



Press Statement

Energy Regulation Board major activities Quarter one 2011

21st April 2011

In line with its mandate as stipulated under the Energy Regulation Act, Cap 436 of the Laws of Zambia, the Energy Regulation Board (ERB) conducted a number of activities during the period 1st January 2011 – 31st March 2011. The major activities included regulatory approval for a Power Purchase Agreement between ZESCO and Kariba North Bank Extension Power Corporation, Licensing of 327 tankers and resolution of consumer complaints, among other issues.

1.0 Power Purchase Agreements Approved

In the first quarter of 2011, the ERB reviewed three Power Purchase Agreements (PPAs) involving ZESCO Limited (ZESCO) with Kariba North Bank Extension Power Corporation (KNBEPC), Itezhi-Tezhi Power Corporation Limited (ITPC) and Electricite De Mozambique (EDM).

The ERB granted regulatory consent for the PPA between ZESCO and KNBEPC, under which the former will access 360MW to be generated by the latter for a period of 20 years. With regard to the PPA between ZESCO and ITPC, the Board requested for changes to include a reduction in the tariff from US cents 9.83/kWh to US cents 7.39/kWh, among other conditions. Under this PPA, ZESCO will benefit from the projected 120 MW power to be generated by ITPC.

ZESCO and EDM also submitted a PPA to the ERB for regulatory approval, to allow the two state owned utilities trade electricity. This is subject to both parties meeting their national requirements.

Additional power generated or provided by other parties will help to meet the national demand, particularly during peak periods and help reduce load shedding in Zambia.

2.0 Certified Tankers' List

The ERB licensed 327 tankers to transport petroleum products for the period 2011. A total of three hundred and sixty (360) fuel tankers were inspected for safety provisions and operational reliability which are mandatory for transportation of petroleum products in Zambia, in line with the requirements under Zambia Standards (ZS) 371, 429 and 372. Three hundred and twenty

seven (327) tankers met the requirements to transport petroleum products out of the tankers inspected.

The tankers were inspected for suitability and mechanical condition to transport hazardous liquids on public roads. This was in order to ensure that the safety of life and property as well as the environment is not compromised. The tankers were assessed for integrity of the tank and pipes for leaks, excessive corrosion and mechanical damage; Tanker fittings such as valves, seals, locks, fire extinguishers; Electrical safety; and Tanker roadworthiness and maintenance systems.

Under ZS 371,429 and 372, it is a requirement that all tankers used for the transportation of petroleum products are certified by ERB on an annual basis. Further, tanker drivers should possess a valid driver's licence and should be certified to drive dangerous goods by a recognised body.

3.0 Licencing in the Petroleum sub sector

3.1 Approval of Service Station Sites

Pursuant to its mandate, the ERB approved seven (07) filling stations for commissioning during the period January –March 2011. Two (2) other sites are pending approval subject to fulfilment of requirements, while one application was not approved.

The applications approved were for construction of two filling stations by Mount Meru in Solwezi and Lusaka (Great North Road); and two for SGC along Kafue and Mumbwa roads. Other applications for filling stations approved were for SGC in Solwezi; Petroda in Lusaka's Chawama township; and Lake Petroleum in Ndola. The two applications for filling stations pending approval are for Kobil Zambia Limited (Lundazi) and Samfuel Service Station (Mkushi), subject to fulfilment of all the requirements. The application to construct a filling station for Divyakunji Ganesha in Chingola was rejected because the proposed site was found to be unsuitable.

The ERB is mandated to approve and authorise the siting of filling stations in collaboration with the Environmental Council of Zambia and the Local authorities. This is in order to ensure that the handling of petroleum products, which are inherently flammable, does not compromise safety and protection of the environment among other concerns.

3.2 Combined Licence

Further, the ERB has combined licenses to Distribute, Import and Export Petroleum Products into one licence. The main objective of combining the licences was to streamline regulatory processes for acquiring a licence. The measure was pursuant to the Government initiated Private Sector Development Reform Programme (PSDRP) aimed at reducing the cost of doing business in Zambia. One of the areas of concern identified by the PSDRP was the need to

streamline the Licensing Procedures undertaken by Statutory and Regulatory Bodies including the Energy Regulation Board (ERB).

