

# THE CASE OF COST REFLECTIVE IMPLEMENTATION IS ZAMBIA GETTING IT RIGHT?

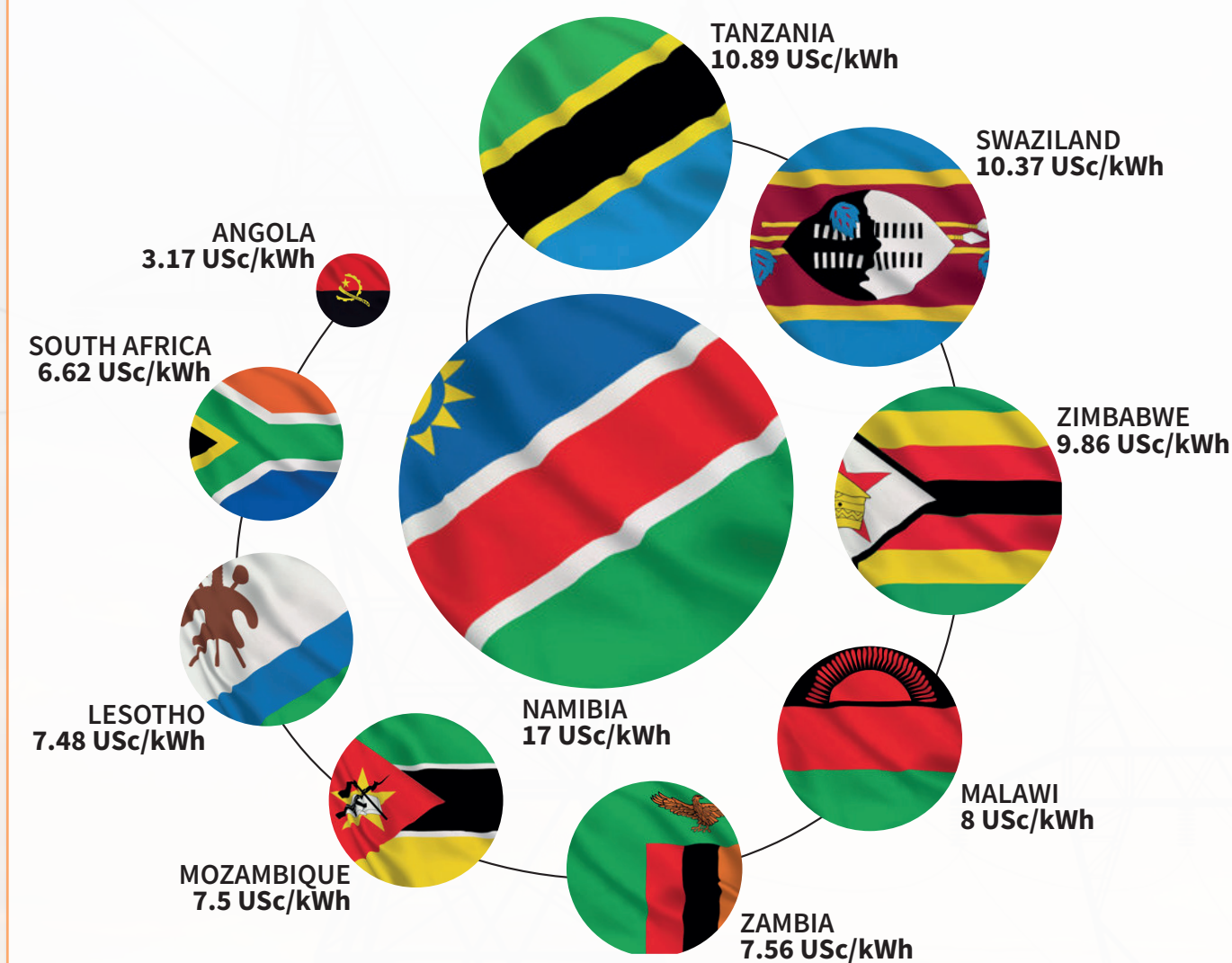
## INTRODUCTION

Most countries in Africa charge tariffs that are much lower than the actual cost of generating, distributing and retailing electricity. The difference between the tariffs most customers pay and the actual cost of electricity is subsidised by Governments. **In 2008 , SADC Ministers of Energy were prompted to approve migration of unsustainable electricity tariffs towards cost reflectivity.**

