



LESOTHO ELECTRICITY AND WATER AUTHORITY

LEWA'S DETERMINATION OF LESOTHO ELECTRICITY COMPANY'S (LEC) TARIFF APPLICATION FOR 2020/21

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IN THE MATTER REGARDING A

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

APPLICATION FOR A TARIFF INCREASE FOR 2020/21 FINANCIAL YEAR

1. DECISION

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 responses to both LEWA and public comments, including the effects of Covid-19 pandemic, analysed by the Authority revealed that justification for M1.217 billion Revenue Requirement is not in line with LEWA's Regulatory Principles and Guidelines. The Authority's decisions are therefore as follows:

- A.** LEC's allowed revenue for the Financial Year 2020/21 will be **M933.48 million** and tariffs will remain unchanged as shown in Tables 1 and 2 below to meet the allowed Revenue Requirement.

Table 1: Approved LEC Energy Charges for 2020/21 by the LEWA Board

Customer Category	Current 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	Current Energy Charges including levies	Final Tariff Percentage increase
Industrial HV	0.1936	0.0000%	0.1936	0.2359	0.2559	0.2559	0.2559	0.00%
Industrial LV	0.2144	0.0000%	0.2144	0.2567	0.2767	0.2767	0.2767	0.00%
Commercial HV	0.1936	0.0000%	0.1936	0.2359	0.2559	0.2559	0.2559	0.00%

Customer Category	Current 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	Current Energy Charges including levies	Final Tariff Percentage increase
Commercial LV	0.2144	0.0000%	0.2144	0.2567	0.2767	0.2767	0.2767	0.00%
General Purpose	1.5835	0.0000%	1.5835	1.6258	1.6608	1.6608	1.6608	0.00%
Domestic	1.4009	0.0000%	1.4009	1.4432	1.4782	1.4782	1.4782	0.00%
Street Lighting	0.7952	0.0000%	0.7952	0.8375	0.8725	0.8725	0.8725	0.00%
Lifeline Domestic	0.6500	0.0000%	0.6500	0.6923	0.7273	0.7273	0.7273	0.00%

Table 2: Approved LEC MD Charges for 2020/21 by the LEWA Board

Customer Category	Current Maximum Demand Charge (M/kVA)	Approved Percentage Change	Approved Maximum Demand Charges (M/kVA)
Industrial HV	272.7953	0.0000%	272.7953
Industrial LV	318.6317	0.0000%	318.6317
Commercial HV	272.7953	0.0000%	272.7953
Commercial LV	318.6317	0.0000%	318.6317

The figures in Tables 1 and 2 exclude VAT

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. It is on the basis of this, that LEC filed an application for tariff increase (the Application) with the Authority on 17 January 2020.

3. THE DECISION-MAKING PROCESS

On 10 February, 2020, the Authority published the Application in both the print and electronic media with an invitation to stakeholders to submit written comments. The closing date for comments was 23 February, 2020. 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 the 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.

The Application was reviewed in line with the Lesotho Electricity and Water Authority (LEWA) Tariff Filing and Review Procedure for Electricity and Water Tariff Applications. The Authority identified data gaps in the Application and communicated them through a modification letter to LEC on 19 February, 2020. The Company provided further information as requested, albeit insufficient on 12 March, 2020.

4. LESOTHO ELECTRICITY COMPANY (LEC) TARIFF APPLICATION – OVERVIEW

The Authority received an Application for 2020/21 Tariff Review (the Application) from the Lesotho Electricity Company, (LEC) (the Company or the Applicant) on 17 January, 2020, through which LEC applied for electricity tariffs increase of 32.6% on both the Energy and Maximum Demand (MD) charges across all customer categories. LEC further requested an approval of a Revenue Requirement of M1.21 billion for the Financial Year 2020/21.

The Application indicated that the requested revenue is considered to be adequate for LEC to manage its daily operations in an efficient and reliable manner and to meet the Company's performance obligations.

The Application mentioned that even though the Company is hundred percent (100%) owned by the Government of Lesotho (GoL), it does not receive GoL subvention except for electrification funding of designated villages.

As mentioned earlier, the Company has applied for tariffs increase of 32.6 % for all consumer categories for the 2020/21 Financial Year. The Application highlighted that according to the Cost of Service Study, LEC's tariffs are not cost-reflective, hence they do not cover costs of transmission, distribution and supply of electricity in the country. It further mentioned that the non-cost reflective tariffs would, in the future, fail to attract the envisaged private sector investment necessary for the improvement of transmission, distribution and supply of electricity to meet the increasing demands of the country.

The Application stated that electricity demand is expected to increase due to massive electrification programs that the GoL is currently implementing; development of industrial zones by Lesotho National Development Corporation (LNDC); new

developments in the mining sector and the recent increasing interest for Cannabis farming in the country.

Furthermore LEC stated that whilst it may be generally perceived that an increase in tariffs would adversely affect business and may eventually push the cost of living further high, the cost of unreliable and inefficient supply of electricity has a negative impact on the investors' confidence in the economy and that might bring about other challenges in the functionality and service provision to its customers. It further highlighted that LEC's current tariffs are uneconomical and totally unsustainable which might result in a possibility of LEC seeking a bail out of the Company by the GoL

4.1. LEC Annual Performance Review

The Application highlighted the following as its operational and strategical achievements for the Financial Year 2019/2020.

a) Systems Availability

The system average availability for the twelve months duration from October 2018 to September 2019 was 99.84% against the target annual average of 99.00%. Similarly, the availability of the distribution system was on average 99.84% for the same duration against an average target of 95.00% per annum.

b) Network Expansion

LEC met national electricity demand, avoided load shedding and its related economic repercussions through negotiated and signed external bulk supply contracts that augmented local generation. It stated that the company consistently exceeded annual electrification targets and that increased the country's electrification access. The Application further stated that LEC had implemented network system improvements and infrastructure upgrading projects to address aged and overloaded networks that caused frequent power outages. It was also mentioned that the completed projects cost amounted to M 36,117,544.70.

c) Strategic Planning

The Company's strategy is focused on the development and implementation of objectives and initiatives that will position LEC as an efficient supplier of electricity and ensure its long-term sustainability. It also explained that due to limited funds, the strategic initiatives will be curtailed and managed to match the available funds.

