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

Nkomazi Local Municipality

THE DECISION

1. At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered the Nkomazi Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year set out in section 8 (Page 27) below.

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

2.1 to approve the tariffs that are based on the Cost of Supply (COS) study as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;
to note the COS study submitted by the municipality;

2.2 that the municipality must submit a report accounting for all the costs that have been noted in its COS study to enable the National Energy Regulator of South Africa (NERSA) to perform its independent verification/audit process by 31 January 2027; and

2.3 that the municipality must submit a quarterly smart efficiency plan with improvement measures identified to reduce all losses and must 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
Nkomazi	Nkomazi 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. Nkomazi Local Municipality is a small municipality located in Mpumalanga, with a total population of 410 997. Its commercial customer base accounts for 54.79% of total electricity sales, as indicated in the table below. The municipality applied for an average increase of 16.2% in the 2025/26 financial year and is applying for a tariff increase of 15.1% for the 2026/27 financial year. Eskom supplies 50kWh of free basic electricity per month to all registered indigent customers. Details regarding customer statistics are highlighted in Table 1 below.

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

Customer Class	kWh	%kWh	Customer numbers
Domestic (prepaid)	16 553 170	22.31	3 295
Domestic (conventional)	7 068 774	9.53	1 397
Commercial (conventional)	40 653 820	54.79	512
Street lighting	1 802 016	2.43	
Sold to other municipal departments	8 116 020	10.94	60
Totals	**74 193 800**	**100.00**	**5 264**

Free Basic Electricity	70 300	0.30	1 406

1.3. NERSA received Nkomazi Local Municipality's tariff application together with its Cost of Supply (COS) study on 31 March 2026.

1.4. The municipality used the cost-plus methodology.

1.5. Nkomazi Local Municipality implemented a 16.2% average price increase in the 2025/26FY and is applying for an average price increase of 15.1% for the 2026/27FY.

1.6. The municipality's asset value is R151 579 813 (annual financial statements) with depreciation of R3 979 916 (trial balance) using the straight-line method.

1.7. In accordance with NERSA requirements, all tariff applications must include confirmation that the proposed tariffs have been approved by the municipal council and have undergone customer consultation.

1.8. For this application, the municipality has indicated that its council meeting is scheduled for 31 March 2026. Public participation meetings will be held from

7 to 30 April 2026 and the council resolution as well as proof of customer consultation will be submitted on 30 April 2026.

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

1.10. 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 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 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 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 NERSA evaluated and determined the municipal electricity tariff application for the 2026/27 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 the NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. NERSA'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 NERSA 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, NERSA 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. NERSA's public participation processes 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, NERSA 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 2025/26 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 that had been set by the Court on 4 December 2025, considering the practical difficulties that 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 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. NERSA's determination of municipal electricity tariffs 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 NERSA complied with the legislation, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of Nkomazi Local Municipality, 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 were 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 tariff analysis purposes.

3.2. The municipality's deficit decreased from 24.96% in the 2023/24 financial year to a deficit of 14.89% in 2024/25. Due to a 16% increase in revenue from sale of electricity.

3.3. The energy losses have also increased from 5.37% in the 2023/24 financial year to 7.17% in the 2024/25 financial year and are within the tolerable range (12%) of the COS framework.

Table 2: Performance Indicators

Performance Indicators	Municipality 2023/24 D-form	Municipality 2024/25 D-form
Percentage Surplus (%):	-24.96	-14,89
Energy Losses: %	5.37	7.17

3.4. Based on the above information provided by the 2024/25 D-forms, there has been an improvement in the performance indicators.

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

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

4.2. Nkomazi used 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.

4.3. The study follows the NERSA COS Framework and uses the latest available audited data, which is based on the 2024/25 financial year

4.4.

4.5. below details the five steps considered in the determination of the Cost of Supply study.

