NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Koukamma Local Municipality

THE DECISION

At its meeting held on 9 May 2026, the Regulator Executive Committee (REC) considered Koukamma Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year, as set out in Table 1 below.

Table 1:Summary of the REC decision

Tariff Category	**2026/27 approved % Increase**
Domestic pre-paid- (IBT Structure)	12.5%

Based on the available information and the analysis performed, the REC decided:

1. to approve the tariffs that are 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;
2. to note the COS study submitted by the municipality;
3. that the municipality must submit a report accounting for all the costs identified in its COS study to enable the National Energy Regulator of South Africa (NERSA) to perform its independent verification or audit process by 31 January 2027; and
4. that the municipality must submit a quarterly smart efficiency plan with improvement measures identified in reducing high energy losses and submit by 30 September

2026.

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ABBREVIATIONS 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
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. The Koukamma Local Municipality (Koukamma) is located in the Eastern Cape. The municipality is made up mostly of domestic customers, who account for 100% of total electricity sales. The municipality provides its indigent customers with 50kWh of Free Basic Electricity (FBE) per month. The municipality further reported that it maintains an indigent register. The details regarding customer statistics are highlighted in Table 2 below.

Table 2: Customer statistics

CUSTOMER STATISTICS (OBTAINED FROM 2024-2025 DISTRIBUTION FORMS)			
Consumer Classification	**Sales (KWh)**	**%KWh**	**Number of Consumers**
Domestic (Prepaid)	1 833 124	97,42%	1 345
Domestic (Conventional)	48 640	2,58%	2
TOTAL SALES	1 881 764	100,00%	1 347
Free Basic Electricity (FBE)	**246 000**	**13,07%**	**410**

1.3. NERSA received Koukamma's tariff application and its cost of supply (COS) study on 31 March 2026.

1.4. Koukamma implemented a 12.70% average price increase in the 2025/26 financial year (FY) and is applying for an average price increase of 12.5% for the 2026/27FY.

1.5. Regarding this application, the municipality confirmed that its council meeting was held on 31 March 2026. Following the meeting, the council resolution and proof of customer consultation were submitted to NERSA on the same day. Notably, no objections were received from customers during the consultation process.

1.6. NERSA followed the notice and comment consultation process. Koukamma's tariff application was published on the NERSA website on 31 March 2026, and notices were published on social media platforms and in national and local newspapers to solicit written comments from affected parties. No comments were received from the stakeholders.

1.7. NERSA's decision was made on 9 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 ('the 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 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 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 an 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. Therefore, public participation processes conducted by the Energy Regulator form an essential component of the municipal tariff approval process and are

intended to ensure transparency, accountability and fairness in regulatory decision-making.

2.5. Policy Framework: Electricity Pricing Policy (2008)

2.5.1. In addition to the statutory framework, the Energy Regulator must have regard to the EPP. The EPP establishes national policy principles for electricity tariff setting, including cost reflectivity, transparency, economic efficiency and equity.

2.5.2. Policy Position 1 of the EPP provides that the revenue requirement for a regulated licensee must be set at a level that covers the full cost of production, including a reasonable risk-adjusted margin or return on appropriate asset values.

2.5.3. Policy Position 2 states that electricity tariffs must reflect the efficient cost of rendering electricity services accurately and that the average level of tariffs must be set to recover the approved revenue requirement.

2.6. Cost of Supply Studies

2.6.1. The EPP recognises that cost-reflective tariff structures require a sound understanding of the underlying cost drivers associated with electricity distribution.

2.6.2. Paragraph 8.1 of the EPP notes that COS methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 requires electricity distributors to undertake COS studies at least every five years, or when significant structural changes occur in the customer base or cost structure.

2.6.4. Such studies must be conducted in accordance with the methodology approved by NERSA and must accompany tariff structure applications submitted to NERSA.

