NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

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Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

by

Prince Albert Municipality

THE DECISION

At its meeting held on 8 May 2026, the Regulator Executive Committee (REC) considered Prince Albert 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 7 from page 19 of the RfD document.

Based on the available information, public comments and the analysis performed, the REC, at its meeting held on 8 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

AFS	Annual Financial Statement
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
IBT	Inclining Block Tariff
IDP	Integrated Development Plan
IPP	Independent Power Producer
LED	Local Economic Development
MFMA	Municipal Finance Management Act, 2003
MTREF	Medium-Term Revenue and Expenditure Framework
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
PAM	Prince Albert Municipality
RCA	Regulatory Clearing Account
SSEG	Small-Scale Embedded Generation
SDBIP	Service Delivery and Budget Implementation Plan

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. Prince Albert Municipality (PAM) is situated in the Western Cape. The municipality's customer base is predominantly domestic, with this category accounting for 82.46% of total electricity sales. PAM 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	4 329	48.48%	916
Domestic Conventional	3 034	33.98%	194
Commercial Prepaid	90	1.01%	14
Commercial Conventional	1 477	16.54%	18
TOTAL	**8 930**	**100**	**1 142**
Free Basic Electricity (FBE)	483	6.56	946

1.3. NERSA received PAM's initial tariff application of an average tariff increase of 25.30% on 24 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. PAM implemented an average price increase of 17.50% in the 2025/26 financial year (FY). For the FY2026/27, the licensee initially consulted on an average tariff increase of 27%, which was subsequently revised downward to 25.30% following public comments and formed the basis of its initial application. Taking into account NERSA's preliminary review and its stakeholder inputs, PAM was further engaged to reconsider its application. The licensee ultimately submitted a revised application reflecting an average price increase of 17.50% for FY2026/27. The final application, authorised by the Municipal Manager, was submitted on 29 April 2026.

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 27 February 2026. The municipality submitted the council resolution and proof of customer consultation together with the tariff application on 24 March 2026.

1.7. NERSA followed its own public consultation process. On 27 March 2026, NERSA published PAM's tariff application on its website, its various social media platforms, as well as in national and local newspapers, to solicit written comments from affected parties by 17 April 2026.

1.8. NERSA's decision was made on 8 May 2026, taking into consideration 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 (the ERA), the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000) (PAJA), and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 (EPP).

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-Year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (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, 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 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 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 timelines below 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 PAM, 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 (AFS). As a result, the data captured in the D-forms is considered reliable for the purpose of the tariff analysis.

3.2. PAM's electricity business operated at a surplus margin of 4.83%[1] in the FY2024/25, a material fall from 8.73% in the FY2023/24. The decline in surplus margin is primarily attributed to the licensee's cost pressures outpacing its sales revenue during the reporting period. The revenue growth of 9.8% in the current reporting period has been eroded by expenditure growth of 14.6%. This gap is the core driver of the declining surplus margin, but this position is still considered sustainable in the short-term.

3.3. Table 2 below shows that PAM's energy losses notably optimised from 11.10% in the FY2023/24 to 5.99% in the FY2024/25. This outstanding reduction is mainly attributable to the licensee's effective operational controls, including its debt collection rate that grew by 10.7%, which increased billable energy and strengthening revenue recovery.

Table 2: Performance Indicators

PERFORMANCE INDICATORS: OBTAINED FROM D-FORMS		
Performance Indicator	**FY2023/24 (Approved)**	**2024/25 (Actuals)**
Percentage Surplus (Deficit): (%)	8.73	4.83
Percentage Energy Losses: (%)	11.10	5.99

3.4. Based on the above information, PAM's electricity business reflects a mixed, but mostly resilient performance in FY2024/25. Although the surplus margin declined to 4.83% due to operating costs increasing faster than revenue, the business remains financially sustainable in the short term. Importantly, the significant reduction in energy losses from 11.10% to 5.99% demonstrates strong operational efficiency gains, which have helped cushion margin pressure by improving billable electricity and reducing

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

avoidable costs. If cost containment is strengthened, these efficiency gains position PAM well to restore stronger margins and enhance long-term financial viability.