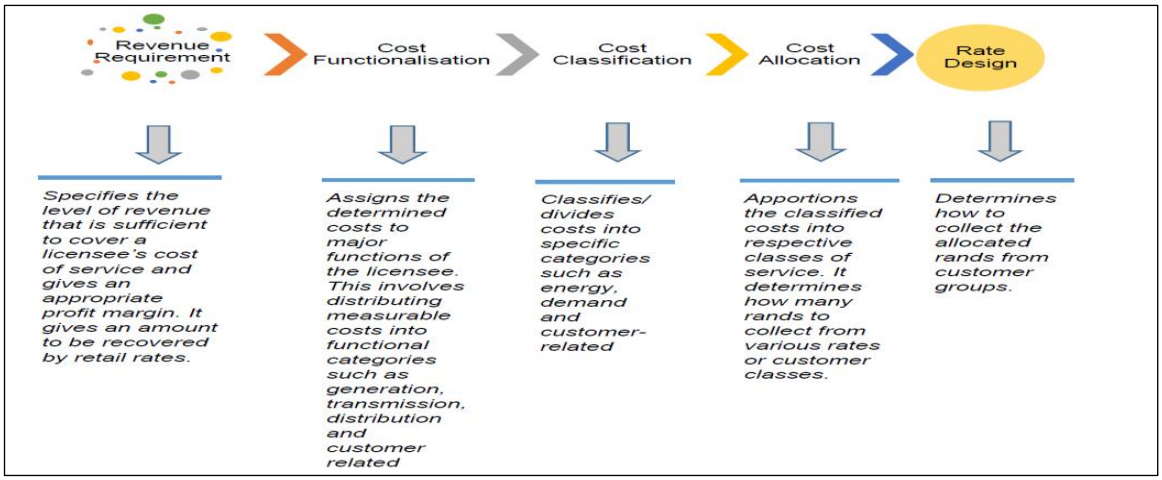


Figure 1: Five Steps of COS

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

4.6.1. Revenue Requirement

4.6.1.1. To be fully cost reflective, the licensee's revenue requirement is R311 048 767 for the 2026/27 financial year. This revenue requirement is predominantly Eskom purchases, including energy losses allowance.

Table 3: Revenue Requirement Components

	Total cost (R)				
Revenue Requirement components	**Wires**	**Retail**	**Total**	NERSA Adjustment	N
Allowable costs	60 713 096	336 662 870	311 048 767	- 22 235 833	
Energy purchases from Eskom - net of cost of losses	-	204 003 737	204 003 737		
Energy purchases from Eskom - cost of losses	17 628 219	8 967 616	26 595 835		
Other energy purchases	-	-	-		
Capital expenditure	-	-	-		
Operational expenditure (incl. Depreciation)	21 805 611	64 521 587	86 327 198	(20 214 394)	
Other revenues	**- 2 460 824**	**- 10 730 743**	**- 13 191 566**		-
Surplus	1 934 479	5 379 084	7 313 563	(2 021 439)	
Not allowable costs	-	-	-		
Cost of losses disallowed	-	-	-		
TOTAL COSTS	**60 713 096**	**336 662 870**	**311 048 767**		

4.6.1.2. 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.

4.6.1.3. The municipality applied for R311 048 767. The total NERSA adjustments made amounted to R22 235 833, which resulted in the NERSA-recommended value of R288 812 934.

4.6.1.4. In line with COS Framework requirements, shared municipal costs were ring-fenced and allocated strictly to the electricity business using the D-forms. Cost attribution was verified against the trial balance and audited annual financial statements, ensuring separation of electricity and non-electricity functions. Any costs not demonstrably related to electricity distribution were adjusted or excluded. This approach ensures compliance with the principle of cost causality and prevents cross-subsidisation between municipal functions.

4.6.1.5. 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 affected accordingly, as detailed below.

Bulk Purchases

4.6.1.6. Nkomazi Local Municipality applied for bulk purchase expenditure amounting to R204 003 737. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

4.6.1.7. To derive the 2026/27 bulk purchase estimate, the 2025/26 COS amount was escalated by 9.01%, which is consistent with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.6.1.8. The methodology applied by Nkomazi Local Municipality in forecasting bulk purchase costs is deemed reasonable. Accordingly, the bulk purchase expenditure has been recommended for approval as submitted.