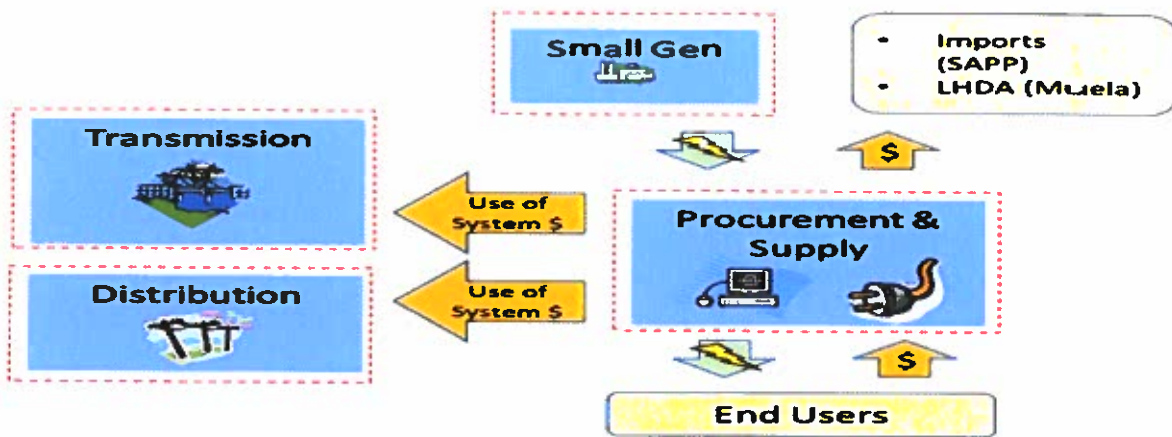
The network reliability initiatives are limited to meet the available capital allowed in the financial plan. The implementation of the plan will be measured and monitored through the application of appropriate key performance indicators and milestones. Moreover, the roll out of the Strategic Plan will be phased into fixing of breakdowns in service delivery, capacity building and growth and sustainability of the business.

d) Ring-fencing

LEC engaged MRC consultants in 2019/20 to ringfence its businesses and develop a Cost Allocation Manual (CAM). The CAM describes how the management accounts will be used to capture directly attributable ledger entries and to allocate the shared costs using the appropriate drivers.

Suitable indices were identified to re-value the assets and the re-evaluation resulted in 16% increase in the book value of LEC assets. It is also indicated that LEC and LEWA agreed on the ring-fencing framework that is illustrated in the figure 1 below.

Figure 1: Agreed Ring-fencing Framework



e) Fraud and Crime Prevention

LEC worked with the Courts of Law and other Government Law Enforcement Agencies and managed to put measures in place to recover the money lost due to corruption and fraud. It also stated that the company had already recovered M7, 350,000.00 and 120 customer meters had been disconnected.

Tower members for the 132kV line from Mabote substation to Mazenod substation were stolen resulting in the collapse of the line.

4.2. Challenges

a) Security of Supply

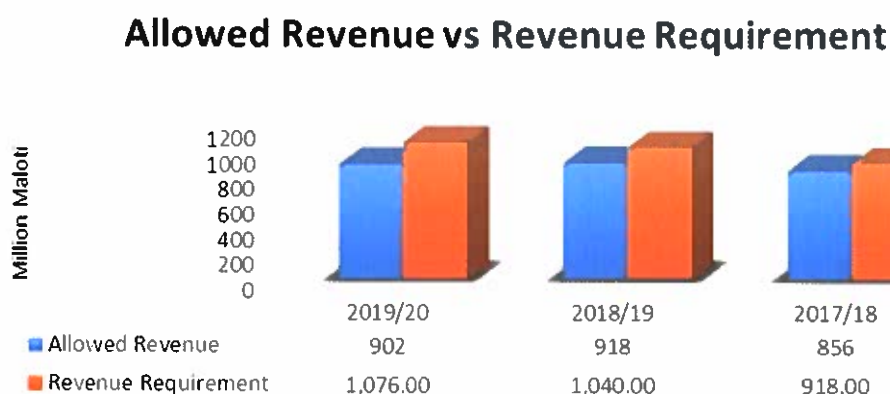
The Application stated that due to shortage of water in the Lesotho Highlands Water Project (LHWP) reservoirs, Katse and Mohale; the 2019/20 Financial Year water transfer to the Republic of South Africa and electricity generation requirements at 'Muela Hydropower Plant were not achieved. As a result, LEC imported more expensive electricity from Eskom of South Africa and EDM of Mozambique. LEC believes that to ensure stable security of supply, for 2020/21 Financial Year, the Company will increase its forecasted purchases.

The Application cited that the 2019/2020 LEWA Tariff Determination recommended that LEC should migrate from the current Megaflex tariff to Nightsave Urban Large tariff as the latter was cheaper. The Application further goes to say the migration is akin to a domestic consumer requesting to be connected to an industrial connection and simultaneously requesting same industrial¹ tariff. LEC's statement is based on ESKOM's assertion that LEC Maseru Bulk supply is connected to a Megaflex tariff structure and cannot be moved; without citing its own analysis which the Authority requested it to do.

b) Allowed Revenue Compared to Required Revenue

LEC had never been allocated the revenue that it requested from the regulator, as such the company had to resort to ways and means of surviving with the shortfall. It further mentioned that the shortfall resulted in the compromising or postponement of some essential repair and maintenance projects. Allowed and required revenues were as shown in figure 2 below:

Figure 2: Allowed Revenue Compared to Revenue Requirement



The Application indicated that compared to 2018/19, 2019/20 Allowed Revenue was reduced by approximately M17 million² and that adversely affected the Company's

¹ LEWA is of the view that industrial should be replaced by domestic

² But from the chart, the difference is M16 million

ability to invest more on business expansion, as the return on assets did not match the assets that the Company maintained.

c) Lifeline Tariff

The Application mentioned that despite the GoL financing numerous rural electrification projects, the poor households are still unable to afford electricity tariffs. It appears that increasing access to electricity by the Government has not yielded the intended benefits of alleviating poverty in the country.

