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 (FY)

By

Ditsobotla (DLM) Local Municipality

THE DECISION

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1. At its meeting held on 8 May 2026, the Regulator Executive Committee (REC) considered Ditsobotla 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 7 (page 20) below.

2. Based on the available information and the analysis performed, the REC 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 (NERSA) 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 Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
IBT	Inclining Block Tariff
IPP	Independent Power Producer
DLM	Ditsobotla 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. Ditsobotla Local Municipality is situated in the North West Province and has a total of 9,246 electricity customers. The manufacturing customer category accounts for 39.52% of total electricity sales, followed by domestic customers at 35.41%.

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 Tabe 1 below.

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

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic(Prepaid)	16 886	28,08%	7 279
Domestic(Conventional)	4 409	7,33%	703
Manufacturing	23 765	39,52%	187
Commercial	15 073	25,07%	1 077
TOTAL	**60 133**	**100%**	**9 246**
FBE	**1 038**	**4,87%**	**1880**

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

1.5. DLM implemented an average tariff increase of 10.00% in the 2025/26 financial year and is applying for an average tariff increase of 9.1% for the 2026/27 financial year.

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

1.7. The Energy Regulator's decision was made on 8 May 2026, considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of Municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ("NERA"), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended ("ERA"), the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000) ("PAJA"), and the Electricity Pricing Policy 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 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. 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 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 2025/2026 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. Instead, to assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

2.7.4. NERSA subsequently launched a variation application which sought to vary the timelines which were set by the Court on 4 December 2025, considering the practical difficulties which arose as it relates to the NERSA's compliance with the Court order. The court having heard NERSA's application, granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines below are applicable in respect of the 2026/27 financial year 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; and
d) the publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from 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 be submitted to NERSA by 20 March each year; and
c) municipal tariff approvals and the tariff reasons for decision document, be approved and published by 5 May of each year.

2.9. **Conclusion**

2.9.1. The determination of municipal electricity tariffs by the Energy Regulator must therefore be undertaken within a comprehensive regulatory framework consisting of the NERA, ERA, PAJA, EPP and the binding judicial directives issued by the High Court in AfriForum NPC v NERSA (Case No. 2025/137620).

2.9.2. The reasons that follow in this Reasons for Decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/2027 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of DLM, the assessment relied on the Distribution forms (D-forms) for the 2024/25 financial year submitted as part of the licensee's tariff application. The information contained in the D-forms was verified against the supporting source documents provided by the municipality, including the Trial Balance and Annual Financial Statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

Table 2: Performance indicators

Performance Indicators	2023/24	2024/25
Percentage surplus/(Deficit): %	-6,00	-29,00
Energy Losses: %	22.79	35.79

Surplus

3.2. DLM's electricity business operated at a deficit of 29.00% in the 2024/25 financial year, worsening significantly from a deficit of 6.00% in the 2023/24 financial year. The deteriorating financial performance is mainly attributable to high energy losses and increased expenditure relating to Eskom interest charges, arising from the non-payment of the bulk electricity account. The municipality is therefore required to strengthen and implement effective loss reduction measures and ensure that the Eskom bulk electricity account remains up to date to avoid further interest charges and improve the financial sustainability of the electricity business.

Energy Losses

3.2.1. The energy losses level has increased from 22.79% in the 2023/24 financial year to 35.79% in the 2024/25 financial year. The municipality attributes the losses to network overloading, vandalism, cable theft, illegal connections, and unmetered internal connections.

3.2.2. NERSA further notes that the energy losses are being addressed with an EEDSM programme being implemented that mainly targets the reduction in

technical losses, funded by the DoE, the programme of Streetlight retrofitting to Energy Efficient Technologies, funded by MIG, and the Installation of Smart Metering for the business sector, funded by CoGTA.

3.3. Table 4 below reflects the revenue impact analysis under two energy loss scenarios, namely:

a) the actual losses of 35.79%, representing the current operating position, and
b) a reduced loss level of 12%, reflecting an efficient and regulatory-aligned scenario, for assessment purposes.

