NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year (FY)

By

Kgetleng Rivier Local Municipality

THE DECISION

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1. At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered the tariff application from the Kgetleng Rivier Local Municipality. Based on the facts and evidence presented, REC approved the tariff increases for the 2026/27 financial year set out in section 7 (page 16) below.

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

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a) approved the tariffs based on the COS study, as recommended in the tariff analysis section, for implementation by the Municipality with effect from 1 July 2026;
b) noted the COS study submitted by the Municipality;
c) directed that the Municipality submit a report accounting for all the costs that have been noted in its COS study, to enable the Regulator to perform its independent verification/audit by 31 January 2027; and
d) directed that the Municipality submit by 30 September 2026 quarterly progress reports on the efficiency improvement measures taken to reduce high energy losses and deficits to enable NERSA to monitor the implementation thereof.

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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
KRLM	Kgetleng Rivier Local Municipality
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) regulates electricity prices and tariffs and assesses tariff applications submitted by licensees annually in accordance with its statutory mandate. 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. The Kgetleng Rivier Local Municipality (KRLM) is situated in the North West Province and has a total of 2 270 customers. The manufacturing customer category accounts for 39,9% of the total electricity sales, followed by domestic customers at 30,01%. This indicates that, while manufacturing customers constitute the largest share of electricity sales, domestic customers also make a significant contribution and remain an important customer category within the licensee's overall sales structure.

1.3. The Municipality did not provide Free Basic Electricity (FBE) of 50 kWh per month to registered indigent customers during the 2024/25 financial year. Detailed customer statistics and consumption patterns are reflected in Table 1 below.

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

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic(Prepaid)	7 816	30,01%	1 759
Agriculture	1 309	5,03%	169
Manufacturing	10 259	39,39%	29
Commercial	2 909	11,17%	238
Sold to other departments	2 546	9,77%	42
General(Other)	1 208	4,64%	33
TOTAL	**26 047**	**100,00%**	**2 270**

1.4. NERSA received the Municipality's tariff application, together with its COS, on 31 March 2026.

1.5. The Municipality implemented an average price increase of 12.7% in the 2025/26 financial year and is applying for an average price increase of 10.00% for the 2026/27 financial year.

1.6. NERSA followed the notice-and-comment consultation process. The KRLM 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.

1.7. The Energy Regulator's decision was made on 6 May 2026, having considered 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 decision and is undertaken annually in order to align with the municipal budgeting process contemplated in the Municipal Finance Management, 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 2026/27 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 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 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 is responsible for exercising regulatory authority over all activities regulated in terms of the ERA.

2.2.2. In particular:

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:

- must enable an efficient licensee to recover the full cost of the licensed activity;

a) must allow for a reasonable return commensurate with the risk of the licensed activity;
b) may provide incentives for continued improvement of technical and economic efficiency;
c) must avoid undue discrimination between customer categories;
d) may permit cross-subsidies of tariffs to certain classes of customers; and
e) 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 that guide 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 costs 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 costs of rendering electricity services accurately and that the average level of tariffs must be set to recover the approved revenue requirement.

2.6. **COS 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 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, having considered the practical difficulties which arose as it relates to 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 with respect to 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 comprising 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 set out 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 evaluating the financial and technical performance of KRLM, the assessment was based on the 2024/25 Distribution forms (D forms) submitted with the tariff application. The data was verified against supporting documents, including the Trial Balance and Annual Financial Statements, and is therefore considered reliable for tariff analysis purposes. Table 2 below shows that KRLM's Technical and Financial Performance

Table 2: Technical and Financial Performance

Performance indicators	***Municipality 2023/24 D-forms Information***	***Municipality 2024/25 D-forms Information***
a) Percentage surplus (Deficit) :(%)	**-4,38%**	**8,79**
Energy Losses: (%)	**15,47%**	**18,55**

3.2. Percentage Surplus

3.2.1. The percentage deficit has decreased from -4,38% in the 2023/24 financial year to a surplus of 8,79% in the 2024/25 financial year. The decrease was due to a reduction in the interest of the Eskom account. The Municipality indicated it does not owe Eskom. If the Municipality reduces its energy losses to 12%, the Municipality will have a surplus of 15.57% and an additional forgone revenue of 14 million.

