NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal and Private Distributor Tariff Applications for the 2026/27 Financial Year

By

Emadlangeni Local Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered the Emadlangeni 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.

TABLE OF CONTENTS

THE DECISION 1

TABLE OF CONTENTS 3

ABBREVIATIONS 6

1. INTRODUCTION 7

2. LEGAL AND REGULATORY FRAMEWORK 8

3. FINANCIAL AND TECHNICAL PERFORMACE 11

4. DETERMINATION OF EMADLANGENI's TARIFFS BASED ON THE COST OF SUPPLY STUDY 13

4.4.1. Revenue Requirement 14

4.4.2. Cost Functionalisation 17

4.4.3. Cost Classification 18

4.4.4. Cost Allocation 19

4.4.5. Rate Design ..... **Error! Bookmark not defined.**

5. CONCLUSION ON THE COS 19

6. PUBLIC PARTICIPATION 21

7. THE OBJECTORS AND OTHER INTERVENING PARTIES 21

8. TARIFF ANALYSIS: 22

9. CONFIDENTIALITY 25

10. CONCLUSION 25

LIST OF TABLES

Table 1: Summary of the REC decision ..... **Error! Bookmark not defined.**
Table 2: Performance indicators 13
Table 3: Revenue Requirement components 15
Table 4: Summary and Analysis of stakeholder comments 22

LIST OF FIGURES

Figure 1: Fives steps of COS.....14
Figure 2*: Costs breakdown by Functions*.....17
Figure 3*: Costs breakdown by cost structure (Classisfication)*.....18
Figure 4: *Costs Allocated* 19

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
ELM	Emadlangeni Local Municipality
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications on a yearly basis, in accordance with the mandate of the Energy Regulator to regulate prices and tariffs. Municipal tariffs must be approved by the Energy Regulator to be implemented on 1 July of each financial year.

1.2. The table below shows the customer statistics of Emadlangeni municipality. The data have been obtained from the lates D-form(2024/25)

Table 1: Customer Statistics (Data obtained from the latest D-forms – 2024/25

CUSTOMER STATISTICS	MWh	MWh %	Number of Customers
Domestic (Pre-paid)	1 854,00	26,04%	1 276
Domestic (Conventional)	1 446,00	20,31%	264
Commercial (Pre-paid)	437,00	6,14%	7
Commercial (Converntional)	1 200,00	16,85%	38
Manufacturing/Industial	1 200,00	16,85%	3
Own use and sold to other Municipal departments	983,00	13,81%	N/A
Totals	7 120	100%	1 588

1.3. NERSA received Emadlangeni's tariff application together with its Cost of Supply (COS) on 31 April 2026. Municipality revised the COS as a result of changes in Eskom tariffs.

1.4. The application has been approved by the council, and it went through municipal public consultation process.

1.5. NERSA followed the notice and comment consultation process as well as oral presentations. Emadlangeni's tariff applications was published on the NERSA website on 31 April 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties. Only one comment was received from the public and is indicated in table 6.

1.6. NERSA's decision was made on 08 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 Proce 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 2026/2027 municipal financial year.

2.2. Statutory Mandate of the Energy Regulator

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

2.2.2. In particular:

- Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions.

- Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs.
- Section 14(1)(d) of the ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

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:

- must enable an efficient licensee to recover the full cost of the licensed activity;
- must allow for a reasonable return commensurate with the risk of the licensed activity;
- may provide incentives for continued improvement of technical and economic efficiency;
- must avoid undue discrimination between customer categories;
- may permit cross-subsidies of tariffs to certain classes of customers; and
- 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 Cost of Supply methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 therefore requires electricity distributors to undertake Cost-of-Supply studies at least every five years, or 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 the 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

- written notice of bulk tariffs by 6 March 2026;
- municipal tariff applications to be submitted by 31 March 2026;
- public participation processes to be concluded by 21 April 2026
- 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:

- written notice of bulk electricity tariffs be communicated by 31 January each year;
- municipal tariff applications be submitted to NERSA by 31 March each year;
- municipal tariff approvals and the tariff reasons for decision document, be approved and published by 12 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 PERFORMACE

3.1. In evaluating the financial and technical performance of Emadlangeni, the assessment relied on the Distribution forms (D-forms) for the 2024/25 financial year submitted as part of the licensee's tariff application. The information contained in the D-forms was

verified against the supporting source documents provided by the municipality, including the Trial Balance and Annual Financial Statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

3.2. Emadlangeni's electricity business operated at a percentage deficit of -45.25% in the 2024/25 financial year. The municipality indicated that this is caused by high energy losses which results in revenue losses. Municipality reported lack of employment opportunities to the community make it difficult for these consumers to afford their basic needs such as electricity. As a result, the community steal electricity from the municipality due to socio economic status of these residents which has directly impacted the municipality when it comes to revenue collection. The municipality needs to improve the debt collection rate and curb its energy losses in order to be sustainable.

