



## **PRESS STATEMENT**

**SPEECH BY THE BOARD CHAIRMAN ON THE APPLICATION  
FROM NORTH WESTERN ENERGY CORPORATION LIMITED  
TO EFFECT ELECTRICITY TARIFFS**

**27<sup>TH</sup> MAY 2010**

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**MEMBERS OF THE BOARD**

**NORTH WESTERN ENERGY CORPORATION MANAGEMENT**

**CONSUMERS WHO MADE SUBMISSIONS ON THE TARIFF APPLICATION**

**INVITED GUESTS**

**LADIES AND GENTLEMEN**

IN DECEMBER 2009 THE ENERGY REGULATION BOARD PURSUANT TO ITS POWERS UNDER THE ELECTRICITY ACT CHAPTER 433 OF THE LAWS OF ZAMBIA DIRECTED NWEC TO FORMALLY APPLY TO THE ERB FOR APPROVAL OF THE TARIFFS NWEC HAD BEEN CHARGING RESIDENTIAL CUSTOMERS WITHOUT AUTHORITY FROM AUGUST 2009.

NORTH-WESTERN ENERGY CORPORATION (NWEC) LIMITED (NWEC) SUBSEQUENTLY COMPLIED WITH THE DIRECTIVE, SUBMITTING ITS PROPOSAL FOR TARIFFS ON 5<sup>TH</sup> JANUARY 2010. PUBLIC SUBMISSIONS FOR OR AGAINST THE NWEC APPLICATION WERE INVITED BY THE ERB AND ELEVEN (11) SUBMISSIONS WERE RECEIVED FROM THE PUBLIC.

I WISH TO INFORM THE PUBLIC THAT THE ERB HAS CONCLUDED ITS CONSIDERATION OF THE APPLICATION BY NVEC, TAKING INTO ACCOUNT THE CONSUMER SUBMISSIONS MADE IN RESPONSE TO THE NVEC APPLICATION.

## **1. TARIFF APPLICATION**

### **A. NVEC'S REASONS FOR THE TARIFF**

NVEC SUBMITTED THAT THE TARIFF OF K475/kWh IS NECESSITATED BY A NUMBER OF FACTORS CITING THE COST OF POWER, OPERATING COSTS AND THE COST OF INVESTMENT AS SOME OF THE MAJOR DRIVERS. NVEC ALSO SUBMITS THAT THE TARIFF IT PROPOSED TO CHARGE IS COMPARABLE TO WHAT LUMWANA EMPLOYEES RECEIVE AS A UTILITY ALLOWANCE.

THE TARIFF ALSO INCORPORATES A MAINTENANCE FEE, WHICH IS A SUBSIDY RECEIVED BY NVEC FROM LUMWANA PROPERTY DEVELOPMENT COMPANY (LPDC) FOR ANY DEFICIT THAT WOULD ARISE BETWEEN THE REVENUE FROM TARIFFS COLLECTED BY NVEC, AND NVEC OPERATING AND DEBT SERVICE COSTS.

NVEC STATED THAT THE COST OF PROVIDING POWER TO LUMWANA TOWNSHIP IS UNITED STATES CENTS 19.85/kWh AND THAT THE LOWER TARIFF OF K475/kWh BEING CHARGED WAS DUE TO THE PAYMENT OF A MAINTENANCE FEE BY LUMWANA MINE CORPORATION.

### **B. CONSUMERS' SUBMISSIONS**

A PUBLIC HEARING WAS HELD IN LUMWANA ON 11<sup>TH</sup> MARCH 2010 AND THE MAIN ISSUES OF CONCERN RAISED BY CONSUMERS INCLUDED THE FOLLOWING:

