

LESOTHO ELECTRICITY AND WATER AUTHORITY

## **LEWA'S DETERMINATION OF LESOTHO ELECTRICITY COMPANY'S (LEC's) TARIFF APPLICATION FOR 2019/20**

### Contents

1. DECISION .....	3
2. INTRODUCTION.....	5
3. THE DECISION MAKING PROCESS.....	5
4. LEC TARIFF APPLICATION – OVERVIEW .....	5
4.1. LEC Annual Performance Review.....	6
4.2. Challenges.....	9
4.2.1. Vandalism .....	9
4.2.2. Limited Human Resources .....	10
4.2.3. Low Return on Assets (ROA).....	11
4.2.4. Traffic Congestion.....	11
4.2.5. Incoming Calls .....	11
4.2.6. Surge Related Public Claims.....	11
4.2.7. Building Structures under Power Lines (Encroachment).....	12
4.3. Future Planned Repairs and Maintenance Works .....	12
4.4. Tariff Methodology.....	12
4.5. Cost Drivers .....	13
4.5.1. Expenditure .....	13
4.5.2. Depreciation .....	14
5. PUBLIC CONSULTATION SESSIONS .....	14
5.1. LEC's Presentation .....	15
5.2. Tariff Methodology.....	16
5.3. Achievements .....	16

5.4.	Challenges.....	17
5.5.	Revenue Requirement.....	17
5.6.	Issues Raised by Various Stakeholders .....	19
5.6.1.	Chief Sekhonyana Bereng of Khoiting .....	20
5.6.2.	Lesotho Textiles Exporters Association.....	20
5.6.3.	Consumer Protection Association .....	21
5.6.4.	Analysis of Public Hearings .....	21
6.	ANALYSIS OF LEC'S APPLICATION.....	22
6.1.	LEC's Costs.....	24
6.1.1.	Bulk Supply Purchases .....	24
6.1.2.	Repair and Maintenance (Including Fuel and Oil for Generation).....	26
6.1.3.	Operating Expenses.....	28
6.1.4.	Labour Costs .....	29
6.1.5.	Depreciation Charge .....	30
6.1.6.	Return on Assets.....	31
6.2.	Adjusted Revenue Requirement .....	32
6.3.	Approved Tariffs Increase .....	33
6.3.1.	Introduction of Lifeline Tariffs .....	33
7.	LEC'S ANNUAL PERFORMANCE REVIEW .....	34
8.	INTRODUCTION OF KEY PERFORMANCE INDICATORS (KPIs).....	38
9.	CONCLUSIONS.....	38
10.	APPROVAL.....	40
11.	COMMUNICATION .....	41

## **IN THE MATTER REGARDING A**

### **DETERMINATION OF LESOTHO ELECTRICITY COMPANY'S (LEC'S) (Pty) Ltd**

### **APPLICATION FOR A TARIFF INCREASE FOR 2019/20 FINANCIAL YEAR**

#### **1. DECISION**

Based on the available information from the written and oral submissions by various Stakeholders during public consultation process, reasons, facts and evidence provided, and LEC's response to both LEWA and public comments, the Lesotho Electricity and Water Authority (LEWA) Board, having met on 18 April, 2019 decided as follows:

- A. Introduction of pro-poor tariff which is in line with the Lesotho Energy Policy approved in 2015; the Lesotho Electricity Authority Act, 2002, as amended and LEA (Electricity Price Review and Structure) Regulations, 2009;
- B. The LEC's Revenue Requirement for the Financial Year 2019/20 is M901.48 million, and in order to meet it, lifeline tariffs were introduced and the LEC's tariffs (both energy and maximum demand charges) would not be increased as shown in Tables 1 and 2 below:

**Table 1: Approved LEC Tariff Levels for 2019/20 by the LEWA Board**

Customer Category	2018/19 Energy Charge (M/kWh)	Approved percentage change	Approved Energy Charges (M/kWh)	Adding Customer Levy @M0.0423/kWh	Adding Rural Electrification Levy @M0.02/kWh large customers and @M0.035/kWh for others	Final Approved Energy Charge	2018/19 Energy Charges including levies	Final Tariff Percentage increase
Industrial HV	0.1936	0.0002%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0001%
Industrial LV	0.2144	0.0002%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0001%
Commercial HV	0.1936	0.0002%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0001%
Commercial LV	0.2144	0.0002%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0001%

General Purpose	1.5835	0.0002%	1.5835	1.6258	1.6608	1.6608	1.6608	0.0002%
Domestic	1.4009	0.0002%	1.4009	1.4432	1.4782	1.4782	1.4782	0.0002%
Street Lighting	0.7952	0.0002%	0.7952	0.8375	0.8725	0.8725	0.8725	0.0002%
Lifeline Domestic	0.6500	0.0002%	0.6500	0.6923	0.7273	0.7273	0.7273	0.0001%

**Table 2: Approved LEC MD Charge for 2019/20 by the LEWA Board**

Customer Category	2018/19 Maximum Demand Charge (M/kVA)	Approved Percentage Change	Approved Maximum Demand Charges (M/kVA)
Industrial HV	272.7953	0.0002%	272.7957
Industrial LV	318.6317	0.0002%	318.6322
Commercial HV	272.7953	0.0002%	272.7957
Commercial LV	318.6317	0.0002%	318.6322

The figures in Tables 1 and 2 exclude VAT

- C. The approved tariff structure for domestic customer category is as shown in Table 3 below.

**Table 3: Approved new Tariff Structure for Domestic Customers**

Tariff Category	LEWA'S Approved Tariff Structure	Tariff Blocks	Approved Energy Charge (M/kWh), inclusive of Levies
Domestic	2 Block-Increasing Block Tariff	Block 1: 0-30kWh	0.7273
		Block 2: above 30kWh	1.4782

- D. The 2018/19 charges for connection, wiring testing, wiring re-testing, survey, re-survey, licensing for wiring, meter testing and house extension must remain unchanged for the Financial Year 2019/20.

- E. The effective date for the Approved tariffs is 01 May 2019.

## 2. INTRODUCTION

The Lesotho Electricity and Water Authority (LEWA) is a statutory body established to regulate the Electricity Supply Industry (ESI) and Urban Water and Sewerage Services (UWSS). Amongst other things, LEWA is empowered to regulate prices charged to consumers of electricity, urban water and sewerage services. Consequently, in terms of Section 24 of the LEA Act 2002 as amended (the Act), every service provider licensed to carry out a regulated activity is obliged to lodge an application with LEWA for review of any proposals for electricity, urban water and sewerage services prices.

## 3. THE DECISION MAKING PROCESS

On 04 February 2019, the Authority published LEC's application in both the print and electronic media with an invitation to stakeholders to submit written comments. The closing date for comments was 28 February 2019. Consistent with international best practices on regulation, an application filed with the Authority is subjected to public participation processes so that inputs from consumers and interested stakeholders can also be considered when assessing an application. In line with the requirements of the Act, such an application becomes effective three (3) months after filing unless the Authority issues a notice of modification or a counter proposal.

## 4. LEC TARIFF APPLICATION – OVERVIEW

The Authority received an application (the Application) for a Tariff Review from LEC (the Company or the Applicant) on 15 January, 2019. In line with the Lesotho Electricity Authority Tariff Filing and Review Procedure for Electricity and Water Tariff Applications, the Authority identified some data gaps in the Application and communicated them to LEC on 01 February 2019. The Company replied on 01 March 2019.

The Application mentioned that LEC had applied for a Revenue Requirement which was enough to manage its daily operations in an efficient and reliable manner and to meet the Company's performance obligations. It also provided a schedule of the proposed tariff levels per customer category that were envisaged to finance the Revenue Requirement.

The Application mentioned that LEC is a Government owned Company even though it receives no Government subvention except funds for electrification of designated villages.

#### 4.1. LEC Annual Performance Review

Below are three key areas of improvement achieved by the Company as mentioned in the Application:

- **Number of Connections:** As at October 2018, 222,767<sup>1</sup> household customers had been connected;
- **Systems availability:** The Company had recorded 99% of system availability for the transmission network; and
- **Improved customer satisfaction:** LEC call centre that is in its fifth year of operation had contributed to significant improvements in customer engagement and fault reporting growth.