Table 3: Assessment of energy losses and revenue impact

	Current environment (2024/25) D-form info	Extrapolated D-Form info (if losses were maintained at 12%)
Energy losses	18.55	12%
Surplus/deficit level	8.79	15.57
Additional revenue foregone		14 211 419

3.3. Energy Losses

3.3.1. The energy losses have increased from 15,47% in 2023/24 to 18,55% in the 2024/25 financial year. The losses are due to power dissipation in the components of the electricity system such as transmission and distribution lines, transformers and measurement systems. The Municipality indicated that it would refurbish the distribution networks to reduce tampering and irregular connections and conduct systematic field assessments to identify irregular connections, tampered or damaged consumption meters, and unmetered consumers. The use of boxes ensures that the consumption meters are properly sealed and cannot be tampered with, while enabling the monitoring of public lighting services and the upgrading of infrastructure.

3.4. General conclusion on the financial and technical indicators

3.4.1. In conclusion, the Municipality has shown improvement in its financial performance. However, it remains in a high-energy loss position. The

Municipality should ensure that it sustains low-energy losses to achieve financial sustainability.

4. DETERMINATION OF KRLM TARIFFS BASED ON THE COS ADJUSTED DATA

4.1. The licensee submitted its existing COS study, which supports the tariff application, which will be approved in the 2026/27 financial year. 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 that, '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 the October 2023 NERSA-approved Cost of Supply Framework states that:

'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 volume that are the base for 2026/27 tariffs. 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 2026/27 financial year 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 having considered the reasons, facts, and evidence the licensee provided to motivate/justify the budgeted figures.

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

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

4.6. To determine an increase applicable for the 2026/27 financial year, the licensee submitted its projected costs as requested by NERSA, with a total required revenue of R115 666 million for the 2026/27 financial year tariff review. After adjusting, NERSA approved an allowable revenue of R106 275 million.

Table 4: Municipality's Revenue Requirement

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee
Sales	kWh	26 046 603	28 651 263	34 381 516
Eskom bulk purchases	kWh	31 978 259	31 795 429	40 000 000
Total Energy Requirements	**kWh**	**31 978 259**	**31 795 429**	**40 000 000**
Total Losses	kWh	5 931 656	3 144 166	5 618 484
Technical losses	kWh	3 837 391	3 144 166	4 800 000
Non-technical losses	kWh	-2 094 265	0	-818 484
Allowed losses	%	**12,00%**	**9,89%**	**12,00%**
Total Energy losses	%	18,55%	9,89%	14,05%
Cost drivers				
Energy purchases from Eskom	Rand	65 321 354	75 379 167	60 000 000
total energy purchases		**65 321 354**	**75 379 167**	**76 842 023**
Operational expenditure (incl. Depreciati	**Rand**	**18 133 057**	**10 626 675**	**17 016 233**
Total Expediture before surplus		83 454 411	86 005 843	93 858 256
Surplus/Deficit	Rand	3 987 347	8 865 875	12 853 222
Total Expenditure Including Surplus		87 441 758	94 871 718	106 711 478
Other revenues	Rand	**-172 747**	**-2 219 103**	**-436 162**
Total Allowable Revenus	**Rand**	**87 269 011**	**92 652 615**	**106 275 316**
increase required				***14,70%***

4.7. It is important to test the efficiency and prudency of the costs in the 2025/26 financial year since this is the most recently considered revenues in support of the approved tariffs during this period. This forms the basis on which costs for the 2026/27 financial year will be projected using assumptions to calculate revenue requirements for that year.

4.8. Furthermore, NERSA has verified all expense items included in the revenue requirement 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. The licensee applied for a bulk purchase expenditure of R76.842 million which accounts for 72% of total costs inclusive of the 12% energy loss allowance in line with the Act which requires that only the prudently and efficiently incurred cost be passed through to customers.

4.10. To arrive at the 2026/27 estimate, the licensee projected the year-to-date amount for 2025/26 since complete financial year data is unavailable and estimated that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.11. NERSA is satisfied that the approach taken by the licensee to forecast bulk purchases is reasonable. As a result, this cost has been recommended for approval as applied for.

Operating Expenditure (including depreciation)

4.12. KRLM applied for operational expenditure amounting to R17 016 million, representing 16% of the total costs for the 2026/27 financial year, as reflected in Table 4 above.

4.13. The licensee utilised recent actual financial data as a basis to project the 2025/26 financial year costs and escalated the 2026/27 financial year 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 a total operational expenditure of R17.016 million for the 2026/27 financial year.

Surplus

4.15. The licensee applied for a surplus of R12 853 million, which accounts for 12% of total costs. We have ensured that surplus is not overstated by aligning with the Electricity Pricing Policy Position.

