

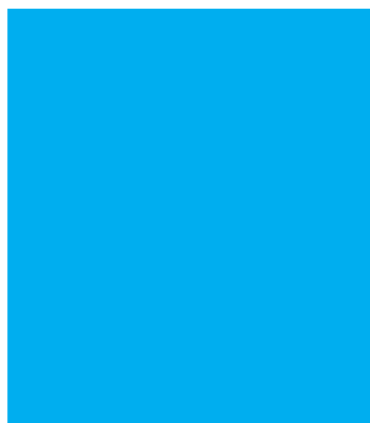
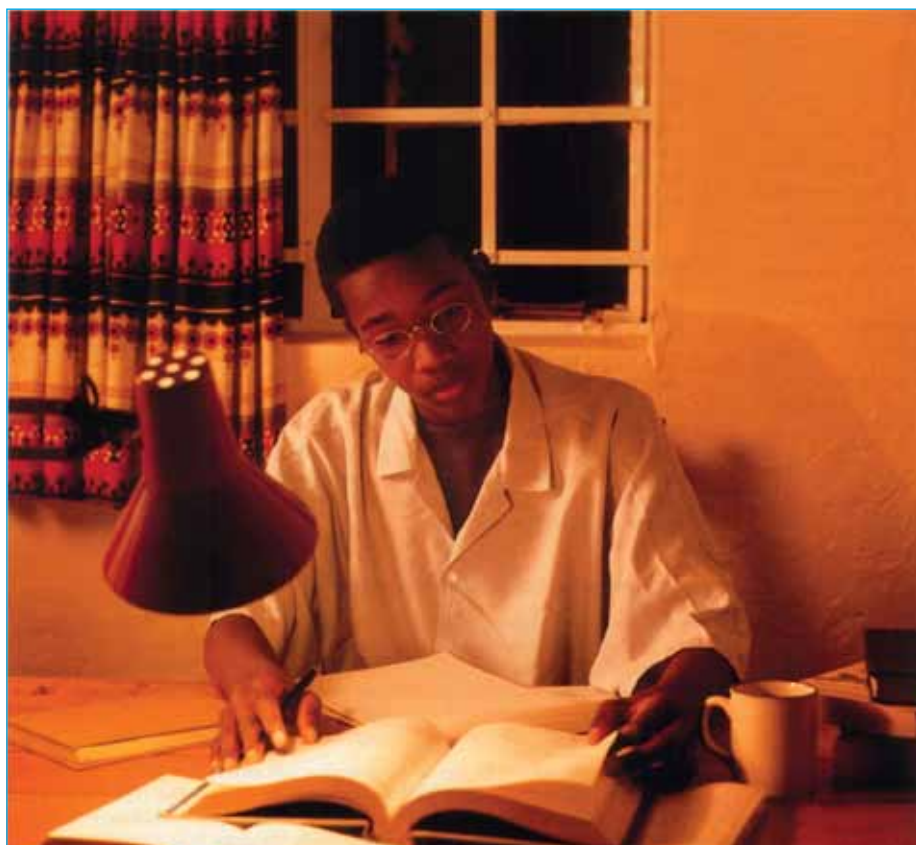


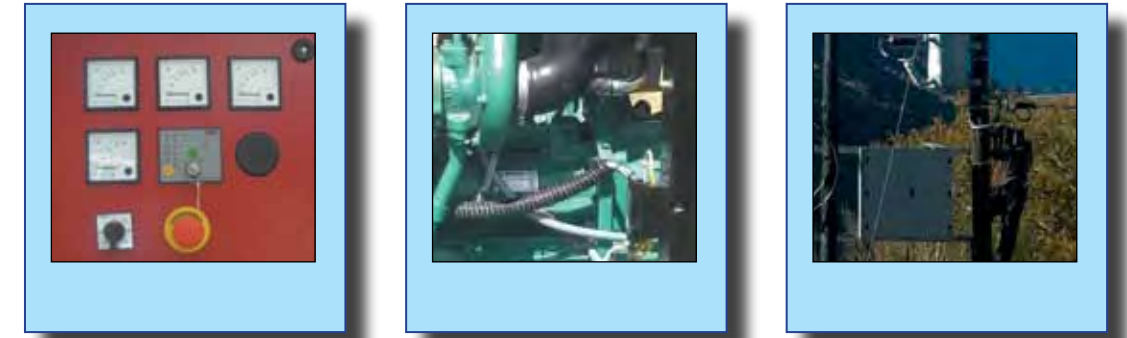
Lesotho Electricity Authority

2008 - 09 Annual Report



"Events in the review period have not changed our mandate or steered us from our firm commitment to supporting Government policy."





Contents

2	Board of Directors
3	Chairman's Statement
5	Chief Executive's Report
	Departmental Reports
	Technical Department
	Economics Department
	Legal Department
	Customer Affairs Department
13	Electricity Sector Developments
	Licensees' Performance
	Lesotho Electricity Company (LEC)
	<i>Demand Growth</i>
	<i>Electrification</i>
	Lesotho Highlands Development Authority ('Muela)
	<i>Electricity Sales</i>
	<i>Power Plant's Technical Performance</i>
	<i>Safety and Environmental Incidents</i>
	Department of Energy (Rural Electrification Unit)
	<i>Electrification Access Pilot Projects</i>
	<i>National Electrification Master Plan</i>
	Generation
16	Cooperation with Regional and International Bodies
	African Forum for Utility Regulators (AFUR)
	Regional Electricity Regulators Association (RERA)
	The World Bank
17	Financial Statements

LEA Board Members



Zola Tsotsi
Chairperson



Kutlo Kanetsi
Board Member (up to May 2008)



Qhalehang Letsika
Board Member



Ntoi Rapapa
Board Member



'Mampho Kotelo-'Molaoa
Board Member (from August 2008)



Retselisitsoe Motlojoa
Board Member (from August 2008)



Retselisitsoe Lechesa
Board Member



Matseliso Makhalemele
Board Member

Disclosure of Interest

The Authority is a Government regulatory agency with no shareholding. The Members do not hold any financial interest in the Authority

Auditor's Appointment

In terms of the LEA Act, the Auditor General is the Auditor of the Authority.



Batalatsang Kanetsi
Chief Executive



"LEA did a thorough analysis of the load shedding and a report on it was being discussed with LEC at year end. When the report has been finalized it will be posted on the LEA website."

Chairperson's Report

It is with a profound sense of humility that I present to you the Lesotho Electricity Authority's (LEA) Annual Report for 2008/9. The Report is presented against the background of a period that provided all of us with both exciting and challenging moments.

The LEA's mandate entails, in essence, maintaining a delicate balance between the interests of regulated electricity sector institutions on the one hand, and end users (essentially customers) on the other. This balance occurs within a policy environment provided by the Government. Events in the review period have not changed our mandate or steered us from our firm commitment to supporting Government policy. Nonetheless, those events have broadened the extent of our involvement in many ways that put us to the test.

