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MEDIA STATEMENT

27 July 2018

LESOTHO ELECTRICITY AND WATER AUTHORITY'S (LEWA) DECISION ON LESOTHO ELECTRICITY COMPANY'S (LEC) TARIFF REVIEW APPLICATION FOR 2018-19

A. DECISION:

The Lesotho Electricity and Water Authority (LEWA) Board at its meeting held today, Friday 27 July 2018 decided and approved that :-

- a) Energy charges and Maximum Demand charges (all excluding levies) be increased by 4% for all customer categories;
- b) The current charges for connection, wiring testing, wiring re-testing, survey, re-survey, licensing for wiring, meter testing and house extension remain unchanged for the Financial Year 2018/19;
- c) LEC be allowed a revenue requirement of M918.85 million (as opposed to M1.03 billion requested by the Company) for the Financial Year 2018/19; and
- d) The new tariffs are to become effective from 01 August 2018.

B. BACKGROUND

On 03 May 2018, LEC submitted a modified application for tariff adjustment of 22.1% on both the Energy and Maximum Demand (MD) charges across all customer categories. This modified application was a 1.1 % reduction from a 23.2 % tariff proposal submitted by LEC to LEWA on 23 January 2018. The proposed adjustment translated into a Revenue Requirement of M 1.03 billion.

Amongst the various tariff application drivers cited in the application, LEC stated that it had to cover the following costs electricity bulk purchases (mostly imports); operating expenditure, return on assets and depreciation.

In terms of Section 24(6) of the LEA Act 2002 as amended, the Authority embarked on a public consultation process wherein, LEC's application was published on print and electronic media and at the District Administrators Offices across the country from 17 May to 01 June 2018 to invite stakeholders' and public comments. On 03rd, 06th and 10th July 2018 public hearings were held in Quthing (covering stakeholders from Qacha's Nek and Mohale's Hoek districts as well), Butha Buthe (covering stakeholders from Mokhotlong and Mohale's Hoek districts as well) and Maseru (covering stakeholders from Mafeteng, Thaba-Tseka and Berea districts as well). The public hearings enabled LEC to present its application to the Authority and the public and for the later to make comments, inputs and observations on the reasonableness of the Licencee's application.

C. REASONS FOR THE 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 Authority has found justification for M1.03 billion Revenue Requirement not in line with LEWA's Regulatory Principles and Guidelines.

The Authority therefore concluded as follows:

1. In order to meet a Revenue Requirement of M1.03 billion, Energy and Maximum Demand Charges would have to increase by 16.6%;
2. The LEC's revenue requirement for the Financial Year 2018/19 is M918.85 million and in order to achieve it, both Energy and Maximum Demand (MD) Charges must be set at 4%;

3. During the Financial Year 2018/19, EDM costs have decreased by 40%. The decrease has resulted in overall 5% reduction in bulk supply costs. LEC should negotiate a long-term Power Purchase Agreement (PPA) with Eskom and explore conversion of Eskom Megaflex tariff to the Urban Nightsave Urban Large.
4. LEC's operating expenses have been maintained at the levels approved by the Authority. The Company is therefore adhering to the principle approved by the Authority in adjusting its operating expenses.
5. Despite LEC's achievement of staff ratio of one staff member per 400 connections, the Company has not been able to maintain its staff costs at the level approved by the Authority. The staff costs have not been increasing in line with inflation and half increase in connections. The allowed LEC's staff costs for 2018/19 is therefore M174.36 million instead of M179.17 million as proposed by the Licencee.
6. The Company's proposed depreciation charge of M112 million is reasonable and therefore allowed by the Authority.
7. LEC's proposed return on its investment of M117.60 million is not justified as the Company has never declared dividends and has unilaterally used the proceeds to increase staff remuneration. The Authority has therefore allowed the Company to earn M32 million as a return on its assets to encourage the Company to comply with the regulatory requirements.

Detailed approved 2018/19 tariffs for electricity services are reflected in Tables 1 and 2 attached.

A detailed document outlining the reasons for the decision and/ or determination on the 2018/19 charges for electricity services will be made available on the LEWA website at www.lewa.org.ls, LEWA offices and District Administrators offices in due course.

Ends.

ANNEX:

Table 1: Approved LEC Energy Charges for 2018/19

Customer Category	2017/18t Energy Charges (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 Charges (M/kWh)	Current Energy Charges including levies (M/kWh)	Final Tariff Percentage increase
Industrial HV	0.1861	4.0%	0.1936	0.2359	0.2559	0.2559	0.2484	3.0%
Industrial LV	0.2061	4.0%	0.2144	0.2567	0.2767	0.2767	0.2684	3.1%
Commercial HV	0.1861	4.0%	0.1936	0.2359	0.2559	0.2559	0.2484	3.0%
Commercial LV	0.2061	4.0%	0.2144	0.2567	0.2767	0.2767	0.2684	3.1%
General Purpose	1.5222	4.0%	1.5835	1.6258	1.6608	1.6608	1.5995	3.8%
Domestic	1.3467	4.0%	1.4009	1.4432	1.4782	1.4782	1.4240	3.8%
Street Lighting	0.7644	4.0%	0.7952	0.8375	0.8725	0.8725	0.8417	3.7%

Table 1: Approved LEC MD Charge for 2018/19

Customer Category	Current Demand Charges (M/kVA)	Maximum Approved Percentage Change (%)	Approved Maximum Demand Charges (M/kVA)
Industrial HV	262.2392	4.0%	272.7953
Industrial LV	306.3019	4.0%	318.6317
Commercial HV	262.2392	4.0%	272.7953
Commercial LV	306.3019	4.0%	318.6317

The charges in the above tables exclude VAT.

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