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

Blue Crane Route Local Municipality

THE DECISION

At its meeting held on 11 May 2026, the Regulator Executive Committee (REC) considered Blue Crane Route 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) set out in section 8 of the Reasons for Decision (RfD) document.

Based on the information submitted and the analysis conducted, the REC decided:

1. to approve the tariffs based on the Cost of Supply (COS) study as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;
2. to note the COS study 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 progress reports on the efficiency improvement measures taken to reduce high energy losses and deficits to enable NERSA to monitor the implementation 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. Blue Crane Route Local Municipality is located in the Eastern Cape. The municipality's customer base is mostly agricultural customers, who account for 44.44% of total electricity sales. The municipality provides its indigent customers with a minimum of 50kWh of Free Basic Electricity (FBE) per month. The municipality further reports that it maintains an indigent register. The customer statistics are shown in Table 1 below.

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

CONSUMER STATISTICS (OBTAINED FROM 2024-2025 DISTRIBUTION FORMS)			
Consumer Classification	**Sales (KWh)**	**%KWh**	**Number of Consumers**
Domestic (Prepaid)	10 686 986	24,34%	3 785
Domestic (Conventional)	2 215 869	5,05%	532
Agriculture	19 514 070	44,44%	1 146
Manufacturing/ Industrial	5 671 446	12,92%	72
Commercial (Prepaid)	1 469 046	3,35%	252
Commercial (Conventional)	3 323 598	7,57%	412
Municipal Consumption & Streetlighting	1 031 832	2,35%	314
TOTAL SALES	**43 912 846**	**100%**	**6 513**
Free Basic Electricity (FBE)	**5 021 518**	**38,92%**	**3 431**

1.3. NERSA received Blue Crane's tariff application together with its existing Cost of Supply (COS) study, based on the cost-plus methodology, on 31 March 2026.

1.4. Blue Crane is applying for an average price increase of 9.8% for the 2026/27FY.

1.5. For this application, the municipality has indicated that the tariff application had been approved by Council, and the Council resolution has been submitted to NERSA. Proof of customer consultation was also submitted on 31 March 2026. The municipality indicated that they received 60 comments from stakeholders, which were mainly objections to public participation and customer affordability, along with one substantive comment from A&R Attorneys (Blue Crane Rate Payers Association). The municipality submitted a written response to NERSA on 22 April 2026,

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

1.7. NERSA's decision was made on 11 May 2026, considering the written comments received from the affected stakeholders and the analysis performed by NERSA.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of Municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ('NERA'), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended ('ERA'), the Promotion of Administrative Justice Act, 2000 (Act 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 NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. NERSA'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, 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. 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 2025/2026 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 that sought to vary the timelines that had been set by the Court on 4 December 2025, considering the practical difficulties that arose as it relates to NERSA's compliance with the court order. The Court, having heard NERSA's application, granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The 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 NERSA 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 PERFORMANCE

3.1. In evaluating the financial and technical performance of Blue Crane, 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 tariff analysis purposes.

3.2. Table 3 below indicates that Blue Crane's electricity business recorded an increase in percentage deficit from 9.75% in the 2023/24 financial year to 29.87% in the 2024/25 financial year. High deficit levels can primarily be attributed to increased material losses, as well as high bad debt values. Also, the municipality does not service its Eskom account efficiently, as demonstrated by high costs relating to fruitless expenditure (interest), which accounts for 10% of total expenditure. Observing the sales (revenue from electricity) and cost of sales (bulk purchases) figures, the municipality is operating at a gross profit of 0.02%. This subjects the municipality to budget constraints to address other operational costs, as it is already operating at a financial loss. Total revenue and total expenditure increased by 4% and 23%, respectively.

3.3. The municipality recorded a collection rate of 69.71%, and it is not up to date with its Eskom account.

3.4. Energy losses increased from 11.85% in the 2023/24 financial year to 30.29% in the 2024/25 financial year, as shown in Table 4 below. The municipality provided a losses report and highlighted the following contributing factors:

a) Non-technical losses:
   i. Electricity theft
   ii. Aging infrastructure
   iii. Outdated meters.

