NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Private Distributor Tariff Applications for the 2026/27 Financial Year

By

Damplaas Kragbron (Pty) Ltd private distributor

THE DECISION

At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered Damplaas Kragbron (Pty) Ltd (Damplaas Kragbron's) tariff application. Based on the facts and evidence presented, REC approved the tariff increases for the 2026/27 financial year (FY) set out in
below.

Table 1: Summary of the REC decision

Tariff Category	2026/27 approved % Increase
Energy charge (R/kWh): Summer	9.01%
Energy charge (R/kWh): Winter	9.01%

Based on the information submitted and the analysis conducted, the REC decided at its meeting on 11 May 2026, that:

a) The tariffs that are based on the COS Report are approved as recommended in the tariff analysis section for implementation by the licensee with effect from 1 July 2026.
b) The Cost of Supply Report submitted by the Municipality be noted.

c) The licensee is required to submit a report accounting for all the costs that have been noted in its COS study, to enable the Regulator to perform its independent verification/audit process by 2026/27 financial year; and
d) The licensee is required to submit an audited financial report that reflects the impact of its cost of supply-based tariffs on customers, as well as on the Licensee's sustainability and local economy by 2026/27 financial year.
e) The licensee is required to submit a quarterly smart efficiency plan with improvement measures identified in reducing high energy losses and submit it by 30 September 2026.

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The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9245/Damplaas2026_27RFD.pdf

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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
LM	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. Damplaas Kragbron (Pty) Ltd is a private distributor to farms and properties within the Nketoana Local Municipality jurisdiction around Petrus Steyn Town with a customer base of 159.

Table 2: Customer Statistics (Data obtained from the latest D-forms – 2024/25)

Customer categories	***kWh***	***% kWh***	***Customer numbers***	***% Customer numbers***
Agriculture	5 752 125	100%	164	100%

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

1.4. Damplaas Kragbron implemented an 11% average price increase in 2025/26 financial and is applying for an average price increase of 9.01% for the 2026/27 financial year.

1.5. NERSA followed the notice and comment consultation process. Damplaas Kragbron's tariff application was 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.

1.6. NERSA's decision was made on 11 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. 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, the Energy Regulator exercises this authority through the powers conferred by ERA:

- Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions.
- Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs.
- 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.
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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 Electricity Pricing Policy (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 provides that electricity tariffs must accurately reflect the efficient cost of rendering electricity services 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 whenever 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 seeking vary the timelines which were set by the Court on 4 December 2025, considering the practical difficulties which arose in complying 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 by 6 March 2026;
b) Municipal tariff applications to be submitted by 31 March 2026;
c) Public participation processes to be concluded by 21 April 2026
d) The publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from 2027/28 are to comply with the following timelines:

a) Written notice of bulk electricity tariffs be communicated by 31 January each year;
b) Municipal tariff applications be submitted to NERSA by 20 March each year;

c) Municipal tariff approvals and the tariff reasons for decision document, be approved and published by 5 May of each year.

2.9. Conclusion

2.9.1. The determination of municipal electricity tariffs by the Energy Regulator must therefore be undertaken within a comprehensive regulatory framework 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 evaluating the financial and technical performance of Damplaas Kragbron, 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.

3.2. Damplaas Kragbron's electricity business operated at a percentage surplus of 13.03% in the 2024/25 financial year deteriorating from a surplus of 23.84% in the 2023/24 financial year. The deterioration was mainly due to surge on expenses mainly driven by general expenses of R2,2 million as well as bulk purchases increasing by R2,8 million.

Table 3: Performance indicators

Performance Indicators: Obtainecfrom the D-Form		
Indicators	**2023/24**	**2024/25**
Percentage Surplus/ (Deficit)	23,84%	13,03%
Percentage Energy Losses	11,01	9,86

3.3. Damplaas Kragbron's energy losses amounted to 9.86% in 2024/25 financial year from 11.01% in 2023/24 financial year. Energy losses were well maintained in the 2024/25 financial year and have improved to an acceptable level. Losses at 9.86% level amount to a foregone revenue of R2 million and the 1.15% improvement on energy losses amounted to R23 458.

