NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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The Decision and Reasons for Decision

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

by

Matatiele Local Municipality

THE DRAFT DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered the Matatiele 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 of the RFD
Based on the information submitted and the analysis conducted, the REC decided to:

1. approve the tariffs that are based on the Cost of Supply (COS) report as recommended in the tariff analysis section for implementation by the licensee with effect from 1 July 2026;

2. to note the COS report submitted by the licensee;
3. that the licensee must submit a report accounting for all the costs that have been noted in its COS study to enable the National Energy Regulator of South Africa (NERSA) to perform its independent verification/audit process by 30 January 2027; and
4. that the municipality must submit a quarterly progress report on efficiency improvement measures taken to reduce high energy losses and deficit for NERSA to monitor the implementation thereof by 30 September 2026.

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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
MLM	Matatiele 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. NERSA received Matatiele Local Municipality's tariff application together with its Cost of Supply (COS) study on 31 March 2026. The Municipality revised its COS because of changes in Eskom tariffs.

1.3. The table below indicates customer statistics from Matatiele Municipality. Data was obtained from the 2024/25 financial year Distribution forms (D-forms).

Table 1: Customer Statistics

CUSTOMER STATISTICS (OBTAINED FROM DISTRIBUTION FORMS)			
Consumer classification	Sales (MWh)	%MWh	Number of consumers
Domestic (Pre-paid)	7 431	27,76%	4 045
Domestic (Conventional)	624	2,33%	18
Commercial (Pre-paid)	4 389	16,39%	722
Commercial (Converntional)	12 481	46,62%	105
Other consumers	1 515	5,66%	38
Street lighting and Own Use	333	1,24%	
Totals	26 773	100%	4 928

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

1.5. NERSA's decision was made on 30 April 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 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 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. 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 NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and perform the functions set out in the ERA. The Energy Regulator'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 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 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 2025/2026 municipal tariff approvals did not comply with the procedural requirements of section 4 of PAJA and was therefore unlawful.

2.7.3. However, recognising the potentially disruptive consequences of setting aside tariff determinations already implemented by municipalities, the Court declined to invalidate the tariffs. Instead, to assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

2.7.4. NERSA subsequently launched a variation application which sought to vary the timelines which were set by the Court on 4 December 2025, considering the practical difficulties which arose in relation 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. 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 Matatiele, the assessment relied on the D-forms for the 2024/25 financial year submitted as part of the licensee's tariff application. The information contained in the D-forms was verified against the supporting source documents provided by the municipality, including the trial balance and annual financial statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

3.2. Matatiele's electricity business operated at a percentage deficit of -44.59% in the 2024/25 financial year. The municipality indicated that this is a result of bad debts, Notified Maximum Demand penalties and interest charged by Eskom. The municipality is encouraged to settle Eskom debt and pay Eskom on time to avoid interest penalties.

3.3. Table 3 below shows that in terms of energy losses; the municipality operated at 7.87% in the 2024/25 financial year and it is acceptable.

Table 2: Performance Indicators

Indicators	2023/24	2024/25
Percentage Surplus/Deficit	-35.97	-44.59
Percentage Energy Losses	9.98	7.87

3.4. The above information indicates that the financial performance of the municipality is not satisfactory, while the technical performance is satisfactory. This is evident from a huge percentage deficit and reasonable energy losses.

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

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

4.2. Matatiele utilised the COS study model developed by Sustainable Energy Africa (SEA) to determine its revenue requirements for the 2026/27 financial year and to apportion costs required to service each customer's class in a fair and equitable manner. The study follows the NERSA COS Framework and utilises the latest available audited data, which is based on the 2024/25 financial year.

