NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

by

Mandeni Local Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered the Mandeni 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 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 January 2027; and

4. that the municipality must submit a quarterly progress report on efficiency improvement measures taken to reduce high energy losses and deficit for NERSA to monitor the implementation thereof by 30 September 2026.

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ABBREVIATIONS AND 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
MLM	Mandeni 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 its mandate to regulate prices and tariffs. Municipal tariffs must be approved by NERSA to be implemented on 1 July of each financial year.

1.2. NERSA received Mandeni Local Municipality's tariff application together with its Cost of Supply (COS) study on 31 March 2026. The municipality revised the COS because of changes in Eskom tariffs.

1.3. The table below shows Mandeni's customer statistics for the 2024/25 financial year. Data obtained from the latest Distribution forms (D-forms).

Table 1: Customer Statistics

CUSTOMER STATISTICS			
Consumer classification	Sales (MWh)	%MWh	Number of consumers
Domestic (Prepaid)	4 758	17,90%	879
Domestic (Converntional)	1 605	6,04%	58
Commercia(Converntional)	885	3,33%	32
Other Consumers	19 269	72,48%	1
Street lighting, Own Use and other departments	70	0,26%	N/A
Totals	26 587	100%	970

1.4. NERSA followed the notice and comment consultation process as well as oral presentations. Mandeni's tariff application was published on the NERSA website and on social media platforms, as well as in local and national newspapers on 31 March 2026 to solicit written comments from affected parties.

1.5. NERSA's decision was made on 30 April 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 NERSA and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ('NERA'), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended ('ERA'), the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000) ('PAJA'), and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 ('EPP').

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually in order to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

2.1.3. In addition, the municipal tariff approval process has recently been the subject of judicial scrutiny in the High Court of South Africa (Gauteng Division, Pretoria) in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620), which resulted in structural directives governing the timing and conduct of NERSA's tariff approval process.

2.1.4. This section provides the legal and policy context within which the Energy Regulator evaluated and determined the municipal electricity tariff application for the 2026/27 municipal financial year.

2.2. NERSA's Statutory Mandate

2.2.1. NERSA is established as a juristic person in terms of section 3 of the NERA. In terms of section 4 of NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and perform 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 licences and may issue licences subject to conditions;
b) section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs; and
c) section 14(1)(d) of the ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

2.2.3. Municipalities distributing electricity do so under electricity distribution licences issued by the Energy Regulator and are therefore subject to the tariff approval framework established under the ERA.

2.3. Tariff Determination Principles under the ERA

2.3.1. When determining or approving electricity tariffs, the Energy Regulator must apply the principles contained in section 15(1) of the ERA.

2.3.2. Section 15(1) provides that the Energy Regulator:

a) must enable an efficient licensee to recover the full cost of the licensed activity;
b) must allow for a reasonable return commensurate with the risk of the licensed activity;
c) may provide incentives for continued improvement of technical and economic efficiency;
d) must avoid undue discrimination between customer categories;
e) may permit cross-subsidies of tariffs to certain classes of customers; and
f) may have regard to the need to ensure security of supply, diversity of supply and the promotion of renewable energy.

2.3.3. These statutory requirements form the core legal principles guiding the determination of electricity tariffs within the South African electricity supply industry.

2.4. Administrative Law Requirements

2.4.1. The approval of municipal electricity tariffs constitutes administrative action as defined in section 1 of the PAJA. Accordingly, the Energy Regulator must ensure that its tariff determinations are lawful, reasonable and procedurally fair as required by sections 3 and 6 of PAJA. Procedural fairness requires that affected parties and the public be afforded a reasonable opportunity to make representations before a final decision is taken.

2.4.2. Public participation processes conducted by the Energy Regulator therefore form an essential component of the municipal tariff approval process and are intended to ensure transparency, accountability and fairness in regulatory decision-making.

