NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

The Decision and Reasons for Decision

In the matter regarding the

Municipal Tariff Application for the 2026/27 Financial Year

By

Richtersveld Local Municipality

THE DECISION

1. At its meeting held on 8 May 2026, the Regulator Executive Committee (REC) considered the Richtersveld 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 the tariff analysis section of this document.

2. Based on the available information and the analysis performed, the REC decided:

    2.1. to approve the tariffs that are 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;
    2.2. to note the COS study submitted by the municipality;
    2.3. that the municipality must submit a report accounting for all the costs identified in its COS study to enable the National Energy Regulator of South Africa to perform its independent verification/audit process; and
    2.4. that the licensee must submit a quarterly smart efficiency plan with improvement measures identified for reducing high energy losses 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
RLM	Richtersveld 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 prior to implementation, which typically takes effect on 1 July of each financial year.

1.2. The Richtersveld Local Municipality (RLM), located in the Northern Cape, has an electricity sales profile largely driven by domestic customers, which contributed 68.20% of total electricity sales in the 2024/25 financial year, while commercial customers accounted for 31.46%.

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	***MWh***	***% MWh***	***Customer numbers***
Domestic (Prepaid)	4 098	49,98%	1 723
Domestic (Conventional)	1 494	18,22%	273
Commercial	2 579	31,46%	98
Sold to other departments	28	0,34%	10
Total	**8 199**	**100%**	**2 104**
FBE	1294	23,14%	951

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

1.5. The municipality implemented an average price increase of 12.30% in the 2025/26 financial year and is applying for an average price increase of 10.50% for the 2026/27 financial year.

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

1.7. On 8 May 2026, the Energy Regulator approved the decision after considering the analysis and recommendations submitted 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 ('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 regulatory electricity mandate of the Energy Regulator is therefore primarily governed by the ERA. Section 3 of the ERA particularly provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and exercises regulatory authority over activities regulated under the ERA.

2.2.2. In particular:

a) section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions;
b) section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs; and
c) section 14(1)(d) of the ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

2.2.3. Municipalities distributing electricity do so under electricity distribution licences issued by 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 in relation to NERSA's compliance with the Court order. The Court, having heard NERSA's application, granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines set out below apply to the approval of municipal tariffs for the 2026/27 financial year:

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 the 2027/28 financial year 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 this reasons for decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/27 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. Level of Reliability of Information

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

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

Table 2: Technical and financial performance

Performance Indicators: Obtained From D-Form		
Performance Indicators	2023/24	2024/25
Percentage Surplus (Deficit) %	14,76	12,70
Energy Losses %	29,45	6,89

3.2. Percentage Surplus

3.2.1 The Richtersveld Local Municipality recorded an operating surplus of 12.70% in the 2024/25 financial year, compared to 14.76% in 2023/24. Although the surplus declined slightly, the municipality remains in a positive financial position, which supports improved liquidity and contributes to the sustainability of the electricity function.

3.3. Energy Losses

3.3.1. The energy losses decreased significantly from 29.45% in the 2023/24 financial year to 6.89% in the 2024/25 financial year. This reflects a

substantial improvement in the management of technical and non-technical losses within the electricity network and demonstrates enhanced operational efficiency, which supports the financial sustainability of the electricity function.

4. DETERMINATION OF RLM'S TARIFFS BASED ON THE COS STUDY

4.1. The process that the Energy Regulator followed in considering and approving RLM's tariff application was supported by a COS study.

4.2. RLM utilised the revised 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 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.

