NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

by

City of Umhlathuze Municipality

THE DECISION

At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered the Alfred Duma 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) the decision is set out on the tariff analysis section 8 of the RFD
Based on the information submitted and the analysis conducted, the REC decided to:

1. approve the tariffs that are based on the Cost of Supply (COS) report as recommended in the tariff analysis section for implementation by the licensee with effect from 1 July 2026;
2. to note the COS report submitted by the licensee;
3. that the licensee 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 30 September 2026; and
4. that the municipality must submit specific, measurable, achievable, realistic and time-bound (SMART) energy loss reduction progress reports quarterly for NERSA to monitor implementation thereof.

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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 anually, in accordance with its mandate 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. uMhlathuze is situated in Kwa-Zulu Natal Province. The Municipality's customer base is predominantly manufacturing, with this category accounting for 63.16% of the total electricity sales, followed by domestic customers at 20.21%.uMmhlathuze provides qualifying indigent customers with 50 kWh of Free Basic Electricity (FBE) per month and has indicated that it maintains an indigent register. Details of the Municipality's customer statistics are set out in **Error! Reference source not found.** below:

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

CUSTOMER STATISTICS			
Consumer classification	Sales (MWh)	%MWh	Number of consumers
Domestic (Pre-paid)	166 868	18,53%	30 812
Domestic (Conventional)	15 083	1,68%	719
Commercial (Pre-paid)	11 755	1,31%	1 261
Commercial (Converntional)	113 500	12,61%	1 465
Manufacturing/Industrial	568 657	63,16%	74
Street lighting, Own use and Other municipal department	24 441	2,71%	
Totals	900 304	100%	34 331
Free Basic Electricity	560	0,31%	935

1.3. NERSA received uMhlathuze's tariff application on 31 March 2026. The application is based on an existing COS study, valid from the 2022/23 to 2027/28 financial years.

1.4. uMhlathuze implemented an average price increase of 11.32% in the 2025/26 financial year and is applying for an average price increase of 7.22% for the 2026/27 financial year.

1.5. The Municipality's tariffs were approved by council and stakeholder consultation took place from 9 April 2026.

1.6. NERSA followed its own public consultation process and published uMhlathuze's tariff application on the NERSA website on 31 March 2026, and on its various social media platforms and national, as well as local newspapers to solicit written comments from affected parties by 21 April 2026.

1.7. 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 was established as a juristic person in terms of section 3 of the NERA. In terms of section 4 of the NERA, the Energy Regulator as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by the ERA. Section 3 of the ERA particularly provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and exercises regulatory authority over activities regulated under the ERA.

2.2.2. In particular:

a) Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licensees 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.
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 COS methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 therefore 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 the Energy Regulator.

2.7. Judicial Oversight of the Tariff Approval Process

2.7.1. The municipal tariff approval process administered by NERSA was the subject of litigation in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620) before the High Court of South Africa, Gauteng Division, Pretoria.

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to the 2025/26 municipal tariff approvals did not comply with the procedural requirements of section 4 of PAJA and was therefore unlawful.

2.7.3. However, recognising the potentially disruptive consequences of setting aside tariff determinations already implemented by municipalities, the Court declined to invalidate the tariffs. Instead to assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

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

2.8. Court-directed Timelines

2.8.1. The 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 set out 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 uMhlathuze , the assesment 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 audited Annual Financial Statements (AFS). As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

3.2. uMhlathuze's electricity business operated at a percentage surplus margin of 11.93%[1] in the 2024/25 financial year, a nominal growth from 10.01% in the 2023/24 financial year. The upturn in surplus margin is primarily attributed to the licensee's robust revenue growth at 19.58%, coupled with a 12.21% increase in the Municipality's credit collection rate, both indicators which offset total expenditure escalations at 18.63% during the reporting period. Substantial growth in *other income* revenue streams also played a positive role in closing cost pressure gaps that face the Municipality. Nonetheless, this position is still considered sustainable in the shor- term.

3.3. Table 3 below shows that uMhlatuze's energy losses have improved from 7.53% in the 2023/24 financial year to 7.44% in the 2024/25 financial year. The Municipality's percentage surplus for the 2024/25 financial year was 8.47%.

Table 2: Performance Indicators

Outputs:	2024/25	2023/24
Percentage Surplus	8,47%	11,07%
Percentage Energy Losses:	7,44	7,53

3.4. Based on the above information, uMhlathuze's electricity business demonstrated a strong and improving financial and operational performance during the 2024/25 financial year.

[1] Percentage Surplus Formula = (Revenue from Electricity Sales Less Total Expenditure) divided by Revenue from Electricity Sales

4. Determination Umhlathuze's Tariffs Based on the Cost of Supply Adjusted Data

4.1. The Municipality submitted its existing COS study in support of its tariff application approved in the 2026/27 financial year. The Municipality's COS study was inclusive of all requirements of NERSA's approved COS framework (i.e. Revenue Requirement, Costs Functionalisation, Costs Classification, Costs Allocation and Rate Setting).

4.2. Policy position 23 states that, '*Electricity distributors shall undertake COS studies at least every five years, but at least when significant licensee structure changes occur, such as in customer base, relationships between cost components and sales volumes. This must be done according to the approved NERSA standard to reflect changing costs and customer behaviour. The cost-of-service methodology used to derive tariffs must accompany applications to the regulator for changes to tariff structures'.'*

4.3. Section 18.7 of the October 2023 NERSA-approved COS 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 accordningly.

