NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

By

Lephalale Local Municipality

THE DECISION

1. At its meeting held on 9 May 2026, the Regulator Executive Committee (REC) considered the Lephalale Local Municipality 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 8 (Page 21) 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

BAU	Business as Usual
COS	Cost of Supply
D-form	Distribution form
EPP	Electricity Pricing Policy
ERA	Electricity Regulation Act, 2006
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
FY	Financial Year
IBT	Inclining Block Tariff
IPP	Independent Power Producer
LPU	Large Power User
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure
PODS	Point of Deliveries
REC	Regulatory Executive Committee
RfD	Reasons for Decision
RTP	Retail Tariff Plan
SEA	Sustainable Energy Africa
SPU	Small Power User
TOU	Time of Use

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. Lephalale is situated in the Limpopo Province. The municipality is made up mostly of domestic customers, which consume 47,08% of the total electricity sales. The municipality provides its 2 063 indigent customers with 50kWh of Free Basic Electricity (FBE) per month. The municipality further reports that it maintains an indigent register. The details regarding customer statistics are highlighted in Table 1 below.

Table 1: Customer Statistics (Data obtained from the latest D-forms – 2024/25)

Customers category	MWh	%MWh	Customers numbers
Domestic (pre-paid)	28 351	37,00	5 685
Domestic (conventional)	7 726	10,08	4 484
Manufacturing / Industrial	34 849	45,48	351
Commercial (conventional)	4 471	5,83	625
Electricity Department	1 233	1,61	150
Total	**76 629**	**100**	**11 295**
Free Basic Electricity	1 238	3,43	2 063

1.3. NERSA received Lephalale's tariff application together with its Cost of Supply (COS) on 31 March 2026. The reason for revising the study was to cater for Eskom's Retail Tariff Plan (RTP) approved by the Regulator in the 2025/26 FY as well as Municipality seeking to introduce new seasonal for the Time of Use tariff for both Industrial tariffs low and high tension.

1.4. Lephalale implemented a 11,32% average price increase in 2025/26 FY and is applying for an average price increase of 10,90% for the 2026/27 FY and structural changes proposed in the current application is the introduction LPU and SPU TOU.

1.5. NERSA followed the notice and comment consultation process. Lephalale's tariff application was published on the NERSA website on 31 March 2026, on social

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

1.6. NERSA's decision was made on 8 May 2026, 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 ("EPP") for the South African Electricity Supply Industry, 2008.

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-year Price Determination and Eskom Retail Tariff and Structural Adjustment 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).

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 is evaluated and determined by the municipal electricity tariff application for the 2026/27 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 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:

- Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions.
- Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs.
- 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 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 2025/26 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 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. 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:

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 tariff reasons for decision document, 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 2026/27 financial year.

3. FINANCIAL AND TECHNICAL PERFORMACE

3.1. In evaluating the financial and technical performance of Lephalale, 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 dependable for the purposes of the tariff analysis.

Table 2 : Performance indicators

Performance Indicator: Obtained from D-forms		
Indicators	***Municipality 2024/25 D-forms Information***	***Municipality 2023/24 D-forms Information***
Percentage Surplus: **(%)**	-0,65	-0,43
Energy losses: **(%)**	10,90	8,72

Surplus

3.2. The electricity operating deficit increased from 0,43% to 0,65% during the 2024/25 financial year.

3.2.1. The decline in financial performance is attributed to rising energy losses and a structural deficit. This imbalance occurs because flat municipal revenue streams are insufficient to cover Eskom's fluctuating bulk purchase costs (particularly peak periods).

3.2.2. To address this imbalance, the municipality is introducing TOU tariffs for Large Power User (LPU) and Small Power User (SPU) industrial customers. For the 2026/27 financial year, these structures will be voluntary, allowing customers to gather consumption data and make informed decisions before full implementation.

Energy Losses

3.2.3. Although the municipality initially budgeted for losses of 11,05%, a high-efficiency scenario was modelled to encourage improvement. This analysis demonstrates that achieving single digit of 6% losses would have generated an additional R10 million in revenue and reached 8,26% surplus as indicated by Table 3 below.

