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**ZNFU SUBMISSION TO THE ENERGY REGULATION  
BOARD ON ZESCO'S PROPOSED TARIFF  
ADJUSTMENT FOR 2010/2011**

## **INTRODUCTION**

Zesco's application for electricity tariff adjustment in the period 2010/2011 by an average of 36% has been received with mixed feelings in the farming community. The Utility Company has laid out its case including the reasons that have necessitated this adjustment and the farming community is well aware of most of these factors. Among the factors cited in the application are:

- Change in economic conditions in the last two years
- Changes in the cost of generating, transmitting and supplying electricity
- System and Customer Base Expansion
- Rising Cost of electricity Imports
- Cost reduction and revenue Enhancement measures

## **ECONOMIC CONDITIONS IN THE LAST TWO YEARS**

Economic growth and Inflation - Zambia's economy has continued to register steady growth as reflected in the GDP growth of 6.3% in 2009 while the previous year the growth was at 5.7%. This has happened because of an increase in investments which has led to increased demand for electricity. Hence, ZESCO should embark on various generation and transmission projects to avoid further constraining the economic gains that the country has recorded to date.

It is important to highlight that the economic gains mentioned above and the resilience of the economy was due to the good performance of sectors such as the Agriculture sub sector that recorded a growth of 12% in 2009. Unfortunately, farming is becoming more and more unviable because the increase in production cannot be exported due to the high costs of production that farmers face in this country and producer prices have collapsed. The application by Zesco to increase the tariffs will strain further the already burdened Agriculture sector, reverse the economic gains achieved thus and curtail all efforts to gain entry into regional and international markets.

Zesco has also cited the Inflationary pressures as one of the reason for increasing electricity tariffs. To the contrary inflation has actually been reducing and as such Zesco tariff increase should have been about the level of inflation. However, we appreciate the fact that the issue is mainly due to the backlog in adjustment as opposed to inflationary developments in the last twelve months - see graph below.

With regards to the exchange rate, the weight attached to the impact of the depreciation of the Kwacha which happened in the last few months, was rather excessive by Zesco in their submission because due recognition was not given to the positive impact of the Kwacha appreciation on Zesco’s operations. The appreciation of the Kwacha actually acted in favor of Zesco in 2009 as it lowered the cost of imported machinery, spares and equipment for operations. This also worked in favour of Zesco in reducing the Kwacha cost of servicing the foreign denominated loans and imported equipments/inputs. The table below shows that the Kwacha appreciated during the period cited (April 2009 – March 2010).

*Table: Exchange rates from April 2009 to March 2010*

Month	April 09	May 09	June 09	July 09	Aug 09	Sept 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	March 10
Exchange rate	5,660	5,186	5,073	5,134	4,832	4,655	4,660	4,657	4,682	4,514	4,765	4,640

**RISING COST OF GENERATING, TRANSMITTING AND SUPPLYING ELECTRICITY**

In its submission for increase in electricity Zesco has highlighted the rise in prices of commodities such as copper, steel, aluminum and oil which are major inputs in the manufacturing of the electrical equipment used by Zesco as a result that has translated into an increase in the cost of generation, transmitting and distribution of electricity. Based on the information available the magnitude of the increase has not been provided and borrowing from the same argument when copper prices fell during the global slump this should have resulted into a reduction in the cost of inputs into generation, transmitting and distribution of

electricity. Zesco should have taken advantage of procuring the equipment when metal prices were low.

## **ZESCO'S PERFORMANCE AGAINST THE KEY PERFORMANCE INDICATORS**

The ERB introduced Key Performance Indicators in March 2007 and were agreed upon with Zesco to compel Zesco to make sure that it was efficient in generating, transmitting and generation of electricity.

Even though the KPI indicator assessment released on 23<sup>rd</sup> December 2009 showed that the performance had improved, but it was still far from being satisfactory and there are even serious doubts as to whether Zesco will meet the KPI consolidation deadline of March 2011. The 23<sup>rd</sup> December 2009 Energy Regulation Board press statement on Zesco KPI assessment revealed serious inefficiency lapses that are contributing to the high cost of generating, transmitting and distribution of electricity. Some of these are:

### ***Metering***

The Customer metering KPI assessment revealed that approximately 31, 715 prepaid meters have been installed in Lusaka and northern Division including 17, 277 credit meters in copperbelt, Lusaka, Northern and Southern divisions. The KPI assessment report further highlight that the backlog of unmetered customers had declined to 62, 244 against a target of 52, 799 customers at the end of the third quarter of 2009. Therefore, the targeted figure to have 52, 799 unmetered customers by the end of the third quarter of 2009 was not met.

Zesco was also required to meter all new customers within 30 days of connection but according to the KPI assessment report, between January and September 2009, ZESCO connected 25, 004 customers, out of whom only 5, 382 or 22% were metered. The remaining 78% (19, 622) newly connected customers remained unmetered thereby increasing the backlog of unmetered customers. This is another area where there is inefficiency as the utility company loses money in instances where customers are using power unmetered.

