NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Mthonjaneni Local Municipality

THE DECISION

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1. At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered Mthonjaneni Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year (FY) set out in section 8 of the RFD.

2. Based on the available information and the analysis performed thus far, the REC decided:
   2.1. to approve the tariffs that are based on the COS Report as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;
   2.2. to note the Cost of Supply Report 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 NERSA to perform its independent verification/audit process by 31 January 2027; and

2.4. The municipality must submit quarterly Specific Measurable Achievable Realistic and Time-bound (SMART) energy losses reduction progress reports to NERSA to monitor the implementation thereof, commencing from 30 September 2026.

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ABBREVIATIONS AND ACRONYMS

COS	Cost of Supply
D-Form	Distribution form
ERTSA	Eskom Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IPP	Independent Power Producer
MLM	Mthonjaneni 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 its mandate to regulate prices and tariffs. Municipal tariffs must be approved by NERSA to be implemented on 1 July of each financial year.

1.2. NERSA received Mthonjaneni Local Municipality's tariff application together with its Cost of Supply (COS) study on 12 January 2026. The municipality revised the COS because of changes in Eskom tariffs.

1.3. The table below shows the customer statistics of Mthonjaneni for the 2024/25 financial year (FY). This data is obtained from the latest Distribution Forms (D-Forms).

Table 1: Customer Statistics

CUSTOMER STATISTICS			
Consumer classification	Sales (MWh)	%MWh	Number of consumers
Domestic (Pre-paid)	4 096,00	30,98%	1 919
Domestic (Conventional)	264,00	2,00%	25
Commercial (Prepaid)	594,00	4,49%	91
Commercial (Converntional)	1 477,00	11,17%	68
Manufacturing/Industrial	5 811,00	43,95%	30
Own use and Sold to Other municipal Departments	980,00	7,41%	N/A
Totals	13 222,00	100%	2 133
Free Basic Electricity	779	17,87%	1299

1.4. NERSA followed the notice and comment consultation process. Mthonjaneni's tariff application was published on the NERSA website and social media platforms, as well as in local and national newspapers on 31 March 2026 to solicit written comments from affected parties.

1.5. NERSA's decision was made on 6 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 NERSA 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 follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

2.1.3. In addition, the municipal tariff approval process has recently been the subject of judicial scrutiny in the High Court of South Africa (Gauteng Division, Pretoria) in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620), which resulted in structural directives governing the timing and conduct of NERSA's tariff approval process.

2.1.4. This section provides the legal and policy context within which NERSA evaluated and determined the municipal electricity tariff application for the 2026/27 municipal financial year.

2.2. NERSA's Statutory Mandate

2.2.1. NERSA is established as a juristic person in terms of section 3 of the NERA. In terms of section 4 of the 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 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 following timelines 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 must be submitted by 31 March 2026
c) public participation processes must 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 must comply with the following timelines:

a) written notice of bulk electricity tariffs must be communicated by 31 January each year
b) municipal tariff applications must be submitted to NERSA by 20 March each year
c) municipal tariff approvals and the tariff reasons for the decision document must be approved and published by 5 May of each year.

2.9. **Conclusion**

2.9.1. The determination of municipal electricity tariffs by NERSA 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 NERSA 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 evaluating the financial and technical performance of Mthonjaneni, the assessment relied on the D-Forms for the 2024/25 FY submitted as part of the licensee's tariff application. The information contained in the D-Forms was verified against the supporting source documents provided by the municipality, including the Trial Balance and Annual Financial Statements. As a result, the data captured in the D-Forms is considered reliable for the purposes of the tariff analysis.

3.2. Mthonjaneni's percentage surplus improved from a deficit of -5.97% in the 2023/24 FY to a surplus of 4.65% in the 2024/25 FY. The improvement in the financial performance can mainly be attributed to the outcome of the measures put in place to reduce Eskom's outstanding debt and the Notified Maximum Demand (NMD) exceedance paid to Eskom.

