NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Umuziwabantu Local Municipality

THE DECISION

At its meeting held on 8 May 2026, the Regulator Executive Committee (REC) considered Umuziwabantu 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 8 on page 22 of the RfD.
Based on the information submitted and the analysis conducted, the REC decided:

1. to approve the tariffs that are based on the Cost of Supply (COS) Report as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;
2. to note the COS Report submitted by the municipality;
3. 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
4. that the municipality must submit quarterly specific, measurable, achievable, realistic and time-bound (SMART) energy losses reduction progress reports for NERSA to monitor the implementation thereof 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
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. Umuziwabantu Local Municipality is located in the Eastern Cape. It is one of four municipalities in the district, situated at the foot of the Ingeli Mountain Range, with the Umtamvuna River forming its southern boundary. The municipality borders the Eastern Cape to the north, west, and south, and is adjacent to the uMzumbe and Ray Nkonyeni Municipalities to the east. 'Umuziwabantu' is an isiZulu name meaning 'the people's home', reflecting a place of openness and hospitality where all are welcome. The municipality is predominantly rural in nature.

1.3. Key features of the area include urban development, particularly the town of Harding, alongside farmland, commercially cultivated forests and traditional authority areas. Harding serves as the municipal seat, while 56% of the municipality is made up of individually owned commercial farms and the Weza afforestation region. The six tribal authority areas, namely KwaMachi, KwaJala, KwaMbotho, KwaFodo, Dumisa, and Bashweni, account for 42% of the land. The local economy is largely driven by extensive plantations of wattle, gum, pine and poplar, as well as related industries such as sawmills and furniture manufacturing. The primary economic sectors are manufacturing, agriculture and timber.

1.1. The details regarding consumer statistics are highlighted in Table 1 below. The municipality is implementing Inclining Block Tariffs (IBTs) fully and is offering 50kWh of Free Basic Electricity per month to all registered indigent consumers.

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

CONSUMER STATISTICS (OBTAINED FROM 2024-2025 DISTRIBUTION FORMS)			
Consumer Classification	**Sales (KWh)**	**%KWh**	**Number of Consumers**
Domestic (Prepaid)	5 056 820	21,74%	3 332
Domestic (Conventional)	889 480,00	3,82%	159
Manufacturing/ Industrial	2 933 192	12,61%	16
Commercial (Prepaid)	1 313 158	5,65%	305
Commercial (Conventional)	6 111 332	26,28%	211
Street Lighting	6 787 501	29,18%	
Municipal Consumption	165 630	0,71%	13
TOTAL SALES	**23 257 113**	**100%**	**4 036**
Free Basic Electricity (FBE)	**100 200**	**1,69%**	**167**

1.2. NERSA received Umuziwabantu's tariff application together with its Cost of Supply (COS) on 30 March 2026.

1.3. Umuziwabantu implemented an 11.4% average price increase in 2025/26FY and is applying for an average price increase of 11.00% for the 2026/27FY.

1.4. NERSA followed the notice and comment consultation process. Umuziwabantu's tariff application was published on the NERSA website on 30 March 2026, as well as on social media platforms and in national and local newspapers to solicit written comments from affected parties.

1.5. NERSA's decision was made on 8 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. 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 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, NERSA 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 the PAJA. Procedural fairness requires that affected parties and the public must 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 that sought to vary the timelines that had been set by the Court on 4 December 2025, considering the practical difficulties that arose in relation to 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 2026/27 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 legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 financial year.

3. FINANCIAL AND TECHNICAL PERFORMACE

1.4. In evaluating the financial and technical performance of Umuziwabantu, 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.

1.5. Umuziwabantu's electricity business operated at a deficit of 1.24% for the 2024/25 financial year, reflecting an improvement from the 9.37% deficit reported in 2023/24. Total revenue increased by 23%, while total expenditure rose by 14%. Energy losses amounted to R6.8 million (R6,881,060) in lost revenue. Electricity revenue remains under pressure due to the high cost of bulk purchases (cost of sales), which constitutes approximately 80% of total expenditure.

1.6. Furthermore, the municipality purchases much of its electricity from Eskom under the Nightsave Urban Tariff, which is considered more expensive than alternative tariff options.