- Table 2 below shows that Emadlangeni's energy losses. The municipality indicated that energy losses is caused by the following:
  - aging electricity infrastructure,
  - Old meters
  - illegal connection and
  - Old meters.

- The Municipality indicated that they will mitigate the losses by implementing the following council resolution.
  - Perform audit on illegal connection and monitor losses on a monthly basis.
  - Disconnect customers that are connected illegally and penalize them.
  - Improve the debt collection system
  - Increase R&M spending to at least 6% of revenue from sale of electricity.
  - Penalize customers that are connected illegally.
  - Report all cases of electricity theft to SAPS.

Table 2: Performance indicators

Indicators	2023/24	2024/25
Percentage Deficit/surplus	**-43.69**	**-45.25**
Percentage Energy Losses	**32.15**	**30.61**

3.3. Based on the above information provided the financial and technical performance of the municipality is not satisfactory. This is indicated by high financial deficit and energy losses that are above 12% cap.

3.4. **Table 3: Revenue Analysis.**

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	237,76		
Sales kWh	8 209 394,00	10 410 671,92	11 120 490,46
Purchases kWh	11 830 309,00	11 830 309,00	11 830 309,00
Losses kWh	3 620 915,00	1 419 637,08	709 818,54
Losses percentage	**30,61%**	**12,00%**	**6,00%**
Additional Energy (kWh)		2 201 277,92	2 911 096,46
Additional Revenue (Rands)		5 233 758,38	6 921 422,94
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 19 868 094,00	R 25 101 852,38	R 26 789 516,94
Total Expenses (Rands)	R 28 857 476,00	R 28 857 476,00	R 28 857 476,00
Net Profit (Loss)	R -8 989 382,00	R -3 755 623,62	R -2 067 959,06
Percentage Surplus/Deficit	**-45,25%**	**-14,96%**	**-7,72%**

The table above indicates that if the municipality can reduce its losses to a single digit and improve the collection of revenue, settle Eskom Debt they can be at a better financial performance. The energy losses is the main cause of poor financial performance within the electricity department of the municipality.

4. DETERMINATION OF EMADLANGENI'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The process followed in considering and approving Emadlangeni's tariff application was supported by a cost of supply study. The cost plus methodology was used.

