NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

The Decision and Reasons for Decision

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Applications for the 2026/27 Financial Year (FY)

By

Siyathemba Local Municipality

THE DECISION

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

Table 1: Summary of the REC decision

Tariff Category	2026/27FY approved % increase
Domestic Conventional	9.01%
Domestic Prepayment	9.01%
Commercial Conventional	9.01%
Commercial Prepaid	9.01%
Industrial Tariffs	9.01%
Municipal Tariffs	9.01%

Based on the available information and the analysis performed thus far, the REC decided at its meeting on 11 May 2026:

a) 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;
b) noted the COS study submitted by the municipality;
c) required the municipality to submit a report accounting for all the costs that have been noted in its COS study to enable NERSA to perform its independent verification/audit process by 31 January 2027; and
d) required the municipality to submit a quarterly smart efficiency plan by 30 September 2026 with improvement measures identified in reducing high energy losses.

TABLE OF CONTENTS

THE DECISION 1
TABLE OF CONTENTS 3
ABBREVIATIONS 4
1.INTRODUCTION 5
2.LEGAL AND REGULATORY FRAMEWORK 6
3.FINANCIAL AND TECHNICAL PERFORMANCE 10
4.DETERMINATION OF SLM'S TARIFFS BASED ON THE EXISTING COS STUDY 12
5.CONCLUSION ON COSTS TO SERVE 16
6.PUBLIC PARTICIPATION 16
7.TARIFF ANALYSIS 17
8.CONFIDENTIALITY 18
9.CONCLUSION 18

LIST OF TABLES

Table 1: Summary of the REC decision 1
Table 2: Customer statistics (data obtained from the latest D-forms – 2024/25FY)..... 5
Table 3: Performance indicators 10
Table 4: Revenue Requirement components 13

ABBREVIATIONS

CAPEX	Capital Expenditure
COS	Cost of Supply
D-form	Distribution form
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
FY	Financial Year
IBT	Inclining Block Tariff
SLM	Siyathemba 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. Siyathemba Local Municipality is situated in the Northern Cape and has a total of 1 262 electricity customers. The manufacturing customer category accounts for 42.61% of total electricity sales, followed by domestic customers at 28.19%.

1.3. The municipality provides its indigent customers with 50 kWh of Free Basic Electricity (FBE) per month. The municipality further reports that it maintains an indigent register. The details regarding customer statistics are highlighted in Table 2 below.

Table 2: Customer statistics (data obtained from the latest D-forms – 2024/25FY)

Customer categories	***MWh***	***% KWh***	***Customer numbers***
Domestic(Prepaid)	2 929	28,19%	1 024
Domestic(Conventional)	1 101	10,60%	131
Manufacturing	1 849	17,79%	8
Commercial	4 428	42,61%	99
Street Lighting	84	0,81%	
TOTAL	**10 391**	**100%**	**1 262**
FBE	131	3.25%	218

1.4. NERSA received the Siyathemba Local Municipality tariff application together with its Cost of Supply (COS) on 31 March 2026.

1.5. The municipality implemented an average price increase of 10.5% in the 2025/26FY and is applying for an average price increase of 9.01% for the 2026/27FY.

1.6. NERSA followed the notice and comment consultation process. Siyathemba's tariff applications was published on the NERSA website on 31 March 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties.

1.7. The Energy Regulator's decision was made on 11 May 2026, considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of Municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004; NERA, the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended (ERA), the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000) (PAJA), and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 (EPP).

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment (ERTSA) 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; MFMA).

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

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

2.2. Statutory Mandate of the Energy Regulator

2.2.1. NERSA 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 ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by ERA. Section 3 of 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 ERA.

2.2.2. In particular:

- Section 4(a)(i) of ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions.
- Section 4(a)(ii) of ERA provides that the Energy Regulator must regulate prices and tariffs.
- Section 14(1)(d) of 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 ERA.

2.3. **Tariff Determination Principles Under ERA**

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

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

2.5. **Policy Framework: Electricity Pricing Policy (2008)**

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

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

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

2.6. **Cost-of-Supply Studies**

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

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

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

2.6.4. Such studies must be conducted in accordance with the methodology approved by NERSA and must accompany tariff structure applications submitted to the Energy Regulator.