4.0 MAJOR TAKEOVERS

4.1 Puma Energy takes over BP Zambia Plc assets in Zambia

Puma Energy Ireland Holding Limited of Ireland (Puma Energy) is currently in the process of acquiring assets of BP Zambia Plc as part of a proposed take over bid of BP Africa Limited assets, which holds 75% shares in BP Zambia Plc.

From a regulatory perspective, the ERB has given no objection to the proposed takeover of BP Zambia Plc by Puma Energy, on the basis that the takeover is unlikely to affect operations in the petroleum sub sector. This is in view of the commitment by Puma Energy to honour all obligations and commitments by BP. In addition, the ERB will ensure that all BP Zambia Plc outstanding regulatory obligations are met by either a sale condition or a clear commitment by the buyer to resolve such issues within a set timeframe.

BP Zambia Plc has thirty nine (39) retail sites spread throughout the country and is currently the largest Oil Marketing Company (OMC) with a market share of 35.2%. The second largest OMC is Total Zambia Limited with a market share of 24.3%, followed by Kobil with 6.9% and then Engen at 5.4%. Twenty nine (29) OMCs, including Puma Energy, are licensed by the ERB to distribute petroleum products in Zambia.

4.2 Engen Marketing Limited takes over Chevron Zambia Limited

Engen Marketing Limited, a subsidiary of the holding company Engen International Holdings Limited, has purchased Chevron Zambia Limited's assets in Zambia. The ERB is currently working on measures to ensure compliance with all regulatory requirements in the takeover bid.

5.0 Fuel Price Adjustment

The prices of petroleum products were revised upwards by 13% countrywide on 12th February 2011. This was against the background of increases in the prices of crude oil on the international market. Factors such as the increased demand for the commodity by the fast growing economies of India and China and the severe cold weather in Europe and parts of the United States of America pushed the price of crude oil upwards. The February price review was based on the cargo procured in December 2010 at a cost US\$81 million, while the previous price review had been based on a cargo that was purchased at US\$68.6 million.

Prices of petroleum products on the local market are mainly influenced by the price of crude oil on the international market (over which Zambia has no control) and the exchange rate of the Kwacha against the United States Dollar.

6.0 Review Of Transmission Pricing and the Zambian Grid Code

The ERB is currently working on mechanisms to strengthen regulatory capacity through development of frameworks for Bulk Power Purchase and Supply, the Zambian Grid Code and Off-Grid Electricity Systems. These frameworks are being developed under the Electricity Regulation Enhancement Project (EREP), which is funded by the Swedish International Development Cooperation Agency (Sida) at a total cost of 12 million Swedish Kronor (equivalent of about K9.2 Billion). A number of mechanisms will be developed under the project including guidelines to improve internal regulatory capacity to review PPAs, mechanisms to operationalise the Zambian Grid Code and incentives to promote energy projects in areas away from the grid.

7.0 Consumer Complaints

In line with its mandate to receive and investigate complaints, the ERB resolved fifty one (51) complaints out of the eighty nine (89) that were reported between January and March 2011. The major complaints handled related to billing, metering, outages, disconnections and compensation claims.

It should be noted that the number of complaints received during the first quarter of 2011 more than doubled when compared to the same period in 2010 when 41 complaints were received by the ERB. The increase is mainly attributable to billing complaints, which arose from the upward adjustment of estimated monthly consumption from 400 to 600kWh per month.

Further, the number of complaints handled by Consumer Watch Groups (CWGs) has also increased for the same period from one hundred and thirty one (131) in 2010 to three hundred and ninety six (396) in 2011. Energy consumers are encouraged to report any complaints not resolved by utilities to the ERB or CWGs stationed in all the provincial centres, Kitwe and Chingola.

8.0 Conclusion

The ERB is committed to regulating the energy sector with a view to promoting national economic development. To this effect, the activities highlighted above reflect the recently launched ERB Strategic Business for 2011 – 2013, which seeks to facilitate universal access to energy services and products for Zambia's socio-economic development.

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