## JUSTIFICATION FOR COST REFLECTIVE TARIFFS

### Zambia electricity tarrifs not cost effective

SADC Average Electricity Tariffs (Us Cents/Kwh) as at December 2017



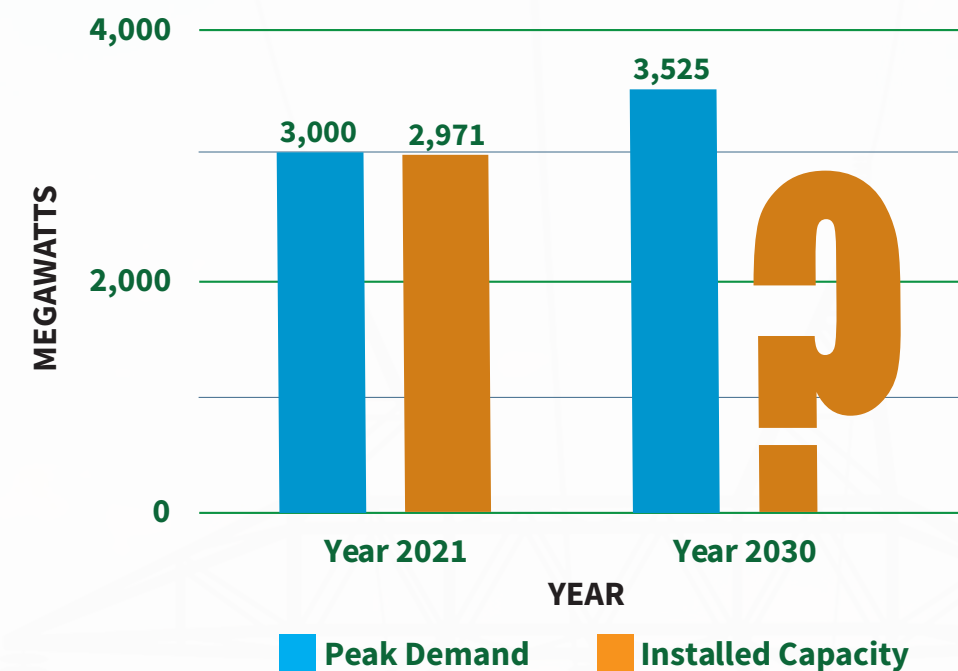
Source: ERB, 2017.

**Only two countries namely Namibia and Tanzania were cost reflective by 2013 despite an earlier aspiration for all SADC member States to meet the objective by 2013 leading to an extension of the deadline to 2019.** Cost-reflective tariffs help to improve the sustainability of the electricity sector and create the basis for greater investment in new generation capacity by state utilities and Independent Power Producers (IPPs).

### Forecasted electricity demand on the rise

Zambia's electricity demand was forecasted to be over 3000 megawatts in 2021 against an estimated installed capacity of 2971 megawatts in the same year. This demand is projected to continue rising in the subsequent years reaching 3,525 megawatts by 2030. The differences in the projected demand for electricity and projected installed capacity is due to lack of investments in the sector despite. Cost reflective tariffs are important incentives for ZESCO and other IPPs to invest in the sector.