Table 3: Assessment of Energy Losses and Revenue Impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	280,60		
Sales kWh	60 133 369,00	82 408 060,68	88 026 792,09
Purchases kWh	93 645 523,50	93 645 523,50	93 645 523,50
Losses kWh	33 512 154,50	11 237 462,82	5 618 731,41
Losses percentage	**35,79%**	**12,00%**	**6,00%**
Additional Energy (kWh)		22 274 691,68	27 893 423,09
Additional Revenue (Rands)		62 503 081,93	78 269 317,21
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 171 948 684,08	R 234 451 766,01	R 250 218 001,29
Total Expenses (Rands)	R 221 742 000,00	R 221 742 000,00	R 221 742 000,00
Net Profit (Loss)	R -49 793 315,92	R 12 709 766,01	R 28 476 001,29
Percentage Surplus/Deficit	**-28,96%**	**5,42%**	**11,38%**

3.4. Under the current scenario of 35.79% losses, the municipality experiences a significant revenue shortfall, which adversely affects its financial sustainability. In the alternative scenario, where losses are reduced to 12%, the financial position improves materially from a deficit of -28.96% to a surplus of 5.42%, with net revenue increasing to approximately R28 million.

3.5. 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

3.6. Based on the above information provided, the municipality's electricity business is operating at a loss, as evidenced by the high percentage deficit and energy losses. This position places strain on the licensee's financial sustainability and should be closely monitored going forward.

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

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

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

4.3. Figure 1 below illustrates the five steps considered in the determination of the Cost of Supply (COS) study. The steps undertaken in analysing the COS study are as follows:

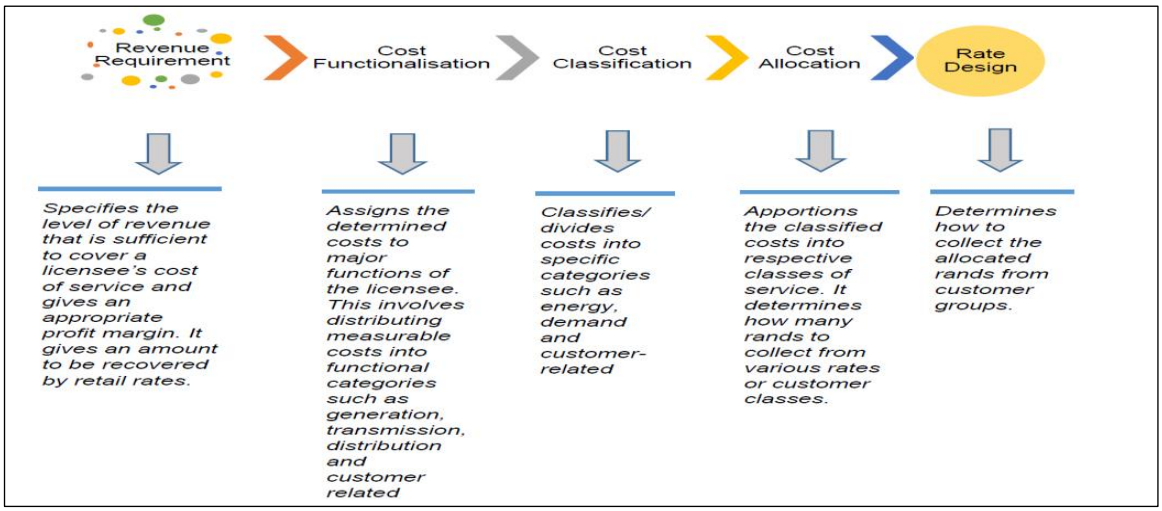


Figure 1: Five steps of COS

Revenue Requirement

4.4. To be fully cost reflective, the licensee's revenue requirement is R186, 064 million for the 2026/27 financial year. Of the Allowable Costs, Eskom purchases account for 80%, and this contribution is inclusive of Energy Loss Allowance. Operational Expenditure accounts for 16% of the total Costs. This is illustrated in Table 4 below.

