Press Statement

THE ERB DECISION ON THE ZESCO APPLICATION TO REVISE ELECTRICITY TARIFFS, OTHER CHARGES, FEES AND PENALTIES

1. INTRODUCTION

In line with its legal mandate to regulate prices of energy services and products, the Energy Regulation Board (ERB) has for close to three months now been considering a proposal to review electricity tariffs, other charges, fees and penalties following ZESCO Limited's applications.

ZESCO Limited had with its tariff application of January 2005, also applied to revise its other charges, fees and penalties upwards. However, due to insufficient justification at the material time, the ERB directed ZESCO to re-submit the application to vary its other charges, fees and penalties, once it demonstrated a clear justification for the proposed variation. Thus, on 1st November 2006, ZESCO published its application to vary its other charges, fees and penalties in accordance with section 8 of the Electricity Act, Chapter 433 of the Laws of Zambia.

Further, in September 2007 ZESCO applied to annually vary upwards electricity tariffs over a period of 4 years for all consumer categories starting with an average of sixty percent (60%). The premise for this was that the adjustment would assist the organization generate sufficient revenue for its operations and also for capital investment purposes.

In order to engage with consumers of electricity on the ZESCO applications and in accordance with the provisions of the Electricity Act, the ERB held public hearings to allow consumers of electricity to present their views to members of the Board. Thus, three public hearings were held in Livingstone on 26th October 2007, Kitwe on 5th November 2007 and Lusaka on 21st November 2007.

It is important to recognize that since inception in 1997, the ERB has dealt with more than ten (10) tariff reviews for ZESCO. However, this year's tariff review has been unique in many respects:

a. It has been the first one based on a detailed cost of service study to ascertain the company's cost of supplying power to its various customer categories.

b. It has also been the first review under the ERB's newly adopted multi-year incentive based tariff review framework.

c. This year's review has come in the wake of a looming power deficit both in Zambia and in the entire Southern African region.

d. This year's review has attracted more stakeholder interest than any other in the past. A total of 60 submissions to the ERB have been made by customers throughout the country.

e. This review incorporated both the application to revise tariffs and the earlier application to revise ZESCO's other charges and fees.

2. BOARDS REASONING

In arriving at our decision, we have taken into account many issues, including the following;

a) ZESCO'S Revenue Requirement.

In its Application ZESCO stated that for the year 2007/2008 it would require a revenue of K1.6 trillion of which about K695billion would be used for capital investment purposes. ZESCO stated that the main reasons for seeking a variation of its electricity tariffs upward were that:

- Over the last five years the cumulative inflation had been over 90% whilst tariff increase has been 16%.

- Commodities such as copper, steel, aluminum, iron and oil, which are major raw materials used in the manufacture of a vast array of machinery, equipment and spare parts which ZESCO uses in its electricity infrastructure had more than doubled in the last few years.

- There had been a depceriation of the Kwacha in the last few years

- The Cost-of- Service study (CoS) results showed that the current tariffs were far below cost reflective levels required to maintain the power generation and supply infrastructure.
- To avoid the looming power shortage, huge funds had to be invested in new generating facilities.

- The current tariff levels would not enable ZESCO to maintain the Zambian Power System to the desired levels and consequently reliability and quality of supply would deteriorate.

On the revision of the various charges, fees and penalties ZESCO claimed that the revision was meant to deter customers from abusing its services and was not a revenue measure. It stated that the charges were only meant to recover the full cost of providing those specific services and that the current Charges, fees and penalties were too low as compared to the costs involved in providing these services.

b) Consumer Concerns

Consumers across the Country conceded that there was a genuine need for ZESCO to vary its Tariffs but were however alarmed by the proposed increase, which in some cases was over two hundred percent, over the three year multi-year period. Consumers further complained about ZESCO's poor quality of service and submitted that an increase was unjustifiable. There was also a general concern from the consumers that revision of the tariffs, charges, fees and penalties would make it difficult for them top pay for the service. The consumers further argued that the bulk of the new demand for electricity was being driven by the mining load and that, therefore, the mines should meet the cost of the envisaged new generating plants. Consumers further contended that the mining tariffs were too low and that, perhaps if these were revised, ZESCO would not have to have its tariff revised upwards.

Large power users like manufactures lamented that an upward variation of the tariffs would increase their costs of production, which would render Zambian goods uncompetitive on the international market. Consumers further wondered why ZESCO could not use other avenues such as the stock market to raise capital for its power projects or allow other players to invest in some of its projects.

c) Cost of service study

As part of the Commercialisation process of ZESCO Limited, the Energy Regulation Board and ZESCO under the assistance of the World Bank and SIDA of Sweden, engaged IPA Energy Consulting of the United Kingdom to undertake a detailed Cost- of - Service study (CoS) to determine the actual cost of producing and supplying power to each customer category in Zambia.