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 seeking to vary the timelines set by the Court on 4 December 2025, in light of practical difficulties that arose in relation 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 in respect of the 2026/27 municipal tariff approvals

a) Written notice of bulk tariffs must be communicated 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) NERSA decisions must be published 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 tariffs and the tariff reasons for decision documents must 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 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 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 evaluating the financial and technical performance of Koukamma, the assessment relied on the 2024/25 Distribution forms (D-forms) 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 tariff analysis.

3.2. Table 4 below shows that the municipality recorded a 28.81% deficit for the 2024/25 financial year (2023/24: 189.23% deficit). The improvement in the deficit level is attributed to Eskom not charging the municipality for bulk energy purchases at one of the municipal intake points (Kagiso Height POD); the municipality was only charged for availability costs.

3.3. In the 2024/25 financial year, the municipality reported negative energy losses of -72.45%, which emanate from Eskom's faulty meters at one of the municipal intake points at Kagiso Heights. The municipality was charged for availability, not for the energy, and the matter was reported to Eskom. The municipality relies on Eskom to address the malfunctioning meter and has lodged an enquiry into it. Eskom has indicated that the matter will be attended to at its earliest convenience.

3.4. A recent trend analysis of the municipality's financial performance indicates that the electricity business remains a point of concern. The municipality is currently operating at a deficit, a situation exacerbated by high levels of technical and non-technical energy losses. Addressing these inefficiencies is essential to stabilise the municipality's broader financial position and ensure long-term delivery of service.

3.5. NERSA has engaged with the municipality regarding addressing the faulty meter. The municipality reported that Eskom confirmed it would repair the meter in the 2025/26 reporting year.

3.6. The municipality has four points of delivery for energy intake. Four of these points are fully functional and were verified against the supporting documents. Only one point of delivery has the faulty meter on which the municipality received energy that was not billed by Eskom. However, the municipality sold those free units to its own consumers, resulting in a loss.

Table 3 below illustrates purchased units, sold by the municipality and unbilled by Eskom.

Table 3: Verification of purchased units

DESCRIPTION	2024/25FY Amount	
Purchased Units verified	1 091 195.05	kWh
Units received but Unbilled by Eskom	790 568.95	kWh
Total Energy Sold by Municipality	1 881 764.00	kWh

Table 4: Performance indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
INDICATORS	**2024-25FY (Actuals)**	**2023-24 FY (Approved)**
Percentage Surplus (Deficit)	-28,81%	-189,23%
Percentage Energy Losses	-72,45%	25,65%

3.7. Based on the above information, addressing the municipality's financial performance is an urgent priority. The electricity business requires the immediate rollout of proactive interventions to improve its financial sustainability. These interventions must target energy loss reduction and improved billing accuracy to stabilise the unit and strengthen the municipality's overall financial position.

4. DETERMINATION OF KOUKAMMA'S TARIFFS BASED ON THE COS STUDY

4.1. The process followed in considering and approving Koukamma's tariff application was supported by a COS study. The municipality has successfully reviewed its COS study to ensure full alignment with the Eskom Retail Tariff Restructuring Plan. The revised COS study and tariff application in which the tariff adjustment was determined are in line with the October 2023 COS Framework (section 18.7).

4.2. Costs were built up from verified bulk purchases (Eskom invoices) and verified electricity-related operating costs (tested against D-forms, trial balance and audited financial statements (AFS) and they are aligned to the NERSA COS Framework.

4.3. Koukamma utilised the 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 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.