3.3. Table 2: Performance Indicators below shows that Mthonjaneni's energy losses improved from 9.67% in 2023/24 FY to 8.40% in 2024/25 FY. The municipality indicated that this is mainly due to the outcome of the measures put in place to address ageing infrastructure and minimise technical losses and illegal connections.

Table 2: Performance Indicators

Indicators	2023-24	2024-25
Percentage Deficit/Surplus	-5.97%	4.65%
Percentage Energy Losses	9.67%	8.40%

3.4. Based on the above information provided by the municipality in the D-Forms, Mthonjaneni's performance improved, as evidenced by the surplus and decrease in energy losses.

4. DETERMINATION OF MTHONJANENI LOCAL MUNICIPALITY'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The municipality submitted its existing COS study in support of its tariff application approved in the 2026/27 FY. The municipality'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).

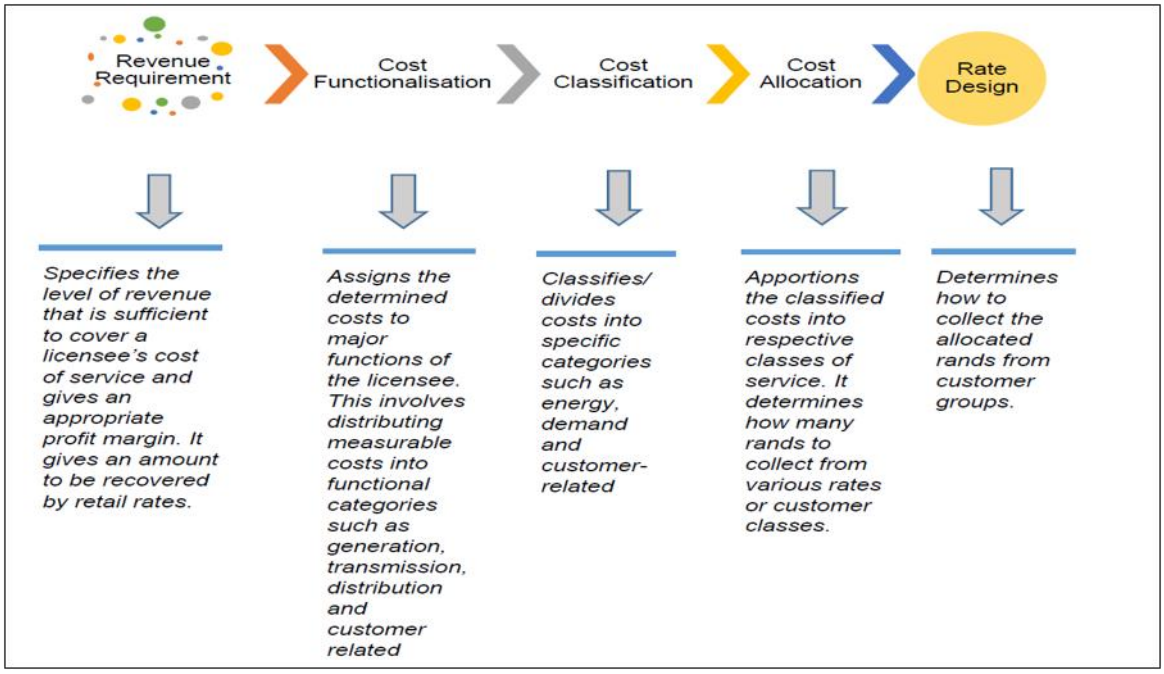


Figure 1: Five steps of COS study

4.1.1. **Revenue Requirement**

4.2. The COS study is valid for five years; however, the municipality must reflect the adjustments on their cost drivers for each financial year under the existing COS study (i.e. FY2026/27). NERSA utilised the budgeted figures to verify efficiencies and to ensure that municipalities do not over-/under-recover their operating overheads during the FY2026/27 tariff review process.

4.3. In determining the tariff adjustment applicable for the FY2026/27, the licensee submitted its FY2026/27 cost data, comprising budgeted operating costs plus surplus, as required by NERSA. The total budgeted revenue requirement submitted amounts to R44 986 million for the 2026/27 FY tariff review process, with no energy loss adjustment applicable. This results in a 20.76% escalation in allowable revenue for 2026/27 FY relative to the previous financial period.

