

MINISTERIAL STATEMENT
ON
ENERGY SITUATION IN ZAMBIA
BY
THE MINISTER OF ENERGY, MR NKHUWA, MP

Mr Speaker, I thank you for giving me this opportunity to update the nation through this august House on the current situation in the energy sector. My address will mainly concentrate on the adjustment of fuel prices due to the depreciation of the kwacha, complaints about contaminated fuel in the Southern Province and the current load management/deficit in the country.

Sir, as you may be aware, the Government, through the Energy Regulation Board (ERB), reviews wholesale and pump prices for petroleum products each time petroleum feedstock and finished petroleum products are imported into the country. This is to ensure that the procurement of petroleum products remains self-financing and guarantee security of supply. The ERB uses the Cost-plus Pricing Model (CPM) to review fuel prices.

Mr Speaker, fuel prices are largely determined by two factors; international oil prices and the exchange rate of the Zambian Kwacha against the United States (US) Dollar. Further, changes in other associated costs, such as fees, taxes or charges such as pumping and processing fees may also cause a change in fuel prices. It is worth noting that the ERB only effects a fuel price change if the proposed change in the wholesale price is on average greater than the set threshold of 2.5 per cent.

Sir, the last fuel price review was conducted on 28th February, 2019, in which fuel prices were adjusted downwards. Since the last price review, the Government has imported sufficient petroleum products that will guarantee national supplies for the next three months. Specifically, the Government procured four petroleum feedstock cargoes, that is, in February, March, April and June, 2019. This back-to-back procurement has eased the pressure on price reviews for the purpose of subsequent importation of petroleum feedstock.

The House may wish to note that an internal analysis of the profitability of both the crude feedstock and the finished petroleum products was conducted early this year. The report revealed that the exchange rate volatility and overall depreciation of the kwacha largely affects the profitability and self-financing mechanism of the petroleum sub-sector in Zambia.

Mr Speaker, without doubt, the fundamentals that effect pricing have deteriorated since the last price adjustment. This is sufficient to warrant an upward price adjustment. Specifically, since the last downward adjustment was in February, 2019, the price of Murban Crude which is mainly imported by the Government, increased by 10.05 per cent from the average of US\$65.74 per barrel in February, 2019, to an average of US\$72.35 per barrel in May, 2019. Meanwhile, the kwacha also depreciated against the US dollar by about 9.71 per cent from the February average rate of K11.94 per US\$1 to the mid-year level of around K13.10 per US\$1.

Sir, principally, it is not advisable to make price reviews under such extreme volatility and unpredictable behavior of the kwacha. It is, therefore, advisable to undertake price reviews in cases where the outturn of the two fundamentals, international oil prices and exchange rate, are less volatile and predictable. In view of the above, I am pleased to inform the House that the Ministry of Energy this year invited proposals from several local-based banks to provide foreign exchange hedging services. The ministry aims to implement a foreign currency hedging programme that will help relieve citizens of the country from immediate price change shocks, as well as mitigate the losses arising from the depreciation of the kwacha. The ministry is set to pilot the programme following the review of the received proposals later this year.

Mr Speaker, recently, there have been reports of alleged petrol contamination in Livingstone and Kalomo following media reports received on 1st July, 2019. Following a receipt of complaints, samples were collected on Sunday, 30th June, 2019, from the affected petrol tank in Kalomo and submitted to Indeni Laboratory in Ndola for analysis on Monday, 1st July, 2019. The results indicated that the product was most likely to have been cross contaminated with diesel during offloading.

In light of the aforementioned, Kobil Zambia Limited, which is licensed to operate the said site, was directed to clean the affected tank before replenishing it with new stock. The new stock would also be sampled and analysed for certification prior to the commencement of sales.

Sir, the ERB has been engaging civic leaders, officials from the Office of the President, officials from the council and other stakeholders in the district to communicate the results of samples that were collected earlier. This is because there was a similar complaint earlier recorded whose sample results were pending. Therefore, besides addressing the present challenge, the engagements were to help chart the way forward taking into account that the said site was the only legitimate source of fuel for the district.

Mr Speaker, similar complaints of suspected product contamination were subsequently received from Livingstone. Consequent to the recent receipt of complaints, the ERB inspectors rushed to Livingstone and established that complaints were received at three sites, namely; Puma Energy Zambia Plc, Total Zambia Limited and Engen Petroleum Zambia Limited which were affected. In order to establish the source of the possible contamination, sampling of all products contained in the tanks at all the sites in Livingstone was completed on Tuesday, 2nd July, 2019.