There is a need to interrogate the impact of the pro-poor pricing mechanism introduced by the Authority in 2019/20 Financial Year. The Application pointed out that the lifeline rates created price distortions for both LEC and its customers as they do not reflect marginal cost of service provision. It also mentioned that the rates adversely affected financial sustainability of the Company as they were too low to cover operations and maintenance of the relevant customers. It further mentioned that in order to cover the shortfall there is a need for cross subsidization from other customer categories.

LEC indicated that the pro-poor tariff structure will not fully account for the cost of investing in new infrastructure, bulk purchases, transmission and distribution of electricity. It also stated that the pro-poor tariff structures partly contributed to an inadequate and constrained electricity supply, and made it difficult to meet the growing energy demand. The Application also highlighted the fact that the pro-poor tariff would result in more of the less affording customers having the desire to be connected to the grid, and the increased residential electricity demand would require additional resources while the company would experience more technical and non-technical inefficiencies. Ratios like number of customers per employee and electricity bill to the number of serviced customers would also be compromised.

The Application alleged that the introduction of a lifeline tariff in the Financial Year 2019/20 had adversely impacted on the allowed revenue of M902 million as it was reduced to M858 million. It also stated that the impact of the lifeline tariffs when coupled

with no increase in tariffs is almost M50 million³. The Application also showed that there was an inverse relationship between percentage changes in sales and number of customers connected to the grid annually.

d) Declining sales against Increasing number of Customers

Figure 3 below shows the negative relationship between the number of customers connected and sales.

Figure 3: Declining Sales and Increasing Number of Customers⁴

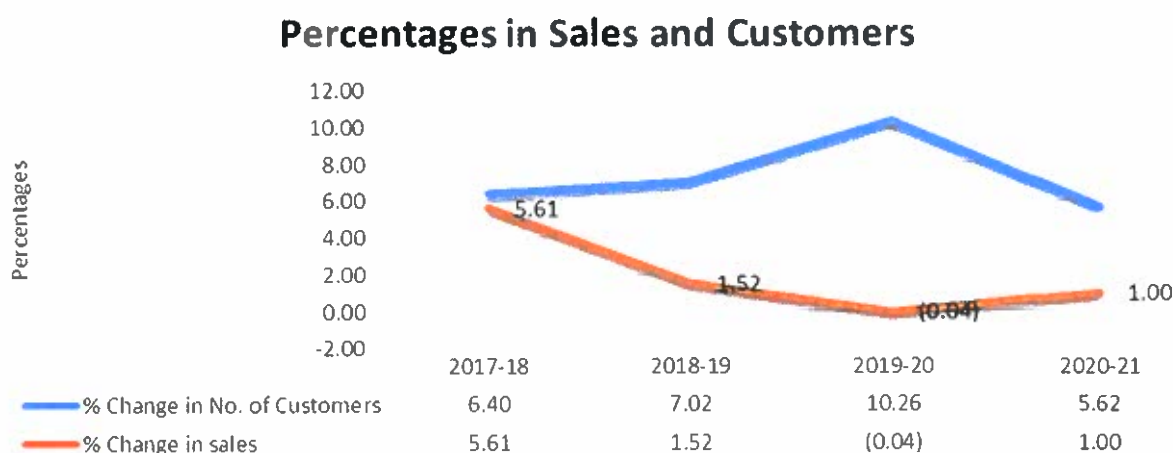


Figure 3 above illustrates the percentage changes for actual (2017/18 and 2018/19) and forecasted (2019/20 and 2020/21) number of customers and sales figures. The illustration shows that there is a negative relationship between number of grid-connected customers compared to annual sales. The Application stated that the inverse relationship can be attributed to ongoing massive electrification program that connects low consuming customers and Demand Side Management (DSM) Programs that LEC engaged on while it faced supply side constraints especially from Eskom.

³ The difference between M902million and M858 Million is M 44 million

⁴ According to the graph, sales and connections are both increasing even though sales increase at a rate lower than connections increase except in 2019/20 financial Year

e) Human Resource Development

LEC mentioned that acceleration of the electrification programme coupled with the prepaid network expansion⁵ implies that there is a need to increase resources to deliver services. It also stated that the shortfall in resources is made evident by the increasing response time to unplanned power outages; increasing backlog for service connection surveys, completed works awaiting commissioning and inadequate contractors' supervision. The Application also mentioned that over the past several years, LEC had operated under a recruitment moratorium based on the benchmarking study (one employee per 400 customers) has been burdensome to the company due to the multiple temporary re-engagements. The Company currently has 60 vacancies due to resignations and retirements. It also pointed out that the Human Resources Development (HRD) initiatives and talent management and retention will be critical in order to retain and motivate talent across the organization.

