NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

The Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

by

City of Mbombela Local Municipality

THE DECISION

1. At its meeting held on 4 May 2026, the Regulator Executive Committee (REC) considered the City of Mbombela Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year set out in Section 7 (Page 20) below.

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

    2.1. 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;
    2.2. note the COS study 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 the National Energy Regulator of South Africa to perform its independent verification/audit process by 31 January 2027; and
    2.4. 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

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 City of Mbombela Local Municipality has been formed through the amalgamation of uMjindi and Mbombela Local Municipalities in line with the Provincial Gazette Notice No. 2687 of 2016.

1.3. The municipality has a total of 22,748 customers, with the Industrial customer base accounting for 62.43% of sales, as indicated in Table 2 below. In the 2025/26 financial year, the municipality increased the tariffs by 12.72% is proposing an average increase of 10.3% for the 2026/27 financial year. The municipality has confirmed that it has an indigent register and 1,546 indigent customers receive 50 kWh free basic electricity per month.

1.4. Table 1 below highlights statistical data that provides a customer outlook of the municipality's electricity supply in the region. This information is derived from the 2024/25 D-Forms as provided by the licensee.

Table 1: Customer statistics (Data obtained from the latest D-Forms)

Customer Class	Sales	%MWh	Customers
Domestic (prepaid)	67,005	12.86%	12,738
Domestic (conventional)	37,016	7.10%	5,032
Commercial (prepaid)	54,537	10.47%	1
Commercial (conventional)	16,273	3.12%	2,772
Manufacturing/Industrial	325,254	62.43%	1,790
Resellers	9,944	1.91%	37
Electricity Department	11,002	2%	378
Totals	**521,031**	**100**	**22,748**
Free basic electricity	928	0.89	1,546

1.5. NERSA received the City of Mbombela Local Municipality's tariff application accompanied by a revised Cost of Supply (COS) study, on 31 March 2026 for the 2026/27 financial year. The Municipality attributed the revision of the COS study to Eskom's implementation of approved retail and municipal bulk tariff structural changes, arising from the approved Eskom Retail Tariff and Structural Adjustment (ERTSA) decision for the 2025/26 FY.

1.6. NERSA followed the notice and comment consultation process. The City of Mbombela Local Municipality'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. NERSA's decision was made on 4 May 2026, considering 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 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 2026/2027 municipal financial year.

2.2. NERSA's 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 Energy Regulator's electricity regulatory mandate 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 licenses and may issue licenses 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 ost 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 costofsupply 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 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 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 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 assessing the financial and technical performance of City of Mbombela Local Municipality, the assessment relied primarily 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 supporting source documents provided by the municipality, including the Trial Balance and Annual Financial Statements. The verified D-Form data set is therefore regarded as sufficiently reliable for purposes of evaluating performance trends that inform the tariff analysis.

3.2. Table 3 below reflects the City of Mbombela Local Municipality's key technical and financial indicators. From a technical perspective, the municipality's energy losses increased from 27.76% (2023/24) to 31.84% (2024/25). This level of losses is high for a distribution licensee and indicative of elevated non-technical losses (e.g., illegal

connections, meter tampering, metering faults) and/or technical losses associated with network conditions, loading, and maintenance.

3.3. The municipality indicated corrective measures focused on both network and revenue protection, including the replacement/refurbishment of ageing municipal assets, and enforcement actions such as the identification and disconnection of illegal connections. These measures align with typical loss-reduction drivers; however, to demonstrate effectiveness, the municipality should implement a structured loss-reduction plan with clear baselines, time-bound targets, and outcome monitoring.

3.4. From a financial perspective, the electricity trading position improved, with the percentage surplus increasing to 6.88% in the 2024/25 financial year compared to a 7.86% deficit in the 2023/24 financial year (Table 2). The improvement is attributed to enhanced revenue management interventions, including meter audits, improved billing accuracy and strengthened credit control. Notwithstanding the improved surplus, the concurrently high and rising loss level poses a material risk to the municipality's sustainability. Continued focus on loss reduction and revenue protection is therefore necessary to support ongoing cost recovery.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
INDICATORS	**2024-25FY (Actuals)**	**2023-24 FY (Approved)**
Percentage surplus (deficit) %	6.88	-7.86
Percentage energy losses %	31.84	27.76

3.5. The municipality recorded energy losses of approximately 31.84%, which is materially above levels generally associated with efficient electricity distribution operations. Losses at this level erode cost recovery, weaken the sustainability of the electricity undertaking and increase the risk that efficient costs may not be fully recovered through tariffs.