Operational Expenditure

4.6.1.9. The licensee used recent actual financial data as a basis to project the 2025/26 financial year costs and escalated the 2026/27 financial year costs based on assumed cost drivers and relevant inflationary factors. NERSA is satisfied that the approach applied to forecast operational expenditure is reasonable.

4.6.1.10. The licensee has applied for operational expenditure amounting to R86 327 198. The removal of inefficiencies resulted in a recommended operating expenditure of R66 112 805, as presented in Table 4 below

4.6.1.11. FBE payments to Eskom amounting to R4 464 394 were identified as an inefficiency, as these costs are funded through government allocations. Accordingly, the costs were disallowed during the analysis and excluded from the allowable cost.

4.6.1.12. Eskom debt interest of R15 750 000 was disallowed as the cost was deemed inefficient

4.6.1.13. It is recommended that NERSA approve total operational expenditure of R66 112 805 for the 2026/27 financial year, which excludes the cost of FBE paid to Eskom and Eskom debt interest, as such costs are funded through the equitable share and are not recoverable through tariffs.

Table 4: Operational Expenditure

Cost drivers	Units	Applied Opex 2026/27	Adjustments	Recommended Opex 2026/27
General and other	**R**	**73 711 753**	**(15 750 000)**	**57 961 753**
Materials and supplies	R	7 694 458		7 694 458
Contracted Services	R	4 142 357		4 142 357
Salaries, wages and allowances (exclu. Repairs and Maintenance)	R	40 231 668		40 231 668
Eskom debts interest	R	15 750 000	(15 750 000)	
Current year depreciation	R	5 893 270		5 893 270
Shared OPEX	R	**12 615 446**	**(4 464 394)**	**8 151 052**
FBE paid to Eskom	R	4 464 394	(4 464 394)	
General expenses (Fuel;Oil)	R	8 151 052		8 151 052
Total	R	**86 327 198**	**(20 214 394)**	**66 112 805**

Surplus

4.6.1.14. Nkomazi Local Municipality has applied for a surplus of R7 313 563, calculated using a surplus factor of 2% applied to operating expenditure, inclusive of bulk purchases, for both the wires and retail components of the business. After eliminating all inefficiencies, the surplus remained at 2%.

4.6.1.15. The return proposed by Nkomazi Local Municipality is considered reasonable, as it falls below the established COS target range of 10–20%. Consequently, the requested amount has been approved as applied for.

4.6.1.16. 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 details on these stages are provided below.

4.6.1.17. Risks identified was the revenue collection risk.

4.6.2. Cost Functionalisation

4.6.2.1. The licensee has categorised its revenue requirement of R311 048767 into two primary functional components, namely the wires business (37%) and the retail business (87%), in accordance with the NERSA COS Framework, as illustrated in Figure 2 below. On verification, the allocation of costs to these functional components is found to be consistent with the stated revenue requirement.