f) Aged Network

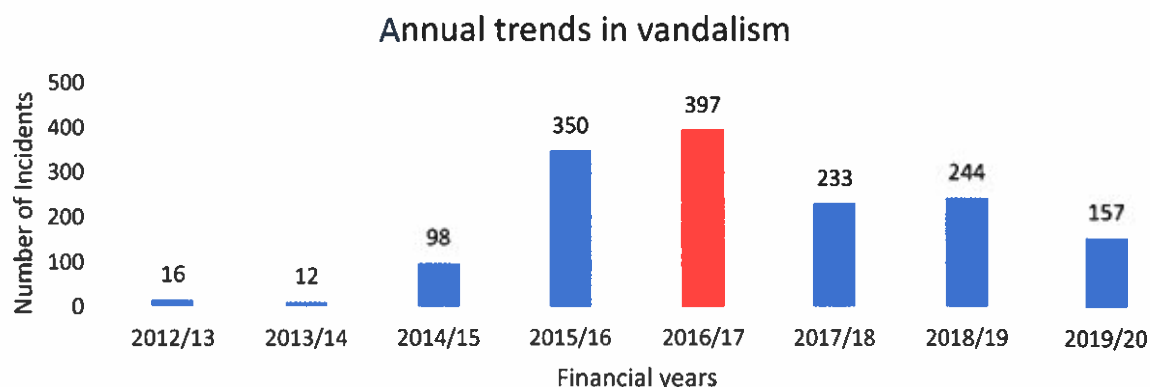
LEC needed more investment funds to replace old infrastructure that caused serious challenges during operations and was not safe for its employees to operate.

g) Vandalism

Copper theft remained a financial, reputational and sustainability risk for LEC. It stated that copper theft increase started in 2014/15, reached peak in 2016/17 and declined in the subsequent years as shown in figure 4 below. It attributed the decline in vandalism to the interventions which included collaboration with the local authorities and law enforcement agencies, awareness initiatives through mass media and review of technical standards that included materials used in connecting customers.

⁵ LEWA does not understand how prepaid network expansion requires increase in resources

Figure 4: Trends in vandalism cases



In the Financial Year 2019/20, 157 incidents with total material costing M421, 122. 68 were recorded while total material cost for the Financial Year 2018/19 was M426, 857.71. It stated that among others, 16mm 4 core copper cable, Airdac copper cable, circuit breakers and wood poles are materials that are mostly stolen. It stated that in 2019/20, vandalism incidents showed a declining trend, starting with 33 in April and having only 10 in October 2019.

The Application further stated the following as some of the vandalism consequences that had impacted LEC and its Customers as a whole:

- Loss of sales during the time that LEC has not restored service to the customers;
- Financial loss due to the replacement of the vandalized cables (replacement value);
- Tarnished image of LEC resulting from unreliable service to the customers; and
- Damaged customer s' electrical equipment.

The theft of aluminium tower members at Ha Bosofo, about 220m of 11kV underground cable at Mphorosane and a vandalism of a transformer at Mapoteng were mentioned in the Application as the three incidents that would have had massive impacts in the 2019/20 Financial Year, had there been no intervention and cooperation between LEC

and the public. It further mentioned that in comparing theft incidents in districts, Maseru is highly affected, followed by Leribe and Berea.

LEC mentioned that amongst the proposed or recommended actions in curbing the theft of electrical equipment, LEC had undertaken the following:

- Facilitation of a specific vandalism law with stringent penalties;
- Continued public awareness in all media fraternities;
- Formation of National anti-vandalism committees; and
- Continued research on technical initiatives that can assist in curbing vandalism.

4.3. Future Planned Repairs and Maintenance Works

The Application also provided a summary of the strategic projects that are envisaged to be covered by the 2020/21 tariff in order to arrest the network challenges in the medium to long term in Table 3 below.

Table 3: Planned 2020/21 Strategic projects

Item	Description of Project	Tender closing date	Status
1	Supply and Delivery of Drones and Cameras for Inspection of High Voltage Lines for Lesotho Electricity Company (Pty) Ltd	25-Jul-19	At Procurement awaiting evaluation
2	Replacement of Aged 11kV Switchgears at Ngoajane, Ha Lejone Substations and Lesotho Umbrella Switching Station at Botha-Bothe and Leribe	26-Jul-19	At Procurement awaiting evaluation
3	33kV South System Improvement	26-Jul-19	At Procurement awaiting evaluation
4	Motivation to address soil erosion around 88kV tower Khukhune	16-Aug-19	Awaiting Procurement to present to EXCO
5	Tender for Supply, Installation and Commissioning of 33kv and 11kV Combi Units	22-Aug-19	At Procurement awaiting evaluation

Item	Description of Project	Tender closing date	Status
6	Motivation to construct 11kV overhead line over Katse to restore power at Mphorosane	13-Sep-19	Awaiting Procurement to present to EXCO
7	Replacement of Aged 11kV Line - Rampai to Khabo, Leribe	19-Sep-19	At Procurement awaiting evaluation
8	Proposed 11kV Line Airport to Mazenod System Improvement in Maseru Lesotho	19-Sep-19	At Procurement awaiting evaluation
9	Proposed 11kV WB03 Line Link to Ratjomose System Improvement in Maseru	19-Sep-19	At Procurement awaiting evaluation
10	Proposed 11kV Pole Replacement from Highway to MS01	26-Sep-19	At Procurement awaiting evaluation
11	Proposed Closing of the 11kV ring on Hoohlo & Printing (LEC Hqs.) Feeders	26-Sep-19	At Procurement awaiting evaluation
12	Proposed 11kV Teyateyaneng Ring Main Unit and Mini-Subs System Improvement in Berea	3-Oct-19	At Procurement awaiting evaluation
13	Proposed 11kV Kolonyama to Makhalong line system improvement	31-Oct-19	At Procurement awaiting evaluation
14	Proposed 11kV Sefikeng to 'Matjotjo line system improvement	31-Oct-19	At Procurement awaiting evaluation
15	Proposed upgrading of 132kV Current Transformers at Mabote Substation	21-Nov-19	

4.4. Tariff Methodology

The Company adopted revenue requirement tariff setting methodology and with this methodology, revenue requirement is determined by adding relevant costs incurred by the business, allowed investment return and depreciation. The Application explained that LEC adopted two budgeting methods namely incremental/historical and predominantly activity-based budgeting.