3.6. If losses were reduced to 12%, the municipality’s net revenue position would improve materially. Based on the figures provided, the improvement would be approximately R305.1 million, and the surplus would increase from 6.88% to 19.37%. This illustrates the significance of active loss-reduction measures as a prerequisite for restoring financial viability.

3.7. If losses were reduced further to 6%, the municipality’s net revenue position would improve by approximately R397.4 million, while the deficit would decline from 6.88% to 22.51%. This scenario further demonstrates that the municipality’s financial position is highly sensitive to the level of technical and non-technical losses and that sustained corrective action is necessary.

Table 3: **Sensitivity Analysis**

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	205,14		
Sales kWh	510 957 000,00	659 697 452,48	704 676 824,24
Purchases kWh	749 656 196,00	749 656 196,00	749 656 196,00
Losses kWh	238 699 196,00	89 958 743,52	44 979 371,76
Losses percentage	**31,84%**	**12,00%**	**6,00%**
Additional Energy (kWh)		148 740 452,48	193 719 824,24
Additional Revenue (Rands)		305 126 164,22	397 396 847,45
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 1 969 511 678,00	R 2 274 637 842,22	R 2 366 908 525,45
Total Expenses (Rands)	R 1 833 999 933,00	R 1 833 999 933,00	R 1 833 999 933,00
Net Profit (Loss)	R 135 511 745,00	R 440 637 909,22	R 532 908 592,45
Percentage Surplus/Deficit	**6,88%**	**19,37%**	**22,51%**

3.8. From a regulatory standpoint, energy loss levels of this magnitude are inconsistent with efficient distribution operations and pose a major threat to both revenue sufficiency and the security/quality of supply, warranting stronger reporting and oversight requirements.

4. DETERMINATION OF THE CITY OF MBOMBELA LOCAL MUNICIPALITY'S TARIFFS BASED ON THE COS STUDY

a) The Energy Regulator's consideration of the City of Mbombela Local Municipality's tariff application was supported by a Cost of Supply (COS) study. The revised study was intended to enhance cost reflectivity by aligning the municipality's tariff structures with Eskom's approved unbundled cost components.

b) The study follows the NERSA COS Framework and utilises the latest available audited information, based on the 2024/25 financial year.

c) The City of Mbombela Local Municipality applied the cost-plus methodology. The COS Framework permits municipalities to determine allowable revenue based on prudently incurred costs plus a reasonable surplus.

d) Consistent with the NERSA COS Framework, the cost build-up was based on verified bulk purchases, as evidenced by Eskom invoices, and verified electricity-related operating costs, tested against the D-Forms, Trial Balance and audited Annual Financial Statements (AFS).

e) The Municipality's asset value of R2.0 billion was verified against the audited AFS and D-forms. Depreciation of R54.655 million was calculated on a straight-line basis over the useful lives of the relevant assets.

f) Figure 1 below illustrates the five steps applied in determining the COS outcome.