Table 3: Energy losses scenario

	D-Form Input	Energy Loss@12%	Energy Loss@ 6%
Average Selling Price c/kWh	213,30		
Sales kWh	76 629 425,00	76 629 425,00	76 629 425,00
Purchases kWh	86 002 054,00	85 824 956,00	81 227 190,50
Losses kWh	9 372 629,00	9 195 531,00	4 597 765,50
Losses percentage	10,90%	12,00%	6,00%
Additional Energy (kWh)		177 098,00	-4 774 863,50
Additional Revenue (Rands)		377 750,31	-10 184 791,39
	D-Form Input	Energy Loss@12%	Energy Loss@ 6%
Total Revenue (Rands)	273 950 324,00	274 328 074,31	263 765 532,61
Total Expenses (Rands)	275 736 485,61	275 358 735,30	285 543 526,68
Net Profit (Loss)	-1 786 161,61	-1 030 660,98	21 777 994,07
Percentage Surplus/Deficit	**-0,65%**	**-0,38%**	**8,26%**

3.3. Data derived from the **D-forms**, coupled with the current financial trajectory and energy loss reports, underscores a critical need for action. The municipality must immediately accelerate the implementation of energy loss corrective measures to prevent further and potentially irreversible financial deterioration

4. DETERMINATION OF LEPHALALE'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The process followed in considering and approving Lephalale's tariff application was supported by a Cost of Supply study.

4.2. Lephalale utilised the COS study model developed by Sustainable Energy Africa (SEA) to determine its revenue requirements for the 2026/27 financial year and to apportion costs required to service each customer's class in a fair and equitable manner. The study follows the NERSA COS framework and utilises the latest available audited data which is based on the 2024/25 financial year

4.3.

4.4. below details the five steps considered in the determination of the COS study.

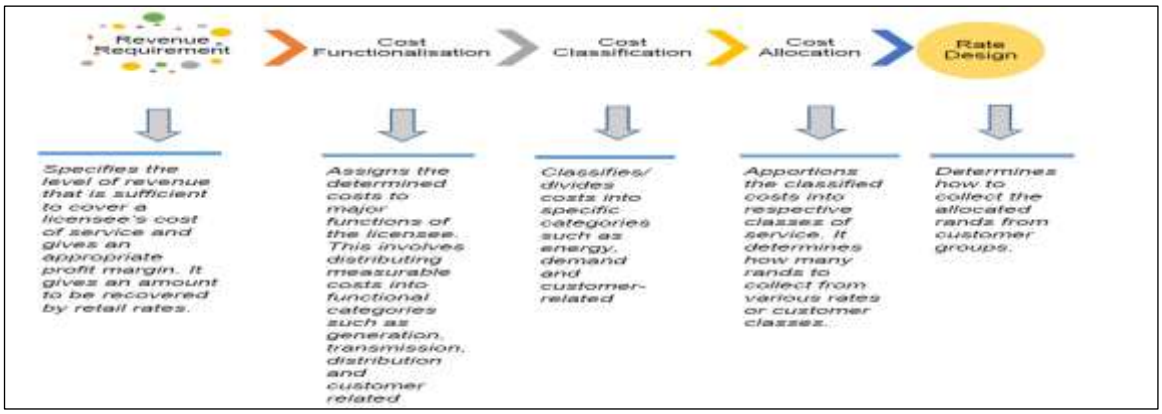


Figure 1: Fives steps of COS

4.5. The following steps are undertaken to analyse the Cost of Supply study:

4.5.1. Revenue Requirement

4.5.1.1. Table 4 shows the municipality revenue requirement of R309,151 million driven mainly by R236, 694 million (77%) bulk purchases and R67, 107 million (22%) OPEX.

