NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

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

By

Mamusa Local Municipality

THE DECISION

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1. At its meeting held on 4 May 2026, the Regulator Executive Committee (REC) considered the Mamusa Local Municipality tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year (FY), as set out in this document.

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

   a) to approve the tariffs 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;
   b) to note the COS study submitted by the municipality;
   c) 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
   d) that the municipality must submit quarterly progress reports on the efficiency improvement measures taken to reduce high energy losses and deficits to enable NERSA to monitor the implementation thereof 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
MLM	Mamusa 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) 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. Mamusa Local Municipality is situated in the North West province and has a total of 8 987 electricity customers. The municipality is largely made up of manufacturing customers, which consume 44.28% of the total electricity sales.

1.3. The municipality provides its 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

Customer categories	***MWh***	***% MWh***	***Customer***
Domestic(Prepaid)	3 074	16,29%	6 836
Domestic(Conventional)	2 123	11,25%	1 584
Manufacturing	8 356	44,28%	32
Commercial	5 319	28,18%	535
TOTAL	**18 872**	**100%**	**8 987**
FBE	**31**	**0,60%**	**1152**

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

1.5. The municipality implemented an average price increase of 12.40% in the 2025/26 financial year and is applying for an average price increase of 9.01% for the 2026/27 financial year.

1.6. NERSA followed the notice and comment consultation process. MLM's tariff applications were published on the NERSA website on 31 March 2026, 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 4 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 No. 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, the Eskom Multi-year Price Determination and Eskom Retail Tariff and Structural Adjustment processes 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 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 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:

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; and
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 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 set out below apply to the approval of municipal tariffs for the 2026/27 financial year:

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; and
d) the publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from the 2027/28 financial year 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 must be submitted to NERSA by 20 March each year; and
c) municipal tariff approvals and the tariff Reasons for Decision document are 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 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In assessing the financial and technical performance, NERSA relied on the 2024/25 financial year's Distribution forms (D-forms) information provided in analysing 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 Statement). Hence, the information provided on the D-forms is considered reasonable for the analysis of the tariffs.

Table 2: Performance indicators

Performance indicators	***2024/25***	***2023/24***
Percentage surplus/(Deficit): (%)	**-42.82**	**-45,43**
Energy Losses: (%)	**33,96**	**39.75**

Percentage Surplus

3.2. The percentage deficit level has decreased from 45.43% in the 2023/24 financial year to a deficit of 42.82% in the 2024/25 financial year. Notwithstanding this improvement, the municipality remains in a significant deficit position, primarily due to high energy losses.

Energy Losses

3.3. The energy losses have decreased from 39.75% in the 2023/24 financial year to 33.96% in the 2024/25 financial year. The municipality indicated that high energy losses are due to illegal connections, inaccurate conventional meters, and ageing infrastructure.

3.4. To mitigate these issues, the municipality indicated that they are busy with ongoing projects to install prepaid single-phase meters for domestic users and kVA meters for three-phase users, to implement policies for customers tampering with electrical connections and to improve the Estimated Time of Restoration (ETR) to reduce loss of revenue due to power failures and interruptions.

Table 3: Assessment of Energy Losses and Revenue Impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	306,09		
Sales kWh	18 872 043,45	25 148 059,20	26 862 699,60
Purchases kWh	28 577 340,00	28 577 340,00	28 577 340,00
Losses kWh	9 705 296,55	3 429 280,80	1 714 640,40
Losses percentage	**33,96%**	**12,00%**	**6,00%**
Additional Energy (kWh)		6 276 015,75	7 990 656,15
Additional Revenue (Rands)		19 210 487,80	24 458 893,77
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 60 242 013,31	R 79 452 501,11	R 84 700 907,08
Total Expenses (Rands)	R 86 032 410,58	R 86 032 410,58	R 86 032 410,58
Net Profit (Loss)	R -25 790 397,27	R -6 579 909,47	R -1 331 503,50
Percentage Surplus/Deficit	**-42,81%**	**-8,28%**	**-1,57%**

3.4.1. A sensitivity analysis was conducted to assess the financial impact of improved loss management. The analysis indicates that, should energy losses be reduced from 33.96% to 6%, the licensee's financial position would improve substantially from a deficit margin of 42,81% to a deficit margin of 1,57%. Under this alternative scenario, the electricity business would realise an estimated net profit of approximately R 84 700 907,08.

3.4.2. 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 sustainable 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

3.5. Based on the above indicators, the municipality is operating inefficiently. The municipality is required to reduce its high energy losses in order to improve revenue collection and financial performance.