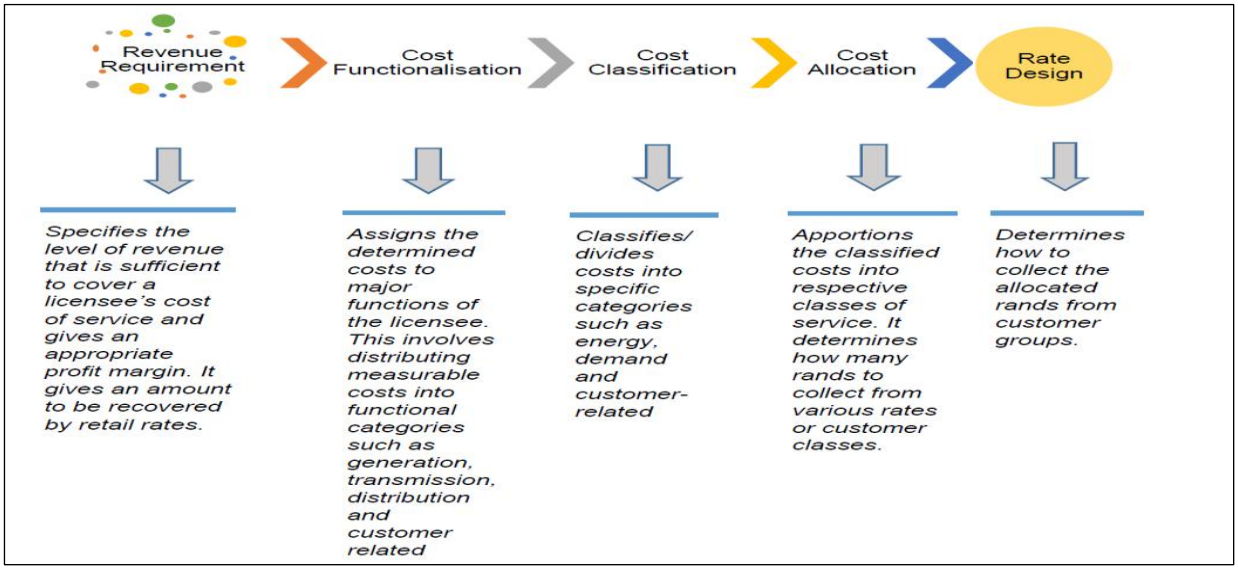


Figure 1: Five Steps of COS

g) The following steps were undertaken in analysing the COS study submitted by the municipality:

4.1. Revenue Requirement

4.1.1 To achieve full cost reflectivity, the licensee's revenue requirement for the 2026/27 financial year is R1.85 billion. This requirement is driven primarily by Eskom bulk purchases, which account for 81% of total costs, inclusive of the technical energy loss allowance. Operational expenditure accounts for 24% of total costs.

Table 4: Revenue Requirement Components

Revenue Requirement components	Wires	Retail	Total	% of Total
Allowable costs	642 941 354	1 640 330 431	1 847 361 553	100%
Energy purchases from Eskom - net of cost of losses	-	1 266 768 890	1 266 768 890	69%
Energy purchases from Eskom - cost of losses	134 420 036	78 091 814	212 511 850	12%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	244 137 871	191 772 362	435 910 233	24%
Other revenues	**- 3 789 282**	**- 97 502 030**	**- 101 291 312**	**-5%**
Surplus	24 034 859	9 427 033	33 461 892	2%
Not allowable costs	77 760 107	213 891 233	291 651 340	
Cost of losses disallowed	77 760 107	213 891 233	291 651 340	
TOTAL COSTS	**720 701 461**	**1 854 221 664**	**2 139 012 893**	

4.1.2 Efficient costs for the 2024/25 financial year were assessed as the most recent actual data set. This assessment forms the baseline for projecting costs for the 2026/27 financial year, using the stated assumptions to determine the applicable revenue requirement.

4.1.3 All costs included in the revenue requirement were examined to ensure that they are directly attributable to the electricity distribution function of the licensee. Where costs were found to be inflated, inefficient or insufficiently justified, such amounts were adjusted or excluded. The basis for these adjustments is set out below.

Bulk Purchases

4.1.4 The City of Mbombela Local Municipality applied for bulk purchase expenditure of R1.5 billion, including energy losses, representing 81% of total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

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

4.1.6 The methodology applied in forecasting bulk purchase costs is considered reasonable and the underlying expenditure is, therefore, recommended for approval, subject to efficiency adjustments. Inefficient costs arising from energy losses above 12%, to the extent that such losses are within management control, amounting to R347.8 million, were disallowed. This is consistent with the statutory requirement that only efficiently incurred costs, together with an appropriate margin, may be recovered through tariffs.

Operational Expenditure

4.1.7 The licensee applied for operational expenditure of R435.910 million, representing 24% of total costs, as reflected in Table 4 above.