Table 4: Revenue Requirement components

Revenue Requirement components	Wires	Retail	Total	% of Total
Allowable costs	48 905 305	137 159 505	186 064 810	100%
Energy purchases from Eskom - net of cost of losses	-	116 068 097	116 068 097	62%
Energy purchases from Eskom - cost of losses	33 294 381	-	33 294 381	18%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	12 842 699	16 686 364	29 529 063	16%
Other revenues	-	- 3 358 701	- 3 358 701	-2%
Surplus	2 768 225	7 763 746	10 531 970	6%

4.4.1. The efficiency of costs for the 2024/25 financial year 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 financial year, applying stated assumptions to determine the revenue requirement for that period.

4.4.2. 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 below.

Bulk purchases

4.4.3. DLM applied for bulk purchase expenditure amounting to R149, 362 million (including energy losses), representing 80% of total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

4.4.4. To derive the 2026/27 bulk purchase estimate, the 2025/26 cost drivers amount was escalated by 9.01%, consistent with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.4.5. The approach applied by DLM in forecasting bulk purchase costs is deemed reasonable. Accordingly, the bulk purchase expenditure has been recommended for approval as submitted.

Operational Expenditure

4.4.6. DLM has applied for operational expenditure totalling R29, 529 million, representing 16% of overall costs, as reflected in Table 5 below.

Table 5: Operating expenditure

Cost Drivers	Amount
General cost and others	**R28 897 273**
Salaries& allowances	R16 168 957
Contracted Services	R12 444 476
Current year depreciation	R283 840
Shared OPEX	**R631 790**
General Expenses (fuel& oil, travel,)	R631 790
Total Opex	**R29 529 063**

4.4.7. NERSA assessed that the municipality incurred costs related to interest in Eskom debt. However, these costs were excluded from the COS study on the basis that they are considered inefficient and not reflective of prudent operational expenditure.

4.4.8. NERSA further notes and supports the municipality's exclusion of NMD exceedance penalty costs from the total cost, as these costs are within the control of the municipality and should be directly attributable to, and recoverable from, the customers responsible for the exceedance.

4.4.9. The approach adopted by DLM in forecasting operational expenditure is considered reasonable, and the amount is therefore recommended for approval as submitted.

Surplus

4.4.10. DLM has requested a surplus of R26, 392 million, which accounts for 13% of total costs. After analysis and removing inefficiency cost, NERSA approved a surplus of R10, 532 million which accounts for 6% of total costs.

4.4.11. 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 Cost of Supply (COS) methodology, NERSA is required to ensure that DLM recovers efficiently and prudently incurred costs, including a reasonable return, while avoiding excessive compensation.

4.4.12. NERSA is satisfied that the surplus allowable for by DLM is reasonable and supports the financial sustainability of the electricity business, notwithstanding

that it falls below the 10–20% target range prescribed in the Cost of Supply (COS) Methodology. The municipality is required to reduce energy losses. If the municipality can reduce its energy loss to 6%, they will have surplus of 11%, which falls below the 10–20% target range, and additional revenue forgone of R28, 476m.

4.4.13. It is therefore recommended that the Energy Regulator approve an allowable revenue of R186, 065 million, as set out in Table 4 above. This revenue will be used in the subsequent steps of cost functionalisation, classification, allocation, and rate setting. These steps have been verified to be consistent with the approved revenue requirement and are discussed below.

Cost Functionalisation

4.4.14. The licensee has categorised its revenue requirements of R186, 065 million into two main functions: wires and retail business, which is in line with the NERSA COS framework as demonstrated in Figure 2 below. These costs align with revenue requirements upon verification.

