



PRESS STATEMENT

SPEECH BY THE ERB BOARD ACTING CHAIRMAN PROF. FRANCIS YAMBA ON THE ZESCO APPLICATION TO VARY ELECTRICITY TARIFFS - 2017

Members of the Board;

Members of the Press;

ZESCO Management;

Energy Consumers;

Invited Guests;

Ladies and Gentlemen

1.0 INTRODUCTION

Following ZESCO's application in March 2017 to adjust tariffs for the year 2017/2018, it is my honour and privilege to announce that the Energy Regulation Board (ERB) has now made a decision. I am therefore here to announce the approved tariffs for ZESCO for the year 2017/2018. This tariff adjustment will apply across all customer categories (excluding mining and exports), and shall be implemented in two phases this year. Our decision has been informed by a number of factors which I now wish to highlight.

2.0 LEGAL BASIS FOR REVIEW

In line with the provisions of Section 8(2) of the Electricity Act the ERB notified consumers of their right to make submissions on ZESCO's intention to vary electricity tariffs. The Law provides for public consultation in the regulatory process. Further, in keeping with regulatory best practice and to facilitate for meaningful engagement with consumers, the

ERB issued a Public Consultation Paper to highlight the main aspects of ZESCO's application. In view of the Public Consultation Paper, thirty six (36) submissions were received from different parts of the country. Subsequently, a public hearing was held in Lusaka on 5th May 2017 to allow all those who had commented on ZESCO's application to present their views either in person or through their representative, to the board.

3.0 MAJOR ISSUES IN ZESCO'S PROPOSAL TO VARY ELECTRICITY TARIFFS

ZESCO anchored its application to increase tariffs, which is predicated mainly on, changes in the economic conditions since the last adjustment in 2014; the power deficit which reached its height in 2015/2016; changes in the cost of generating, transmitting, distributing and supplying electricity; system and customer base expansion; rising cost of electricity imports; and cost reduction and revenue enhancement measures it wishes to undertake to improve efficiency. Further, that ZESCO needed cost-reflective tariffs that would guarantee adequate financial resources to maintain existing infrastructure, replace depreciated equipment, and invest in new power generating stations and other infrastructure.

To support its application ZESCO's specific justifications included the following:

- The depreciation of the Kwacha; high Interest Rates; and the rising costs in its operations had adversely affected ZESCO;
- To mitigate the power deficit, ZESCO had signed Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs) at tariffs higher than the existing averages;
- The tariff application is intended to attract a multi-Billion US Dollar portfolio of generation projects which are important to diversify the generation mix to avoid the devastating effects of drought that had recently being experienced. This would greatly improve the security of supply in the medium to long term; and

- ZESCO would continue to import power from the region in order to meet the power deficit caused by the drought of 2015-2016.

4.0 CONSUMER SUBMISSIONS

Following ZESCO's application, the ERB received thirty six (36) submissions from electricity consumers from different parts of the country. The submissions were varied. Some of the major issues raised by consumers included the following:

- i. That while an increase in tariffs was necessary, 75% for the year 2017 alone was too high. The proposed alternative increases ranged from 25% to 50%;
- ii. That besides being unaffordable for the poor, the proposed tariff increase would make the cost of living higher as the prices of most essential commodities would go up;
- iii. That ZESCO staff were paying below cost tariffs (almost free). Therefore, ZESCO should not ask other consumers to subsidise ZESCO staff;
- iv. That the 75% proposed increase in tariffs would signal a sudden shift to high carbon emission forms of energy such as charcoal. This would adversely affect the environment in the long run;
- v. That ZESCO's proposal to increase the life line tariff from 100 kWh to 300kWh per month fell short of the average consumption ranging between 400 to 500 kWh per month. However, others argued that the proposed 300 kWh lifeline tariff was too high;
- vi. There was a need to extend the Time of Use tariff to all customer categories. This would both increase income for ZESCO and reduce load shedding as people would voluntarily shift their loads to cheaper times; and
- vii. That generally there was inadequate information accompanying the tariff application to elicit meaningful responses from consumers.