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	13 255 063	12 791 422	13 226 330	-	13 226 330
Eskom bulk purchases	kWh	14 437 555,50	15 332 665,50	15 853 976	-	15 853 976
Total Energy Requirements	**kWh**	**14 437 556**	**15 332 666**	**15 853 976**		**15 853 976**
Total Losses	kWh	1 182 492	2 541 244	2 627 646		2 627 646
Technical losses	kWh	1 182 492	1 839 920	1 902 477	-	1 902 477
Non-technical losses	kWh	0	-701 324	-725 169	-	-725 169
Allowed losses	%	**8,19%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	8,19%	16,57%	16,57%		16,57%
Cost drivers						
Energy purchases from Eskom	Rand	28 621 741	31 895 389	32 979 832	-	32 979 832
other energy purchases			-	-	-	-
total energy purchases		**28 621 741**	**31 895 389**	**32 979 832**	**0**	**32 979 832**
Cost of technical losses	Rand				3 957 580	3 957 580
Non-Technical Losses					-1 508 514	-1 508 514
Operational expenditure (incl. Depreciati	**Rand**	**11 601 697**	**12 100 570**	**12 100 570**	**8 518 577**	**20 619 147**
General & Other	**0**	**10 865 568**	**9 812 898**	**88 913 305**	**-69 741 700**	**19 171 605**
Materials and supplies	Rand	184 800,00	63 955	193 116	0	193 116
Contracted Services	Rand	1 240 584,00	1 874 798	6 653 740	0	6 653 740
Salaries, wages and allowances (exclu. Repairs and	Rand	5 214 128,00	4 780 208	5 939 340	0	5 939 340
Eskom debts interest	Rand	30 758,00	30 758	67 822 781	-67 822 781	
Current year depreciation	Rand	4 096 552,00	2 914 445	6 231 618	0	6 231 618
vehicle expense	Rand	98 746,00	148 734,00	153 791	0	153 791
Shared OPEX	**Rand**	**363 152**	**48 324**	**1 447 542**	**0**	**1 447 542**
Bad debts (Allowance for Impairment)	Rand	244 970,00		381 312	0	381 312
FBE paid to Eskom	Rand	118 182,00	48 323,95	1 066 230	0	1 066 230
General expenses		**0**	**0**	**0**	**0**	**0**
Total Expediture before surplus		40 223 438	43 995 959	45 080 402	12 476 157	56 048 044
Surplus	Rand	3 620 109	4 399 596	4 508 040	648 380	5 156 420
Total Expenditure Including Surplus		43 843 547	48 395 555	49 588 442	13 124 537	61 204 464
Other revenues	Rand	**-10 599 981**	**-11 143 845**	**-16 287 124**	**68 584**	**-16 218 540**
Reconnection fees	Rand	14 570	22 047	68 584	-68 584	
Free Basic Electricity (Equitable share)	Rand	5 161 350,00	5 106 200	4 964 550	0	4 964 550
. Other Revenue - Government Grants and Subsidie	Rand	5 373 000,00	5 977 000	11 253 990		11 253 990
2. Other Revenue - Illegal Connections	Rand	51 061	38 598	0	-	**0**
Total Allowable Revenues	**Rand**	**33 243 566**	**37 251 710**	**33 301 318**	**13 193 121**	**44 985 924**
increase required				***10,60%***	***20,76%***	

Figure 2: Revenue Requirement Components

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

4.5. 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 and expanded on below.

Bulk purchases

4.5.1. Mthonjaneni's COS study projects a bulk purchase expenditure of R32.98 million, which was verified against Eskom invoices for 2024/25 FY.

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9. CONFIDENTIALITY

None.

10. CONCLUSION

From a conspectus of the facts and evidence presented to the REC, it is appropriate to consider the review of Mthonjaneni's tariff application for the 2026/27 financial year.

10.2. All tariffs shall be limited to 11% as per the COS study for customer protection and municipal sustainability.

End.