ZAMBIA NATIONAL FARMERS' UNION SUBMISSION TO THE ENERGY REGULATION BOARD (ERB) ON THE ZESCO APPLICATION TO REVISE ELECTRICITY TARIFFS UPWARDS EFFECTIVE NOVEMBER 2012

INTRODUCTION

The application by Zesco to revise electricity tariffs upwards by an average rate of 26% has been received with reservations among the farming community. While the argument for moving to cost reflective tariffs and all the other advanced justifications have been the premise for increasing tariffs even in the past. Farmers believe that the route that Zesco has adopted will increase the cost of production for the agricultural sector which will affect negatively the competitiveness of agriculture products and will lead to a rise in inflation. Besides this, the timing is inappropriate because of the various other policy changes that government has embarked on in many areas such as the increase in labour costs and the anticipated increase in the cost of imported inputs as adjustments are made due to a major policy change that was made through the implementation of Statutory Instrument 33 of 2012. Importers now have to hedge by charging higher prices on imported inputs to guard against uncertain future exchange rate risks and farmers have no option but to bear these costs.

ZESCO'S JUSTIFICATION FOR INCREASING ELECTRICITY TARIFFS

In the published notice issued by Zesco Ltd and the subsequent paper issued by the Energy Regulation Board, details of the international and domestic factors that have instigated the upward revision in tariffs were highlighted such as the rise in oil and copper prices globally; rising cost of imported raw materials; hostile macroeconomic environment due to inflation and exchange rate depreciation. Inflation in the last 9 years was estimated at 119% while Zesco tariffs were adjusted by only 93.3%. Furthermore, Zesco underscored the overarching need to invest in new generation plants to cater for the ever growing domestic demand for power.

STATUS OF AGRICULTURE

The agricultural sector is the dominant source of employment in the rural areas with estimates that show 70% of the people depend on it for livelihood. Production scope is vast for both crops and livestock. Recent statistics show that production of maize, wheat, soyabeans and sugar have attained levels of surplus. Hence the export route is the only option for any further sustainable expansion in production, as a country, we have to re- position ourselves for export. In addition, the poultry, dairy, beef and pig sectors are all earmarked to expand with poultry being the fastest growing. However, the sector is constantly grappling with the rising costs of production which affects the competitiveness of agriculture products in export markets. For example, a big farm enterprise under MD3 with an electricity bill of $2,187,406 after the 32% increase, the new bill will increase to $ 2,887,376, hence the additional $699,970 will have to be passed on to consumers. Thus, even though market access opportunities exist through trade agreements such as the Comesa and SADC, as a country we have not been able to take full advantage of these markets.

Admittedly, the sector is highly dependent on imported inputs or raw materials just like Zesco hence inputs like fuel, machinery, fertilizers, chemicals, to mention a few are all imported and farmers have no control over such costs. On the other hand, there are only a few factors that can be influenced or contained downwards by domestic policies and these are mainly taxes (direct /indirect, import taxes or fees levied at local level), cost of electricity and cost of labour.

ZNFU COMMENTS AND SUBMISSIONS

(1) INFLATION

The inflation rate has been consistently below 10% since March 2010 which is the year the last adjustment was made but the annual inflation rate in 2010 and 2011 was 10.2% and 7.2%

Submission

On the basis of inflation a tariff adjustment to the level of the annual average inflation rate of 8.7% or on a cumulative basis (as a generous case scenario) 17% since the last adjustment would be seem plausible.

(2) EXCHANGE RATE

The depreciation effect argument has been overly stated because the exchange rate also did appreciate to a large extent since the last adjustment. Therefore, the period was characterized by both exchange gains and losses.

Submission

There is need for ERB to delve into the net exchange rate losses argument advanced by Zesco. Besides this, Zesco should be applying mitigating measures by hedging techniques as a way of managing such losses as the demand for foreign exchange for predictable expenditures such as debt servicing, interest on foreign loans, machineries, etc.

(3) INVESTMENT IN POWER GENERATION

The excessive reliance on revising tariffs as a source of raising resources for investment into new power plants to meet increase in demand is an unsustainable path as existing customers cannot afford to bear the punitive additional costs.

Submission

Zesco should adopt a full disclosure policy to new clients on the electricity challenges the country is facing including new investors. This should pave way for new big investors to consider other sources of energy and to encourage any new mining investments to invest in power generation.