Table 4 : Revenue Requirement components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total Applied for**	**% of Total**
Allowable costs	84 200 007	224 951 848	309 151 855	100%
Energy purchases from Eskom - net of cost of losses	-	236 694 295	236 694 295	77%
Energy purchases from Eskom - cost of losses	26 961 946	11 500 130	38 462 076	12%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	49 583 515	17 523 329	67 106 844	22%
Other revenues	-	- 61 216 074	- 61 216 074	-20%
Surplus	7 654 546	20 450 168	28 104 714	9%
Not allowable costs	-	-	-	
Cost of losses disallowed	-	-	-	
TOTAL COSTS	**84 200 007**	**224 951 848**	**309 151 855**	

Methodology

4.5.1.2. Aligned to the NERSA COS Framework: costs were built up from verified bulk purchases (Eskom invoices) and verified electricity-related operating costs (evaluated against D-forms, Trial Balance and Audited AFS):

a. asset value – R1,1 billion (AFS);

b. depreciation – R8,4 million (AFS); and

c. and surplus margin – R28 105 million (as per table 4 above)

4.5.1.3. The efficiency of costs for the 2024/25 financial year has been assessed, as these constitute 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.

4.5.1.4. All expenses included in the revenue requirement have been examined to confirm that they pertain exclusively to the licensee's electricity function. The energy losses above the 12% efficiency threshold are in management's control. The assessment was mainly focusing in identifying inefficient cost and the following are the findings:

4.5.1.4.1. The municipality is using less power than its limit and wants to lower its contracted capacity to save money, but the move is being held up because Eskom hasn't provided the necessary quotes, and

4.5.1.4.2. Bad debt of R 5,867million equating 2% of the required the requirement revenue of R309,152million which below the norm of 5%.

Bulk purchases

4.5.1.5. Lephalale applied for bulk purchase expenditure amounting to R236, 694 million, representing 77% of total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

4.5.1.6. To derive the 2026/27 bulk purchase estimate, the 2025/26 (COS) amount was escalated by 9,01%, consistent with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.5.1.7. The methodology applied by Lephalale in forecasting bulk purchase costs is deemed reasonable given the fact that the adjusted bulk purchase does not include unwarranted energy losses.

Operational Expenditure

4.5.1.8. Lephalale has applied for operational expenditure totaling R67,107 million, representing 22% of overall costs, as reflected in Table 5 Table 4 below.

4.5.1.9. The approach adopted by Lephalale in forecasting operational expenditure is considered reasonable and the amount is recommended for approval as requested. The internal assessment indicated cost components—such as NMD exceedance penalties and interest incurred on Eskom-related debt incurred by the municipality. However, following the efficiency assessment, these costs were deemed inefficient and were disallowed.

Table 5: Operating expenses

Line items	Year 2 estimate (Rand)
General & Other	**R40 947 736**
Salaries and allowances	R24 854 975
Materials and supplies	R3 793 955
Contracted Services	R2 994 141
Current year depreciation	R9 304 666
Shared OPEX	**R26 159 108**
Bad debts (Allowance for Impairment)	R6 468 863
FBE paid to Eskom	R2 418 688
Other expenses (Debt collection cost)	R17 271 558

Depreciation

4.5.1.10. The municipality budgeted for depreciation of R 9 305m (included in OPEX) which accounts for 3% of the total costs and the AFS indicated that the straight-line method is used for determining the depreciation and this principle consistent with COS framework.

Surplus

4.5.1.11. Lephalale has requested a surplus of R28,105 million, which accounts for 9% of its total required revenue. This request is recommended for approval as it aligns with the NERSA Cost of Supply (COS) framework and is not inflated by operational inefficiencies.

4.5.1.12. The decision to approve the revenue requirement as submitted will be applied in the subsequent stages, namely Cost Functionalisation, Cost Classification, Cost Allocation and Rate Setting. These stages have been verified and confirmed to align with the approved revenue requirement. Further detail on these stages is provided below.

4.5.2. Cost Functionalisation

4.5.2.1. The licensee has categorised its revenue requirement of R309,151 million into two primary functional components, namely the **wires business (23%)** and the **retail business (73%)**, in accordance with the NERSA COS framework, as illustrated in Figure 2 below. Upon verification, the allocation of costs to these functional components is found to be consistent with the stated revenue requirement.

