



REGULATING ENERGY FOR SUSTAINABLE DEVELOPMENT

PRESS RELEASE

APPROVED ELECTRICITY TARIFF

1. BACKGROUND

Malawi Energy Regulatory Authority (MERA) on 18th September 2013 received an application from the Electricity Supply Corporation of Malawi (ESCOM) to review the electricity tariff base. The ESCOM base tariff was last reviewed in 2009 and the implementation of this base tariff was concluded in December 2013. The Authority observed that the implementation of 2009 base tariff has resulted in significant improvements in the financial position of ESCOM reflected by the improved return on capital employed and shareholder's fund. ESCOM's working capital improved from negative to positive as the liquidity position also improved.

The Authority therefore observed that the tariff increase requested by ESCOM is aimed at building on its improved financial position to enhance its capacity and capability for better service delivery for its existing customers and increasing access to electricity services to a larger section of the population as the demand for electricity services continues to grow at an average of 12% per annum.

The Malawi Energy Regulatory Authority at its extra ordinary Board meeting held on 21st March 2014, considered the Energy Pricing Committee's report on ESCOM's application for a review of the electricity tariff base and made the following observations;

- a. That the ESCOM's capital budget is based on the results of load forecast and system expansion which aims at bringing additional 164 MW generation capacity, transmission and distribution capacity and thus achieve 185,000 new customers by July 2017.
- b. That the operational budget is meant to provide ESCOM with the required revenue to cover the cost of operating and maintaining the assets, and thus achieve better customer service and customer care.

2. KEY OBJECTIVES CONSIDERED BY THE AUTHORITY IN THE ANALYSIS OF THE ESCOM APPLICATION.

The Authority included the following key objectives as part of the analysis of the ESCOM application:

- a. providing revenue for ESCOM to build on the financial gains made so far which will allow ESCOM operate successfully on a commercial basis.
- b. building in the tariff review self enforcing incentives for cost control measures based on a four year price.
- c. removing subsidy on commercial consumption and providing for targeted reduction on cross subsidies
- d. encouraging new investments in the electricity sector through appropriate price signals.

The Authority also took into consideration the following important issues raised by stakeholders during the public hearings.

- i. Electricity tariff increases to be reasonable considering the capacity of users to pay and its impact on other businesses and the financial sustainability of ESCOM.
- ii. MERA to ensure that the ESCOM electricity tariff is not over

burdened by inefficiencies.

- iii. MERA to monitor ESCOM performance closely and transparently and provide updates to stakeholders on how ESCOM is performing and delivering on its plans and promises.
- iv. ESCOM to change the business as usual approach to issues but instead inculcate a general business culture that ensures that ESCOM operates as a commercial entity which aggressively and proactively work to find solutions to current electricity supply challenges.

3. APPROVED ELECTRICITY TARIFF

- a. Following a detailed review and analysis of the ESCOM application and stakeholder inputs in the review process, the Authority approved an average tariff increase of **37.28%** for ESCOM, to be implemented in a phased manner over a four (4) year period starting from 4th April, 2014. The average electricity tariff therefore will change from the current average of **K31.54** per KWh to **K43.24** per KWh over the four year period.
- b. The implementation of the approved tariff shall be phased and spread over four years and will be subject to ESCOM demonstrated achievements in meeting the set performance targets. The first increase of 13.5 % will be with effect from 4th April 2014, 18.18 % will be implemented in the second year, 8.9 % will applied in the third year and 1.9 % will be implemented in 2017, the last year of implementation of the second base tariff.
- c. The Authority further approved cross-subsidies between customer groups in favour of domestic customers and the resource poor of the population.

4. KEY PERFORMANCE INDICATORS (KPI)

In order for ESCOM to achieve a healthy financial status and deliver quality service, ESCOM needs to increase tariffs, control costs more effectively and adopt business practices on an accelerated basis. The Authority has therefore developed Key Performance Indicators (KPI's) which should be adhered to by ESCOM.

The specific key performance targets are aimed at making improvements in the service delivery, revenue management, staff productivity, service quality and customer service. The Authority will periodically monitor and evaluate ESCOM to ensure that it is adhering to these KPIs. Any subsequent tariff adjustments in the four year period will be subject to ESCOM's demonstrated satisfactory performance on set-performance targets

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CHAIRPERSON
MALAWI ENERGY REGULATORY AUTHORITY
4th April 2014