1.7. Table 2 below shows energy losses recorded at 12.42% in the 2024/25 financial year, up from 10.97% in 2023/24. The municipality must implement measures to keep these losses within acceptable levels. The causes are both technical and administrative. Technical losses arise from the electricity distribution network during the physical delivery of power, including conductor losses, transformer core losses and losses from potential and current coils in metering equipment.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
INDICATORS	**2024-25FY (Actuals)**	**2023-24 FY**
Percentage Surplus (Deficit)	-1,24%	-9,37%
Percentage Energy Losses	12,42%	10,97%

Table 3: Energy Losses Scenarios

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	246,13		
Sales kWh	23 257 113,00	23 369 810,64	24 963 206,82
Purchases kWh	26 556 603,00	26 556 603,00	26 556 603,00
Losses kWh	3 299 490,00	3 186 792,36	1 593 396,18
Losses percentage	**12,42%**	**12,00%**	**6,00%**
Additional Energy (kWh)		112 697,64	1 706 093,82
Additional Revenue (Rands)		277 382,70	4 199 208,72
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 68 358 007,00	R 68 635 389,70	R 72 557 215,72
Total Expenses (Rands)	R 69 206 932,00	R 69 206 932,00	R 69 206 932,00
Net Profit (Loss)	R -848 925,00	R -571 542,30	R 3 350 283,72
Percentage Surplus/Deficit	**-1,24%**	**-0,83%**	**4,62%**

1.8. If the municipality were to reduce energy losses to the NERSA benchmark of 12%, the deficit would decrease to 0.83%, resulting in additional revenue of R277,382.70. Furthermore, reducing energy losses to 6% would improve the surplus to 4.62%, translating in additional revenue of R4,199,208.72, as illustrated in Table 3 above.

1.9. Based on the above information, the municipality must address operational inefficiencies by reducing high expenditure on its electricity account and considering a shift to a more cost-effective tariff from Eskom bulk supply points. These measures are necessary to improve surplus levels and support the municipality's long-term financial sustainability.

2. DETERMINATION OF UMUZIWABANTU'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

2.1. The process followed in considering and approving Umuziwabantu's tariff application was supported by a COS study.

2.2. Umuziwabantu 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 the 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.

2.3.

2.4. below details the five steps considered in the determination of the COS study.

