NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Joe Morolong Local Municipality

THE DECISION

1. At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered the Joe Morolong Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year, as set out in the tariff analysis section of this document.

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

    2.1. to approve the tariffs that are based on the cost drivers, as recommended in the tariff analysis section, for implementation by the municipality with effect from 1 July 2026;
    2.2. to note the cost information submitted by the municipality;
    2.3. that the municipality must submit a report accounting for all the costs noted in its cost drivers to enable the National Energy Regulator of South Africa to perform its independent verification or audit process by 31 January 2027; and
    2.4. that the licensee must submit a quarterly smart efficiency plan with improvement measures identified for reducing high energy losses and submit it 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
JMLM	Joe Morolong 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), in accordance with its statutory mandate, regulates electricity prices and tariffs and assesses tariff applications submitted by licensees on an annual basis. As part of this process, municipal electricity tariffs must be approved by the Energy Regulator prior to implementation, which typically takes effect on 1 July of each financial year.

1.2. The Joe Morolong Local Municipality (Joe Morolong or JMLM) is located in the Northern Cape and has a total of 419 customers. The domestic customer category accounts for 60% of total electricity sales, followed by commercial customers at 40%. This indicates that, while domestic customers constitute the largest share of electricity sales, commercial customers also make a significant contribution and remain an important customer category within the licensee's overall sales structure as reflected in **Error! Reference source not found.** below.

Table 1: Customer statistics (data obtained from the latest D-forms – 2024/25 FY)

Customer categories	***MWh***	***% MWh***	***Customer numbers***
Domestic(Prepaid)	2 366	60%	390
Commercial	1 589	40%	29
TOTAL	3 955	100%	419

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

1.4. The municipality implemented an average price increase of 11.40% in the 2025/26 financial year and is applying for an average price increase of 10.00% for the 2026/27 financial year.

1.5. NERSA followed the notice and comment consultation process. JMLM'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. The Energy Regulator's decision was made on 6 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 electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) (NERA), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended ('the ERA'), the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000) (PAJA) and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 (EPP).

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

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

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

2.2. NERSA's Statutory Mandate

2.2.1. NERSA is established as a juristic person in terms of section 3 of 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 primarily governed by the ERA. Section 3 of the ERA provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and is responsible for exercising regulatory authority over all activities regulated in terms of 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. Therefore, public participation processes conducted by the Energy Regulator form an essential component of the municipal tariff approval process and are intended to ensure transparency, accountability and fairness in regulatory decision-making.

2.5. Policy Framework: Electricity Pricing Policy (2008)

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

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

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

2.6. Cost of Supply Studies

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

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

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

2.6.4. Such studies must be conducted in accordance with the methodology approved by NERSA and must accompany tariff structure applications submitted to 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 seeking to vary the timelines set by the Court on 4 December 2025, in light of practical difficulties that arose in relation to NERSA's compliance with the Court order. The Court, having heard NERSA's application, granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines below are applicable in respect of the 2026/27 financial year municipal tariff approvals.

a) Written notice of bulk tariffs must be communicated by 6 March 2026.
b) Municipal tariff applications must be submitted by 31 March 2026.
c) Public participation processes must be concluded by 21 April 2026.
d) NERSA decisions must be published by 11 May 2026.

2.8.2. Municipal tariff approvals from the 2027/28 financial year must comply with the following timelines:

a) Written notice of bulk electricity tariffs must be communicated by 31 January each year.
b) Municipal tariff applications must be submitted to NERSA by 20 March each year.
c) Municipal tariffs and the tariff reasons for decision documents must be approved and published by 5 May of each year.

2.9. **Conclusion**

2.9.1. The determination of municipal electricity tariffs by the Energy Regulator must 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. Level of Reliability of Information

3.1.1 In evaluating the financial and technical performance of JMLM, the assessment was based on the 2024/25 Distribution forms (D-forms) submitted with the tariff application. The data was verified against supporting documents, including the trial balance and annual financial statements, and is therefore considered reliable for tariff analysis purposes.

3.1.2 **Error! Reference source not found.** below shows JMLM's technical and financial performance.

Table 2: Performance indicators

Performance Indicators: obtained from D-Form		
Performance indicators	***2024/25***	***2023/24***
*Percentage surplus/(Deficit): **(%)***	-32,52	-54,49
*Energy Losses: (**%)***	44,37	54,37

3.2. Percentage Surplus

3.2.1. The municipality operated at a deficit of 32.52% in the 2024/25 financial year, improving from 54,49% in 2023/24, reflecting a strengthening in the financial position of the electricity business. However, the municipality remained in a deficit position, indicating that revenue was still insufficient to fully cover operating costs. NERSA notes that this is primarily due to expenditure outpacing revenue growth, which continues to place pressure on the financial performance of the electricity business.

3.3. Energy Losses

3.3.1. The energy losses have reduced to 44.37% in the 204/25 financial year from 54.37% in the 2023/24 financial year. This improvement indicates enhanced management and control of both technical and non-technical losses within the electricity network.

