NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

by

eDumbe Local Municipality

THE DECISION

At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered the Alfred Duma 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 7 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 September 2026; and
4. that the municipality must submit specific, measurable, achievable, realistic and time-bound (SMART) energy loss reduction progress reports quarterly for NERSA to monitor implementation thereof.

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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
LM	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 annually, in accordance with its mandate 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 eDumbe Local Municipality is a licensee in the Free State Province. The domestic customers are dominant, accounting for 51,39% of the total sales of 171 030 MWh while industrial customers account for 26,35% of the total sales.

Table 1: Customer base and consumption

CUSTOMER STATISTICS			
Consumer classification	Sales (MWh)	%MWh	Number of consumers
Domestic (Pre-paid)	4 802	37,14%	3 205
Domestic (Conventional)	311	2,41%	29
Commercial (Pre-paid)	1 664	12,87%	200
Commercial (Converntional)	1 262	9,76%	53
Manufacturing/Industrial	4 600	35,57%	12
Own Use	292	2,26%	N/A
Totals	**12 931**	**100%**	**3 499**
Free Basic Electricity		**0,00%**	

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

1.4. The eDumbe Local Municipality implemented an average price increase of 16% in the 2025/26 financial year and is applying for an average price increase of 12.5% for the 2026/27 financial year.

1.5. 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.

1.6. NERSA followed the notice-and-comment consultation process as well as oral presentations. the eDumbe Local Municipality tariff application 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. NERSA's decision was made on 9 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 the Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually in order to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

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

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

2.2. Statutory Mandate of the Energy Regulator

2.2.1. NERSA was 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:

a) Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licensees and may issue licensees subject to conditions.
b) Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs.
c) Section 14(1)(d) of the ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

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

2.3. Tariff Determination Principles under the ERA

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

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

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

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

2.4. Administrative Law Requirements

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

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

2.5. Policy Framework: Electricity Pricing Policy (2008)

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

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

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

2.6. Cost of Supply Studies

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

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

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

2.6.4. Such studies must be conducted in accordance with the 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 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 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

a) Written notice of bulk tariffs by 6 March 2026
b) Municipal tariff applications to be submitted by 31 March 2026

c) Public participation processes to be concluded by 21 April 2026
d) publication of NERSA decisions by 11 May 2026

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

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

2.9. Conclusion

2.9.1. The determination of municipal electricity tariffs by the Energy Regulator must therefore be undertaken within a comprehensive regulatory framework consisting of the NERA, ERA, PAJA, EPP and the binding judicial directives issued by the High Court in AfriForum NPC v NERSA (Case No. 2025/137620).

2.9.2. The reasons that follow in this Reasons for Decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 municipal financial year.

3. Financial and technical performance

3.1. In evaluating the financial and technical performance of eDumbe 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 was verified against the supporting source documents provided by the Municipality, including the Trial Balance and Annual Audited Financial Statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

3.2. The eDumbe electricity business operated at a surplus of 12,82% in the 2024/25 financial year, reflecting an improvement from the 1,09% surplus recorded in the 2023/24 financial year. This positive trend reflects enhanced revenue generation and improved financial management practices.

Table 2: Performance indicators

Outputs:	2024/25	2023/24
Percentage Surplus	-28,02%	-53,68%
Percentage Energy Losses:	32,92	39,99

3.3. The eDumbe Local Municipality's energy losses amounted to 32.92% in the 2024/25 financial year from 39.99% in the 2023/24 financial year.

Table 3: Potential revenue forgone due to energy losses

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	295,14		
Sales kWh	15 183 709,00	19 920 205,36	21 278 401,18
Purchases kWh	22 636 597,00	22 636 597,00	22 636 597,00
Losses kWh	7 452 888,00	2 716 391,64	1 358 195,82
Losses percentage	**32,92%**	**12,00%**	**6,00%**
Additional Energy (kWh)		4 736 496,36	6 094 692,18
Additional Revenue (Rands)		13 979 407,11	17 988 018,30
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	46 219 066,00	R 60 198 473,11	R 64 207 084,30
Total Expenses (Rands)	59 170 912,00	R 59 170 912,00	R 59 170 912,00
Net Profit (Loss)	-12 951 846,00	R 1 027 561,11	R 5 036 172,30
Percentage Surplus/Deficit	**-28,02%**	**1,71%**	**7,84%**

3.4. The licensee submitted an energy losses reduction plan and attributed the high energy losses to the following:
   i. Ageing infrastructure
   ii. Illegal connections
   iii. Metering problems and meter tampering
   iv. Bad record keeping and management (major losses)

3.5. The Municipality has employed various remedial actions including, but not limited to developing a policy for fining those who are found with tampered meters, as well as implementing and controlling a policy for disconnection and reconnection, servicing mini-substations and the installation of bulk check meters to ensure that Eskom's billing is correct.

3.6. The licensee has the potential to improve the surplus further to 5.5% if energy losses are limited to 12% and the surplus could potentially increase to 11.33% if the energy losses are reduced to 6%.