The results of this Cost- of- Service study showed that the tariffs being charged by ZESCO were far below the cost of providing the service for all customer categories, save for the commercial class whose tariff was cost reflective. It was one of the recommendations of this study to migrate the current Tariffs to cost reflective levels over the next few years. The results of this Cost -of -Service Study have been foremost in our minds as we considered ZESCO's application.

d) Cross Subsidization

The current National Energy Policy, which was adopted by Government this year (2007) provides that there should be no cross- subsidisation between different consumer groups. That is to say, each consumer category must pay the actual cost the provider incurs in supplying the commodity to the particular class. Therefore, in our decision we endeavoured to achieve economic efficiency and equity and also to ensure that the tariffs result in fair, transparent and appropriate charges to all users. We have attempted to ensure that the tariff of each customer category covers the full cost of providing electricity to that customer category, and we have avoided cross-subsidisation to the maximum extent possible, in conformity with the National Energy Policy.

e) Mining Tariffs

We have also been mindful of the current mining tariffs which have been a source of concern for many stakeholders. As stated earlier, the Cost- of -Service study results have demonstrated that the current tariffs for the mines as negotiated and agreed in the long term Agreement between ZESCO and CEC are below cost. As a Regulator, and considering that about fifty percent (50%) of the electricity is sold to the Mines, we are as anxious as everyone else to see these tariffs revised to cost- reflective levels. We are, therefore, following with keen interest the renegotiations currently underway between ZESCO and CEC on this matter and are hopeful that the parties will arrive at just and fair price, sooner rather than later.

With respect to the Mining Companies which are not supplied under the Bulk Supply Agreement between ZESCO and CEC, it is our expectation that the tariffs for such Mining Companies should be cost- reflective. In this regard, all Power Supply Agreements (PSAs) which ZESCO intends to enter into with any new mining company or large power user, will have to be submitted to the ERB for approval. We shall ensure, among other things, that the tariffs for any such Power Supply Agreements are cost reflective.

3. MULTI-YEAR TARIFF

Since this is the first time that a Multi-year Tariff determination is being made in this country, it is worthwhile to explain the implications and characteristics of such a tariff regime. In brief what a Multi-Year Tariff means is that a utility, ZESCO in this case, is awarded a tariff path for a number of years. However, and this is critical, for the Utility to access or enjoy the tariff levels for subsequent years it has to demonstrate to the satisfaction of the Regulator that it (the utility) has achieved or exceeded the performance benchmarks earlier agreed with the Regulator. In this case therefore, ZESCO will only access or enjoy the indicative tariffs for the years 2009, and 2010 if it meets or exceeds the performance benchmarks agreed with the utility. The Tariff Awards for the years 2009 and 2010 are therefore **CONDITIONAL.**

4. BOARD FINDINGS

In reviewing ZESCO'S applications we made the following findings:

a) That the mining customers would still account for the highest revenue contribution to ZESCO turnover, followed by residential customers, Industrial and lastly but not the least small and large power customers.

b) That staff costs would still be the largest of ZESCO'S cost component followed by depreciation, primary plant maintenance, electricity purchase costs and finance charges.

c) That ZESCO'S quality of service has generally deteriorated, as was observed by various electricity consumers in all the three public hearings held by the ERB.

d) That the demand for electricity around the country is being driven by all customer categories.

e) That ZESCO needs to increase its budget for maintenance costs.

f) That ZESCO's staff numbers and staff costs are too high.

g) That while load shedding may be necessary at this point in time, ZESCO should implement a more transparent load shedding policy which would give its customers some notice to the extent that this is possible.

h) That ZESCO needs improved tariffs to enhance financial viability and enhance security of supply of electricity in the nation.

i) That ZESCO needs to put in place measures to access cheaper sources of capital to finance its capital expenditure program.

j) That the current staff tariff for ZESCO employees is a distortion and is prone to abuse as suggested by the unusually high per capita consumption of electricity by ZESCO staff consumption which currently stands at 2.4% of total metered residential consumption.

k) That the time-of-use tariffs for industrial customers and the proposed smaller increase of 10 percent in R1 category of the Residential tariffs will help address the concerns of industrial consumers (including farmers) and vulnerable residential consumers, respectively.

l) That the last time the charges and fees were revised was in 1998 and that since the last revision, cumulative inflation has been about 267% over the period 1998 to 2007.

5. BOARD DECISION

In view of the foregoing and upon scrutinising ZESCO's proposal to vary electricity tariffs, other charges, fees and penalties, and upon considering views from consumers of electricity on the proposed variation, the ERB hereby orders as follows:

5.1 Electricity Tariffs

5.1.1 That with effect from 1st January 2008, tariffs for the Multi- Year period 2007-2010 be varied as tabulated in the table below:

Customer Category	2008	2009	2010
Residential	26.8%	16.6%	11.9%
Commercial	1.3%	0.3%	0.3%
Services	6.8%	1.9%	1.9%
Small Power (MD1 &MD 2)	16.2%	5.5%	4.5%
Large Power (MD3 & MD4)	27.5%	16.6%	2.2%

It should be noted that the above tariffs are exclusive of Government excise duty and VAT.