Action Plan

3.5. The municipality has developed an action plan, called the 'Revenue Enhancement Plan', to deal with the replacement of old infrastructure and meters and also appoint electricians to investigate theft. Due to the increasing unemployment rate in the area, tampering remains a major concern for the municipality

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
INDICATORS	**2024-25FY (Actuals)**	**2023-24 FY (Approved)**
Percentage Surplus (Deficit)	-29,87%	-9,75%
Percentage Energy Losses	30,29%	11,85%

3.6. The current losses of 30.29% are far above acceptable norms and materially erode financial sustainability. If losses were capped at 12%, the municipal deficit would have reduced from 29.87% to 11.31%, resulting in additional revenue of R25.714 million. Furthermore, reducing energy losses to 6% would improve the deficit to 6.33%, translating it into additional revenue of R34.148 million, as shown in Table 3 below.

Table 3: Energy loss analysis

	D-Form Input	Energy Loss@12%	Energy Loss@6%
Average Selling Price	213,20		
Sales kWh	45 960 678,27	58 021 838,38	61 977 872,82
Purchases kWh	65 933 907,25	65 933 907,25	65 933 907,25
Losses kWh	19 973 228,98	7 912 068,87	3 956 034,44
Losses percentage	**30,29%**	**12,00%**	**6,00%**
Additional Energy (kWh)		12 061 160,11	16 017 194,55
Additional Revenue (Rands)		25 714 031,52	34 148 178,25
	D-Form Input	Energy Loss@12%	Energy Loss@6%
Total Revenue (Rands)	R 154 204 675,13	R 179 918 706,65	R 188 352 853,38
Total Expenses (Rands)	R 200 266 363,02	R 200 266 363,02	R 200 266 363,02
Net Profit (Loss)	R -46 061 687,89	R -20 347 656,37	R -11 913 509,64
Percentage Surplus/Deficit	**-29,87%**	**-11,31%**	**-6,33%**

3.7. Based on the above information, the municipality's financial performance deteriorated in the 2024/25 financial year, indicating that expenditure significantly exceeded revenue, placing pressure on the municipality's financial sustainability and cash flow position. In addition, the high energy losses further contribute to reduced revenue collection and financial strain.

4. DETERMINATION OF BLUE CRANE'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The process that NERSA followed in considering and approving Blue Crane's tariff application was supported by a COS study.

4.2. Blue Crane utilised the COS study model developed by Sustainable Energy Africa (SEA) and various other stakeholders 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 diligently follows the NERSA COS Framework and utilises the latest available audited data, which is based on the 2024/25 financial year

4.3.