2.5. Policy Framework: Electricity Pricing Policy (2008)

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

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

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

2.6. Cost of Supply Studies

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

2.6.2. Paragraph 8.1 of the EPP notes that 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 NERSA-approved methodology 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 2025/2026 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 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 following timelines 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 must be submitted by 31 March 2026
c) Public participation processes must 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 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 tariff approvals and the Tariff Reasons for Decision Document 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 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 Mandeni, the assessment relied on the 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. Mandeni's percentage surplus deteriorated from 9.45% in the 2023/24 financial year to a deficit of 3.35% in the 2024/25 financial year. The decline in financial performance is mainly attributed to bad debts and interest on Eskom debt.

3.3. Table 3 below shows that Mandeni's energy losses are reasonable at 5%. The municipality indicated that this is because 70% of their energy purchased from Eskom is sold to a large power user (Umgeni Water[1]) and it is supplied at a high voltage.

Table 2: Performance Indicators

Indicators	2023/24	2024/25
Percentage Deficit/Surplus	9.45%	-3.35%
Percentage Energy Losses	4.00%	5.00%

3.4. Based on the above information provided by the municipality from the D-forms, Mandeni's performance is not satisfactory as evidenced by the shift from a surplus to a deficit.

4. DETERMINATION OF MANDENI LOCAL MUNICIPALITY'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The process followed in considering and approving Mandeni's tariff application was supported by a COS study.

4.2. Mandeni 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's class in a fair and equitable manner. The study follows the NERSA COS Framework and utilises the latest available audited data, which is based on the 2024/25 financial year.

4.3. Figure 1 below details the five steps considered in the determination of the COS study.

[1] Umgeni Water is a state-owned entity involved in water management and is the largest supplier of bulk potable water in the province of KwaZulu-Natal

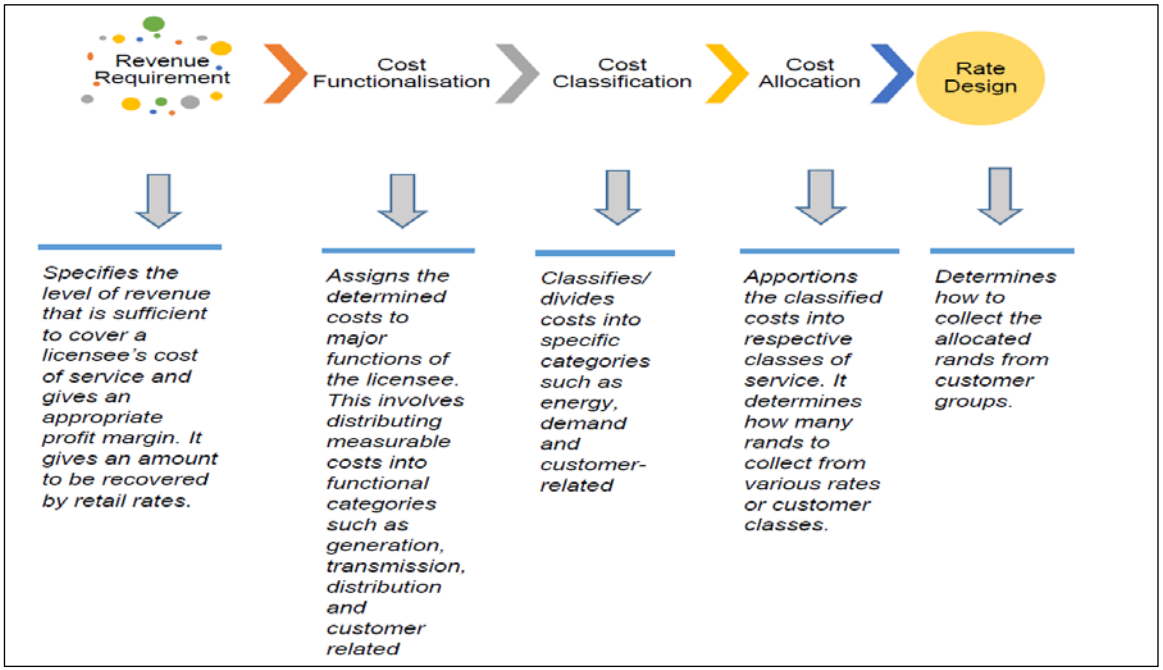


Figure 1: Five Steps of COS

4.4. The following steps are undertaken to analyse the COS study.

4.4.1. **Revenue Requirement**

4.4.1.1. The revenue requirement step specifies the level of revenue that is sufficient to cover a licensee's cost of service and appropriate margin. It indicates the amount to be recovered from the approved tariffs.