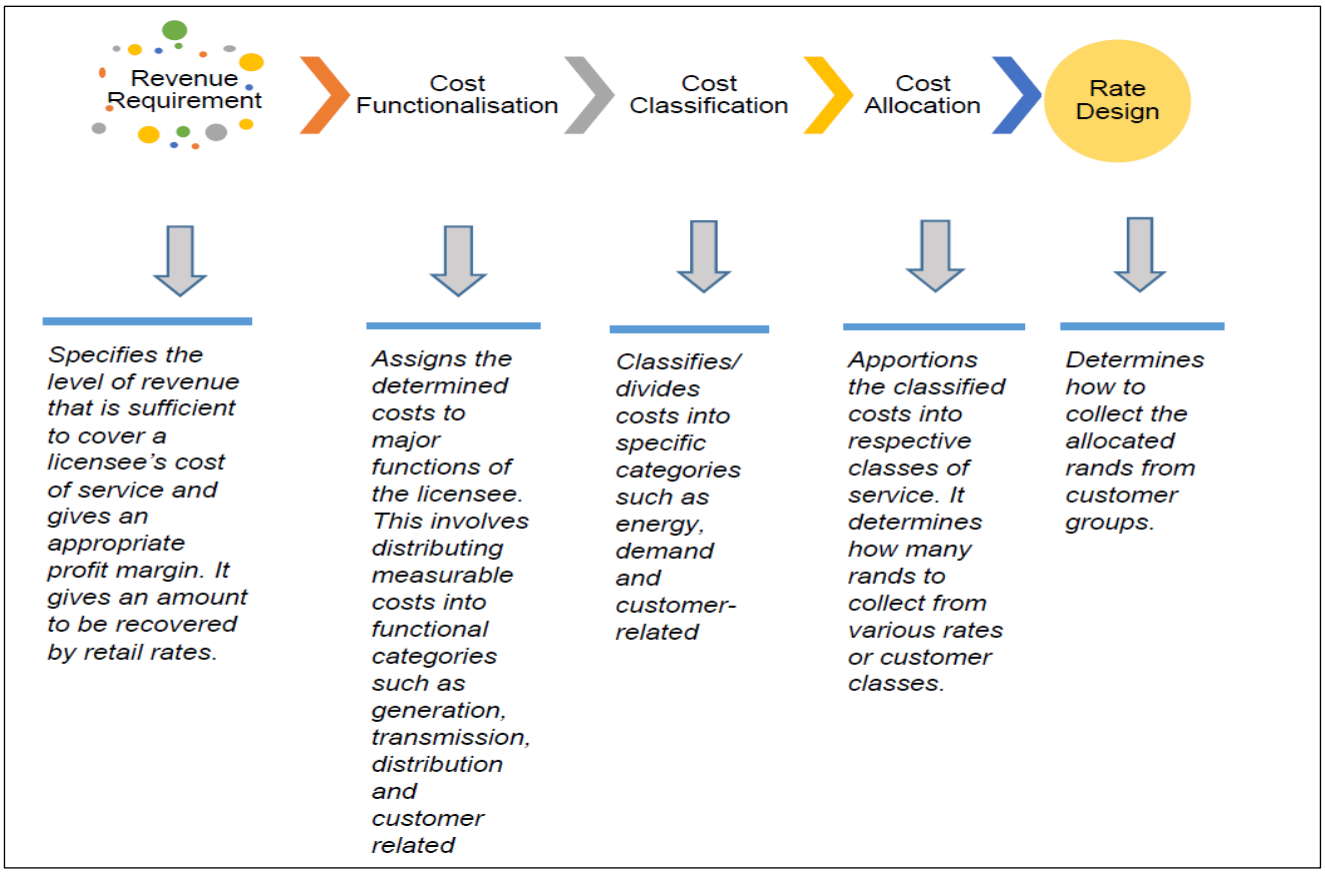


Figure 1: Five steps of COS study

4.5. The following steps are undertaken to analyse the COS study:

Revenue Requirement

4.5.1. To achieve full cost reflectivity, NERSA determined an allowable revenue requirement of R37 469 007 for the 2026/27 financial year. Eskom bulk electricity purchases, including a 9% energy loss allowance, account for 73% of the allowable costs, while operational expenditure represents 18%. This cost structure indicates that bulk supply costs remain the primary driver of the revenue requirement, as detailed in Table 3 below.

Table 3: Revenue requirement components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	6 906 229	30 562 778	37 469 007	100%
Energy purchases from Eskom - net of cost of losses	-	24 171 558	24 171 558	65%
Energy purchases from Eskom - cost of losses	-	3 280 187	3 280 187	9%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	6 302 213	486 776	6 788 989	18%
Other revenues	- 23 823	- 154 177	- 177 999	0%
Surplus	627 839	2 778 434	3 406 273	9%

4.5.2. It is important to test the efficiency of the costs in the 2024/25 financial year since this is the most recent available actual data. This forms the basis on which costs for the 2026/27 financial year will be projected using assumptions to calculate revenue requirements.