Table 4: Energy Losses Analysis

Revenue loss on Energy losses	2024/25
Purchases kWh	6 381 404
Sales kWh	5 752 125
Total Energy losses @ 9,86% (kWh)	629 279
Average Selling Price (ASP) (Rands)	3,24
Lost Revenue on Total losses (Rands)	**2 039 825**
Revenue recognised from improved losses (1,15%) (Rands)	**23 458**

3.1. Based on the above information above, the Municipality's operational and financial performance is satisfactory. The Licensee just needs to embark on managing it operational expenses for surplus enhancements.

4. Determination Of Damplaas Kragbron's Tariffs Based on The Cost of Supply Adjusted Data

4.1. The Municipality submitted its existing COS study which supports the tariffs application which will be approved in the 2026/27 financial year. The municipality'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. Policy position 23 states that: "*Electricity distributors shall undertake COS studies at least every five years, and whenever significant Licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes. This must be done in accordance with the approved NERSA standard to reflect changing costs and customer behaviour. The Cost of Supply methodology used to derive tariffs must accompany applications to the regulator for changes to tariff structures.*"

4.3. Section 18.7 of 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, **Error! Reference source not found.** below was developed, and the definition of the columns is as follows:

a) Column 1 reflects the Licensee's actual 2024/25 performance for the 2024/25 financial year and is sourced from D-forms which are based on audited annual statements.
b) Column 2 reflects the 2025/26 revenue and electricity volumes that form the basis for 2026/27 tariffs. As these figures were estimates at the time of approval. They were tested for reasonableness when the

Regulator considered and approved the 2026/27 financial year cost of supply base tariffs. Once the financial year ends, the actual figures will be verified against the audited statements.

c) Column 3 reflects the Licensee's submitted budgeted figures for the 2026/27 financial year to be tested for reasonableness in determining tariffs for the control period under review.
d) Column 4 reflects NERSA's recommended adjustments after considering the reasons, facts, and evidence provided by the Licensee to motivate andjustify the budgeted figures.
e) Column 5 reflects NERSA's recommended amounts that which constitute to the allowable revenue the Licensee may recover in 2026/27 financial year.

4.5. The total allowable revenue of R21,4 million is for the 2025/26 financial year tariff review and is based on the cost of supply revenue and the volumes used to determine the tariffs that were approved by the Energy Regulator, as shown in **Error! Reference source not found.** below.

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

4.7. To determine an increase applicable for the 2026/27 financial year, the Licensee submitted its 2026/27 cost (budgeted cost plus surplus) as requested by NERSA, and total budgeted required revenue that amounted to R23,3 million for the 2026/27 financial year tariff review process.