4.5. Cost Drivers

4.5.1. Bulk Purchases

LEC has estimated to procure 923,146,001.76 kWh⁶ of electricity inclusive of 11% estimated system losses at a cost of M 558,115,554.27. It mentioned that this cost translates into 29% increase from the 2019/2020 allowed bulk purchases cost. It also mentioned that the costs would be split into a 20:80 ratio between energy and demand. The Application presented projected purchases as shown in Table 4 below:

Table 4: Forecasted Bulk Supply Purchases

Intake Point	Energy	Avg. Cost/Unit*	Total Cost
	kWh	M	M
LHDA:			
132 kV Muela	472,492,940.46	0.116	55,041,954.50
ESKOM:			
132 kV Maseru Bulk	252,193,980.97	1.14	287,622,212.97
88 kV Clarens	88,461,615.04	1.011	89,476,767.27
22 kV Qacha's Nek	8,935,865.30	1.584	14,151,594.51
EDM:	101,061,600.00	1.106	111,823,025.02
Grand Total	923,146,001.76	0.605	558,115,554.27
Imports Total	450,653,061.30	1.12	503,073,599.77
Imports as a % of Total	49%		90%

4.5.2.Expenditure

Operating expenses, maintenance and repairs are mostly driven by sales, inflation, increased number of customers and network expansion. It presented expenditure cost components as elaborated below.

⁶ Deducting 11% losses from 923,146,001.76 does not result in forecasted sales in MIRTA, section B and section F

▪Network Repairs and Maintenance

Assets condition assessment study undertaken by Pricewaterhouse Coopers (PwC) in 2015/16 indicated that the network assets needed repairs and refurbishment. LEC explained that the requested budget provision would address the ones which had been identified as critical and of highest priority while also addressing challenges of soil erosion and vandalism.

▪Staff remuneration

The Application proposed staff remuneration adjustment to M 196,438,256. It mentioned that LEC was in the process of normalizing its grading and remuneration systems while it is looking into the implementation of Performance Management System (PMS). It also stated that for retention and motivation of talent in the Company, the Human Resources Development (HRD) initiatives, talent management and retention will be critical.

▪Depreciation

In the financial year under review, the amount of M 116, 000, 000 is proposed in the revenue requirement to represent the recovery of investment used in providing service to customers.

▪Generation fuel and lubricants

It was stated that costs of diesel and lubricants for electricity generation in Semonkong would be covered by M 2, 670, 000⁷. It anticipated that diesel will be used for power generation purposes as 2019/20 erratic and low rainfall is likely to continue into 2020/21.

⁷ For Semonkong, LEC only shows fuel costs but never provides information on sales in kWh and Maloti

4.5.3. Return on Assets

LEC mentioned that the March 2019 assets revaluation increased the LEC book value of assets by 16%. The Application estimated the Regulated Asset Base (RAB) to M 1,762,765,851 and Weighted Average Cost of Capital (WACC) to 9.11% resulting with a Return on Asset of M 160,731,536 for 2020/21.

5. PUBLIC CONSULTATION SESSIONS

The Authority conducted public hearings with the assistance of the District Administrators' Offices, Local Government Structures and Key Stakeholders in all the ten (10) districts of Lesotho from 24 February to 12 March 2020 to afford all interested and affected stakeholders an opportunity to submit their views, facts and evidence. The following is a list of all public hearings that were held:

- a) Qacha's Nek, 24 February 2020;
- b) Quthing, 25 February 2020;
- c) Mafeteng, 27 February 2020;
- d) Mokhotlong, 02 March 2020;
- e) Butha-Buthe, 03 March 2020;
- f) Leribe, 04 March 2020;
- g) Berea, 05 March 2020;
- h) Mohale's Hoek, 06 March, 2020;
- i) Thaba-Tseka, 09 March, 2020; and
- j) Maseru, 12 March, 2020.

LEC, stakeholders, Butha-Buthe Business Forum, Lesotho Textile Exporters Association (LTEA), Consumer Protection Association (CPA), Mrs Victoria Qheku and Lesotho Economic Freedom Fighters (LEFF) made presentations before the Pricing and Tariffs Committee of LEWA. Summarily, the presentations outlined some concerns and clarifications sought with respect to the information provided in LEC's application and during the presentation, and recommendations to both the LEWA Board and LEC.

5.1. LEC's Presentation

The presentation explained LEC business value chain and indicated that it had representation in all ten districts of Lesotho. It explained that the tariff-generated revenue is envisaged to finance bulk purchases cost, operating expenditure, maintenance costs, rate of return costs and depreciation costs. It indicated that capital costs are not covered by tariff-generated revenue.

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 4.1, the presentation, stated that the Company had the following:

- 260 751 customers and had connected 10 583 households up to October 2019 out of 15 400 annual target;
- A Call Centre that is in its sixth year of operation

Table 5 below is a presentation of some of the projects presented as LEC's achievements in 2019/20.

Table 5: 2019/20 Completed Projects

Project Description	Objective	Cost (Maloti)
1. System improvement of 11kV line from Sekhukhuni to Cana	To improve reliability of power supply to Ha Ramachini, Ha Mokhehle, Ha Mamathe, Likosheng, Majaheng Ha Leneha, Ha Tsekelo and Ha Ratsiu.	M1.2 Million
2. System improvement of 11kV line from Kolonyama to Makhalong	To improve reliability of supply to Kolonyama, Makhalong, Ha Rakolo, Ha Tlalinyane and nearby villages.	M1.5 Million
3. System Improvement of 11kV line from St. Agnes substation to Ha Mokhothu	To improve reliability of supply to Ha Mokhothu, Ha Molemane and Ha Mohapinyane	M860,000.00
4. Refurbishment of 11 kV line from Tsakholo to Van Rooyen's gate	To improve reliability of supply	M 2 Million
5. Refurbishment of 33kV line from Litsoeneng to Quthing	To improve reliability of supply.	M 58 million
6. System Improvements at Sebothoane Makoroteng, Khanyane Konkotiea, Tsifa-li-Mali Sekantsing, Hlotse town CBD, Leribe Koeneng, Literapeng B/B, Ha Maphalala B/B	To improve systems	M1.08 Million

5.4. Challenges

The presentation explained by way of examples all challenges that were stated in the Application. The presentation also showed costs associated with types of vandalism as shown in Table 6 below.