1. TARIFFS WERE TOO HIGH COMPARED TO THE REST OF ZAMBIA;

2. INVESTMENT BY THE UTILITY SHOULD BE RECOVERED OVER A LONGER TIME FRAME;
3. THE UTILITY ALLOWANCE SHOULD NOT BE USED TO DETERMINE THE TARIFF;
4. THE UTILITY ALLOWANCE PAID TO EMPLOYEES CATERS FOR WATER AND SEWERAGE CHARGES AS WELL.;
5. THE 20 MVA TRANSFORMER CAPACITY BEING INSTALLED IS ABOVE THE ANTICIPATED CONSUMPTION FOR LUMWANA TOWNSHIP;
6. THE TARIFF BEING CHARGED WAS NOT AN APPROVED TARIFF; AND
7. NWECC SHOULD EXPAND ITS CUSTOMER BASE IN ORDER TO LOWER ITS TARIFF.

### **C. COST REFLECTIVITY**

THE ERB REMAINS COGNISANT OF THE NEED FOR UTILITIES TO CHARGE COST-REFLECTIVE TARIFFS. HOWEVER, THIS PROCESS SHOULD BE MANAGED WITH PRUDENCE BY THE UTILITIES WITH MINIMAL SHOCK TO THE CONSUMERS AND THE ECONOMY.

## **2. BASIS FOR THE BOARD'S DECISION**

IN ARRIVING AT ITS DECISION, THE BOARD CONSIDERED THE FOLLOWING ISSUES:

### **A. THE ELECTRICITY ACT, CHAPTER 433 OF THE LAWS OF ZAMBIA**

THE DECISION OF THE ERB ON THE TARIFF APPLICATION MUST BE IN CONFORMITY WITH THE ELECTRICITY ACT AND IS THE BASIS UPON WHICH OUR DECISION LIES.

## **B. THE ELEVEN SUBMISSIONS FROM MEMBERS OF THE PUBLIC**

THE KEY CONCERNS IN THE ELEVEN CONSUMERS' SUBMISSIONS WERE ON THE RATE TO BE CHARGED, THE UTILITY ALLOWANCE AND THE NEED FOR NWEC TO EXPAND ITS CUSTOMER BASE.

## **C. NWEC'S REVENUE REQUIREMENT**

NWEC'S PROPOSED TARIFF WAS TO GENERATE REVENUE OF K7,692 MILLION. THE ASSUMPTIONS USED BY NWEC IN ARRIVING AT ITS REVENUE REQUIREMENT WERE REVISED BY ERB IN ACCORDANCE WITH THE REVENUE REQUIREMENT METHODOLOGY FOR SETTING ELECTRICITY TARIFFS. THE ERB ADJUSTED THE REVENUE REQUIREMENT OF NWEC DOWNWARDS AS FOLLOWS:

**TABLE 1: NWEC'S REVENUE REQUIREMENT**

<b>REVENUE REQUIREMENT</b>	<b>NWEC REQUESTED</b>	<b>ERB ADJUSTED</b>
<b>2010</b>	K7,692 MILLION	K7,299 MILLION
<b>2011</b>	K9,820 MILLION	K7,367 MILLION

## **3. BOARD FINDINGS**

FOLLOWING THE REVIEW OF THE APPLICATION AND THE PUBLIC SUBMISSIONS MADE, OUR FINDINGS ARE AS FOLLOWS:

- i. THAT THE RESIDENTS OF LUMWANA HOUSING COMPLEX HAVE BEEN SUBJECTED TO A TARIFF THAT WAS NOT APPROVED BY THE ERB;
- ii. THAT THE BUSINESS ARRANGEMENT BETWEEN NWEC AND LPDC ALLOWING FOR A MAINTENANCE FEE IS SUCH THAT LPDC IS ACTUALLY SUBSIDISING THE COST OF THE ELECTRICITY TARIFF IN FAVOUR OF ITS STAFF.

