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

Hantam Municipality

THE DECISION

At its meeting held on 6 May 2026, the Regulator Executive Committee (REC) considered Hantam 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 the Tariff Analysis Section 6 from page 17 of the RfD document.

Based on the available information, public comments and the analysis performed, the REC, at its meeting held on 6 May 2026, decided:

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. to note the cost information submitted by the municipality; and

3. that the municipality must submit, by 31 January 2027, an audited financial report accounting for all costs that have been noted, to enable the National Energy Regulator of South Africa to perform its independent verification audit.

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ABBREVIATIONS AND ACRONYMS

COS	Cost of Supply
D-form	Distribution form
EPP	Electricity Pricing Policy for the South African Electricity Supply Industry, 2008
ERA	Electricity Regulation Act, 2006
ERTSA	Eskom Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
HM	Hantam Municipality
IBT	Inclining Block Tariff
IPP	Independent Power Producer
MFMA	Municipal Finance Management Act, 2003
NERA	National Electricity Regulation Act, 2004
NERSA	National Energy Regulator of South Africa
NMD	Notified Maximum Demand
OPEX	Operating Expenditure
PAJA	Promotion of Administrative Justice Act, 2000
RCA	Regulatory Clearing Account
SSEG	Small-Scale Embedded Generation

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications on an annual 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. Hantam Municipality (HM) is situated in the Northern Cape. The municipality's customer base is predominantly domestic, with this category accounting for 54.92% of total electricity sales. HM provides qualifying indigent customers with 50 kWh of Free Basic Electricity (FBE) per month and maintains an indigent register. Details of the municipality's customer statistics are set out in Table 1 below.

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

Customer categories	MWh	% MWh	Customer numbers
Domestic Prepaid	6 146	46.51%	2 610
Domestic Conventional	1 904	14.41%	285
Commercial	4 979	37.68%	219
Street Lighting	186	1.41%	0
Total	**13 215**	**100**	**3 114**
Free Basic Electricity (FBE)	365	5	675

1.3. NERSA received HM's tariff application on 31 March 2026. The application is based on an existing Cost of Supply (COS) study, valid from the 2025/26 to the 2029/30 financial years.

1.4. HM implemented a 10.00% average price increase in the 2025/26 financial year (FY) and is applying for an average price increase of 9.00% for the FY2026/27.

1.5. In accordance with NERSA's requirements, all tariff applications must include confirmation that the proposed tariffs have been approved by the municipal council and have undergone a customer consultation process.

1.6. For this application, the municipality confirmed that its council meeting had been held on 26 March 2026. The municipality submitted the council resolution and proof of customer consultation together with the tariff application on 31 March 2026.

1.7. NERSA followed its own public consultation process. On 31 March 2026, NERSA published HM's tariff application on its website and various social media platforms, as well as in national and local newspapers, to solicit written comments from affected parties by 21 April 2026.

1.8. NERSA's decision was made on 6 May 2026, taking into consideration the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. EGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of municipal electricity tariffs constitutes NERSA's 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 Mmanagement Act, 2003 (Act No. 56 of 2003) (MFMA).

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

2.1.4. This section provides the legal and policy context within which NERSA 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 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:

- section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions;

- section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs; and
- 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 PAJA. Accordingly, NERSA 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 NERSA 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 of the EPP 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 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 for the FY2025/26 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 help ensure municipal tariffs are approved on time and in line with the law, the Court issued a structural interdict to guide the 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, considering the practical difficulties which arose as they relate 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 FY2026/27 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:

- Written notice of bulk tariffs must be given by 6 March 2026.
- Municipal tariff applications must be submitted by 31 March 2026.
- Public participation processes must be concluded by 21 April 2026.
- NERSA decisions must be published by 11 May 2026.

2.8.2. Municipal tariff approvals from the FY2027/28 shall comply with the following timelines:

- Written notice of bulk electricity tariffs must be communicated by 31 January each year.
- Municipal tariff applications must be submitted to NERSA by 20 March each year.
- 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 comprising 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 stated in this document demonstrate how NERSA 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 HM, the assessment relied on the Distribution forms (D-forms) for the 2024/25 financial year that were 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. HM's electricity business operated at a percentage deficit margin of 3.75%[1] in the 2024/25 financial year, a material decrease from 0.61% in the 2023/24 financial year. The decline in surplus can primarily be attributed to the licensee's cost pressures outpacing its sales revenue during the reporting period. The revenue growth of 16.00% in the current reporting period has been eroded by expenditure growth of 20%. This gap is the core driver of the declining surplus margin.

