

ZESCO CHAIRMAN'S STATEMENT ON THE ZESCO BULK SUPPLY AGREEMENT WITH COPPERBELT ENERGY CORPORATION (CEC)

As ZESCO, we have been on the path of strategic planning and strategic engagements since the change of government last year. This has seen us having discussions with current clients and potential clients both in Zambia and abroad.

On the purchasing side, we have since successfully renegotiated our debts with IPPs who supply us with power such as Maamba Collieries Limited (MCL).

On the selling side, there are advanced discussions with ZESA for exporting 100 MW to Zimbabwe premised on Zimbabwe making pre-payments for the 100 MW from Kafue Gorge Lower. Preliminary discussions arrived at ZESA having to pay monthly deposits of USD 6.3 million to enjoy the facility. Additionally, ZESCO and Namibia's NAMPOWER, in April 2022, signed a power supply agreement for the export of an additional 80 MW in addition to 100 MW that was already being exported after the first agreement was signed in 2020.

We are also engaging players in DR Congo, Botswana, Tanzania, Mozambique and Namibia to construct interconnectors.

On the home-front, ZESCO Limited successfully signed a 13-year Bulk Supply Agreement with the Copperbelt Energy Corporation (CEC) effective 1st April 2022. This Agreement, worth USD \$1.9 billion, was only signed two years after the expiry of the previous Bulk Supply Agreement between the two institutions that existed from 21st November 1997 to 31st March 2020. The period between the expiry of the old agreement and the signing of the new agreement saw the two entities transact on disputed terms and fail to agree on new terms.

January 2022 came with new vigour and a desire to come up with an agreement that suited both parties and had fairer terms for both. A lot was put into the new Bulk Supply Agreement in order to remedy the pain points faced in the previous agreement. The parties also recognized that no agreement would be perfect and that any adjustments necessary to better the agreement needed to be done in an amicable and timely manner. As ZESCO, we were also aware of the public interest in our relationship with CEC and are therefore grateful for the support from Government and the general public during the renegotiation process.

In the new agreement, the tenure of the agreement was set at 13 years. This period is long enough to cover long-term investments and short enough to give either party the flexibility to renegotiate or iron out any issues that may arise in due course.

Unlike the old Bulk Supply Agreement, the new agreement contains tariff adjustment provisions that can be used by the two parties to adjust the tariff if necessary, during the term of the agreement. These provisions are in addition to the annual indexation of the tariffs that adjusts them for inflationary effects.

Further, this Bulk Supply Agreement also demands the setting up of payment security by the two parties in order to reduce the risk of non-payment for the services rendered.

More importantly, the charges payable by CEC are more cost-reflective consider the cost price ZESCO is charged by IPPS and the reciprocal tariffs for Transmission Use of the System, Domestic Wheeling and International Wheeling. Under the new BSA, the power supply limit has been revised from 329 megawatts (MW) to 380MW with capacity charge rising to US\$37.4 per kilowatt-hour (KWh) per month from US\$33.1 while the energy charge has been increased to 2.59 US cents from 2.43 US cents per KWh. Domestic wheeling charge has been reduced to US\$3.1786 per KWh per month from US\$3.3935 kWh per month with international charges now pegged at US\$1.3 per KWh from US\$1.00. We have also taken care of the movement of the exchange rate.

Crucially, moving from the limitations of the last agreement, the new Bulk Supply Agreement allows and contains clear terms of supply for either party to supply power to customers within the country across each other's networks. It also allows either party to develop power generation, transmission, distribution and supply infrastructure, in any part of the country. Therefore, this does away with the territorial exclusivity clauses that existed in the previous agreement, and opens up the Zambian Electricity Sector Industry to competition, as envisioned by the ongoing reforms in the energy sector such as the development of the open access framework.

The allowable power and outage hours for both parties were adjusted to 120hrs over five years from 144hrs and 180hrs for ZESCO and CEC respectively. This reflects increasing operating efficiency by both parties. The supply limit in the Bulk Supply Agreement was also adjusted, to reflect CEC's expected level of consumption.

As ZESCO, we gladly look forward to a mutually beneficial relationship with CEC.

Thank you.

Vickson Ncube

ZESCO Board Chair

12th July 2022