A major event to highlight in this regard is the electricity outages of winter 2008 whereby many end users faced daily cuts in their electricity supply. The situation, which came about as a result of regional electricity shortages, affected us badly. Indeed the national utility, the Lesotho Electricity Company (LEC) was faced with a serious problem as its imports had declined considerably whilst internal demand for electricity was very high and growing. As a result load shedding was carried out regularly.

We hope that this brought about an understanding on the part of many consumers that a culture of energy efficiency has to be inculcated. As the Authority has constantly maintained, the remedy to this problem can be found in both the demand and supply sides of the electricity sector. To find ways of addressing this problem the LEA, which also has a mandate over the issue of security of supply, joined a task team of the Ministry of Natural Resources to come up with short, medium and long term measures on how the problem could be addressed. The recommendations were tabled before Government.

Also, as part of this exercise, a number of generation options were considered and these focused on wind power generation, harnessing the hydropower potential of the country and load management control technology. Another option included replacing the high energy consuming (incandescent) lights with low energy consuming ones (compact fluorescent lamps) in the home. This option is expected to save at least 15 MW and should be implemented as soon as funds are available. Still on the demand side it is proper to continue with customer education so that consumers change to using electricity efficiently as we have not yet overcome the problem.

In the interim the LEA did a thorough analysis of the load shedding and a report on it was being discussed with LEC at year end. When the report has been finalized it will be posted on the LEA website.

Also in the period under review the end-consumer tariffs were increased twice. On April 1st, 2008, new electricity prices became effective though the determination had been made in late March 2008. And, on November 1st, 2008, the prices were reviewed again. This happened as a result of an increase of 35% in Eskom import prices. An upwards review would allow the LEC to protect its revenues from unforeseen higher import prices. As usual the two reviews were effected only after the Authority had consulted with the public. As we have noted in the past, these processes form the basis of our transparent regulatory decisions.

The Universal Access Fund (UAF) continued receiving monies from electricity customers and the Rules for the Fund were finalised and, by March, 2009, they had been printed by Government Printing. All that is remaining is to make operational an advisory committee that will assist the Board to administer the Fund. The Authority

plans, therefore, to conduct consultations with representatives of the electricity sector stakeholder groups with regard to the advisory committee and to raise awareness about the Fund and its activities.

The Board also made an effort to become familiar with the Clean Development Mechanism (CDM) concept with a view to adopting it to the regulation of the sector in the future. As we know electricity sector players can contribute positively to the reversal of the current global climate change. Of course, that will be realized when our normative stakeholder, the Government, has laid the policy framework in connection with this matter.

Lastly, I want to inform our stakeholders that, in the year under review, the Board of the Authority received two new Board Members, Mr. Retselitsoe Motlojoa and Dr. 'Mampho Kotelo-'Molaoa. They replaced Mrs Mary Ramataboe-Moiloa and Mr. Kutlo Kanetsi whose terms had expired in May 2007 and May 2008, respectively. We welcome them indeed.

On behalf of myself and the Board of LEA, I wish to thank each and everyone of our stakeholders for their continued support. In particular, the level of support we have had from the Government has been very commendable. The licensees and customers have also increasingly become valuable partners. We are convinced that with all of you, stakeholders, joining hands with us, we shall increase access to electricity to more Basotho homes in the future

Zola Tsotsi
Chairperson - LEA Board



A public gathering in Qacha's Nek convened by the LEA to disseminate information to the public and get feedback from them.



"LEA effected two tariff increase for consumers. In line with best regulatory practices, two public consultations were held to seek stakeholders' inputs and views in the final determination of the applications."

Chief Executive's Statement

It is a pleasure for me to once again give a summary of the activities of the LEA for the year 2008/09.

For the year under review, the Authority had identified, in its Business Plan, several strategic objectives to be achieved. These were enhancing public awareness, reinforcing generation capacity, accelerating electrification, finalizing the regulatory licensing framework, monitoring licensees' compliance and performance, electricity pricing, handling complaints/resolving disputes and capacity building.

Public awareness about utility regulation remained a key objective because we had noticed that the public, especially those affected directly by electricity, were not yet familiar with the purpose and benefits of autonomous regulation. In this regard, public gatherings were held in three districts where stakeholders and the public learnt about matters such as LEA mission, successes and challenges. Pertinent developments within the Lesotho electricity supply industry, including the outages of 2008, were also discussed. Two LEA newsletters were issued and the electronic and print media were used, mainly through press conferences and interviews. The LEA website was also regularly updated.

It is worth highlighting that LEA effected two tariff increase for consumers. In line with best regulatory practices, two public consultations were held to seek stakeholders' inputs and views in the final determination of the applications. During the same period, the Authority also sought funding from World Bank/Public-Private Infrastructure Advisory Facility (WB/PPIAF) for the development of robust economic, financial and regulatory model for the electricity sector. The funding had been secured by year end.

The Authority joined hands with key power sector players to find solutions to the emerging crisis of power generation in the Southern African region. As we are all aware, this affected security of supply badly in 2008. The details of the main measures taken to reinforce generation capacity are reported under the section on Electricity Sector Developments.

A major activity for the legal department was participation in drafting an amendment to the LEA Act to include water regulation. The bill was presented to and deferred by Parliament on the premise that the restructuring of the Water and Sewerage Authority (WASA) and LEA's assumption of water regulation were processes that should run concurrently. Regarding the outstanding rules and regulations, which have been pending since LEA's establishment, it is expected that they will be gazetted and published soon to further facilitate the smooth running of the regulatory dispensation.

Customer education with regard to the complaints handling procedures was executed in the main by responding to LEA stakeholders' information requests on the role of the Authority and the electricity sector in general in Lesotho. The Authority also received and processed several complaints from consumers.

Staff and Board members of the Authority participated in a number of regional and international training initiatives. The purpose of the workshops was to capacitate participants in regulation and governance skills required for managing a sustainable regulatory system.

In addition to the above strategic objectives, some key administrative activities were also carried out. For instance a consultant was engaged to design a revised Performance Management System (PMS) for the senior staff of LEA.



LEA held a stakeholders' workshop on the universal access rules to include their views in the document.

performance. As one of the planned interventions to address some of the compliance issues, efforts will be made to recruit electrical inspectors in future.

Because the Universal Access Fund Rules were only published in March 2009 no electrification projects were financed by the Authority. An advisory committee of the Board, which will be inclusive of representatives of major electrification stakeholders, was established in principle, and should be resourced in the coming year.

As in the previous years we continued to interact with other regulators especially under the auspices of the African Forum for Utility Regulators (AFUR) and the Regional Electricity Regulators Association of Southern Africa (RERA). More information on this is contained under the section on Regional Cooperation.

Finally, in the year under review, the LEA Management continued to do its best to manage the financial affairs of the Authority prudently. The audited statements and the end of this report give the details of the financial status of the Authority in 2008/09.

It would once again be remiss on my part to conclude without asking for increased public participation in our regulatory processes. For instance, public consultation processes are meant to increase public participation in regulatory decision making. The regulator exists, principally to serve the interests of the public.