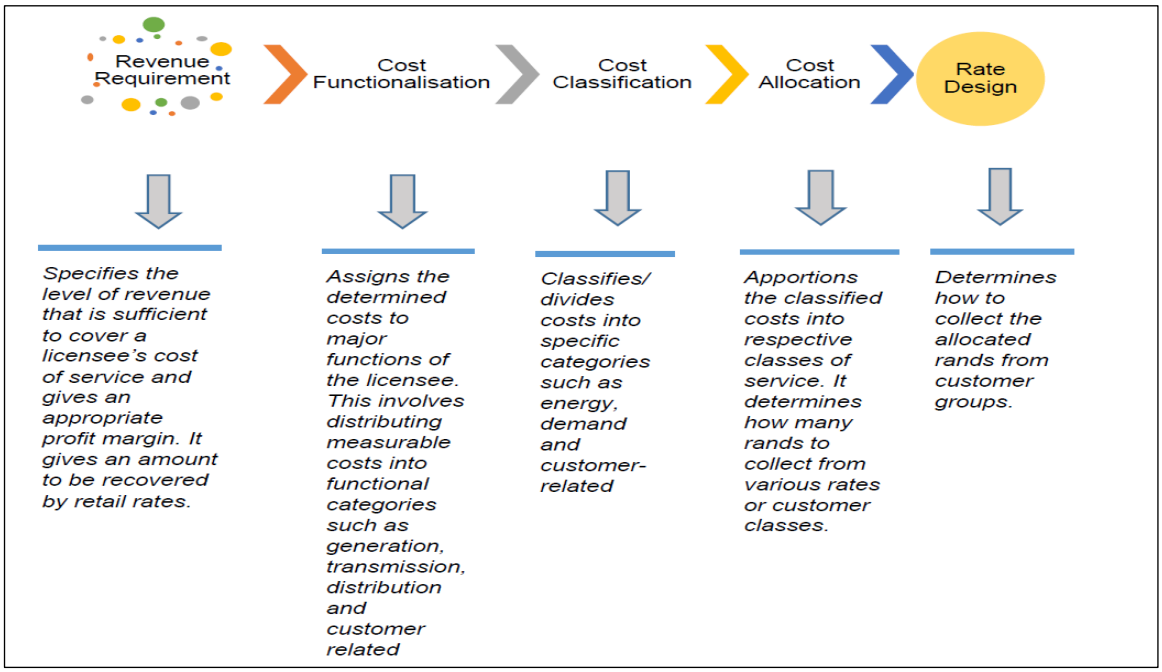


Figure 1: Fives Steps of COS

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

2.5.1. **Revenue Requirement**

2.5.1.1. To be fully cost reflective, the licensee's revenue requirement is R79.1 million for the 2026/27 financial year. This revenue requirement is predominantly Eskom purchases, which accounts for 86%, including energy losses allowance.

Table 4: Revenue Requirement Components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	18 958 286	60 142 971	79 101 257	100%
Energy purchases from Eskom - net of cost of losses	-	60 314 584	60 314 584	76%
Energy purchases from Eskom - cost of losses	6 130 846	1 925 605	8 056 451	10%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	11 119 559	426 400	11 545 959	15%
Other revenues	- 15 600	- 7 991 160	- 8 006 760	-10%
Surplus	1 723 481	5 467 543	7 191 023	9%
Not allowable costs	-	-	-	
Cost of losses disallowed	-	-	-	
TOTAL COSTS	**18 958 286**	**60 142 971**	**79 101 257**	
	24%	**76%**		

2.5.1.2. 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.

2.5.1.3. 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

2.5.1.4. Umuziwabantu applied for bulk purchase expenditure of R68.4 million, which accounts for 86% of total costs. Bulk purchases were verified against the Eskom invoices for the 2024/25 financial year.

2.5.1.5. To calculate the 2026/27 estimate, the licensee projected the year-to-date costs for 2025/26 and increased this cost item by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

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

Operational Expenditure

2.5.1.7. Umuziwabantu applied for operational expenditure of R11.5 million, which accounts for 15% of total costs. Table 5 below provides a breakdown of this expenditure.

Table 5: Operational Expenditure

Cost Drivers	Audited FY2024/25	Applied FY2026/27	Recommended FY2026/27	Variance
General & Other	R 10 878 181	R 11 202 759	R 10 837 114	R 365 646
Salaries and allowances	R 7 248 183	R 7 730 199	R 7 567 103	R 163 096
Materials and supplies	R 1 936 218	R 2 215 500	R 2 021 412	R 194 088
Contracted Services	R 957 502	R 445 860	R 445 860	R -
Salaries, wages and allowances (exclu. Repairs an	R -	R -	R -	R -
Payments to consultants (operational work)	R -	R -	R -	R -
Eskom debts' interests	R -	R -	R -	R -
Current year depreciation	R 515 264	R 572 000	R 572 000	R -
NMD exceedance penalties	R -	R -	R -	R -
Shared OPEX	R 312 617	R 343 200	R 326 330	R 16 870
Bad debts written-off	R 29 925	R 31 200	R 31 200	R -
FBE paid to Eskom	R -	R -	R -	R -
Charges from other Municipal Departments	R -	R -	R -	R -
General Expenses	R 282 692	R 312 000	R 295 130	R 16 870
Total	**R 11 190 798**	**R 11 545 959**	**R 11 163 444**	**R 382 515**

2.5.1.8. NERSA recommends an operational expenditure of R11.1 million in line with the adjustments in Table 6 above, as a result of the following:

a) The audited 2024/25 figures have been escalated in line with expected inflation of 4.4% when compared to the licensee's projected 6%
b) The licensee is not incurring inefficient costs such as Notified Maximum Demand (NMD) exceedance penalties and interest incurred on Eskom-related debt
c) The bad debts are 0.3% of operational expenditure, which is below the NERSA threshold of 5%.