4.3. Figure 1 below details the five steps considered in the determination of the COS study.

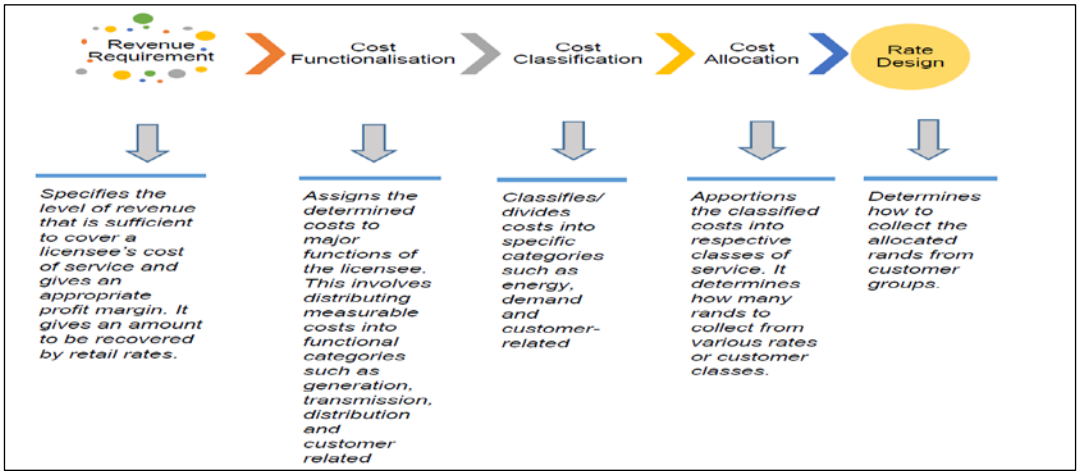


Figure 1: Five steps of COS

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

4.4.1. **Revenue Requirement**

4.4.1.1. To be fully cost reflective, the licensee's revenue requirement is R160 279 575 for the 2025/26 financial year. This revenue requirement is dominated by Eskom purchases, accounting for 66%, while operational expenditure accounts for 17%.

Table 3*:* Revenue Requirement Components

Revenue Requirement components	Total cost (R) Wires	Retail	Total	% of Total
Allowable costs	35 095 749	125 183 825	160 279 575	100%
Energy purchases from Eskom - net of cost of losses	-	106 577 287	106 577 287	66%
Energy purchases from Eskom - cost of losses	11 826 881	1 888 731	13 715 612	9%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	20 269 446	7 666 360	27 935 805	17%
Other revenues	- 191 100	- 2 328 900	- 2 520 000	-2%
Surplus	3 190 523	11 380 348	14 570 870	9%
Not allowable costs	-	-	-	
Cost of losses disallowed	-	-	-	
TOTAL COSTS	**35 095 749**	**125 183 825**	**160 279 575**	
	22%	78%		

4.4.1.2. The efficiency of costs for the 2024/25 financial year has been assessed, as this constitutes the most recent set of actual data. This assessment serves as the baseline for projecting costs for the 2026/27 financial year, applying stated assumptions to determine the revenue requirement for that period.

4.4.1.3. All expenses included in the revenue requirement have been examined to confirm that they pertain exclusively to the licensee's electricity function. Where any amounts were found to be inflated or insufficiently substantiated, adjustments have been made accordingly, as detailed below.

Bulk Purchases

4.4.1.4. Matatiele submitted an application for bulk purchase expenditure amounting to R106 577 287, representing 66% of total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

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

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

Operational Expenditure

4.4.1.7. Matatiele has applied for operational expenditure totalling R27 935 805, representing 17% of overall costs, as reflected in Table 3 above.

Table 4: Opex

Funtions	**Total**
Depreciation	4 681 778.00
Repairs & Maintenance	5 353 261.00
Other Expenses	17 900 766.00
Total	27 935 805.00

4.4.1.8. The approach adopted by Matatiele in forecasting operational expenditure is considered reasonable, and the amount has therefore been approved as requested. However, inefficient cost components – such as NMD exceedance penalties and interest incurred on Eskom-related debt – have been excluded from the total, as these items fall within the municipality's control.

Surplus

4.4.1.9. Matatiele has requested a surplus of R14 570 870, 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.

4.4.1.10. The risk associated with the surplus is high financial defict.

4.4.1.11. 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.

4.4.2. Cost Functionalisation

4.4.2.1. The licensee has categorised its revenue requirement of R160 279 575 into two primary functional components, namely the wires business (22%) and the retail business (78%), in accordance with the NERSA COS Framework, as illustrated in Figure 2 below. On verification, the allocation of costs to these functional components is consistent with the stated revenue requirement.

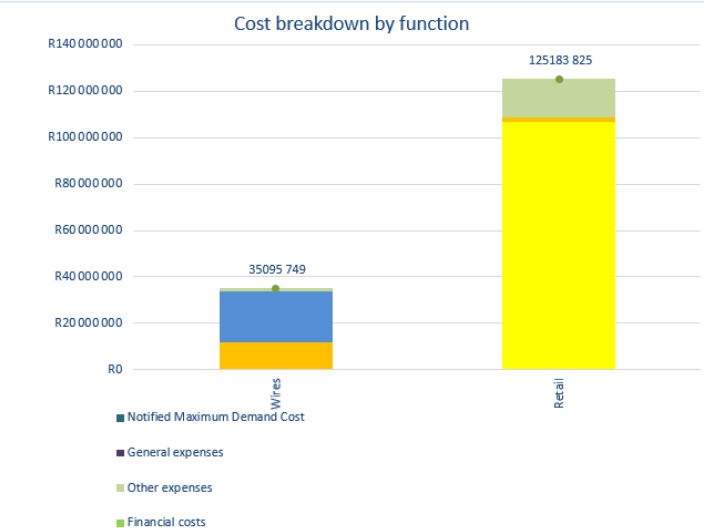


Figure 2*:* Cost Breakdown by Functions

4.4.2.2. These costs, on verification, are consistent with the approved revenue requirements. Network repairs and maintenance are the predominant cost drivers in the wires business, while energy purchases are the primary cost driver in the retail business.

