



PUBLIC NOTICE

Board's Decision on ZESCO's Application to Adjust Electricity Tariffs and Connection Charges for the Year 2019

1.0 Introduction

On 26th February, 2019 the Energy Regulation Board (ERB) received an application from ZESCO Limited (ZESCO) proposing upward adjustments of electricity tariffs and connection charges for domestic consumers [i.e. excluding mining, exports and Power Purchase Agreement (PPA) based customers] by weighted average increases of 113% and 213% respectively. Specifically, the proposal was to increase Electricity tariff per customer category as shown in table 1.

Table 1: Summary of ZESCO's proposed tariff adjustment

No	Customer Category	Proposed average increment
1	Residential	106%
2	Large Power	73%
3	Small Power	75%
4	Distributor	New proposal
5	Commercial	170%
6	Services	143%
Total Weighted Average		113%

ZESCO justified the upward tariff application as being necessitated by the following factors:

- i. Prevailing Macro Economic Conditions;
- ii. Need for System and Customer Base Expansion;
- iii. Rising cost of generating power from ZESCO's own power plants and Independent Power Producers (IPPs);
- iv. Suspension of the Cost of Service Study (CoSS); and
- v. Rising cost of connecting customers to the grid.

Furthermore, in its application, ZESCO proposed changes to the current tariff structure for the residential and commercial customers, introduction of a bulk power distribution tariff and proposed to cap maximum demand capacity to 10MVA from the current 25MVA.

ZESCO projected to raise K16, 056 million in the first full year of implementation of the proposed tariffs.

In accordance with the Electricity Act Chapter 433 of the Laws of Zambia, on 22nd March 2019 ZESCO issued notices to its consumers of its intention to adjust electricity tariffs and connection fees on its website and in the print media. During the same period, the ERB issued a Public Consultation Paper (PCP) inviting the public to make written submissions on the tariff application. The ERB received ninety-eight (98) submissions from across the Country on ZESCO’s tariff application.

On 3rd May 2019, the tariff application review process was suspended to allow for further stakeholder consultations.

The tariff review process resumed on 23rd October, 2019. Consequently, the Board held its public hearings on Tuesday, 5th November, 2019 in Lusaka, Kitwe and Livingstone simultaneously. The consumers who had made written submissions to the ERB were invited to make oral presentations of their submissions.

During the same hearings, ZESCO was accorded an opportunity to present its justification for the tariff adjustment as well as formally respond to consumer comments and concerns.

2.0 Summary of ZESCO’s tariff adjustment and proposed changes to the tariff structure

In its application, ZESCO made the following specific proposals:

- 1) Re-introduction of the three tier Residential Tariff Structure
ZESCO proposed a re-introduction of Residential (R3) tariff band with changes to the existing Residential R1 and R2 tariff bands as per details in table 2.

Table 2: Changes to the residential tariff bands

Tariff band	Existing units	Proposed units
Residential R1	0 – 200kWh	0 – 100kWh
Residential R2	Above 200kWh	101kWh – 300kWh
Residential R3	N/A	Above 300kWh

- 2) Elimination of the fixed monthly charge for its residential and commercial customers
ZESCO proposed to remove the fixed monthly charges on residential and commercial customers and that these would be included in the energy (unit) charges.

- 3) Splitting of Commercial Tariff into two bands
 ZESCO proposed splitting the Commercial tariff into two bands, as shown in table 3.

Table 3: Proposed Commercial Tariff Band

Tariff band	Existing band	Proposed bands
Commercial C1	uncapped	0 – 200kWh
Commercial C2	N/A	Above 200kWh

- 4) Introduction of bulk Power Distribution Tariff
 ZESCO proposed the introduction of a Bulk Power Distribution tariff to be set slightly lower than the average tariff for maximum demand and retail customers.
- 5) Capping of Maximum Demand Customers Category 4 at 10MVA
 ZESCO proposed a reduction in the cap for MD4 tariff category from 25MVA to 10MVA.