We remain grateful to all our stakeholders for their continued support and we hope for more support in future. The Board of the LEA also stood by us and we also appreciate their guidance □

Batalatsang Kanetsi
Chief Executive

The purpose of this policy is to establish and maintain an environment where performance and productivity of the staff are enhanced in order to achieve the corporate goals and objectives.

Secondly, a salary review exercise was undertaken to review the current LEA employee remuneration and benefit packages, and make a comprehensive comparative analysis of these packages with similar institutions within the country. The study recommended an appropriate remuneration and benefits package for all staff. Phased implementation of the study recommendations was to begin in 2009/10 financial year.

Thirdly, a consultant was engaged to facilitate the development of a strategic plan for the Authority. The strategic plan is a five year road-map to guide LEA in carrying out its mandate. The plan has identified the following key areas, internal processes, public awareness, education and branding; advocacy; facilitating universal access; ensuring security of supply; and human resource management and development. Implementation of the plan is to begin in 2009/10. The plan already caters for a possible assumption of water and sanitation services regulation.

It has not been plain sailing in our quest for enhanced regulation of the sector. As mentioned earlier, one of our goals was to help reinforce generation capacity of the country and this can be achieved, among others, through efficient use of electricity. Progress towards formulation of a code of practice for the efficient use of electricity was not achieved, as LEC which is obligated by its license conditions to submit a draft of the code to LEA, did not do so. On a brighter note, the Authority participated in various forums where measures to save electricity were discussed. During public gatherings that were held in the districts some education on efficient use of electricity was also done.

Another difficult area has been monitoring the licensees' compliance and performance. The licensees adherence to reporting formats remained a major challenge. Regular provision of information to the Authority by the licensees was difficult, and as a result, the Authority was not able to do a detailed and timeous assessment of the licensees'

Technical Department

"The Authority continued to participate in various forums where measures to save electricity and generation options were discussed."

Security of Supply

The shortage of surplus power in the SADC region which became a reality during the winter of 2007, continued to become a major challenge in the reporting period. Lesotho, which imports its top-up power from Eskom of South Africa, was affected by this power deficit. The Authority, therefore, continued to participate in various forums where measures to save electricity and generation options were discussed. More information on this matter is contained under Electricity Sector Developments. Education on efficient use of electricity was also done during the public gatherings that were held.

2008 Winter Load Shedding Analysis

Resulting from the abovementioned power shortage in the SADC region, LEC engaged in an intense load shedding exercise during the winter of 2008; a historic event in the electricity sector of Lesotho. This prompted the Authority to carry out an analysis of the LEC system load profile and load shedding data for the winter months of April – July 2008. LEC inputs and comments on the analysis report were sought by LEA and duly provided. Summary findings from the analysis were as follows:

The LEC system base (minimum) load was far below Muela rated capacity of 72 MW; and no load shedding was carried out when the system load fell below this value:

- Load shedding was carried out between 06h00 and 21h00 for most of the days, and the analysis reveals that during this period the LEC system load exceeded Muela maximum capacity of about 80 MW. However, it could not be concluded whether the load exceeded Muela maximum capacity plus the Eskom scheduled top-up import as the latter was not known;
- The Eskom requirement on LEC to reduce imports by 10% allowed for a load growth of 4% from the previous year, which effectively means a total reduction of 6%. This was clearly stipulated in Eskom's letter to LEC. LEC in its final comments, still insisted that there was no allowance for growth; hence the reduction was effectively more than 10%.
- A total of about 8 GWh was unsupplied during April-July 2008 due to load shedding
- By the end of 2008/09 the report was being prepared for posting on the LEA website for public consumption.

Monitoring Licensees' Compliance and Performance

Regular provision of information and in agreed formats to the Authority by the licensees was difficult, and hence the Authority was not able to do detailed assessment of the licensees' performance. Nonetheless, a review was made of the data that was provided to the Authority and the performance of licensees during the reporting period is presented under the section on electricity sector developments. Some field inspections were carried out in response to complaints by customers of LEC

Economics Department

"The two applications from LEC were duly published in local print and electronic media in order to solicit public views and comments."

Electricity Pricing

In 2008/09 Financial year, the Authority received two tariff applications from the LEC. The first application was received on 2 October 2008 while the second one was received on 10 March 2009.

The two applications from LEC were duly published in local print and electronic media in order to solicit public views and comments. Public stakeholders meetings were also held in which the LEC and one representative of customers, the Lesotho Textile Exporters Association (LTEA) made representations before the LEA Board.

The first tariff application from LEC requested the Authority to allow the company to recover M11.9 million from its customers in five months. The LEA Board, in its meeting held on 30 October 2008, allowed LEC to recover the requested amount in seventeen months instead of five, and the tariffs were approved as shown in table 1 and 2 below.

The approved tariff levels already catered for a possible 25%¹ tariff increase from Eskom in 2009/10.

Table 1: Approved LEC's tariff in November 2008 to March 2009

Customer Categories	Old Energy Charge (M/kWh) Including Levies	Old Energy Charge (M/kWh) Excluding Levies	Approved Energy Charges (M/kWh) Excluding Levies	Adding Customer Levy @ M0.01/kWh	Adding Rural Electrification Levy @M0.015/kWh for Industrial and Commercial Customers and @M0.03/kWh for other customers	Final Approved Energy Charge Including levies
Industrial High Voltage	0.0848	0.0598	0.0798	0.0898	0.1048	0.1048
Industrial Low Voltage	0.0934	0.0684	0.0884	0.0984	0.1134	0.1134
Commercial High Voltage	0.0848	0.0598	0.0798	0.0898	0.1048	0.1048
Commercial Low Voltage	0.0934	0.0684	0.0884	0.0984	0.1134	0.1134
General purpose	0.6800	0.6400	0.6550	0.6650	0.6950	0.6950
Domestic	0.5675	0.5275	0.5725	0.5825	0.6125	0.6125
Street Lighting	0.3200	0.2800	0.3250	0.3350	0.3650	0.3650

Table 2: Approved LEC Maximum Demand Charge in November 2008 to March 2009

Customer Categories	Current MD Charge (M/kVA)	Approved MD Charges (M/kVA)
Industrial High Voltage	123.318	129.3606
Industrial Low Voltage	134.754	140.8179
Commercial High Voltage	123.318	129.3606
Commercial Low Voltage	134.754	140.8179



The figures in the two tables above exclude VAT.

1. The National Energy Regulator of South Africa (NERSA) had already indicated in June 2008, when it approved Eskom's tariffs for 2008/09, that subsequent tariff increases would be between 20% and 25% annually.

At the end of the year, the second application had not yet been determined.