3.3. Table 2 below shows that HM's energy losses improved slightly from 11.37% in the 2023/24 financial year to 11.17% in the 2024/25 financial year. The municipality is encouraged to maintain lower levels in terms of its losses and possibly continue improving its collection rate, which has notably improved during the period under review.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
Performance Indicator	**FY2023/24 (Approved)**	**2024/25 (Actuals)**
Percentage Surplus (Deficit): (%)	0.61	-3.75
Percentage Energy Losses: (%)	11.37	11.17

3.4. Based on the above information, the municipality's electricity business is under immense pressure, as evidenced by the operating deficit margin declining to 3.75%. This weakening margin highlights increased vulnerability to financial and operational risks. The licensee ought to apply strong financial controls and continue implementing its energy loss reduction plans to mitigate risks of long-term unsustainability. With the measures currently in effect, the energy losses have marginally decreased, while the credit collection rate has increased significantly by 6.7%.

[1] Percentage Surplus Formula = (Revenue from Electricity Sales Less Total Expenditure) divided by Revenue from Electricity Sales

4. DETERMINATION OF HANTAM'S TARIFFS BASED ON THE COST OF SUPPLY ADJUSTED DATA

4.1. The municipality submitted its existing COS study in support of its tariff application 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 Cost of Supply Framework approved by NERSA in October 2023 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, Table 3 below was developed, and the definitions of the columns are as follows:

i. Column 1: represents the budgeted FY2024/25 costs submitted by the licensee as part of the COS revenue requirement and approved for tariff determination in FY2024/25.

ii. Column 2: reflects the actual FY2024/25 financial performance of the licensee, sourced from the D-forms and aligned with the audited annual financial statements.

iii. Column 3.1: indicates the variance between the FY2024/25 approved budgeted figures and the audited actual values;

iv. Column 3.2: expresses the same variance in percentage terms. A positive variance indicates that actual expenditure exceeded the approved budget, while a negative variance indicates underspending relative to the budget. In the latter case, a clawback may be applicable, whereas in the former case a disbursement may be considered, subject to regulatory assessment.

v. Column 4: reflects the FY2025/26 revenue and electricity volume figures used as the baseline for determining the FY2026/27 tariffs (since at the time of the approval, the figures were estimates) when the Energy Regulator considered and approved the 2026/27 COS base tariffs. Once the 2025/26 financial year concludes, the actual figures will be verified against the audited annual financial statements.

vi. Column 5: contains the licensee's submitted FY2026/27 budgeted figures, which are subject to reasonableness testing for purposes of tariff determination for the control period under review.

vii. Column 6: shows the percentage movement between the FY2025/26 baseline figures and the FY2026/27 budgeted amounts and forms the primary basis for proposed tariff adjustments for FY2026/27.

viii. Column 7: is intended for NERSA's recommended adjustments after considering the reasons, facts, and evidence that the licensee has provided to motivate/justify for the approval of the budgeted figures.

ix. Column 8: is intended to capture NERSA's recommended adjustments after considering the reasons, facts, and supporting evidence submitted by the licensee in support of the requested budget figures for the FY2026/27.

4.5. The Total Allowable Revenue of R41.19 million in column 4 is for the 2025/26 tariff review period and is the basis upon which the tariffs are adjusted for approval by the Energy Regulator as shown in Table 3 below.

4.6. The FY2024/25 variance between budgeted and actual Total Allowable Revenue in column 3 reflects higher than planned expenditure and higher than anticipated *other income* offsets, rather than regulatory adjustments. However, the municipality's forward-looking FY2026/27 revenue requirement increases mainly due to Eskom's bulk purchase escalation costs and modest normalisation of operating costs.

4.7. The COS study is valid for five years; however, municipalities must reflect the adjustments in their cost drivers for each financial year under the existing COS (i.e. FY2026/27). NERSA utilised the budgeted figures to verify efficiencies and to ensure that municipalities do not over- or under-recover their operating overheads during the FY2026/27 tariff review process.

4.8. In determining the tariff adjustment applicable for the FY2026/27 financial year, the licensee submitted its FY2026/27 cost data, comprising budgeted operating costs plus surplus, as required by NERSA. The total budgeted revenue requirement submitted amounts to R57.08 million for the FY2026/27 tariff review process, with no energy loss adjustment applicable. This results in a 16.06% increase in allowable revenue for FY2026/27 relative to the previous financial period. The submitted application reflects an ambitious operating cost forecast, with projects charges from other departments, as well as power purchase costs bumping up the forecast operating expenditure. The licensee has forecast a considerable additional income, which reduced its required revenue quite significantly, thereby boosting its projected operating surplus position. With good controls this could be an indication that the licensee is on its path to regaining its financial strength.

