



Lesotho Electricity and Water Authority- LEWA

Infrastructure Regulation – LEWA case (Electricity & Urban Water and Sewerage Services)

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Why regulate?

- Governments: TAX, SPEND (Services & Infrastructure) AND REGULATE;
- Why regulate?
 - ✓ Regulators: encourage and support – sustainable economic and legal commitments: Investors, Govs, financiers;
 - ✓ New investments (expansion/replacement), increase in access to quality services, etc;
 - ✓ Governments: TAX & EXPENDITURE
 - ✓ Monopolistic Business



Regulatory systems (Regulatory Governance/Substance/Impact)

Regulatory governance (HOW)

Legal design, sector policy and institutional arrangements of regulatory system and processes of regulatory decision-making

**Credibility,
legitimacy,
and transparency of
regulatory decisions**

Regulatory substance (WHAT)

Content of regulation
licences
tariff-setting methodologies
Technical and commercial
service standards, pro-poor &
and increasing access issues

**Quality & robustness
of regulatory decisions**

Impact on the sector (WHY)

Competitively and fairly priced, reliable infrastructure services;
Efficiency and financial viability of utilities, attract new investment;
increase in access, pro poor issues; Government – Tax and Expenditure
not regulation



Key Regulatory Principles

- **Requisite Powers;**
 - ✓ Authority to: set tariffs, QoSSS, complaints resolution (customers/service providers), enforce its decisions, remedy problems.
- **Accountability;**
 - ✓ Regulators accountable/actions: appeal mechanisms, audit reports(parliament), performance review, compliance
- **Transparency and Public Participation;**
 - ✓ Processes – fair, impartial, open to public scrutiny
 - ✓ Decisions – clear procedures and criteria , rationale
- **Independence – regulatory decisions;**
 - ✓ Regulatory decisions/freely/establishing legislation
 - ✓ Funding for the regulator (levies vs subvention)



Key Regulatory Principles –

Cont'd

- **Predictability;**
 - ✓ Regulatory instruments – certainty/decisions;
 - ✓ Changes – stakeholders' participation/inputs/comments
- **Clarity of roles;**
 - ✓ Regulator's roles and functions – clearly defined/legislation – avoid duplication, conflicts, mixed communications
- **Completeness and Clarity of Rules;**
 - ✓ Legislation, policies, procedures, principles, guidelines be available; clear procedures and principles to be followed
- **Integrity**
 - ✓ Ethical/adherence to corporate governance (prohibition: bribes, conflicts of interests, preferential treatment, inside information for personal gain)



The case for LEWA(2004 – to date)

- **Operational 2004 (LEA Act 2002);**
 - ✓ Electricity Regulation;
 - ✓ Licenses: LEC (Composite license: Tx, Dx & Sx), LHDA (Gx), License exemption – DOE (EAPPS)
 - ✓ Economic Regulation: Tariff settings: LEC tariffs (annual), LHDA/LEC –PPA (not reviewed to date)
 - ✓ Technical Regulation: Monitoring Regulatory Compliance
 - ✓ Customer Complaints Resolution
- **Mandate extended (LEA Amendment 2011)**
 - ✓ Urban Water and Sewerage Services;
 - ✓ License: WASCO (May 2013);
 - ✓ Technical Regulation: Monitoring Regulatory Compliance
 - ✓ Economic Regulation: Tariff settings: 2014/15 tariffs to be determined
 - ✓ Customer Complaints Resolution



LEWA - Governance

- Board (Regulatory Decision making & Strategic Direction)
- ✓ 7 members & CEO – appointed by Minister;
- ✓ Members: Economics, Finance, Accounting, Law, Science/engineering (Electricity & Water) and Governance;
- ✓ Members terms: max two terms – 4 yrs (staggered)
- ✓ Members removal (conditions): Minister – recommendation by three member tribunal headed by judge
- ✓ Regulatory decisions – appeal (procedural issues)



LEWA – FINANCIAL INDEPENDENCE

- LEWA prepares own budget
 - ✓ Recommendation by Board to Minister for approval
- LEWA funded by
 - ✓ Customer Levies (2013/14: Electricity Mo.0254/kWh)
 - ✓ License fees (2013/14: Electricity M1.28/MWh)
 - ✓ Bank Interests
 - ✓ Loans
 - ✓ Grants (2013/14: WB & USAID)