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

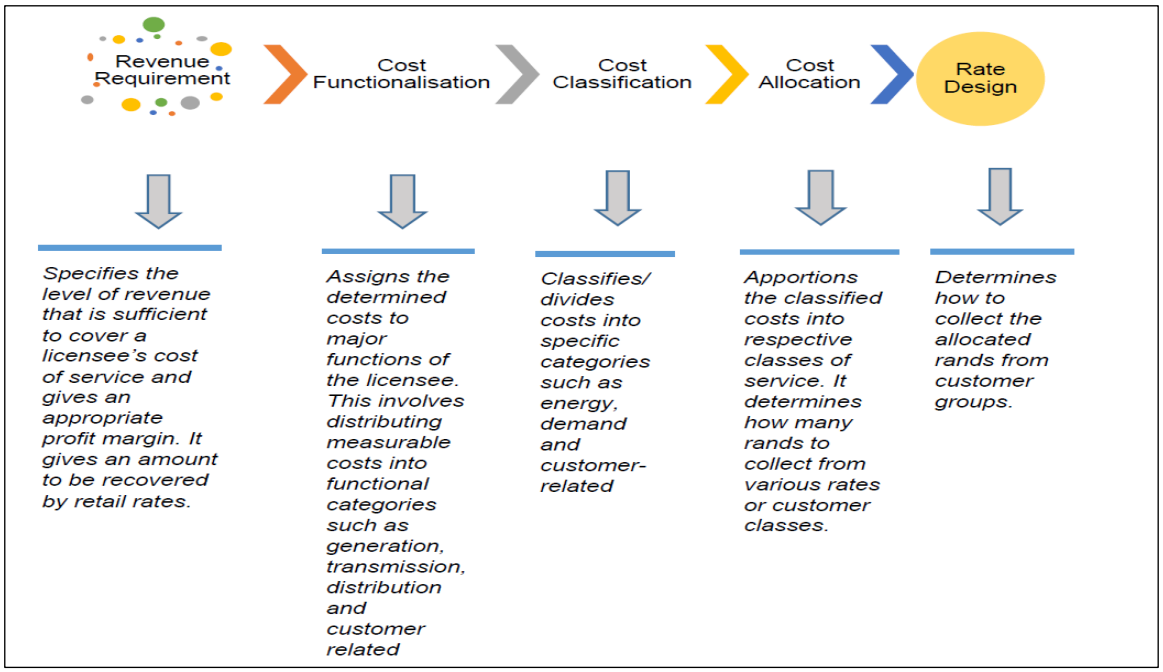


Figure 1: Five Steps of COS

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

Revenue Requirement

4.5.1. The revenue requirement step specifies the level of revenue that is sufficient to cover a licensee's cost of service and appropriate margin. It is an indication of the amount to be recovered from the approved tariffs.

4.5.2. The municipality applied a cost-plus methodology in the determination of its revenue requirement, as reflected in Table 5.

4.5.3. Under the cost-plus framework, the allowable revenue comprises the following:

a) Efficient and prudent operating expenditure (Opex) of R81 708 170 before surplus
b) Depreciation, as a proxy for asset consumption and future asset replacement of R5.917 million
c) A reasonable surplus margin applied for total cost of R19.346 million.

4.5.4. To ensure that the applied surplus is not excessive and remains within acceptable regulatory bounds, the following validation procedures were undertaken:

a) The applied surplus margin of 9% was benchmarked against the 10 to 20% range prescribed in the approved NERSA COS Framework, as supported by the EPP policy position 1, D-forms, and trial balance.

b) The margin was further assessed against the municipality's risk profile to ensure alignment with the principle of cost reflectivity and financial sustainability.

4.5.5. The risk factors considered include the following:

a) Revenue collection risk, with current collection levels at approximately 47%, reflecting exposure to non-payment and indigents
b) Operational risk, including energy losses of approximately 30.29% and ageing network infrastructure
c) Financial sustainability requirements, including the need to maintain adequate cash flows for ongoing operations and infrastructure investment.

4.5.6. Based on the above, the applied surplus margin of 9% is considered conservative, justified and commensurate with the municipality's risk profile, while remaining within the acceptable parameters of the NERSA COS Framework. This approach supports the financial viability of the electricity distribution function without imposing undue burden on consumers.

4.5.7. Blue Crane submitted a COS study detailing a revenue requirement of R220.802 million for the 2026/27 FY. This revenue requirement is based mainly on Eskom purchases, accounting for 48%, while operational expenditure accounts for 37%.

Table 4: Revenue Requirement Components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	35 860 113	176 948 900	220 802 687	100%
Energy purchases from Eskom - net of cost of losses	-	105 278 427	105 278 427	48%
Energy purchases from Eskom - cost of losses	11 200 909	6 922 630	18 123 539	8%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	21 439 934	60 268 236	81 708 170	37%
Other revenues	- 40 741	- 11 606 657	- 11 647 397	-5%
Surplus	3 260 010	16 086 264	19 346 274	9%
Not allowable costs	6 763 852	20 863 675	27 627 527	
Cost of losses disallowed	6 763 852	20 863 675	27 627 527	
TOTAL COSTS	**42 623 965**	**197 812 575**	**248 430 214**	

4.5.8. The efficiency of the costs in the 2024/25 financial year has been assessed, as this constitutes the most recent set of actual audited data. This forms the basis from which costs for the 2026/27 financial year will be projected using assumptions to calculate revenue requirements for that year.