4.5.3. 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

4.5.4. The licensee applied for a bulk purchase expenditure of R27 451 745, which accounts for 73% of the total costs. Bulk purchases were verified against the 2024/25 Eskom invoices.

4.5.5. In order to get to 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).

4.5.6. 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.

Operational Expenditure

4.5.7. RLM's operational expenditure amounts to R6 788 989, representing 18% of the total costs for the 2026/27 financial year.

4.5.8. The licensee utilised recent actual financial data as a basis to project the 2025/26 costs and escalated the 2026/27 costs based on assumed cost drivers and relevant inflationary factors. NERSA is satisfied that the approach applied to forecast operational expenditure is reasonable.

4.5.9. Notwithstanding the above, the municipality excluded the cost of Free Basic Electricity (FBE) paid to Eskom, amounting to R486 776, as this cost is funded through the equitable share allocation.

4.5.10. The municipality also excluded the interest cost of R10 372 054 on Eskom debt from the total cost, as this cost falls within the municipality's control and is therefore not recoverable through tariffs.

4.5.11. It is recommended that the Energy Regulator approve the total operational expenditure of R6 788 989 for the 2026/27 financial year.

Surplus

4.5.12. The municipality applied for a surplus of R3 406 273, based on a 9% return on operating expenditure (OPEX), including bulk electricity purchases. The applied surplus was assessed against the municipality's financial performance, operational requirements, the principles of cost reflectivity and the affordability impact on consumers.

4.5.13. NERSA notes that maintaining an appropriate level of surplus is necessary to mitigate the financial and operational risks associated with the electricity distribution business. An inadequate surplus may expose the municipality to several risks, including insufficient cash flow to fund operations and

maintenance activities, deterioration of network infrastructure due to underinvestment, increased reliance on borrowing or cross-subsidisation from other municipal functions, an inability to respond effectively to network failures and emergency repairs, and the weakening of the long-term financial sustainability of the electricity undertaking.

4.5.14. To ensure that the surplus is reasonable and not excessive or detrimental to consumers, NERSA relied on section 15(1)(a) of the ERA. In applying this provision, together with the COS Methodology, NERSA is required to ensure that RLM recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation and safeguarding customers from unjustified tariff increases.

4.5.15. NERSA notes that maintaining an appropriate level of surplus is necessary to mitigate financial and operational risks associated with the electricity business. An inadequate surplus may expose the municipality to risks such as insufficient cash flow to fund operations and maintenance activities, deterioration of network infrastructure due to increased reliance on borrowing or cross-subsidisation from other municipal functions, inability to respond effectively to network failures and emergency repairs and weakening of the long-term financial sustainability of the electricity undertaking.

Cost Functionalisation

4.5.16. The licensee has categorised its revenue requirements of R37 469 007 into two main functions: wires and retail business, which is in line with the NERSA COS Framework, as demonstrated in Figure 2 below. These costs align with revenue requirements upon verification.