4. DETERMINATION OF PRINCE ALBERT MUNICIPALITY'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 cost of supply 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 R31.15 million in column 4 is for the 2025/26 financial year 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 lower than planned expenditure and lower than anticipated *other income* offsets, rather than regulatory adjustments. The municipality has incorporated these outcomes into the forward-looking FY2026/27 revenue requirement.

4.7. The COS study is valid for five years; however, municipalities need to 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 R32.43 million for the FY2026/27 tariff review process, with no energy loss adjustment applicable. This results in a 4.12% escalation in allowable revenue for FY2026/27 relative to the previous financial period. The submitted application reflects a modest cost forecasting approach by the licensee, particularly in its operating expenditure. The licensee forecasted a substantial upward movement in *other income,* and largely attributes this to a *government energy efficiency & demand-side management grant* that is expected during the period under review. Revenue from other income streams also modestly increase.

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	8 930 236	8 930 236	-	0%	9 019 538	10 101 881	12%	-	10 101 881
Eskom bulk purchases	kWh	9 499 707	9 499 707	-	0%	10 000 000	11 200 000	12%	-	11 200 000
Independent Power Producers Conventional	kWh		-	-		-	-		-	-
Independent Power Producers Renewable Energy	kWh		-	-		-	-		-	-
Self Generation	kWh		-	-		-	-		-	-
Other			-	-		-	-		-	-
Total Energy Requirements	**kWh**	**9 499 707**	**9 499 707**	**0**	**0%**	**10 000 000**	**11 200 000**	**12%**		**11 200 000**
Total Losses	kWh		569 472			980 462	1 098 119			1 098 119
Technical losses	kWh	569 472	569 472			980 462	1 098 119		-	1 098 119
Non-technical losses	kWh	0	0			0	0		0	0
Allowed losses	%	**5.99%**	**5.99%**			**9.80%**	**9.80%**			**9.80%**
Total Energy losses	%	5.99%	5.99%			9.80%	9.80%			9.80%
Cost Drivers										
Energy purchases from Eskom	Rand	15 246 897	20 106 552	4 859 655	32%	23 321 540	24 571 575	5%	-	24 571 575
Other energy purchases		-	-	-		-	-	0%	-	-
Total energy purchases	Rand	**15 246 897**	**20 106 552**	**4 859 655**	**32%**	**23 321 540**	**24 571 575**	**5%**	**0**	**24 571 575**
Cost of technical losses	Rand	2 350 212	1 205 312	(1 144 901)	-49%	2 286 588	2 409 153	5%	0	2 409 153
Non-Technical Losses	Rand	0	0	-	0%	0	-	0%	-	-
Other energy purchases	Rand					-	-		-	-
Capital expenditure	Rand	-	-	-	0%	-	-	0%	-	-
Operational expenditure (incl. Depreciation)	**Rand**	**23 553 378**	**2 886 782**	**(791 403)**	**-88%**	**4 935 387**	**5 222 303**	**6%**	**-**	**5 222 303**
General & Other	**Rand**	**6 194 907**	**2 358 099**	**(39 503)**	**-62%**	**2 524 010**	**2 689 372**	**7%**	**0**	**2 689 372**
Salaries and allowances	Rand	1 093 026	1 270 387	177 360	16%	1 442 310	1 543 324	7%	-	1 543 324
Materials and supplies	Rand	837 501	34 075	(803 426)	-96%	64 200	67 089	4%	-	67 089
Contracted Services	Rand	-	526 321	526 321	#DIV/0!	673 500	707 559	5%	-	707 559
Salaries, wages and allowances (excl. Repairs and Maintenance)	Rand	-	0	0	#DIV/0!	0	0	#DIV/0!	-	0
Payments to consultants (operational work)	Rand	647 305	0	0	-100%	0	0	#DIV/0!	-	0
Eskom debts interest	Rand	-	0	-		0	0		-	-
Current year depreciation	Rand	467 075	527 315	60 241	13%	344 000	371 400	8%	-	371 400
Repairs and Maintenance	Rand	-	0	0					0	
Other creditors interests	Rand	-	0	0	#DIV/0!	0	0	#DIV/0!	0	0
Loss on during current year 2024/25 for not implementing Nersa approved tariffs	Rand	3 150 000							0	
Shared OPEX	**Rand**	**1 608 471**	**528 684**	**(751 899)**	**-67%**	**2 411 377**	**2 532 931**	**5%**	**0**	**2 532 931**
Bad debts (Allowance for Impairment)	Rand	76 485	64 879	(11 606)	-15%	75 000	78 375	4%	-	78 375
General expenses		**1 204 098**	**463 805**	**(740 294)**	**-61%**	**2 336 377**	**2 454 556**	**5%**	**0**	**2 454 556**
1.Bulk NMD Charges	Rand		0	-	#DIV/0!	0	0	#DIV/0!	-	0
2. Fleet Costs / Fuel	Rand		0	-	#DIV/0!	0	0	#DIV/0!	-	0
3.Other Expenses	Rand	1 204 098	652 055	(552 044)	-46%	739 776	743 726	1%	-	743 726
4. Inventory Consumed	Rand		0	0	0%	0	0	#DIV/0!	-	0
5. Impairment Losses / Utilities	Rand		-188 250	(188 250)	#DIV/0!	1 596 601	1 682 824	5%	-	1 682 824
6. Employee Related Cost / Travel, S&T	Rand		0	0	#DIV/0!	0	0	#DIV/0!		0
7. Safety Equipment and Protective Clothing	Rand		0	0	#DIV/0!	0	28 006	#DIV/0!		28 006
Total Expediture before surplus	Rand	41 150 488	24 198 646	2 923 352	-41%	30 543 515	32 203 031	**5%**	0	32 203 031
Surplus	Rand	3 951 914	1 167 348	(2 784 566)	-70%	2 485 643	6 411 201	**158%**	-	6 411 201
Total Expenditure Including Surplus	**Rand**	**45 102 402**	**25 365 994**	**138 785**	**-44%**	**33 029 158**	**38 614 232**	**17%**	**-**	**38 614 232**
Other Income	Rand	**-1 631 348**	**-2 017 713**	**(386 365)**	**24%**	**-1 882 423**	**-6 183 142**	**228%**	**0**	**-6 183 142**
5. Other Revenue - Illegal Connections	Rand		-	-		-	-		-	-
Total Allowable Revenue	**Rand**	**43 471 053**	**23 348 280**	**138 785**	**-46%**	**31 146 735**	**32 431 090**	**4%**	**-**	**32 431 090**
Increase Required							***17.50%***			***17.50%***