4.16. 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 KRLM 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 and adequate to support the financial sustainability of the electricity business. This is notwithstanding that the level of return falls below the 10–20% target range prescribed in the COS Methodology.

4.18. In determining the appropriate level of surplus, NERSA considered the allowable revenue together with the 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 R12 853 million, derived from the recommended allowable revenue, to ensure the continued financial viability of the licensee while maintaining cost-reflective and reasonable tariffs.

Conclusion on Costs to Serve

4.20. The Energy Regulator has assessed the licensee's COS study and is satisfied that it provides an appropriate and credible basis for determining cost-reflective tariffs. The approved allowable revenue of R106 275 million for the 2025/26 financial year was derived from the COS and associated sales volumes, thereby establishing a sound baseline for tariff setting.

4.21. While the COS study is applicable for a five-year period, NERSA evaluated the adjustments to cost drivers for the 2026/27 financial year 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-recovers nor under-recovers its efficiently and prudently incurred costs.

4.22. In this regard, the licensee submitted a total required revenue of R11 666 million for the 2026/27 financial year. Following a detailed assessment and the application of regulatory adjustments, it is recommended that the Energy Regulator approve an allowable revenue of R106 275 million. Based on the assessed cost drivers and the recommended allowable revenue, the outcome reflects a required average tariff increase of 14.70% for the 2026/27 financial year.

4.23. However, the licensee proposed a lower tariff increase of 10.00% to mitigate the impact on customers. The Energy Regulator notes that this approach seeks to balance the need for cost recovery with considerations of affordability, demand stimulation, and the licensee's ability to meet its bulk

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This page is part of the decision's record of public participation,
objections or comments, which names members of the public.
We do not republish it.

The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9273/KgetlengRivierReasonsforDecisionontariffapplicationprocessforF

Commercial conventional Single Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***
Tariff Blocks	*c/kWh*	*10.00%*			*10.00%*
Basic Charge (R/month)	*679.15*	*10.00%*	*747.06*	*747.06*	*10.00%*
Energy Charge (c/kWh)	*387.43*	*10.00%*	*426.17*	*426.17*	*10.00%*

Government/ Mine Town	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***
Tariff Blocks	*c/kWh*	*10.00%*			*10.00%*
Basic Charge (R/month)	*767.87*	*10.00%*	*844.65*	*844.65*	*10.00%*
Energy Charge (c/kWh)	*339.84*	*10.00%*	*373.82*	*373.82*	*10.00%*

Commercial Municipal	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***
Tariff Blocks	*c/kWh*	*10.00%*			*10.00%*
Basic Charge (R/month)	*387.43*	*10.00%*	*426.17*	*426.17*	*10.00%*

INDUSTRIAL /Municipal	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***
Tariff Blocks	*c/kWh*	*10.00%*			*10.00%*
Basic Charge (R/month)	*3 614.58*	*10.00%*	*3976.03*	*3976.03*	*10.00%*
Energy Charge (c/kWh)	*248.24*	*10.00%*	*273.06*	*273.06*	*10.00%*
Demand Charge (R/kVA)	*411.94*	*10.00%*	*453.13*	*453.13*	*10.00%*

7.1. **Analysis and key findings for Domestic customers**

The tariff adjustment will result in a moderate increase in electricity charges, albeit lower than the bulk cost escalation. This provides relative affordability relief to domestic customers compared to a fully cost-reflective increase. Prepaid and conventional customers will experience lower-than-cost increases, easing pressure on household budgets.

7.2. **Analysis and key findings for commercial customers**

The 10.00% tariff increase for commercial customers is a supportive and economically balanced adjustment that eases cost pressures and helps sustain demand. Although electricity costs will rise, the increase is lower than the bulk cost escalation, offering partial relief compared to a fully cost-reflective increase.

7.3. **Analysis and key findings for Industrial customers**

The recommended 10.00% increase applied to both energy and demand charges is below the cost drivers increase and preserves the current

balance between consumption-based and capacity-based cost recovery. Industrial customers will experience higher operating costs; however, the moderate increase reduces the risk of tariff-induced pressure on competitiveness. The tariff remains cost-reflective, supports recovery of network and supply costs, and is considered reasonable and justifiable

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. From a conspectus of the facts and evidence presented to the REC, it is appropriate to consider and approve the Kgetleng tariff application for the 2026/27 financial year.

End.