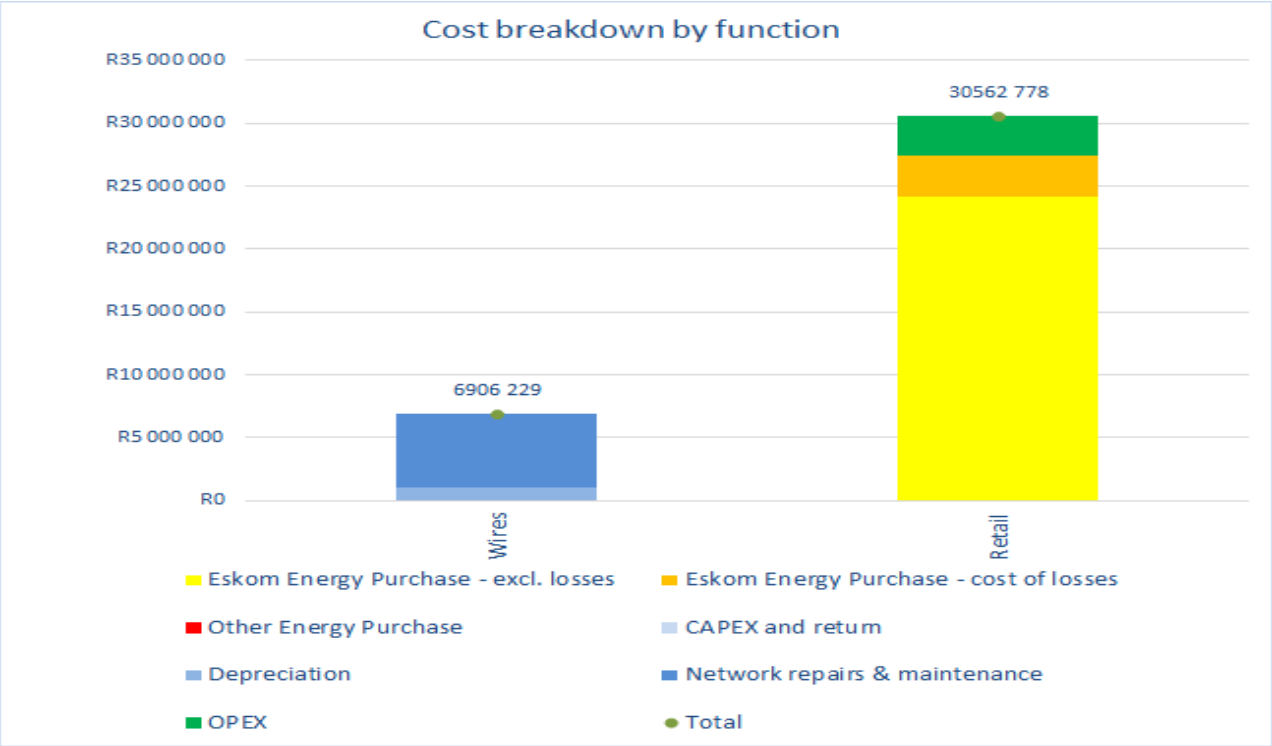


Figure 2: Cost breakdown by functions

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

Cost Classification

4.5.18. 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 revenue requirements and cost functionalisation upon verification.

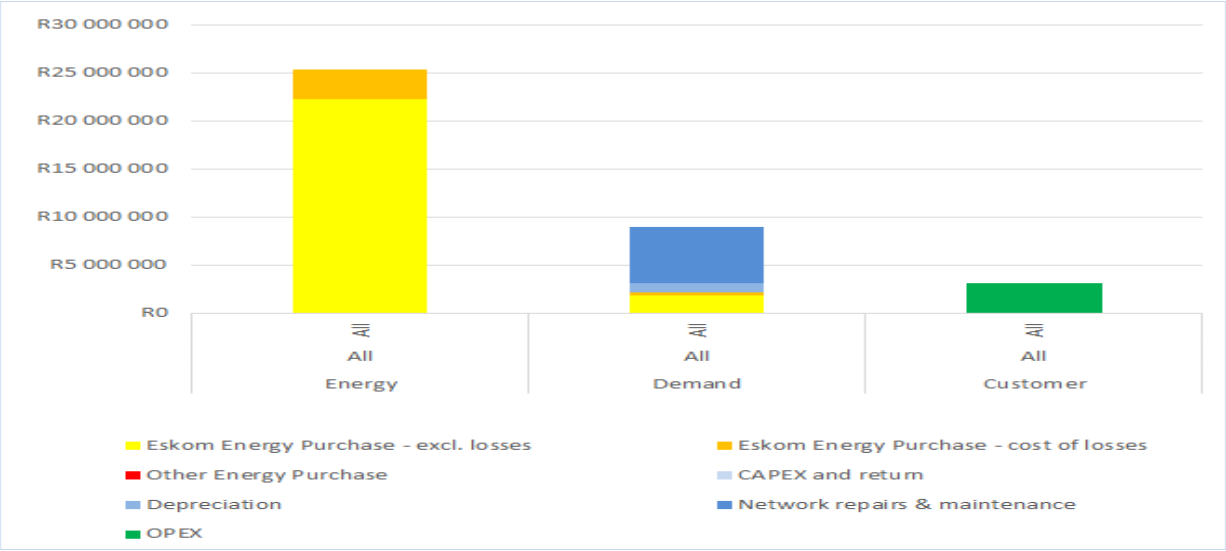


Figure 3: Cost classification

4.5.19. Energy purchases constitute energy-driven costs, with the highest expenses occurring in 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 includes expenses associated with providing electricity distribution services to customers.