4.4.1.2. Mandeni submitted a COS study detailing a revenue requirement of R128.092 million for the 2026/27 financial year. This revenue requirement is predominantly Eskom purchases, accounting for 67%, while operational expenditure accounts for 16%.

Table 3*:* Revenue Requirement Components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	26 771 711	101 320 720	128 092 430	100%
Energy purchases from Eskom - net of cost of losses	-	85 930 366	85 930 366	67%
Energy purchases from Eskom - cost of losses	11 858 428	-	11 858 428	9%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	12 639 253	7 982 270	20 621 523	16%
Other revenues	- 159 762	- 1 802 891	- 1 962 654	-2%
Surplus	2 433 792	9 210 975	11 644 766	9%
Not allowable costs	1 031 437	-	1 031 437	
Cost of losses disallowed	1 031 437	-	1 031 437	
TOTAL COSTS	**27 803 148**	**101 320 720**	**129 123 867**	
	22%	78%		

4.4.1.3. The efficiency of costs for the 2024/25 financial year has been assessed, as this constitutes the most recent set of actual data. This assessment serves as the baseline for projecting costs for the 2026/27 financial year, applying stated assumptions to determine the revenue requirement for that period.

4.4.1.4. 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

4.4.1.5. Mandeni's COS projects a bulk purchase expenditure of R87.7 million, which accounts for 76% of total costs when including the 12% energy losses allowance. Bulk purchases were verified against Eskom invoices in the 2024/25 financial year.

4.4.1.6. The licensee projected its bulk purchases for the 2026/27 financial year using the 2025/26 financial year Eskom tariffs as a base and made the following assumptions: sales growth of 0%, and a bulk purchase cost increase of 9.01% for the 2026/27 financial year, which is in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

Operational Expenditure

4.4.1.7. Mandeni's COS projects operational expenditure totalling R20 million, representing 16% of overall costs. Table 4 below provides a breakdown of this expenditure.

Table 4: Operational Expenditure[2]

Funtions	**Total**
Depreciation	1 108 876.00
R&M	4 762 657.00
Other expenses	14 696 536.00
Total	**20 568 069.00**

4.4.1.8. Depreciation for the 2024/25 financial year aligns with the licensee's asset register.

4.4.1.9. 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 control of the municipality.

[2] COS tool Comm & Fin Forecasts. (Year 2)

4.4.1.10. All the other licensee expenses have been grouped under ‘Other expenses’. This includes bad debts that have been tested to ensure that they are below the NERSA 5% threshold, the other operating expenses, including charges from other municipal departments, which have been checked to ensure that they relate only to the electricity function. Furthermore, all these expenses have been projected to grow in line with inflation.

Surplus

4.4.1.11. Mandeni’s revenue requirement includes an R11.6 million surplus, calculated using a surplus factor of 9% applied to operating expenditure, inclusive of bulk purchases, for both the wires and retail components of the electricity business.

4.4.1.12. In recommending a surplus, NERSA relied on section 15(1)(a) of the Electricity Regulation Act under the tariff principles which specify that the tariffs set by the Regulator: ‘must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return’.

4.4.1.13. In applying the ERA, NERSA is required to ensure that Mandeni recovers efficient costs and a reasonable return, while preventing excessive compensation. The return proposed by Mandeni is considered reasonable, as it falls within the established target range of 10–20%. Consequently, the requested amount has been recommended as applied for.

4.4.1.14. The recommended revenue requirement will be applied in the subsequent COS steps, namely Cost Functionalisation, Cost Classification, Cost Allocation and Rate Setting. These steps have been verified and confirmed to align with the approved revenue requirement. Further details on these steps are provided below.