Economic and Financial Regulatory Model

The Authority applied for funding from World Bank/Public –Private Infrastructure Advisory Facility (WB/PPIAF) for the development of robust economic and financial regulatory models for power and water sectors in 2008/09. The economic, financial and regulatory model that will be developed will be used for tariffs setting and reviews as well as planning electrification and investment projects. The model is essential to model utility costs of operation, maintenance and investments as well as parameters of electrification targets and social policies, including targeted subsidies. The model will also assist the Authority in defining the performance obligations for the utilities; will model investment scenarios taking into account financial viability and economic/policy targets for generation, transmission and distribution infrastructure and maintenance. It will establish benchmark costs for categories of electrification projects according to recommendations of the National Electrification Master Plan for Lesotho and determine the level of subsidies required for certain financially non-viable projects. The model will be developed for both LEC and WASA, the water and sewerage utility, because the Authority is expected to take over water regulation in the near future. In summary, the model is essential for improving service coverage, efficiency, affordability and reliability and the profitability of the utilities.

Finally, a set of regulatory accounting guidelines and processes will also be developed in order to ensure the proper use and update of the model. The guidelines will ensure that cost allocation amongst regulated businesses is transparent and can be audited.

The funding was granted by PPIAF at year end, in March 2009, meaning that this important task would begin in 2009/10 □



The Electricity Access Pilot Project at Ha Sekake uses diesel generators to supply residents with electricity.

Legal Department

“The greatest challenge facing LEA to date is Licensees’ continued failure to adjust to the new regulatory environment.”

Legal Framework

In line with the Government’s policy initiative to incorporate water regulation within LEA, an amendment to the LEA Act to include water regulation was prepared with the full participation of the LEA staff. The Bill was accordingly presented to and deferred by Parliament on the premise that the restructuring of WASA and LEA’s assumption of water regulation were processes that should run concurrently. It is anticipated that the process will be completed in 2009/10.

To facilitate access as prescribed by the principal law, the Lesotho Electricity Authority (Universal Access Fund) Rules 2009 were published. These Rules would allow the disbursement of funds from the established electrification fund for subsidizing capital costs for new area electrification, providing concessionary financing towards construction and upgrading of electrical systems, providing financial assistance towards education, research and training and providing financial assistance to entrepreneurs.

While publication of the Universal Access Rules 2009 is a major milestone, finalization of other subsidiary legislation has continued to remain a challenge in the reporting period. To complete the necessary regulatory framework, some of the Rules and Regulations, notably, Licence Fees and Levies, Electricity Price Review and Dispute Resolution were in the process of being published. It is anticipated that this process will be finalized before the end of the 2009/10 year.

Regulatory Compliance

The greatest challenge facing LEA to date is the licensees’ continued reluctance to adjust to the new regulatory environment. LEA has, so far, not been strict on licensees non-compliance with the license obligations and has been advocating discussion between itself and the licensees. During the reporting period, all licensees’ (LEC, LHDA and the Department of Energy) have not been able to fully adjust to the current regulatory environment.

Board Activities

In the reporting period, various Committees of the Board held meetings to discuss amongst others, a new performance management system for the organization, salary review, revision of the Corporate Governance Handbook, financial statements, LEA budget and other human resources related issues.

The Board held five (5) ordinary and three (3) extra ordinary meetings. The consistency of the number of Board meetings in the last few years indicates that planning of yearly board activities of the organization is in line with the principle of minimizing the cost of regulation, inculcating transparency and promoting participatory regulatory processes. Nevertheless, the increased number of Extra Ordinary meetings during the reporting period is attributed mainly to a mid - year tariff application by one of the licensees.

In line with international best practices on regulation, the Board continued to engage the stakeholders and the general public before making any tariff determination. And to improve the Board’s efficiency, some of its Members undertook tailor-made courses on regulation and governance □

Customer Affairs Department

"Communication endeavours of the year included the posting of notices to the public on pertinent issues such as public consultations, price determinations and general advertisements."

Awareness About the Regulator

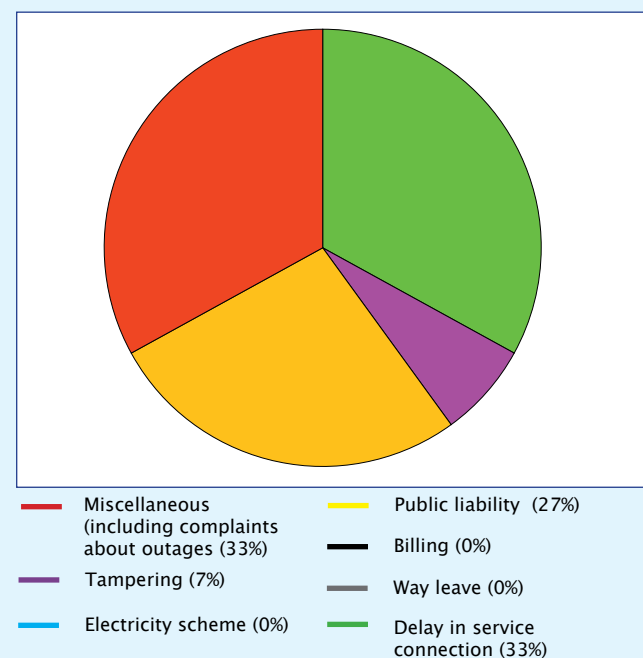
The cyclic and often repetitive processes of creating and maintaining awareness about the regulator amongst its stakeholders have yielded noticeable results. As a follow up to communication efforts made in the earlier years of the formation of the Authority, stakeholders in the Mphahle's Hoek, Quthing and Qacha's Nek districts were re-visited to exploit to the fullest the benefits of face-to-face communication. The response obtained from these interactions was increased dealings between the Authority and customers in the districts. This meant that the LEA began for the first time to attend to problems and queries from the three districts. In this way, the Authority could get some insight and feedback into the service delivery matters in the districts.

Other communication endeavours of the year included the posting of notices to the public on pertinent issues such as public consultations, and price determinations. The content of the LEA website was upgraded to reflect current developments within the Authority and the electricity sector. Interviews on electronic media were conducted. To supplement other communication channels and methods, the LEA literature such as newsletters and brochures were distributed. In the light of the lessons learned from these initiatives the LEA will have to increase the use of the electronic media as a principal channel of communication so as to reach out to more stakeholders on, firstly, the awareness level and, secondly, motivational one.

Resolution of Complaints/Queries

The facilitation of resolution of consumer complaints was undertaken frequently during the year. As in the past the complaints were primarily on the quality of service that the LEC offered its customers. In the reporting period the Authority wanted to exercise a degree of flexibility in its approach to the utility to enable it to understand and fulfill its obligations in a regulated dispensation. For instance, LEA consulted with the licensee to find solutions to customer complaints, instead of being prescriptive about solutions to complaints. Hence the majority of complaints were resolved by following this approach. On the flip side, this has, however proved very slow in inducing a speedy resolution of issues by the licensee itself. As a result the LEA has been forced to re-think this strategy for 2009/10 □

Figure 1: The percentage of complaints/queries received by the LEA



Electricity Sector Developments

"This year peak demand occurred in October when LEC started importing some of its top-up power from Electricidade de Mozambique (EDM) of Mozambique."