Surplus

2.5.1.9. The municipality applied a cost-plus methodology was utilised, not a rate of return (ROR) approach. 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

2.5.1.10. Umuziwabantu has requested a surplus of R7.1 million, calculated using a surplus factor of 9% applied to operating expenditure, inclusive of bulk purchases, for both the wires and retail components of the business.

2.5.1.11. 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 Cost of Supply framework and the EPP Policy Position 1.

2.5.1.12. The return proposed by the Municipality at 9%, is considered reasonable, although it falls marginally below the established target range of 10–20%.

2.5.1.13. To ensure that the profit margin 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 and ageing infrastructure) and broader financial sustainability requirements, as well as consideration of customer affordability. All these link to the financial sustainability of the Municipality.

2.5.1.14. The applied surplus margin is considered modest and commensurate with these risks, particularly in the context of a municipal distributor that is not profit-maximising but must remain financially viable. Thus, it is NERSA's decision to allow the revenue requirement as applied for.

2.5.1.15. 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 information on these stages is provided below.

2.5.2. Cost Functionalisation

2.5.2.1. The licensee has categorised its revenue requirement of R79.1 million into two primary functional components, namely the wires business (24%) and the retail business (76%), 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.

	Total Functionalised Costs (R)		
Functions	Wires	Retail	Total
Eskom Energy Purchase - excl. losses	-	60 314 584	60 314 584
Eskom Energy Purchase - cost of losses	6 130 846	1 925 605	8 056 451
Other Energy Purchase	-	-	-
CAPEX and return	-	-	-
Depreciation	629 200	-	629 200
Network repairs & maintenance	11 413 555	-	11 413 555
OPEX	784 685	- 2 097 217	- 1 312 533
	18 958 286	60 142 971	79 101 257

Figure 2: Costs Breakdown by Function

2.5.2.2. 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.

2.5.3. Cost Classification

2.5.3.1. 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.

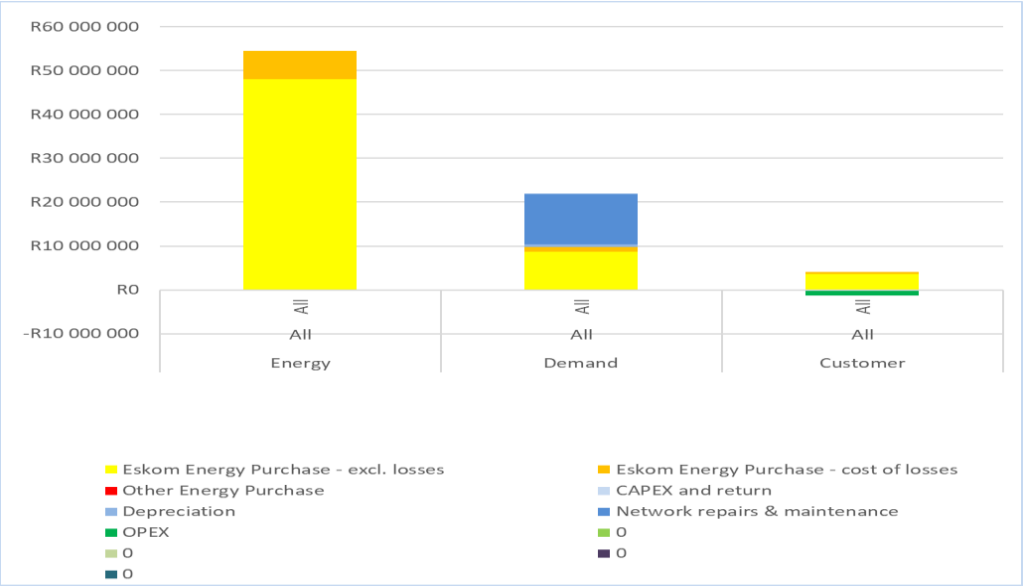


Figure 3: Cost Breakdown by Cost Structure (Classification)

2.5.3.2. 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.

2.5.4. Cost Allocation

2.5.4.1. 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.

