

Press Statement

STATEMENT ON ELECTRICITY TARIFF ADJUSTMENTS

1. INTRODUCTION

On 24th August, 2015 ZESCO made an application to the Energy Regulation Board (ERB) for a tariff adjustment in conformity with the Electricity Act – Section 8(2), Chapter 433 of the Laws of Zambia. The application was to increase electricity tariffs for its various customers.

The tariff application was made under the prevailing challenging economic environment which has been worsened by drastic reduction in hydro power generation capacity as a result of low water levels. This has caused a severe energy deficit necessitating the importation of emergency power at a huge cost to Government. This is so because ZESCO by itself cannot afford to meet the high cost of imported emergency power on account of low electricity tariffs.

The other factors that have necessitated the tariff adjustment include the following:

New investment

The proposed tariff adjustment is expected to generate revenue that will facilitate investment of US\$3.7billion in generation projects thereby adding capacity of 1,500 Mega Watts to the national grid in the medium to long-term.

Low tariffs

ZESCO has signed Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs) at tariffs higher than existing average tariffs. With such a situation, ZESCO could default on the monthly payments to the IPPs, if tariffs were not adjusted. The current average tariff ZESCO is paying to purchase power from IPPs ranges from 7 to 13.23 US cents per kilowatt hour and yet the current average tariff is 6 US cents per kilowatt hour.

Macroeconomic factors

Energy supply costs and revenues are affected by changes in macroeconomic factors such as inflation, the exchange rate, interest rates and the operating environment. In the recent past, the country has seen marked deterioration in these factors which has resulted in escalating operational costs for ZESCO without a corresponding increase in tariffs.

2. NEW APPROVED TARIFFS

In view of the foregoing, tariffs for residential, social services, commercial and maximum demand customers have been adjusted upwards by various margins according to the cost of supply for each specific customer category. The detailed outlook of the new tariffs in absolute terms is as follows:

A. METERED RESIDENTIAL CUSTOMERS

There has been a change to the residential tariff structure where the life-line consumption band has been revised. However, the tariff remains unchanged at 15 ngwee per kilowatt-hour. The life-line consumption band has been revised upwards to a new band of 0 to 300 kilowatt-hours per month from the current 0 to 100 kilowatt-hours per month; this is to enable low income households have access to electricity. Below is a regional comparison of regional lifeline consumption bands which shows that the Zambian low income household is relatively in a better off position:

Table 1: Life line consumption bands in selected African countries

No.	Country	Life line Consumption Band
1.	Ghana	0 to 50kWh per month
2.	Kenya	0 to 50kWh per month
3.	Mozambique	0 to 100kWh per month
4.	South Africa	0 to 50kWh per month
5.	Tanzania	0 to 50kWh per month
6.	Zimbabwe	0 to 50kWh per month
7.	Malawi	Not applicable
8.	Uganda	0 to 15 kWh per month
9.	Lesotho	Not applicable

Additionally, the fixed monthly charge for residential customers also remains unchanged at K18.23. The tariff measures on residential customers will enable

the underprivileged to benefit without over compensating those who are able to afford the power. The tariff reviews for Residential; Commercial; Services; and MD1, MD2, MD3 and MD4 are as follows:

Table 2: Metered Residential Tariffs

CATEGORY		Current tariffs (K)	Approved new Tariffs effective December 2015 (K)	Absolute Change (K)
1. METERED RESIDENTIAL (Prepaid) (capacity 15 kVA)				
R1 – Consumption band up to 300kWh per month.	Energy charge/kWh	0.15	0.15	0.00
R2 – Consumption above 301kWh per month	Energy charge/kWh	0.51	1.54	1.03
	Fixed Monthly Charge	18.23	18.23	0.00

Note that tariffs are exclusive of Government excise duty at 3% and Value Added Tax at 16%.

B. COMMERCIAL TARIFFS

Table 3: Commercial Tariffs

CATEGORY		Current tariffs (K)	Approved new Tariffs effective December 2015 (K)	Absolute Change (K)
2.COMMERCIAL TARIFFS (capacity 15kVA)				
Commercial	Energy charge/kWh	0.31	0.88	0.57
	Fixed Monthly Charge	55.09	156.47	101.38

Note that tariffs are exclusive of Government excise duty at 3% and Value Added Tax at 16%.

C. SOCIAL SERVICES

Table 4: Social Services Tariffs

CATEGORY		Current tariffs (K)	Approved new Tariffs effective December 2015 (K)	Absolute Change (K)
3. SOCIAL SERVICES				
Schools, Hospital, Orphanages, churches, water pumping & street lighting	Energy charge K/kWh	0.28	0.81	0.53
	Fixed Monthly Charge	47.91	139.41	91.5

Note that tariffs are exclusive of Government excise duty at 3% and Value Added Tax at 16%.