Licensees' Performance

Section 21 (1)(i) of the LEA Act mandates the Authority to ensure the collection, publication and dissemination of information relating to standards of performance by licensed operators and on the electricity sector in Lesotho for use by the industry, consumers and prospective investors. It is on the basis of this, that the performance of the LEA's licensees is reported here. Mindful of its reporting requirements as outlined in the Act, the LEA prepared and agreed reporting formats with its licensees (LEC, DoE and LHDA-Muela). The licensees are thus expected to report as per the agreed formats.

However, as mentioned in the preceding sections the licensees continued to provide LEA with incomplete data and at irregular intervals.

Lesotho Electricity Company (LEC)

LEC holds a Composite License for Transmission and Distribution and Supply issued by LEA in December 2006.

(a) Demand Growth

The annual LEC peak power demand grew to 122.5 MW, an increase of 7.2 MW (6.2%) from the previous year figure of 115.3 MW. However, this was a suppressed demand as there was severe load shedding during the winter months, the normal peaking load period. This year the peak occurred in October when LEC started importing some of its top-up power from Electricidade de Mozambique (EDM) of Mozambique, thus overcoming the load shedding. Interestingly however LEC energy sales also saw a growth of 29 GWh (5.7%) from 507 GWh in 2007/08 to 536 GWh in the reporting year despite the intensive load shedding that lasted for six months from April to September 2008. This was very close to the previous year's growth of 6.3%.

(b) Electrification

A total of 10,245 connections were made in the reporting year, a 16.1% decrease over last year's record figure of 12,215. This increased the LEC customer base to 77,090 of which 70,078 was domestic. This translates to 18.6% of Lesotho households connected to grid electricity. General purpose customers amounted to 6,650 and, if this figure is added to that one for domestic customers, the electrification level stood at 20.4%



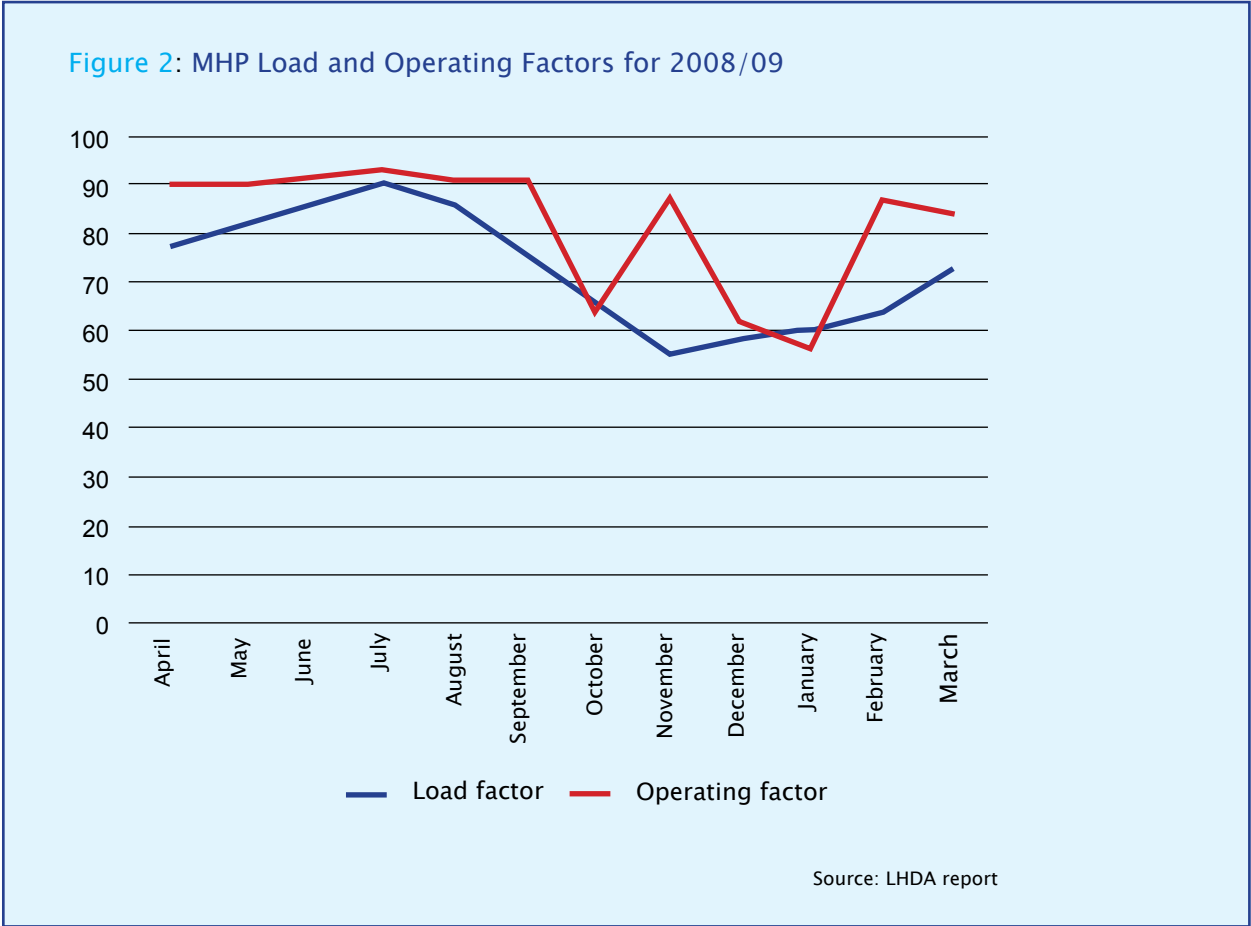
Part of the LEC transmission network. Observance of quality of supply and service licence conditions by the licensees such as the LEC is very important.

Lesotho Highlands Development Authority ('Muela)

LHDA holds a Generation License issued by LEA in December 2006.

(a) Electricity Sales

The 'Muela hydropower plant (MHP) produced a total energy of 492 GWh, of which 489 GWh was sold to LEC and the remaining exported to Eskom. The average 'Muela selling price to LEC was about 11.6 cents/kWh while that one to Eskom was about 8.4 cents/kWh. In the reporting period MHP recorded a peak power output



of 83.7 MW.

(b) Power Plant's Technical Performance

During the reporting period, MHP recorded minimum, average and maximum load factor percentage values of 55, 72.5 and 90 respectively. Percentage operating factors of 56.8, 82.2 and 92.8 were recorded as minimum, average and maximum during the same period. Both the maximum load and operating factors occurred in July 2008. Figure 2 is a graphical presentation of the factors.

(c) Safety and Environmental Incidents

The pertinent performance indicators that 'Muela uses for assessing their performance in this regard are: Industrial Safety Accident rate per 1,000,000 man-hours, Number of Vehicle Accidents and Number of Undesired Environmental Incidents. In the reporting period all of these recorded a zero value. This is commendable.

Department of Energy (Rural Electrification Unit)

The Department of Energy has held a licence exemption for running three electricity access pilot projects since October 2007. This was extended for two years from 01 October 2008 to 30 September 2010.