4.4. In line with section 18.7 mentioned above, Table 4 below was developed, and the definitions of the columns are as follows:

i. Column 1: represents the budgeted FY2024/25 costs submitted by the licensee as part of the Cost of Supply revenue requirement and approved for tariff determination in FY2024/25.

ii. Column 2: reflects the actual FY2024/25 financial performance of the licensee, sourced from the D-Forms and aligned to the audited annual financial statements.

iii. Column 3.1: indicates the variance between the FY2024/25 approved budgeted figures and the audited actual values, whereas

iv. Column 3.2: expresses the same variance in percentage terms. A positive variance indicates that actual expenditure exceeded the approved budget, while a negative variance indicates underspending relative to budget. In the latter case, a clawback may be applicable, whereas in the former case a disbursement may be considered, subject to regulatory assessment.

v. Column 4: reflects the FY2025/26 revenue and electricity volume figures used as the baseline for determining FY2026/27 tariffs (since at the time of the approval, the figures were estimates) when the Regulator considered and approved the 2026/27 cost of supply base tariffs. Once the 2025/26 financial year concludes, the actual figures will be verified against audited annual financial statements.

vi. Column 5: contains the licensee's submitted FY2026/27 budgeted figures, which are subject to reasonableness testing for purposes of tariff determination for the control period under review.

vii. Clumn 6: shows the percentage movement between FY2025/26 baseline figures and the FY2026/27 budgeted amounts and forms the primary basis for proposed tariff adjustments for FY2026/27.

viii. Column 7: is intended for NERSA's recommended adjustments after considering the reasons, facts, and evidence that the licensee has provided to motivate/justify for approval of the budgeted figures.

ix. Column 8: is intended to capture NERSA's recommended adjustments after considering the reasons, facts, and supporting evidence submitted by the licensee in support of the requested budget figures for the FY2026/27.

4.5. The COS study is valid for five years; however, the Municipality needs to reflect the adjustments on their cost drivers for each financial year under the existing COS (i.e. 2026/27 financial year). NERSA utilised the budgeted figures to verify efficiencies and to ensure that municipalities do not over-/under-recover their operating overheads during the FY2026/27 tariff review process.

4.6. In determining the tariff adjustment applicable for the 2026/27 financial year, the licensee submitted its 2026/27 financial year cost data, comprising budgeted operating costs plus surplus, as required by NERSA. The total budgeted revenue requirement submitted amounts to R2 751 720 078 for the 2026/27 financial year tariff review process, with no energy loss adjustment applicable. This results in a 12.84% escalation in allowable revenue for the 2026/27 financial year relative to the previous financial period.

Table 3: Revenue Requirement Components

Cost drivers		Actual FY 2024/25 Costs	FY2025/26 Tariffs Costs per submitted COS	FY2026/27 budgeted Costs as per the Licensee
Energy purchases from Eskom	Rand	1 789 107 562	2 034 473 900	2 185 665 700
other energy purchases		5 566 707	-	-
total energy purchases		1 794 674 269	2 034 473 900	2 185 665 700
Cost of technical losses	Rand	29 945 785	31 143 616	31 766 489
Non-Technical Losses		96 497 935	101 322 832	104 362 517
Other energy purchases	Rand	43 150 692		26 829 811
Operational expenditure (incl. Deprec	**Rand**	**361 241 509**	**330 858 000**	**491 617 972**
General & Other		226 012 733	117 526 000	217 118 724
Salaries and allowances	Rand	50 575 126	52 304 500	55 132 405
Materials and supplies	Rand	28 048 412	15 271 200	22 384 500
Contracted Services	Rand	29 690 195	16 836 700	37 140 600
Salaries, wages and allowances (exclu. Repairs and	Rand	28 287 497		29 701 872
Payments to consultants (operational work)	Rand			
Eskom debts interest	Rand			
Current year depreciation	Rand	27 290 882	23 320 500	31 289 105
other general expenditure	Rand	62 120 621	9 793 100	72 759 347
Shared OPEX	Rand	135 228 775	213 332 000	274 499 248
Bad debts (Allowance for Impairment)	Rand	800 000	132 382 500	139 478 200
FBE paid to Eskom	Rand			2 499 300
Charges from other Municipal Departments	Rand			25 715 100
General expenses		134 428 775	80 949 500	106 806 648
1.Security	Rand	7 823 402	7 598 800	7 750 776
2. Office Rental	Rand	4 080 100	3 555 700	4 232 900
3.Other Expenses	Rand	62 120 621	9 793 100	31 182 577
4. Interest	Rand	60 404 652	60 001 900	63 640 395
Total Expediture before surplus		2 185 861 563	2 497 798 349	2 813 412 678
Surplus	Rand			
Total Expenditure Including Surplus		2 185 861 563	2 497 798 349	2 813 412 678
Other revenues	Rand	-16 718 304	-59 127 900	-61 692 600
Total Allowable Revenus	**Rand**	**2 169 143 258**	**2 438 670 449**	**2 751 720 078**
increase required				***12.84%***

4.7. 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.

4.8. Furthermore, NERSA has verified all expense items included in the revenue requirements to ensure that they relate only to the electricity function of the licensee. In instances where expenses are deemed inflated or unjustified, these have been adjusted accordingly and expanded on below.

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