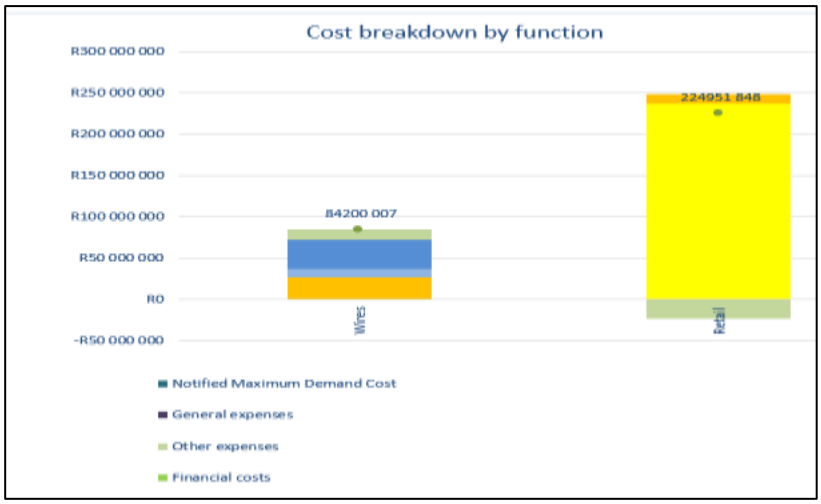
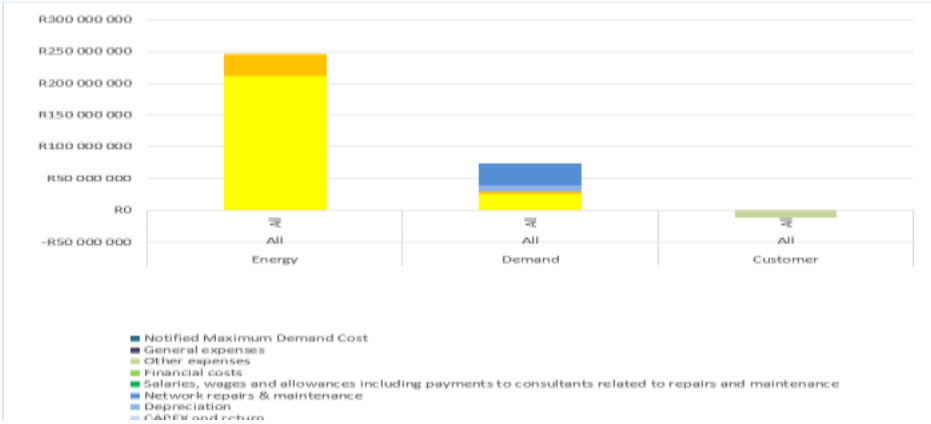


Figure 2 : Costs breakdown by Functions

4.5.2.2. These costs, upon verification, are consistent with the approved revenue requirements. The wire business major cost driver is network repair and maintenance, whereas the energy purchases represent the primary cost driver within the retail business

4.5.3. Cost Classification

4.5.3.1. The licensee has classified its costs into energy, demand and customer-related cost components, in accordance with the NERSA COS framework. The costs align with revenue requirement and cost functionalisation upon verification.