Table 3: Revenue Requirement Components

Energy Balance	Unit	FY2024/25 Budgeted Costs (COS) (1)	FY2024/25 Actual Costs (2)	FY2024/25 Budget to Actual Variance (R) (3.1)	FY2024/25 Budget to Actual Variance (%) (3.2)	FY2025/26 Tariffs per submitted Municipal Budget (4)	FY2026/27 Budgeted Costs as per the Licensee (5)	FY2025/26 to FY2026/27 Variance (%) (6)	NERSA Adjustment (considering efficiencies) (7)	FY2026/27 Allowable Revenue (8)
Sales	kWh	13 215 576	13 215 576	-	0%	13 802 749	14 036 822	2%	-	14 036 822
Eskom bulk purchases	kWh	14 878 099	14 878 099	-		15 058 134	15 451 976	3%	-	15 451 976
Independent Power Producers Conventional	kWh		-	-		-	-		-	-
Independent Power Producers Renewable Energy	kWh		-	-		-	-		-	-
Self Generation	kWh		-	-		-	-		-	-
Other			-	-		-	-		-	-
Total Energy Requirements	**kWh**	**14 878 099**	**14 878 099**	**0**	**0%**	**15 058 134**	**15 451 976**	**3%**		**15 451 976**
Total Losses	kWh		1 662 523			1 255 385	1 415 154			1 415 154
Technical losses	kWh		1 662 523			1 255 385	1 415 154		-	1 415 154
Non-technical losses	kWh		0			0	0		-	0
Allowed losses	%		**11.17%**			**8.34%**	**9.16%**			**9.16%**
Total Energy losses	%		11.17%			8.34%	9.16%			9.16%
Cost Drivers										
Energy purchases from Eskom	Rand	25 932 132	36 183 917	10 251 785		31 704 482	38 292 991	17%	-	38 292 991
Other energy purchases			-	-		-	-	0%	-	-
Total energy purchases	Rand	**25 932 132**	**36 183 917**	**10 251 785**	**40%**	**31 704 482**	**38 292 991**	**21%**	**0**	**38 292 991**
Cost of technical losses	Rand	3 799 957	4 043 298	243 342	6%	2 643 178	3 507 026	33%	0	3 507 026
Non-Technical Losses	Rand	-	-	-	0%	-	-	0%	-	-
Other energy purchases	Rand					-	-		-	-
Capital expenditure	Rand	-	-	-	0%	-	-	0%	-	-
Operational expenditure (incl. Depreciation)	**Rand**	**7 161 597**	**7 616 114**	**454 517**	**6%**	**8 667 320**	**13 211 571**	**52%**	**0.0**	**13 211 571**
General & Other	**Rand**	**3 722 888**	**5 750 777**	**2 027 889**	**54%**	**6 027 744**	**6 984 731**	**16%**	**0**	**6 984 731**
Salaries and allowances	Rand	2 448 703	2 742 467	293 764	12%	2 915 181	3 215 942	10%	-	3 215 942
Materials and supplies	Rand			0					-	0
Contracted Services	Rand	1 274 185	1 459 798	185 613	15%	1 594 728	1 400 789	-12%	-	1 400 789
Salaries, wages and allowances (excl. Repairs and Maintenance)	Rand	-	-	-		-	-		-	-
Payments to consultants (operational work)	Rand		-	-		-	718 000		-	718 000
Eskom debts interest	Rand		-	-		-	-		-	-
Current year depreciation	Rand	-	1 548 512	1 548 512	100%	1 517 835	1 650 000	9%	-	1 650 000
Repairs and Maintenance	Rand		0	0					0	
Other creditors interests	Rand			0					0	
									0	
Shared OPEX	**Rand**	**3 438 709**	**1 865 337**	**(1 573 372)**	**-46%**	**2 639 576**	**6 226 840**	**136%**	**0**	**6 226 840**
Bad debts (Allowance for Impairment)	Rand	746 922	519 723	(227 200)	-30%	1 100 825	819 723	-26%	-	819 723
FBE paid to Eskom	Rand			0			2 212 785		-	2 212 785
Charges from other Municipal Departments	Rand			0			2 656 156		-	2 656 156
Operating Expenses	Rand			0						0
Administration charges	Rand		0	0						
Operating Leases	Rand		-	-		-	-		-	-
General expenses		**2 691 787**	**1 345 614**	**(1 346 172)**	**-50%**	**1 538 751**	**538 176**	**-65%**	**0**	**538 176**
1.Commission Expense	Rand		-	-		-	-		-	-
2. Fleet Costs	Rand		-	-		-	-		-	-
3.Other Expenses	Rand	2 691 787	1 345 614	(1 346 172)	-50%	1 428 737	422 661	-70%	-	422 661
4. Safety Equipment and Protective Clothing	Rand	-			0%	110 014	115 515	5%	-	115 515
5. Impairment Losses	Rand	-			0%	0	0			0
	Rand		-			-			0	0
Total Expediture before surplus	Rand	36 893 685	47 843 330	10 949 644	30%	43 014 980	55 011 588	**28%**	0	55 011 588
Surplus	Rand	5 513 539	-1 582 344	(7 095 882)	-129%	9 616 426	11 482 403	**19%**	-	11 482 403
Total Expenditure including Surplus	**Rand**	**42 407 224**	**46 260 986**	**3 853 762**	**9%**	**52 631 406**	**66 493 991**	**26%**	**-**	**66 493 991**
Other Income	Rand	**-136 762**	**-3 291 337**	**(3 154 575)**	**2307%**	**-3 439 529**	**-9 404 251**	**173%**	**0**	**-9 404 251**
5. Other Revenue - Illegal Connections	Rand		-	-		-	-		-	-
Total Allowable Revenue	**Rand**	**42 270 462**	**42 969 650**	**699 187**	**2%**	**49 191 877**	**57 089 740**	**16%**	**-**	**57 089 740**
Increase Required							***9.00%***			***9.00%***