2.7. **Judicial Oversight of the Tariff Approval Process**

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

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to the 2025/26FY 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. Having heard NERSA's application, the Court granted the variation application in respect of the fixed deadlines for the 2026/27FY municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines set out below apply to the approval of municipal tariffs for the 2026/27FY:

- 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; and
- the publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from the 2027/28FY are to comply with the following timelines:

- written notice of bulk electricity tariffs to be communicated by 31 January each year;
- municipal tariff applications to be submitted to NERSA by 20 March each year; and
- municipal tariff approvals and the tariff reasons for decision document to 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 NERA, ERA, PAJA, the 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 assessing the financial and technical performance, NERSA relied on the 2024/25 financial year's Distribution forms (D-forms) information provided in analysing the licensee's tariff application. The information from the D-forms was validated by NERSA against the relevant source documents submitted by the municipality (i.e., the Trial Balance/Annual Financial Statement). Hence, the information provided on the D-forms is considered reasonable for the analysis of the tariffs.

Table 3: Performance indicators

Performance indicators	***2024/25***	***2023/24***
*Percentage surplus/deficit **(%)**:*	-29.80	-34.46
*Energy Losses **(%)**:*	27.60	24.83

Percentage Surplus

3.2. The percentage deficit level has decreased from -34.46% in the 2023/24FY to -29.80% in the 2024/25FY. Notwithstanding this improvement, the municipality remains in a significant deficit position, primarily due to high energy losses.

3.3. The deteriorating financial performance is mainly attributable to high energy losses. The municipality is therefore required to strengthen and implement effective loss-reduction measures.

3.4. NERSA notes that if the municipality can reduce its energy losses to a single-digit level of 6.00%, the electricity business of the municipality will still run at a deficit of -4.40% and will not be able to generate profitable revenue, as illustrated below with a loss in revenue of -1.983 million.

Assessment of Energy Losses and Revenue Impact

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	284,35		
Sales kWh	10 391 404,00	12 630 692,18	13 491 875,73
Purchases kWh	14 353 059,29	14 353 059,29	14 353 059,29
Losses kWh	3 961 655,29	1 722 367,11	861 183,56
Losses percentage	**27,60%**	**12,00%**	**6,00%**
Additional Energy (kWh)		2 239 288,18	3 100 471,73
Additional Revenue (Rands)		6 367 457,19	8 816 248,51
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 36 237 418,06	R 42 604 875,25	R 45 053 666,57
Total Expenses (Rands)	R 47 037 058,02	R 47 037 058,02	R 47 037 058,02
Net Profit (Loss)	R -10 799 639,96	R -4 432 182,77	R -1 983 391,45
Percentage Surplus/Deficit	**-29,80%**	**-10,40%**	**-4,40%**

3.5. The fact that the deficit continues to increase even when energy losses are capped indicates that energy losses are not the only factor in the municipality's surplus position. Other contributing factors are that the municipality is buying at expensive night-save tariffs and ageing infrastructure that contribute to the Depreciation cost.

Energy Losses

3.6. The energy losses have increased from 24.83% in the 2023/24FY to 27.60% in the 2024/25FY. The energy losses remain significantly high and continue to negatively affect revenue and the financial sustainability of the electricity business. The municipality indicated that the high energy losses are mainly attributable to tampered meters, illegal connections, inaccurate conventional meter and ageing infrastructure. The municipality is therefore required to implement effective loss-reduction measures to further reduce energy losses and improve operational efficiency.

3.7. NERSA further noted that the municipality is taking steps to address the high energy losses through the appointment of consultants to assist in reducing the losses to a reasonable and sustainable level.

General conclusion on the financial and technical indicators

3.8. Based on the above information provided, the municipality’s electricity business is operating at a loss, as evidenced by the percentage deficit and high energy losses. This position places strain on the licensee’s financial sustainability and should be closely monitored going forward.

4. DETERMINATION OF SLM'S TARIFFS BASED ON THE EXISTING COS STUDY

4.1. The licensee submitted its existing COS study, which supports the tariffs application to be approved in the 2026/27FY. The licensee's COS study was inclusive of all requirements of NERSA's approved COS framework (i.e., Revenue Requirement, Costs Functionalisation, Costs Classification, Costs Allocation and Rate Setting.

4.2. The licensee 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 October 2023 NERSA-approved COS 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 volumes upon which the 2026/27 tariffs are based. The figures were tested for reasonableness.
iii) Column 3 is for the licensee's submitted 2026/27FY budgeted figures to be tested for reasonableness for determining tariffs for the control period under review.

4.5. The Total Allowable Revenue of R49.179 million is for the 2026/27 tariff review period and is the basis upon which the tariffs were approved by the Regulator as shown in Table 4 below.

4.6. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for the 2026/27FY. NERSA used the budgeted figures submitted by the licensee to check the reasonableness as well as the licensee's current operational requirement to ensure that

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

4.7. To determine an increase applicable for the 2026/27FY, the licensee submitted its projected costs as requested by NERSA, with a total required revenue of R47.179 million for the 2026/27FY tariff review.