3.0 Summary of ZESCO’s financial performance

As part of the tariff review process, the ERB undertook a detailed review of ZESCO’s financial performance over the five (5) year period 2014 – 2018 in order to assess the Utility’s profitability, liquidity, efficiency and solvency.

The five (5) year review of ZESCO’s financial performance indicated that the Utility is in a precarious position that threatens its financial stability and operations. This situation also has great potential to negatively affect the utility’s ability to provide quality service.

The review involved re-stating the utility’s financial performance by adjusting for non-operating items. This was to gain a clear understanding of ZESCO’s financial performance that is directly linked to its core business of generation, transmission, distribution and supply of power.

4.0 ERB Review of ZESCO’s tariff application

The analysis of ZESCO’s tariff application was premised on the principles of the Revenue Requirement, that is, the level of revenues necessary for the Utility to efficiently operate and cover its Operating and Maintenance costs, taxes and depreciation, prudently undertaken Capex and ensure a fair rate of return (profit) on assets utilised in the generation, transmission, distribution and supply of electricity.

On the basis of ZESCO’s financial information, the ERB determined ZESCO’s revenue requirement to meet current Operating and Maintenance cost and earn a reasonable return. This will sustain ZESCO as a going concern in the short term and also allow it to meet its current debt obligations.

ERB’s consideration of consumer submissions

Consumer submissions were also used in tariff determination and influenced the quantum of the tariff adjustment and also the tariff structure such as the treatment of residential lifeline tariff, social tariffs, commercial tariffs, fixed charges, time of use tariffs and maximum demand

charges. Suffice to note that the majority of consumers commented on four key issues that included the following:

- a) That the increase in tariffs would have an adverse impact on the environment as consumers would switch to firewood and charcoal which would lead to deforestation;
- b) That, generally the increase would have an adverse impact on the manufacturing industry in Zambia which could become uncompetitive.
- c) A number of consumer submissions observed that ZESCO's operations were inefficient, especially on new customer connections, quality of supply and cost management.
- d) Others submitted that ZESCO's was not allocating enough resources to the core business of electricity generation, transmission and distribution as evidenced by the drop in the maintenance costs.

5.0 Board Resolutions, Directives and Orders

The rationale for the Board decision on this tariff application is premised on the poor financial performance of ZESCO. In summary, ZESCO is facing serious financial problems with regard to its profitability, liquidity, solvency and efficiency. Specifically, ZESCO is facing the following problems:

1. Liquidity problems: This caused by increasing trade and other payables to local Independent Power Producers (IPPs) and short term borrowings costs.
2. Heavy debt burden: ZESCO's loan service obligations have worsened and they operate with a very low current ratio that is below business norms.
3. Increasing arrears to independent Power Producers (IPPs): IPPs are owed over K13 billion against the K16 billion that ZESCO will raise through tariffs.
4. Huge back log of customer collections (receivables): This is mainly arising from Government and some exports customers.
5. Uncertain and low effective receivables from the mines: The mining tariffs are not fully resolved yet and as such the receivables are not predictable.
6. Huge overdraft obligations: This has been caused by low liquidity that is insufficient to service operating and maintenance costs, including depreciation; and
7. Huge debt: Arising mainly from statutory and staff related debts.

Therefore, our financial analysis revealed that ZESCO is in a precarious position that threatens its financial stability and operations. Without substantial cash injection the Utility will not afford to meet the cost of power purchases or normal operations. This will worsen its debtor and creditor days and also would be unable to borrow due to its insolvency situation.

In view of the foregoing, the Board has made the following orders:

Order 1: APPROVAL of tariff application at 113%

Approve a tariff adjustment **effective on 1st January 2020**. This tariff increase will raise substantial revenue to enable ZESCO operate normally and partially meet its debt obligations. However, this, unfortunately, will still not address in full the total debt obligations of ZESCO. Meanwhile, this increase will move the average domestic tariff upward to enable ZESCO cover its costs of production adequately and render the tariff competitive. The detail of the tariff increase is attached.

