

# Press Statement



## **ZESCO Key Performance Indicators: January 2008 to Second Quarter 2010**

**Wednesday, 08 December 2010**

The Energy Regulation Board (ERB) has continued to monitor ZESCO's performance using the Key Performance Indicators (KPIs) since January 2008. The KPIs framework is a regulatory mechanism used to induce efficiency by directly relating tariff awards to utility performance. This is meant to ensure that tariff awards are commensurate to utility performance. However, ZESCO's performance is yet to be correlated to tariff awards because a three (03)-year grace period was given to allow ZESCO to adjust its financial and operational position to the new tariff determination requirements, which will become effective in 2011.

During the three year period ZESCO has been given to consolidate its performance, the ERB's focus has been to monitor ZESCO's performance in order to constantly remind the utility of its position as regards the agreed financial and operational benchmarks. However, from April 2011 onwards, tariff awards to ZESCO will be directly influenced by performance as assessed through KPIs scores.

Through the KPIs framework, ZESCO's performance has been monitored in terms of metering; cash management; staff productivity; quality of service supply; and reduction of system losses. Overall, ZESCO has consistently under-performed on KPI targets since 2008. It must be emphasised that if ZESCO does not drastically improve before April 2011, the utility risks heavy penalties on tariff awards when the KIPs are fully implemented.

The ERB is concerned that ZESCO's overall performance for the period 2008 to June 2010 is below the set targets. The utility is therefore implored to redouble its efforts in improving its performance in relation to KPIs before April 2011, especially in light of the relatively high tariff increases approved by ERB for 2008, 2009 and 2010.

ZESCO's performance in relation to specific KPI targets is as follows:

## 1. Metering:

ZESCO is required to meter all newly connected customers. Between January 2008 and December 2009, ZESCO connected a total of 58,284 customers, out of which only 10,562 were metered. This translated to only 18% of new connections being metered. Between 2008 and 2009, the utility performance fluctuated from 10% to 25%.

In 2010, the utility scored 26% in the first quarter with 2,187 customers metered out of the 8,279 new connections made. A higher score of 33% was recorded in the second quarter of 2010, when 2,253 customers were metered out of the 6,888 new connections made. It is expected that ZESCO will meter more customers with the purchase of 128, 500 meters as was indicated in its 2010/11 Tariff application.

With regard to connection time, ZESCO is required to reduce the number of days it takes to connect new customers to 30 days by March 2011. ZESCO has from January 2008 to June 2010 been taking longer than the set targets to connect customers. In 2008, ZESCO recorded a marginal two-day reduction, while in 2009 a notable improvement of 15 days reduction was recorded. Under this KPI ZESCO is expected to reduce connection time by 17 days each year in order to achieve the intended target of 30 days by March 2011.

There was, however, a notable improvement in meeting this KPI in the first quarter of 2010 as ZESCO reduced connection time by an average of 32 days against a target of 4.25 days. The improvement was not sustained as performance deteriorated during the second quarter when the average connection time increased by over 150 days.

Since 2008, the backlog of unmetered customers has increased, with 9,659 customers metered during the first half of 2010 against a target of 21,120 for the same period. This was further compounded by ZESCO's failure to meter all new connections. The number of unmetered customers has marginally declined from 126,126 in January 2008 to 114,364 as at June 2010.

Overall, ZESCO's performance in terms of metering was above target for 2008 and 2009 when they metered 27,030 and 91,628, respectively. The utility attained a cumulative score of 127% for the period 2008/2009. However, this has been undone by the utility's poor performance in metering new connections where 47,722 customers were added to the backlog of unmetered customers in December 2009. The KPI target for June 2010 was for ZESCO to reduce the number of unmetered customers to 21,120.

It should be noted that ZESCO's combined performance on metering new customers; reducing connection time; and metering unmetered customers was 169% for the first quarter and -752% for the second quarter. The score was influenced by the marked reductions in connection time in both the first quarter and second quarters.

## **2. Cash Management:**

ZESCO is expected to come up with measures to reduce the amount of money owed in unsettled bills by customers to less than 17% of total turnover by March 2011, from 45.37% in December 2007. ZESCO's total receivables for the first quarter of 2010 were 63% of turnover against a target of 24.7% for that period, while the second quarter score was 50% against the target of 22.4%. ZESCO's performance was therefore far below the target.

Further, ZESCO is expected to reduce trade receivables to not more than 17% of turnover by March 2011. In December 2008, trade receivables stood at 61% against a target of 48%. ZESCO's position further deteriorated in 2009 as trade receivables stood at 121% against a KPI target of 39% in December 2009. In 2010, during the first quarter, trade receivables reduced by 3.40% from K577 billion in December 2009 to K559 billion in March 2010. However, there was a marginal increase of 0.11% in the second quarter to K612 billion. The score for both quarters averaged 32% against a target of 23% for both quarters. One of the notable challenges on this target is that a debt swap of K209.3 billion between Government and ZESCO has not been done to reduce the trade receivables.

