



## **PRESS STATEMENT**

### **SPEECH BY THE BOARD CHAIRMAN ON THE ZESCO APPLICATION TO VARY ELECTRICITY TARIFFS**

**20<sup>TH</sup> JULY 2009**

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**MEMBERS OF THE BOARD**

**ZESCO MANAGEMENT**

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

**INVITED GUESTS**

**MEMBERS OF THE PRESS**

**LADIES AND GENTLEMEN**

ON BEHALF OF THE ENERGY REGULATION BOARD, I WISH TO INFORM THE PUBLIC THAT THE PROCESS OF CONSIDERING THE APPLICATION BY ZESCO LIMITED (ZESCO) TO VARY ELECTRICITY TARIFFS BY AN AVERAGE OF 66% FOR ALL CUSTOMER CATEGORIES, SUBMITTED BY THE UTILITY ON 2<sup>ND</sup> MARCH 2009 HAS BEEN CONCLUDED.

IN ACCORDANCE WITH THE PROVISIONS OF THE ELECTRICITY ACT CHAPTER 433 OF THE LAWS OF ZAMBIA, THE ENERGY REGULATION BOARD IS MANDATED TO REVIEW PROPOSALS AND SUBMISSIONS TO VARY OR ALTER ELECTRICITY TARIFFS. FOLLOWING RECEIPT OF THE ZESCO APPLICATION, THE ENERGY REGULATION BOARD CONSIDERED THE PROPOSAL BY ZESCO SUBMITTED ON 2<sup>ND</sup> MARCH 2009 TAKING INTO ACCOUNT SUBMISSIONS MADE BY MEMBERS OF THE PUBLIC.

ZESCO APPLIED TO THE ENERGY REGULATION BOARD TO VARY THE TARIFFS BY AN AVERAGE OF 66% FOR ALL CUSTOMER CATEGORIES, CITING AMONG OTHER ISSUES, THE NEED FOR TARIFFS TO MOVE TO COST-REFLECTIVE LEVELS AND FINANCIAL CHALLENGES WHICH THE UTILITY SAID WERE HAVING AN ADVERSE EFFECT ON ITS OPERATIONS. ZESCO HAD PROPOSED TO EFFECT THE TARIFF VARIATION BY 1<sup>ST</sup> APRIL 2009. THIS COULD HOWEVER NOT BE IMPLEMENTED DUE TO THE REQUIREMENT TO ALLOW FOR PUBLIC CONSULTATION PROVIDED FOR UNDER SECTION 8 (3) OF THE ELECTRICITY ACT.

## **1. ZESCO'S REASONS FOR TARIFF VARIATION**

ZESCO APPLIED FOR A TARIFF REVIEW CITING THE CHALLENGING BUSINESS AND ECONOMIC ENVIRONMENT EXPERIENCED IN 2008. IN PARTICULAR, THE UTILITY SUBMITTED THAT IT HAD BEEN COMPELLED TO FILE FOR A TARIFF ADJUSTMENT TO INCORPORATE THE FOLLOWING ISSUES:

1. CRITICAL SHORTAGE OF ELECTRICITY WHICH RESULTED IN LOAD-SHEDDING;
2. KEY PERFORMANCE INDICATORS (KPIS); AND
3. VOLUME DIFFERENTIATED TARIFFS (VDT) AND TIME-OF-USE (TOU) TARIFFS.

ZESCO ALSO CITED THE FOLLOWING FACTORS AS HAVING ADVERSELY AFFECTED ITS OPERATIONAL ENVIRONMENT THUS FURTHER NECESSITATING A TARIFF VARIATION:

1. PREVAILING ECONOMIC CONDITIONS;
2. RISING COST OF GENERATING, TRANSMITTING AND SUPPLYING ELECTRICITY;
3. SYSTEM AND CUSTOMER BASE EXPANSION;
4. RISING COST OF ELECTRICITY IMPORTS; AND
5. COST REDUCTION AND REVENUE ENHANCEMENT MEASURES.