Zambia's Electricity Installed capacity vs Demand from 2021 to 2030

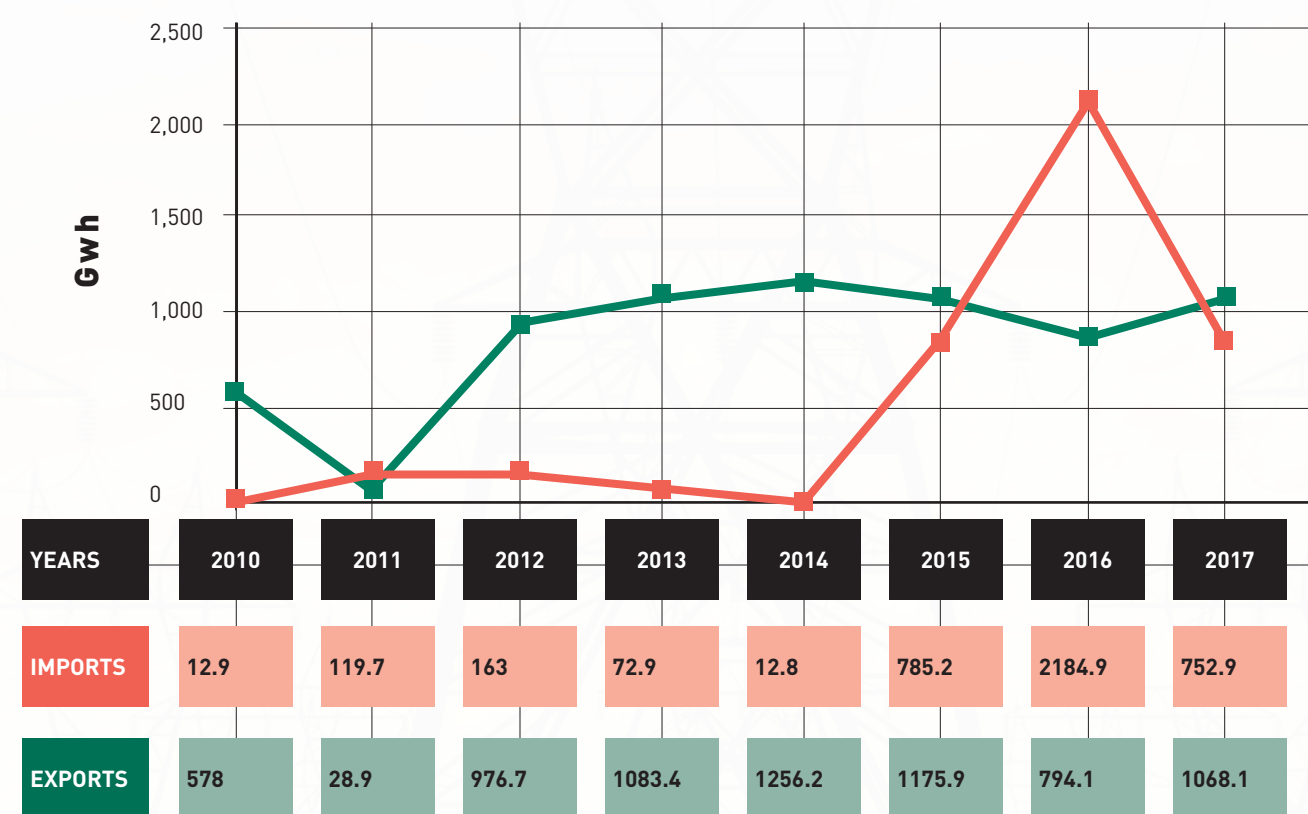


Source: Compiled by author from ZESCO data, 2017.

### ZESCO still engaged in power imports

ZESCO as a member of the Southern Africa Power Pool (SAPP) is still engaged in power trading, in order to balance the supply and demand on its network. Cost reflective tariffs are thus inevitable to avert a scenario were ZESCO maybe importing power at a high rate and selling to its end user consumers at a lower rate.

