NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Applications for the 2026/27FY

By

Khâi-Ma Local Municipality

THE DECISION

At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered Khâi-Ma Local Municipality's tariff application. Based on the facts and evidence presented, the 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
Domestic low single-phase tariff: 30 A	9.8%
Domestic low single-phase tariff: 60 A	9.8%
Commercial single-phase	9.8%
Commercial three-phase	9.8%
Municipal single-phase	9.8%
Municipal three-phase	9.8%

Based on the available information and the analysis performed thus far, the Regulator Executive Committee decided at its meeting on 11 May 2026, that:

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

d) The municipality is required to submit quarterly SMART progress reports by 30 September 2026 on the reduction of energy losses for the Regulator to monitor implementation thereof.

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ABBREVIATIONS

A	amp
AFS	annual financial statements
CAPEX	Capital Expenditure
COS	Cost of Supply
CPI	Consumer Price Index
D-form	distribution form
EPP	Electricity Pricing Policy
ERA	Electricity Regulation Act
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
FY	financial year
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
NMD	Non-Maximum Demand
NPC	Non-Profit Company
OPEX	Operating Expenditure
PAJA	Promotion of Administrative Justice Act
RAB	Regulatory Asset Base
REC	Regulator Executive Committee
RfD	Reasons for Decision
ROR	Rate of Return
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. Khâi-Ma Local Municipality (KMLM) is situated in the Northern Cape province. The municipality sold 5 063 MWh in the 2024/25FY, of which 50.58% was attributable to domestic and 30.83% to commercial customers. This indicates that, while domestic customers constitute the largest share of electricity sales, commercial customers also make a significant contribution and remain an important customer category within the licensee's overall sales structure.

1.3. The Municipality keeps an indigent register and provides 50 kWh per month of Free Basic Electricity (FBE) to its indigent customers. The details regarding customer statistics are highlighted in Table 2 below.

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

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic (Prepaid)	2 561	50.58%	1 371
Domestic (Conventional)	941	18.59%	21
Commercial	1 561	30.83%	56
TOTAL	**5 063**	**100%**	**1 448**
FBE	358	10.22%	931

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

1.5. The municipality implemented an average price increase of 11% in the 2025/26FY and is applying for an average price increase of 9.8% for the 2026/27FY.

1.6. NERSA followed the notice and comment consultation process. On 31 March 2026, KMLM's tariff applications were published on the NERSA website, on social media platforms and in national and local newspapers to solicit written comments from affected parties.

1.7. The Energy Regulator's decision was made on 11 May 2026, considering the written comments received from the affected stakeholders and NERSA's analysis.

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 Adjustments (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 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 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 COS methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 therefore requires electricity distributors to undertake COS 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. The Court instead issued a structural interdict regulating the municipal tariff approval process going forward to assist in the timeous and lawful approval of such tariffs.

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 they relate 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 set out below apply to the approval of municipal tariffs for the 2026/27FY:

- 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
- NERSA decisions to be published by 11 May 2026.

2.8.2. Municipal tariff approvals from the 2027/28FY 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 RfD 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 RfD document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27FY.

3. FINANCIAL AND TECHNICAL PERFORMANCE

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

Table 3: Performance indicators

Performance Indicators	***2024/25***	***2023/24***
Percentage surplus/(Deficit) (%)	(-5.14)	(-10.82)
Energy Losses (%)	18.44	17.70

Percentage Surplus

3.2. The deficit level improved from 10.82% in the 2023/24FY to a deficit of 5.14% in 2024/25, reflecting a gradual improvement in the financial performance of the electricity function. Despite this improvement, the municipality remains in a deficit position, indicating that the revenue generated from electricity sales is still insufficient to fully recover the cost of providing the service.

Energy Losses

3.3. The energy losses increased from 17.70% in the 2023/24FY to 18.44% in the 2024/25FY, indicating a decline in the municipality's network performance. The municipality attributed the high energy losses to illegal connections, inaccurate conventional meters and aging infrastructure. These high losses continue to negatively affect revenue collection and the overall financial sustainability of the electricity function. The municipality should therefore submit a detailed plan outlining the measures it intends to implement to reduce energy losses, improve revenue recovery and strengthen the efficiency of the electricity distribution network.

3.4. Table 4 below reflects the revenue impact analysis under two energy-loss scenarios:

i) the actual losses of 18.44%, representing the current operating position; and

ii) a reduced loss level of 12%, reflecting an efficient and regulatory-aligned scenario for assessment purposes.