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 R24.57 million, which accounts for 70% of total costs inclusive of the 12% energy loss allowance. Bulk purchases were verified against Eskom invoices in the 2024/25 financial year.

4.12. To arrive at the FY2026/27 estimate, the licensee projected the full-year amount for the FY2025/26 and 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 R5.22 million for the 2026/27 financial year including depreciation. This represents 14% of the Total Costs, adjusted upward from R4.94 million in the 2025/26 financial year. This translates to a 5.81% increase from the previous year. The licensee cited a conservative adjustment approach in its budgeting, as it has seen several electricity users getting off the grid in recent times, 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 R23 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 R0.527 million in FY2024/25, R0.344 million in FY2025/26 and projected at R0.371 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 projecting a surplus position of R6.41 million, which is based on a 17% return on OPEX including bulk purchases, and increased by 158% from the previous year relative to Total Expenditure. This outcome is driven by a combination of an upward movement in other income revenue streams, government grant and the partial recovery of a R3 million loss realised in the FY2024/25, due to the non-implementation of approved tariff increase in that period.

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. The considerations that went into the municipality's surplus allowance included factors that support both cost reflectivity and financial sustainability, and the associated risk factors include financial liquidity and operational risks.

4.20. 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 PAM 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

4.21. While the COS study outcome reflected an average tariff increase of 25.30% for the licensee to achieve full cost reflectivity, the municipality adopted a multi-year phase-in approach to implement tariff increases below the COS outcome. 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, as well as addressing affordability concerns.

4.22. 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.

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

4.24. Furthermore, the Cost of Supply study is based on forecasts and, as such, does not guarantee that the results are in fact 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.