4.1.8 Table 5 below reflects the adjustments made to remove inefficient costs. These include interest in Eskom debt of R129 million, which is regarded as a cost within management control, and free basic electricity (FBE) payments to Eskom of R2 million, which were also disallowed on the basis that FBE is funded through the equitable share allocation to the Municipality.

4.1.9 Of the applied OPEX amount of approximately R435 million, an amount of R131 million was deducted, resulting in an adjusted OPEX allowance of R304.66 million. This adjustment reduced the revenue requirement from approximately R1.8 billion to R1.7 billion.

4.1.10 The approach adopted by the licensee in forecasting operational expenditure was not considered reasonable in all respects and was adjusted accordingly. Costs deemed to be inefficient and within the municipality's control, including interest on Eskom debt and FBE paid to Eskom, were, therefore, excluded from the cost base.

Table 5: OPEX Adjustments

Cost Drivers	Units	COM's Application 2026/27	NERSA Adjustments	Recommended Opex 2026/27
General Costs & Other	R	**358 009 505**		**228 789 950**
Salaries and Allowances	R	82 102 624	0	82 102 624
Materials & Supplies	R	19 829 362	0	19 829 362
Contracted Services	R	53 031 834	0	53 031 834
Eskom debts' interests	R	129 219 555	(129 219 555)	0
Other creditors interests	R	19 170 146	0	19 170 146
Current year depreciation	R	54 655 984	0	54 655 984
Shared Opex	R	**77 900 728**		**75 871 407**
Bad debts written-off	R	6 835 273	0	6 835 273
FBE paid to Eskom	R	2 029 321	(2 029 321)	0
Charges from other Municipal Departments	R	24 771 558	0	24 771 558
General Expenses	R	44 264 576	0	44 264 576
Total	R	**435 910 233**	**(131 248 876)**	**304 661 357**

Surplus

4.1.11 The licensee applied for a surplus of R33 million. The applied surplus margin of 2%, as reflected in Table 4, was benchmarked against the target range of 10% to 20% contained in the approved NERSA COS Framework. The licensee's applied margin, therefore, falls below the lower end of that benchmark range.

4.1.12 In considering a surplus allowance, NERSA relied on section 15(1)(a) of the Electricity Regulation Act, which requires tariffs to enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return, in line with Position 1 of the Electricity Pricing Policy (EPP).

4.1.13 In applying this provision together with the COS methodology, NERSA must ensure that the licensee recovers efficiently and prudently incurred costs, including a reasonable return, while avoiding excessive compensation.

4.1.14 To ensure that the surplus remains modest and commensurate with the risks of the licensed activity, interest paid to Eskom, FBE paid to Eskom, and excessive energy losses were disallowed. NERSA further considers it necessary for the municipality to implement targeted corrective measures, including reducing energy losses through accelerated metering, network refurbishment and the enforcement against illegal connections; manage payments of its bills to limit avoidable Eskom-related charges; improving billing, credit control and revenue collection; ring-fencing and transparently reporting electricity business costs and revenues; and prioritising capital and maintenance expenditure on high-loss and high-failure portions of the network.

4.1.15 The approved revenue requirement is then carried forward into the subsequent COS steps, namely cost functionalisation, cost classification, cost allocation and rate design. These steps were verified and found to be aligned with the approved revenue requirement. The analysis of each step is set out below.

4.2. Cost Functionalisation

4.2.1 The licensee categorised its revenue requirement of R1.7 billion into two primary functional components, namely the wires business and the retail business, in accordance with the NERSA COS Framework, as illustrated in Figure 2 below. Upon verification, the allocation of these functional costs was found to be consistent with the approved revenue requirement.