The Application further mentioned the following operational and strategic achievements:

- **Strategic Planning:** Under the mentorship of Deloitte consultants, the Company had developed a Five-Year Strategic Plan.
- **Network Expansion:** System improvement and upgrading projects had been implemented as reported in Table 4 below:

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<sup>1</sup> This differs from 243 046 connections given in the presentation

**Table 4: Implemented System Improvement and Upgrading Projects**

Annex 1: Implemented System Improvement and Upgrading Projects			
Name of Project	Project Objective	Beneficiary Areas	Project Cost (Maloti)
11 kV switching station (MS07)	Improvement of reliability of supply	Foso, Berea, Marabeng and Koalabata	9, 340,749.88
33/11 kV 2MVA transformer and installation of 33 kV and 11 kV Ring Main Units	Improvement of reliability of supply	Mount Moorosi Area	2, 424,674.96
33 kV line from Metolong to St. Agnes substation in TY	Improvement of reliability of supply	Teya-Teyaneng (TY)	22, 165,056.86
Upgrade 11 kV lines, Low voltage lines and transformers	System improvement	Leribe (St. Monica, Matukeng, Bela Bela) and Butha-Buthe (Ha Ramokema, Baroeng and Makopo)	1, 013,292.00
Fibre Optic Cable installation	Extension of remote operation of the network and improvement of response time to emergency power cut	▪ Between Mabote substation, Maseru central Substation and LEC Border station.  Connection of LEC offices in Mohokare	10,278,336
		▪ Between Mazenod and Ha Ramarothole substations  • Connection of Mafeteng office	9,750,147.00
		▪ Between Mazenod and Roma substations and between Mohale's Hoek and Quthing	14,682,936.00
TOTAL			69,655,192.70

- **Ring-fencing:** Licence condition requires ring fencing of the regulated activities of LEC. LEC has engaged a consultant (MRC) to ring-fence its business units.
- **Security of supply:** Currently local production covers 66% of the energy demand and 44% is imported from ESKOM and EDM. Below are several initiatives undertaken by the Company to ensure security of supply:
  - a. In collaboration with a task Team composed of LEC, Department of Energy (DoE), Ministry of Local Government (MoLG) and Ministry of Public Works, and coordinated by LEC, the implementation of a 70 MW solar PV plant at Ha Ramarothole continued;
  - b. The Company initialled the first Independent Power Producer Purchase Agreement for a 20 MW solar PV farm development.  
With this additional 90 MW of solar in its supply mix, the country will have a solar supply comprising more than 50% of the national demand.
- **Urban Distribution Rehabilitation and Transmission Expansion Project:** The project is funded by the African Development Bank (AfDB) and the budget is M 151 Million. Through the project, the electricity power distribution network across the country would be rehabilitated and refurbished in order to improve availability and reliability of electricity to the consumers. One of the project's components, the cost of service study (CoSS) had been completed, and was yet to be adopted for implementation by the Government. The purpose of the study was to establish the overall economic cost of service in the distinct areas of generation, transmission, distribution and supply in delivering electricity to the various customers. The overall results CoSS indicated that current tariffs were below the average level of cost reflective tariffs.  
The Application provided highlights on the progress of other components of the project which were still on-going, namely:
  - a) Transmission Upgrade and Distribution System Rehabilitation;
  - b) Civil Works;
  - c) Technical Assistance; and
  - d) Project Management and Supervision.



## **4.2. Challenges**

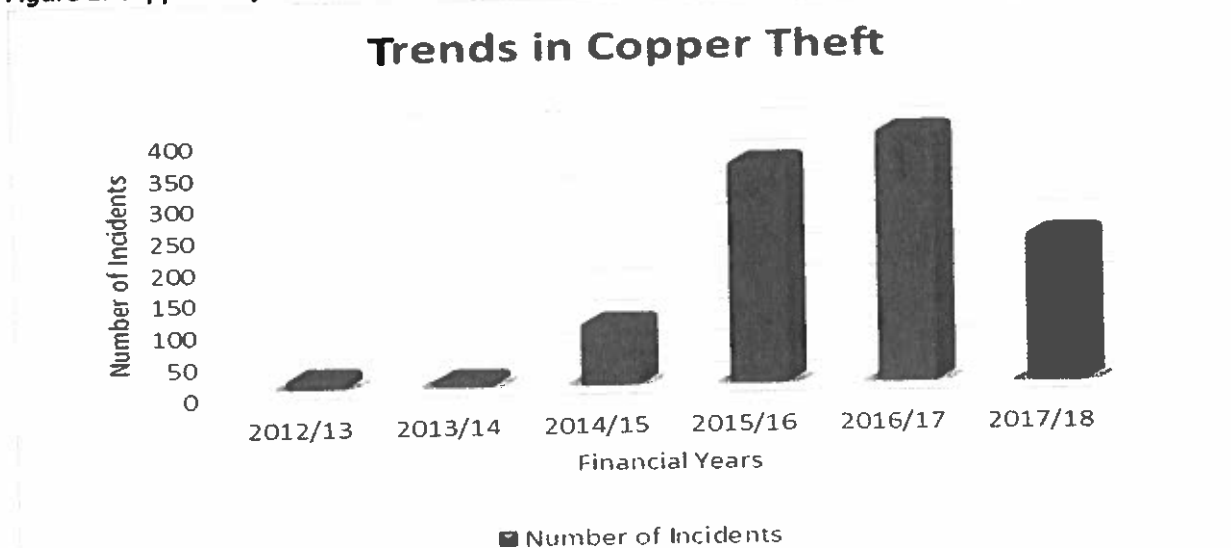
The Application mentioned that delays in repairs and maintenance projects' completion was due to the delay in tariff approval. As at the end of October 2018, maintenance expenditure was at 49% of the approved maintenance budget. Other challenges encountered by the LEC as mentioned in the Application were as follows:

### **4.2.1.Vandalism**

LEC had recorded 233 cases of copper theft and that translated to 26% decline compared to the 2017/18 Financial Year. The decline was attributed to several initiatives (such as colour coding of LEC cable, shortened line spans and whistle blowing) implemented in collaboration with the chiefs, "Mahokela", the Police, the different essential services providers, the office of the Chief Justice and the Basotho at large.

Figure 1 Below compares copper theft cases for the past six (6) financial years, and theft cases are reported to be predominant in Tšosane, Mabote, Tšenola, Motimposo, Thetsane, Qoaling and Naleli which are all areas in the outskirts of the Maseru City.

**Figure 1: Copper Theft Trends**



#### **4.2.2.Limited Human Resources**

The Application mentioned that the Company's uncompetitive salaries resulted in large staff turnover<sup>2</sup> due to an increase in job opportunities in the mining sector and other sectors. It also mentioned that the large staff turnover, coupled with retirements, and difficulty to attract younger professionals with right skills, created vacancies in key positions. It pointed out that, the industry needed to increase the recruitment and training programs to maintain the level of qualified workers required to operate existing facilities. The Application also mentioned that while LEC's electricity network was expanding, global technological developments, combined with introduction of complex systems, adversely impacted the Company due to the inadequate educational infrastructure to support industry needs, quality of middle management and general provision of services.

<sup>2</sup> LEC could not provide the Authority with supporting information on staff turnover.

#### **4.2.3.Low Return on Assets (ROA)**

The Application mentioned that the determination of a just and adequate ROA had been the Company's challenge. It pointed out that even after updating its asset register, the Regulator had never allowed LEC an adequate ROA. It also pointed out that the allowed level of ROA needs to correlate with the amount of risk the utility faces. It also emphasised that a low level of ROA could restrict LEC's access to capital markets and result in decreased electricity grid reliability and quality of service.

#### **4.2.4.Traffic Congestion**

The Application mentioned that traffic congestion on most roads had increased time taken by LEC to attend to faults and that adversely impacted the image of the Company. The traffic congestion was in part due to the current influx of mostly Asian cars (resulting in a high number of cars), accidents, and roads constructions in Maseru on a daily basis.

#### **4.2.5.Incoming Calls**

The Application mentioned that the Company had experienced increased incoming calls at its Call Centre. The increase was attributed to the following:

- Frequent planned outages as a result of refurbishment programs that took place;
- The installation of fibre optic projects which contributed to more power outages; and
- The delayed service connections.