4.5.9. Furthermore, NERSA has verified all expense items included in the revenue requirements to ensure that they relate only to the electricity function of the

licensee. In instances where expenses are deemed inflated or unjustified, these have been adjusted accordingly and expanded below.

Bulk purchases

4.5.10. The licensee applied for a bulk purchase expenditure of R105.278 million, which accounts for 48% of the total costs. Bulk purchases were verified against the Eskom invoices in the 2024/25 financial year.

4.5.11. To calculate the 2026/27 estimation, the 2025/26 COS amount was adjusted by 9.01% in line with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.5.12. NERSA is satisfied that the approach taken by the licensee to forecast bulk purchases is reasonable. As a result, this cost has been recommended for approval as applied for.

Operating Expenditure (including depreciation)

4.5.13. Blue Crane's COS study projects operational expenditure totalling R81.708 million, representing 37% of overall costs. Table 5 below provides a breakdown of this expenditure.

Table 5: OPEX Costs Breakdown

	2024/25 (Actual)		2026/27 (Applied for)		Year 2 estimate (Rand)	
General & Other	R	40 465 351	R	36 792 568	R	38 645 646
Salaries and allowances	R	-	R	-	R	-
Materials and supplies	R	2 632 179	R	2 689 359	R	2 743 146
Contracted Services	R	357 434	R	655 281	R	668 387
Salaries, wages and allowances (	R	10 930 610	R	10 300 729	R	11 330 802
Payments to consultants (operat	R	1 215 323	R	1 336 855	R	1 382 308
Eskom debts' interests	R	19 143 070	R	14 600 000	R	14 600 000
Other creditors interests	R	269 783	R	157 203	R	162 548
Current year depreciation	R	5 916 952	R	7 053 141	R	7 758 455
NMD exceedance penalties	R	-	R	-	R	-
Shared OPEX	R	37 704 764	R	42 372 828	R	43 062 524
Bad debts written-off	R	6 787 675	R	7 466 443	R	7 720 302
FBE paid to Eskom	R	-	R	-	R	-
Municipal service expenditure re	R	7 009 425	R	7 710 368	R	7 710 368
Equitable share expenditure incu	R	10 287 124	R	11 019 600	R	11 350 188
Skills Development levy	R	85 268	R	92 408	R	97 028
Inventory Consumed: Zero Rate	R	-	R	-	R	-
Transformer replacements/repai	R	225 062	R	1 200 000	R	1 260 000
Debt impairment	R	7 805 828	R	8 586 411	R	8 586 411
Other Operational cost	R	865 621	R	1 194 961	R	1 235 590
Impairment on assets	R	4 638 761	R	5 102 637	R	5 102 637
Total	**R**	**78 170 115**	**R**	**79 165 396**	**R**	**81 708 170**

4.5.14. Only the portion of shared costs directly attributable to the electricity service was allocated to the revenue requirement. This ensures that electricity consumption is charged solely for costs associated with the provision of electricity services. Inefficient cost components have been excluded from the total, as these items fall within the control of the municipality.

4.5.15. All the other licensee expenses have been grouped under other expenses. The other operating expenses, including charges from other municipal departments, have been checked to ensure that they relate only to the electricity function; furthermore, all these expenses have been projected to grow in line with inflation.

Surplus

4.5.16. Blue Crane applied for a surplus of R19.346 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 electricity business.

4.5.17. In recommending a surplus, NERSA relied on section 15(1)(a) of the Electricity Regulation Act, which requires tariffs to enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return, in line with Electricity Pricing Policy (EPP) Position 1.

4.5.18. In applying this provision together with the COS methodology, NERSA must ensure that the licensee recovers costs incurred efficiently and prudently, including a reasonable return, while preventing excessive compensation.

4.5.19. To ensure that the surplus remains modest and commensurate with risk, the exceedance of the NMD, FBE grants and the high energy losses were disallowed. NERSA considers it necessary for the Municipality to implement targeted corrective measures. These include reducing energy losses through accelerated metering, network refurbishment, and enforcement against illegal connections; managing notified maximum demand to limit avoidable Eskom-related charges; improving billing, credit control, and revenue collection; ring-fencing and transparently reporting electricity business costs and revenues; and prioritising capital and maintenance expenditure on high-loss and high-failure parts of the network.