4.4. Figure 1below illustrates the five steps considered in the determination of the COS study.

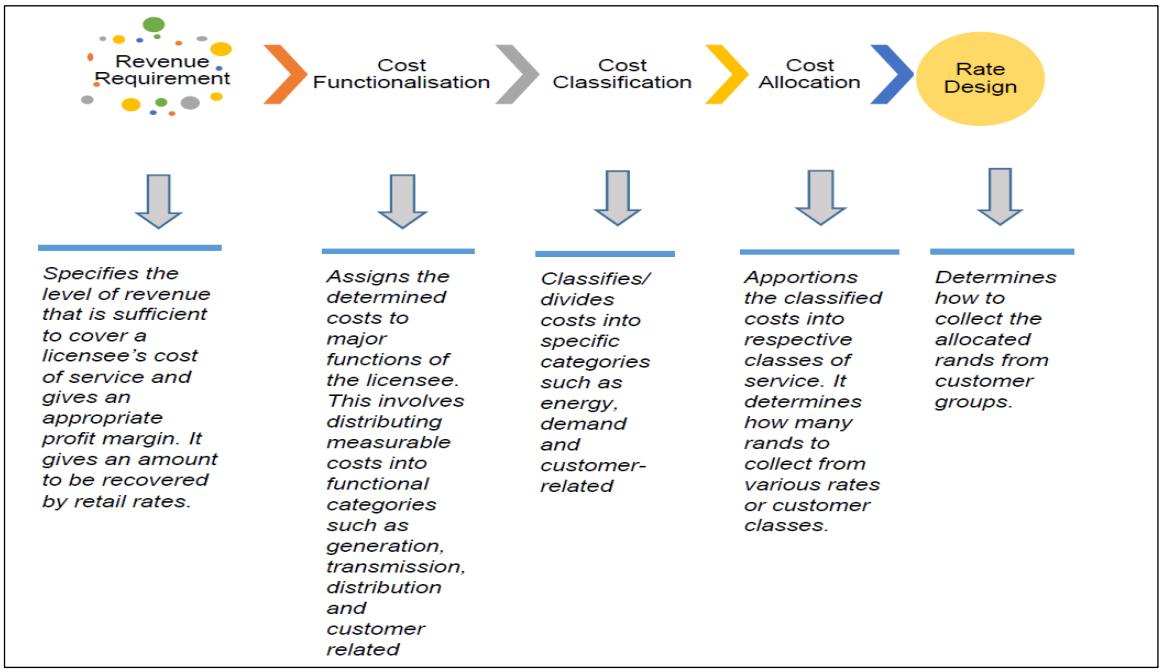


Figure 1: Five steps of COS study

4.5. The following steps are undertaken to analyse the cost of supply study:

Revenue Requirement

4.5.1. The efficiency of costs for the 2024/25 financial year has been assessed, as this is 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.

Table 5: Revenue requirement components

	Total cost (R)			
Revenue Requirement components	Wires	Retail	Total	% of Total
Allowable costs	5 704 991	8 998 182	14 703 173	100%
Energy purchases from Eskom - net of cost of losses	-	4 950 521	4 950 521	34%
Energy purchases from Eskom - cost of losses	804 725	-	804 725	5%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	4 685 715	4 199 921	8 885 636	60%
Other revenues	- 4 872	- 498 344	- 503 216	-3%
Surplus	219 423	346 084	565 507	4%
Not allowable costs	438 451	512 347	950 798	
Cost of losses disallowed	438 451	512 347	950 798	
TOTAL COSTS	6 143 442	9 510 529	15 653 971	

4.5.2. All expenses included in the revenue requirement have been examined to confirm that they pertain exclusively to the licensee's electricity function. Where

any amounts were found to be inflated or insufficiently substantiated, adjustments have been made accordingly, as detailed below.

Bulk Purchases

4.5.3. Koukamma submitted an application for bulk purchase expenditure, amounting to R4 million, representing 39% of total costs. The bulk purchase figures were verified against the 2024/25 Eskom invoices.

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

4.5.5. The methodology applied by Koukamma in forecasting bulk purchase costs is deemed reasonable. Accordingly, the bulk purchase expenditure has been recommended for approval as submitted.

Operational Expenditure

4.5.6. Koukamma has applied for operational expenditure of R8 million, representing 57% of overall costs, as reflected in Table 5 above.

4.5.7. The approach adopted by Koukamma in forecasting operational expenditure is considered reasonable, and the amount has therefore been approved as requested. However, inefficient cost components – such as NMD exceedance penalties and interest incurred on Eskom-related debt – have been excluded from the total, as these items fall within the municipality's control.