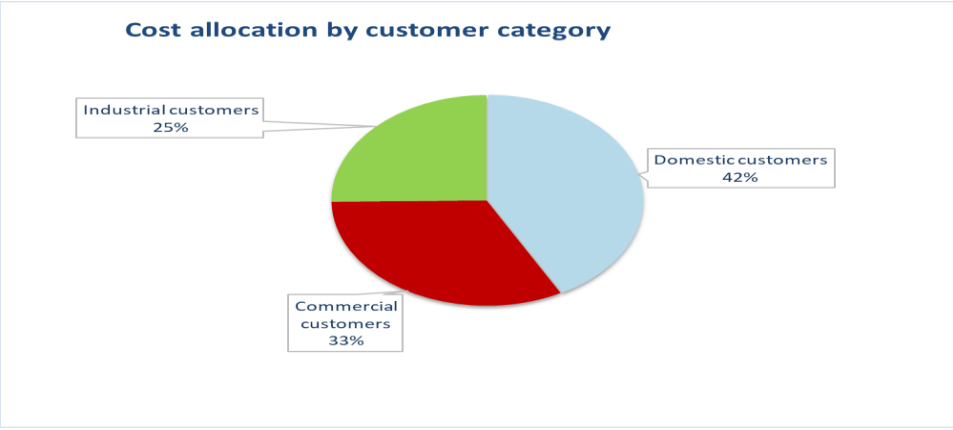


Figure 4: Costs Allocated

2.5.5. **Rate Design**

2.5.5.1. Table 6 below reflects the outcome of the COS study, indicating that certain customer categories require upward adjustments, while others warrant decreases. A comparison between the cost of supply and the revenue generated per tariff category highlights the extent of over- or under-recovery within each category, as illustrated in Table 6 below.

2.5.5.2. The analysis indicates that the domestic customer categories are not cost-reflective and are operating at a significant under-recovery level. In particular, the domestic (prepaid) category reflects an under-recovery of 51%, while the domestic (conventional) category reflects an under-recovery of 32%.

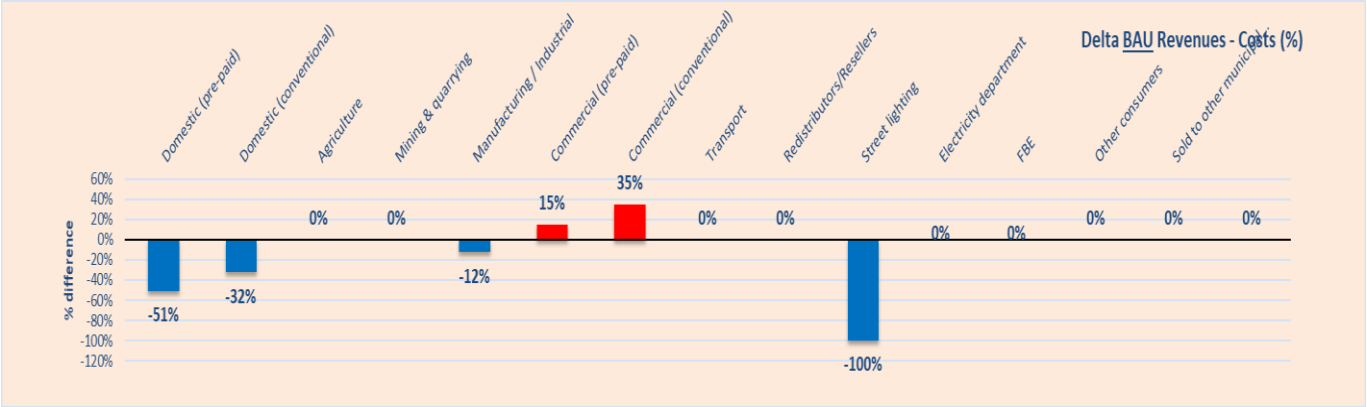
2.5.5.3. This indicates that the revenues generated from these categories are substantially below the cost of supplying electricity, resulting in a funding gap. The shortfall is effectively recovered through cross-subsidisation from other customer categories, primarily non-domestic consumers.