4.9. It is important to test the efficiency and prudency of the costs in the FY2025/26, as this represents the most recently considered revenue in support of the approved tariffs during this period. This forms the basis on which costs for the FY2026/27 have been projected, using assumptions to calculate revenue requirements for that year.

4.10. 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

4.11. For the 2026/27 financial year, the licensee has applied for a bulk purchase expenditure of R38.29 million, which accounts for 73% of total costs inclusive of the 9% energy loss allowance. Bulk purchases were verified against the Eskom invoices for the 2024/25 financial year.

4.12. To arrive at the 2026/27 financial year estimate, the licensee projected the full-year amount for the 2025/26 financial year, then estimated that this cost item would increase by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.13. Analysed Eskom bills showed no Notified Maximum Demand (NMD) exceedance penalties had been charged. Furthermore, the municipality did not include the Eskom interest charges on the outstanding account. All verifications have been satisfactory to NERSA, and therefore, this cost has been approved as applied for.

Operating Expenditure (including depreciation)

4.14. The licensee seeks an Operational Expenditure of R13.21 million for the 2026/27 financial year including depreciation. This represents 20% of the Total Costs, adjusted upward from R8.67 million in the 2025/26 financial year. This translates to a 52.43% increase from the previous year, with the major contributor being the technical losses, forecast to rise by 33%. Apart from aging infrastructure, the licensee cited having seen several electricity users going off grid in recent years, among other factors.

4.15. The licensee's depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The asset base is valued at approximately R772 million as at FY2024/25, as reported in its D-forms and verified against its audited AFS and supporting financial information. The resulting depreciation and amortization provisions amounted to R1.5 million in both the FY2024/25 and FY2025/26, and is projected at R1.6 million for the 2026/27 financial year.

4.16. The approach taken by the licensee is satisfactory to NERSA for forecasting operational expenditure. As a result, this cost has been approved as applied for.

Surplus

4.17. The licensee is forecasting a robust operating surplus position of R11.48 million, which is based on a 17% return on OPEX including bulk purchases, and increased by 19.40% from the previous year relative to Total Expenditure. The licensee has further forecast

a significant increase in its *other income* line item, which will partially offset some of the aggressive expenditure, and supplement its surplus position.

4.18. The surplus position represents the critical financial buffer against several risks, allowing the municipality to maintain service delivery without resorting to emergency borrowing.

4.19. NERSA is of the view that the return applied for by the licensee is reasonable to keep the licensee sustainable, in line with the 10-20% target range as determined in the COS Methodology. The surplus level complies with the applicable principles, and it is justified in the manner in which HM manages the risks associated with its service delivery. Thus, it is NERSA's decision to allow the revenue requirement as applied for.