Surplus

4.5.8. Koukamma has requested a surplus of R565 507, calculated using a surplus factor of 4% applied to operating expenditure, inclusive of bulk purchases, for both the wires and retail components of the business.

4.5.9. The applied surplus margin of 4% was benchmarked against the established target range of 10–20% on the approved NERSA COS Framework, EPP Policy Position 1, D-form and trial balance.

4.5.10. To ensure that the profit margin is commensurate with the risk, risk considerations were incorporated qualitatively, including:

a) revenue collection risks (non-payment, indigence levels, bad debt);

b) operational risks (energy losses, ageing infrastructure); and

c) financial sustainability requirements.

4.5.11. Therefore, the applied surplus margin is considered modest and commensurate with these risks, particularly for a municipal distributor that is not profit-maximising but must remain financially viable.

4.5.12. The decision to approve the revenue requirement as submitted will be applied in the subsequent stages, namely cost functionalisation, cost classification, cost allocation and rate setting. These stages have been verified and confirmed to align with the approved revenue requirement. Further detail on these stages is provided below.

Cost Functionalisation

4.5.13. The licensee has categorised its revenue requirement of R14 million into two primary functional components, namely the wires business (39%) and the retail business (61%), in accordance with the NERSA COS Framework, as illustrated in Figure 2 below. Upon verification, the allocation of costs to these functional components is consistent with the stated revenue requirement.

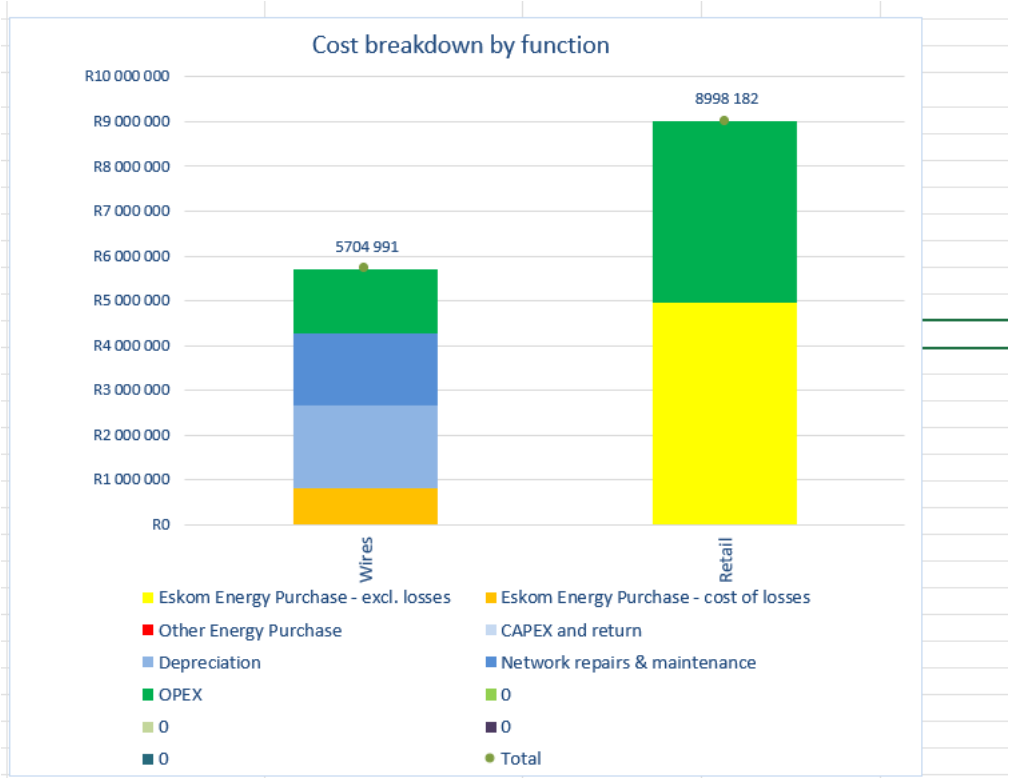


Figure 2: Cost breakdown by functions

4.5.14. Eskom energy purchase, excluding losses, is significant within the cost breakdown and dominates when compared to other costs, such as OPEX and repairs and maintenance of the network cost classification