Table 6: Types of Vandalism

Type of equipment /asset vandalized	Estimated Cost (Maloti)
16mm 4 core copper cable	6,035
Airdac copper cable	354,682
Wood poles	5,591
70mm earth conductor	25,370
Miscellaneous material	237,029
Transformers	328,086
120mm XLPE copper cable	1,147,707
Total	2,104,500⁸

5.5. Revenue Requirement

The presentation stated the 2020/21 projected revenue requirement for the Company as shown in Table 7.

Table 7: 2020/21 Projected LEC Revenue Requirement

Cost Items	Maloti (M)
Bulk Purchases	M 558,115,554
Operational Expenses	M 316,804,011
Depreciation	M 116,000,000
Return on assets	M 160,731,536
Repairs and Maintenance	M 55,911,850
Diesel for Semonkong	M 2,670,000
Revenue Requirement	M 1,210,232,951⁹

⁸ Indicating 53% decline in costs associated with vandalism

⁹ This excludes forecasted LEWA licence fee of M 7 million

The presentation provided forecasted 2020/21 tariffs that would generate forecasted revenue requirement alongside current 2019/20 tariffs as shown in table 8 below.

Table 8: Current and Proposed Energy and Maximum Demand tariffs

Customer Category	Energy (Current) (M/kWh)	Energy (Proposed) (M/kWh)	MD (Current) (M/kVA)	MD (Proposed) (M/kVA)
Industrial HV	0.1936	0.2567	272.7957	361.6547
Industrial LV	0.2144	0.2842	318.6322	422.4218
Commercial HV	0.1936	0.2567	272.7957	361.6547
Commercial LV	0.2144	0.2842	318.6322	422.4218
General Purpose	1.5350	2.0993		
Domestic	1.4009	1.8572		
Life line Domestic	0.6500	0.8617		
Lighting	0.7952	1.0542		

The Company concluded its presentation by requesting an increase of 32.6% on both energy and maximum demand charges.

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) Refund of electricity pioneer developers;
- c) Provision generation options that are that are resilient to wind, snow and rainfall challenges as unreliable supply adversely affects all customers;
- d) Introduction of timeously answered toll-free number and ensuring that there is in place a dedicated emergency number;
- e) Connection of Qacha's Nek district to the grid within the country as connection from Matatiele adversely affects businesses;

- f) Providing stakeholders with a copy of LEC tariff application and allow sufficient time for them to analyse it as the time provided during the public consultations is not adequate;
- g) Ensuring service access by vulnerable groups such as the poor, orphans, old aged, unemployed and low-income earners. This should be part of LEC's wider corporate social responsibility (CSR) initiative;
- h) Improving on information dissemination strategies especially on planned interruptions of supply;
- i) Improving effectiveness and efficiency of service provision;
- j) Embarking on increased local generation, especially renewable energy, in order to reduce costs of bulk purchases;
- k) Inviting an economist to the public consultations in order to shed the light on the economic performance of the country;
- l) Subsidising of elderly and disadvantaged customers' consumption by the government;
- m) Eliminating of wasteful expenditure, i.e. LEC must resolve cases of employees that are on full pay suspension;
- n) Considering multi-year tariff review application;
- o) To ensure that the public protests in South Africa (Matatiele) do not adversely affect the electricity supply in Qacha's Nek;
- p) Consider the fact that when prices increase quantity demanded will decrease resulting in a fall in forecasted revenue;
- q) LEC to ensure submission of required audited financial statements with the application or to wait until audited financial statements are available;
- r) LEC to carry out the post electrification analysis study in order to establish status of effected connections;
- s) LEC to review its electrification strategy as it continues to connect low consuming villages that are far from urban centres and skip villages closer to towns that may have high consumption;
- t) LEC must request Government's financial support to avoid regularly applying for tariffs review; and

- u) 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 and vice-versa.

Directive 1

Related to item b above, LEC should develop and implement a refund formulae/policy for pioneer developers by 31st December 2020.

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. Butha-Buthe Business Forum

The Butha-Buthe Business Forum (BBBF) proposed subsidisation for businesses new connections as they contribute to the growth of the economy through heavy taxes. It emphasised that LEC should set time frames for effecting connections. The Forum pointed out that the business community of Butha-Buthe incur street lighting costs even though it is not exempted from tax payment. It stated that electrification and customer levies and tax are additional charges that increase electricity tariffs. It further pointed out that the obligation to pay rural electrification levy is unfair and burdensome. The presentation stated that it is the responsibility of LEC as a business to insure its infrastructure instead of requesting other businesses to cover costs of repairing or replacing its vandalised assets. It advised that the shareholder (GoL) should reinvest its profit in the company. It also requested that generation plants' costs from Semonkong and entry points such as Maseru Bulk should not be borne by them as they had a cheaper source in 'Muela Hydropower Plant. The Business community of Butha-Buthe requested a 32.6% decline in their tariffs.

5.6.2.Consumer Protection Association

Consumer Protection Association (CPA) is Non-Government Organization (NGO) that promotes the protection of the rights of the consumers and its membership cuts across a range of individuals meaning that every citizen of this country should be a member of the association. It commended LEWA for the introduction of the pro-poor tariff as it is not all who need power who can afford the increases. It The presentation stated that with respect to the tariffs historical trends it presented, LEC created a norm in which rates have to be adjusted upwards every year and pointed out that the Company needs to ensure that it has a social license as opposed to the profit motive that is reflected in the Application (meaning that LEC should acknowledge that poor households are part of its operating environment)

CPA highlighted that Lesotho is unable to generate 10,000 decent jobs per annum as provided in the National Strategic Development Plan (NSDP), and might lose employment opportunities as a result of spiralling cost of electricity which is an input to industries. It pointed out that due to the poor economic performance and growth that does not translate into welfare improvement of the lower class of the society, poor people cannot afford the increase.