4.25. The cost adjustment tool indicates an increase of 4.12% in the revenue requirement for the 2026/27 financial year. The licensee has applied for the same average tariff increase of 17.50% to review its tariffs for the 2026/27 financial year, as it did in 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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adjustment for FY2026/27, adopting a phased-in approach to revenue recovery rather than a one-off shock to consumers.

7.1.6. Overall, the combined tariff impacts demonstrate that affordability concerns, especially for lower-usage households, remain relevant and must be mitigated through indigent support measures, although the proposed tariff adjustments are financially prudent and aligned with long-term sustainability objectives.

7.1.7. If NERSA approves the 17.50% transitional tariff increase, PAM will materially improve electricity revenue flows, helping to narrow the gap between revenue growth and expenditure growth that eroded surplus margins in recent years. Approval would also enable PAM to restructure tariffs toward a more cost-reflective mix, with higher fixed charges (basic and ampere-based charges) improving revenue predictability and reducing exposure to demand variability, non-technical losses, and consumption declines driven by energy-efficiency measures.

7.1.8. Conversely, if the tariff increase is rejected, PAM will face heightened financial risk. Without tariff relief, the electricity function will remain structurally under-recovered, placing pressure on operating surpluses already weakened by expenditure growth outpacing revenue growth. This could necessitate internal cross-subsidisation from other municipal services, increased reliance on cash reserves, or deferred maintenance and refurbishment of electricity infrastructure, ultimately heightening long-term operational and technical risks. A rejection would also constrain the municipality's capacity to fully leverage efficiency gains realised through loss reduction.

Municipal Impact Analysis

7.1.9. Table 6 below sets out the municipal impact in the event of either approval or rejection of the application.

Table 6: Municipal Impact

Application Item	Assessment
Profile	Very small rural town, tourism attraction and agriculture load.
Proposed Increase	17.50%
Cost of Supply Results	25.30%
Customer Impact	There exists severe affordability shock to households and small business.
Revenue Impact (Approved)	Will present meaningful revenue correction, but the under-recovery gap still remains.
Revenue Impact (Rejected)	Would result in high operational risk due to scale.
Regulatory Considerations	There is a trade-off between customer affordability and municipal viability.

Clawback / disbursement mechanism

7.20. 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 lower actual expenditure resulted in a lower allowable revenue outcome in the year under review. Accordingly, (i) in the absence of a clawback or disbursement mechanism, the FY2024/25 over-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 17.50% tariff increase is therefore forward-looking, and not retrospective, as discussed in section 4.6 above.

7.21. **TARIFF ANALYSIS**

1. Domestic Supply - 2 Part	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	109.18	25.30%	136.80	136.80	25.30%
Basic Charge (R/month)	New	New	300.00	300.00	New
Energy Charge (c/kWh)	221.00	25.30%	277.00	277.00	25.30%

2. Domestic Supply - 1 Part	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	0.00	0%	0.00	0.00	0%
Energy Charge (c/kWh)	392.00	17.50%	461.00	461.00	17.50%

3. Domestic - Indigent Prepaid	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Block 1 (0 - 50kWh) - First 50kWh Free	0.00	0%	0.00	0.00	0%
Block 2 (51 - 350 kWh)	227.00	17.50%	266.00	266.00	17.50%
Block 3 (351 - 600kWh)	290.00	17.50%	341.00	341.00	17.50%
Block 4 (>600 kWh)	347.00	17.50%	407.00	407.00	17.50%

4. Domestic Supply - Prepaid and Credit Meters	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	39.97	25.30%	50.09	50.09	25.30%
Energy Charge (c/kWh)	221.00	25.30%	277.00	277.00	25.30%

5. Domestic Prepaid - 60A or more (New)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	New	New	125.56	125.56	New
Basic Charge (R/month)	New	New	43.48	43.48	New
Energy Charge (c/kWh)	New	New	254.00	254.00	New

6. Commercial Supply - Business Small Conventional	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	155.78	17.50%	183.04	183.04	17.50%
Basic Charge (R/month)	New	New	500.00	500.00	New
Energy Charge (c/kWh)	221.00	17.50%	260.00	260.00	17.50%