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

4.1. The licensee submitted its existing COS study which supports the tariff application that will be approved in the 2026/27 financial year. The licensee's cost of supply 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 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 volumes that are the baseline for the FY2026/27 tariffs. The figures were tested for reasonableness.
iii. Column 3: is for the licensee's submitted FY2026/27 budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.

4.5. The Total Allowable Revenue of R93.020 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 below.

4.6. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for FY2026/27. NERSA used the budgeted figures submitted by the licensee to check the reasonableness as well as the licensee's current operational requirement to ensure that

municipalities do not over- or under-recover during the FY2026/27 tariff review process.

4.7. 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 R93.020 million for the FY2026/27 tariff review.

Table 4*: Revenue Requirement components*

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee
Sales	kWh	18 872 043	22 136 689	24 585 409
Eskom bulk purchases	kWh	28 577 340	31 991 662	34 874 111
Total Energy Requirements	**kWh**	**28 577 340**	**31 991 662**	**34 874 111**
Total Losses	kWh	9 705 297	9 854 973	10 288 702
Technical losses	kWh	3 429 281	3 838 999	4 184 893
Non-technical losses	kWh	-6 276 016	-6 015 974	-6 103 809
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**
Total Energy losses	%	33,96%	30,80%	29,50%
Cost drivers				
other energy purchases		-	-	-
total energy purchases		**59 718 950**	**67 586 350**	**78 586 350**
Operational expenditure (incl. Depreciati	**Rand**	**9 005 837**	**13 160 963**	**9 690 365**
Total Expediture before surplus		68 724 787	80 747 313	88 276 715
Surplus/Deficit	Rand	4 364 606	4 558 483	4 743 674
Total Expenditure Including Surplus		73 089 393	85 305 796	93 020 389
Other revenues	Rand	**0**	**0**	**0**
Total Allowable Revenus	**Rand**	**73 089 393**	**85 305 796**	**93 020 389**
increase required				*9,04%*

4.7.1. It is important to test the efficiency of the costs in the 2024/25 financial year since this is the most recent available actual data. This forms the basis on which costs for the 2026/27 financial year 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 2026/27 financial year, the licensee has applied for a bulk purchase expenditure of R78.586 million, which accounts for 84% of total costs, inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices in the 2024/25 financial year.

4.10. To get to the 2026/27 estimate, the licensee provided the year-to-date figures for 2025/26 and then made an estimate that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.11. The approach applied by MLM 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. The licensee seeks an operational expenditure of R9.690 million for the 2026/27 financial year, including depreciation, which accounts for 10% of total costs.

4.13. The approach taken by the licensee is satisfactory to NERSA for forecasting operational expenditure. As a result, this cost has been recommended for approval as applied for.

SURPLUS

4.14. The licensee is applying for a surplus of R4 743 million, which is based on a 5% return on opex, including bulk purchases.

4.15. NERSA is satisfied that the return applied for by the licensee is reasonable to keep the licensee sustainable, though it does not fall below the 10-20% target range as determined in the COS methodology. Thus, it is NERSA's decision to allow the revenue requirement as applied for.

CONCLUSION ON COSTS TO SERVE

4.16. The Energy Regulator has assessed the licensee's Cost of Supply (COS) study and is satisfied that it provides an appropriate and credible basis for determining cost-reflective tariffs. The approved allowable revenue of R85.305 million for the 2025/26 financial year was derived from the COS and associated sales volumes, thereby establishing a sound baseline for tariff setting.

4.17. In this regard, the licensee submitted a total required revenue of R93.020 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 R93.020 million. Based on the assessed cost drivers and the recommended allowable revenue, the outcome reflects a required average tariff increase of 9.04% for the 2026/27 financial year.

4.18. However, the licensee proposed a lower tariff increase of 9.01% to mitigate the impact on customers. The Energy Regulator notes that this approach

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objections or comments, which names members of the public.
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The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9274/MamusaLocalMunicipality_ReasonsforDecisionontariffapplicatio

Demand Charge:(R/kVA)	461.39	*9.01%*	502.96	502.96	*9.01%*
Industrial: Sentech	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***
Basic Charge: R/month	1200.92	*9.01%*	1309.12	1309.12	*9.01%*
Energy Charge: c/kWh	155.22	*9.01%*	169.21	169.21	*9.01%*
Demand Charge:(R/kVA)	489.25	*9.01%*	533.33	533.33	*9.01%*

Analysis and key findings for Domestic customers

7.1. 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.

7.2. Prepaid and conventional customers will experience lower-than-cost increases, easing pressure on household budgets.

Analysis and key findings for commercial customers

The 9.01% 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.

Analysis and key findings for Industrial customers

The recommended 9.01% 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 approve the Mamusa tariff application for the 2026/27 financial year.

End.