Table 4: Revenue Requirement components

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	10 391 404	10 535 621	10 557 622	-	10 557 622
Eskom bulk purchases	kWh	14 353 059	12 212 697	12 238 200	-	12 238 200
Total Energy Requirements	**kWh**	**14 353 059**	**12 212 697**	**12 238 200**		**12 238 200**
Total Losses	kWh	3 961 655	1 677 076	1 680 578		1 680 578
Technical losses	kWh	1 722 367	1 465 524	1 468 584	-	1 468 584
Non-technical losses	kWh	-2 239 288	-211 553	-211 994	-	-211 994
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	27,60%	13,73%	13,73%		13,73%
Cost drivers						
Energy purchases from Eskom	Rand	31 596 309	34 545 611	37 736 810	-	37 736 810
total energy purchases		**31 596 309**	**34 545 611**	**37 736 810**	**0**	**37 736 810**
Operational expenditure (incl. Depreciati	**Rand**	**7 981 039**	**8 277 186**	**8 578 719**	**0,0**	**8 578 719**
General & Other	0	7 557 740	7 832 721	8 116 475	0	8 116 475
Salaries and allowances	Rand	4 609 131	4 839 588	5 081 567	0	5 081 567
Materials and supplies	Rand	375 979	394 778	410 569	0	410 569
Current year depreciation	Rand	2 572 629	2 598 356	2 624 339	0	2 624 339
Shared OPEX	Rand	423 300	444 465	462 243	0	462 243
Bad debts (Allowance for Impairment)	Rand	423 300	444 465	462 243	0	462 243
Total Expediture before surplus		39 577 348	42 822 797	46 315 529	0	46 315 529
Surplus	Rand	804 328	833 695	863 639	0	863 639
Total Expenditure Including Surplus		40 381 676	43 656 492	47 179 168	0	47 179 168
Other revenues	Rand	**0**	**0**	**0**	**0**	**0**
Total Allowable Revenus	**Rand**	**40 381 676**	**43 656 492**	**47 179 168**	**0**	**47 179 168**
increase required				*8,07%*	*8,07%*	

4.7.1. It is important to test the efficiency of the costs in the 2024/25FY, since this is the most recent available actual data. This forms the basis on which costs for the 2026/27FY will be projected using assumptions to calculate revenue requirements.

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

Bulk Purchases

4.9. For the 2026/27FY, the licensee has applied for a bulk purchase expenditure of R37.736 million, which accounts for 80% of total costs,

inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices in the 2024/25FY.

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 ERTSA.

4.11. The approach applied by Siyathemba in forecasting bulk purchase costs is deemed reasonable. Accordingly, the bulk purchase expenditure has been recommended for approval as submitted.

Operating Expenditure (Including Depreciation)

4.12. Siyathemba applied for operational expenditure amounting to R8.578 million, representing 18% of the total costs for the 2026/27FY, as reflected in Table 4 above.

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

4.14. It is recommended that the Energy Regulator approve total operational expenditure of R8.578 million for the 2026/27FY.

SURPLUS

4.15. The licensee is applying for a surplus of R863 639, which is based on a 2% return on OPEX, including bulk purchases.

4.16. In recommending a surplus, NERSA relied on section 15(1)(a) of ERA, which provides that tariffs must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return. In applying this provision, together with the COS methodology, NERSA is required to ensure that SLM recovers efficiently and prudently incurred costs, including a reasonable return, while avoiding excessive compensation.

4.17. NERSA is satisfied that the return applied for by the licensee is reasonable and supports the financial sustainability of the electricity business, notwithstanding that it falls below the 10% to 20% target range prescribed in the COS Methodology. The municipality is required to reduce energy losses and pay their Eskom Bulk account.

4.18. In determining the appropriate level of surplus, NERSA considered the allowable revenue together with the efficient and prudent costs required to render the licensed service.

4.19. On this basis, it is recommended that the Energy Regulator approve a surplus of R863 639, derived from the recommended allowable revenue, to ensure the continued financial viability of the licensee while maintaining cost-reflective and reasonable tariffs.

Page 16 withheld by Unmapped Dataworks.

This page is part of the decision's record of public participation,
objections or comments, which names members of the public.
We do not republish it.

The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9338/SiyathembaLocalMunicipality_ReasonsforDecisionontariffapplica

Page 17 withheld by Unmapped Dataworks.

This page is part of the decision's record of public participation,
objections or comments, which names members of the public.
We do not republish it.

The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9338/SiyathembaLocalMunicipality_ReasonsforDecisionontariffapplica

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. From an overview of the facts and evidence presented to the REC, it is appropriate to approve the Siyathemba tariff application for the 2026/27FY.

End.