Cost Classification

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

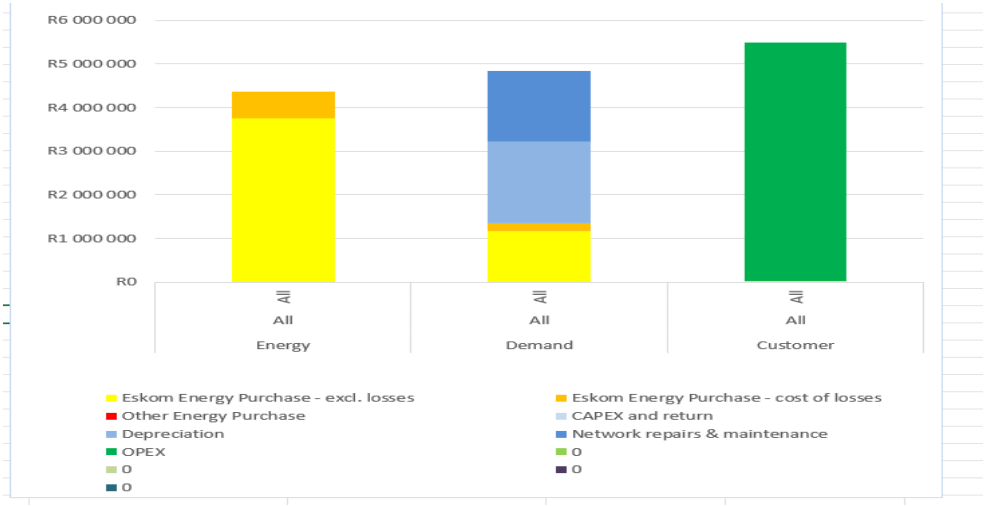


Figure 3: Cost breakdown by cost structure (classification)

4.5.16. Energy purchases and the cost of losses make up the energy-driven cost, with the highest amount of costs incurred during the low season and standard on time of use – mostly due to the low season covering a greater proportion of the year. Demand-driven costs include depreciation, network repairs and maintenance and energy purchase demand-related costs. The period of greatest demand-driven costs is during the low season. Finally, customer-driven costs are incurred through offering the electricity distribution service to customers, including salaries.

Cost Allocation

4.5.17. 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 consistent with the stated revenue requirement and aligned with cost allocation principles.