- iii. THAT THE BUSINESS MODEL USED BY NVEC HAS TO TAKE INTO CONSIDERATION OTHER KEY FACTORS APART FROM ENSURING A RETURN ON PROFITS WITHIN THE SHORTEST POSSIBLE TIME. THESE OTHER FACTORS INCLUDE MAINTAINING A BALANCE BETWEEN THE NEEDS AND CAPACITY OF THE CONSUMER AND THOSE OF THE UTILITY TO REMAIN A VIABLE CONCERN.
- iv. THAT NOT ALL CUSTOMERS OF NVEC ARE METERED AND NVEC WILL NEED TO COMPLETE THE PROCESS FOR ALL UNMETERED HOUSES.
- v. THAT ALTHOUGH THERE IS A UTILITY ALLOWANCE GIVEN TO STAFF OF LMC, THIS ALLOWANCE IS MEANT TO CATER FOR OTHER UTILITY SERVICES APART FROM ELECTRICITY.
- vi. NVEC CAPACITY IS IN EXCESS OF THE REQUIREMENTS OF THE LUMWANA TOWNSHIP.

#### **4. ISSUES TO BE IMPLEMENTED BY THE ERB**

- i. WHERE THIRD PARTY ARRANGEMENTS THAT A UTILITY COMPANY PROPOSES TO ENTER, OR HAS ENTERED INTO, SHALL ADVERSELY AFFECT ITS REVENUE REQUIREMENT BY CREATING SUBSIDIES OR OTHER NON COMPETITIVE DISTORTIONS, A DETAILED STAKEHOLDER ANALYSIS MUST BE CARRIED OUT PRIOR TO THE ISSUANCE OF A LICENCE.
- ii. THE ERB SHALL REVISE TARIFF FILING GUIDELINES, WHICH WILL HARMONISE THE TARIFF SETTING METHODOLOGIES IN THE ELECTRICITY SUPPLY INDUSTRY, AND OUTLINE PROCEDURES FOR THE TARIFF APPLICATION AND REVIEW PROCESS.

## **5. BOARD DECISION ON THE TARIFF APPLICATION**

OUR DECISION ON THE TARIFF APPLICATION IS AS FOLLOWS:

- i) THAT WITH EFFECT FROM 1<sup>ST</sup> MAY 2010, THE APPROVED TARIFF TO BE CHARGED BY NVEC IS SET AT USC6/KWH; THIS TRANSLATES TO A TARIFF AMOUNTING TO K285.6/KWH AT THE RATE OF K4,760/USD.

### **THE ERB FURTHER ORDERS AS FOLLOWS:**

- i) THAT NVEC BE FINED **K2,700,000** FOR CHARGING AN UNAUTHORISED TARIFF TO RESIDENTIAL CONSUMERS;
- ii) THAT NVEC REFUNDS ALL RESIDENTIAL CUSTOMERS THAT WERE CHARGED THE UNAUTHORISED TARIFF THE DIFFERENCE BETWEEN THE APPROVED RATE AND THE DISALLOWED RATE FROM THE DATE THAT THEY STARTED CHARGING THE UNAUTHORISED USC9.5/KWH UP TO 30<sup>TH</sup> APRIL 2010.
- iii) NVEC WORKS OUT AND FURNISHES THE ERB WITH A MECHANISM BY WHICH IT WILL COMPENSATE CONSUMERS FOR THE UNAUTHORISED TARIFF WITHIN 60 DAYS AND THE COMPENSATION MUST BE MADE IN FULL TO ALL AFFECTED CONSUMERS WITHIN 12 MONTHS THEREAFTER.

IN CONCLUSION, THE ENERGY REGULATION BOARD COMMENDS NVEC FOR TAKING UP THE INITIATIVE TO SUPPLY POWER TO LUMWANA AND WE URGE NVEC TO EXPAND ITS CUSTOMER BASE.

INTERESTED MEMBERS OF THE PUBLIC MAY COLLECT COPIES OF THE FULL  
TARIFF DECISION FROM THE ERB OFFICES IN LUSAKA AND KITWE AND ALSO  
FROM OUR WEBSITE AT [WWW.ERB.ORG.ZM](http://WWW.ERB.ORG.ZM)

I THANK YOU FOR YOUR ATTENTION.

**SIKOTA WINA (G.O.E.Z)**  
**BOARD CHAIRMAN**