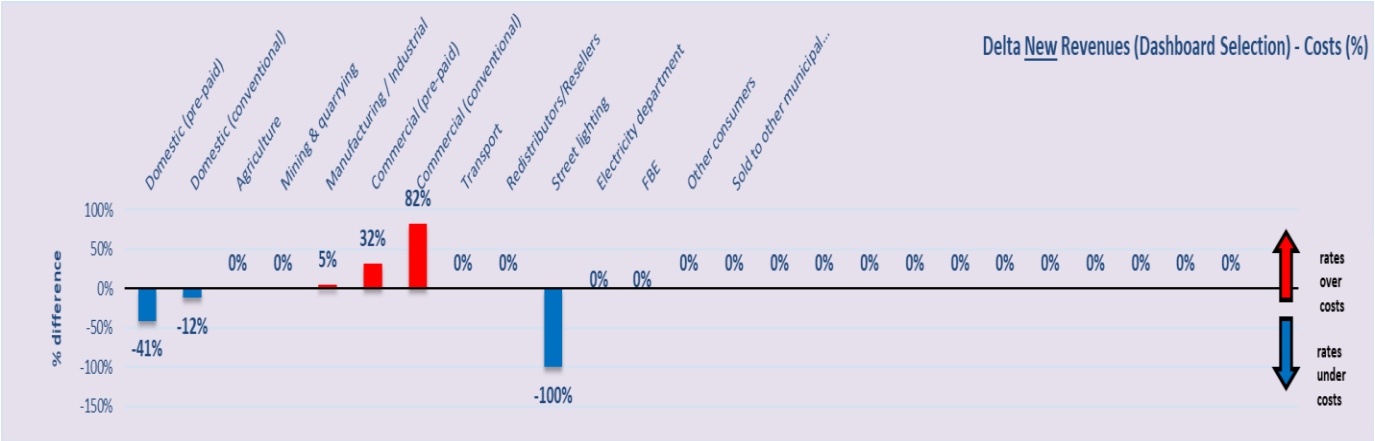
2.5.5.4. While NERSA acknowledges that a degree of cross-subsidisation is permissible to support affordability objectives, the magnitude of the under-recovery in the domestic categories is significant and may not be sustainable in the long term.

2.5.5.5. The municipality is therefore encouraged to progressively align domestic tariffs with cost-reflective levels, while ensuring that support to indigent customers is appropriately targeted and transparently funded.

2.5.5.6. To achieve full cost reflectivity, the municipality would be required to implement differentiated tariff adjustments across customer categories. However, the municipality has adopted a less aggressive approach, opting instead for a proposed uniform tariff increase of 11.0% across all customer categories.

Table 6: Revenue Recovery by Customer Category





2.5.5.7. The analysis of the difference between Business-As-Usual (BAU) revenues and costs across customer categories reveals significant imbalances in cost recovery, with certain categories either over-recovering or under-recovering their allocated costs.

2.5.5.8. The municipality's tariff structure is not cost reflective, as evidenced by significant under-recovery in domestic customer categories and over-recovery in commercial categories. This results in excessive and unsustainable cross-subsidisation.

2.5.5.9. The municipality must, in the next tariff application:

a) implement a phased tariff restructuring plan to gradually align domestic tariffs closer to cost-reflective levels while protecting indigent households;
b) reduce over-recovery from commercial customers to within acceptable benchmarks; and
c) provide a clear and transparent cross-subsidisation policy supported by its COS study.

3. CONCLUSION ON THE COS

3.1. 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.

3.2. 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.

3.3. 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.

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

3.5. 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.

3.6. The COS study results indicate a required increase of 54.9%, as illustrated in Figure 5 below. However, in an effort to mitigate the impact on customers, the licensee has proposed a lower increase of 11%. Based on the available information, the municipality is expected to remain financially sustainable under the proposed tariff increase of 11%.