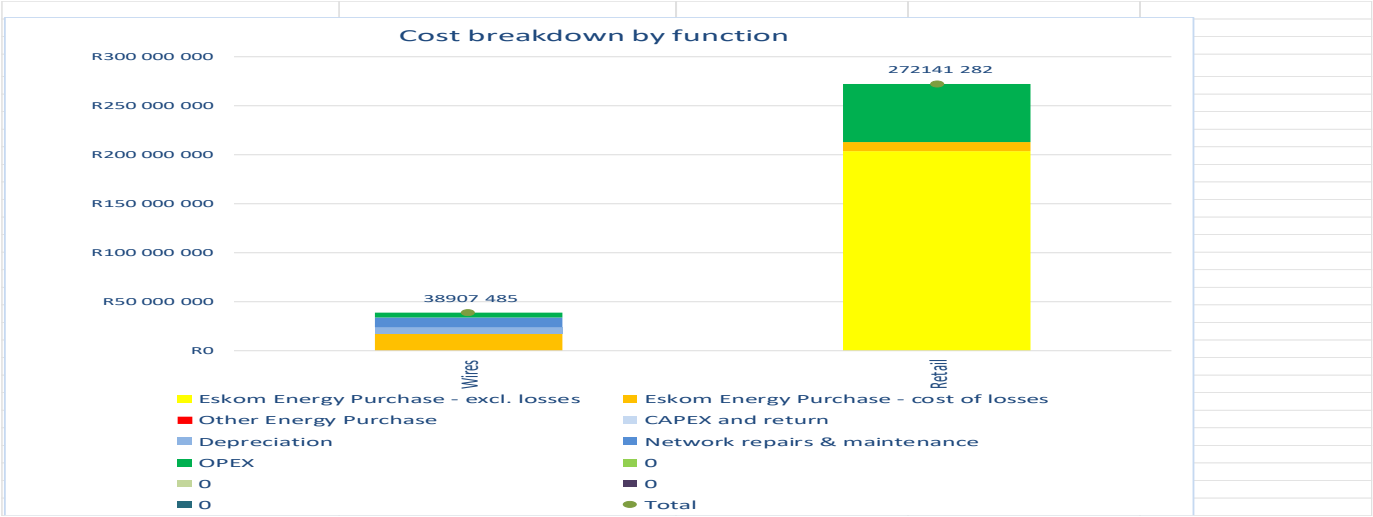


Figure 2: Cost Breakdown by Function

4.6.2.2. These costs, on 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.

4.6.3. Cost Classification

4.6.3.1. 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.

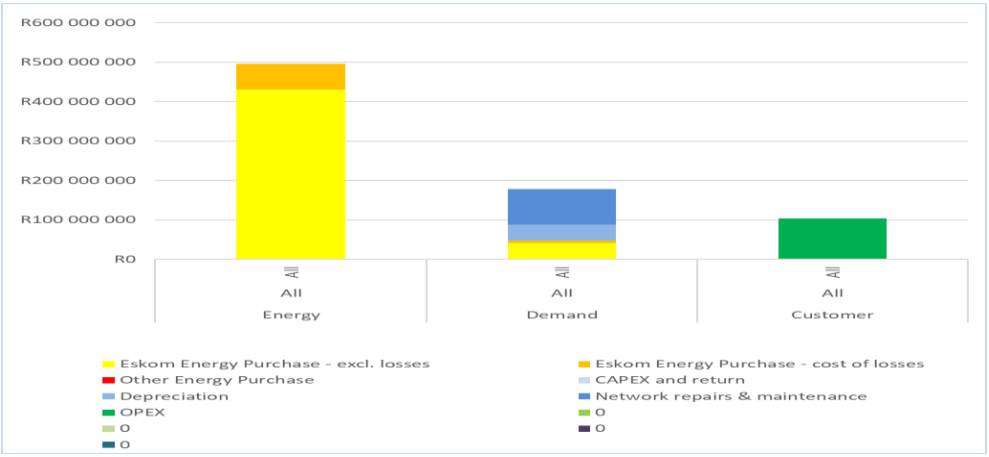


Figure 3: Cost Breakdown by Cost Structure (Classification)

4.6.3.2. The Eskom energy purchased cost of losses and network repairs and maintenance contributes the highest energy costs all season, for all time of use, in the wires business.

4.6.3.3. The Eskom energy purchase cost of losses and OPEX function contribute the highest costs all season for all time of use for the retail business.

4.6.4. Cost Allocation

4.6.4.1. 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 found to be consistent with the stated revenue requirement and aligned with the principles of cost allocation.