Table 4: Assessment of energy losses and revenue impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	345,25		
Sales kWh	5 063 389,00	5 462 931,76	5 835 404,38
Purchases kWh	6 207 877,00	6 207 877,00	6 207 877,00
Losses kWh	1 144 488,00	744 945,24	372 472,62
Losses percentage	**18,44%**	**12,00%**	**6,00%**
Additional Energy (kWh)		399 542,76	772 015,38
Additional Revenue (Rands)		1 379 421,38	2 665 383,10
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 19 073 126,00	R 20 452 547,38	R 21 738 509,10
Total Expenses (Rands)	R 20 053 619,00	R 20 053 619,00	R 20 053 619,00
Net Profit (Loss)	R -980 493,00	R 398 928,38	R 1 684 890,10
Percentage Surplus/Deficit	**-5,14%**	**1,95%**	**7,75%**

3.5. Under the current scenario of 18.44% losses, the municipality experiences a significant revenue shortfall, which adversely affects its financial sustainability. In the alternative scenario, where losses are reduced to 6%, the financial position improves materially from a deficit of -5.14% to a surplus of 7.75%, with net revenue increasing to approximately R1.684 million.

3.6. In accordance with the cost-plus methodology, only prudent and efficient costs are recognised. The comparison between the two scenarios demonstrates that the current level of losses is inefficient and not supportable for tariff-setting purposes. Accordingly, operational improvements, particularly the reduction of energy losses, are required. Tariff adjustments alone will not restore financial sustainability without the implementation of effective loss-reduction interventions.

General conclusion on the financial and technical indicators

3.7. In conclusion, the municipality has shown improvement in both its financial performance and energy losses. However, it remains in a deficit position, indicating that revenue is still insufficient to fully cover costs. The municipality should ensure that its tariffs are cost-reflective and aligned with COS principles. Continued efforts to control costs, improve revenue and sustain low energy losses are required to achieve financial sustainability.

General conclusion on the financial and technical indicators

3.8. Based on the above indicators, the municipality appears to be operating inefficiently, particularly due to the persistently high energy losses. These losses continue to negatively impact revenue collection and weaken the financial performance of the electricity function. The municipality is therefore required to implement effective measures to reduce energy losses, improve operational efficiency, strengthen revenue recovery and enhance the overall financial sustainability of the electricity business.

4. DETERMINATION OF KHÂI-MA TARIFFS BASED ON THE EXISTING COS

4.1. The licensee submitted its existing COS study which supports the tariffs application which will 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. The licensee 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. Section 18.7 of 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.

4.4. In line with section 18.7 mentioned above, Table 4 below 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 volumes that are the baseline for the 2026/27FY tariffs. The figures were tested for reasonableness.
iii) Column 3 is for the licensee's submitted 2026/27FY budgeted figures to be tested for reasonableness to determine tariffs for the control period under review.

4.5. The Total Allowable Revenue of R19.261 million is for the 2026/27 tariff review period and is the basis upon which the tariffs were approved by the Regulator as shown in Table 4.

4.6. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for the 2026/27FY. NERSA used the budgeted figures submitted by the licensee to check the reasonableness as well as the licensee's current operational requirements to ensure that municipalities do not over- or under-recover during the 2026/27FY tariff review process.

4.7. To determine an increase applicable for the 2026/27FY, the licensee submitted its projected costs as requested by NERSA, with a total required revenue of R19.261 million for the 2026/27FY tariff review.