4.2. Emadlangeni 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.

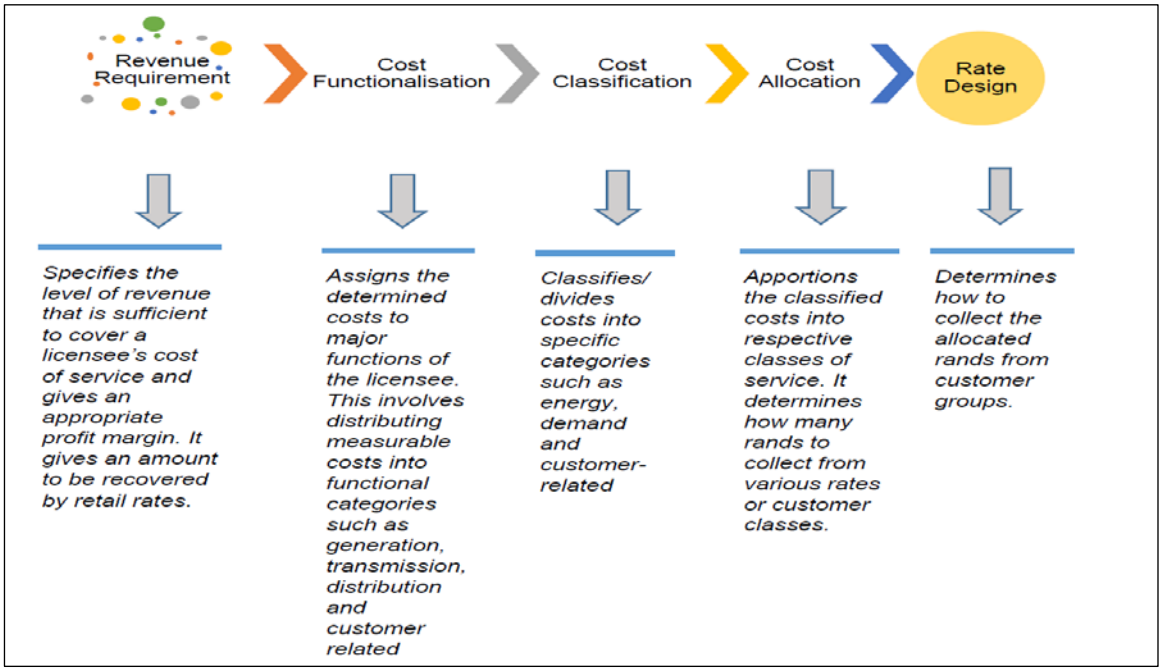


Figure 1: Fives steps of COS

4.4. The following steps are undertaken to analyse the cost of supply study:

4.4.1. **Revenue Requirement**

To be fully cost reflective, the licensee's revenue requirement is R21 856 373 million for the 2025/26 financial year. This revenue requirement is dominantly Eskom purchases accounting for 58%, and operational expenditure accounts for 29%.

4.4.1.1.

Table 4: Revenue Requirement components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	4 218 759	17 637 614	21 856 373	100%
Energy purchases from Eskom - net of cost of losses	-	12 760 102	12 760 102	58%
Energy purchases from Eskom - cost of losses	248 280	1 838 414	2 086 694	10%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	3 612 840	2 792 634	6 405 473	29%
Other revenues	- 3 313	- 29 817	- 33 130	0%
Surplus	360 953	276 282	637 234	3%

4.4.1.2. 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.

4.4.1.3. 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 effected accordingly, as detailed below.

Bulk purchases

4.4.1.4. Emadlangeni submitted an application for bulk purchase expenditure amounting to R12 760 102 million, representing 58% of total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

4.4.1.5. To derive the 2026/27 bulk purchase estimate, the 2025/26 Cost-of-Supply (CoS) amount was escalated by 9.01%, consistent with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

Operational Expenditure

4.4.1.6. Emadlangeni has applied for operational expenditure totaling R6 405 473 million, representing 29% of overall costs, as reflected in Table 3 above.

4.4.1.7. The approach adopted by Emadlangeni in forecasting operational expenditure is considered reasonable, and the amount has therefore been approved as requested. However, 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.

Table 5: Opex

Functions	**Total**
Depreciation	278 994.00
Network R&M	5 905 933.00
Other Expenses	440 092.00
Total	6 405 473.00

Surplus

4.4.1.8. Emadlangeni has requested a surplus of R637 234 million, calculated using a surplus factor of 3% applied to operating expenditure, inclusive of bulk purchases, for both the wires and retail components of the business.

4.4.1.9. The return proposed by Emadlangeni is considered reasonable even though it does not falls within the established target range of 10–20%, but is an improvement from a huge deficit. Consequently, the requested amount has been approved as applied for.

4.4.1.10. The decision to approve the revenue requirement as submitted will be applied in the subsequent stages, namely Cost Functionalisation, Cost Classification, Cost Allocation, and Rate Setting. These stages have been verified and confirmed to align with the approved revenue requirement. Further detail on these stages is provided below.

4.4.1.11. The risk associated with the surplus is the energy losses. The municipality is losing a lot of revenue because of high energy losses, currently the losses are at 30%. The poor collection rate is also a risk, the municipality is not collecting enough revenue from its customers; another risk is the issue of bad debts. Interest on Eskom debt is also a risk, municipality is not servicing its bulk account on time, therefore it owes Eskom.

4.4.2. Cost Functionalisation

4.4.2.1. The licensee has categorised its revenue requirement of R21 856 373 million into two primary functional components, namely the **wires business (18%)** and the **retail business (82%)**, in accordance with the NERSA COS framework, as illustrated in Figure 2 below. Upon verification, the allocation of costs to these functional components is found to be consistent with the stated revenue requirement.