#### **4.2.6.Surge Related Public Claims**

The Application mentioned that customers were compensated for equipment damaged due to certain power quality conditions. It also mentioned that customers are responsible for protection of their equipment from damage. It highlighted a procedure to be followed by customers to claim for their damaged equipment, where such damage was not as a result of its negligence.

The Application pointed causes that are beyond its control such as lightning or vandalism (force majeure).

#### **4.2.7. Building Structures under Power Lines (Encroachment)**

The Application mentioned that LEC infrastructure encroachment was a challenge resulting from unplanned settlements in the country. Another challenge stated in the Application was the land required for setting up transmission, distribution and supply of electricity infrastructure. It also explained that non-compliance with required clearances between buildings and overhead powerlines was a serious safety hazard and breach of the law. It emphasised that compliance to buildings' permit regulations before construction of structures is the stakeholders' responsibility.

#### **4.3. Future Planned Repairs and Maintenance Works**

The Application provided a list of repairs and maintenance strategic projects costing M 64,997,200.00 that would be financed from the proposed 2019/20 tariffs. It mentioned that through these projects and others, network challenges in the medium to long term would be addressed.

#### **4.4. Tariff Methodology**

The Application stated that the tariff setting method was based on Revenue Requirement for a single year. The Revenue Requirement encompassed the relevant costs incurred by the business, plus an allowed return on assets and depreciation.

## 4.5. Cost Drivers

The Application mentioned that the Company plans to implement the work programs related to Transmission, Distribution and Supply in line with its Five-Year Strategic Plan. The programs are aimed at strengthening the network, improving reliability, upgrading other elements of the system and replacing old and obsolete assets. It also mentioned that in addition to program costs, LEC would also incur costs with respect to technologies for efficient remote management of the grid, the ageing infrastructure and human resources. It is mentioned that the tariff review is proposed to ensure availability of adequate revenues to support planned costs and provide desired service delivery to the customers.

The Application indicated that LEC suffered exchange rate fluctuation<sup>3</sup> in the current Financial Year and it had forecasted 8% increase on bulk purchases for the review year on the basis of National Energy Regulator of South Africa's (NERSA) approval of Eskom tariffs.

### 4.5.1.Expenditure

Table 5 below shows the components of the expenditure category and their costs as outlined in different sections of the application.

**Table 5: Components of the Expenditure Category**

Cost Item	Sections of the Application			
	MIRTA (Maloti)	Statement of comprehensive statement (Maloti)	Income statement (Maloti)	Detailed Reasons (Maloti)
LEWA Licence	6,300,000	6,300,000	6,300,000	6,300,000
Operating Expenses	122,352,416	122,352,416	169,751,275	122,352,416

<sup>3</sup> The application mentioned that during contract signing, exchange rate USD/loti was 1 USD = M 11.00 while the prevailing exchange rate at the time of application was 1 USD = M 15.66.

Cost Item	Sections of the Application			
	MIRTA (Maloti)	Statement of comprehensive statement (Maloti)	Income statement (Maloti)	Detailed Reasons (Maloti)
Staff Remuneration	191,791,128.	191,791,128.	215,925,122	191,791,128.
Depreciation	109,039,670	109,039,670	109,039,670	109,039,670
Diesel and Lubrication		2,440,000		2,440,000
Repairs and Maintenance	63,797,200	63,797,200		63,797,200
<b>Total</b>	<b>493,280,414</b>	<b>495,720,414</b>	<b>501,016,067</b>	<b>495,720,414</b>

The Application indicated that operating expenses, maintenance and repairs are mostly driven by sales, inflation, increased number of customers and network expansion. It also mentioned that in reviewing staff remuneration, other factors such as upward review of students' allowances had been factored in, in addition to approved adjustment.

#### 4.5.2. Depreciation

The Application mentioned that depreciation cost is estimated at M 109 Million and that translated into 2.8% decrease compared to the previous Financial Year figure of M 112 Million. It mentioned that unlike in 2018/19, the 2019/20 depreciation budget considered only assets already on site at the beginning of the Financial Year.

### 5. PUBLIC CONSULTATION SESSIONS

A public notice was issued in both the print and electronic media from 04-28 February 2019 for stakeholders to provide comments, inputs and observations on the reasonableness of the request. Stakeholders who had an interest in making oral presentations before the LEWA Board were requested to indicate in writing so that appropriate arrangements could be made.

Six (6) public hearings were held on 13<sup>th</sup>, 14<sup>th</sup>, 20<sup>th</sup> and 21<sup>st</sup> February, 6<sup>th</sup> and 14<sup>th</sup> March, 2019 in Mokhotlong, Leribe (this included participants from Butha-Buthe), Quthing's Nek and Maseru (this included participants from Quthing), Thaba-Tseka and Maseru (this included participants from Berea and Mafeteng), respectively. LEC, stakeholders, Chief Bereng Sekhonyana, Lesotho Textile Exporters Association (LTEA) and Consumers Protection Association (CPA) made presentations before the Pricing and Tariffs Committee of the Authority. Summarily, the presentations outlined some clarifications sought with respect to the information provided on LEC's application and during the presentation, and recommendations to both the Board and LEC.

### 5.1. LEC's Presentation

In its presentation, LEC stated that it is a regulated state-owned entity that receives no subventions from the Government except that it undertakes electrification projects for the Government. LEC highlighted that it has presence in all the districts of the country (including Semonkong). The Company stated that small scale generation was undertaken in Mantšonyane and Semonkong. It stated that its Bulk suppliers are '(Lesotho), Eskom (South Africa), EDM (Mozambique) and Southern African Power Pool (SAPP) Electricity Market<sup>4</sup>. The regulated entity's composite licence covers transmission, distribution and supply of electricity.

LEC pointed out that its capital costs are not financed from tariffs. The presentation stated, among other things, the following as LEC's business characteristics:-

- Business with long term focus; and
- It is a vertically integrated network Electricity business.

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<sup>4</sup> Bulk Supply Costs associated with SAPP were not provided in the Tariff Application.

## **5.2. Tariff Methodology**

The presentation mentioned that LEC uses rate of return methodology and the following costs are covered in its revenue requirement:

- Bulk Supply Purchases;
- Operating Expenditure;
- Repair and Maintenance,
- Return on Assets; and
- Depreciation

## **5.3. Achievements**

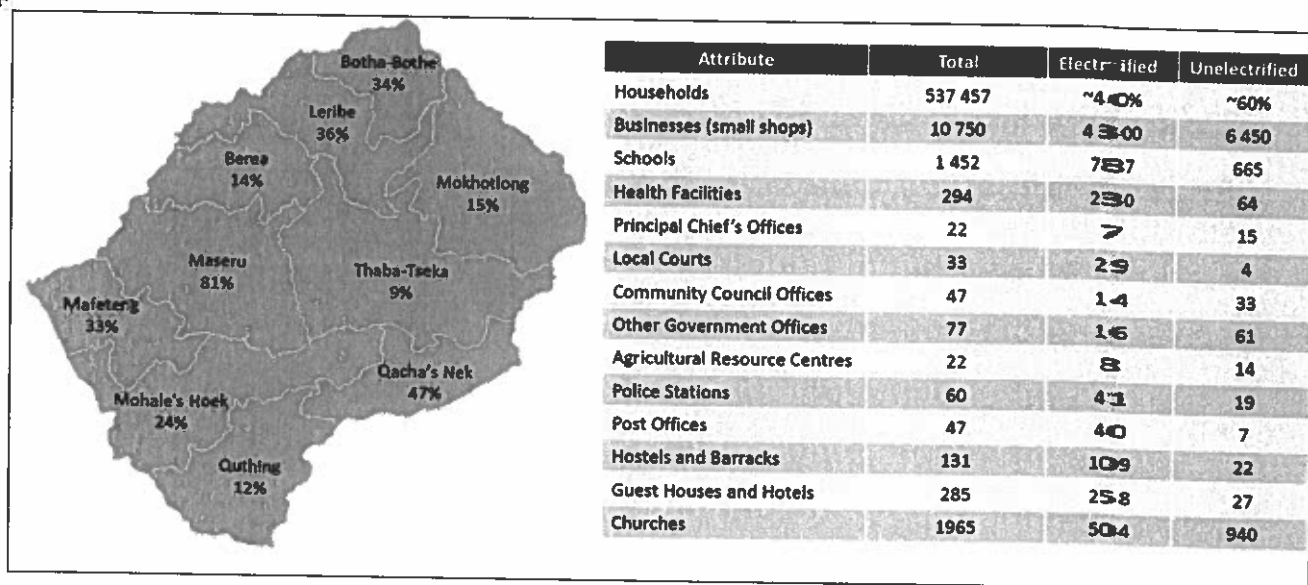
In addition to achievements mentioned in section 2.1, the presentation, stated that the Company had recorded above target in transmission and distribution systems availability and had established a Regulatory Compliance Committee of the Board.

