

WEDNESDAY, 11 OCTOBER, 2017

MINISTERIAL STATEMENT

ON THE

MIGRATION OF ELECTRICITY TARIFFS TO COST REFLECTIVITY

BY THE HON. MINISTER OF ENERGY, MR MABUMBA

Madam Speaker, thank you for giving me this opportunity to update the nation through this august House on the progress made with respect to migrating electricity tariffs to cost reflectivity.

Madam Speaker, hon. Members of this august House may wish to recall that in my ministerial statement delivered on the Floor of this august House on 28th March, 2017, I made reference to the fact policy measures were being undertaken to migrate tariffs to cost reflectivity for all customer categories. This is in line with the Patriotic Front (PF) Manifesto of 2016/2021, which stipulates that cost reflectivity for electricity tariffs should be attained by December, 2019 and the National Energy Policy (NEP) of 2008, which advocates for cost reflectivity pricing of all energy services and products. Furthermore, the hon. Minister of Finance, in his 2017 National Budget Address, stated that the Government expected electricity tariffs to reach cost reflectivity by the end of December, 2017.

Madam Speaker, in line with the above policy decisions, I now wish to update this august House on the policy measures that have been undertaken to implement a gradual process of migrating electricity tariffs towards cost reflectivity in 2017 for the various customer categories.

Residential Customers

Madam Speaker, as hon. Members of this august House may be aware, the Zambia Electricity Supply Corporation (ZESCO) had applied to the energy regulation board to revise residential tariffs upwards and to increase the lifeline (R1) tariff band from 100 kW per month to 300 kW without increasing the unit price. Further, ZESCO had also applied for the fixed charge component of the tariff to be increased by 75 per cent. After due consideration of ZESCO's application and taking into account all submissions from the public, I now wish to report to this

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august House that the Energy Regulation Board (ERB) approved the increase of residential tariffs by 75 per cent. The ERB further approved the revision of residential tariffs bands as follows:

- (a) revised the lifeline (R1) consumption band upper limit from 100 kW to 200 kW;
- (b) revised the residential (R2) consumption band lower limit from 101 kW to above 200kW;
- (c) abolished the residential (R3) consumption ban; and
- (d) maintained the monthly fixed charge at K18.23.

Madam Speaker, although the ERB has not awarded the lifeline consumption band of 300kW which ZESCO had applied for, customers within the tariff band will benefit from the fixed charge which has not been increased.

Madam Speaker, I also wish to report that about 42 per cent of all residential customers fall into the lifeline tariff band. A 50 per cent tariff increase was effected on 15th May, 2017. An additional 25 per cent was increased with effect from 1st September, 2017, in line with the ERB board approval.

Madam Speaker, allow me to tabulate the residential lifeline tariff bill before and after the adjustment. Before the adjustment was made in May, 2017, a customer on the lifeline tariff band which was at that time at 100 kW was paying K80.08. After the revision of the tariff band, on 15th May, 2017, a customer with 200 kW is now expected to pay, with all taxes inclusive, an amount of K61.10. That amount is also applicable after the 1st September, 2017, adjustment of the tariffs by 25 per cent.

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Madam Speaker, with that said, the residential tariff before and after increments in United States Dollars (US\$) stands as follows. Before the increment was done on 15th May, 2017, the average R1 and R2 tariff customer categories were on US\$3.47 kWh. After the 50 per cent increase, it came to US\$4.84 kWh. After the 1st September, 2017, addition of 25 per cent increment, our average tariff on the residential customer segment is now on US\$5.47 kWh.

Mining Customers

Madam Speaker, in December, 2016, negotiations were undertaken between ZESCO, Copperbelt Energy Corporation (CEC) and mine customers in good faith with respect to moving tariffs towards cost reflectivity and achieving closure on all outstanding billing issues by January, 2017. The negotiations whose ultimate aim was to achieve a win-win situation were premised on the following principles:

- (a) ensure equitable treatment of all mine customers with respect to the tariff adjustment;
- (b) agree that tariffs would be implemented with effect from 1st January, 2017;
- (c) agree on a mechanism to dispose of any legal processes which the parties might have been involved in with respect to any historical tariff adjustment; and
- (d) work collaboratively to support the cost of service study which the ERB would undertake in 2017.