LEWA – REGULATORY SUBSTANCE

- **Licenses:** LHDA, LEC and WASCO; DOE (Exemption);
- **Tariff Setting (guided by the Tariff Review and Filing Procedure, Charging principles):**
 - ✓ Application: Single/Multiyear;
 - ✓ LEWA assessment: Completeness of the request
 - ✓ Public consultation processes and LEWA analysis
 - ✓ Board tariffs' determination and publication
- **Revenue Requirement**
$$O \& M + Dep. + Taxes + Licence \text{ fees} + WACC * RAB$$



ELECTRICITY TARIFFS REVIEW

2008/09 – 2013/14

Year	2009/10	2010/11	2011/12	2012/13	2013/14
LEC Tariff application % increase	14% (both)	14% - 17% (both)	29%(EC) 25%(MDC)	25% (EC) 27% (MDC)	36% (both)
LEWA approved tariff % increase	9.0% (both) No increase (MDC)	7.3 % (EC) 6.0% (EC-GP) 7.3% (MDC – LV);	EC: 16% (Industry) 17% (others) MDC: 16%	7.5% (EC) 9.7% (MDC)	15.2% (both)

*EC = Energy Charges (All customers); MDC = Maximum Demand Charges (Industry); GP = General purpose; LV = Low Voltage

LEC COSTS – 2013/14 TARIFF DETERMINATION

TOTAL REVENUE = M572Million

COST ITEMS	Percentage of Revenue
Costs of Sales(Bulk purchases [49.8%], Repairs & Maintenance[2.8%], Diesel & oil [0.2%])	52.8%
Operating Expenditures (Labour[20.4%], Depreciation [12.2%], Other expenses [11.9%], licence fees[0.6%])	45.1%
Return on Investment [2.1%]	2.1%

Bulk Purchases [MHP+ imports – pass through costs],
 Labour [inflation, *increase in (customer numbers & sales), **target 400 customers per employee**, currently about 310 per employee]
 Other expenses [inflation, *increase in sales];
 Depreciation [Assets to be replaced & value of assets];
 Return Investment [inflation, Assets and their financing]

ACTUAL & FORECASTED: DATA (REASONABLENESS)



LEWA – Substance cont'd

- **Service Standards (QoSSS)**
 - ✓ Monitor and enforce: Licensees' compliance to Standards (security and quality of supply, customer care)
 - ✓ Initial light handed approach
- **Pro poor and increasing access**
 - ✓ Cross – subsidy (customers), inclining block tariffs(water, electricity??);
 - ✓ Universal Access Fund (Electrification levy – Mo.02/kWh /Mo.035/kWh for industry/others, , water levy??)
 - ✓ Tariff decisions



Impact on the sector (Electricity)

- Increase in access:
 - ✓ 2008/2009: 77,090 Connections (70,078 domestic = 18.6 % household access);
 - ✓ 2012/13: 144,732 (135,513 domestic = 30.2%)
 - ✓ Target – Household access: 35% by 2015, 40% by 2020
 - ✓ Annual rate above 12,000 connections;
 - ✓ Targets
 - ✓ UAF – LEWA
 - ✓ Regulation of ESI and Urban Water and Sewerage Services (Not longer under direct Government Regulation)



Impact on the sector (Electricity)

- LEWA Peer Review Report (November 2011):
 - **Adequacy of supply** reasonable
 - Demand exceeds local supply but difference made up from imports
 - LEWA Bulk Supply Costs Principle ensures procurement of power
 - Interests Generation projects (wind, pumped storage)
 - **Quality of supply** reasonable
 - **Reliability** (outages) unsatisfactory but improving
 - LEC earns a profit but not high enough to **finance** expansion of networks
 - The need to move from light handed regulation for the electricity sector and enforce penalties for non-compliance.



STATUTORY REPORTING

- Annual Report (April – September)
- Presented by Minister – Cabinet and Parliament FI
- ✓ Board Governance (Membership, Activities, Meetings attended)
- ✓ Regulated Sectors performance and developments
- ✓ Internal and Regulatory compliance
- ✓ Regulated Sectors' data
- ✓ Tariffs
- ✓ Customer Complaints' Resolutions updates
- ✓ Finance, Humana Resources, Administration
- ✓ Audited Financial Statements – AG report
- ✓ AG – Communicate directly with the Minister on issues of concern (if any)



Concluding Remarks

- Full compliance by the Regulated Utilities is a major challenge
- Security of Supply
- Information asymmetry from licensees
- Pro poor issues
- Management of the Stakeholders and their perceptions is critical
- Key Regulatory principles guides the regulator
- Regulation is for the benefit of all

LEWA – A partner to all for sustainable services

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NOTICE: Tariff reviews: Electricity, and Urban Water and Sewerage Services (February – April 2014)