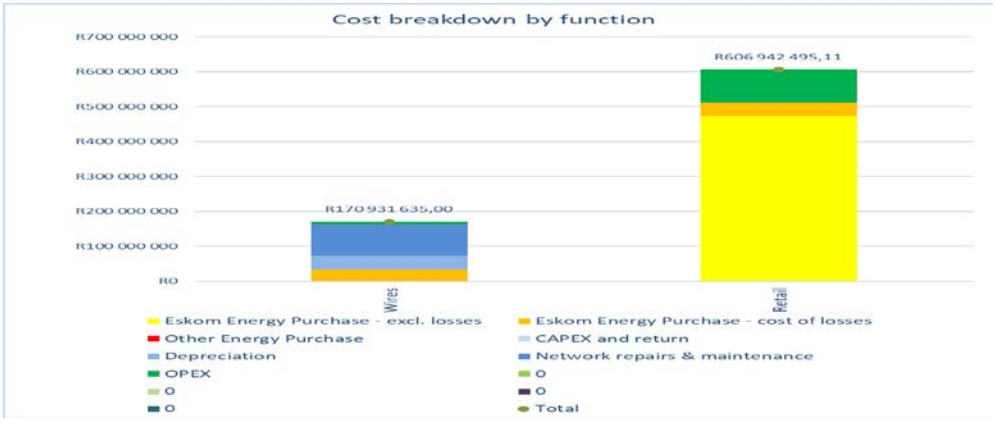


Figure 2*: Costs breakdown by Functions*

4.4.2.2. These costs, upon verification, are consistent with the approved revenue requirements. Network repairs and maintenance constitute the predominant cost drivers within the wires business, while energy purchases represent the primary cost driver within 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 functionalization upon verification.

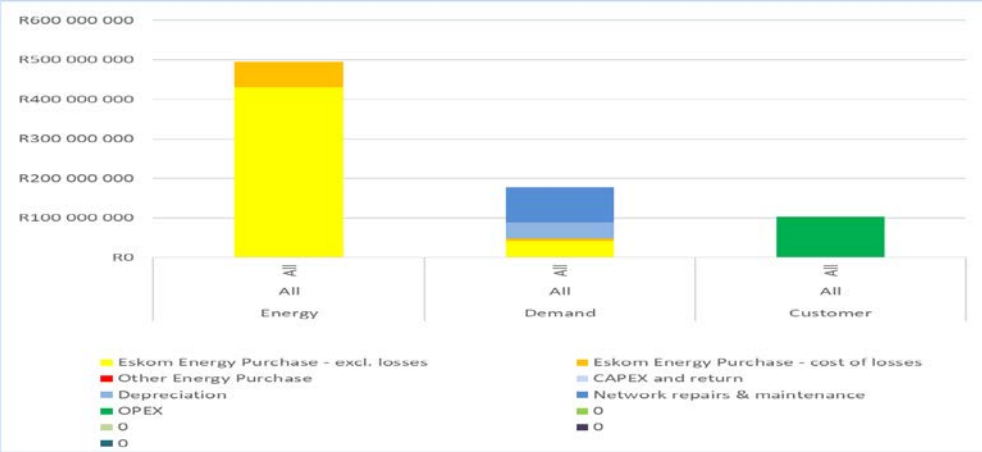


Figure 3*: Costs breakdown by cost structure (Classisfication)*

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 the provision of 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. Upon verification, the allocation is found to be consistent with the stated revenue requirement and aligned with the principles of cost allocation.

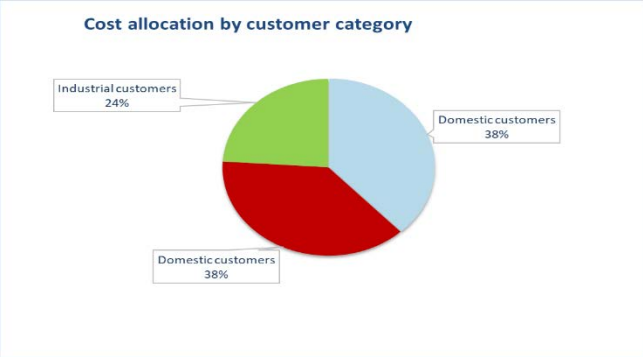


Figure 4: ***Costs Allocated***

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.