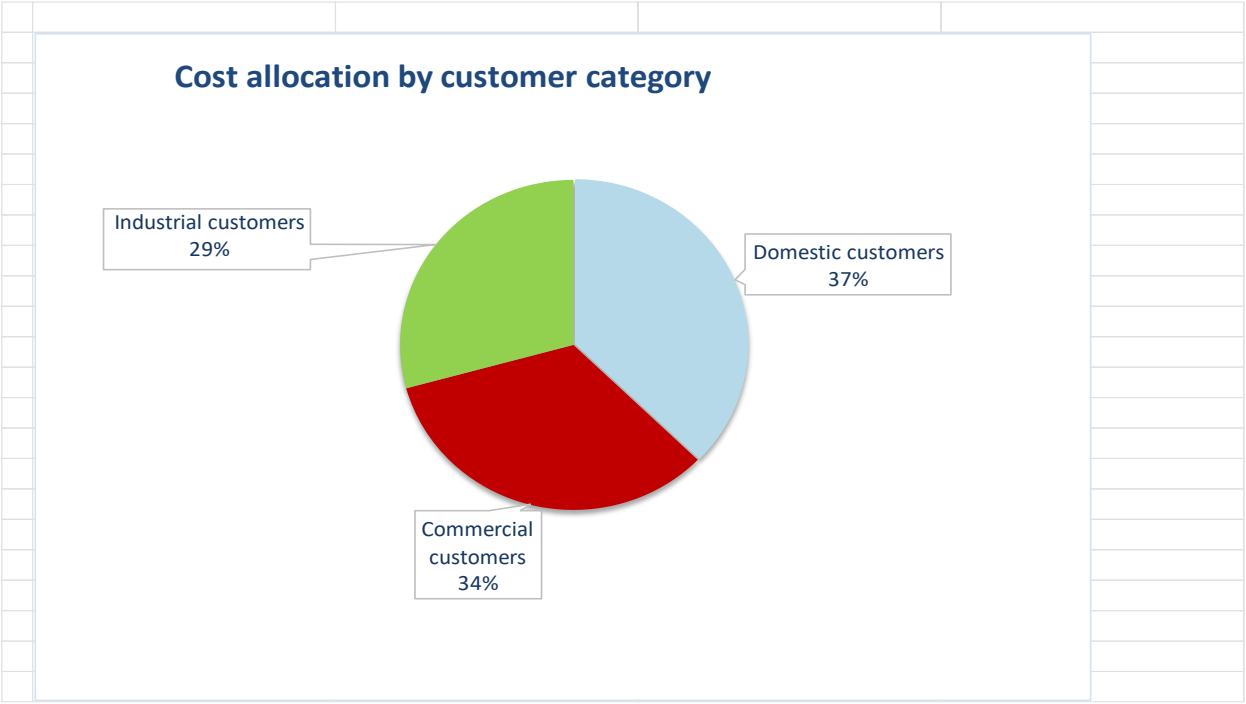


Figure 4: Costs Allocated

4.6.5. Rate Design

4.6.5.1. All the tariff categories were under-recovering their revenues under BAU(Business as Usual), as depicted in Figure 5 below. With the new revenues, the manufacturing/industrial and commercial customers will recover and allow for cross-subsidisation. The under-recovering domestic tariffs will have to be adjusted upwards in future and the over-recovering manufacturing rates will have to be adjusted downwards.