CPA pointed out that LEC requested tariff increase is not aligned to the tariff increases its bulk suppliers (ESKOM and EDM) applied for. In conclusion, the presentation emphasised the importance of all contributing in poverty reduction and creation of 10 000 decent jobs per annum while preserving the few jobs that we have as the dependency burden is increasing. In order not to perpetuate current unemployment and ensure LEC is not adversely affected by inflation, CPA proposed 6% increase in tariffs.

5.6.3. Lesotho Economic Freedom Fighters

LEFF pointed out that the unemployment rate is too high and LEC has not put in place measures to cut costs and had not given back to the community. It further stated that it

is not acceptable for LEC to request tariff increase yet it had not provided the relevant financial statements. It also stated that LEC had not provided the missing data and its accountability is questionable. The presentation commended LEC for the avoided load shedding but recommended that LEC be awarded no tariff increase until it has cleaned and monitored its financial statements.

5.6.4. Lesotho Textile Exporters Association

Lesotho Textile Exporters Association (LTEA) stated that it is the voice of Employers in Lesotho under the sector of Textile, Apparel and Footwear. It mentioned that 56 firms forming its membership employed 45,000 people. It indicated that LTEA is the second largest employer after the government. LTEA commended LEC for introduction of Lifeline Tariff, reported five completed projects and outstanding services in addressing electricity problems. LTEA alleged that it has contributed 2.6% to the GDP improvement from -2.1% in the second quarter to 1.2% in the third quarter. It highlighted that its contribution to GDP will be negatively affected by Covid-19 (coronavirus) global epidemic as there are no production inputs.

LTEA concluded by recommending 5.5% tariff adjustment for all categories. It stated that 32.6% increase will adversely affect the economic performances of business as well as the cost of living to Basotho. It pointed out that LEC should review its vision to be inclusive and focus on effectiveness in undertaking current projects.

5.6.5. Mrs Victoria Qheku

Mrs Victoria Qheku raised a concern regarding non provision of feedback on helpfulness and usefulness of the public comments submitted on tariff review application by LEWA. She was also concerned that there were no periodic five (5) years socio-economic study surveys on the use of electricity. She emphasized that the survey would inform the decision to arrive at a tariff adjustment in addition to the consultation

process. She stated following as the prevailing conditions that will contribute to the public outcry resulting from the 32.6 % tariff increase

- Lesotho is faced with hunger and poverty (Nearly 700,000 are affected);
- Due to climate change, farming has not been easy and food security is in jeopardy;
- Prevailing youth unemployment;
- HIV/AIDS has resulted in child-headed households;
- Private businesses are not able to cope and businesses are failing;
- Government taking too long (six months to a year) to pay for goods and services rendered by the Private Sector; and
- LEC is already getting contributions from the larger public through the 6% rural electrification levy.

Mrs Qheku mentioned that LEC's achievements show that there is no need for tariff increase but it urged LEC to continue with the good performance. It raised its concern regarding LEC's processes, time frames and procedures in some of its activities such as evaluation process in procurement and maintenance works. She also pleaded with LEC to give maintenance the priority it deserved. LEC was applauded for achievements such as curbing of vandalism but insisted that the company should provide progress report on past plans such as upgrading of infrastructure, replacement of old and obsolete assets, and network repairs and maintenance. The information coupled with highlights on whether those were done in-house or were outsourced and brief on the challenges and benefits encountered would shed the light on the basis of the proposed budget.

In conclusion she stated the following, among others:

- Lesotho is very poor and categorised as a Least Developed Country;
- Rate of unemployment is over 30%;
- LEC does not seem to have proper governance controls;
- The role of the LEC Board of Directors is not mentioned in ensuring good governance; and

- Not enough is done to curb vandalism which is the scourge of the utility.

She recommended among others, a 20% tariff increase that will be effected on only those with very high consumption, strengthening of governance controls in the Management of the Utility and devising of other means of stakeholder meeting strategies to ensure a wider participation of consumers.

5.6.6. Analysis of Public Hearings

In all ten (10) public hearings that were conducted, the stakeholders were generally concerned with the poor service delivery of LEC. Stakeholders recommended, an increase of between -32.6%, 0% and 20% which in some instances it was proposed that it should not be applied across all customer categories. Stakeholders urged LEC to give consideration to the inflation rate, current public servants salary increases and economic growth when proposing new tariffs. They also requested LEC to be considerate in view of the increasing unemployment rate, economic performance of the country, high number of poor people, orphans and elderly people when proposing tariffs increase.

Stakeholders were also concerned that LEC has never provided progress report on past infrastructure upgrading and replacement plans. Most stakeholders appeared not to be aware of the difference in mandates of LEC and Rural Electrification Unit (REU) as the issue of electrification of village-based schemes was invariably mentioned in all districts. 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.

The stakeholders were concerned that LEC applied for a tariff increase without providing its audited financial statements which should be the basis for the application, and had never presented on its planned cost cutting measures.

Stakeholders also proposed that public consultations be made more participatory by amongst other things, disseminating relevant information to allow for stakeholders' meaningful engagement and reconsideration of time given for the public consultations as it is not adequate.

For its part LEC had responded to the concerns raised by stakeholders. Chief amongst the Company's responses were that it was already participating in endeavours led by the Ministry of Energy and Meteorology (MEM) to ensure security of supply by increasing generation options. LEC further pointed that it was implementing systems improvements in various areas throughout the country and cited specific cases. Other responses from LEC were as presented in its Application which has been outlined in Sections 3 and 4.1- 4.5.

6. ANALYSIS OF LEC'S APPLICATION

Section 24 of the LEA Act 2002, as amended, enjoins LEWA to ensure that a price determined by the Authority must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return. Considering that this is a forecast application, the emphasis has been on how the forecasting of costs was done against the existing conditions and capabilities of LEC, as well as to ensure that the forecasting is not exaggerated.