5.0 ERB'S EVALUATION OF THE PROPOSED ELECTRICITY TARIFF VARIATION

Ladies and gentlemen, may I now turn to our evaluation of ZESCO's proposed tariff adjustments for the year 2017. In considering ZESCO's tariff application and taking into account consumer submissions, the ERB conducted a detailed and analytical review in line with the following regulatory principles:

- i. Recovery of prudently incurred costs by the utility;
- ii. Recognition of used and useful utility assets, only;
- iii. Financial sustainability of the utility;
- iv. The need to attain cost reflective tariffs;
- v. Delivery of quality service; and
- vi. Social considerations for the indigent customers.

6.0 BOARD FINDINGS AND OBSERVATIONS

Following our detailed review of ZESCO's tariff application in line with the regulatory principles, the ERB, among other things, arrived at the following conclusions:

1. That from ZESCO's application, the proposed tariff adjustment would generate revenue of up to ZMW 9.4 billion in the first full year of its implementation;
2. ZESCO has proposed to spend a total of ZMW 2.4 billion as operating costs for the first year of implementation of the proposed electricity tariffs;
3. ZESCO's cost of sales is projected at ZMW 7.3 billion for the year 2017;
4. Without the 75% tariff adjustment, the utility would raise revenue amounting to ZMW 8.8 billion in 2017 from turnover of ZMW 8.7 billion in 2016. This will result in a net loss of ZMW 615 million in 2017 from a net profit of ZMW 454 million in 2016.

5. Notably, with a tariff increase, ZESCO would raise a total of ZMW 9.4 Billion in revenue but would still incur a net loss of ZMW 228 Million compared to ZMW 615 million if no tariff adjustment was awarded. Therefore, according to ZESCO even with the proposed tariff adjustment, they would still incur losses; and
6. ZESCO's proposed tariff adjustment and tariff structure changes would affect low consumption households differently. For example, low spenders would be adversely affected because of the increase in the fixed charges.

7.0 BOARD DECISIONS

Having considered ZESCO's application with particular attention to the tariff justification and assumptions, financial performance, electricity demand forecast, customer comments, and the envisaged progression towards cost reflectivity, the ERB now orders as follows:

Order 1: Approval of Tariff Application at 75%

Notwithstanding the uniqueness of this application and the stated limitations and constraints, the ERB considered ZESCO's application with particular attention to the following: tariff justification and assumptions, financial performance, electricity demand forecast; customer comments, and the need to progress towards cost reflectivity and the upcoming cost of service study, the ERB board has approved the tariffs for ZESCO's retail customers to be adjusted by a total of 75%, and to be effected in two phases of 50% effective 15th May, 2017 and 25% to be effected on 1st September, 2017.

Order 2: Improve Service Delivery

The Board has, reluctantly decided to waive the use of the key performance indicators (KPIs) framework in this decision so as to allow ZESCO provide for adequate revenues to meet the immediate cost of both local power purchases and settle current bills and arrears on outstanding emergency power imports necessitated by the acute power shortages experienced in 2015.

In spite of the foregoing, the board notes with concern that the utility's performance on the KPIs has not been impressive particularly on quality of service, cash management,

customer service, staff productivity and safety KPIs. ZESCO's is, therefore, directed to improve its performance on the KPIs.

ZESCO continues to underperform on the key performance indicators, which has compromised customer service, financial and technical operations. ZESCO must make an undertaking to improve performance on the stated KPIs.

Order 3: Adhere to Legal Provisions that guide Tariff Applications

ZESCO is ordered, in future, to make an undertaking to abide by the provision of the electricity act, cap 433 of the laws of Zambia and set ERB Tariff Filling Guidelines (TFGs) that outline the procedures to follow when applying for a tariff adjustment.