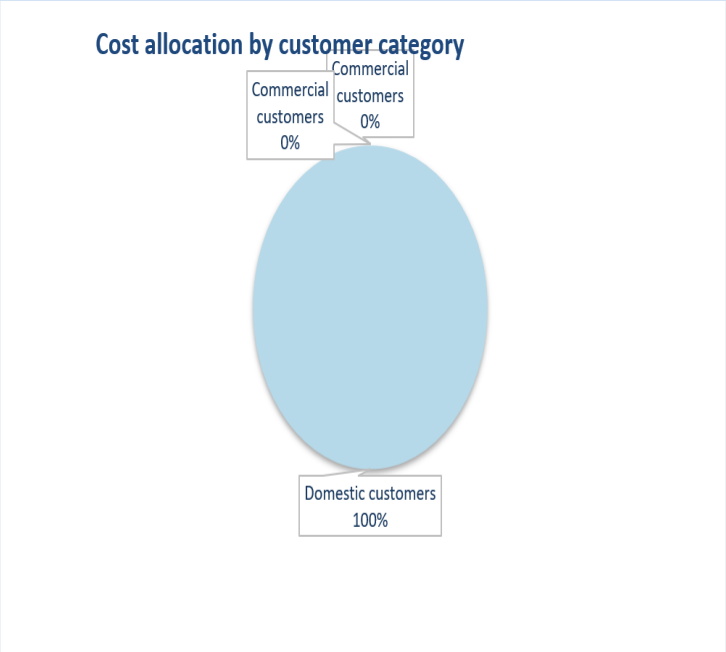
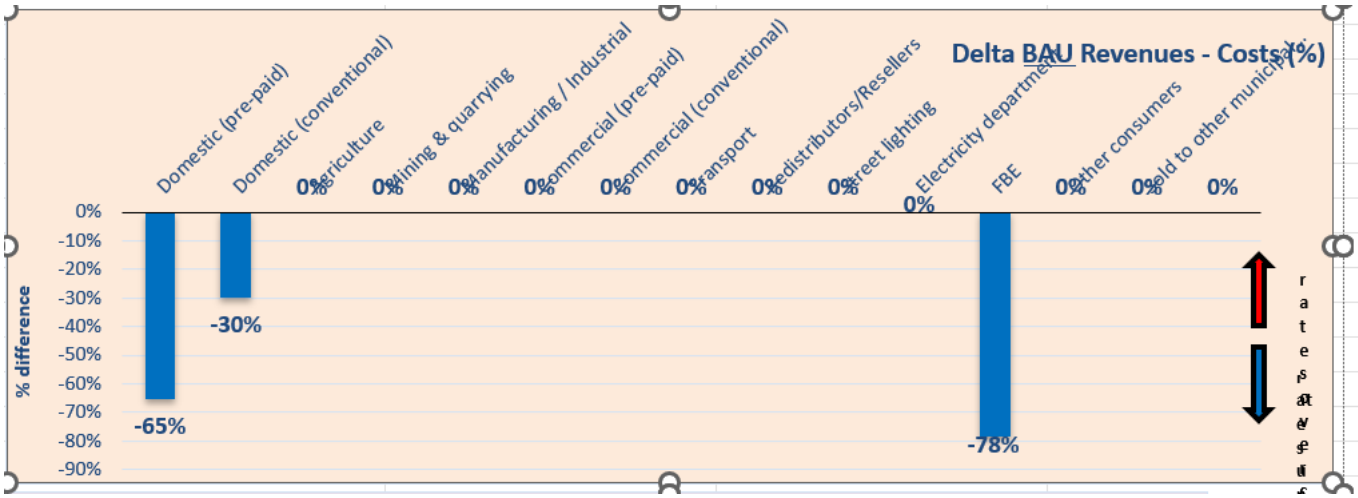


Figure 4: Cost allocation

Rate Design

4.5.18. Figure 5 below reflects the outcome of the COS study, indicating that certain customer categories require upward adjustments, while others require downward adjustments. A comparison between the COS and the revenue generated per tariff category highlights the extent of over- or under-recovery within each category.