3.3.2. Table 3 below reflects the revenue impact analysis under two energy loss scenarios, namely:

i. the actual losses of 44.38%, representing the current operating position; and
ii. a reduced loss level of 12%, reflecting an efficient and regulatory aligned scenario, for assessment purposes.

Table 3: Assessment of energy losses and revenue impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	207,66		
Sales kWh	3 955 118,00	6 257 540,96	6 684 191,48
Purchases kWh	7 110 842,00	7 110 842,00	7 110 842,00
Losses kWh	3 155 724,00	853 301,04	426 650,52
Losses percentage	**44,38%**	**12,00%**	**6,00%**
Additional Energy (kWh)		2 302 422,96	2 729 073,48
Additional Revenue (Rands)		4 781 211,52	5 667 193,99
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Net Profit (Loss)	R -4 621 885,00	R 159 326,52	R 1 045 308,99
Percentage Surplus/Deficit	**-32,52%**	**0,84%**	**5,26%**

3.3.3. Under the current scenario of 44.38% losses, the municipality experiences a significant revenue shortfall, which adversely affects its financial sustainability. In the alternative scenario, where losses are reduced to 12%, the financial position improves materially from a deficit of -32.52% to a surplus of 0.84%, with net revenue increasing to approximately R159 326.

3.3.4. In accordance with the cost-plus methodology, only prudent and efficient costs are recognised. The comparison between the two scenarios demonstrates that the current level of losses is inefficient and not supportable for tariff-setting purposes. Accordingly, operational improvements, particularly the reduction of energy losses, are required. Tariff adjustments alone will not restore financial sustainability without the implementation of effective loss-reduction interventions.

3.4. General Conclusion on the Financial and Technical Indicators

3.4.1. In conclusion, the municipality has shown improvement in both its financial performance and energy losses. However, it remains in a deficit position, indicating that revenue is still insufficient to fully cover costs. The municipality should ensure that its tariffs are cost-reflective and aligned with COS principles. Continued efforts to control costs, improve revenue and sustain low energy losses are required to achieve financial sustainability.

4. DETERMINATION OF JMLM'S TARIFFS BASED ON THE COS ADJUSTED DATA

4.1. The licensee submitted its existing COS study, which supports the tariff application that be approved in the 2026/27 financial year. The licensee's COS included all requirements of the NERSA COS Framework (i.e. revenue requirement, cost functionalisation, cost classification, cost allocation and rate setting).

4.2. Policy position 23 states:

> *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 Cost of Supply Framework states:

> *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, Table 4 below was developed, and the definition of the columns is as follows:

i. Column 1 is the actual 2024/25 licensee performance and is sourced from the D-forms that are based on the audited annual statements.
ii. Column 2 is for the 2025/26 revenues and electricity volume that are the base for 2026/27 tariffs.
iii. Column 3 is for the licensee's submitted 2026/27 budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.
iv. Column 4 is for NERSA's recommended adjustments after considering the reasons, facts, and evidence the licensee provided to motivate/justify the budgeted figures.
v. Column 5 is for NERSA's recommended amounts that sum up to the allowable revenues the licensee must recover in FY2026/27.

4.5. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for FY2026/27. NERSA used the budgeted figures submitted by the licensee to assess reasonableness and the licensee's current operational requirements to ensure that

municipalities do not over- or under-recover during the 2026/27 tariff review process.

4.6. To determine an increase applicable for the 2026/27 financial year, the licensee submitted its projected costs as requested by NERSA, with a total required revenue of R14 243 211 for the 2026/27 tariff review. After adjusting, NERSA approved an allowable revenue of R14 049 993.

Table 4: 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	3 955 118	3 994 669	4 082 456	-	4 082 456
Eskom bulk purchases	kWh	7 110 842	7 990 526	8 166 126	-	8 166 126
Total Energy Requirements	kWh	7 110 842	7 990 526	8 166 126		8 166 126
Total Losses	kWh	3 155 724	3 995 857	4 083 670		4 083 670
Technical losses	kWh	853 301	958 863	979 935	-	979 935
Non-technical losses	kWh	-2 302 423	-3 036 994	-3 103 735	-	-3 103 735
Allowed losses	%	12,00%	12,00%	12,00%		12,00%
Total Energy losses	%	44,38%	50,01%	50,01%		50,01%
Cost drivers						
Energy purchases from Eskom	Rand	8 057 090	9 171 144	10 439 238	-	10 439 238
total energy purchases		8 057 090	9 171 144	10 439 238	0	10 439 238
Operational expenditure (incl. Depreciation)	Rand	3 084 912	3 225 916	3 458 157	- 107 043	3 351 114
General & Other	0	2 374 844	2 493 586	2 703 504	-107 043	2 596 461
Salaries and allowances	Rand	777 400	816 270	857 084		857 084
Materials and supplies	Rand	500 000	525 000	544 425	0	544 425
Contracted Services	Rand	800 000	840 000	871 080	0	871 080
Eskom debts interest	Rand			107 043	-107 043	0
Depreciation	Rand	297 444	312 316	323 872	0	323 872
Shared OPEX	Rand	710 068	732 330	754 653	0	754 653
Bad debts (Allowance for Impairment)	Rand	662 068	681 930	702 388	0	702 388
General expenses		48 000	50 400	52 265		52 265
1.General Expense	Rand	48 000	50 400	52 265		52 265
Total Expediture before surplus		11 142 002	12 397 060	13 897 395		13 790 352
Surplus	Rand	308 491	322 592	345 816		259 641
Total Expenditure Including Surplus		11 450 493	12 719 652	14 243 211	0	14 049 993
2. Other Revenue	Rand				-	0
Total Allowable Revenus	Rand	11 450 493	12 719 652	14 243 211	-107 043	14 049 993
increase required				*11,98%*	*10,46%*	

4.7. It is important to test the efficiency and prudency of the costs in the 2025/26 financial year since these are 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.