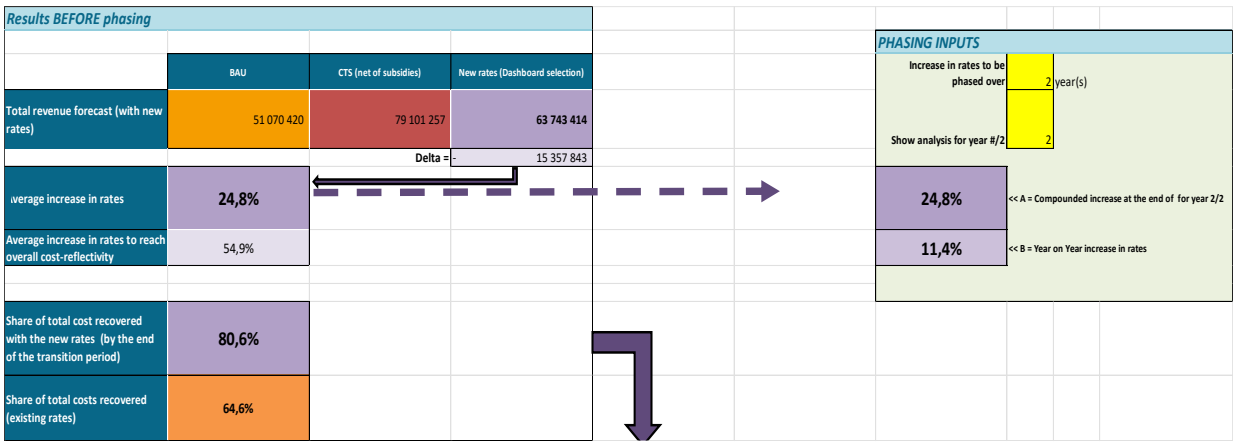


Figure 5: Rate Design

Page 21 withheld by Unmapped Dataworks.

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objections or comments, which names members of the public.
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The whole decision is on NERSA's website:
https://www.nersa.org.za/file/9342/UmuziwabantuMunicipality_ReasonsforDecisionontariffapplicatio

	DETAILS OF TARIFFS APPLIED FOR				
	2025/26 Approved	2026/27 Proposed	% increase	Recommended Tariff	Recommended % increase
1. Domestic Prepaid					
Block 1 - (0 - 50kWh)	1,922	2,133	11,00%	2,133	11,00%
Block 2 (51 - 350kWh)	2,471	2,743	11,00%	2,743	11,00%
Block 3 (351 - 600)	3,478	3,860	11,00%	3,860	11,00%
Block 4 > 600kWh	4,090	4,540	11,00%	4,540	11,00%
2. Domestic Conventional					
Block 1 - (0 - 50kWh)	1,922	2,133	11,00%	2,133	11,00%
Block 2 (51 - 350kWh)	2,471	2,743	11,00%	2,743	11,00%
Block 3 (351 - 600)	3,478	3,860	11,00%	3,860	11,00%
Block 4 > 600kWh	4,090	4,540	11,00%	4,540	11,00%
Basic Charge R/Month	447,000	496,170	11,00%	496,170	11,00%
3. Municipal Offices					
Office - Basic Charge (R/Month)	447,000	496,170	11,00%	496,170	11,00%
Office - Consumption (c/kWh)	2,613	2,901	11,00%	2,901	11,00%
4. Small Power User Conventional					
Basic Charge R/Month	2 447,000	2 716,170	11,00%	2 716,170	11,00%
Consumption (c/kWh)	3,134	3,479	11,00%	3,479	11,00%
5. Large Power User Conventional					
5.1 Large Power User (0 - 50kVA)					
Basic Charge R/Month	2 485,510	2 758,910	11,00%	2 758,910	11,00%
Consumption (c/kWh)	3,821	4,241	11,00%	4,241	11,00%
5.2 Large Power User (51 - 75kVA)					
Basic Charge R/Month	6 332,000	7 028,520	11,00%	7 028,520	11,00%
Consumption (c/kWh)	3,729	4,140	11,00%	4,140	11,00%
5.3 Large Power User (76 - 100kVA)					
Basic Charge R/Month	12 426,570	13 793,495	11,00%	13 793,495	11,00%
Consumption (c/kWh)	3,592	3,987	11,00%	3,987	11,00%
5.4 Large Power User (> 100kVA)					
Basic Charge R/Month	24 854,030	27 587,968	11,00%	27 587,968	11,00%
Consumption (c/kWh)	3,508	3,894	11,00%	3,894	11,00%
Prepaid Business - c/kWh	4,156	4,613	11,00%	4,613	11,00%

7. CONFIDENTIALITY

3.6. None.

8. CONCLUSION

3.7. NERSA, having considered the Umuziwabantu 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.