Order 2: WAIVER OF KEY PERFORMANCE INDICATOR (KPI) framework

The Board has, reluctantly decided to waive the use of the Key Performance Indicators (KPIs) framework in this decision so as to enable ZESCO address its financial and operational challenges in the quickest possible time.

Order 3: APPROVE the Introduction of Distribution tariff

The Board, has APPROVED ZESCO's application to introduce a Bulk power distribution tariff, this is to remove the disparity created by the lack of a distinction between end-use consumer tariffs and wholesale power distribution tariffs.

Order 4: APPROVE a change in tariff structure and life-line tariff for residential consumers

The Board further approves the revision of residential tariff bands as follows:

- i. Reduce the R1 consumption band from 200kWh to 100kWh;
- ii. Restructure R2 consumption band from the current consumption level of above 200kWh into a middle consumption band of between 101kWh to 300kWh; and
- iii. Re-introduce an upper consumption band R3 for consumption above 300kWh.

The proposed lifeline tariff is favourable to the low income households. However its reduction is supported as it is consistent with international best practice and is aimed at targeting only the indigent customers for whom it is intended. It also encourages efficient energy consumption. Furthermore, a very high lifeline tariff may be detrimental to ZESCO as it has potential to erode revenues. The ERB has provided for further study of lifeline tariff band to be comprehensively reviewed and its proper application in the ongoing Cost of Service Study.

Order 5: APPROVE the removal of fixed monthly charge on residential consumers

The Board has approved the removal of fixed monthly charge which will benefit consumers because the amounts previously assigned to fixed charges will now translate into actual units for consumption.

Order 6: APPROVE change in tariff structure for Commercial consumers and the removal of the fixed monthly charge

The Board approves the splitting of the Commercial tariff band into two bands as follows:

- i. Commercial Tariff band C1 with consumption up to 200kWh; and
- ii. Commercial Tariff band C2 with consumption above 200kWh.

The splitting of the commercial tariff into two bands will encourage energy conservation behavior among commercial customers. Further, the removal of fixed monthly charge will enable customers in this category to consume more units per month.

Order 7: DEFER decision to adjust connection fees

The Board has reviewed ZESCO's application to adjust connection charges by an average of 213% across various customer categories. However, this matter has been deferred because it requires an in-depth study and consultations. Therefore, ZESCO may consider re-submitting the proposal after these conditions have been met.

Order 8: REJECT the proposal to reduce and cap MD4 Customer Category from 25MVA to 10MVA

The Board has **REJECTED** ZESCO's proposal to reduce and cap MD4 Customer Category from 25MVA to 10MVA. The Board has established that the Utility has not provided enough justification on how this proposal was arrived at, how it was to be implemented and how it would impact MD4 consumers. This matter was further amplified by consumers in their submissions.

Order 9: DIRECTIVE on ZESCO's performance on KPIs

The Board has noted with concern, ZESCO's poor performance on the agreed KPIs framework particularly with regards to new customer connections for both Standard and Non-Standard Connections, safety, quality of service and cash management. The poor performance on the KPIs framework has compromised ZESCO's customer service, financial and technical operations. The Board, therefore, **DIRECTS** that ZESCO must make an undertaking to improve performance on the stated KPIs.

Order 10: SEPARATE costs according to business units

The Board has noted that the continued intermingling of costs of production, that is, from Generation, Transmission and Distribution, has potential to mask the true cost of power generation, transmission and distribution. The Board has, therefore, ordered that ZESCO, from now onwards, should unbundle their financial statements into Generation, Transmission, and Distribution and Supply costs.

Order 11: REVISE the condition on Staff Tariffs

The continued use of staff tariffs in the Conditions of Service greatly deducts from ZESCO's justifications for tariff adjustments. The ERB has ordered ZESCO to revise the staff tariff so that it is not passed on to customers by way of a tariff increase. The ERB notes that the continued use of the staff tariff implies that the rest of the consumers are subsidizing the ZESCO staff tariff. The ERB, therefore, orders ZESCO to immediately revise staff tariffs not more than 500 units per month on a graduating scale consistent with the ability to pay.