(4) TIME OF USE TARIFF (TOU)

Zesco contends that time of use discount is provided for Maximum Demand Customers at 25% discount on energy charge and 50% discount on capacity charges.

Submission

Zesco has always demanded that the TOU discounted tariff rates only apply if the power consumed during the off peak period was greater than the power used during the peak period. With this caveat, farmers have not been in a position to benefit from the TOU discounts because power is used consistently on farm. This anomaly should be rectified in order to incentivize customers to shift activities from peak to the off peak period. Additionally, Zesco should explore ways of extending the TOU tariffs to domestic consumers as the domestic load is the main cause of the peaks that necessitate load shedding.

(5) THE MINES

The main consumer of power (using 50% of the power generated) are the mines who are the beneficiaries of the high copper prices driving the prices of transformers and all the other copper related products such as copper wires leading to a rise in costs for Zesco. It is therefore a paradox that the mines should continue to enjoy subsidized power at the expense of critical priority sectors.

Submission

The tariffs that are applicable to the mines are excluded from the application made by Zesco. Disclosure on the changes expected on this front would demonstrate equity in cost sharing. The union proposes that the subsidized tariffs for the mines should be revised towards the full cost rates. Furthermore, any new mining projects should pay tariffs that bear the full cost.

(6) KEY PERFORMANCE INDICATORS (KPIs)

The Key Performance Indicators are aimed at improving Zesco's operational efficiency hence progress made in implementing the set indicators should have a positive impact on the operations of the organization.

Submission

Zesco submitted progress made in metering, loss reduction in transmission/distribution and staff productivity. These strides made should translate into reduced costs. Since the KPIs were set as the pre-conditions for further tariff increase, the ERB should issue a public statement on the progress Zesco has made on the set KPIs.

(7) STAFF COSTS

Zesco staff costs make up fifty percent of its total operating cost compared to industry averages of thirty percent.

Submission

Our submission is that reducing Zesco's huge staff expenditures should be viewed in the context of being an alternative to hiking tariffs. There is also no mention as to whether the Zesco staff free units of electricity were abolished as they are unjustifiable.

(8) IMPACT ON DEFORESTATION

The long term effects of high electricity tariffs on the environment arising from use of charcoal by low income households will contribute to climate change which will result in frequent floods and droughts. This will in the long run endanger Zesco's generation capacity.

Submission

Zesco should explore the possibility of accessing climate change funding to subsidize electricity to the poorest households for example, in South Africa; the first 50 units of power in a month are free.

(9) TRANSPORT COSTS

Zesco has a huge fleet of transport vehicles for operational functionalities such as responding to faults, maintenance, etc. In the application Zesco highlighted the rise in the cost of fuel particularly for power generated by diesel and the cost of fuel for the fleet of vehicles that Zesco operates is also a contributing factor.

Submission

Zesco should switch to electric utility vehicles as electricity will be much cheaper than fuel. Electric vehicles can be recharged during off peak period when Zesco has excess power.

(10) PREPAID METER RATES

Savings are generated through installation of prepaid meters hence there is compelling reason for Zesco to offer cheaper rates for prepaid access to power. There are many ways by which Zesco is able to save such as costs for meter readers, transport, printing and delivering bills, disconnecting for nonpayment and so on.

Submission

Prepaid meters have improved ZESCO's cash flow because Zesco receives payment before supplying the power rather than after. This has benefited Zesco through resources that used to be working capital for small and emergent farming households who have been placed on prepaid meters. Hence Zesco should consider lower rates for prepaid meters.

CONCLUSION

The increase in electricity tariffs can be at best be described as a big blow to the productive sector especially for commodities that are highly dependent on power such as wheat, poultry, tobacco, fruits, vegetables, etc. Small agro-processing businesses which are the life line of rural communities such as hammer mills, oil pressing and access to borehole water will all be at higher costs. This dilemma can only be resolved by the ERB recommending to government that a moratorium be effected on electricity tariff adjustments and only restrict any increase to the average inflation rate for the last two years. Unless the costs of production for the food sector are kept in check, the country will continuously face competition from cheap imports of chickens, wheat, wheat flour, etc as our competitors are not subjected to similar production cost constraints. This is due to the fact that most countries have special incentives including subsidizing the entire agriculture while the agro sector in Zambia does not enjoy such. Let us all be mindful that importing agriculture products which we can produce amounts to exporting jobs and tax revenue that would otherwise have accrued to government is lost.