4.8. 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

4.9. The licensee applied for a bulk purchase expenditure of R10 439 238, which accounts for 74% of total costs, inclusive of the 12% energy loss allowance, in line with the ERA, which requires only the prudently and efficiently incurred costs to be passed through to customers.

4.10. 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).

4.11. NERSA is satisfied that the approach taken by the licensee to forecast bulk purchases is reasonable. As a result, this cost has been recommended for approval as applied for.

Operating Expenditure (Including Depreciation)

4.12. JMLM applied for operational expenditure amounting to R3 458 157, representing 24% of the total costs for the 2026/27 financial year, as reflected in Table 4 above.

4.13. The municipality utilised recent financial data as a basis to project the 2025/26 costs and escalated the 2026/27 costs using assumed cost drivers. NERSA is satisfied that the approach to forecasting operational expenditure is reasonable.

4.14. Notwithstanding the above, NERSA adjusted the cost of interest on Eskom debt from the total cost, as these costs are within the municipality's control and are not recoverable through tariffs. It is recommended that the Energy Regulator approve total operational expenditure of R3 351 114 for the 2026/27 financial year.

Surplus

4.15. The licensee has provided for a surplus of R345 816, representing 2% of the allowable revenue requirement. While the surplus is relatively modest, it provides a prudent operating margin to mitigate financial risks associated with the electricity business, including revenue-collection shortfalls, unexpected increases in operating costs, and infrastructure maintenance requirements. The surplus further enhances the financial resilience of the electricity undertaking and supports its ability to maintain service delivery and network reliability without placing undue reliance on future tariff increases.

4.16. The municipality mentioned risk factors including Illegal connections, vandalised meters, faulty meters, old infrastructure and meter tampering. The municipality has appointed electricians to assist with issues of maintenance.

4.17. Despite the high losses and deficit position, the applied surplus for JMLM remains below the minimum of the framework range and is therefore not excessive or unfair to consumers. The surplus is kept low to balance the need to reduce financial risk, support the recovery of the deficit and ensure continued electricity supply, without placing an undue burden on consumers or overcompensating the licensee.

4.18. On this basis, it is recommended that the Energy Regulator approve a surplus of R259 641, derived from the recommended allowable revenue, to ensure the continued financial viability of the licensee while maintaining cost-reflective and reasonable tariffs.

Conclusion on Costs to Serve

4.19. The COS study is applicable for a five-year period. NERSA evaluated adjustments to cost drivers for the 2026/27 financial year using the budgeted information submitted by the licensee to ensure the continued relevance, accuracy and reasonableness of the costs. This assessment was undertaken to ensure that the licensee neither over-recovers nor under-recovers its efficiently and prudently incurred costs.

4.20. In this regard, the licensee submitted a total required revenue of R14 243 211 for the 2026/27 financial year. Following a detailed assessment and the application of regulatory adjustments, it is recommended that the Energy Regulator approve an allowable revenue of R14 049 993. Based on the assessed cost drivers and the recommended

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3. Commercial Low-Single Phase	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and Key Findings
Basic Charge (R/Month)	216,32	10%	237,95	237,95	10%	The proposed increase is above the bulk purchase increase and slightly below the cost driver, suggesting adequate recovery of energy costs with minor under-recovery of total costs. The adjustment is reasonable and maintains affordability for smaller businesses.
Energy Charge (c/kWh)	375,86	10%	413,44	413,44	10%	

4. Commercial Low-Three Phase	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and Key Findings
Basic Charge (R/Month)	204,53	10%	224,98	224,98	10%	The 10% increase remains marginally below the cost driver, indicating limited under-recovery. The tariff structure is maintained, ensuring consistency and fairness across commercial customer categories.
Energy Charge (c/kWh)	376,99	10%	414,68	414,68	10%	

5. Commercial High-Three Phase	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and Key Findings
Basic Charge (R/Month)	297,59	10%	327,35	327,35	10%	The increase across energy, demand and fixed charges exceeds the bulk purchase increase but remains slightly below the overall cost driver. This indicates strong recovery of energy costs and near cost-reflectivity for network costs, with minimal under-recovery.
Energy Charge (c/kWh)	276,00	10%	303,60	303,60	10%	
Demand Charge (R/kVA)	110,00	10%	121,00	121,00	10%	

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. From a conspectus of the facts and evidence presented to the REC, it is appropriate to approve the Joe Morolong Local Municipality's tariff application for the 2026/27 financial year.

End.