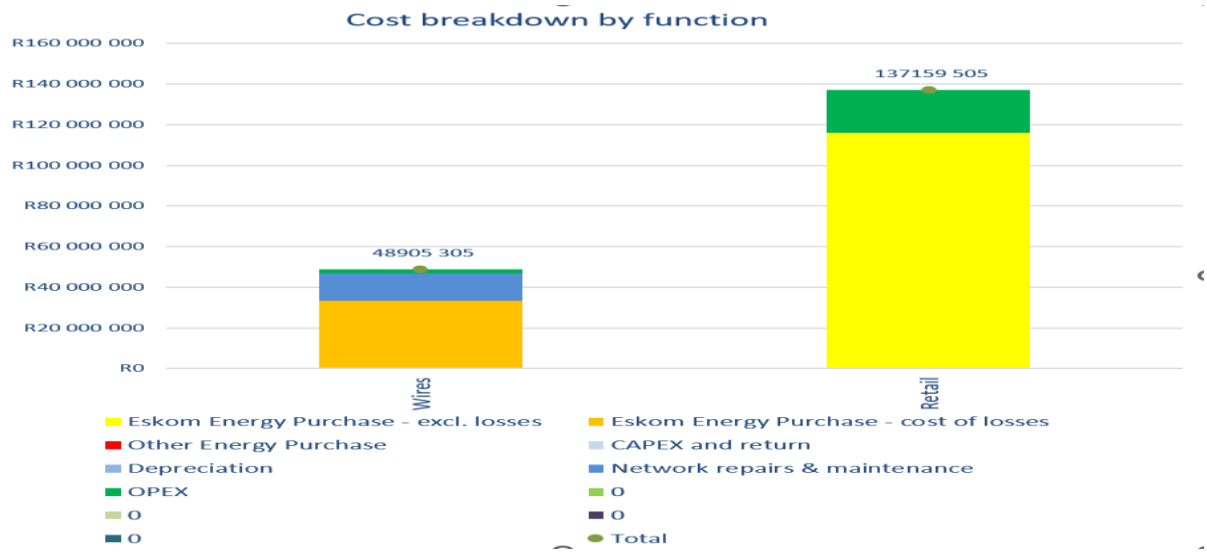


Figure 2: Cost breakdown by Functions

4.4.15. These costs, upon verification, are consistent with the approved revenue requirements. Network repairs and maintenance constitute the predominant cost drivers within the wires business, while energy purchases represent the primary cost driver within the retail business.