It further mentioned that LEC had been engaged in social responsibility activities as it educated shepherds on electricity and provided them with blankets. It had also awarded best performing students with Academic Excellence Awards.

The presentation indicated that only 40% of the households had been electrified nationwide while it also provided information on electrification per districts as shown in Table 6 below:



**Table 6: Electricity Access in the Country, including number of Institutions electrified**



The presentation also provided a description of committed projects with the total cost amounting to M 58,747,104.70

#### 5.4. Challenges

In addition to challenges stated in the Application, LEC mentioned the harsh working conditions and high infrastructure costs as its main challenges. It further indicated that the costs associated with vandalism had declined from M 637,109.81 in 2016/17 to M 297,640.03 in 2017/18 <sup>5</sup>

#### 5.5. Revenue Requirement

The Company concluded its presentation by stating its Revenue Requirement as shown in Table 7 below and requested a 14.2% increase in both energy and maximum demand charges.

<sup>5</sup> Indicating 53% decline in costs associated with vandalism

**Table 7: Proposed Revenue Requirement and its Cost Components**

<b>Cost Component</b>	<b>2019/20 Proposed Cost (Maloti)</b>
<b>Bulk Purchases</b>	444,136,072.00
<b>Repairs and Maintenance</b>	63,797,200.00
<b>Diesel for Semonkong</b>	2,440,000.00
<b>Operational Expenses</b>	320,443,543.87
<b>Depreciation</b>	109,039,670.30
<b>Return on assets</b>	136,034,825.00
<b>Total</b>	<b>1,075,891,311.17</b>

The proposed tariffs were as shown in Tables 8 and 9 below:

**Table 8: Proposed Energy Tariffs**

<b>Customer Category</b>	<b>Proposed Tariff (M/kWh)</b>
<b>Industrial HV</b>	0.2210
<b>Industrial LV</b>	0.2448
<b>Commercial HV</b>	0.2210
<b>Commercial LV</b>	0.2448
<b>General Purpose</b>	1.8077
<b>Domestic</b>	1.5992
<b>Street Lighting</b>	0.9078

**Table 9: Proposed Maximum Demand Tariffs**

<b>Customer Category</b>	<b>Proposed Tariff (M/kVA)</b>
<b>Industrial HV</b>	311.41
<b>Industrial LV</b>	363.74
<b>Commercial HV</b>	311.41
<b>Commercial LV</b>	363.74

## 5.6. Issues Raised by Various Stakeholders

During all the public hearings that were held, the stakeholders, through group discussions and individual presentations, raised a number of issues that needed to be addressed by the Company. These included:-

- a) Ensuring that only occupied houses are electrified in order to cut costs;
- b) Ensuring that pioneer developers are compensated;
- c) Ensuring consistent supply that is resilient to wind, snow and rainfall challenges as unreliable supply adversely affects all customers;
- d) Promotion of consumption by introduction of pro-poor tariffs;
- e) Introduction of toll-free emergency number and ensuring that the emergency number is answered timeously;
- f) Ensuring that the call centre staff are able to provide basic service/guide to help restore power supply;
- g) Ensuring service access by vulnerable groups such as the poor, orphans, old aged, unemployed and low income earners;
- h) Improving on information dissemination strategies especially on planned interruptions of supply;
- i) Embarking on increased local generation in order to reduce costs of bulk purchases;
- j) Embarking on feasibility studies regarding local generation especially renewable energy generation;
- k) Disaggregation of costs by customer categories;
- l) To ensure that the public protests in South Africa (Matatiele) do not adversely affect the electricity supply in Qacha's Nek;
- m) Consider effect of price elasticity of demand on sales as well as on Revenue Requirement ; and
- n) LEC to improve its working relationships with relevant institutions such as Land Administration Authority (LAA) in order to coordinate their work and minimise problems it encounters such as encroachment into people's sites.

Highlights of the presentations made by the various Stakeholders are given below, followed by an analysis of the inputs given during the public hearings.

#### **5.6.1.Chief Sekhonyana Bereng of Khoiting**

The Chief highlighted that under his chieftainship, three villages (Motse-mocha, Matsoapong sekolong and Khoiting Ha Rashaba) formed an electrification scheme some years ago and had opened an account with Nedbank but had received no assistance to date. He also pointed out that some villages had been skipped when other villages were electrified. He requested assistance regarding electrification of Khoiting.

#### **5.6.2.Lesotho Textiles Exporters Association**

The presentation mentioned that LTEA is the voice of Employers in Lesotho under the sector of Textile, Apparel and Footwear. It also mentioned that 56 firms forming its membership employed 45,000 employees. The presentation also highlighted that exporters are price takers and the market demand is driven by buyers. In the presentation, LTEA stated the following as some of its challenges:

- The huge(restructuring of) wage increase in September 2018 of 37.4% and National Minimum Wages with Ministers' consideration of **10%** for public comments;
- Short Time Lay-Offs in some industries and shutdown of some industries as a result of no demand/orders of their products;
- High exchange rates between United States Dollar and Lesotho Loti (USD vs LSL) which makes imported inputs (raw material) expensive
- Other export expenses; and
- The expense of all utilities that are expensive and increasing every year

Due to the above reasons, the LTEA representative proposed no increase (0%) in LEC tariffs.

### **5.6.3.Consumer Protection Association**

The presentation mentioned that CPA is an NGO promoting protection of the rights of the consumers. It also mentioned that with 0% increase in public servants salaries as per the 2019/20 Government Budget, any increase in tariffs will make power unaffordable as it would make consumers worse off and unable to afford basic services. CPA's presentation also referred to the Finance Minister's Budget Speech for 2019/20 to emphasise the fact that the purchasing power in Lesotho is eroding. The presentation proposed that it should be a joint effort to reduce poverty and create 10,000 decent jobs per annum as planned in the National Strategic Development Plan (NSDP), avoid loss of the current employment opportunities resulting from spiralling cost of electricity. It also recommended to LEC that it addresses its inefficiencies as these inefficiencies may adversely affect or burden consumers. It showed that Eskom was allowed 9.4% instead of 17.1% requested and that can be covered by an increase of 3.02%. The presentation mentioned, among other things, the acute unemployment in the country and recommended no increase (0%) in LEC's tariffs.

### **5.6.4.Analysis of Public Hearings**

In all six (6) public hearings that were conducted, the stakeholders generally opposed an increase in tariffs. Stakeholders recommended, increases of between 0% and 12.5%. They proposed that the increase should at least be consistent with the inflation rate, applicable public salary increases and economic growth. They also urged LEC to consider the increasing unemployment rate, high number of poor people, orphans and elderly people when proposing tariff increases.

Stakeholders were also concerned that LEC's infrastructure upgrading plans were not long term focused and continually failed to address frequent power outages. They also advised LEC to address its inefficiencies such as in the case of vehicles use. Further they advised LEC to broaden its educational programs.

Most of the public appeared not to be aware of the difference in mandates of LEC and Rural Electrification Unit as the issue of electrification of village-based schemes was invariably mentioned by several groups. They also proposed that before proposing a tariff increase, LEC should make reference to other sectors for information on economic indicators such as inflation, Gross Domestic Product (GDP) and employment rate which may indicate consumers' affordability.

They also proposed that LEC should make proposals in order to get alternative funding sources rather than 'burdening' customers with high tariffs.

