on a phased basis.

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TARIFF D: Three Phase Commercial Prep &Conv	***2025/26 Approved***	***% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Energy Charge: c/kWh	*363,15*	*10.01%*	*399,50*	*399,50*	*10.01%*	*Commercial tariffs show closer alignment to cost reflectivity. The tariff structure is more effective in recovering fixed costs, reducing reliance on volumetric sales. This tariff category continues to play a cross-subsidising role.*
Basic Charge: R/month	*1 067,17*	*10.01%*	*1 173,99*	*1 173,99*	*10.01%*	

INDUSTRIAL TARIFFS						
TARIFF E: ≥100A, Single Phase, LV)	***2025/26 Approved***	***% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Energy Charge: c/kWh	*363,15*	*10.01%*	*399,50*	*399,50*	*10.01%*	*Commercial tariffs show closer alignment to cost reflectivity. The tariff structure is more effective in recovering fixed costs, reducing reliance on volumetric sales. This tariff category continues to play a cross-subsidising role.*
Basic Charge: R/month	*1 121,62*	*10.01%*	*1 233,89*	*1 233,89*	*10.01%*	

TARIFF F: ≤100A, Three Phase, MV)	***2025/26 Approved***	***% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Energy Charge: c/kWh	*363,15*	*10.01%*	*399,50*	*399,50*	*10.01%*	*The increase is applied uniformly across energy, demand and fixed charges.*
Basic Charge: R/month	*2 426,69*	*10.01%*	*2 669,60*	*2 669,60*	*10.01%*	

TARIFF G: BULK >100, Three Phase - LV	***2025/26 Approved***	***% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Energy Charge: c/kWh	*160,87*	*10.01%*	*176,97*	*176,97*	*10.01%*	*The increase is applied uniformly across energy, demand and fixed charges.*
Demand Charge (R/kVA)	*444,28*	*10.01%*	*488,75*	*488,75*	*10.01%*	
Basic Charge R/month)	*2 934,74*	*10.01%*	*3 228,51*	*3 228,51*	*10.01%*	

TARIFF H: BULK >100, Three PHASE - MV	***2025/26 Approved***	***% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Energy Charge: c/kWh	*158,07*	*10.01%*	*173,89*	*173,89*	*10.01%*	*The tariff structure is more effective in recovering fixed costs through service charges, reducing reliance on volumetric sales. This tariff category continues to play a cross-subsidising role.*
Basic Charge (R/month)	*2 934,74*	*10.01%*	*3 228,51*	*3 228,51*	*10.01%*	
Demand Charge (R/kVA)	*437,93*	*10.01%*	*481,77*	*481,77*	*10.01%*	

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

10.1. The Energy Regulator, having considered the Polokwane Local Municipality's application, the supporting information and applicable legal framework, approves the tariff adjustments as set out in the Reasons for Decision.

End.