Cost Allocation

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

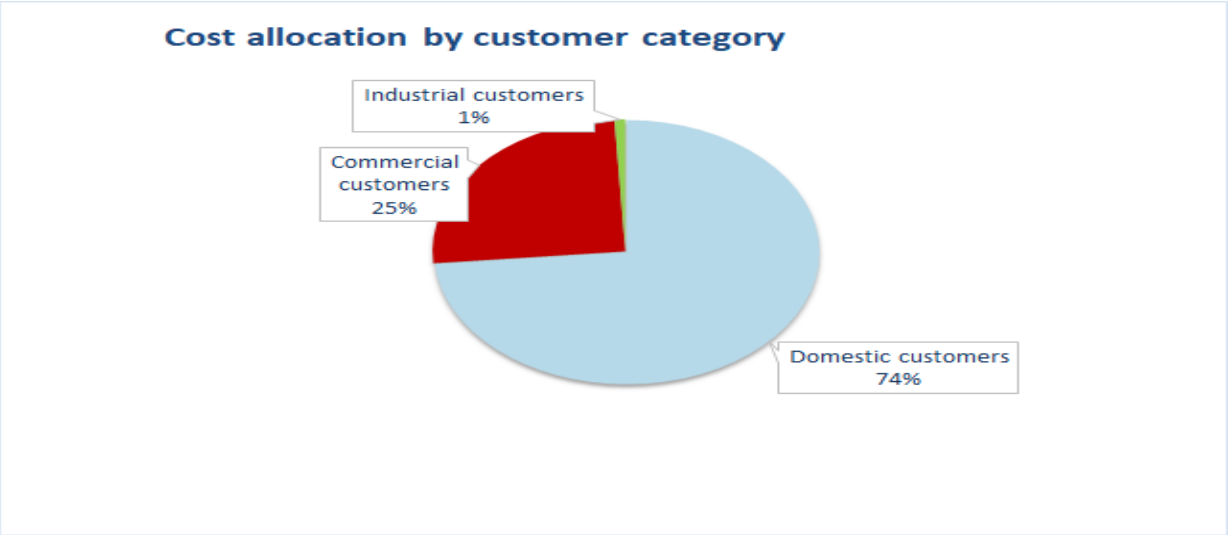


Figure 4: Costs allocated

4.5.21. The domestic customer category accounts for the largest share of allocated costs at 74%, followed by commercial customers at 25%, while industrial customers account for 1% of the total costs. The variation in cost allocation across customer categories is primarily driven by differences in supply characteristics, including connection voltage levels, load factors, coincidence factors and average consumption patterns.

Rate Design

4.5.22. The COS analysis demonstrates the total costs against revenue impact of the various tariffs. Figure 5 below compares the current tariff components with the corresponding costs and indicates that certain rates should increase while others decrease.

4.5.23. Comparing these costs to the income per tariff category reveals the over- or under-recovery per tariff category, as shown in Figure 5. When reading this graph, it is important to note that it is presented in % terms and not absolute Rand terms.