4.5.20. From a regulatory perspective, these remedies should be supported by measurable implementation plans and periodic reporting to NERSA so that the Regulator can assess whether the risk profile is improving and whether the surplus allowed in future tariff determinations remains justified.

4.5.21. It is therefore recommended that the Energy Regulator approve the allowable revenue as set out in Table 4 above. This revenue is then used in the subsequent steps of cost functionalisation, classification, allocation, and rate design. These steps were verified to be consistent with the approved revenue requirement and are discussed below.

Cost Functionalisation

4.5.22. The licensee has categorised its revenue requirements of R212.809 million into two main functions: wires (18%) and retail business (82%), which is in line with the NERSA COS Framework, as demonstrated in Figure 2 below.

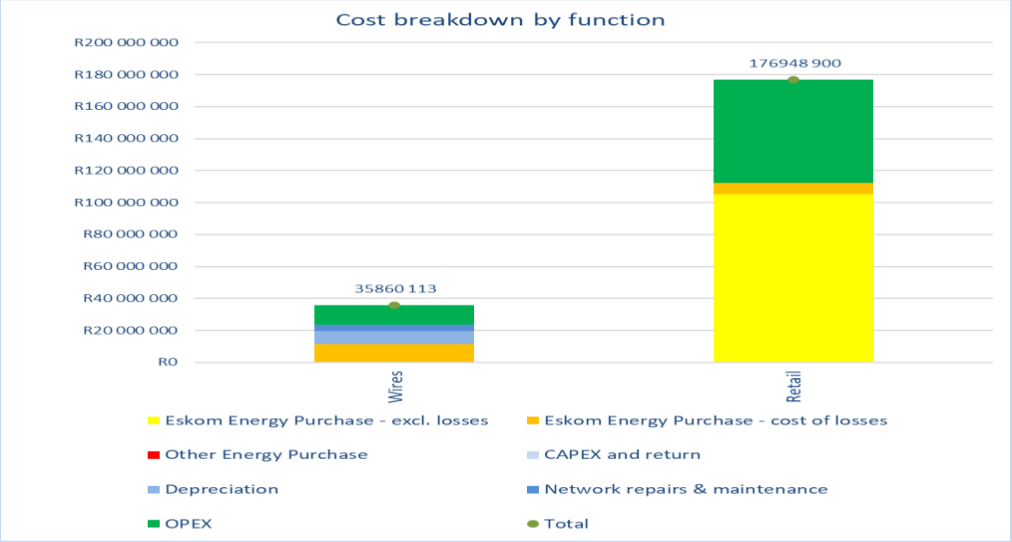


Figure 2: Cost Breakdown by Function

4.5.23. These costs align with revenue requirements on verification. Network repairs and maintenance dominate the wires business while the energy purchases are the primary cost driver for the retail business.

Cost Classification

4.5.24. The licensee classified its costs into energy, demand and customer-related costs, which is in line with the NERSA COS Framework. The costs align with the revenue requirements and cost functionalisation on verification.