(a) Electrification Access Pilot projects

The number of customers in the three pilot projects of Ha Sekake, Dilli-Dilli/Sixondo and Qholaqhoe remained essentially the same throughout the reporting period as those customers that were disconnected for non-payment were reconnected after payment. No new customers were connected. A total of 696 customers are served by the pilot projects.

On availability of power supply, the Dilli-Dilli/Sixondo project did not encounter major interruptions. On the other hand, the Ha Sekake and Qholaqhoe projects experienced some extended power outages from differing causes. The cause of a two week interruption at Qholaqhoe in September 2008 was failure of an isolation transformer which was apparently a second hand. The Qholaqhoe area also experienced several frequent lightning strikes which affected the reliability of the system. At Ha Sekake there was no generation for two weeks in September 2008 due to lack of diesel. This was due to DOE delaying to pay the contractor, Lesotho Steel. An alternator of one generator was taken for repairs during October 2008 and taken back into service after repairs. The customers supplied by that generator were transferred to a neighbouring generator.

(b) National Electrification Master Plan (NEMP)

By the end of the reporting period the NEMP study report had not yet been adopted as a formal electrification working document.

Generation

No new additional local generation activity took place in the reporting period. The national power utility LEC, augmented its electricity imports by signing a three-month power purchase agreement (PPA) with EDM of Mozambique. As per the PPA, EDM would supply LEC with "...hourly available surplus power not exceeding 10 MW per hour, but as an average 5 MW per hour, as confirmed in advance with LEC." The agreement was effective from 1st October to 31st December 2008. Another PPA was signed by the two utilities starting in March 2009.

The Netgroup Consortium carried out feasibility studies for wind power generation at the sites of Lets'eng-la-Terae, Quthing and Sani Top; following a memorandum of understanding that had been entered into by and between the Consortium and the Government. By the end of the reporting period the Consortium had not yet produced a report.

A feasibility study was also carried out by Swedish consultants, SWECO for the upgrade of 'Muela plant; and the scope of that assignment was extended to include investigation of power generation at Mohale dam. A report for the assignment was yet to be produced at the end of the reporting period.

Several foreign based firms continued to indicate their willingness to become independent power producers (IPPs) in the country and they duly contacted the Authority and the latter advised them on the legal steps to follow before being licensed □

Cooperation with International and Regional Bodies

"AFUR organised a workshop in Niamey Niger where water regulators met to discuss ways of improving reporting by licensed entities so that effective monitoring and regulation of these could be implemented."

Networking with regional and international regulatory bodies has become a norm at LEA. Whilst other sectors are yet to forge closer ties between regulators, the energy (electricity) sector is different than what it was a few years ago. The following umbrella regulatory bodies have been instrumental in LEA quest to refine regulation for the benefit of sector stakeholders.

The African Forum for Utility Regulators (AFUR)



Delegates at the opening ceremony of the 2008 AFUR Conference and AGM in Accra, Ghana.

After acquiring full membership status of AFUR, an LEA delegation attended the Forum's Annual General Meeting (AGM) and conference in Accra, Ghana in April, 2008. The AGM adopted the minimum standards for quality of electricity services throughout members regulators states, as well as those for water. In October 2008, AFUR organised a workshop in Niamey, Niger, where water regulators met to discuss ways of improving reporting by licensed entities so that effective monitoring and regulation of these could be implemented. It has been decided that LEA will oversee the regulation of urban water services and it was invited to this event in this capacity. Apart from these two events, the Authority also interacted with the AFUR secretariat on a frequent basis.

The Regional Electricity Regulators Association of Southern Africa (RERA)

Through RERA structures, the LEA participated fully in the agenda for regional regulatory harmonisation for the good of its stakeholders. In the period under review, nine out of a possible 14 regulators in the SADC region have been established. In the period under review, two more regulators were established, bringing to nine out of a possible 14 regulators in the SADC region. RERA members' agenda includes harmonisation of electricity pricing mechanisms, technical standards and legal frameworks. One key activity worth mentioning was a training course for new regulatory board members and commissioners which was organised by RERA in collaboration with the National Association of Regulatory Utility commissioners (NARUC) of USA. Three LEA Board members participated in the training course. RERA held its Annual General Meeting and conference in Arusha, Tanzania, in November 2008. The theme of conference was *Regulatory Challenges in harnessing Africa's Energy Potential for Sustainable Power Supply*. The LEA was represented by one Board Member and two directors in the meetings.

The World and African Development Banks

The Authority continued to interact with the World Bank in connection with a Project Completion Report for the Lesotho Utilities Sector Reform Project (LURP). LEA provided inputs as requested into the report. As reported earlier, the Bank also assisted the LEA in preparing a request to Public-Private Infrastructure Advisory Facility (PPIAF) for funding the development of an economic and financial regulatory model □

Lesotho Electricity Authority

Financial Statements for the year ended 31 March 2009

Board Approval and Statement of Responsibility

The Members of the Board are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the income and expenditure and cash flows of the Authority for that period. The annual financial statements set out on pages 19 to 27 are the responsibility of the Members of the Board.

The Members of the Board are responsible for ensuring that the Authority keeps accounting records which disclose with reasonable accuracy, at any time, the financial position of the Authority and which enable them to ensure that the financial statements comply with the Lesotho Electricity Authority Act No 12 of 2002 as amended.

The Members of the Board are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the Authority and to prevent and detect fraud and other irregularities. The Members of the Board consider that in preparing the financial statements for the year ended 31 March 2009 set out on pages 18 to 26, the Authority has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The Members of the Board also consider that all applicable International Financial Reporting Standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

The auditors' responsibilities are stated in their report on page 18.

The Members of the Board are satisfied that Management introduced and maintained adequate internal controls to ensure that dependable records exist for the preparation of the annual financial statements, to safeguard the assets of the Authority and to ensure that all transactions are duly authorised.

Against this background, the financial statements set out on pages 19 to 27 which are stated in Maloti, the currency of Lesotho, have been approved and authorised for issue on 3 September, 2009 by the Members of the Board and signed on its behalf by:

Chairperson

Member

Lesotho Electricity Authority

Financial Statements

I have audited the financial statements of Lesotho Electricity Authority. The accompanying financial statements of Lesotho Electricity Authority, which comprise the balance sheet as at 31 March 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 19 to 27.

Management's Responsibility for the Financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit. The audit has been conducted in accordance with International Standards on Auditing. Those standards require auditors to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures elected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risks, the audit considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion to the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

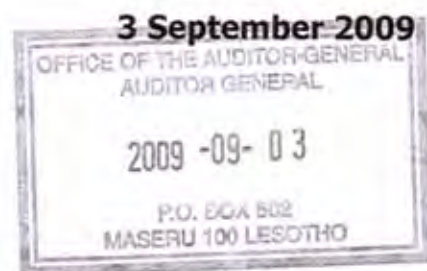
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

Opinion

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Authority at 31 March 2009 and of its financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards and in the manner required by the Lesotho Electricity Authority Act No. 12 of 2002.