Madam Speaker, arising from those negotiations, the average mining tariff was determined to be US\$9.3 kWh effective January, 2017 as an interim measure pending the conclusion of the cost of service study.

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Madam Speaker, out of fifteen mining customers, twelve mining customers agreed to migrate to the new tariff except for three, namely; Kansanshi, Kalumbila and Mopani Copper Mines, who were reluctant to accept the new tariff of US\$9.30 kWh. Consequently, ZESCO and CEC restricted their power supply on 10th and 11th August, 2017, respectively. However, following further negotiations between the parties supported by the Government, agreement on the interim tariff was reached. Subsequently, power was restored by 13th September, 2017, to Mopani Copper Mine (MCM) and First Quantum Mine (FQM), subject to a six period of up to 30th October, 2017, which was given to resolve all the outstanding issues which the parties had.

Industrial Customers

Madam Speaker, as regards industrial customers, the ERB approved a tariff adjustment for the maximum demand, commercial or industrial customers, in MD1 to MD4 category by 75 per cent as well. The ERB also approved a time-of-use tariff structure for these customers. This means that industrial customers can cushion the impact of the new tariff adjustment on their operations by shifting as much of their operations or production to off peak periods which are between 2200 hours to 0600 hours in the morning. For example, an MD customer can reduce their tariff increase from 75 per cent to 29 per cent by shifting more production to off peak hours. I am, therefore, encouraging industrial customers to shift their maximum energy consumption from peak and standard period to off peak period for them to benefit from the time-of-use tariff structure.

Madam Speaker, tariffs for industrial customers are as follows:

<i>MD Category</i>	<i>Old Tariffs</i>	<i>Tariffs at 50% Increase (15th May 2017)</i>	<i>Tariffs at 75% Increase (1st September 2017)</i>
MD1	2.39	3.58	4.17
MD2	2.30	3.45	4.03

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MD3	2.29	3.44	4.01
MD4	2.09	3.13	3.65

Madam Speaker, I wish to advise, however, that these interim adjustments in the tariff are not cost reflective. The purpose of the tariff adjustment is to ensure that ZESCO has adequate revenues to purchase power for the country from various available sources from within and outside the country and to invest in new generation and transmission capacity expansion projects to support the economic and social development in the country. Further, the tariff adjustment to cost reflectivity will provide relief to the Government from subsidising electricity.

Madam Speaker, going forward, cost reflective tariffs will be determined by the cost of service study, as earlier stated in my last ministerial statement. The study on electricity cost of service and determination of economic cost of reflective tariff was launched on 13th April, 2017, and is being undertaken by the Economic Consulting Associates (ECA) of the United Kingdom (UK). In June, 2017, the consultant completed the inception report, which was presented to the technical committee and steering committee in August, 2017. The cost of service study will be completed in the first quarter of 2018 and implementation will immediately follow thereafter. The consultant has since engaged with relevant stakeholders to ensure maximum buy-in to the results of the study. The study will address the following:

- (a) determine the long term lease course generation, transmission, distribution and supply programmes to meet the forecasted electricity demand in Zambia over the medium to long term;
- (b) design economic cost-based tariff structures and levels that reflect economic cost of service by consumer category; and
- (c) determine the appropriate tariff structure and level of the social lifeline tariff.

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Madam Speaker, allow me to conclude by appealing to the public to adopt new efficient management practices. The people of Zambia are encouraged to adopt demand side management measures that will help to conserve power by:

- (a) switching off all electrical appliances and lights that are not in use at each time of the day;
- (b) migrating from the ordinary incandescent bulbs to the compact fluorescent lights and light emitting diodes bulbs;
- (c) using solar water geysers; and
- (d) using alternative sources of energy such as Liquefied Petroleum Gas (LPG) for cooking and eating purposes.

Madam Speaker, I thank you.