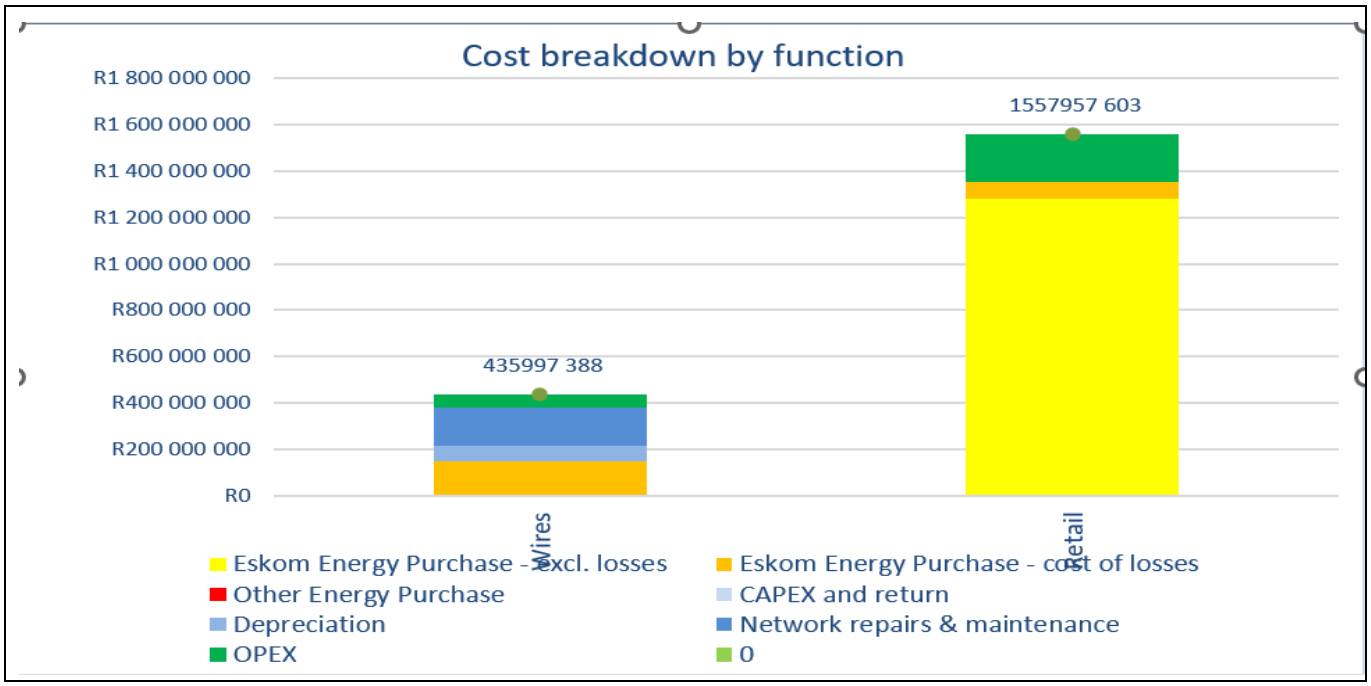


Figure 2: Cost Breakdown by Functions

4.2.2 Upon verification, these costs were found to be consistent with the approved revenue requirement. Network repairs and maintenance are the predominant cost drivers in the wires business, while energy purchases are the primary cost driver in the retail business.

4.3. Cost Classification

4.3.1 The licensee classified its costs into energy-, demand- and customer-related components, consistent with the NERSA COS Framework. Upon verification, the classified costs were found to align with the approved revenue requirement and the results of cost functionalisation.