4.4.2. Cost Functionalisation

4.4.2.1. The licensee has categorised its revenue requirement of R128.1 million into two primary functional components, namely the wires business (22%) and the retail business (78%), in accordance with the NERSA COS Framework, as illustrated in Figure 2 below. On verification, the allocation of costs to these functional components is consistent with the stated revenue requirement.

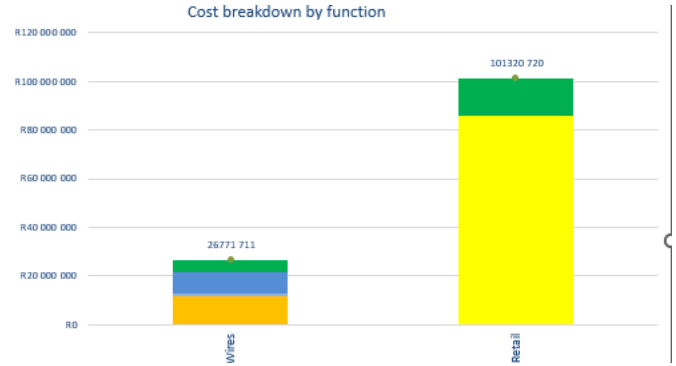


Figure 2*:* Cost Breakdown by Functions

4.4.2.2. These costs, on verification, are consistent with the approved revenue requirements. 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.

4.4.3. Cost Classification

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

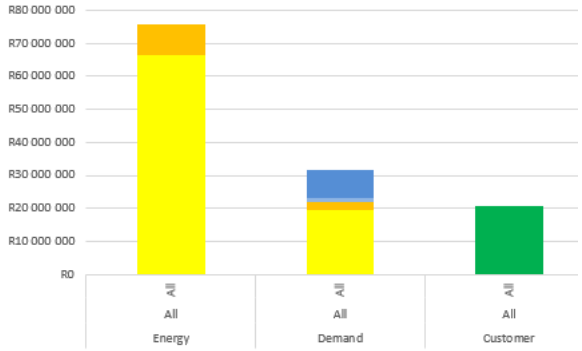


Figure 3*:* Cost Breakdown by Cost Structure (Classification*)*

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

4.4.4. Cost Allocation

4.4.4.1. In this step, the licensee’s revenue requirement is allocated across customer categories, in accordance with the NERSA COS Framework. On verification, the allocation is consistent with the stated revenue requirement and aligned with the principles of cost allocation.