4. Determination of eDumbe's Tariffs Based on the COS Adjusted Data

4.1. The Municipality submitted its existing COS study which supports the tariffs application which will be approved in the 2026/27 financial year. The Municipality'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. Policy position 23 states that, '*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 COS Framework states that:
'*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, **Error! Reference source not found.** below was developed, and the definitions of the columns are 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 the 2026/27 tariffs. The figures were tested for reasonableness (since at the time of the approval, the figures were estimates) when the Regulator considered and approved the 2026/27 COS base tariffs. Once the financial year ends, the actual figures will be verified using the audited statements.

iii. Column 3 is for the licensee's submitted 2026/27 financial year 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 allowable revenues the licensee must recover in the 2026/27 financial year.

4.5. The total allowable revenue of R49 428 280 is for the 2025/26 financial year tariff review and is based on the COS revenue and the volumes used to determine the tariffs that were approved by the Energy 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 2026/27 financial year. 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 FY2026/27 tariff review process.

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4.7. To determine an increase applicable for the 2026/27 financial year, the licensee submitted its 2026/27 financial year cost (budgeted cost plus surplus) as requested by NERSA, and the total 2026/27 budgeted required revenue that amounted to R59 313 936 for the 2026/27 financial year tariff review process.

Table 4: Municipality's Revenue Requirement

Cost drivers	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
Energy purchases from Eskom	Rand	48 446 667	44 550 000	53 460 000	-	53 460 000
total energy purchases		**48 446 667**	**44 550 000**	**53 460 000**	**0**	**53 460 000**
Cost of technical losses	Rand				6 415 200	6 415 200
Non-Technical Losses					-6 631 817	-6 631 817
Operational expenditure (incl. Depre	**Rand**	**10 253 716**	**7 218 280**	**8 661 936**	**0.0**	**8 661 936**
General & Other	0	7 906 030	5 778 280	6 933 936	0	6 933 936
Salaries and allowances	Rand	3 003 610	2 865 444	3 438 533	0	3 438 533
Materials and supplies	Rand	3 899 799	1 575 000	1 890 000	0	1 890 000
Current year depreciation	Rand	886 484	797 836	957 403	0	957 403
Commission Paid	Rand	470 530	540 000	648 000	0	648 000
Meter reading	Rand				0	0
Shared OPEX	Rand	2 347 686	1 440 000	1 728 000	0	1 728 000
Bad debts (Allowance for Impairment)	Rand	183 373	270 000	324 000	0	324 000
FBE paid to Eskom	Rand	472 136	495 000	594 000	0	594 000
General expenses		**1 692 177**	**675 000**	**810 000**	**0**	**810 000**
3.Other Expenses	Rand	933 527	675 000	810 000	0	810 000
	Rand	758 650			0	
Total Expediture before surplus		58 700 383	51 768 280	62 121 936	6 415 200	61 905 319
Surplus	Rand				0	0
Total Expenditure Including Surplus		58 700 383	51 768 280	62 121 936	6 415 200	61 905 319
Other revenues	Rand	-1 168 236	-2 340 000	-2 808 000	0	-2 808 000
Total Allowable Revenus	**Rand**	**57 532 147**	**49 428 280**	**59 313 936**	**6 415 200**	**59 097 319**
increase required					*19.56%*	

4.8. 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.

4.9. 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 and expanded on below.

Bulk purchases

4.10. eDdumbe's COS projects a bulk purchase expenditure of R53 460 000 which accounts for 90% of total costs when including the 12% energy losses allowance. Bulk purchases were verified against Eskom invoices in the 2024/25 financial year.

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

Operating Expenditure (including depreciation)

4.12. The licensee applied for operational expenditure including depreciation of R8 661 936 as highlighted in Table 4 above.

4.13. The Municipality adjusted the expenditure linked to the 2025/26 financial year tariffs, increasing it from R49 428 280 to a budgeted amount of R59 313 936, reflecting an increase in revenue of 20% .

4.14. The Municipality reported an asset value of R226 874 341, as reflected in its submitted audited Annual Financial Statements for the 2024/25 financial year.

4.15. Depreciation amounted to R957 403 in the 2024/25 financial year and is expected to stay constant in the 2026/27 financial year.

Surplus

4.16. The Municipality applied a cost-plus methodology, and not a rate-of-return (ROR) approach. Accordingly, no Regulatory Asset Base (RAB) was required or utilised in determining the revenue requirement. Under the cost-plus methodology, the allowable revenue is derived as follows:

a. Efficient and prudent operating expenditure (OPEX)
b. Plus, depreciation (as a proxy for asset consumption and future replacement)
c. Plus, a reasonable surplus margin

4.17. The licensee applied for a surplus of R0 which is based on a 0% return on OPEX including bulk purchases. Should the Municipality maintain prudent cost control, the surplus could improve to a financially sustainable level within the range of 10% to 20%.

4.18. To ensure that the surplus is not excessive or detrimental to consumers, verification was undertaken by benchmarking the applied surplus margin of 9% against the established target range of 10–20%, in line with the approved NERSA COS framework, EPP Policy Position 1, D-form, and the trial balance.

4.19. Although the return proposed by the Municipality falls below the established target range of 10–20, it is considered reasonable. To ensure that the surplus is commensurate with the level of risk, qualitative risk considerations were incorporated, including revenue collection risks (such as non-payment and bad debts), operational risks (including energy losses, ageing infrastructure and consideration of customer affordability), and broader financial sustainability requirements.

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