Sir, all petrol samples collected from the Tanzania Zambia (TAZAMA), Puma, Total and Engen Depots in Lusaka were found compliant to quality specifications. On the other hand, the petrol sample collected from the Kobil Lusaka Depot was not compliant to the quality specifications. All the samples collected from the tanks at the affected filling stations in Livingstone and Kalomo service stations failed the laboratory test on account of the high boiling point which is an indication of contamination with heavier constituents. It is important to note that the contamination of fuel in the supply chain can occur at the following points:

- (a) storage and handling at fuel depots;

- (b) during transportation from the depot to the filling station; and
- (c) cross contamination during offloading of fuel from the road tank vehicle into underground tanks at the service station.

Mr Speaker, on the basis of the laboratory results and certification, it is confirmed that the contamination did not emerge from the TAZAMA Depot in Lusaka, otherwise the problem would have been widespread and not localised to a selected number of service stations in Livingstone and Kalomo. From the laboratory results obtained for Kobil Zambia Limited, it can be confirmed that the contamination emanated from the Kobil Depot in Lusaka. Considering that laboratory results for the depots showed that the product was within specification, it can be confirmed that the contamination at the affected stations in Livingstone namely, Puma Energy Zambia Plc, Total Zambia Limited and Engen Petroleum Zambia Limited occurred in transit or on site.

Sir, I have directed the ERB to quarantine the petrol tank at the Kobil Depot with immediate effect pending recertification. Further, all affected filling stations in Livingstone and Kalomo have been ordered to pump out off-specification product, clean the tanks and replenish them with the certified product. I urge all affected motorists to engage the filling stations where they bought the fuel with proof of purchase for compensation. The ERB will summon the affected licensees and take appropriate enforcement action which will be communicated to all stakeholders. The enforcement action may include fines, suspension of license and revocation of license in accordance with the provisions of the Energy Regulation Board Act Cap 436 of the Laws of Zambia.

Mr Speaker, let me now address the current load management/deficit in the country. You may recall that in March, 2019, I rendered a ministerial statement on the Floor of this House on the effect of low water levels in the Zambezi River on electricity generation. I highlighted that the seasonal rainfall forecast experience for 2018/2019 posed a hydrological risk similar to what the

country experienced in 2014/2015. The rainfall over the southern half of the country had been poor with most parts of the Zambezi and Kafue Basins receiving below normal rainfall compared to the 2017/2018 Season.

As all may be aware, the national total installed generation capacity stood at 2,842 MW by the end of the first quarter of 2019. Having taken into consideration the average demand of 1,593 MW and the average generation capacity of about 1,320 MW in the country from May to December 2019, the deficit stands at 273 MW and shall be reviewed as system conditions and reservoir levels dictate.

Sir, the Government, through the Zambia Electricity Supply Corporation (ZESCO), started implementing load management on 1st June, 2019, on a twenty-hour period with each customer experiencing outages for about four hours. Strategic institutions such as hospitals, clinics and water installations are not being affected by the load management exercise. It should be noted that in cases where there are power outages at these institutions, the utility company would have communicated to them in advance when it is carrying out its maintenance works.

Further, the deficit has been managed through the engagement of all stakeholders whilst ensuring that economic activities in the country have minimal interruptions through effective demand-side management measures such as the distribution of led bulbs and load shifting away from peak demand periods. It is, therefore, imperative to implement load management as this will reduce the risk of damage to the national power system infrastructure. This is in line with the aspirations of the 2008 energy policy which seeks to provide sustainable energy solutions at the lowest economic financial, social and environmental cost.

Mr Speaker, the Ministry of Energy and ZESCO have put up the following mitigation measures:

- (a) defer the implementation of the 33 kV cable replacement works at the Kafue Gorge Power Station to ensure availability of generation;

- (b) accelerate the implementation of the following generation projects which will be brought into service, as follows:
- (i) Lusiwasi Upper 15 MW Hydropower Project by the fourth quarter of 2019. At the moment, it stands at 88.2 per cent completion;
 - (ii) Kafue Gorge Lower 750 MW Hydropower Plant by the fourth quarter of 2020. It stands at 67 per cent completion;
 - (iii) Lusiwasi Lower 86 MW by the third of quarter 2023. It is a Greenfield project which has not reached financial closure;
 - (iv) Chishimba Falls 15 MW Hydropower Project by the fourth quarter of 2023. The procurement of consultants is underway; and
 - (v) feasibility studies for Luapula River Basin 1,000 MW and Batoka Gorge 1,200 MW are underway; and
- (c) ZESCO will continue with the demand-side management programme of engaging its customers in order to manage the consumption patterns.

Mr Speaker, I thank you.