NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

City of Matlosana Local Municipality

THE DECISION

1. At its meeting held on 4 May 2026, the Regulator Executive Committee (REC) considered the City of Matlosana Local Municipality's tariff application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year, as set out in section 7 of this document.

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

    2.1. to approve the tariffs that are based on the cost drivers, as recommended in the tariff analysis section, for implementation by the municipality with effect from 1 July 2026;
    2.2. to note the cost drivers submitted by the municipality;
    2.3. that the municipality must submit a report accounting for all the costs noted in its cost drivers to enable the National Energy Regulator of South Africa (NERSA) to perform its independent verification/audit process by 31 January 2027; and
    2.4. that the municipality must continue to monitor the plans put in place to reduce high energy losses and submit the progress report to NERSA on a quarterly basis, commencing 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
CMLM	City of Matlosana 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), in accordance with its statutory mandate, regulates electricity prices and tariffs and assesses tariff applications submitted by licensees on an annual basis. As part of this process, municipal electricity tariffs must be approved by the Energy Regulator before implementation, which typically takes effect on 1 July of each financial year.

1.2. The City of Matlosana Local Municipality (CMLM) is located in the North West and has a total electricity customer base of 65 819. The domestic customer category accounts for 43% of total electricity sales, followed by manufacturing customers at 30%. This reflects the significant contribution of domestic customers to the municipality's electricity sales and indicates the importance of this customer category within the licensee's overall sales structure.

1.3. The municipality provides Free Basic Electricity (FBE) of 50 kWh per month to registered indigent customers, in line with national policy objectives aimed at ensuring access to basic energy services for low-income households. Detailed customer statistics and consumption patterns are reflected in Table 1 below.

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

Customer categories	***KWh***	***% KWh***	***Customer numbers***
Domestic(Prepaid)	65 120	20%	50 500
Domestic(Conventional)	74 708	23%	11 625
Manufacturing	94 913	30%	122
Commercial	65 023	20%	3 398
Street Lighting	3 334	1%	N/A
Own use	2 044	1%	15
Sold to other departments	11 332	4%	158
General(Other)Midvaal	2 510	1%	1
TOTAL	318 984	100,00%	65 819
FBE	2 687	1,92%	25 047

1.4. NERSA received the municipality's tariff application and its existing cost of supply (COS) study on 31 March 2026.

1.5. The municipality implemented an average price increase of 9.3% in the 2025/26 financial year and is applying for an average price increase of 9.5% for the 2026/27 financial year.

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

1.7. NERSA's decision was made on 4 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 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 ('the 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 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 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 primarily governed by the ERA. Section 3 of the ERA provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and is responsible for exercising regulatory authority over all activities regulated in terms of 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. Therefore, public participation processes conducted by the Energy Regulator 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 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 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 seeking to vary the timelines set by the Court on 4 December 2025, in light of practical difficulties that arose regarding 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 must be communicated 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) NERSA decisions must be published 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 tariffs and the tariff reasons for decision documents 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 these 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. Level of Reliability of Information

3.1.1 In evaluating the financial and technical performance of CMLM, the assessment was based on the 2024/25 Distribution forms (D-forms) submitted with the tariff application. The data was verified against supporting documents (e.g. trial balance/annual financial statements) and is therefore considered reliable for tariff analysis purposes.

3.1.2 Table 2 below shows CMLM's technical and financial performance.

Table 2: Technical and financial performance

Perfomance Indicators: Obtained from D-Form		
Financial and Technical Indicators	2023/24	2024/25
Percentage Surplus (Deficit) %	-22,16	-34,12
Percentage Energy Losses %	42,93	44,25

3.2. Percentage Surplus

3.2.1. The municipality operated at a deficit of 34.12% in 2024/25, increasing from 22.16% in 2023/24, indicating a decline in the financial position of the electricity business. NERSA further notes that high energy losses and a 37% increase in finance costs have weakened cost recovery and negatively affected the financial performance of the electricity business. The municipality is required to implement measures to curb energy losses to ensure long-term financial and operational sustainability.

3.3. Energy Losses

3.3.1. The municipality's energy losses have increased to 44.25% in the 2024/25 financial year, from 42.93% in the 2023/24 financial year. The high energy losses are mainly caused by ageing and poorly maintained infrastructure, resulting in technical losses such as power leaks and network inefficiencies. The municipality needs to prioritise infrastructure refurbishment and maintenance to improve network efficiency, strengthen metering and monitoring systems, and implement measures to detect and prevent illegal connections.

3.4. General Conclusion on the Financial and Technical Indicators

3.4.1. In conclusion, NERSA determines that persistently high energy losses and an increase in finance costs have weakened cost recovery and adversely impacted the municipality's financial performance. The municipality must therefore prioritise infrastructure refurbishment, strengthen metering and monitoring systems, and implement effective measures to curb illegal electricity connections, thereby improving efficiency and ensuring financial and operational sustainability.