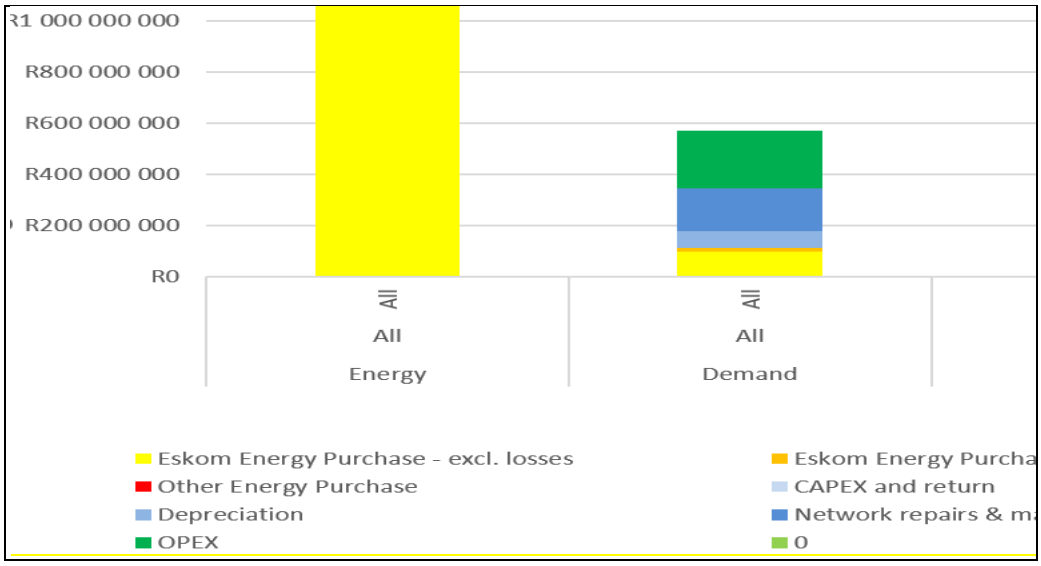


Figure 3: Cost Breakdown by Cost Structure (Classification)

4.3.2 Energy purchases constitute energy-driven cost components, with the highest expenditure occurring during the summer period under the standard time-of-use profile, owing to the longer duration of that season within the tariff year. Demand-driven costs are likewise predominantly incurred during the summer period. Customer-driven costs are primarily attributable to other operating expenditures incurred in providing electricity distribution services to customers.

4.4. Cost Allocation

4.4.1 At this stage, the licensee's revenue requirement is allocated across customer categories in accordance with the NERSA COS Framework. Upon verification, the allocated costs were found to be consistent with the approved revenue requirement and with the outcomes of cost functionalisation and cost classification.

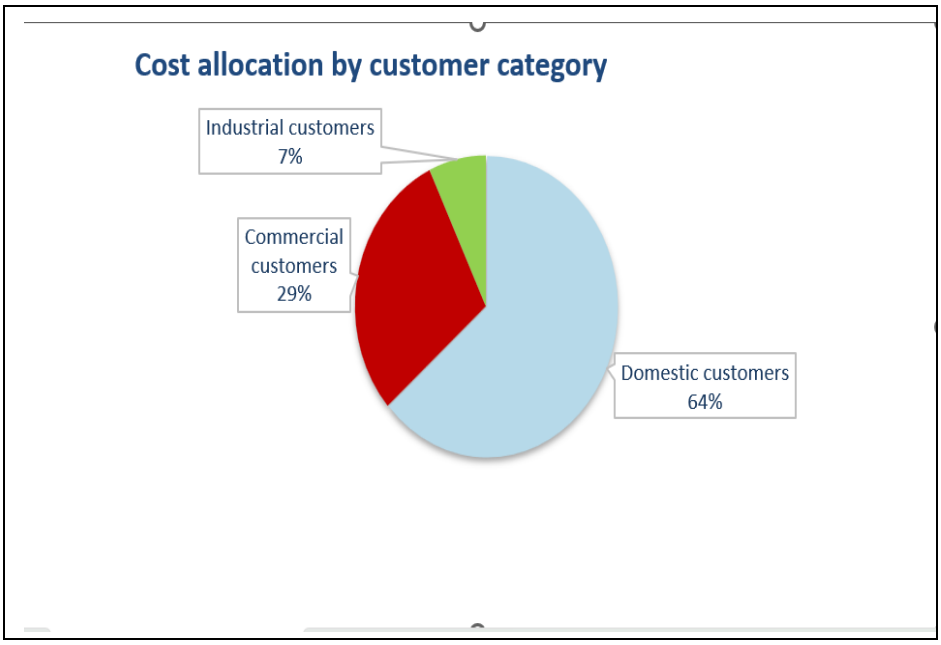


Figure 4: Costs Allocated

4.5. Rate Design

4.5.1 Figure 5 below reflects the outcome of the COS study and indicates that certain customer categories require upward adjustments, while others warrant reductions. A comparison between the COS outcome and the revenue generated per tariff category demonstrates the extent of over- or under-recovery within each category, as illustrated in Figure 5.

4.5.2 To achieve full cost reflectivity, the municipality would be required to implement differentiated tariff adjustments across customer categories.