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

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

### **A. ZESCO'S REVENUE REQUIREMENT**

ZESCO'S PROPOSED AVERAGE TARIFF INCREMENT OF 66% FOR 2009 WAS ENVISAGED TO GENERATE REVENUE OF K1, 752 BILLION. AFTER A REVIEW OF THE TARIFF APPLICATION, THE ERB ADJUSTED THE REVENUE REQUIREMENT AS FOLLOWS:

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

<b>REVENUE REQUIREMENT</b>	<b>2009 -2010</b>	<b>2010 -2011</b>
<b>ZESCO REQUESTED</b>	<b>K1.752 TRILLION</b>	<b>K2.520 TRILLION</b>

<b>ERB ADJUSTED</b>	K1.004 TRILLION	K1.325 TRILLION
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THE REVENUE REQUIREMENT WAS ADJUSTED AFTER NON-BUSINESS RELATED COSTS WERE DISALLOWED.

## **B. CONSUMERS' SUBMISSIONS**

IN LINE WITH THE ELECTRICITY ACT, MEMBERS OF THE PUBLIC WERE INVITED TO SUBMIT COMMENTS ON THE ZESCO APPLICATION. A TOTAL OF 69 SUBMISSIONS WERE RECEIVED BY THE BOARD REGARDING THE TARIFF APPLICATION AND SUBSEQUENTLY TWO PUBLIC HEARINGS WERE HELD IN KITWE AND LUSAKA ON 17<sup>TH</sup> AND 19<sup>TH</sup> JUNE 2009, RESPECTIVELY.

THE MAIN ISSUES OF CONCERN RAISED BY CONSUMERS INCLUDED THE FOLLOWING:

1. GOVERNMENT SHOULD RECAPITALISE ZESCO;
2. ZESCO SHOULD IMPLEMENT COST REDUCTION MEASURES;
3. ZESCO'S CUSTOMER SERVICE HAS DETERIORATED;
4. ZESCO SHOULD BORROW FROM THE CAPITAL MARKETS INSTEAD OF INCREASING TARIFFS;
5. INCREASE IN TARIFFS WILL HAVE AN ADVERSE EFFECT ON COST OF DOING BUSINESS IN ZAMBIA;
6. ZESCO SHOULD BE UNBUNDLED;
7. ZESCO'S NON-TECHNICAL LOSSES ARE HIGH;
8. ZESCO SHOULD DOUBLE ITS EFFORTS IN DEBT COLLECTION; AND
9. ZESCO'S STAFF COSTS ARE HIGH.

DURING THE PUBLIC HEARINGS, SOME CONSUMERS WERE SUPPORTIVE OF THE UPWARD ADJUSTMENT OF ELECTRICITY TARIFFS WHILE OTHERS OPPOSED THE INCREMENT OF TARIFFS.

## **C. MULTI-YEAR TARIFF FRAMEWORK**

IT MUST BE EMPHASIZED THAT THIS TARIFF REVIEW FALLS WITHIN THE CURRENT THREE-YEAR MULTI- YEAR TARIFF FRAMEWORK THAT COMMENCED IN JANUARY 2008. THEREFORE, THE VARIATIONS APPROVED ARE FOR THE REMAINING PART OF THIS TARIFF FRAMEWORK RUNNING UP TO MARCH 2011.