Stakeholders also proposed that public consultations be made more participatory by amongst other things the dissemination of relevant information to allow for stakeholders meaningful engagement. Other stakeholders were concerned that the Board questions are more technical and should be directed to LEC in another forum. They were also of the view that the Board sessions consume more time which makes them feel excluded, since they would not have had the privilege of studying the documents referred to, leaving very short times for them to raise their concerns and express their views.

## 6. ANALYSIS OF LEC'S APPLICATION

For the past tariff determinations there were some principles that had been adopted to adjust different cost items covered by tariffs. For the 2019/20 tariff determination those principles have been modified in order to ensure that LEC fully complies with regulatory instruments and prescripts.

In its Application and presentations to the Board and stakeholders, LEC stated its revenue requirement as M1 075 891 311.17. In order to achieve this Revenue Requirement, energy and maximum demand charges would have to increase by 17.0654% as shown in Tables 10 and 11, and resultant Revenue Requirement in Table 12.

**Table 10: Proposed Energy Charges based on LEC's Revenue Requirement.**

<b>Customer Category</b>	<b>2018/19 Energy Charge (M/kWh)</b>	<b>Proposed Energy Charges (M/kWh) by LEC</b>	<b>Resulting Percentage Change</b>
Industrial HV	0.1936	0.2266	17.0654%
Industrial LV	0.2144	0.2510	17.0654%
Commercial HV	0.1936	0.2266	17.0654%
Commercial LV	0.2144	0.2510	17.0654%
General Purpose	1.5835	1.8537	17.0654%
Domestic	1.4009	1.6400	17.0654%
Street Lighting	0.7952	0.9309	17.0654%

**Table 11: Proposed Maximum Demand Charges based on LEC's Revenue Requirement**

<b>Customer Category</b>	<b>2018/19 Maximum Demand Charge (M/kVA)</b>	<b>Proposed Maximum Demand Charges (M/kVA) by LEC</b>	<b>Resulting Percentage Change</b>
Industrial HV	272.7953	319.3490	17.0654%
Industrial LV	318.6317	373.0076	17.0654%
Commercial HV	272.7953	319.3490	17.0654%
Commercial LV	318.6317	373.0076	17.0654%

**Table 12: LEC's 2019/20 Total Revenue Based on the Proposed Tariffs**

<b>Customer Category</b>	<b>Proposed LEC Energy Charge (M/kWh)</b>	<b>Proposed Maximum Demand Charge (M/kVA)</b>	<b>Forecasted Energy Sales (kWh)</b>	<b>Forecasted Maximum Demand (kVA)</b>	<b>Total Revenue to LEC (M)</b>
Industrial HV	0.2266	319.3490	248,093,482.66	467,366.00	205,480,449
Industrial LV	0.2510	373.0076	47,213,840.19	216,704.00	92,682,358
Commercial HV	0.2266	319.3490	89,078,013.46	253,437.00	101,123,378
Commercial LV	0.2510	373.0076	63,673,766.81	190,670.00	87,102,727
General Purpose	1.8537		93,963,261.00		174,182,627
Domestic	1.6400		252,114,168.00		413,459,595

<i>Lighting</i>	0.9309		1,998,247.00		1,860,177
<b>Total</b>			<b>796,134,779</b>	<b>1,128,177.00</b>	<b>1,075,891,311.13</b>

## 6.1. LEC's Costs

The LEC's Revenue Requirement comprises the following major costs items:

- Bulk Supply Purchases;
- Repair and Maintenance (including fuel and oil for generation);
- Operating Expenses;
- Labour Costs;
- Depreciation; and
- Return on Assets

### 6.1.1. Bulk Supply Purchases

Compared to 2018/19, the average bulk supply cost is M0.50/kWh for 2019/20. From LEC's Financial Statements it is evident that bulk supply costs budget had been overstated as it does not include the adjustments resulting from proceeds of energy purchased from EDM and resold to ESKOM. The 2018/19 approved total bulk supply purchases costs are increased by 4% and a budget of M 432,409,049.79 is allowed for 2019/20 as shown in Table 13 below:

**Table 13: Evolution of Bulk Supply Costs in Maloti per kilowatt-hours (M/kWh) Since 2015/16**

Entry Point or Supply Source	Audited Data in 2015/16	Audited data in 2016/17	Unaudited data in 2017/18	Projected Average Costs in 2018/19	Revised Average Costs in 2018/19	Projected Average Costs in 2019/20	2019/20 Average Price Change Compared to Revised 2018/19 in Percentage (%)
'Muela	0.12	0.11	0.12	0.11	0.12	0.12	0%
EDM	1.36	1.33	1.29	0.85	0.90	0.90	0%



Entry Point or Supply Source	Audited Data in 2015/16	Audited data in 2016/17	Unaudited data in 2017/18	Projected Average Costs in 2018/19	Revised Average Costs in 2018/19	Projected Average Costs in 2019/20	2019/20 Average Price Change Compared to Revised 2018/19 in Percentage (%)
Clarens	0.68	0.74	0.75	0.79	0.79	0.80	1%
Maseru Bulk	0.95	0.84	0.98	1.06	1.12	1.32	18%
Qacha's Nek	1.11	1.21	1.22	1.3	0.42	1.22	190%
ESKOM (Clarens+Maseru+Qacha's Nek)	0.85	0.82	0.92	0.99	0.97	1.14	18%
Total Imported Supply	0.99	0.97	1.02	0.95	0.95	1.07	13%
Average cost/kWh	0.42	0.47	0.49	0.47	0.48	0.50	4%

Due to unavailability of LEC's Audited Financial Statements for the 2017/18 Financial Year, there will be a two year lag in implementing the Bulk Supply Costs Pass-Through Principle. Again, LEC has failed to provide the Authority with the following:

- Detailed revenue streams resulting from the resale of energy to Eskom from EDM;
- Elaborate, with written evidence, reasons why it is expensive for the conversion of Eskom Megaflex Tariff to Nightsave Urban Large Tariff despite the latter being cheaper on average;
- The reasons why LEC has not been able to negotiate long-term power sales agreement with Eskom for its three intake points;
- Schedule for economic energy dispatch based on priority merit order;
- Cost-benefit analysis of LEC participating in the SAPP energy market;
- The steps that LEC has taken in order to mitigate the loss that it incurs annually with respect to the EDM contract; i.e. currency risk and energy resold to Eskom and
- Quantified costs on wheeling charges and incremental losses which are due to the EDM contract.

### 6.1.2.Repair and Maintenance (Including Fuel and Oil for Generation)

LEC's proposed budget of M63.80 million for repair and maintenance in 2019/20 Financial Year is inclusive of projects that should either be financed by depreciation funds and or funds raised by the shareholder. Adjusting LEC's repair and maintenance budget with amounts shown in Table 14 will result in that budget being less than what was projected to be spent in 2018/19.

**Table 14: Activities not to be financed from Repairs and Maintenance Budget**

Item	Description	Amounts
1	Install Four Power Quality Meters at Transmission Substations	4,500,000
2	Upgrade RTU's at LEC HQ, LEC Border and Pioneer	4,500,000
3	Upgrading fox to mink conductor from Kolonyama to Makhalong & Molemane to Mokhothu	4,000,000
4	Close the ring on Printing feeder & Hoohlo feeder.	1,500,000
5	Install 33kV and 11kV combi units to protect transformers prone to lightning strikes	300,000
6	Replacing of 11kV dilapidated poles at Tsakholo	450,000
7	Install second VT at Litsoeneng substation	600,000
8	Preparation of tender, awarding and supervision for the Replacement of old 11kV circuit breakers at Mafeteng 33kV substation	3,000,000
9	Recommissioning of Mpiti Substation	700,000
10	Construct 1km 11kV power line to complete a ring	250,000
11	Maputsoe system improvement projects.	1,200,000
12	11kv Morija town feeder 3.4km	850,000
13	Installation of vibration dampers	1,500,000
14	Install 3 x RMU's Lefikeng, Matala & Nelese	900,000

Item	Description	Amounts
15	Replace pole mounted MCB to 80A in Southern & Northern parts of Maseru	220,000
16	Renewal of differential protection equipment on Maseru 33kV ring	2,000,000
17	Install 3 X 630KVA mini substations near Taoana Square Street, U-save, Mofolo Street,	1,500,000
18	Install 3 RMU's @ Ha Molemane, Maluba-lube & Ha Mokhothu	750,000
19	Replace old PPE with new PPE/C	2,650,000
20	11kV pole replacement from Highway to MS01	1,200,000
21	Replacement of the worn out poles for the 11kV Mount Moorosi and 11kV M Hoek - Quthing power lines	1,200,000
	<b>Total</b>	<b>33,770,000</b>

The repair and maintenance budget should not in any way extend an asset's useful life, but rather keep the asset operating at its present condition (as opposed to improving the asset).