Figure 5: Revenue Recovery by Customer Category

4.6. Conclusion on the COS

4.6.1 The COS study indicates that full cost reflectivity would require an average increase of 10.3% for the 2026/27 financial year tariff review, and the municipality has proposed the same average increase to balance financial sustainability with customer affordability.

4.6.2 The analysis recognises that excessively high tariff increases may reduce consumption, weaken revenue collection and adversely affect the municipality's ability to meet its financial obligations, including payments to Eskom. In addition, because the COS study is based on forecasts, there is inherent uncertainty regarding the extent to which projected costs and revenues will materialise.

4.6.3 This approach mitigates the risk of reduced demand, revenue instability and payment pressures in relation to Eskom, while allowing for a gradual progression towards cost-reflective tariffs as conditions improve.

4.6.4 The Regulator finds that the COS study submitted by the City of Mbombela Local Municipality for the 2026/27 financial year tariff review is compliant with the NERSA-approved COS Framework and is based on reliable D-form and audited data. While the municipality proposed an average tariff increase of 10.3% across tariff categories, COS results indicate that differentiated tariff adjustments by customer category are required to improve cost recovery.

4.6.5 The proposed increase, supported by the municipality's improved financial performance, balances the need for financial sustainability with customer affordability.

	BAU	CTS (net of subsidies)	New rates (Dashboard selection)
Total revenue forecast (with new rates)	1 808 430 239	1 993 954 991	**1 994 698 553**
		Delta =	743 562
Average increase in rates	**10,3%**		
Average increase in rates to reach overall cost-reflectivity	10,3%		

Figure 6: COS Results

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objections or comments, which names members of the public.
We do not republish it.

The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9201/CityofMbombela_RFDontariffapplicationprocessforFY2026-27.p

2.1 Conventional >80 phase	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	Recommended % Increase	Analysis and Key Findings
Energy charge: (c/kWh)	*328.25*	*10.3%*	*362.06*	*362.06*	*10.3%*	The recommended 10.3% increase is applied consistently to both the energy charge and the monthly basic charge, improving cost recovery.
Basic charge: (R/month)	*1,554.98*	*10.3%*	*1,715.14*	*1,715.14*	*10.3%*	
3 Industrial Customers						
3.1. INDUSTRIAL - LT (<80 A) 3-PHASE	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Recommended Tariffs**	**Recommended % Increase**	**Analysis and Key Findings**
Energy charge: c/kWh	*242.71*	*10.3%*	*267.71*	*267.71*	*10.3%*	A uniform 10.3% recommended increase is applied across the tariff components (energy, basic and demand charges).
Basic charge: R/month	*3,982.59*	*10.3%*	*4,392.80*	*4,392.80*	*10.3%*	
Demand charge (R/kVA) NDC	*166.23*	*10.3%*	*183.36*	*183.36*	*10.3%*	
Demand charge (R/kVA)- MD	*149.19*	*10.3%*	*164.56*	*164.56*	*10.3%*	

3.2. INDUSTRIAL - HT (<80 A) 3-PHASE	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariff	Recommended % Increase	Analysis and Key Findings
Energy charge: c/kWh	*235.51*	*10.3%*	*259.77*	*259.77*	*10.3%*	The recommended 10.3% adjustment is applied consistently to energy, basic and demand charges. This is aligned with COS outcomes.
Basic charge: R/month	*5,564.89*	*10.3%*	*6,138,07*	*6,138.07*	*10.3%*	
Demand charge (R/kVA) NDC	*166.35*	*10.3%*	*183.48*	*183.48*	*10.3%*	
Demand charge (R/kVA) - MD	*142.96*	*10.3%*	*157.68*	*157.68*	*10.3%*	