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

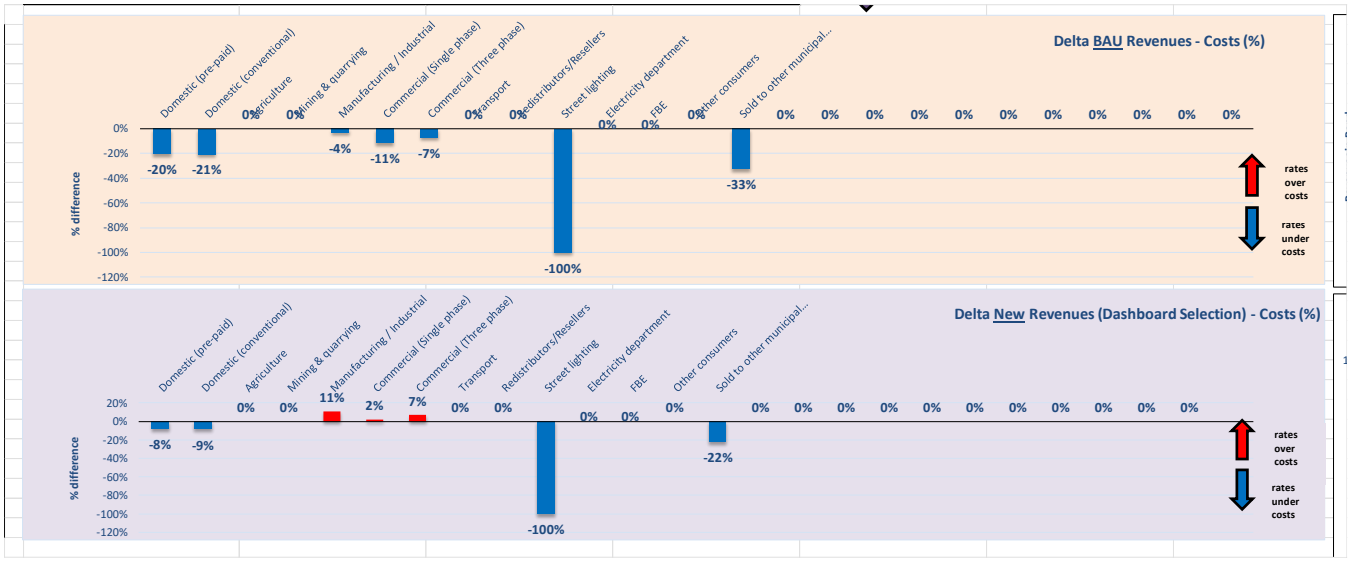


Figure 5: Revenue Recovery by Customer Category

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.

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 consider 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. While the COS study outcome reflected an average tariff increase of 15.1% for the licensee to achieve full cost reflectivity of 16.2%, the municipality adopted a phased-in approach to implement tariff increases below the COS study outcomes. Some of the considerations for this decision include the licensee's requirement to

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1.2. DOMESTIC CONSUMERS CONVENTIONAL	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026 Recommended	Recommended % Increase	Analysis and Key Findings
Fixed charge (R/month)	291.57	15.10%	335.60	335.60	15.10%	Municipality proposed a 15.10% tariff increase in line with the proposed tariff application increase
Energy charge (c/kWh):	266.04	15.10%	306.21	306.21	15.10%	

2.1. COMMERCIAL CONSUMERS – SINGLE PHASE	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026 Recommended	Recommended % Increase	Analysis and Key Findings
Fixed charge (R/month)	1 059.62	15.10%	1 219.62	1 219.62	15.10%	Commercial tariffs show closer alignment to cost reflectivity at 15.10%.
Energy charge (c/kWh):	351.71	15.10%	404.82	404.82	15.10%	

2.2 COMMERCIAL CONSUMERS – THREE PHASE	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026 Recommended	Recommended % Increase	Analysis and Key Findings
Fixed charge (R/month)	1 828.23	15.10%	2 104.29	2, 104.29	15.10%	Commercial tariffs show closer alignment to cost reflectivity at 15.10%.
Energy charge (c/kWh):	328.43	15.10%	378.02	378.02	15.10%	

2. INDUSTRIAL CONSUMERS	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026 Recommended	Recommended % Increase	Analysis and Key Findings
Fixed charge (R/month)	2 747.98	15.10%	3 162.92	3 162.92	15.10%	Industrial tariffs show closer alignment to cost reflectivity
Low-season energy charges:						
Peak (c/kWh):	New Tariff	0.00%	371.65	371.65	0.00%	
Standard (c/kWh):	213.33	0.00%	213.33	213.33	0.00%	
Off-peak (c/kWh):	New Tariff	0.00%	196.21	196.21	0.00%	
High-season energy charges						
Peak (c/kWh):	New Tariff	0.00%	837.31	837.31	0.00%	
Standard (c/kWh):	213.33	15.10%	245.54	245.54	15.10%	
Off-peak (c/kWh):	New Tariff	0.00%	196.21	196.21	0.00%	
Demand charge (R/kVA)	418.44	15.10%	481.62	481.62	15.10%	

3. DEPARTMENTAL CONSUMERS	2025/26 Approved	Proposed % Increase	2026/27 Proposed	2026 Recommended	Recommended % Increase	Analysis and Key Findings
Standard (c/kWh):	308.95	15.10%	355.60	355.60	15.10%	Municipality proposed a 15.10% tariff increase in line with the proposed tariff application increase

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

10.1. NERSA, having considered the Nkomazi Local Municipality's application, the supporting information, stakeholder inputs and applicable legal framework, approves the tariff adjustments as set out in this Reasons for Decision document.

End.