Table 5: Municipality's Revenue Requirement

Energy balance	Unit	Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee	NERSA Adjustment (considering efficiencies)	FY2026/27 Allowable Revenue
Sales	kWh	5752125	5 925 264	6 103 614	-	6 103 614
Eskom bulk purchases	kWh	6 381 404	6 573 484	6 771 346	-	6 771 346
Independent Power Producers Conventional	kWh		-	-	-	-
Independent Power Producers Renewable Energy	kWh		-	-	-	-
Self Generation	kWh		-	-	-	-
Other			-	-	-	-
Total Energy Requirements	**kWh**	**6 381 404**	**6 573 484**	**6 771 346**		**6 771 346**
Total Losses	kWh	629 279	648 220	667 732		667 732
Technical losses	kWh	629 279	648 220	667 732	-	667 732
Non-technical losses	kWh	0	0	0	-	0
Allowed losses	%	**9,86%**	**9,86%**	**9,86%**		**9,86%**
Total Energy losses	%	9,86%	9,86%	9,86%		9,86%
Cost drivers						
Energy purchases from Eskom	Rand	7 780 884	8 661 680	9 536 510	-	9 536 510
other energy purchases		1 040 637	2 208 666	-	-	-
total energy purchases		**8 821 521**	**10 870 346**	**9 536 510**	**0**	**9 536 510**
Operational expenditure (incl. Depreciati	**Rand**	**10 484 808**	**9 211 456**	**10 933 009**	**0,0**	**10 933 009**
General & Other	0	7 423 849	6 996 432	8 461 870	0	8 461 870
Salaries and allowances	Rand	2 183 970	2 361 702	2 551 819	0	2 551 819
Materials and supplies	Rand	2 597 295	1 964 877	2 424 658	0	2 424 658
Contracted Services	Rand	594 147	681 638	716 769	0	716 769
Salaries, wages and allowances (exclu. Repairs and I	Rand				0	0
Payments to consultants (operational work)	Rand	17 736	51 604	10 000	0	10 000
Eskom debts interest	Rand	-	-	-	0	0
Current year depreciation	Rand	551 625	782 348	860 582	0	860 582
software	Rand	1 913	2 239	4 000	0	4 000
security	Rand	122 629	109 473	141 630	0	141 630
vehicle expense	Rand	188 293	221 457	364 206	0	364 206
insurance	Rand	336 154	249 431	266 835	0	266 835
other general expenditure	Rand	830 087	571 663	1 121 371	0	1 121 371
Shared OPEX	Rand	3 060 959	2 215 024	2 471 139	0	2 471 139
Bad debts (Allowance for Impairment)	Rand		6 358		0	0
General expenses		**3 060 959**	**2 208 666**	**2 471 139**	**0**	**2 471 139**
3.Other Expenses	Rand	3 060 959	2 208 666	2 471 139	0	2 471 139
Total Expediture before surplus		19 306 328	20 081 802	21 409 927	0	21 409 927
Profit Margin	Rand	1 630 634	1 298 180	1 916 693	0	1 916 693
Total Expenditure Including Surplus		20 936 962	21 379 982	23 326 620	0	23 326 620
Other revenues	Rand	**0**	**0**	**0**	**0**	**0**
2. Other Revenue - Illegal Connections	Rand	0	0	0	-	**0**
Total Allowable Revenus	**Rand**	**20 936 962**	**21 379 982**	**23 326 620**	**0**	**23 326 620**
increase required				***9,10%***	***9,10%***	

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

4.9. Furthermore, NERSA has verified all expense items included in the revenue requirement to ensure that they relate only to the electricity function of the Licensee. In instances where expenses are deemed inflated or unjustified, these have been adjusted accordingly.

Bulk purchases

4.10. The Licensee applied for a bulk purchase expenditure of R9,5 million which accounts for 41% of total costs inclusive of energy loss allowance in line with the act that requires only the prudently and efficiently incurred cost to be passed through to customers.

4.11. To get to the 2026/27 estimate, the Licensee projected the year-to-date amount for 2025/26 since complete financial year data is unavailable, then made an estimate that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.12. The Eskom bills were analysed and there are no NMD exceedance penalties charged. Furthermore, the Municipality did not include Eskom interests charge on the outstanding account.

Operating Expenditure (including depreciation)

4.13. The Licensee applied for operational expenditure including depreciation R10,9 million as highlighted in **Error! Reference source not found.** above.

4.14. There were no adjustments on operational expenditure since they were verified and deemed prudent and allowable.

Profit Margin

4.15. The Licensee applied for a profit margin of R1,9 million which is based on a 9% return on OPEX including bulk purchases. The depreciation amount of R0,9 million was budgeted for in the 2026/27 financial year.

4.16. NERSA is not fully satisfied that the return applied for by the Licensee is reasonable and will contribute to the Licensee's financial sustainability although it falls below the 10-20% target range prescribed in the COS Methodology. Accordingly, NERSA has allowed the revenue requirement as applied for.

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Energy charge (R/kWh): Winter	*3,52*	9,01%	3,84	3,84

8. Confidentiality

8.1. None.

9. Conclusion

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

End.