Based on Table 15 below, LEC has been spending between M14.26 million and M50.81 million on repair and maintenance expenses. In 2015/16, the Company was unable to spend even 50% of the allowed budget.

**Table 15: Bulk Supply Costs and Repair and Maintenance Budget from 2013/14 to 2016/17**

Item	Financial Years Since 2013/14 until 2016/17			
	2013/14	2014/15	2015/16	2016/17
Audited Bulk Supply Costs, inclusive of repair and maintenance and fuel for mini-grid	278,279,816.00	298,941,464.00	353,331,930.00	470,135,532.00

Actual Bulk Supply Costs	256,905,530.00	265,996,627.15	339,076,016.70	419,325,532.00
Audited Repair and Maintenance, and Fuel Budget	21,374,286.00	32,944,836.85	14,255,913.30	50,810,000.00
Allowed Repair and Maintenance Budget	17,134,200.00	22,525,200.00	31,409,071.00	31,409,071.00
Variance between Allowed and Audited Budgets on Repair and maintenance	(4,240,086.00)	(10,419,636.85)	17,153,157.70	(19,400,929.00)

LEC projected to use M44.7 million to the end of March, 2019. For the Financial Year 2019/20, LEC projected amount (M44.7 million) is increased by inflation rate of 4.7% to allow the utility M46.8 million.

Just like in the previous tariff determinations, LEC is urged to submit its preventative maintenance programme to the Authority for consideration and approval, including implementation monitoring system.

### 6.1.3. Operating Expenses

In calculating this budget of M122 million the indexation of half increase in connections was adopted. However, LEC wrongly included connections from projects funded by the Government of Lesotho and Universal Access Fund. Over the past years, LEC has been remunerated based on the same principles which could not be audited. According to the principle, LEC's proposed budget should be based on half increase in connection growth of 6.63%, half increase in sales of 1.54%, and average inflation rate of 4.7%. The principle is dropped and the budget is based on the average inflation rate of 4.7% only. Therefore the LEC's allowed operating expenditure budget is M116.4 million for the financial year 2019/20 as shown in Table 16 below.

Furthermore LEC has not been able to provide the Authority with details of losses it has incurred due to fraud related incidences, and others.

**Table 16: Actual and Forecasted Operational Expenses included in the tariffs from 2015/16 to 2019/20**

Operating Expenses	Financial years					
	2015/16 Audited in Million Maloti (M)	2016/17 Audited in Million Maloti (M)	2017/18 Unaudited in Million Maloti (M)	2018/19 Forecasted in Million Maloti (M)	2018/19 Revised Forecasted in Million Maloti (M)	2019/20 Forecasted in Million Maloti (M)
Actual/Proposed	86,338,582.00	54,840,939.00	93,627,592.00	111,954,539.00	110,211,414.09	122,352,416.00
Allowed	82,381,135.97	88,010,761.00	101,685,172.98	111,229,468.85	111,229,468.85	116,438,255.65
Variance Between Allowed and Actual	(3,957,445.03)	33,169,822.00	8,057,580.98	(725,070.15)	1,018,054.76	(5,914,160.35)
LEC's Actual Percentage Change Year to Year		-36%	71%	20%	-2%	11%
LEWA's Approved Percentage Change Year to Year		7%	16%	9%	0%	5%

Based on Table 17 below, the average tariff and the LEC's revenue will decrease by 2.77% and increase by 1.27% respectively for the Financial Year 2019/20.

**Table 17: Energy Sales (kWh), Connections and Revenue per kWh**

Item	Projected Actuals in 2018-19	Projected in 2019-20	Increase in Percentage
Energy Sales (kWh)	784,077,615.80	796,134,779.12	1.54%
Total Revenue (M)	913,112,844.00	954,136,065.00	4.49%
Connections (LEC's numbers) <sup>6</sup>	260,387	275,397	5.76%
Connections (LEWA's numbers)	249,781	266,335	6.63%
Revenue (M) Required per kWh	1.1646	1.1323	-2.77%

#### 6.1.4. Labour Costs

As shown in Table 18 below, LEC's labour costs, since 2015/16, have not been consistent with the approved budget ceiling set by the Authority when compared to the audited costs. For 2019/20, LEC proposed labour costs of M191.79 million are not in line with approved labour costs indexation formulae which consists of half growth in

<sup>6</sup> LEC connections figure is inclusive of government and Universal Access Fund projects

connection (3.31%) and average annual inflation rate (4.7%). The principle is relaxed and the budget is adjusted based on average annual inflation rate of 4.7%. LEC's allowed labour costs budget is therefore M 182.6 million for 2019/20

**Table 18: Actual and Forecasted Labour Expenses included in the Tariffs from 2015/16 to 2019/20**

Labour Expenses	Financial years					
	2015/16 Audited in Million Maloti (M)	2016/17 Audited in Million Maloti (M)	2017/18 Unaudited in Million Maloti (M)	2018/19 Forecasted in Million Maloti (M)	2018/19 Revised Forecasted in Million Maloti (M)	2019/20 Forecasted in Million Maloti (M)
Actual/Proposed	143,635,564.00	159,453,861.00	167,877,272.00	179,173,250.00	180,426,397.00	191,791,128.00
Allowed	139,973,259.76	147,951,504.43	161,417,342.08	174,355,571.03	174,355,571.03	182,550,282.87
Variance Between Allowed and Actual	(3,662,304.24)	(11,502,356.57)	(6,459,929.92)	(4,817,678.97)	(6,070,825.97)	(9,240,845.13)
LEC's Actual Percentage Change Year to Year		11.01%	5.28%	6.73%	0.7%	6.30%
LEWA's Approved Percentage Change Year to Year		5.70%	9.10%	8.02%	0.00%	4.70%
Employees' Cost/Total Cost	46.03%	49.84%				

The company's staff productivity declined from one staff per 496 connections in 2017/18 to approximately one staff per 441<sup>7</sup> connections in 2018/19. Even though there is a fall in staff productivity, the Company has performed above the set target of one staff per 400 connections.

#### 6.1.5. Depreciation Charge

LEC has since established the 'Depreciation Account' but had not accounted for the 2017/18 Financial Year balance of M 73.55 million. The Company provided the Authority with committed amounts for the projects yet to be undertaken in the 2018/19 Financial Year to the tune of M 58,747,104.70.

<sup>7</sup> Calculated using Connection figures inclusive of government and UAF projects and total of 591 employees

For 2019/20, LEC proposed a depreciation charge of M109.04 million and that represents a 3% fall from the figure approved in 2018/19. LEC attributed this decline to the fact that unlike in 2018/19, for 2019/20 it excluded provision for depreciation on assets not yet on site. The proposed depreciation charge is therefore reasonable and allowed in full as shown in table 19 below. However, the depreciation funds should be used for replacement of old and obsolete assets not financing of new projects like purchase of new generator sets for Mokhotlong and Qacha's Nek, construction of new infrastructure and upgrading of substations from 5 MVA to 10 MVA, just to mention but a few. The Company had also not provided the Authority with its asset register.