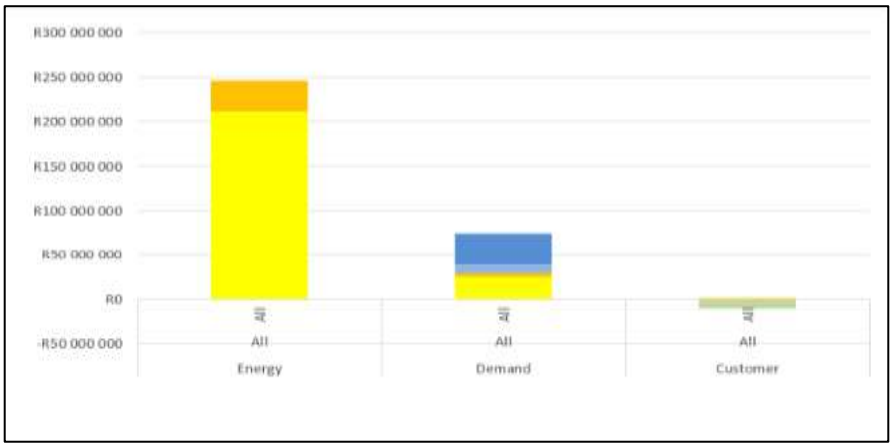


Figure 3*: Costs breakdown by cost structure (Classification)*

4.5.3.2. Energy purchases constitute energy-driven costs, with the highest expenditure incurred during the summer period under the standard Time-of-Use (TOU) structure, due to the longer duration of the summer season. Demand-driven costs are similarly concentrated in the summer period. Customer-driven costs are primarily associated with “Other OPEX,” which includes expenses related to the provision of electricity distribution services to customers.

4.5.4. Cost Allocation

4.5.4.1. In this step, the licensee’s revenue requirement is allocated across customer categories, in accordance with the NERSA COS framework. Upon verification, the allocation is found to be consistent with the stated revenue requirement and aligned with the principles of cost allocation.

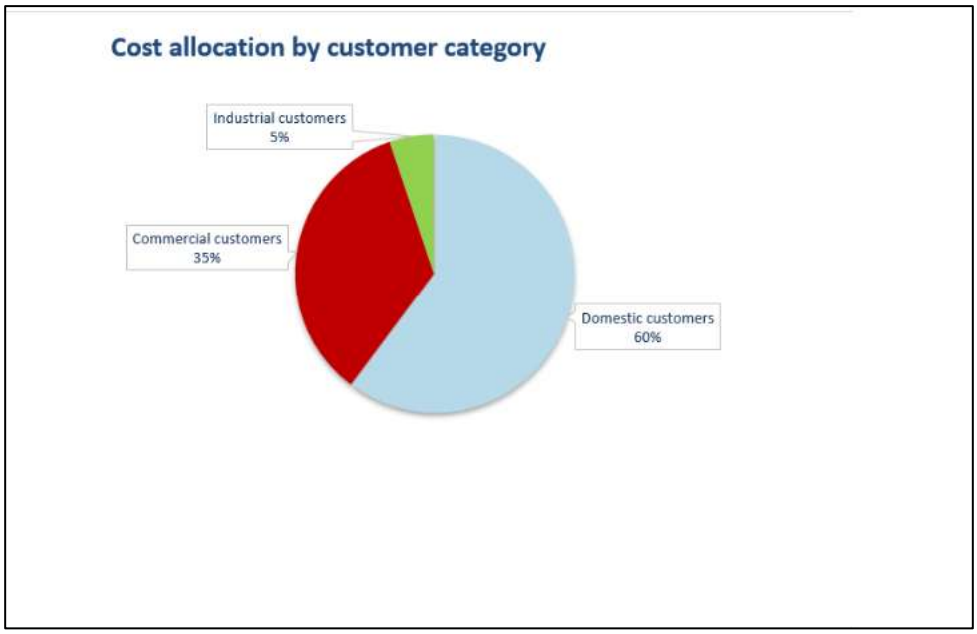


Figure 4: ***Costs Allocated***

4.5.5. Rate Design

4.5.5.1. Table 4 below reflects the outcome of the COS study, indicating that certain customer categories require upward adjustments, while others warrant decreases. A comparison between the Cost of Supply and the revenue generated per tariff category highlights the extent of over- or under-recovery within each category, as illustrated in Table 4 below.

4.5.5.2. To achieve full cost reflectivity, the municipality would be required to implement average tariff increase of 43,8% across customer categories. However, the municipality has adopted a less aggressive approach, 11,10% (domestic prepaid), 10,80% (domestic convention and Industrial) and 10,6% (commercial).