Electricity imports and exports by ZESCO from 2010 to 2017



Source: ERB, Energy Sector Report 2017

## CHALLENGES IN IMPLEMENTATION OF COST REFLECTIVE TARIFFS

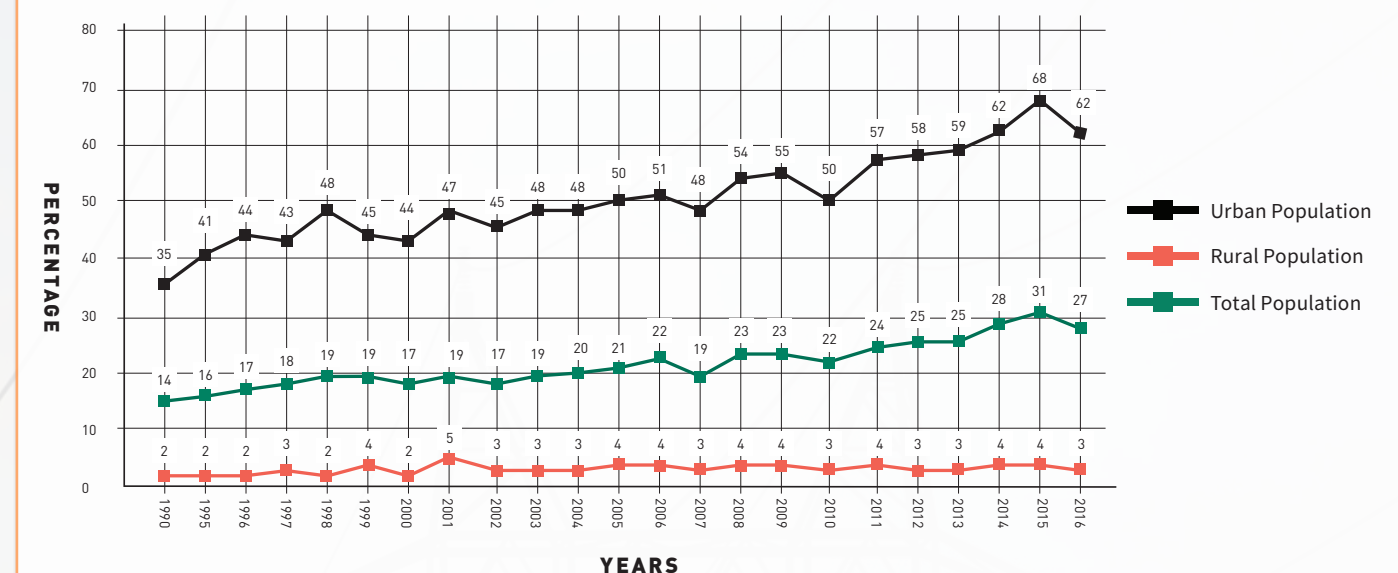
### Decreased economic activities

Increase in tariffs through the implementation of cost reflective tariffs may lead to decrease in electricity use, which may lead to decreased economic activities as electricity use plays a role as one of input factors. It is imperative that the implementation of cost reflective tariffs is implemented **in phases to minimize the shocks to the economy.**

### Rural Zambian population still has less than 5 percent electricity access

Cost reflective tariffs risk derailing the goal of achieving 100 percent access to especially for the poor mainly in rural areas where access of rural population has only ranged between 2-5 percent since 1990. One way of providing affordable services to the poor rural population could be through the **provision of cross subsidies given the constrained fiscal space.**

Access to electricity in Zambia (Total, Urban and Rural populations)



Source: Author's compilation from World Development Indicators, 2019.

### Public resistance

In 2015, ZESCO did make an application to increase tariffs by an average of 187 percent which was granted by ERB but later on reversed by the Government after public dissatisfaction. The trend has been the same in African countries such as Ghana, Tanzania and Nigeria with similar energy sectors structures.

## KEY RECOMMENDATIONS

- The Government through ERB to therefore expedite the process of selecting a new consultant to embark on the cost of service as soon as possible. The Cost of Service Study (CoSS) is the legitimate basis to determine subsequent tariff adjustment. In this regard, PMRC welcomes the suspension of the ZESCO tariff hike application.
- Government should ensure that capacity is built among the locals in carrying out CoSS so that subsequent Cost of Service Studies are done by Zambians.
- ZESCO needs to periodically publish its costs for public and stakeholder scrutiny to enhance appreciation of its cost structure and operations.
- Government should continue exploring measures to restructure the vertically integrated ZESCO's business model if the utility company is to be sustainable.
- There is need to enhance planning, research and development (R&D) units at both Ministry of Energy and ZESCO to continue exploring least cost electricity expansion plans and integrated resource planning for the country.
- Government needs to consider cross subsidies for tariffs/connection fees for low income groups
- Government must formulate a "renewable energy policy" to provide for strategies and targets that would develop the renewable energy sub sector and implementation of Renewable Energy Feed-in Tariff (REFIT).