### ***Cash Management***

The cash management KPI is meant to reduce the amount of money Zesco is owed by customers to less than 17% of total turnover by 2010 from 45.37% in December 2007. However total receivables increased ending the second and third quarters at 63% and 68% against a KPI target of 31.6% and 29.3% respectively.”

The KPI further stipulates that Zesco should reduce trade receivables to not more than 17% of turnover by 2010 and the quarterly target for Zesco was to reduce trade receivables by 2.05% (from 32.1% to 30%) in the second quarter and from 30% to 27.98% in the third quarter. According to the assessment report released by the ERB Zesco failed to meet this target during the second quarter as receivables increased by 0.91%, while the third quarter target was met as Zesco reduced its receivables by 4.6%. However the bottom line is that the trade receivables for the entire period were 36% and fell short of the KPI target of 27.98%.

The assessment report has further highlighted that Zesco failed to reduce the debtor days to meet the set target for the first, second and third quarters as debtor days increased from 145 in the first quarter to 149 in the second quarter before reducing to 132 in the third quarter. This was against the set targets of 115, 107 and 99 days respectively. There was an improvement in the third quarter with debtor days reducing by 17 days to 132 from 149 at the end of the second quarter but this was still below the quarter target of 99 days.

### *Quality of service*

The quality of service as measured by the reduced annual average unplanned outages (SAIDI), reduced annual frequency of unplanned outages (SAIFI) and the reduced annual average planned outages (CAIDI) has revealed that no much improvement has been recorded in the quality of service.

***SUBMISSION***; as consumers of electricity for productive purposes, the performance of Zesco against the KPI's is very distressing and confirms what we experience on farms every day. We are left wondering as to whether there is any use of having KPIs which are not being achieved. KPIs are very important as that is the only way Zesco can demonstrate to customers that the tariff adjustment awarded last year has been put to good use.

### **SYSTEM AND CUSTOMER BASE EXPANSION**

While we recognize the need for system and customer base expansion to increase the national rate of access to electricity, Zesco cannot afford to continue expanding a poor service and assume the business as usual approach in as far as connecting new customers is concerned. The magnitude of the problem of shortage of power is being down played by assuming that Zesco should continue sharing the small cake among all users of power. Investments into the economy should be encouraged and welcomed but it should not be done at the expense of poor service to customers. We all agree that the current problem has its roots in the way

business was conducted in the past hence a transition mechanism should be adopted to manage the situation.

***SUBMISSION;*** First and foremost, there should be full disclosure by Zesco on the challenge of electricity which the country is facing to all new clients including new investors. This should pave way for new clients to consider other sources of energy and encourage any new mining investments to invest in power generation. Other countries are doing it and we should not shy away from this. Secondly, the time of use tariff should be revised so that it becomes accessible by the farming community because in the way it is administered at the moment, it is impossible for farmers to use it and have a positive impact on production.

## **EQUITY IN ELECTRICITY PRICING**

The need for importing power is rising due to the increased demand in relation to the power generated. The mines are consuming more than 50% of the power generated and yet they are charged very low rates as compared to sectors that have been designated priority in national development plans. We also observe that under the proposed tariff adjustment, a six percent increase has been proposed for MD3 and MD4 customers which are way below what has been proposed for other user categories.

***SUBMISSION;*** It is in the interest of all stakeholders to see that the Mines are brought under the ERB and become part of the pricing consultations which ERB handles.

## **COST REDUCTION AND REVENUE ENHANCEMENT MEASURES**

Zesco has huge costs in form of personnel emoluments which consume more than 50% of the revenue generated.

***SUBMISSION;*** It would be useful if Zesco shared the progress being made in dealing with this problem. In addition, Zesco should abolish the Zesco staff tariff and apply the normal residential tariff. There is no mention in the KPI as to whether this tariff was abolished yet it is no longer in dispute that this is not justified.

## **CONCLUSION**

The farmers would like to submit that the agricultural sector is at a point where it cannot afford to absorb any upward adjustment in tariffs. This is because the cost of producing has been rising and impacting negatively on the competitiveness of agricultural products in the domestic and regional markets. Farmers are faced with a real situation where producer prices are falling while costs of production are ever going up resulting in farming becoming unviable. We are of the view that some mechanism ought to be developed to provide power for productive purposes at an affordable rate and save agriculture production capacities that have been built in the country from collapsing.

Finally, we would like to appeal to the ERB to monitor progress that Zesco is supposed to be making towards commercialization. The money owed to Zesco is huge and it would be in Zesco's interest to disclose the composition of those owing and intensify collections. The ERB should also take keen interest in resolving the long bureaucratic procedures of doing business within Zesco which contributes to the long time it takes in undertaking repairs.