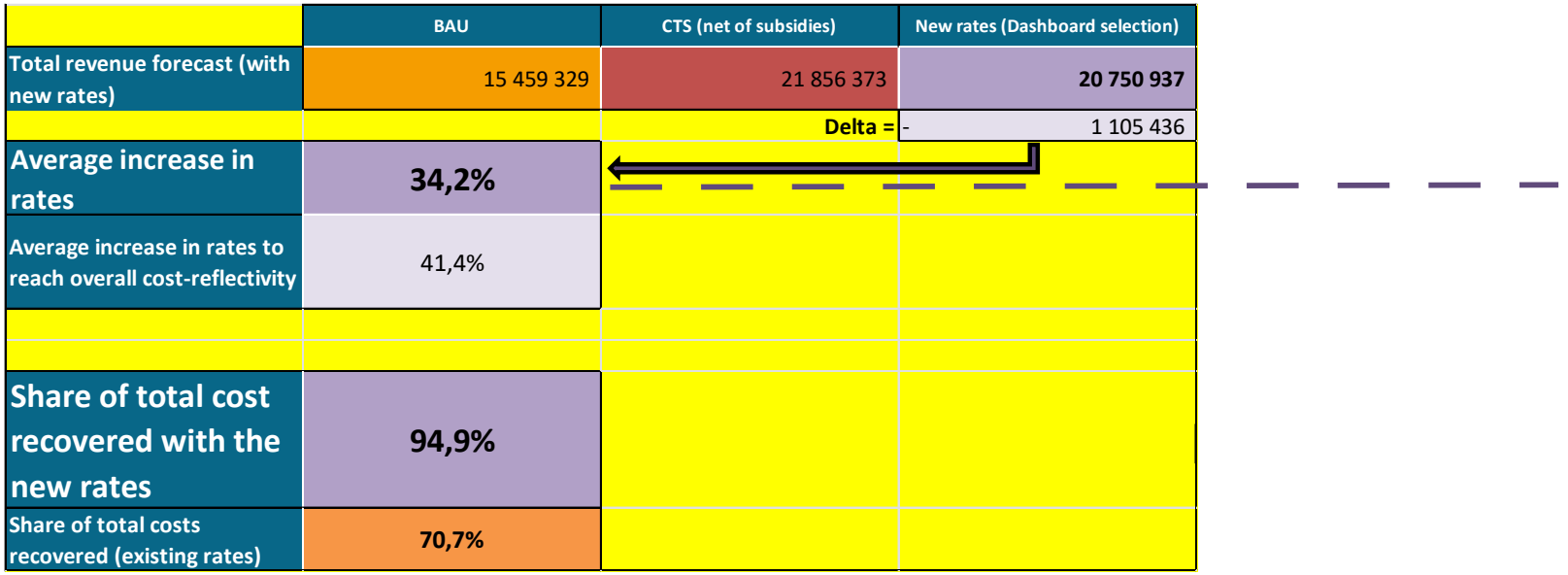
5.4. This approach is intended to safeguard the municipality's revenue base and support its financial sustainability, in line with applicable legislative requirements.

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 41.40% for a licensee to reach overall cost reflective, as illustrated in Figure 4 below and the municipality applied for 10.00% for customer protection and municipal sustainability.

5.7. Municipality needs to reduce their 31.00%percentage of energy losses. For 2024-25 the municipality operated at 31% energy losses. More revenue is being lost because of these high losses.

Figure 5: Rate design Dashboard



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Commercial Conventional	***2025/26 Approved***	***Proposed% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Basic Charge (R/month)	*1 501.18*	*10.00*	*1 651.30*	*1 651.30*	*10.00*	*Approve the tariff as recommended*
Energy Charge *c/kWh*	*336.75*	*13.20*	*370.43*	*370.43*	*10.00*	
Commercial Prepaid	***2025/26 Approved***	***Proposed% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Energy Charge *c/kWh*	*382.42*	*10.00*	*420.66*	*420.66*	*10.00*	

Commercial Vacant Land	***2025/26 Approved***	***Proposed% Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Basic Charge (R/month)	*1 262.42*	*10.00*	*1 388.66*	*1 388.66*	*10.00*	*Approve the tariff as recommended.*

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)	*5 309.17*	*10.00*	*5 840.09*	*5 840.09*	*10.00*	*Approve the tariffs as recommmended*
Energy Charge *c/kWh*	*165.51*	*10.00*	*182.06*	*182.06*	*10.00*	
Demand Charge (R/kVA)	*433.93*	*10.00*	*477.32*	*477.32*	*10.00*	
Availability Charge Industrials	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key findings***
Basic Charge (R/month)	*4 490.12*	*10.00*	*4 939.13*	*4 939.13*	*10.00*	*Approve the tariffs as recommended*

Availability Charge Domestics	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key Findings***
Basic Charge (R/month)	*141.71*	*10.00*	*155.88*	*155.88*	*10.00*	*Approve the tariffs as recommended*
Availability Charge Commercials	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and key Findings***
Basic Charge (R/month)	*288.00*	*10.00*	*316.80*	*316.80*	*10.00*	*Approve the tariffs as recommended*

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 Emadlangeni's tariff application for 2026/27 financial year.

End.