Industrial TOU-LT	**2025/26 Approved Tariffs**	**2026/27 Proposed % increase**	**2026/27 Proposed Tariffs**	**2026/27 Recommended Tariff**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month)	*4,066.81*	*10.3%*	*4,485.69*	*4,485.69*	*10.3%*	The recommended 10.3% is applied across fixed charges and TOU energy rates (peak/standard/off-peak) and reactive energy.
Demand charge (R/kVA)						
Network demand (R/kVA)	*120.46*	*10.3%*	*132.86*	*132.86*	*10.3%*	
Network access (R/kVA)	*104.89*	*10.3%*	*115.70*	*115.70*	*10.3%*	
Low Season						
Peak (c/kWh)	*380.11*	*10.3%*	*419.26*	*419.26*	*10.3%*	
Standard(c/kWh)	*270.40*	*10.3%*	*298.25*	*298.25*	*10.3%*	
Off-Peak(c/kWh)	*182.01*	*10.3%*	*200.76*	*200.76*	*10.3%*	
High Season						
Peak (c/kWh)	*889.93*	*10.3%*	*981.48*	*981.48*	*10.3%*	
Standard(c/kWh)	*354.98*	*10.3%*	*391.54*	*391.54*	*10.3%*	
Off-peak(c/kWh)	*205.80*	*10.3%*	*226.99*	*226.99*	*10.3%*	
Reactive energy(c/kVArh)	*48.54*	*10.3%*	*53.54*	*53.54*	*10.3%*	

Industrial TOU-HT	**2025/26 Approved Tariffs**	**2026/27 Proposed % increase**	**2026/27 Proposed Tariffs**	**2026/27 Recommended Tariffs**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month)	*5,684.48*	*10.3%*	*6,269.98*	*6,269.98*	*10.3%*	The recommended 10.3% increase is applied across fixed charges, TOU energy rates and reactive energy in line with the COS outcome.
Demand charge (R/kVA)						
Network demand (R/kVA)	*112.63*	*10.3%*	*124.23*	*124.23*	*10.3%*	
Network access(R/kVA)	*102.13*	*10.3%*	*112.65*	*112.65*	*10.3%*	
Low Season						
Peak *(*c/kWh)	*361.10*	*10.3%*	*398.30*	*398.30*	*10.3%*	
Standard *(*c/kWh)	*256.98*	*10.3%*	*283.45*	*283.45*	*10.3%*	
Off-peak *(*c/kWh)	*172.99*	*10.3%*	*190.80*	*190.80*	*10.3%*	
High Season						
Peak *(*c/kWh)	*850.89*	*10.3%*	*938.54*	*938.54*	*10.3%*	
Standard *(*c/kWh)	*337.33*	*10.3%*	*372.07*	*372.07*	*10.3%*	
Off-peak *(*c/kWh)	*195.63*	*10.3%*	*215.78*	*215.78*	*10.3%*	
Reactive energy (c/kVArh)	*46.23*	*10.3%*	*50.99*	*50.99*	*10.3%*	

Very Large Power Use	**2025/26 Approved Tariffs**	**2026/27 Proposed % Increase**	**2026/27 Proposed Tariffs**	**2026/27 Recommended Tariffs**	**Recommended % Increase**	**Analysis and Key Findings**
Basic charge (R/month)	*313,749.11*	*10.3%*	*34, 065.27*	*346,065.27*	*10.3%*	The recommended 10.3% adjustment is applied to all components of the tariff.
Demand charge (R/kVA)						
Network demand (R/kVA)	*77.63*	*10.3%*	*85.63*	*85.63*	*10.3%*	
Network access (R/kVA)	*61.62*	*10.3%*	*67.97*	*67.97*	*10.3%*	
Low Season						
Peak *(*c/kWh)	*281.61*	*10.3%*	*310.62*	*310.62*	*10.3%*	
Standard *(*c/kWh)	*200.34*	*10.3%*	*220.98*	*220.98*	*10.3%*	
Off-peak *(*c/kWh)	*134.72*	*10.3%*	*148.60*	*148.60*	*10.3%*	
High Season						
Peak *(*c/kWh)	*820.03*	*10.3%*	*90.,49*	*904.49*	*10.3%*	
Standard *(*c/kWh)	*262.99*	*10.3%*	*290.08*	*290.08*	*10.3%*	
Off-Peak *(*c/kWh)	*152.35*	*10.3%*	*168.04*	*168.04*	*10.3%*	
Reactive Energy (c/kVArh)	*35.89*	*10.3%*	*39.59*	*39.59*	*10.3%*	

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. The Energy Regulator, having considered the City of Mbombela Local Municipality's application, supporting information, and applicable legal framework, approves the tariff adjustments as set out in the Reasons for Decision document.

End.