**Table 19: Actual and Forecasted Depreciation Expenses included in the Tariffs from 2015/16 to 2019/20**

Depreciation Charges	Financial years					
	2015/16 Audited in Million Maloti (M)	2016/17 Audited in Million Maloti (M)	2017/18 Unaudited in Million Maloti (M)	2018/19 Forecasted in Million Maloti (M)	2018/19 Revised Forecasted in Million Maloti (M)	2019/20 Forecasted in Million Maloti (M)
Actual/Proposed	82,057,086.00	105,649,609.00	112,741,663.00	112,741,663.00	112,741,663.00	109,039,670.30
Allowed	95,708,516.00	100,005,205.00	100,005,205.00	112,741,663.00	112,741,663.00	109,039,670.30
Variance Between Allowed and Actual	13,651,430.00	(5,644,404.00)	(12,736,458.00)	-	-	-

#### 6.1.6. Return on Assets

The continued practice in which LEC receives revenue (connection fees) from customers, and that revenue is used for creating the Company's assets (capitalising of customer financed assets) makes it difficult to identify the assets financed by customers from LEC's Statement of Financial Position. In line with best practice, LEC should not include customer financed assets in its asset base that is later used for determining Regulatory Asset Base (RAB). Efforts taken by the Authority to incentivise LEC to comply with

regulatory prescripts and address concerns of the Authority regarding its current practice were in vain. Furthermore, LEC's continuous and unilateral use of the return on assets for labour costs compelled the Authority to disallow inclusion of the proposed M 136 million return in its revenue requirement for 2019/20.

Below, in table 20 are debt to equity ratios calculated using data from audited financial statements. Even though the ratio is increasing, its low value shows that the loan component is negligible and hence the Company's exposure to risk is fairly low. LEC is therefore allowed M6,189 018.00 that is adequate to cover its financing expenses for the Financial Year 2019/20.

**Table 20: LEC's Debt to Equity Ratio (Calculated Using Audited Statements)**

Financial Year	Debt to Equity Ratio
2011/12	0.65%
2012/13	3.57%
2013/14	3.29%
2014/15	2.27%
2015/16	1.77%
2016/17	2.17%

## 6.2. Adjusted Revenue Requirement

As indicated, adjustments made in 6.1 above, produced the Revenue Requirement shown in Table 21 below.

**Table 21: LEC Revenue Requirement in 2019/20 Financial Year**

Cost Item	Approved in 2018/19	Revised Forecast for 2018/19	Variance between Approved and Actual in 2018/19	Projected LEC Costs for 2019/20	Adjusted Costs for 2019/20 Based on the Approved Costs in 2018/19
	481,366,782.49	462,408,477.58	18,958,304.91	497,437,270.00	481,332,181.21
<b>Cost of Sales</b>					
Bulk Supply Purchases	415,777,932.49	415,777,932.49	-	431,200,070.00	432,409,049.79
Repairs and Maintenance	63,588,850.00	44,729,811.09	18,859,038.91	63,797,200.00	46,832,112.21
Diesel and Oil	2,000,000.00	1,900,734.00	99,266.00	2,440,000.00	2,091,019.21
Operating Expenditures	404,481,476.48	409,552,392.83	- 5,070,916.35	429,483,214.13	413,960,438.52



Labour	174,355,571.03	180,426,396.74	-6,070,825.71	191,791,128.13	182,550,282.87
Depreciation	112,741,663.00	112,741,663.00	-	109,039,670.00	109,039,670.00
Operating expenditure	111,211,323.45	110,211,414.09	999,909.36	122,352,416.00	116,438,255.65
LEWA License	6,172,919.00	6,172,919.00	-	6,300,000.00	5,932,230.00
Sub-total (Cost of sales and operating expenditures)	885,848,258.97	871,960,870.41	13,887,388.56	926,920,484.13	895,292,619.73
Return on Asset			-	136,034,825.00	
Financing costs	32,981,502.00	32,981,502.00			6,189,018.00
LEC's Total Required Revenue (excl. levies)	918,829,760.97	904,942,372.41	13,887,388.56	1,062,955,309.13	901,481,637.73

The allowed Revenue Requirement in above table is sufficient for the Company to finance its prudently incurred costs for the Financial Year 2019/20.

### 6.3. Approved Tariffs Increase

#### 6.3.1. Introduction of Lifeline Tariffs

Stakeholders in their submissions and presentations in the past public consultations emphasised that service access for the vulnerable groups (the poor, orphans, old aged, unemployed and low income earners) should be considered. They also proposed introduction of pro-poor tariffs to promote consumption. In order to address these stakeholders' concerns, LEWA and other stakeholders including LEC, embarked on a CoSS. Amongst the deliverables of the cost of service study was the introduction of pro-poor pricing, and how a lifeline tariff can be designed. To implement the results of the study regarding lifeline tariff, domestic customers' tariff is stepped into two bands, standard tariff and lifeline tariff.

To achieve the adjusted required revenue of M901, 481,637.73, the tariffs would be increased by 0.0% as shown in Tables 22 and 23 below.

**Table 22: Approved LEC Energy Charges for 2019/20 by the LEWA Board**

Customer Category	2018/19 Energy Charge (M/kWh)	Approved percentage change	Approved Energy Charges (M/kWh)	Adding Customer Levy @M0.0423/kWh	Adding Rural Electrification Levy @M0.02/kWh large customers and @M0.035/kWh for others	Final Approved Energy Charge	2018/19 Energy Charges including levies	Final Tariff Percentage increase
Industrial HV	0.1936	0.0002%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0001%
Industrial LV	0.2144	0.0002%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0001%
Commercial HV	0.1936	0.0002%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0001%
Commercial LV	0.2144	0.0002%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0001%
General Purpose	1.5835	0.0002%	1.5835	1.6258	1.6608	1.6608	1.6608	0.0002%
Domestic	1.4009	0.0002%	1.4009	1.4432	1.4782	1.4782	1.4782	0.0002%
Street Lighting	0.7952	0.0002%	0.7952	0.8375	0.8725	0.8725	0.8725	0.0002%
Lifeline Domestic	0.6500	0.0002%	0.6500	0.6923	0.7273	0.7273	0.7273	0.0001%

**Table 23: Approved LEC MD Charges for 2019/20 by the LEWA Board**

Customer Category	2018/19 Maximum Demand Charge (M/kVA)	Percentage Change	Approved Maximum Demand Charges (M/kVA)
Industrial. HV	272.7953	0.0002%	272.7957
Industrial. LV	318.6317	0.0002%	318.6322
Commercial. HV	272.7953	0.0002%	272.7957
Commercial. LV	318.6317	0.0002%	318.6322

The figures in Tables 22 and 23 exclude VAT<sup>8</sup>.

## 7. LEC'S ANNUAL PERFORMANCE REVIEW

While LEC's annual compliance will be reviewed at the end of the year, based on information gathered during inspections and monthly reporting formats, there are

<sup>8</sup> VAT is charged by Government and payable to Lesotho Revenue Authority

incidences of unreliable power supply reported during public consultations. In some cases, the power cuts are unannounced and that affects both the economic and social activities of the consumers.

Table 24 below gives a brief analysis of LEC's financial performance indicators since 2011/12.

**Table 24: LEC's Financial Performance from 2011/12 to 2016/17**

Financial Indicator		Financial Years Since 2011/12 until 2016/17					
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Profitability	Gross Profit (%)	58.84%	46.53%	52.92%	56.62%	51.49%	46.11%
	Net Profit (%)	7.16%	-0.43%	13.03%	16.02%	10.66%	12.89%
	Return on Assets (%)	2.09%	-0.16%	4.18%	3.96%	2.78%	4.98%
	Cost/Income (%)	94.25%	104.63%	89.04%	86.88%	91.36%	90.56%
	Employee Cost/Total Cost (%)	42.66%	43.95%	48.22%	45.66%	46.03%	49.84%
Liquidity	Current Ratio (%)	0.8226	0.5451	1.1268	1.3994	1.4890	1.7842
	Quick Ratio (%)	0.6079	0.3854	0.9767	1.2502	1.3050	1.6075

## I. LIQUIDITY

This is the amount of cash a company can put its hands on quickly to settle its debts (and possibly meet other unforeseen demands for cash payments too).

### a. CURRENT RATIO

The idea behind this is that a company should have enough current assets to give promise of cash to come to meet future commitment. A ratio in excess of one (1) is acceptable.

LEC's performance in both 2011/12 and 2012/13 was below the threshold indicating a risk of not meeting its liabilities when they are due. However, considering the nature of business of LEC this risk might not be considered high.

From 2013/14 to 2016/17, the current ratio looked healthy as it was above the threshold. This indicated a good liquidity for LEC in those years.

#### **b. QUICK RATIO**

This is an additional ratio which is used to calculate liquidity for companies with slow inventory turnover, LEC is one such company. This ratio should ideally be at least one (1).