Conclusion on Costs to Serve

4.20. While the COS study outcome reflected an average tariff increase of 13.8% for the licensee to achieve full cost reflectivity, the municipality adopted a three-year phase-in approach to implement tariff increases below the COS outcomes. Some of the considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to drive the demand for its electricity services.

4.21. Significantly higher tariffs could negatively impact the licensee by reducing customer demand and sales. The licensee also considered its ability to service its Eskom account and the broader affordability impact on customers in determining the pace of its tariff adjustments.

4.22. This approach will help to protect the municipality's revenue base and support its financial sustainability, as required by legislation.

4.23. Furthermore, the COS study is based on forecasts and, as such, does not guarantee that the results are in fact the true costs to supply. Therefore, the licensee has reviewed the results and determined its own revenue requirements to ensure financial sustainability. In this regard, the municipality will be required to submit a report accounting for all unverified costs.

4.24. The cost adjustment tool indicates an increase of 16.06% in the revenue requirement for the 2026/27 financial year. However, the licensee has applied for a lower average tariff increase of 9.00% to review its tariffs for the 2026/27 financial year, down from 10.00% in the FY2025/26. Taking into consideration the previously mentioned factors, this proposed increase is expected to keep the licensee just barely sustainable.

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Clawback / disbursement mechanism

6.1.5. It is important to note that currently, there is no formal Regulatory Clearing Account (RCA) mechanism for municipalities. Although the FY2024/25 tariffs were set to recover costs based on approved forecasts, the higher actual expenditure resulted in a higher allowable revenue outcome in the year under review. Accordingly, (i) in the absence of a clawback or disbursement mechanism, the FY2024/25 under-recovery cannot be automatically clawed back; and (ii) the impact is addressed through forward-looking tariff determinations, subject to prudency, affordability, and actual cash collection assessments. The proposed 9.00% tariff increase is therefore forward-looking, and not retrospective, as discussed in section 4.6 above.

6.2. **TARIFF ANALYSIS**

1. Domestic - Conventional 30A	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	180.43	9.00%	196.67	196.67	9.00%
Block 2 (51 - 350 kWh)	232.76	9.00%	253.71	253.71	9.00%
Block 3 (351 - 600kWh)	326.59	9.00%	355.98	355.98	9.00%
Block 4 (>600 kWh)	384.33	9.00%	418.92	418.92	9.00%
Basic Charge (R/month)	364.93	9.00%	397.77	397.77	9.00%

2. Domestic - Conventional 60A	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh)	180.43	9.00%	196.67	196.67	9.00%
Block 2 (51 - 350 kWh)	232.76	9.00%	253.71	253.71	9.00%
Block 3 (351 - 600kWh)	326.59	9.00%	355.98	355.98	9.00%
Block 4 (>600 kWh)	384.33	9.00%	418.92	418.92	9.00%
Basic Charge (R/month)	812.79	9.00%	885.94	885.94	9.00%

3. Domestic - Prepaid	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Domestic Prepaid	336.12	9.00%	366.37	366.37	9.00%

4. Commercial - Conventional, 1 Phase, 30A	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 699kWh)	341.03	9.00%	371.72	371.72	9.00%
Block 2 (>700 kWh)	341.03	10.00%	375.13	375.13	10.00%
Basic Charge (R/month)	312.38	9.00%	340.49	340.49	9.00%

5. Commercial - Conventional, 1 Phase, 60A	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 699kWh)	346.51	9.00%	377.01	377.01	9.00%
Block 2 (>700 kWh)	346.51	10.00%	381.16	381.16	10.00%
Basic Charge (R/month)	845.75	9.00%	921.86	921.86	9.00%

6. Industrial Supply	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	863.50	9.00%	941.22	941.22	9.00%
Energy Charge (c/kWh)	239.98	9.00%	261.58	261.58	9.00%
Demand Charge (R/kVA)	135.18	9.00%	147.35	147.35	9.00%

EXPORT TARIFFS: Small-Scale Embedded Generation (SSEG)

The proposed SSEG export charge is paid back to the customer and applies to all tariff categories as follows:

6. SSEGs: Feed-in Rates	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Net Billing Export Credit (c/kWh)	124.00	9.00%	135.16	135.16	9.00%

7. CONFIDENTIALITY

7.1. None.

8. CONCLUSION

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

End.