4. DETERMINATION OF CMLM TARIFFS BASED ON THE COS ADJUSTED DATA

4.1. The licensee submitted its existing COS study, which supports the tariff application, which will be approved in the 2026/27 financial year. The licensee's COS study included all requirements of the NERSA COS Framework (i.e. revenue requirement, costs functionalisation, costs classification, costs allocation and rate setting).

4.2. 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 the October 2023 NERSA 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 3 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 volume that are the base for 2026/27 tariffs. The figures were tested for reasonableness (since at the time of 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 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 the allowable revenues the licensee must recover in 2026/27FY.

4.5. The COS study is applicable for five years; however, municipalities need to reflect the adjustments on their cost drivers for 2026/27FY. NERSA used the budgeted figures submitted by the licensee to check the reasonableness as well as the licensee's current operational requirements to ensure that municipalities do not over- or under-recover during the 2026/27 tariff review process.

4.6. To determine an increase applicable for the 2026/27 financial year, the licensee submitted its projected costs as requested by NERSA, with a total required revenue of R1 410 475 408 for the 2026/27 tariff review.

Table 3: Municipality's revenue requirement

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	318 984 228	322 132 624	328 575 277		328 575 277
Eskom bulk purchases	kWh	558 963 578	557 865 076	569 022 378		569 022 378
Total Energy Requirements	**kWh**	**558 963 578**	**557 865 076**	**569 022 378**		**569 022 378**
Total Losses	kWh	239 979 350	235 732 452	240 447 101		240 447 101
Technical losses	kWh	67 075 629	66 943 809	68 282 685	-	68 282 685
Non-technical losses	kWh	-172 903 720	-168 788 643	-172 164 416	-	-172 164 416
Allowed losses	%	**12,00%**	**12,00%**	**12,00%**		**12,00%**
Total Energy losses	%	42,93%	42,26%	42,26%		42,26%
Cost drivers						
Energy purchases from Eskom	Rand	811 592 116	910 523 791	1 012 413 224		1 012 413 224
total energy purchases		**811 592 116**	**910 523 791**	**1 012 413 224**	**0**	**1 012 413 224**
Operational expenditure (incl. Depreciation)	**Rand**	**246 954 703**	**255 741 710**	**265 832 880**	**0,0**	**265 832 880**
Total Expediture before surplus		1 058 546 819	1 166 265 501	1 278 246 104		1 278 246 104
Surplus	Rand	151 653 527	167 454 905	183 975 053	0	183 975 053
Total Expenditure Including Surplus		1 210 200 346	1 333 720 406	1 462 221 157	0	1 462 221 157
Other revenues	Rand	**-47 523 304**	**-49 899 469**	**-51 745 750**	**0**	**-51 745 750**
Total Allowable Revenus	**Rand**	**1 162 677 042**	**1 283 820 937**	**1 410 475 408**	**0**	**1 410 475 408**
increase required				***9,87%***	***9,87%***	

4.7. It is important to test the efficiency and prudency of the costs in the 2025/26 financial year since these are the most recently considered revenues in support of the approved tariffs during this period. This forms the basis for projecting costs for the 2026/27 financial year, using assumptions to calculate the revenue requirement.

4.8. Furthermore, NERSA has verified all expense items included in the revenue requirement 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. The licensee applied for bulk purchase costs of R1 012 413 224, representing approximately 72% of total costs. This includes an energy loss allowance of 12%, which was assessed against prudency and efficiency principles in line with the ERA.

4.10. To get to the 2026/27 financial year estimate, the licensee projected the year-to-date amount for the 2025/26 financial year 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 Eskom Retail Tariff Structural Adjustments (ERTSA).

4.11. The approach CMLM used to forecast bulk purchase costs is considered reasonable. Accordingly, the bulk purchase expenditure is recommended for approval as submitted.

Operating Expenditure (Including Depreciation)

4.12. CMLM applied for operational expenditure amounting to R265 832 880, representing 19% of the total costs for the 2026/27 financial year, as reflected in Table 3 above.

4.13. The municipality utilised recent actual financial data as a basis to project the 2025/26 financial year costs and escalated the 2026/27 financial year costs using assumed cost drivers. NERSA is satisfied that the approach used to forecast operational expenditure is reasonable.

4.14. NERSA notes that the municipality excluded interest on Eskom debt from the total cost, as these costs are within the municipality's control and are not recoverable through tariffs.

Surplus

4.15. The licensee applied for a surplus of R183.975 053, which accounts for 13% of total costs.

4.16. In recommending a surplus, NERSA relied on section 15(1)(a) of the 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 CMLM recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation.