L. L. Liphafa (Mrs)
Auditor General



Lesotho Electricity Authority

Financial Statements

Balance Sheet as at 31 March 2009

Assets	Notes	2009 M	2008 M
Non-Current Assets			
Property, Plant and Equipment	6	789,915	443,178
Current Assets			
Cash & Bank		1,069,182	759,934
Accounts Receivables	4	760,232	802,996
Asset Held For Sale	8	13,421	-
		1,842,835	1,562,930
Total Assets		2,632,750	2,006,108
FUNDS AND LIABILITIES			
Funds and Reserves			
Capital Grant	7	157,205	377,576
Retained Surplus/(Deficit)		980,408	77,199
		1,137,613	454,775
Non-Current Liabilities			
Gratuity		924,329	215,619
Bank Loan (Hire Purchase)		441,633	-
		1,365,962	215,619
Current Liabilities			
Accounts payable	5	129,175	1,335,714
Total Funds and Liabilities		2,632,750	2,006,108

Income & Expenditure Statement for the year ended 31 March 2009

	Notes	2009 M	2008 M
INCOME			
Customers' Levy		5,360,012	4,570,736
License Fees	3	1,572,473	1,495,871
Interest on Call Account	9	83,996	61,687
World Bank Grant	2	26,383	834,587
Capital Grant Release	7	220,371	249,774
		7,263,235	7,212,655
EXPENDITURE			
Staff Costs	9	4,031,350	3,995,293
Depreciation		272,446	270,760
Directors Expenses	9	523,622	823,546
Audit fee		17,000	15,000
Operating Costs	9	1,515,608	1,669,329
		6,360,026	6,773,928
Surplus/ (Deficit) for the year		903,209	438,727

Lesotho Electricity Authority

Financial Statements

Statement of Changes in Funds for the year ended 31 March 2009

	Capital Grants M	Retained Surplus M	Total M
Balance at 31/03/2007	627,350	(361,528)	265,822
Amortisation for the year	(249,774)	-	(249,774)
Surplus/(Deficit) for the year	-	438,727	438,727
Balance at 31/03/2008	377,576	77,199	454,775
Amortisation for the year	(220,371)	-	(220,371)
Surplus/(Deficit) for the year	-	903,209	903,209
Balance at 31/03/2009	157,205	980,408	1,137,613

Cash Flow Statement for the year ended 31 March 2009

	Notes	2009 M	2008 M
Surplus for the Year		903,209	438,727
Adjustment for:			
Decrease in Receivables		42,764	(679,444)
Decrease in Payables		(511,250)	507,800
Depreciation		272,446	270,760
Capital Grant Amortisation		(220,371)	(249,774)
Net Cash from Operating Activities		486,798	288,069
Investing Activities:			
Purchase of Fixed Assets	6	(632,604)	(122,051)
Repayment – Bank Loan		(12,356)	-
Net Cash Used in Investing Activities		(644,960)	(122,051)
Financing Activities			
Bank Loan		467,410	-
Net Cash Used in Financing Activities		467,410	-
Cash and Cash Equivalent:			
Net increase in Cash and Cash Equivalents		309,248	166,018
Cash and Cash Equivalent at the beginning of the year		759,934	593,916
Cash and Cash Equivalents at the end of the year		1,069,182	759,934

Lesotho Electricity Authority

Financial Statements

Notes to the Financial Statements for the year ended 31 March 2009

1. ACCOUNTING POLICIES

Basis of Accounting

The principal accounting policies of the Authority, which are set below, have been consistently followed in all material respects and comply with International Financial Reporting Standards and the Lesotho Electricity Act No.12 of 2002 (as amended). These financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies. The financial statements are prepared on a going concern basis.

1.1 Property, Plant and Equipment

Property, plant and equipment are stated at cost/valuation less accumulated depreciation less impairment losses where applicable. Depreciation is calculated on a straight line basis from the time the property, plant and equipment are available for use, so as to write off their cost over their expected useful lives, taking into account their residual values. The following expected useful lives are used in the calculation of depreciation:

Office Fittings	5 Years
Office Furniture	5 Years
Office Equipment	4 Years
IT Equipment	3 Years
Motor Vehicles	4 Years

Consumables are assets that cost less than M1,500 as per the LEA Financial Standing Orders hence written off in the period of purchase.

1.2 Foreign Currency Translation

Transactions in foreign currencies are translated to Maloti at the foreign exchange rate ruling at the date of the transaction.

1.3 Cash and Cash equivalents

Cash and cash equivalents include cash in hand, deposits held at hourly call with the banks less bank overdrafts.

1.4 Taxation

No provision for taxation is required as the Authority is exempt from taxation.

1.5 Revenue Recognition

1.5.1 Revenue

Income comprises of customers' levy, licenses fees from LEC and LDHA, interest and grant from World Bank and is recognized when invoiced or at the time of disbursement by the relevant institution.

1.5.2 Interest Income

Interest is recognized on a time proportion basis taking account the effective yield on the investment.

1.5.3 Revenue Grants

Revenue grants are recognized as income to match them with related costs, which they have been intended to compensate. Capital grants are recognized as deferred credit and are recognized in the income expenditure on the basis of matching them with the related costs for which the grants are intended to cover. They are amortised over the useful lives of assets.

Notes to the Financial Statements for the year ended 31 March 2009

1.6 Leases

Leases on which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating leases are charged to the income statement on a contracted amounts basis over the period of the lease.

1.7 Financial Assets

The principal financial assets are cash and bank balances, investments, trade and other receivables. These assets are originated by the enterprise and are accounted for at trade rate.

1.8 Trade and Other Receivables

Trade and other receivables originated by the enterprise are stated at fair value of consideration receivables.

1.9 Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. The principal financial liabilities are trade and other payables.

1.10 Trade and other payables

Trade and other payables are stated at their fair values.

1.11 Previous Year's Figures

Figures for the previous year have been regrouped and stated wherever necessary to conform to current year's presentation.

1.12 Financial Instruments

Exposure to credit risk, interest rate risk and currency risk arise in the normal courses of Authority's business.

1.13 Interest Rate Risk

The Authority is exposed to various risk associated with the effect of fluctuations in the prevailing levels of market rates of interest on its cash resources and investments. The cash resources are managed to ensure that surplus funds are invested in a manner to achieve maximum returns while minimizing risks.

1.14 Credit Risk

The financial assets of the Authority, that are subject to credit risk, consist mainly of cash resources, receivables and investments. The cash resources and investments are placed with reputable financial institutions. Where appropriate, adequate provisions are made for bad debts.

1.15 Fair values

The fair values of most financial instruments are substantially identical to carrying values reflected in the balance sheet.

1.16 Gratuity

The Authority provides for gratuity for contract staff as per the terms of their respective employment contracts.