Table 5: 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	5 063 389	5 114 023	5 165 164	-	5 165 164
Eskom bulk purchases	kWh	6 207 877	5 918 801	5 977 989	-	5 977 989
Total Energy Requirements	**kWh**	**6 207 877**	**5 918 801**	**5 977 989**		**5 977 989**
Total Losses	kWh	1 144 488	804 777	812 825		812 825
Technical losses	kWh	744 945	710 256	717 359	-	717 359
Non-technical losses	kWh	-399 542	-94 521	-95 466	-	-95 466
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	18,44%	13,60%	13,60%		13,60%
Cost drivers						
Energy purchases from Eskom	Rand	12 929 827	14 571 264	16 586 032	-	16 586 032
total energy purchases		**12 929 827**	**14 571 264**	**16 586 032**	**0**	**16 586 032**
Operational expenditure (incl. Depreciati	**Rand**	**2 227 816**	**2 356 490**	**3 419 440**	**-950518**	**2 468 922**
General & Other	0	2 155 494	2 280 769	2 390 551	0	2 390 551
Materials and supplies	Rand	134 236	140 948	146 586	0	146 586
Contracted Services	Rand	76 030	79 832	83 025	0	83 025
Salaries, wages and allowances (exclu. Repairs and	Rand	1 750 081	1 855 086	1 947 840	0	1 947 840
Current year depreciation	Rand	195 147	204 904	213 101	0	213 101
Shared OPEX	Rand	72 322	75 721	1 028 889	-950 518	78 371
FBE paid to Eskom	Rand			950 518	-950 518	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		15 157 643	16 927 754	20 005 472		19 054 954
Surplus	Rand	484 556	511 299	617 454		526 058
Total Expenditure Including Surplus		15 642 199	17 439 053	20 622 926		19 581 012
Other revenues	Rand	**-284 308**	**-301 366**	**-319 448**		**-319 448**
Reconnection fees	Rand	12 228	12 962	13 739		13 739
New connections	Rand	18 343	19 444	20 610		20 610
2. Other Revenue - Illegal Connections	Rand	253 737	268 961	285 099	-	285 099
Total Allowable Revenus	**Rand**	**15 357 891**	**17 137 687**	**20 303 478**	**-950 518**	**19 261 563**
increase required				*18,47%*	*12,39%*	

4.7.1. It is important to test the efficiency of the costs in the 2024/25FY since this is the most recent actual data available. This forms the basis on which costs for the 2026/27FY will be projected using assumptions to calculate revenue requirements.

4.8. 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

4.9. For the 2026/27FY, the licensee has applied for a bulk purchase expenditure of R16.586 million, which accounts for 86% of total costs, inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices for 2024/25FY.

4.10. 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.

4.11. The approach applied by Khâi-Ma municipality in forecasting bulk purchase costs is deemed reasonable. Accordingly, the bulk purchase expenditure has been recommended for approval as submitted.

Operating Expenditure (Including Depreciation)

4.12. Khâi-Ma applied for operational expenditure amounting to R2.468 million for the 2026/27FY including depreciation which accounts for 13% of total costs as reflected in Table 4.

4.13. The licensee used recent actual financial data as a basis to project the 2025/26FY costs and escalated the 2026/27FY costs based on assumed cost drivers and relevant inflationary factors. NERSA is satisfied that the methodology applied to forecast operational expenditure is reasonable.

4.14. It is recommended that the Energy Regulator approve total operational expenditure of R2.468 million for the 2026/27FY.

SURPLUS

4.15. KMLM applied for a surplus of R617 454 representing 3% of the total costs.

4.16. In recommending a surplus, NERSA relied on section 15(1)(a) of ERA, 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 KMLM recovers efficiently and prudently incurred costs, including a reasonable return, while avoiding excessive compensation.

4.17. NERSA is satisfied that the return applied for by the licensee is reasonable to keep the licensee sustainable, though it does fall 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.

4.18. In determining the appropriate level of surplus, NERSA considered the allowable revenue along with efficient and prudent costs required to render the licensed service.

4.19. On this basis, it is recommended that the Energy Regulator approve a surplus of R526 058, derived from the recommended allowable revenue, to ensure the continued financial viability of the licensee while maintaining cost-reflective and reasonable tariffs.

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Municipal single-phase	2025/26FY approved tariffs	2026/27FY proposed % increase	2026/27FY proposed tariffs	Recommended tariffs 2026/27FY	2026/27FY recommended % increase	Analysis and Key Findings
Basic Charge (R/month)	542.07	9.80%	595.19	595.19	9.80%	The 9.80% increase applied for both basic and energy charges for municipal tariffs is below the cost-driver increase. This will help the municipality to monitor its consumption.
Energy Charge (c/kWh)	329.85	9.80%	362.18	362.18	9.80%	
Municipal three-phase	**2025/26FY approved tariffs**	**2026/27FY proposed % increase**	**2026/27FY proposed tariffs**	**Recommended tariffs 2026/27FY**	**2026/27FY recommended % increase**	**Analysis and Key Findings**
Basic Charge (R/month)	1222.21	9.80%	1341.99	1341.99	9.80%	The 9.80% increase applied for both basic and energy charges for municipal tariffs is below the cost-driver increase. This will help the municipality to monitor its consumption.
Energy Charge (c/kWh)	329.85	9.80%	362.18	362.18	9.80%	

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 approve Khâi-Ma's tariff application for 2026/27FY.

End.