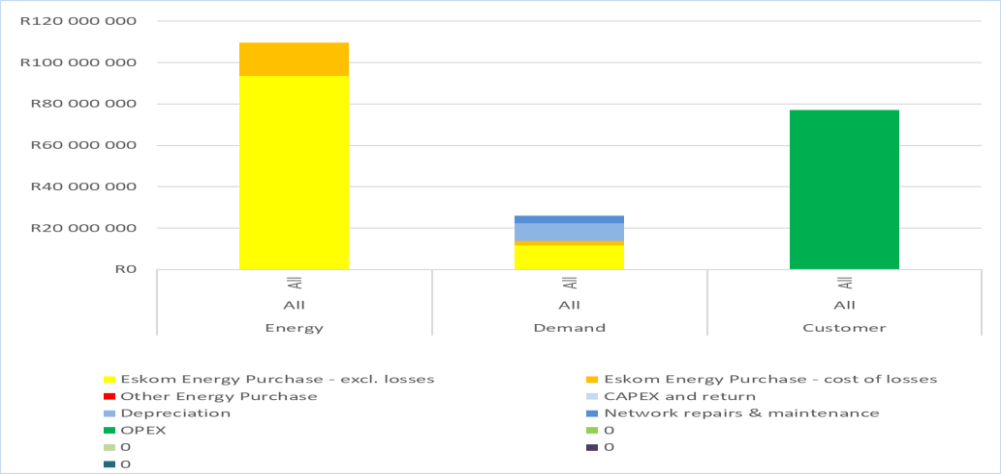


Figure 3: Cost Breakdown by Cost Structure (Classification)

4.5.25. Energy purchases constitute energy-driven costs, with the highest expenses occurring during summer under standard time of use, mainly because summer spans a larger portion of the year. Demand-driven costs are also predominantly incurred in summer. Customer-driven costs are primarily attributed to 'Other OPEX', which encompasses expenses related to providing electricity distribution services to customers.

Cost Allocation

4.5.26. In this step, the licensee's revenue requirements are allocated between customer categories, which is in line with the NERSA COS Framework. The costs align with revenue requirements, cost functionalisation and cost classification on verification.

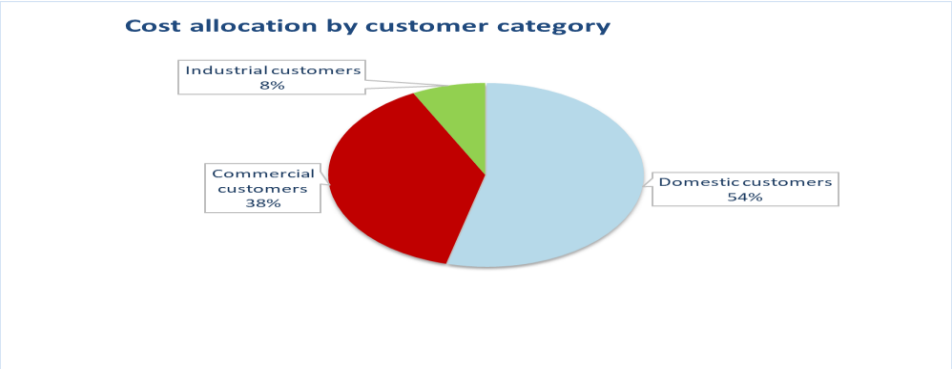


Figure 4: Costs Allocated

Rate Design

4.5.27. Figure 5 below indicates the outcome of the COS study, showing that certain customer categories should increase while others should decrease. Comparing these costs to the income per tariff category reveals the over- or under-recovery per tariff category, as shown in Figure 5 below.

4.5.28. The municipality's initial COS study indicated inconsistencies and mismatches within the model, as the results reflected an average tariff adjustment of -20.5% (R185.396 million) to achieve full cost reflectivity, while the municipality had proposed a blanket increase of 25.0% across all customer categories, exceeding the 17.4% increase reflected in the outcome of the COS.