Another aspect of cash management is debtor days. The debtor days relate to the time ZESCO takes to collect money from customers, which in January 2008 stood at 155 days. The utility was expected to reduce debtor days by an average of 32 days per annum. This target was not met in 2008, where a reduction of seven days was recorded, while in 2009 ZESCO performed slightly better when debtor days reduced by 18 days. In 2010, ZESCO has still failed to meet the set targets for the first and second quarters. Debtor days were reduced by 7 days in the first quarter and by 5 days in the second quarter. This was against the set targets of 14 days per quarter, if the target of reducing debtor days to 60 days is to be met by March 2011. Debtor days therefore stood at 118 days as at June 2010. ZESCO was expected to have met a target of 102 days by the end of the first quarter.

Overall, ZESCO's cash management position stood at 30% and 98% of the targets set for the first and second quarters in 2010, respectively.

## **3. Staff Productivity:**

This KPI is meant to measure the number of customers against each ZESCO employee. The target for this KPI is 100 customers to one member of staff by March 2011. In January 2008, the ratio was 63 customers to one ZESCO employee. The general performance on this KPI has been good with ZESCO meeting or exceeding the set targets. In the first half of 2010, ZESCO was close to meeting the target recording ratios of 89:1 and 92:1 for the first and second quarters, respectively. This was just

slightly below the targets of 90:1 and 94:1 for the two quarters. ZESCO, therefore, scored 65% in the first quarter and 73% in the second quarter.

#### **4. Quality of Service:**

This KPI is meant to measure improvements in ZESCO's quality of service in relation to the duration of unplanned outages, which are unexpected power outages excluding scheduled load shedding . Between January 2008 and December 2009 ZESCO recorded 42.99 hours and 52.31hrs in unplanned outages, respectively. Unplanned outages in the first quarter of 2010 reduced by 30.1hrs, ending the first quarter at 22.2 hours against 52.3 hours recorded in December 2009. This translated into a score of 763% for the first quarter. However, performance declined in the second quarter which closed at 23.9 hours resulting in a score of -43%. ZESCO indicated that the reduction in performance was due to increased load shedding in the second quarter because of the power outage experienced at Kariba North Bank Power Station.

#### **5. System losses:**

During the period under review, transmission losses, which are energy losses that occur during transmission of power were above the 3% target. An average of 5.14% for both the first and second quarters was recorded. Distribution losses (energy lost during distribution on 66kv and below lines) stood at 15% at the end of both the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2010. Therefore, ZESCO's performance under this KPI has been poor. However, performance for 2009 generally averaged around the 3% target.

Based on its performance on transmission and distribution losses combined, ZESCO attained an average score of 465% and 22% for the first and second quarters, respectively. The 465% score recorded during the first quarter of 2010 is attributable to a notable decline in distribution losses during the first quarter of 2010 from that recorded in the last quarter of 2009.

The summary of ZESCO performance with regard to KPIs for January 2008 to June 2010 is presented in the table below:

**Table 1: ZESCO Quarterly scores from January 2008 to June 2010**

Indicator	2008					2009					2010	
	First Quarter weighted score	Second Quarter weighted score	Third Quarter Score	Fourth Quarter weighted score	2008 weighted score	First Quarter weighted score	Second Quarter weighted score	Third Quarter weighted score	Fourth Quarter weighted score	2009 weighted score	First Quarter weighted score	Second Quarter weighted score
Customer Metering	3%	6%	8%	18%	8.72%	9%	30%	30%	0%	30%	30%	0%
Cash Management	10%	0%	0%	0%	0.00%	0%	0%	0%	0%	0%	3%	10%
Staff Productivity	9%	14%	15%	15%	15.00%	8%	10%	0%	15%	9%	10%	11%
Quality of Service	20%	20%	0%	0%	11.96%	20%	20%	20%	0%	0%	20%	0%
System Losses	0%	0%	25%	25%	14.88%	0%	25%	25%	0%	7%	25%	4%
<b>TOTAL</b>	<b>41.63%</b>	<b>40.37%</b>	<b>47.87%</b>	<b>58.16%</b>	<b>50.55%</b>	<b>37.46%</b>	<b>85.35%</b>	<b>75.40%</b>	<b>15.00%</b>	<b>45.56%</b>	<b>87.73%</b>	<b>24.52%</b>

**Note:** The periodic publication of ZESCO KPI results is a condition of the Multi-Year Tariff framework introduced by the ERB to induce better utility performance.

**Butler A. Sitali**  
**Executive Director**  
**Energy Regulation Board**