D. MAXIMUM DEMAND CUSTOMERS

Table 5: Maximum Demand Customer Tariffs

CATEGORY		Current tariffs (K)	Approved new Tariffs December effective 2015 (K)	Absolute Change (K)
4. MAXIMUM DEMAND TARIFFS				
MD1 – Capacity between 16 - 300 kVA	MD charge/kVA/Month	13.97	48.05	34.08
	Energy charge /kWh	0.20	0.70	0.50
	Fixed Monthly Charge	136.82	470.65	333.83
	Off-peak MD charge/kVA/Month	6.98	24.03	17.05
	Off-peak energy charge/kWh	0.15	0.52	0.37
	Peak MD charge/kVA/Month	17.46	60.06	42.60
	Peak Energy Charge/kWh	0.25	0.87	0.62
MD2 – Capacity 301 to 2,000 kVA	MD charge/kVA/Month	26.13	89.90	63.77
	Energy charge /kWh	0.17	0.58	0.41
	Fixed Monthly Charge	273.62	941.25	667.63
	Off-peak MD charge/kVA/Month	13.07	44.95	31.88
	Off-peak energy charge/kWh	0.13	0.43	0.30

	Peak MD charge/kVA/Month	32.67	112.37	79.70
	Peak Energy Charge/kWh	0.21	0.72	0.51
MD3- Capacity 2,001 to 7,500kVA	MD charge/kVA/Month	41.75	115.23	73.48
	Energy charge /kWh	0.14	0.38	0.24
	Fixed Monthly Charge	579.74	1,600.10	1,020.36
	Off-peak MD charge/kVA/Month	20.87	57.61	36.74
	Off-peak energy charge/kWh	0.10	0.28	0.18
	Peak MD charge/kVA/Month	52.19	144.04	91.85
	Peak Energy Charge/kWh	0.17	0.47	0.30
MD4-Capacity above 7500kVA	MD charge/kVA/Month	41.98	115.87	73.89
	Energy charge /kWh	0.12	0.32	0.20
	Fixed Monthly Charge	1,159.50	3,200.22	2,040.72
	Off-peak MD charge/kVA/Month	20.99	57.93	36.94
	Off-peak energy charge/kWh	0.09	0.24	0.15
	Peak MD charge/kVA/Month	52.48	144.83	92.35
	Peak Energy Charge/kWh	0.14	0.40	0.26

Note that tariffs are exclusive of Government excise duty at 3% and Value Added Tax at 16%.

3. IMPACT ANALYSIS

In terms of impact on household expenditure, consumers will experience some changes. For example, for households consuming 100 kilowatt-hours per month, their monthly expenditure will not increase but remain unchanged. Meanwhile, for households consuming 300 kilowatt-hours per month which is the average consumption level for most low income households, their monthly expenditure will decrease by K38.23. Further, for households consuming 500 kilowatt-hours per month, their monthly expenditure will increase by K 207.90.

Furthermore, it is understood that the new tariff will be a challenge to small businesses and commercial clients. However, the increase is unavoidable if we are to continue having power. Industries will therefore be expected to put in

place effective energy management measures including power factor correction measures.

In an effort to provide for equity in carrying the tariff burden, the Government is in the process of engaging the maximum demand customers so as to ensure that all consumers of electricity pay revised tariffs.

The much needed investment in the power sector has been lacking due to low tariffs, and Zambia at current average tariff of 6.02 US cents per kilowatt-hour ranks among the countries with the lowest tariffs in the region. This is in comparison with countries like Tanzania, Swaziland and Zimbabwe whose tariffs are at 16.8 US cents; 10.9 US cents; and 9.8 US cents per kilowatt-hour respectively.

With the new increment Zambia's tariff will average 10.35 US cents per kilowatt-hour, which will be close to the regional average of 10 US cents per kilowatt-hour. At this tariff, Zambia will become competitive and will attract the much needed investment in electricity sub sector.

4. REGULATORY DECISIONS

The following regulatory decisions have been made with regard to ZESCO's application to adjust electricity tariffs in 2015.

- a) The electricity tariffs for residential, services, commercial and maximum demand customers have been adjusted upwards by various margins according to the cost of supply for each specific customer category. Tariffs for the various customer categories have been increased from an average of 37 ngwee to K1.13 per kilowatt-hour, that is, 6 US cents to 10.35 US cents per kilowatt-hour;
- b) The tariff structure for residential customers has been altered to include a life-line consumption band (R1) of up to 300 kilowatt-hours per month. For this consumption band, the tariff will remain at 15 ngwee per kilowatt-hour;
- c) Additionally, the fixed monthly charge for residential customers remains unchanged at K18.23;

- d) During the Public hearings, concerns were repeatedly raised about the allocation of subsidised electricity units to ZESCO staff. While recognising that the staff tariff is a condition of service, the current challenging environment calls for all stakeholders including ZESCO to sacrifice. In this regard, ZESCO is hereby directed with immediate effect to reduce this allocation to its staff from the current 2,000 kilowatt-hours to 300 kilowatt-hours per month;
- e) ZESCO must immediately start implementing demand side management measures which include, among other things, the following: Power Factor Surcharge; migration of all customer meters to Time of Use (ToU); implement the use of energy saving bulbs; and install ripple control system for electric geysers;
- f) ZESCO is further directed to start a programme of tariff differentiation for the poor starting with the rural consumers;
- g) ZESCO is also directed to devise sustainable strategies and systems that are aimed at improving service delivery and enhancing operational efficiency including reducing its staff costs as a proportion of total operating and maintenance costs. Along this line, ZESCO is directed to strictly adhere to the performance benchmarks which have been agreed upon with the Energy Regulation Board;
- h) ERB has established an Electricity Strategic Fund (ESF) which is meant to generate sustainable funding for the electricity sub-sector. The ESF, will among other things, provide for infrastructure development and also facilitate emergency power imports. ZESCO is hereby directed, to immediately start remitting one per cent (1%) of the additional revenue to be realised from this tariff adjustment into the fund; and
- i) The **new tariffs** and allied directives are effective midnight of 2nd December, 2015.

By Order of the Board

ENERGY REGULATION BOARD
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