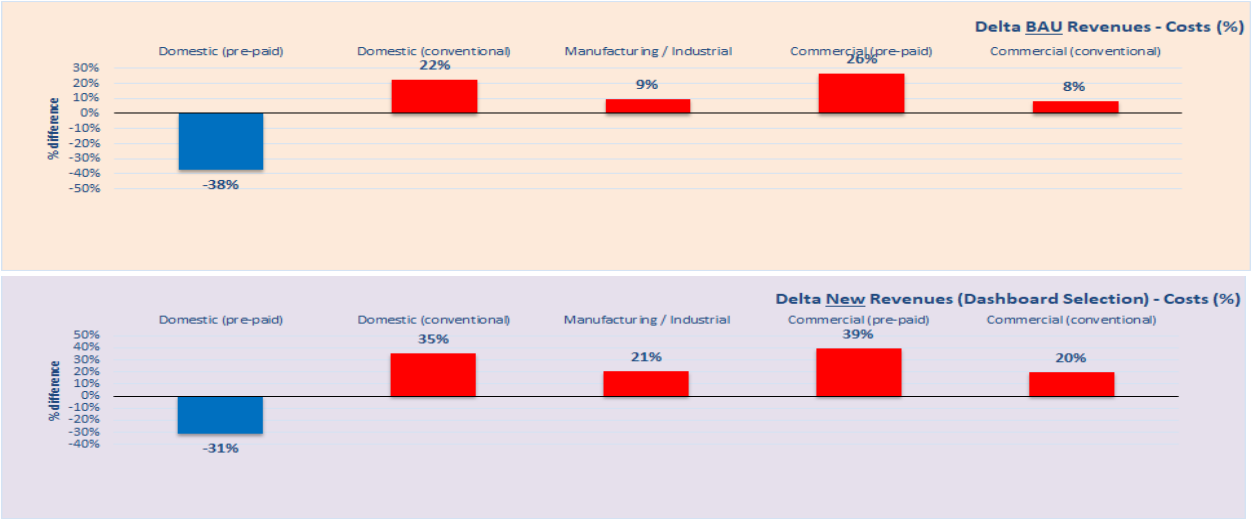


Figure 5: Revenue recovery by customer category

4.5.24. The licensee is not proposing any structural changes to its tariffs.

5. CONCLUSION ON THE COS STUDY

5.1. The COS study results suggest a 13.7% increase, as illustrated in Table 4 below. However, the municipality is proposing a 10.5% increase to review its tariffs for the 2026/27 financial year. Some of the considerations for this decision include the licensee's requirement to maintain a sustainable tariff level to stimulate demand, the ability to cover Eskom bulk electricity costs and ensure customer affordability while maintaining long-term financial stability.

5.2. NERSA recognises that significantly high tariff increases may result in reduced consumption, lower revenue collection and constraints in meeting financial obligations, including payments to Eskom.

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5. Domestic Three Phase	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Block 1(0-350) kWh	252,43	10,50%	278,93	278,93	10,50%
Block 2>350) kWh	374,03	10,50%	413,30	413,30	10,50%
Basic Charge R/month	317,45	10,50%	350,78	350,78	10,50%

6. Commercial Prepaid	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Block 1(0-350) kWh	426,03	10,50%	470,77	470,76	10,50%
Block 2>350) kWh	440,55	10,50%	486,81	486,81	10,50%

7. Commercial Conventional	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Block 1(0-350) kWh	322,57	10,50%	356,44	356,44	10,50%
Block 2>350) kWh	366,04	10,50%	404,48	404,48	10,50%
Basic Charge R/month	560,34	10,50%	619,18	619,18	10,50%

8. MultiPurpose Use (Guest House) Commercial Prepaid	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Block 1(0-350) kWh	322,57	10,50%	356,45	356,45	10,50%
Block 2>350) kWh	366,04	10,50%	404,48	404,48	10,50%

9. Multipurpose Use (Guest House) Commercial Conventional	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Block 1(0-350) kWh	426,03	10,50%	470,77	470,77	10,50%
Block 2>350) kWh	440,55	10,50%	486,81	486,81	10,50%
Basic Charge R/month	346,78	10,50%	383,19	383,19	10,50%

10. Availability Charge -Vacant Land	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Commercial Basic Charge R/month	581,28	10,50%	642,31	642,31	10,50%
Domestic Basic Charge R/month	193,65	10,50%	213,98	213,98	10,50%

11. Industrial Low Voltage	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Block 1(0-1000) kWh	214,57	10,50%	237,10	237,10	10,50%
Block 2(>1000) kWh	177,89	10,50%	196,57	196,57	10,50%
Demand Charge R/kVA	265,68	10,50%	293,58	293,58	10,50%

12. Industrial Medium Voltage	2025/26 Approved Tariffs	2026/27 proposed % increase	2026/27 proposed Tariffs	2026/27 Recommended tariffs	2026/27 Recommended increase
Block 1(0-1000) kWh	214,57	10,50%	237,10	237,10	10,50%
Block 2(>1000) kWh	177,89	10,50%	196,57	196,57	10,50%
Demand Charge R/kVA	265,68	10,50%	293,58	293,58	10,50%
Basic Charge R/month	560,34	10,50%	619,18	619,18	10,50%

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

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

End