4.4.3. **Cost Classification**

4.4.3.1. The licensee has classified its costs into energy, demand, and customer-related cost components, in accordance with the NERSA COS Framework. The costs align with revenue requirements and cost functionalisation on verification.

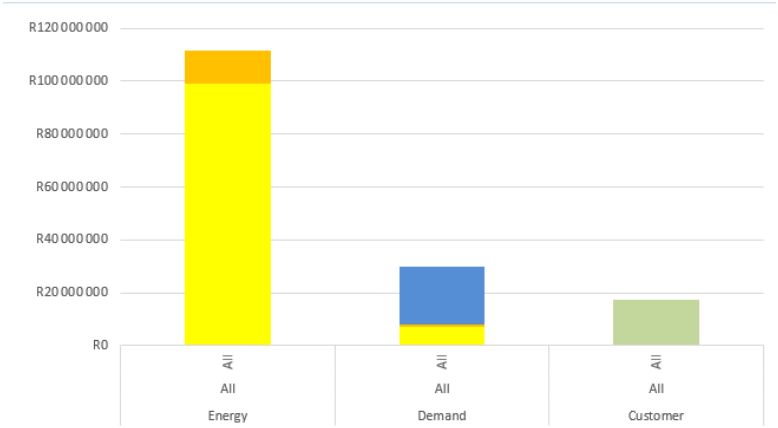
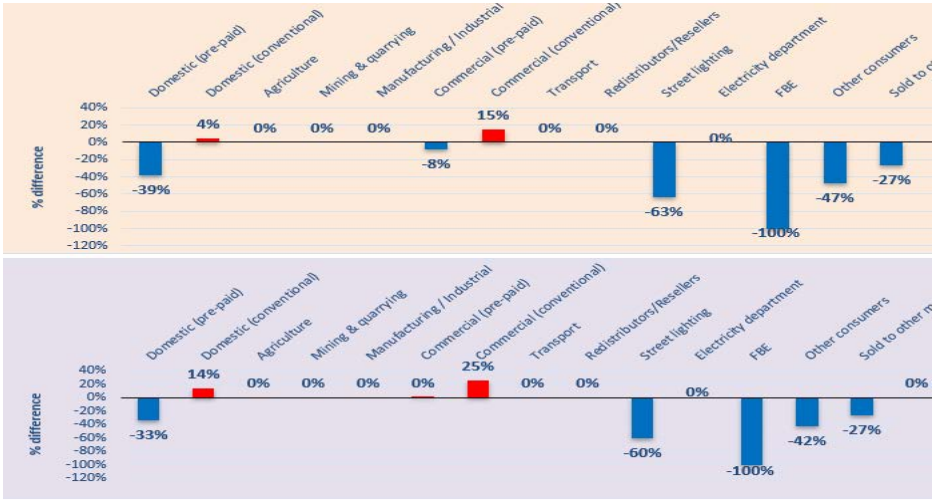


Figure 3*:* Cost Breakdown by Cost Structure (Classification)

4.4.3.2. Energy purchases constitute energy-driven costs, with the highest expenditure incurred during the summer period under the standard time-of-use structure, largely due to the longer duration of the summer season. Demand-driven costs are similarly concentrated in the summer period. Customer-driven costs are primarily associated with “Other OPEX,” which includes expenses related to providing electricity distribution services to customers.

Figure 4: Revenue Recovery by Ccustomer Category



5. CONCLUSION ON THE COS

5.1. The licensee is applying for a 9.10% average increase in rates.

5.2. In addition, the licensee may take into account its ability to meet financial obligations, including payments to Eskom, as well as the broader affordability constraints faced by customers, in determining the appropriate trajectory for tariff adjustments.

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

5.4. 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.

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Commercial Three-Phase	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge R/month	*3 499.71*	*9.10%*	*3 818.19*	*3 818.19*	*9.10%*	*Approve tariff*
Energy Charge (c/*kWh)*	*374.06*	*9.10%*	*408.10*	*408.10*	*9.10%*	*As re commended from COS average increase*

Schools and Hotels	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge R/month	*675.40*	*9.10%*	*736.86*	*736.86*	*9.10%*	*Approve tariff*
Energy Charge (c/*kWh)*	*254.17*	*9.10%*	*277.30*	*277.30*	*9.10%*	*As recommended from COS average increase*

Industrial Large Power User	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***Recommended % Increase***	***Analysis and Key Findings***
Basic Charge R/month	*20 477.56*	*9.10%*	*22 341.02*	*22 341.02*	*9.10%*	*Approve tariff as recommended from COS*
Energy Charge (c/*kWh)*	*374.06*	*9.10%*	*408.10*	*408.10*	*9.10%*	*Average increase*

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

10.1. From a conspectus of the facts and evidence presented to the REC, it is appropriate to consider the review of Matatiele Local Municipality's tariff application for the 2026/27 financial year.

End.