LEC's quick ratio was low in 2012/13, however, it began to improve steadily from 2013/14 to 2016/17. This indicated that LEC was able to meet all its future obligations even without the slow moving asset which is the inventory.

### **II. PROFITABILITY**

The Gross profit ratio for LEC had been above 50% in all the years except for 2013/14 and 2016/17 when it stood at 46% respectively. This indicated that the company was able to cover its direct costs from the sales and had the residual to cover the operations. On average the Gross profit looked healthy for LEC.

The Net profit ratio was also healthy for the years as LEC was able to cover its operating costs and was left with profit averaging 9.89% over the years. However, there was an exception in 2012/13 where the company made a loss.

Return on Assets measures profit growth in relation to the amounts of funds employed. LEC had been making a good return on the assets employed, though the return is minimal.

The company's total cost to income averaged 92.79% over a period of six years and the employee cost to total cost was 46.06% on average, indicating that the Company needed to contain costs.

The company's overall performance looked healthy and it can be considered a going concern, meaning it can be able to continue for the foreseeable future.

Furthermore, LEC has not been able to comply with the following regulatory instruments and tariff decision directives of the Authority:

- A. LEC's Financial Statements for 2017/18:** LEC has not been able to provide the Authority with its financial statements for the Financial Year 2017/18. As such the Authority is unable to make a fair assessment on how the Company has been making or losing money in carrying out its regulated businesses.
- B. The LEA Act, 2002, as amended, in respect of providing regulated accounts for its businesses.** This is despite the Company establishing a telecommunication Company that it claimed has been properly ring-fenced from the electricity supply businesses.
- C. Tariff Filing and Review Procedure:** LEC has never adhered to section 4 of the document. Attachments/Appendix (required and any other information/documents supporting an application) should follow a brief executive summary and detailed basis for the application
- D. Lesotho Electricity Regulatory Accounting Guidelines:-** The guidelines stipulate how a company/licensee should treat RAB, depreciation and construction capital work in progress;
- E. Lesotho Electricity Charging Principles for Electricity and Water and Sewerage Services:-** The principles guide the licensee on the preparation and submission of tariffs to the Authority. These principles allow for multi-year tariffs that many stakeholders have requested to be considered moving forward. The Principles are

supplemented by the Tariff Filing and Review Procedure which stipulates the minimum and the type of information that should accompany tariff application to the Authority;

**F. Lesotho Electricity and Water and Sewerage Services Revised Pass-through Principle for Bulk Supply Tariffs and Procedure for Implementation**

**Mechanism:-** This principle is aimed at ensuring that LEC is constantly monitoring its bulk supply costs so as to ensure that any necessary interventions are known and acted upon timeously. LEC's inability to comply with this principle makes it hard for the Authority to do necessary adjustments to its bulk supply costs; and

**G. LEC's Composite license:-** In terms of its license, LEC is tasked with procuring power in an economic and competitive manner. However, there is still no long-term PPA with Eskom for the three supply intakes to Lesotho.

## **8. INTRODUCTION OF KEY PERFORMANCE INDICATORS (KPIs)**

It has been decided that starting from the Financial Year 2020/21, LEC's performance be monitored with specific KPIs that will be developed by the Authority in 2019/20.

## **9. CONCLUSIONS**

Based on the available information from the written and oral submissions by various Stakeholders during the public consultation process, reasons, facts and evidence provided, and LEC's response to both LEWA and public comments, the Authority has found justification for M1.075 billion Revenue Requirement not in line with LEWA's Regulatory Principles and Guidelines, the Authority therefore concluded as follows:

**A.** In order to meet its Revenue Requirement of M1.075 billion, energy and maximum demand charges would need to increase by 17.0654%;

- B. There is a need to introduce pro-poor tariff which is in line with The Energy Policy approved in 2015; the Lesotho Electricity Authority Act, 2002, as amended and LEA (Electricity Price Review and Structure) Regulations, 2009;
- C. When introducing the lifeline tariffs, the LEC's tariffs (both energy and maximum demand charges) will not increase (0.0002% change). The Company will still be able to recover its Revenue Requirement of M901.48 million;
- D. LEC's operating expenses are M116.44 million instead of M120.98 million requested by the Company;
- E. LEC's allowed labour costs are M182.55 million instead of M188.33 million the Company would have been allowed if it had complied with regulatory prescripts;
- F. LEC is allowed full depreciation charge of M109.04 million in line with its proposal;
- G. The Company is allowed M432.41 million for bulk supply cost. The Company's bulk supply costs are inflated as they do not take into account energy from EDM resold to Eskom;
- H. LEC needs to migrate from Megaflex Tariff to Nightsave Urban Large Tariff for its Eskom Maseru Bulk Intake Point as it is cheaper;
- I. In order to accurately determine Regulatory Asset Base (RAB), LEC needs to address the Authority's concern regarding its continued practice of receiving revenue from customers (connection fees), and creating the Company's assets (capitalising of customer financed assets). LEC is allowed financing costs of M6.19 million instead of M136.03 million return on assets as the Company has never declared dividends and has unilaterally used the proceeds to increase its staff remuneration.

## 10. APPROVAL

- a. The LEWA Board approved lifeline tariffs introduction and the resultant tariff increases are 0% as shown in Tables 25 and 26 below.

**Table 25: Approved LEC Tariff Levels for 2019/20 by the LEWA Board**

Customer Category	2018/19 Energy Charge (M/kWh)	Approved percentage change	Approved Energy Charges (M/kWh)	Adding Customer Levy @ M0.0423/kWh	Adding Rural Electrification Levy @ M0.02/kWh large customers and @ M0.035/kWh for others	Final Approved Energy Charge	2018/19 Energy Charges including levies	Final Tariff Percentage increase
Industrial HV	0.1936	0.0002%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0001%
Industrial LV	0.2144	0.0002%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0001%
Commercial HV	0.1936	0.0002%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0001%
Commercial LV	0.2144	0.0002%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0001%
General Purpose	1.5835	0.0002%	1.5835	1.6258	1.6608	1.6608	1.6608	0.0002%
Domestic	1.4009	0.0002%	1.4009	1.4432	1.4782	1.4782	1.4782	0.0002%
Street Lighting	0.7952	0.0002%	0.7952	0.8375	0.8725	0.8725	0.8725	0.0002%
Lifeline Domestic	0.6500	0.0002%	0.6500	0.6923	0.7273	0.7273	0.7273	0.0001%

**Table 26: Approved LEC MD Charge for 2019/20 by the LEWA Board**

Customer Category	2018/19 Maximum Demand Charge (M/kVA)	Approved Percentage Change	Approved Maximum Demand Charges (M/kVA)
Industrial HV	272.7953	0.0002%	272.7957
Industrial LV	318.6317	0.0002%	318.6322
Commercial HV	272.7953	0.0002%	272.7957
Commercial LV	318.6317	0.0002%	318.6322

**The figures in Tables 25 and 26 exclude VAT.**

- b. The approved tariff structure for domestic customer category is as shown in Table 27 below.




**Table 27: Approved new Tariff Structure for Domestic Customers**

Tariff Category	LEWA'S Approved Tariff Structure	Tariff Blocks	Approved Energy Charge (M/kWh), inclusive of Levies
Domestic	2 Block-Increasing Block Tariff	Block 1 - Lifeline : 0-30kWh	0.7273
		Block 2 - Standard: above 30kWh	1.4782

- c. The 2018/19 charges for connection, wiring testing, wiring re-testing, survey, re-survey, licensing for wiring, meter testing and house extension must not be changed for the Financial Year 2019/20.
- d. The effective date for the Approved tariffs is 01 May 2019.

## 11. COMMUNICATION

The decision of the LEWA Board has been communicated to the Applicant, LEC, by a letter dated 18 April, 2018, and to the general public through a press conference, a press release and via print and electronic media on 18<sup>th</sup> April 2019.



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**CHAIRMAN OF THE LEWA BOARD**

Date: 20/05/19 .....

**Table 27: Approved new Tariff Structure for Domestic Customers**

Tariff Category	LEWA'S Approved Tariff Structure	Tariff Blocks	Approved Energy Charge (M/kWh), inclusive of Levies
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CHAIRMAN OF THE LEWA BOARD

Date: 20/05/19