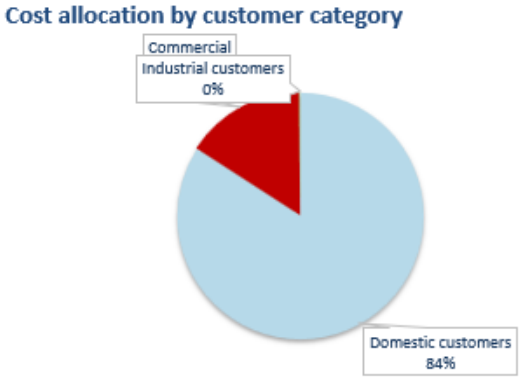


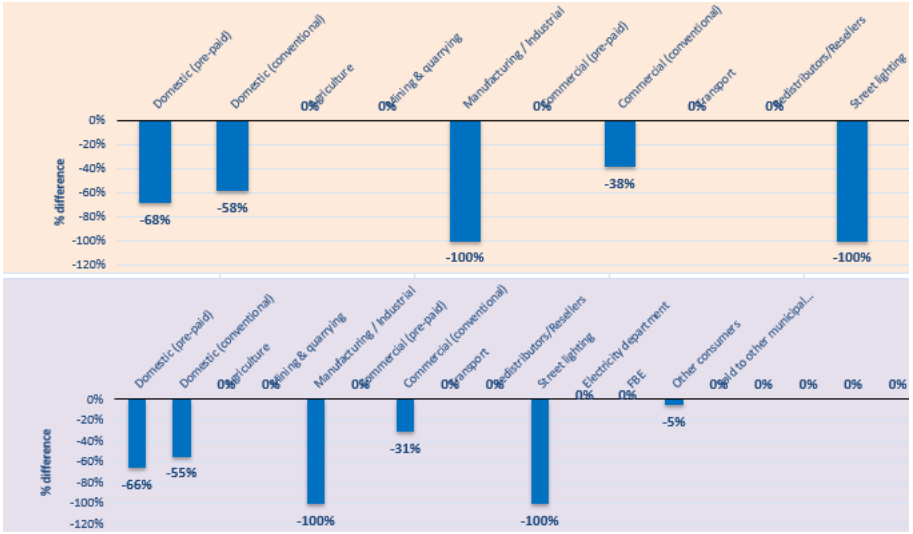
Figure 4: Costs Allocated

4.4.5. Rate Design

4.4.5.1. Figure 4 above reflects the outcome of the COS study, indicating that certain customer categories require upward adjustments, while others warrant decreases. A comparison between the cost of supply and the revenue generated per tariff category highlights the extent of over- or under-recovery within each category, as illustrated in figure 4 above.

4.4.5.2. 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



5. CONCLUSION ON THE COS

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 take into account its ability to meet financial obligations, including payments to Eskom, as well as 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 61.7% to reach the overall cost-reflectivity, as illustrated in Figure 5 below. The licensee has proposed an average increase of 14.30%. For customer protection and municipal sustainability, it is recommended that the tariffs be limited to a 10.5% average increase as per the COS study. Based on the available information, the municipality is expected to remain financially sustainable under the recommended 10.5% tariff increase.

5.7. The outcome of the COS study indicates that the municipality requires a tariff increase of 61.7% to achieve efficient cost reflectivity, as shown in Figure 5 below.