## **D. KEY PERFORMANCE INDICATORS**

THE KEY PERFORMANCE INDICATORS (KPIs) SPECIFIED IN THE LAST TARIFF DECISION AND THOSE SUBSEQUENTLY AGREED UPON WITH ZESCO WERE TIED TO THE ANNUAL TARIFF ADJUSTMENTS FOR ZESCO. HOWEVER, THIS REQUIREMENT HAS NOT BEEN TAKEN INTO ACCOUNT DURING THE 2009 TARIFF REVIEW. THIS IS DUE TO THE FACT THAT ELECTRICITY TARIFFS HAVE NOT YET REACHED COST REFLECTIVE LEVELS AND THE UTILITY IS IN A WEAK FINANCIAL POSITION. RESTRICTING REVENUE REQUIREMENT TO THE KPIs SCORES WOULD RESULT IN THE UTILITY GETTING LOWER REVENUES THAN THE PROJECTED REVENUE REQUIREMENT AS PER ITS APPLICATION. FURTHERMORE, THE UTILITY HAS BEEN GIVEN A GRACE PERIOD OF UP TO MARCH 2011 OVER WHICH KPIs WILL BE MONITORED. FROM APRIL 2011 ONWARDS, THE KPIs SCORES WILL BE USED TO DETERMINE SUBSEQUENT TARIFFS AWARDED IN THE MULTI YEAR TARIFF FRAMEWORK. THE CHALLENGE IS THEREFORE FOR THE UTILITY TO DEMONSTRATE AN IMPROVEMENT IN PERFORMANCE.

THE FOLLOWING ARE THE KEY PERFORMANCE INDICATORS UPON WHICH ZESCO'S PERFORMANCE WILL CONTINUE TO BE MONITORED:

### **1. METERING CUSTOMERS**

- a. ALL NEW CUSTOMERS SHOULD BE METERED UPON CONNECTION.
- b. ALL NEW RESIDENTIAL CONNECTIONS SHOULD BE MADE WITHIN 30 DAYS OF CUSTOMER ACCEPTANCE.
- c. ALL UN-METERED CUSTOMERS SHOULD BE METERED BY MARCH 2011. THE MILESTONE FOR THIS KPI IS THAT ONE-THIRD (1/3) OF THE BACKLOG IS METERED EVERY YEAR TILL MARCH 2011.

### **2. CASH MANAGEMENT**

- a. ALL CUSTOMERS SHOULD BE BILLED TIMELY AND ON A REGULAR BASIS.
- b. DEBTOR DAYS SHOULD BE REDUCED FROM CURRENT LEVELS TO NOT MORE THAN 60 DAYS BY MARCH 2011. THE MILESTONE FOR THIS KPI IS THAT ONE-THIRD (1/3) OF THE TARGET SHOULD BE REDUCED EVERY YEAR UNTIL MARCH 2011.
- c. TOTAL TRADE RECEIVABLES SHOULD NOT EXCEED 17% OF TURNOVER BY MARCH 2011.
- d. TOTAL RECEIVABLES SHOULD NOT EXCEED 17% OF TOTAL INCOME BY MARCH 2011.

### **3. STAFF PRODUCTIVITY**

NUMBER OF CUSTOMERS PER EMPLOYEE SHOULD BE INCREASED TO 100 CUSTOMERS PER EMPLOYEE BY MARCH 2011.

**4. QUALITY OF SERVICE SUPPLY**

ANNUAL UNPLANNED OUTAGES SHOULD BE REDUCED TO FIVE HOURS PER CUSTOMER PER YEAR BY MARCH 2011.

**5. SYSTEM LOSSES**

- a. TRANSMISSION LOSSES SHOULD BE MAINTAINED AT 3% OR LESS.
- b. DISTRIBUTION LOSSES SHOULD BE REDUCED TO 14% BY MARCH 2011.

I WISH TO EMPHASISE THAT THIS IS NOT A DEPARTURE FROM THE AGREED MULTI YEAR TARIFF FRAMEWORK AND AS SUCH ZESCO WILL, FROM APRIL 2011, ONLY ACCESS SUBSEQUENT TARIFF INCREMENTS WHEN IT MEETS THE SET TARGETS.

**E. COST REFLECTIVITY**

AS INDICATED IN THE COST-OF-SERVICE STUDY, WE NOTE THAT ALL CONSUMER TARIFFS FALL BELOW COST REFLECTIVE LEVELS. THE ERB THEREFORE, IS COGNISANT OF THE URGENCY OF MIGRATING TO COST-REFLECTIVE TARIFFS. HOWEVER, THIS PROCESS SHALL BE MANAGED WITH MINIMAL SHOCK TO THE ECONOMY.