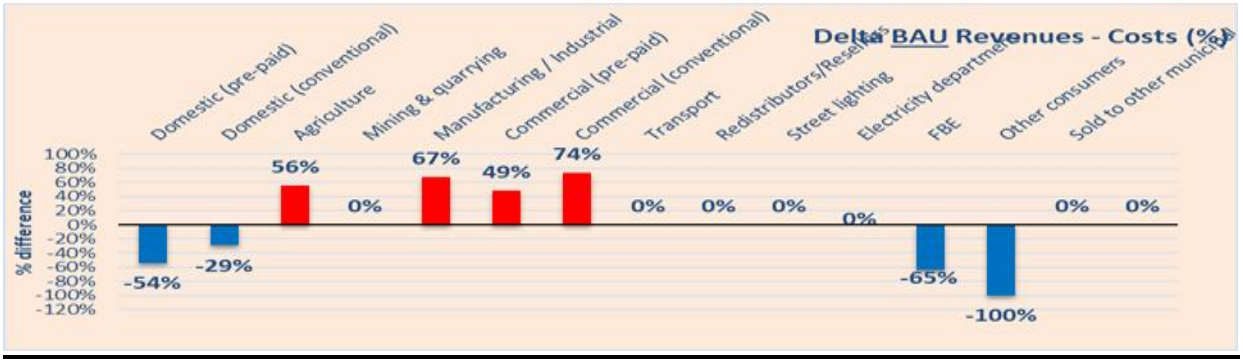




Figure 5: Revenue Recovery by Customer Category

5. CONCLUSION ON COSTS TO SERVE

5.1. Following a detailed review of the costs, consultations with the municipality, and consideration of stakeholder comments, the COS study was revised and now indicates that an average increase of 2.8% (R201.456 million) is required to achieve full cost reflectivity. The municipality has, however, proposed an average increase of 9.8% (R215.291 million). The above increase of 9.81% is recommended for the municipality to generate additional revenue primarily to improve its ability to service the Eskom bulk supply account and meet its growing bulk electricity purchase obligations.

5.2. The municipality has incorporated measures within the tariff structure to mitigate the impact on vulnerable domestic customers, including the retention of the lifeline tariff for indigent customers. These interventions are consistent with national policy objectives relating to affordability and equitable access to basic service

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5. Conventional Business Town (Tariff 2)	2025/26 Approved	% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase
Tariff 2	c/kWh	9,01%			9,01%
Energy Charge: c/kWh	355,37	9,01%	387,39	387,39	9,01%
Basic Charge (R/month)	1156,64	9,01%	1260,85	1260,85	9,01%

6. Small Business Consumers Pre-Payment Meters	2025/26 Approved	% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase
Tariff 8	c/kWh	9,01%			9,01%
Energy Charge: c/kWh					
0 - 50kWh	606,38	9,01%	661,01	661,01	9,01%
>50kWh	360,16	24,94%	449,99	449,99	24,94%

7. Agricultural Consumers Rural (AGRI 1) Tariff 5	2025/26 Approved	% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase
Tariff 5	c/kWh	9,01%			9,01%
Energy Charge: c/kWh	351,364	9,01%	383,02	383,02	9,01%
Basic Charge (R/month)	1 338,95	9,01%	1459,59	1459,59	9,01%

8. Agricultural Consumers Rural (AGRI 3) Tariff 5	2025/26 Approved	% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase
Tariff 5	c/kWh	9,01%			9,01%
Energy Charge: c/kWh	361,32	9,01%	393,87	393,87	9,01%
Basic Charge (R/month)	2 132,25	9,01%	2324,37	2324,37	9,01%

9. Agricultural Consumers - KVA (AGRI 2) Tariff 6	2025/26 Approved	% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase
Tariff 3	c/kWh	9,01%			9,01%
Energy Charge: c/kWh	189,38	9,01%	206,45	206,45	9,01%
Basic Charge (R/month)	2 618,94	9,01%	2854,91	2854,91	9,01%
Demand Charge (R/kVA)	473,52	9,01%	516,19	516,19	9,01%

10. Bulk Consumers Town	2025/26 Approved	% Increase	2026/27 Proposed	2026/27 Recommended	Recommended % Increase
Tariff 3	c/kWh	9,01%			9,01%
Energy Charge: c/kWh	192,6603	9,01%	210,02	210,02	9,01%
Basic Charge (R/month)	2 645,24	9,01%	2883,58	2883,58	9,01%
Demand Charge (R/kVA)	483,34251	9,01%	526,89	526,89	9,01%

t Lights	*2025/26 Approved*	*% Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*Recommended % Increase*
Energy Charge: c/kWh	*New*	*New*	*432,00*	*432,00*	*New*
Basic Charge (R/month)	*New*	*New*	*334,73*	*334,73*	*New*

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

10.1. NERSA, having considered the Blue Crane Route Local Municipality's application, the supporting information, stakeholder inputs, and applicable legal framework, approved the tariff adjustments as set out in this Reasons for Decision document.

End