



Press Statement

ERB Approves the ZESCO/CEC Application to Review Tariffs

9th August 2011

The Energy Regulation Board (ERB) has granted regulatory approval for a 30% increase in ZESCO's Bulk Supply Tariff to Copperbelt Energy Corporation (CEC) with effect from 1st January 2011. This follows successful negotiations between ZESCO and CEC to increase the Bulk Supply Tariff by 30%.

The tariff review is in line with the on-going process to revise tariffs in all customer categories, including the mines, to cost reflective levels. An ERB commissioned Cost of Service Study, concluded in 2006, revealed that tariffs for all customer categories were below cost. To this effect, the ERB has approved three tariff increases between 2008 and 2011 for ZESCO's regulated customers. However, over the same period ZESCO's tariffs to CEC and the mines was only increased once in 2008 by 35%. This was partly due to a provision for a stabilization period of three years between 2008 and 2010 during which it was agreed there would be no further tariff increases to the mines.

Following the end of the agreed tariff stabilisation period in December 2010, ZESCO engaged CEC to negotiate consecutive tariff increases under a five-year framework from 2011 to 2015 to push the Bulk Supply Tariffs to cost reflective levels. The two parties agreed on a 30% tariff increase for 2011 and are yet to conclude negotiations on increases for the period 2012-2015. The parties however, applied to the ERB for regulatory approval of the agreed tariff adjustment for 2011. Some of the reasons ZESCO advanced for increasing the tariff include the following:

- Increase in inflation which had resulted in increased operation costs at levels higher than the available revenue;
- Depreciation of kwacha by 52% for the period 2000 to 2010 during which the kwacha depreciated from K3112 per US\$1.00 to K5000 per US\$1.00;
- Increase in the cost of machinery and equipment used in the electricity industry; and
- Capital requirements to fund generation projects, transmission and distribution infrastructure in order to meet the rising demand.

The ERB therefore, granted regulatory consent and urged ZESCO and CEC to conclude the framework for a proposed multi-year tariff framework under which the mine tariff would be adjusted to cost reflective levels by 2015.

Further, the ERB has directed ZESCO to review the tariff for the rest of its mine customers to cost reflective levels as a matter of urgency.

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