

**TUESDAY, 28 MARCH, 2017**

**MINISTERIAL STATEMENT**

GIVEN BY

THE HON. MINISTER OF ENERGY, MR MABUMBA

ON THE

DEVELOPMENTS IN THE ENERGY SECTOR

Mr Speaker, I thank you for giving me this opportunity to update the House on the developments in the energy sector. I will focus on three things in my presentation which are:

- (i) power status and load-shedding;
- (ii) migration of tariffs to cost reflectivity; and
- (iii) the status of private sector participation in fuel procurement.

*Power Status and Load-shedding*

Mr Speaker, as the nation is aware from 2015, Zambia has been experiencing a power deficit due to the low rainfall pattern which experienced during the 2014/2015 rain season. In April, 2015, the power deficit was about 560 mega watts and increased to 1,000 mega watts by December, 2015. To mitigate the power deficit, the Government of the Republic of Zambia through ZESCO imported about 500 mega watts of emergency power from the Southern African Development Community (SADC) Region and in addition, ZESCO implemented an eight hour long load-shedding management programme from June, 2015 to May, 2016 aimed at conserving the available energy. In June, 2016, the load-shedding programme was reviewed and reduced to four hours when the power deficit reduced to 500 mega watts due to a combination of power inputs, increased generation and following a better 2015/2016 rain season and the commissioning of the Itezhi-tezhi 120 mega watt power plant. In September, 2016, the first 150 unit at Maamba Coal Plant was commissioned; this further reduced the power deficit to 450 mega watts.

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Mr Speaker, currently, the generation at Kafue Gorge Power Station has increased from 630 mega watts to 900 mega watts against an installed capacity of 990 mega watts. We are pleased to note that the water level has risen rapidly and is currently standing at 2.74 metres above the minimum dam operating level of 974 metres.

Mr Speaker, you may wish to note that with the above development, spilling has equally been instituted from Kafue Gorge Dam in order to control the rising water levels. The generation at Kariba North Bank Power Station remains at 380 MW, which is against the installed capacity of 1,080 MW. The Kariba Dam has continued to record average water inflows and the water level is rising and is currently standing at 5.2 m above the minimum dam operating level of 475.5 m. The maximum operating level is 488.5 m above sea level. This implies that the situation remains below the desired operating point at this time of the year.

Sir, the water level in Itezhi-tezhi Reservoir Dam as of 13<sup>th</sup> March, 2017, was standing at 1,027.91 m above sea level representing 82 per cent of full storage capacity. This provides an average generation of 95 MW at Itezhi-tezhi Power Station whose installed capacity is 120 MW. The Victoria Falls including the small hydro power stations dotted across the Northern Circuit are generating a total of 118 MW. The total generation from all Zambia Electricity Supply Corporation (ZESCO) sources currently stands at 1,493 MW. With the power procured from the independent power producers namely: Lunsemfwa Hydro Power Company, Maamba Collieries Ltd and Ndola Energy Company Ltd at 408 MW, the total of available power is at 1,901 MW.

Mr Speaker, I wish to inform this august House and the nation that, although generation capacity has increased to 1,901 MW when last reported on 12<sup>th</sup> February, 2017, the peak demand remains at 1,900 MW, while the average daily demand is at 1,600 MW. The system losses are at an average of 8.5 per cent. The current power imports stand at 75 MW mainly from Karpowership in Mozambique. The country still continues to experience a power deficit of about 86 MW at peak periods from 1700 hours to 2100 hours, which is being mitigated through imports from Karpowership. As a result of this development, on 10<sup>th</sup> February, 2017, ZESCO suspended the load shedding during the off-peak periods from 0600 hours to 1800 hours.

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However, it is still effecting emergency load shedding during peak periods from 1800 hours to 2130 hours, in few places, as and when the demand exceeds the generation.

*Migration of Tariffs to Cost Reflectivity*

Sir, in August, 2015, ZESCO made an application to the Energy Regulation Board (ERB) for an average tariff increase of 187 per cent. Following the application made in August, 2015, the ERB made a decision and awarded ZESCO the full tariff increase applied for. However, ZESCO suspended the implementation of the new tariffs as it was established that there was need for further stakeholder consultation and engagement. Consequently, in 2016 and 2017, ZESCO had several engagements with key stakeholders, including the Government, ERB and the mines. Following these engagements, it has become clear that ZESCO requires an additional increase in its tariffs in order to ensure that it continues to meet its operational and capital obligations.