5 Conditions to the Decision

In view of the fact that this is a Multi-Year tariff and the need to protect consumer interests, among other reasons, the decision has been made with the following conditions:

a. That ZESCO directs adequate resources from the enhanced revenue to the maintenance of plant and equipment and the strengthening of its transmission and distribution networks, in line with the revenue allocated to these activities in the tariff, so as to improve its quality of supply;

b. That ZESCO monitors and comply with all performance benchmarks that form part of the incentive based tariff framework such as metering of customers, reducing system losses, reducing staff costs as a proportion of the operating budget, increasing staff productivity, reducing debtor days to 60 days from current levels of about 180 days, reducing the number of unplanned outages per customer and reducing waiting time for applicants for new service connection;

c. That ZESCO furnishes ERB within 60 days, with a plan of how it expects to reduce the waiting time for customers who pay service connection fees;

d. That ZESCO furnishes ERB within 60 days, with a plan of how ZESCO intends to reduce the financial burden on people wishing to connect, thereby increasing access to electricity;

e. That ZESCO adheres to all Key performance benchmarks agreed with the ERB to improve efficiency of operations;

f. That ZESCO furnishes ERB within 60 days, with a comprehensive plan of how it intends to contain staff costs from the current levels of about 49% of operating budget to about 30% of operating budget by 2010;

g. That ZESCO implements necessary measures to enhance the utility's productivity from the current 61 customers per employee to 100 by 2010;

h. That ZESCO furnishes to ERB, within 60 days, a comprehensive 3 year Demand Side Management plan to help mitigate the supply deficit in the nation given the financial and time constraints in building new generation capacity and obtaining adequate imports from the region to meet the anticipated power deficits;

i. That ZESCO furnishes ERB within 90 days, with its plan to re-engineer ZESCO's capital structure and improve shareholders' equity by 2010;

j. That ZESCO provides the public timely notice wherever possible, on its load shedding plans; and

k. That ZESCO abolishes the current staff tariff and apply approved residential tariffs for its members of staff as with other customers effective 1st January 2008.

4.3 OTHER CHARGES, FEES AND PENALTIES

As earlier mentioned, ZESCO Ltd had also applied to revise its various other charges fees and penalties. Again the ERB received representations from consumers of electricity on the proposed variation.

After Careful consideration of ZESCO'S Application to vary other charges, fees and penalties and after considering the various submissions from consumers of Electricity we hereby **order** that:

4.3.1 With the exception of the security deposit, all the variations tabulated in the table below, come into effect on 1st January 2008:

Customer Category	Current Charges ZMK	ERB Approved Charges ZMK
1. Refundable Security Deposit		
Residential	20,000	150,000
Commercial	50,000	450,000
Social	50,000	350,000
MD	MD charge X declared max. demand + energy charge X total monthly energy	Approved
2.Reconnection Fees		
Residential	0,000	60,000
Commercial	50,000	150,000
Social	50,000	150,000
MD1	100,000	200,000
MD2	200,000	200,000
MD3	200,000	400,000
MD4	200,000	400,000
3.Penalty for Illegal reconnection		
Residential	150,000	500,000
Commercial	300,000	1,500,000
Social	300,000	1,500,000
MD1	500,000	2,000,000
MD2	500,000	4,000,000
MD3	500,000	10,000,00
MD4	500,000	20,000,000
4. Penalty for Illegal connections		
Residential	150,000 + Capital Contribution+ security Deposit + Estimated bill	Not Approved
Commercial	300,000+ Capital Contribution+ security Deposit + Estimated bill	Not Approved
Social	300,000+ Capital Contribution+ security Deposit + Estimated bill	Not Approved
MD1	Not specified	Not Approved
MD2	Not specified	Not Approved
MD3	Not specified	Not Approved
MD4	Not specified	Not Approved
Meter Inspection Fees		
Residential	5,000	50,000
Commercial	5,000	100,000
Social	5,000	100,000
MD1	5,000	200,000
MD2	5,000	200,000
MD3	5,000	200,000

MD4	5,000	200,000
Installation Inspection Fees		
Residential	10,000	50,000
Commercial	10,000	100,000
Social	10,000	100,000
MD1	10,000	200,000
MD2	10,000	200,000
MD3	10,000	200,000
MD4	10,000	200,000

4.3.2 That the revised Security Deposit be applied only to new connections and customers in default before they are reconnected.

4.3.3 That the revised charges, fees and penalties should not be applied retrospectively.

4.3.4 That the meter Testing Fee be payable only in those cases where a customer has an outstanding bill and are disputing the correctness of the bill on account of possible meter malfunction, and only if the meter is found to be working properly. In all other cases where a customer merely requests ZESCO to inspect or verify the accuracy of a meter, there will be no fee charged to such a customer.

5 CONCLUSION

With regard to electricity tariffs, it should be re-emphasised that this is a multi-year tariff which means that percentage increases for the years 2009 and 2010 are **conditional** upon ZESCO meeting or exceeding the performance targets agreed with the Regulator which include, but are not limited, to the following:

a) Metering of customers

b) Cash Management

c) Staff Productivity

d) Quality of service; and

e) System losses.

We wish to advise that copies of our detailed decisions are available upon request at our ERB offices both in Lusaka and Kitwe and can be found on the ERB website www.erb.org.zm

I thank you.

Mr. Sikota Wina
CHAIRMAN

26th December 2007