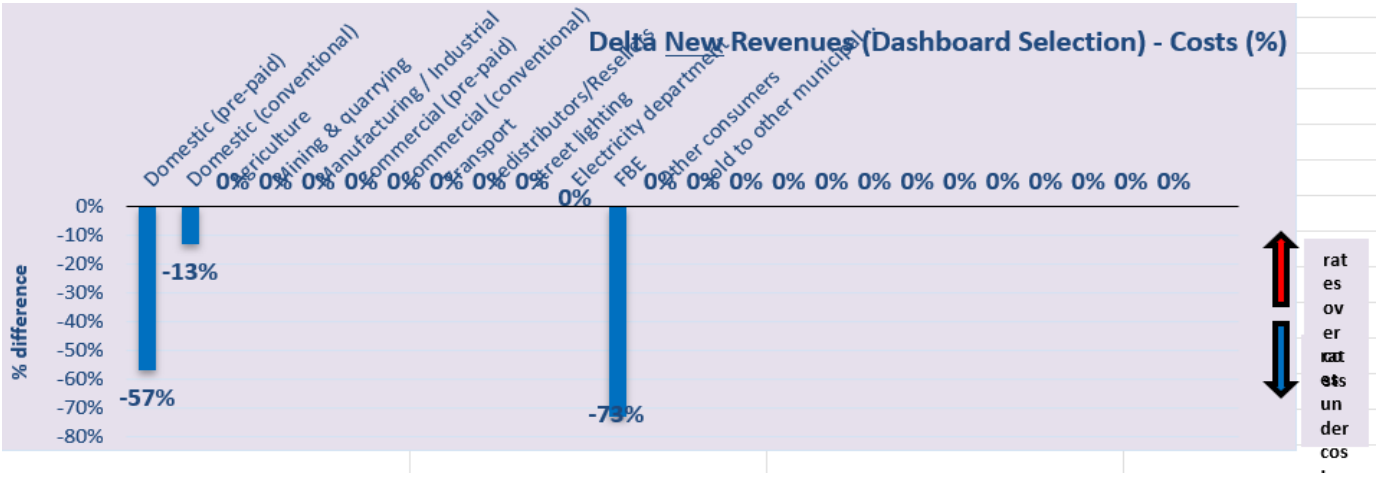


Figure 5: Rate design

5. CONCLUSION ON THE COS STUDY

5.1. While the outcome of the COS study may indicate an average tariff adjustment of a certain percentage for a licensee to achieve full cost reflectivity, a municipality may elect to implement such adjustments on a phased basis, including applying an increase below the COS-derived level.

5.2. This approach may be informed by a range of considerations, including the need to maintain tariff sustainability to support ongoing demand for electricity services. Excessive tariff increases may adversely affect consumption levels, thereby impacting revenue stability.

5.3. In addition, the licensee may consider its ability to meet financial obligations, including payments to Eskom and the broader affordability constraints faced by customers, in determining the appropriate trajectory for tariff adjustments.

5.4. This approach is intended to safeguard the municipality's revenue base and support its financial sustainability, in line with applicable legislative requirements.

5.5. The COS study is based on forecast assumptions and, as such, does not guarantee that the projected outcomes will materialise. Accordingly, the licensee retains the discretion to review the results and determine its own revenue requirements to ensure financial sustainability. In this regard, the municipality will be required to submit a report accounting for all costs that remain unverified.

5.6. The COS study results indicate a required increase of 24.5%, as illustrated in Figure 6 below. However, to mitigate the impact on customers, the licensee has proposed a lower increase of 12.5%. Based on the available information, the municipality is expected to remain financially sustainable under the proposed 12.5% tariff increase.

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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/9286/KoukammaLocalMunicipality_ReasonsforDecisionontariffapplica

						Domestic prepaid and conventional (billed) customers are currently paying rates above the actual cost of service. Because of this imbalance, the 12,5% proposed increase is recommended to help align the pricing structure and ensure the long-term sustainability of the grid.
Block 2 (51-350) kWh	254.00	285	12.5%	285	12.5%	The COS study has highlighted a significant gap in how electricity is priced across different groups. Currently, customers on FBE are receiving services at a rate below the cost of providing them, which means they are being cross-subsidised. Domestic prepaid and conventional (billed) customers are currently paying rates above the actual cost of

						service. Because of this imbalance, the 12,5% proposed increase is recommended to help align the pricing structure and ensure the long-term sustainability of the grid.
Block 3 (351-600kWh)	358.00	402	12.5%	402	12.5%	The COS study has highlighted a significant gap in how electricity is priced across different groups. Currently, customers on FBE are receiving services at a rate below the cost of providing them, which means they are being cross-subsidised. Domestic prepaid and conventional (billed) customers are currently paying rates above the actual cost of service. Because of this imbalance, the 12,5% proposed increase is recommended to help align the pricing

						structure and ensure the long-term sustainability of the grid.
Block 4 (>600 kWh)	423.00	475	12.5%	475	12.5%	The COS study has highlighted a significant gap in how electricity is priced across different groups. Currently, customers on FBE are receiving services at a rate below the cost of providing them, which means they are being cross-subsidised. Domestic prepaid and conventional (billed) customers are currently paying rates above the actual cost of service. Because of this imbalance, the 12,5% proposed increase is recommended to help align the pricing structure and ensure the long-term sustainability of the grid.

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 Koukamma's tariff application for the 2026/27 financial year.

End.