In accordance with the requirements of Section 8 sub-section 2 of the Electricity Act CAP 433 of the Laws of Zambia, the Energy Regulation Board has approved Electricity tariffs by an average of 113% effective on 1st January, 2020

Appendix I: Approved Tariff Schedule for 2020

Customer category	Tariff components	Current tariff	Approved Tariffs Effective 1 st January 2020
1. METERED RESIDENTIAL (Prepaid) (capacity 15 kVA)			
R1 – Consumption from 1 - 100 kWh in a month	Energy charge/kWh	0.15	0.47
R2 – Consumption between 101kWh - 300 kWh in a month	Energy charge/kWh	0.89	0.85
R3 – Consumption above 300kWh	Energy charge/kWh	Nil	1.94
	Fixed Monthly Charge	18.23	Abolished
2. Commercial Tariffs (capacity 15kVA)			
C1 – Consumption up to 200kWh	Energy charge/kWh	0.54	1.07
C2 – Consumption above 200kWh	Energy charge/kWh	Nil	1.85
	Fixed Monthly Charge	96.41	Abolished
3. Social Services			
Schools, Hospital, Orphanages, churches, water pumping & street lighting	Energy charge K/kWh	0.49	1.19
	Fixed Monthly Charge	83.84	203.73
4. Maximum Demand Tariffs			
MD1- Capacity between 16 - 300 kVA	MD Charge (K/kVA/Month)	24.45	42.79
	Energy Charge (K/kWh)	0.35	0.61
	Fixed Monthly Charge (K/Month)	239.44	419.02
	Off Peak MD Charge (K/KVA/Month)	12.22	21.39
	Off Peak Energy Charge (K/kWh)	0.26	0.46
	Peak MD Charge (K/KVA/Month)	30.56	53.48
	Peak Energy Charge (K/kWh)	0.44	0.77
MD2- Capacity 301 to 2,000 kVA	MD Charge (K/kVA/Month)	45.73	80.03
	Energy Charge (K/kWh)	0.3	0.53
	Fixed Monthly Charge (K/Month)	478.84	837.97
	Off Peak MD Charge (K/KVA/Month)	22.87	40.01
	Off Peak Energy Charge (K/kWh)	0.23	0.39
	Peak MD Charge (K/KVA/Month)	57.17	100.03
	Peak Energy Charge (K/kWh)	0.37	0.66

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Customer category	Tariff components	Current tariff	Approved Tariffs Effective 1st January 2020
MD3- Capacity 2,001 to 7,500kVA	MD Charge (K/KVA/Month)	73.06	126.39
	Energy Charge (K/kWh)	0.25	0.43
	Fixed Monthly Charge (K/Month)	1,014.55	1,755.17
	Off Peak MD Charge (K/KVA/Month)	36.52	63.2
	Off Peak Energy Charge (K/kWh)	0.18	0.32
	Peak MD Charge (K/KVA/Month)	91.33	157.99
	Peak Energy Charge (K/kWh)	0.3	0.54
MD4-Capacity 7500kVA to 25,000 kVA	MD Charge (K/KVA/Month)	73.47	127.39
	Energy Charge (K/kWh)	0.21	0.36
	Fixed Monthly Charge (K/Month)	2,029.13	3,510.39
	Off Peak MD Charge (K/KVA/Month)	36.73	63.55
	Off Peak Energy Charge (K/kWh)	0.16	0.27
	Peak MD Charge (K/KVA/Month)	91.84	158.88
	Peak Energy Charge (K/kWh)	0.25	0.45
Bulk Distributors tariff (Purchasers of Power for distribution)	Maximum Demand customers - MD Charge/KVA/month	Nil	58.6
	Retail customers – Energy charge / kWh	Nil	0.49

NOTE: The above tariffs are:-

- (a) Exclusive of 3% Government excise duty
- (b) Exclusive of 16% Value Added Tax (VAT)