Order 4: Approve change in Tariff Structure and Life-line Tariff

That, the ERB further approves the revision of residential tariff bands as follows:

- ✓ Raise the R1 consumption band upper limit from 100kWh to 200kWh;
- ✓ Raise the R2 consumption band lower limit from 101kWh to above 200kWh; and
- ✓ Abolish the R3 consumption band.

With reduction of the lifeline band to 200kwh and in order for the intended beneficiaries to get the full benefits, ERB has ordered that the fixed charge component for residential consumers is not changed.

ERB further orders that ZESCO should engage the relevant ministries and stakeholders to identify communities and individuals who will require the lifeline to meet their basic electricity needs and install appropriate smart meters for the same.

It is further ordered that future proposals on lifeline tariff be premised on studies that will determine the appropriate level of life-line tariffs in line with international best practices and the implementation modalities so that it is efficient and effective; and that the current proposal for life-line tariff be regarded as an interim measure pending the conclusion of the cost of service study.

Order 5: Reject the Proposal to Reduce Discount on Time of Use Tariff

That, ERB has rejected ZESCO's proposal to change Time of Use (ToU) tariff discount and premium to reduce the discount on the off-peak md charge from 50% to 25% as this would make it less attractive to the current enrolled customers. Meanwhile, ERB orders that ZESCO maintains the other peak and off-peak premiums and discounts.

Order 6: Reject the Suspension of the Time of Use Tariff

ERB has rejected the proposal by ZESCO to suspend the ToU tariff facility until the power deficit is ended. This is because the power deficit position has improved and it is justified and prudent to reward those customers who conserve power and operate off-peak, even under deficit situations.

Order 7: Reject the Introduction of a Surcharge on Energy Consumption during Peak Times

ERB has rejected the application by ZESCO to introduce a surcharge on energy consumption during peak times on both energy and capacity charges. ZESCO has not provided sufficient information on the proposal and how it will impact customers. Further, the rejection is on the basis that currently all electricity consumed/used during the peak time period attracts a surcharge of 25% on both energy and capacity charges. Therefore, the current charges should be maintained.

Order 8: Reject Proposal to Limit the Social Service Tariff to Specific Customer Categories

The ERB rejects the proposal to limit the social service tariff to government and community owned schools, and government owned hospitals, clinics and health posts, orphanages and churches only. This is because ZESCO has not provided the justification of this proposal and that proposal itself was not subjected to stakeholder consultation. Further, ERB has noted that the institutions that ZESCO intends to exclude from this tariff are providing a complementary service to government and must be supported.

Order 9: Revise the Condition on Staff Tariffs

The continued use of staff tariffs in the conditions of service greatly deducts from ZESCO's justifications for tariff adjustments. ERB orders ZESCO to revise the staff tariff so that it is not passed on to customers by way of a tariff increase. The ERB notes that the continued

use of the staff tariff implies that the rest of the consumers are subsidizing the ZESCO staff tariff.

The schedule of approved tariffs shall be posted on the ERB website.

Conclusion

The ERB has approved the application bearing in mind the fact that the Cost of Service Study is underway and is scheduled to be concluded within the next 12 months. In this respect, subsequent tariff adjustments will be determined on the basis of the cost of service study.

Lastly, whilst the migration to cost reflective tariffs is essential, without doubt, members of the public, the commercial sector and industry must adapt Demand Side Management measures that will help to conserve power. Residential consumers must explore alternative cooking and efficient lighting strategies while the commercial sector should also invest in efficient appliances and industry should invest in power factor correction equipment, and where possible on-site internal electricity generation must be encouraged. Such demand side management strategies are critical in sustaining the power that we have today and will also save energy.

ISSUED THIS 10TH DAY OF MAY 2017

PROF. FRANCIS YAMBA

ENERGY REGULATION BOARD

ACTING CHAIRMAN