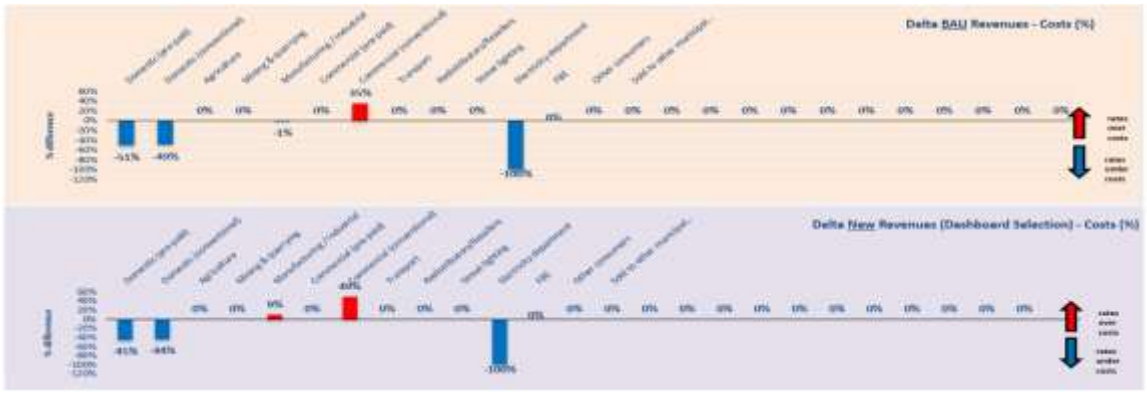


Figure 5: Over/under recovery

Conclusion on the COS

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Energy charge (R/kWh):	212,52	10,47%	234,76	234,76	10,47%	structure, where fixed charge is adjusted by high increase lower increases are factored into the energy charges.
Demand Charge (R/kVA):	376,98	9,54%	412,96	412,96	9,54%	

3.2 Industrial High Tension	**2025/26 Approved Tariffs**	**2026/27 Proposed % increase**	**2026/27 Proposed Tariff**	**Recommended Tariff**	**Recommended % increase**	**Analysis and Key findings**
Basic Charge (R/month):	2 416,63	27,14%	3 072,47	3 072,47	27,14%	Municipality is following the principle used in approved Eskom ERTSA structure, where fixed charge is adjusted by high increase lower increases are factored into the energy charges.
Energy charge (R/kWh):	205,49	8,98%	223,95	223,95	8,98%	
Demand Charge (R/kVA):	389,51	7,79%	419,83	419,83	7,79%	

Industrial Tariff: Conventional (Low Tension)	**2025/26 Approved Tariffs**	**2026/27 Proposed % increase**	**2026/27 Proposed Tariff**	**Recommended Tariff**	**Recommended % increase**	**Analysis and Key findings**
Service Charge (R/month)	N/A	New Tariff	5 040,00	5 040,00	New Tariff	This new tariff is voluntary for the current financial year, allowing customers to gather sufficient consumption data before making an informed transition
Demand charge (kVA)			136,53	136,53		
Low Season energy charges						
Peak (c/kWh):			357,60	357,60		
Standard (c/kWh):			257,00	257,00		
Off-peak c/kWh			171,50	171,50		
High Season energy charges						
Peak (c/kWh):			777,80	777,80		
Standard (c/kWh):			503,10	503,10		

Off-peak c/kWh			293,30	293,30		

Industrial Tariff: Conventional (high Tension)	**2025/26 Approved Tariffs**	**2026/27 Proposed % increase**	**2026/27 Proposed Tariff**	**Recommended Tariff**	**Recommended % increase**	**Analysis and Key findings**
Service Charge (R/month)	N/A	New Tariff	7 045,20	7 045,20	New Tariff	This new tariff is voluntary for the current financial year, allowing customers to gather sufficient consumption data before making an informed transition
Demand charge (kVA)			126,82	126,82		
Low Season energy charges						
Peak (c/kWh):			386,40	386,40		
Standard (c/kWh):			282,10	282,10		
Off-peak c/kWh			201,10	201,10		
High Season energy charges						
Peak (c/kWh):			781,40	781,40		
Standard (c/kWh):			477,60	477,60		
Off-peak c/kWh			278,60	278,60		

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. The Energy Regulator, having considered the Lephalale application, supporting information and applicable legal framework, approves the tariff adjustments as set out in this Reasons for Decision.

End.