Mr Speaker, as you may be aware, the current electricity tariffs in Zambia are not cost reflective for all customer categories. Therefore, there is need for current electricity tariffs to be gradually adjusted to cost reflectivity for all customers. The benefits will include among others the enhancement of security of supply through attraction of investment in power generation, transmission and distribution. The tariff increase will also ensure that ZESCO has adequate revenues to continue purchasing the electricity shortfall from the local Independent Power Producers (IPPs) as well as imports from the region. ZESCO has, therefore, proposed to effect a 75 per cent increase in retail tariffs as follows:

- (a) an initial 50 per cent increase effective 1<sup>st</sup> May, 2017; and
- (b) an additional 25 per cent increase effective 1<sup>st</sup> September, 2017.

However, regarding Hon. Jack Mwiimbu's concern, we have increased the tariff ...

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Mr Speaker, in order to address the constituents' concerns, the life line tariff (RI) which was previously 100 units has been increased to 300 units at the same tariff level. This means that a person in Monze who earns a low income will pay less than K100 for 300 units. Therefore, this Government is addressing the concerns of those who earn low incomes.

Furthermore, following several engagements with the mining customers since December, 2016, it has been proposed that effective 1<sup>st</sup> January, 2017, the mining tariff will increase to 9.30 cents per kWh. Thereafter, the mining and retail tariffs will be determined based on the results of the cost of service study that will be undertaken in April, 2017.

Mr Speaker, the ERB is legally mandated to review and determine electricity tariffs. Consequently, in accordance with the requirements of Section 8, sub-section (2) of the Electricity Act Cap 433 of the Laws of Zambia, ZESCO has submitted an application to the ERB to revise its retail electricity tariffs. The ERB will undertake a public consultation process in order to receive consumers' views on the proposed increase prior to making its final decision.

Sir, in order to strengthen the electricity sub-sector regulatory environment, in the next sitting of Parliament, I intend to present two Bills before the House for ratification, namely, the Electricity Bill, 2017, and Energy Regulation Bill, 2017. These Bills are intended to give the ERB greater oversight of the energy sector as well as create a consistent framework for tariff determination which has been problematic. These Bills will also provide regulatory oversight of power and bulk supply agreements, and empower the ERB to review and determine tariffs for all electricity consumers, including the mining companies.

#### *Private Sector Participation in Fuel Procurement*

Mr Speaker, in the 2017 National Budget address, the hon. Minister of Finance announced to the nation that the Government would disengage from the procurement of finished petroleum products as follows:

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“The petroleum sub-sector is also embedded with inefficiencies and unsustainable Government involvement. In order to ensure efficiency and disengage the Government from the sector, the procurement of finished petroleum products will with effect from 1<sup>st</sup> March, 2017, be undertaken by the private sector”.

Sir, after this pronouncement, the Ministry of Energy undertook a national wide consultative process on how to disengage from procuring petroleum products. Consultative workshops were carried in six provinces, namely, Lusaka, Central, Copperbelt, North-Western, Northern and Southern provinces in February, 2017. In addition, Oil Marketing Companies (OMCs), financial institutions, the Petroleum Transporters Association of Zambia (PTAZ), the Policy Research and Monitoring Center were also consulted. The consultations were undertaken under the following thematic areas:

- (a) procurement and financing of petroleum by the private sector;
- (b) storage capacity;
- (c) marketing, distribution and contractual relationships;
- (d) regulation reforms;
- (e) the role of Tazama Pipelines Ltd and Indeni Petroleum Refinery Ltd; and
- (f) the zambianisation of the transportation of fuel.

Mr Speaker, I wish to inform the House that the Ministry of Energy has finalised country-wide consultations and sensitisation meetings on the policy directive for the transition and setting up of modalities for the procurement of petroleum products by the private sector. It has worked out an implementation plan for migrating to private sector financing of finished petroleum products. The ministry has developed a draft Petroleum Management Bill that will enhance smooth operations of the new policy direction in the petroleum sub-sector. The new Bill awaits

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necessary approvals before it is brought to the Floor of the House. Therefore, due to the sensitivity and complexity of this new policy direction, it is estimated that the effective date of implementation is 1<sup>st</sup> July, 2017.

Mr Speaker, I thank you.