

FIRST ANNUAL REGULATORY CONFERENCE
For the Global Regulatory Network

Presentation by Energy Regulation Board

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16 – 17 June 2003



Key Events and Activities in 2002 through June 2003

- ZESCO tariff application on Automatic Tariff Adjustment Formula (ATAF)
 - In October 2001, ZESCO applied to maintain the current levels of tariff because factor resulting from application of Automatic Tariff Adjustment Formula (ATAF) did not reach the minimum threshold of 5%.
 - ERB reviewed and approved the application

Key Events and Activities in 2002 through June 2003

- ZESCO agreement with Farmers' union to reduce tariffs
 - ZESCO reached an agreement with the Farmers' Union to reduce maximum demand tariffs to farmers using electricity to irrigate maize.
 - Reduction quite significant at 50% for capacity and 20% on energy.
 - ERB reluctantly approved the application due to drought situation leading to food shortages. The application treated as interim measure to contain a disaster

Key Events and Activities in 2002 through June 2003

- ZESCO agreement with Farmers' union to reduce tariffs cont'd
 - Approval subject to annual review
 - ERB encouraged ZESCO and ZNFU to develop a Time-of-Use tariff as directed by the Board and not total reduction of tariffs.
 - ERB noted difficulties of splitting supply for maize irrigation and other uses of electricity on farms.
 - ZESCO decided to apply the discount to all farmers who met minimum acreage cultivation threshold

Key Events and Activities in 2002 through June 2003

- Pressure to increase electricity tariffs
 - Stakeholders, especially financiers consistently exerted pressure for ZESCO to apply to the regulator for a tariff increase.
 - The press forced ERB to comment on why ZESCO did not apply for a rate case over a long period of time.
 - ERB had to explain that it had no provisions to ask a utility to apply for a rate case.

Key Events and Activities in 2002 through June 2003

- December 2002 ATAF application
 - On 6 December 2002, ZESCO applied to increase retail tariffs by 16%
 - The application was published in the public media
 - ERB received 6 objections with the stipulated notice period
 - Held public hearing end of January 2003
 - Announced approval of a lower increase of 5.3% in June 2003

Key Events and Activities in 2002 through June 2003

- Mine tariffs review
 - A group of mining companies complained to government that their rates in the agreements were higher than those for the second group of mining companies
 - Government requested ERB to review and this turned to give the ERB a chance to analyze contracts entered by the utilities and mines
 - ERB recommended that existing power supply and bulk supply agreements require re-negotiation

Key Events and Activities in 2002 through June 2003

- Hand-over of electricity market restructuring proposal to government
 - ERB handed over the proposal on Restructuring and Regulating the Electricity Market in Zambia to the Government on 16th November 2002.
 - Recommended vertical and horizontal unbundling of the ESI – wholesale competition
 - Government decision is expected in 2003.

Key Events and Activities in 2002 through June 2003

- Commercialisation of ZESCO
 - Government had decided to concession ZESCO to a private investor for 10 years under a master concession
 - ⇒ ERB did not support the proposal
 - ZESCO made a counter proposal to commercialise
 - ERB involved in advising Govt and ZESCO commercialisation vis-a-vis restructuring
 - Currently a “Road map” agreed for commercialising ZESCO between Govt and World Bank

Key Anticipated Issues and Activities for Next Year

- Restructuring of the electricity market
 - Once government makes decision on proposal, ERB will be involved in implementation of restructuring
- New tariff setting method for electricity
 - Detailed cost studies to establish various components of cost of providing electricity at different levels
 - Incentives for efficiency

Status of Introduction of Competition and Related Issues

- Legislation amended in 1995 to allow new entry in electricity sector
- March 2000, ERB commenced stakeholder consultation process to develop proposal for ESI restructuring
- Four utilities in the market and pressure for open access
- Recommended wholesale competition model

Status of Introduction of Competition and Related Issues

- Unbundling of vertically integrated utility for generators and distributors to compete for (contracts) market
- Proposal handed to Government in November 2002.
- Government decision still awaited

The Proposal in Picture