Conclusion on Costs to Serve

4.17. NERSA has assessed the licensee's COS study and is satisfied that it provides an appropriate and credible basis for determining cost-reflective tariffs. The noted allowable revenue of R1 283 820 937 for the 2025/26 financial year was derived from the COS study and associated sales volumes, thereby establishing a sound baseline for tariff setting.

4.18. While the COS study is applicable for a five-year period, NERSA evaluated the adjustments to cost drivers for the 2026/27 financial year using the budgeted information submitted by the licensee to ensure the continued relevance, accuracy and reasonableness of the costs. This assessment was undertaken to ensure that the licensee neither over-recovers nor under-recovers its efficiently and prudently incurred costs.

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Block 5 (>1500)	403,76	9,50%	442,12	442,12	9,50%	while ensuring a gradual move toward cost reflectivity.
Basic Charge	250,34	9,50%	274,12	274,12	9,50%	

3. Domestic Supply Prepaid/Conventional for Amateur Sporting Clubs, Charitable Institutions, Churches, Council Hostels, Government Dwellings, Private Dwelling-Houses, Residential Flats, Retirement and Care Centres and Townhouses	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and Key Findings
Block 1 (0- 50kWh)	194,21	9,50%	212,66	212,66	9,50%	The proposed increase remains marginally below the COS benchmark, indicating limited under-recovery. The tariff continues to support socially sensitive customers while maintaining a balance between affordability and cost recovery.
Block 2 (51- 350kWh)	248,28	9,50%	271,87	271,87	9,50%	
Block 3 (351- 600kWh)	333,86	9,50%	365,58	365,58	9,50%	
Block 4 (601- 1500kWh)	383,49	9,50%	419,92	419,92	9,50%	
Block 5 (>1500)	403,76	9,50%	442,12	442,12	9,50%	
Basic Charge	250,34	9,50%	274,12	274,12	9,50%	

4. Domestic Bulk	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended increase	Analysis and Key Findings
Basic Charge (R/M)	250,34	9,50%	274,12	274,12	9,50%	The 9.5% increase is slightly below the COS benchmark, resulting in minor under-recovery of both energy and fixed costs. While this

						supports affordability for bulk residential users, the municipality should continue aligning tariffs with cost-reflective levels.
Energy Charge (c/kWh)	386,13	9,50%	422,81	422,81	9,50%	

5. Commercial Prepaid/ Conventional and Business/Institutions	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and Key Findings
Basic Charge (R/M)	498,85	9,50%	546,24	546,24	9,50%	The increase is marginally below the COS benchmark, indicating limited under-recovery. The tariff adjustment remains reasonable, balancing cost recovery with the need to limit the financial impact on businesses.
Low Season Energy Charge (c/kWh)	376,01	9,50%	411,73	411,73	9,50%	
High Season Energy Charge (c/kWh)	383,69	9,50%	420,14	420,14	9,50%	

6. Industrial Low Tension	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and Key Findings
Basic Charge (R/M)	3 206,28	9,50%	3 510,88	3 510,88	9,50%	The 9.5% increase across energy, demand and fixed charges is slightly below the COS benchmark, resulting in minor under-recovery. The tariff remains broadly cost-
Low season Energy Charge (c/kWh)	225,63	9,50%	247,06	247,06	9,50%	

High Season Energy Charge (c/kWh)	322,56	9,50%	353,20	353,20	9,50%	reflective while supporting industrial competitiveness.
All-Season Demand Charge	463,62	9,50%	507,66	507,66	9,50%	

7. Industrial High Tension	2025/26 Approved Tariffs	2026/27 Proposed % Increase	2026/27 Proposed Tariffs	2026/27 Recommended Tariffs	2026/27 Recommended Increase	Analysis and Key Findings
Basic Charge (R/M)	2 144,01	9,50%	2 347,69	2 347,69	9,50%	The proposed increase is marginally below the COS benchmark, indicating slight under-recovery. The tariff structure remains appropriate for high-consumption users and continues to support cost recovery while limiting impacts on large industrial customers.
Basic Charge(R/M) (Midvaal)	10 440,99	9,50%	11 432,88	11 432,88	9,50%	
Low Season Energy Charge (c/kWh)	227,36	9,50%	248,96	248,96	9,50%	
High Season Energy Charge (c/kWh)	331,34	9,50%	362,82	362,82	9,50%	
All-Season Demand Charge	447,59	9,50%	490,11	490,11	9,50%	

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

9.1. The Energy Regulator, having considered the City of Matlosana Local Municipality application, supporting information, stakeholder inputs, and applicable legal framework, approves the tariff adjustments as set out in this Reasons for Decision.

End.