ALTHOUGH ZESCO'S APPLICATION INDICATES A TARIFF PATH RUNNING UP TO 2014, THE ERB HAS RESTRICTED THIS INCREMENT WITHIN THE CURRENT MULTI-YEAR TARIFF FRAMEWORK, RUNNING UP TO MARCH 2011, AFTER WHICH A NEW TARIFF FRAMEWORK SHALL BE CONSIDERED.

**3. BOARD FINDINGS**

THE VARIATION IN TARIFFS IN ITSELF IS NOT THE PANACEA TO ZESCO'S OPERATIONAL CHALLENGES. WE WISH TO NOTE THAT THERE ARE OTHER ISSUES WHICH FALL WITHIN ZESCO MANAGEMENT'S JURISDICTION AND SHOULD BE ADDRESSED INTERNALLY.

FOLLOWING THE REVIEW OF THE APPLICATION AND THE ATTENDANT PUBLIC HEARINGS, OUR FINDINGS ARE AS FOLLOWS:

- A. THAT ALL CUSTOMER TARIFFS ARE BELOW COST AND THEREFORE THERE IS NEED TO MOVE TO COST-REFLECTIVE TARIFFS;

- B. THAT ZESCO IS UNDER-CAPITALISED;
- C. THAT ZESCO'S QUALITY OF SERVICE HAS GENERALLY DETERIORATED;
- D. THAT ZESCO NEEDS TO INCREASE ITS BUDGET ALLOCATION FOR MAINTENANCE COSTS;
- E. THAT ZESCO'S STAFF COSTS IN RELATION TO ITS TOTAL OPERATING COSTS ARE HIGH;
- F. THAT ZESCO HAS NOT YET SHIFTED ITS STAFF TARIFF TO THE REGULAR RESIDENTIAL TARIFFS, CONTRARY TO OUR EARLIER DIRECTIVE;
- G. THAT ZESCO IS NOT YET READY TO IMPLEMENT VOLUME DIFFERENTIATED TARIFFS;
- H. THAT ZESCO'S TRADE RECEIVABLES ARE STILL HIGH;
- I. THAT THE POWER REHABILITATION PROJECT HAS TAKEN LONG TO COMPLETE;
- J. THAT THE KEY PERFORMANCE INDICATORS HAVE NOT BEEN FULLY ADHERED TO; AND
- K. THAT SOME OF ZESCO'S CUSTOMERS ARE CONNECTED BUT NOT BILLED.

#### **4. ISSUES TO BE CONSIDERED BY GOVERNMENT**

THE PUBLIC CONSULTATION PROCESS IDENTIFIED THE FOLLOWING ISSUES AS REQUIRING DIRECT GOVERNMENT INTERVENTION:

- A. RECAPITALISATION OF ZESCO;
- B. RESTRUCTURING / UNBUNDLING OF ZESCO;
- C. RECONSIDERATION OF ZESCO'S DISTRIBUTION ROLE ON THE COPPERBELT;
- D. INTRODUCTION OF AN EAR-MARKED TAX FOR ELECTRICITY; AND
- E. INTRODUCTION OF A LIFELINE TARIFF AIMED AT THE ECONOMICALLY DISADVANTAGED.

THE ERB CONCURS WITH THE PROPOSALS AND URGES GOVERNMENT TO GIVE URGENT CONSIDERATION TO THESE OBSERVATIONS.

## 5. BOARD DECISION

AFTER DUE CONSIDERATION OF THE APPLICATION AND THE VARIOUS SUBMISSIONS MADE THEREON, THE ERB ORDERS AS FOLLOWS:

THAT WITH EFFECT FROM 1<sup>ST</sup> AUGUST 2009 THE TARIFFS FOR THE REMAINING PART OF THE MULTI- YEAR TARIFF FRAMEWORK 2009/10 TO MARCH 2011 BE VARIED AS FOLLOWS:

**TABLE 2: REVISED ELECTRICITY TARIFFS**

<b>CUSTOMER CATEGORY</b>	<b>2009 TO 2010</b>	<b>2010 TO 2011</b>
<b>RESIDENTIAL</b>	<b>INCREASE:</b> 40% <b>NEW TARIFF:</b> K170.97 PER KILO WATT HOUR	<b>INCREASE:</b> 33% <b>NEW TARIFF:</b> K264.78 PER KILO WATT HOUR
<b>LARGE POWER (MD3 &amp; MD4)</b>	<b>INCREASE:</b> 42% <b>NEW TARIFF:</b> K110.19 PER KILO WATT HOUR	<b>INCREASE:</b> 32% <b>NEW TARIFF:</b> K169.27 PER KILO WATT HOUR
<b>SMALL POWER (MD1 &amp; MD2)</b>	<b>INCREASE:</b> 26% <b>NEW TARIFF:</b> K107.08 PER KILO WATT HOUR	<b>INCREASE:</b> 18% <b>NEW TARIFF:</b> K139.78 PER KILO WATT HOUR
<b>COMMERCIAL</b>	<b>INCREASE:</b> 27% <b>NEW TARIFF:</b> K184.31 PER KILO WATT HOUR	<b>INCREASE:</b> 22% <b>NEW TARIFF:</b> K252.87 PER KILO WATT HOUR
<b>SERVICES</b>	<b>INCREASE:</b> 25% <b>NEW TARIFF:</b> K128.38 PER KILO WATT HOUR	<b>INCREASE:</b> 19% <b>NEW TARIFF:</b> K169.00 PER KILO WATT HOUR
<b>AVERAGE</b>	<b>INCREASE:</b> 35% <b>NEW TARIFF:</b> K109.94 PER KILO WATT HOUR	<b>INCREASE:</b> 26% <b>NEW TARIFF:</b> K157.15 PER KILO WATT HOUR

**THE ERB FURTHER ORDERS AS FOLLOWS:**

1. THAT ZESCO ABOLISHES THE CURRENT STAFF TARIFF AND APPLIES THE APPROVED RESIDENTIAL TARIFFS FOR ITS STAFF AS WITH OTHER CUSTOMERS EFFECTIVE 1<sup>ST</sup>AUGUST 2009. WE NOTE THAT A SIMILAR DIRECTIVE WAS ISSUED BY OURSELVES IN OUR DECISION OF 2007 WHICH WAS NOT COMPLIED WITH BY ZESCO. WE SHALL NOT ENTERTAIN DISREGARD OF SUCH DIRECTIVES IN FUTURE.
2. THAT TIME-OF-USE SHOULD CONTINUE TO BE VOLUNTARY AS OPPOSED TO BEING MANDATORY UNTIL ZESCO CARRIES OUT A FEASIBILITY STUDY WHOSE FINDINGS SHOULD BE SUBMITTED TO THE ERB.
3. THAT CONVERSION TO VOLUME DIFFERENTIATED TARIFFS SHALL BE UNDERTAKEN ONCE ZESCO HAS ESTABLISHED, IMPLEMENTED AND DEMONSTRATED TO THE SATISFACTION OF THE ERB, A METERING REGIME CAPABLE OF HANDLING THIS TYPE OF PRICING.

IN CONCLUSION, I WISH TO REITERATE THAT THE ERB WILL STRINGENTLY MONITOR THE AGREED KEY PERFORMANCE INDICATORS UPON WHICH SUBSEQUENT TARIFF INCREASES WILL BE DETERMINED. THE ERB WOULD FURTHER LIKE TO URGE ZESCO TO EXPAND ITS CUSTOMER BASE AND IMPROVE ON THE QUALITY OF SERVICE NOW THAT IT HAS BEEN GRANTED HIGHER TARIFFS RELATIVELY CLOSER TO COST REFLECTIVE LEVELS. THE UTILITY IS THEREFORE EXPECTED TO PROVIDE IMPROVED QUALITY OF SERVICE DELIVERY AS WE TRANSITION TOWARDS COST-REFLECTIVE TARIFFS.

INTERESTED MEMBERS OF THE PUBLIC MAY COLLECT COPIES OF THE FULL TARIFF DECISION FROM THE ERB OFFICES IN LUSAKA OR KITWE.

I THANK YOU FOR YOUR ATTENTION.

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