7. Commercial Supply - Business Medium Conventional	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	289.17	17.50%	339.77	339.77	17.50%
Basic Charge (R/month)	New	New	700.00	700.00	New
Energy Charge (c/kWh)	219.00	17.50%	257.00	257.00	17.50%

8. Commercial Supply - Guest House (20-60A)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	0.00	0%	0.00	0.00	0%
Energy Charge (c/kWh)	434.00	17.50%	509.00	509.00	17.50%

9. Commercial / Guest House Pre-paid customers with 60A and more (NEW)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	New	New	130.00	130.00	New
Basic Charge (R/month)	New	New	300.00	300.00	New
Energy Charge (c/kWh)	New	New	260.00	260.00	New

10. Municipal Properties & Community Grounds	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	0.00	0%	0.00	0.00	0%
Energy Charge (c/kWh)	389.00	17.50%	457.00	457.00	17.50%

11. Private Street Lights	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	0.00	0%	0.00	0.00	0%
Energy Charge (c/kWh)	162.00	17.50%	191.00	191.00	17.50%

12. Industrial - Low (40-100kVA)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Ampere Charge (R/5Amp/month)	1,501.17	25.30%	1,880.96	1,880.96	25.30%
Energy Charge (c/kWh)	199.00	25.30%	249.00	249.00	25.30%
Demand Charge (R/kVA)	322.61	25.30%	404.23	404.23	25.30%

13. Industrial - Low >100kVA	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Ampere Charge (R/5Amp/month)	4,426.77	17.50%	5,201.45	5,201.45	17.50%
Energy Charge (c/kWh)	140.00	17.50%	164.00	164.00	17.50%
Demand Charge (R/kVA)	423.25	17.50%	497.31	497.31	17.50%

14. Time of Use - Bulk Users TVG 11kV	*2025/26 Approved*	*Proposed % Increase*	*2026/27 Proposed*	*2026/27 Recommended*	*% Increase*
Tariff Blocks	*c/kWh*				
Basic Charge (R/month)	3,989.84	17.50%	4,688.06	4,688.06	17.50%
Energy Charges: (c/kWh)					
Peak	466.00	17.50%	548.00	548.00	17.50%
Standard	271.00	17.50%	319.00	319.00	17.50%
Off-peak	112.00	17.50%	131.00	131.00	17.50%

15. Time of Use - Bulk Users TVG 11kV: SSEG	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Basic Charge (R/month)	505.36	17.50%	593.79	593.79	17.50%
Low Season:					
Energy Charges: (c/kWh)					
Peak	70.40	17.50%	82.70	82.70	17.50%
Standard	64.00	17.50%	75.20	75.20	17.50%
Off-peak	16.50	17.50%	19.30	19.30	17.50%
High Season:					
Energy Charges: (c/kWh)					
Peak	117.10	17.50%	137.60	137.60	17.50%
Standard	29.40	17.50%	34.50	34.50	17.50%
Off-peak	24.00	17.50%	28.00	28.00	17.50%

16. SSEG Single Phase < 80 Amp	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Residential Household (R/Monthly Basic)	355.57	17.50%	417.79	417.79	17.50%
Business Premises (R/Monthly Basic)	355.57	17.50%	417.79	417.79	17.50%

17. SSEG Single Phase > 80 Amp (3 Phase Meters)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Residential Household (R/Monthly Basic)	2,370.43	17.50%	2,785.26	2,785.26	17.50%
Business Premises (R/Monthly Basic)	2,370.43	17.50%	2,785.26	2,785.26	17.50%

18. Availability Charge (Vacant Land)	***2025/26 Approved***	***Proposed % Increase***	***2026/27 Proposed***	***2026/27 Recommended***	***% Increase***
Tariff Blocks	***c/kWh***				
Residential Property (R/Annum)	3,994.95	17.50%	4,694.07	4,694.07	17.50%
Business Property (R/Annum)	10,485.15	17.50%	12,320.05	12,320.05	17.50%

8. CONFIDENTIALITY

8.1. None.

9. CONCLUSION

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

End.