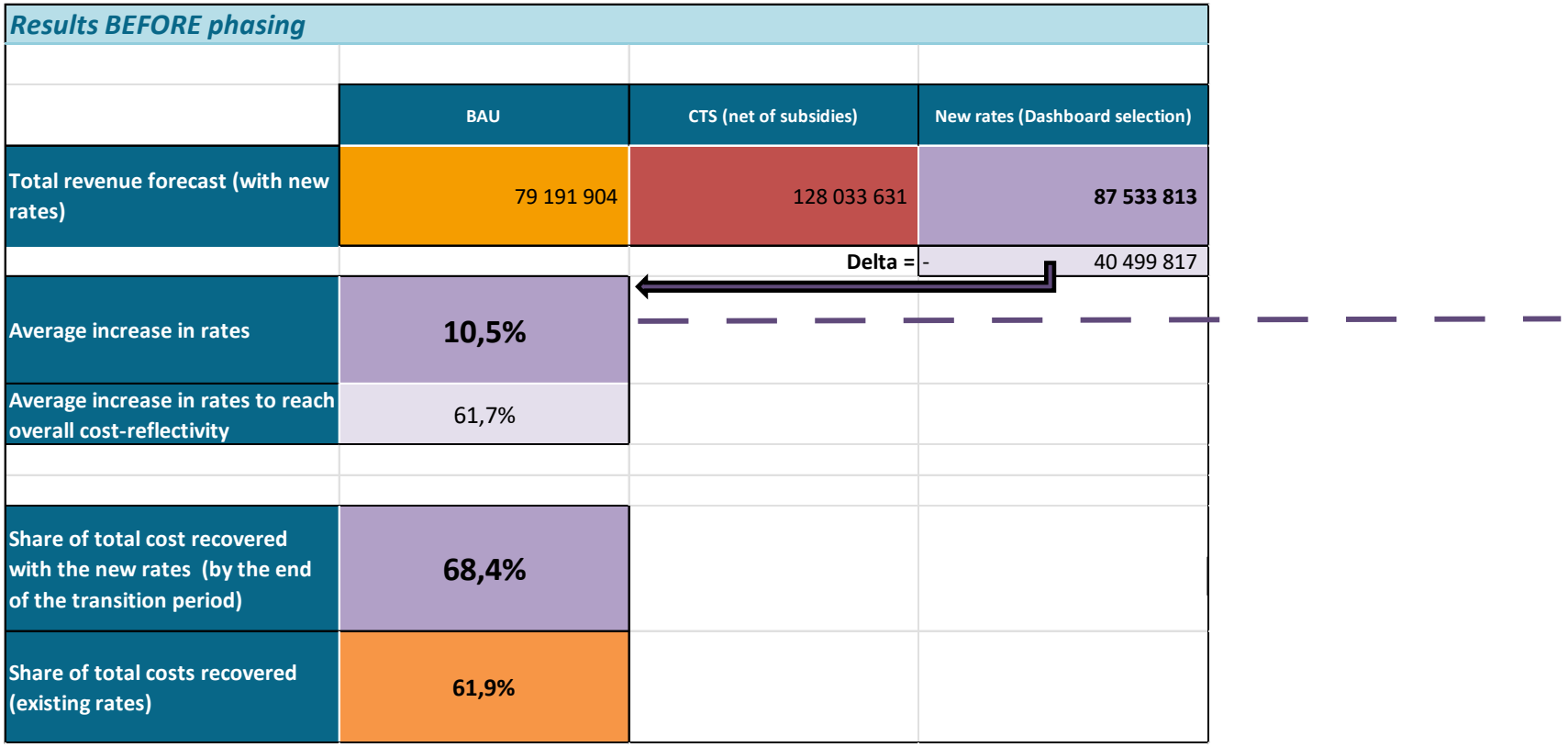


Figure 6: Rate Design Dashboard

5.8. The licensee has applied for a 14.3% tariff increase, which is below the increase required for full cost reflectivity. NERSA perofmed an analysis and agreed with the municipality to recommend an average increase of 10.50% in line with the COS study for customer protection and municipal sustainability. NERSA's analysis indicates that the 10.50% increase is sustainable for Mandeni Local Municipality.

5.9. While the COS study outcome reflected an average tariff increase of 61.7% for the licensee to achieve full cost reflectivity, the municipality adopted a phased-in approach to implement tariff increases below the COS outcomes. Some considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to drive demand for its electricity services.

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Commercial Conventional Single-Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis And Key Findings***
Basic Charge (R/month)	*700.18*	*14.30%*	*800.30*	*773.70*	*10.50%*	*Tariffs be limited to 10.5% for customer protection*
Energy Charge (c/Kwh)	*328.48*	*14.30%*	*375.45*	*362.97*	*10.50%*	

Commercial Prepaid	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key Findings***
Energy Charge (c/Kwh)	*418.73*	*14.30%*	*478.61*	*462,70*	*10.50%*	*Tariffs be limited to 10.5% for customer protection*

Industrial Low Voltage	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	*2 310.17*	*14.40%*	*2 640.53*	*2 552.74*	*10.50%*	*Tariffs be limited to 10.5% for customer protection*
Energy Charge (c/Kwh)	*80.20*	*14.30%*	*91.67*	*88.62*	*10.50%*	
Demand Charge (R/kVA)	*516.54*	*14.30%*	*590.40*	*570.78*	*10.50%*	

Industrial Large Power User	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge (R/month)	*2 446.60*	*14.40%*	*2 796.46*	*2 703.49*	*10.50%*	*Tariffs be limited to 10.5% for customer protection*
Energy Charge (c/Kwh)	*158.23*	*14.30%*	*180.86*	*174.84*	*10.50%*	
Demand Charge (R/kVA)	*516.16*	*14.30%*	*590.05*	*570.36*	*10.50%*	

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

10.1. From a conspectus of the facts and evidence presented to the REC, it is appropriate to consider the review of Mandeni Local Municipality's tariff application for the 2026/27 financial year.

10.2. All tariffs will be limited to 10.5% as per the COS study for customer protection and municipal sustainability.

End.