Notes to the Financial Statements for the year ended 31 March 2009

1.17 Impairment of Assets

Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

1.18 Adoption of IFRSs During the Year

The Authority has adopted the following revised standards during the year and comparative figures have been amended as required. Adoption of revised standards does not have any effect on the funds and reserves as at 31 March 2006.

IAS 1 Presentation of Financial Statements;

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

IAS 10 Events after the Balance Sheet Date;

IAS 16 Property, Plant and Equipment;

IAS 17 Leases;

IAS 21 the Effects of Changes in Foreign Exchange Rates;

IAS 24 Related Parties Disclosures;

IAS 39 Financial Instruments: Recognition and Measurement;

IAS 40 Investment Property, and

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS's not Adopted

The Authority has not applied the following IFRSs that have been issued.

IFRS 2 Shared-based Payments;

IFRS 3 Business Combinations;

IFRS 4 Insurance Contracts, and

IFRS 6 Exploration for and Evaluation of Mineral Resources.

These standards do not apply to the activities of the Authority.

Lesotho Electricity Authority

Financial Statements

Notes to the Financial Statements for the year ended 31 March 2009

	2009 M	2008 M
2. World Bank Revenue Grant	26,383	834,587
3. Licence Fees		
LEC	1,188,710	1,146,996
LHDA	383,763	348,875
	1,572,473	1,495,871
4. Accounts Receivables/Prepayments		
JHI –Deposit (Rent & Broadband)	42,755	42,755
Telecom Lesotho	2,000	2,000
Lesotho Brokers	20,941	-
LEC – Customers' Levy	532,257	693,102
Staff Advances	4,088	4,463
PRISA & SAIEE	1,130	-
RERA & other Conference	33,082	8,210
Security Unlimited	376	342
Assets Held for Sale	13,421	-
RERA	59,936	52,124
AFUR	37,284	-
Commissioner of Water	26,383	-
	773,653	802,996
5. Accounts Payable		
Falling due within 1 Year		
JHI	2,500	-
Excel	2,743	1,640
Blue Mountain Inn	10,632	-
Lesotho Highlands Development Authority	1,000	384,763
Lesotho Revenue Authority	6,860	-
Gratuity	-	937,456
Telecom Lesotho	9,553	-
ABC Insurance Brokers	-	1,250
Board Members	2,400	463
AC Braby/Others	16,037	798
Epic Printers	-	5,300
DHL	-	302
Emperial Fleet Services	-	2,070
Bank Loan	77,450	-
Overtime	-	1,672
	129,175	1,335,714
Falling due after 1 Year		
Bank Loan	441,633	-
Gratuity	924,329	215,619
	1,495,137	1,551,333

Lesotho Electricity Authority

Financial Statements

Notes to the Financial Statements for the year ended 31 March 2009

6. Property, Plant and Equipment

	Office Furniture M	Office Equipment M	IT Equipment M	Office Fittings M	Motor Vehicle M	Totals M
Cost						
At April 1, 2008	253,371	153,696	306,620	68,210	343,058	1,124,955
Additions	-	1,668	102,896	-	528,040	632,604
Asset Held for Sale - Jeep	-	-	-	-	(214,750)	(214,750)
At March 31, 2009	253,371	155,364	409,516	68,210	656,348	1,542,809
DEPRECIATION	20%	25%	33.33%	20%	25%	
At April 1, 2008	129,497	92,282	167,361	42,492	250,145	681,777
Charge for the year	50,674	38,403	70,909	13,641	98,819	272,446
Asset Held for Sale - Jeep	-	-	-	-	(201,329)	(201,329)
At March 31, 2009	180,171	130,685	238,270	56,133	147,635	752,894
NET BOOK VALUE						
At April 1, 2008	123,874	61,414	139,259	25,718	92,913	443,178
Asset Held for Sale - Jeep	-	-	-	-	(13,421)	(13,421)
At March 31, 2009	73,200	24,679	171,246	12,077	508,713	789,915

7. Capital Grants

	2009 M	2008 M
Balance at the beginning of the year	377,576	627,350
Increase during the year	-	-
Amortised during the year	(220,371)	(249,774)
Balance at the end of the year	157,205	377,576

8. Asset held for Sale

The Board approved disposal of a motor vehicle (Jeep) in October 2008. However, the vehicle was ready for sale by the end of January 2009 after the acquisition of a replacement vehicle. The IFRS 5 was applied accordingly.

Notes to the Financial Statements for the year ended 31 March 2009

9. Detailed Income and Expenditure Statement

	<u>2009</u> <u>Maloti</u>	<u>2008</u> <u>Maloti</u>
INCOME:		
Customers' Levy	5,360,012	4,570,736
Licence fees	1,572,473	1,495,871
World Bank Grant	26,383	834,587
Capital Grants Release	220,371	249,774
Interest on Call	83,996	61,687
Total Income	7,263,235	7,212,655
Less: Expenditure:		
Directors' Expenses		
Director's Fees	242,232	202,942
Other Costs – Board	188,536	102,602
Board Training	92,854	518,002
	523,622	823,546
Staff Costs:		
Salaries	2,346,231	2,080,144
Housing Allowance	235,532	209,732
Medical aid	163,688	151,030
Fringe Benefits	54,301	42,471
Gratuity	895,558	797,717
Staff Training/Workshops	247,590	621,045
Health & Wellness allowance	7,200	-
Staff Uniform	-	14,638
Staff Cellphone Allowance	81,250	78,516
	4,031,350	3,995,293
Operating Costs:		
Stationery	51,080	44,303
Advertising/Public Awareness	72,108	63,850
Publications	11,402	10,018
Office Expenses	82,501	72,519
Transport Costs	92,896	87,985
Bank Charges	20,744	17,296
Rent	291,594	271,933
Electricity	28,640	38,396
Telephone	115,987	104,889
Internet	31,200	31,200

Notes to the Financial Statements for the year ended 31 March 2009

9. Detailed Income and Expenditure Statement (continued)

	<u>2009</u> <u>M</u>	<u>2008</u> <u>M</u>
Insurance	40,612	30,773
IT Expenses	37,850	24,145
RERA Subscription	72,104	62,375
RERA & Other Meetings	303,475	224,234
AFUR Subscription	51,783	-
Development of a Strategic Plan	34,047	-
Salary Survey Study	47,500	-
Cost of Electricity Supply Study	-	459,378
Interest - Bank Loan	19,178	-
Annual Report	29,757	23,177
External Advisors	-	11,193
Stakeholders Meetings	2,613	-
Promotional Items	57,822	33,562
Ring fencing Regulated Businesses	-	43,947
Increasing Access to Electricity	3,543	1,295
Development of Rural QOSSS	-	9,777
Public Hearing	17,172	3,086
	1,515,608	1,669,331
Other costs		
Audit Fees	17,000	15,000
Depreciation	272,446	270,760
Total expenses	6,360,026	6,773,930



Lesotho Electricity Authority

6 th Floor, Moposo House • Private Bag A315 • Maseru 100 • Lesotho

Tel.: +266 22 312479 • Fax: +266 22 315094

Email: secretary@lea.org.ls