Cost Classification

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

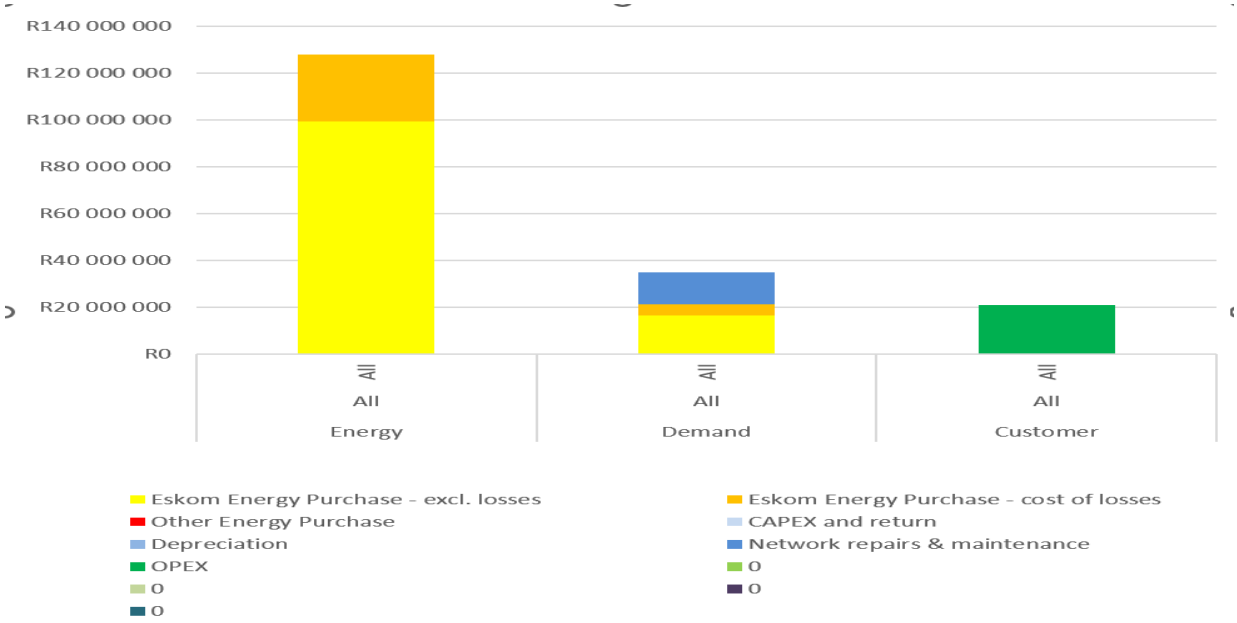


Figure 3: Cost breakdown by cost structure (classification)

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

Cost Allocation

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

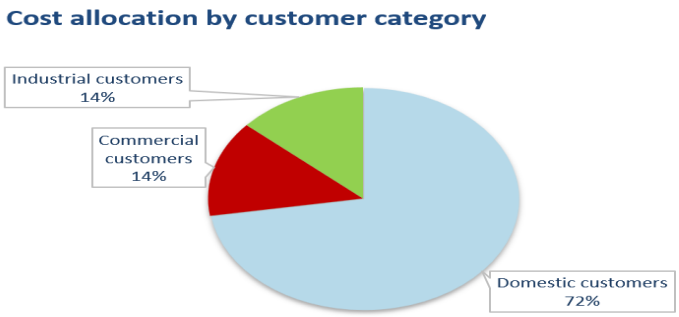


Figure 4: Costs Allocated

4.4.19. The domestic customer category accounts for the largest share of allocated costs at 72%, followed by commercial customers at 14%, while industrial customers account for 14% of the total costs. The variation in cost allocation across customer categories is primarily driven by differences in supply characteristics, including connection voltage levels, load factors, coincidence factors, and average consumption patterns.

Rate Design

4.4.20. Figure 5 below reflects the outcome of the COS study, indicating that certain customer categories require upward adjustments, while others warrant a decrease. A comparison between the cost of supply and the revenue generated per tariff category highlights the extent of over- or under-recovery within each category, as illustrated in Figure 5 below.

4.4.21. To achieve full cost reflectivity, the municipality would be required to implement differentiated tariff adjustments across customer categories. However, the municipality has adopted a less aggressive approach, opting instead for a uniform tariff increase of 9.1% across all customer categories.



Figure 5: Revenue recovery by customer category

4.4.22. The municipality is currently over-recovering industrial and commercial customers in the municipalities, excluding domestic customers, where the municipality is currently under-recovering.

4.4.23. DLM revised its Cost of Supply (COS) study to align with the restructuring of Eskom's tariff application for the 2025/26 financial year, which introduced new cost components and reallocated existing charges across energy, network, and service-related elements.

4.4.24. This restructuring has a direct impact on the Cost of Supply, as it changes how bulk electricity costs are incurred and recovered by municipalities. In particular, the introduction of updated network charges, revised energy charges, and other cost-reflective elements requires alignment of the municipality's COS study to ensure consistency with the new tariff design.

4.4.25. Accordingly, DLM revised its COS study to accurately reflect the updated Eskom tariff structure, ensure proper cost allocation across customer categories, and maintain cost-reflective tariffs in line with regulatory requirements. Failure to revise the study may result in misalignment between actual costs and tariffs, potentially leading to under- or over-recovery.

4.5. Conclusion on the COS

4.5.1. The COS study results indicate a required increase of 15.0%, as illustrated in Figure 6 below. However, in an effort to mitigate the impact on customers and to shield its customers from the increasing electricity price, the licensee has proposed a lower increase of 9.1%. Based on the available information, the municipality is expected to remain financially sustainable under the proposed tariff increase of 9.1%.

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

The 9.1% 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 9.1% 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. The Energy Regulator, having considered the Ditsobotla LM's application, supporting information, stakeholder inputs, and applicable legal framework, approves the tariff adjustments as set out in this Reasons for Decision.

End.