In arriving at the proposed Revenue Requirement and tariff increases, there was a need to balance both the LEC's interests and those of the public in line with Section 21 of the Act (General Duties of the Authority), by thoroughly analysing the Application, including the financial information submitted by LEC and considering public representations.

The analysis of the Application and the financial information tested the prudence of all costs presented by LEC, while stakeholders' views and inputs were essential in assessing possible responsiveness of demand for electricity, including its likely impact in economic growth and job creation (employment). The financial analysis focused on the sustainability of LEC and its ability to continuously provide electricity to the public within the confines of efficiency standards. On the other hand, the public interest issues

were centred on affordability, loss of employment opportunities, access to the service and the reliability of supply.

6.1. LEC's Revenue Requirement and Costs

LEC's Revenue Requirement major cost items are:

- a. Bulk Supply Purchases;
- b. Repair and Maintenance (including fuel and oil for generation);
- c. Operating Expenses;
- d. Labour Costs;
- e. Depreciation; and
- f. Return on Assets

An analysis of the Revenue Requirement and its major cost items is made in the ensuing subsections.

6.1.1. LEC Revenue Requirement

In the 2019/20 tariff determination, LEWA introduced lifeline tariffs as guided by the Cost of Service Study. However, in its 2020/21 Application and presentations, LEC excluded lifeline category in allocating domestic customers consumption (It allocated all the 299,879,369 kWh to standard domestic category). The revenue requirement was therefore projected without banding domestic customers' consumption.

Directive 2

LEC should disaggregate domestic customers consumption and revenue into the two (2) established tariff bands.

As noted in Section 2, in its Application and subsequent presentations thereof, LEC stated its revenue requirement as M 1,210,232,951¹⁰. In order to achieve this Revenue

¹⁰ This figure excludes the M 7,000,000 licence fee estimated in the application and the 32.6% proposed tariff increase by LEC will result in Revenue Requirement of M302 832 835.00 which is not consistent with the Application.

Requirement, energy and maximum demand charges would have to increase by 23.8878% as shown in Tables 9 and 10, and resultant Revenue Requirement in Table 11 below.

Table 9: Resultant Energy Charges from Proposed LEC's Revenue Requirement

Customer Category	2019/20 Energy Charge (M/kWh)	Resultant Energy Charges (M/kWh)	Resulting Percentage Change
Industrial HV	0.1936	0.2398	23.8878%
Industrial LV	0.2144	0.2656	23.8878%
Commercial HV	0.1936	0.2398	23.8878%
Commercial LV	0.2144	0.2656	23.8878%
General Purpose	1.5835	1.9618	23.8878%
Domestic ¹¹	1.4009	1.7355	23.8878%
Street Lighting	0.7952	0.9852	23.8878%

Table 10: Resultant Maximum Demand Charges from Proposed LEC's Revenue Requirement

Customer Category	2019/20 Maximum Demand Charge (M/kVA)	Resultant Maximum Demand Charges (M/kVA)	Resulting Percentage Change
Industrial. HV	272.7953	337.96009	23.89%
Industrial LV	318.6317	394.74579	23.89%
Commercial. HV	272.7953	337.96009	23.89%
Commercial LV	318.6317	394.7458	23.89%

¹¹ LEC allocated all its consumption to standard domestic customer category thus it excluded lifeline category

Table 11: LEC's 2020/21 Breakdown of Total Revenue Based on the Resultant Tariffs

Customer Category	Proposed LEC Energy Charge (M/kWh)	Proposed Maximum Demand Charge (M/kVA)	Forecasted Energy Sales (kWh)	Forecasted Maximum Demand (kVA)	Total Revenue to LEC (M)
Industrial HV	0.2398	337.9601	240,518,945.02	512,581.00	230,919,612
Industrial LV	0.2656	394.7458	43,860,420.79	200,151.00	90,658,770
Commercial HV	0.2398	337.9601	84,859,780.04	225,171.00	96,452,155
Commercial LV	0.2656	394.7458	61,847,136.49	184,054.00	89,082,096
General Purpose	1.9618		95,362,135.00		187,077,933
Domestic	1.7355		299,879,369.00		520,453,882
Lighting	0.9852		2,627,506.00		2,588,503
Total			828,955,292	1,121,957.00	1,217,232,951.00

Based on Table 12 below, the LEC's revenue and the average tariff will rise by 35.03% and 29.68% respectively for the Financial Year 2020/21.

Table12: Energy Sales (kWh), Connections and Average Revenue (Maloti/ kWh)

Item	Projected Actuals in 2019-20	Projected in 2020-21	Change in Percentage
Energy Sales (kWh)	796,134,779.12	828,955,292.34	4.12%
Connections	274,757	290,904	5.88%
Total Revenue (M)	901,481,637.73	1,217,232,951.00	35.03%
Revenue (M) Required per kWh	1.1323	1.4684	29.68%

6.1.2. Bulk Supply Purchases

In 2019/20 Financial Year, LEC was allowed M432 409 049.79 for bulk supply costs at an average cost of M0.50/kWh. Detailed analysis of LEC's monthly reporting forms on bulk supply costs indicate that the allowed budget was not sufficient due to low levels of water at Katse dam that had affected generation in 'Muela hydropower plant. Again, LEC's forecasts for bulk supply costs had not factored-in 'Muela's shutdown in

October and November 2019 due to the maintenance of the water transfer tunnel delivering water to the Republic of South Africa. As at March 2020, the Company had paid M559,942,749.85¹² for bulk supply costs. As a result, LEC was under-recovering in bulk supply costs and in line with the Bulk Supply Costs Charging Principle and its Implementation Procedure, the Company should have included the projected under-recovery bulk supply costs for 2020/21 Financial Year. LEC has not provided the Authority with audited Financial Statements for the Financial Year 2018/19. In addition, the Company's reporting on energy purchased from EDM and resold to the Southern African Power Pool (SAPP) market is lacking. LEC's participation in the SAPP market and resale of energy has resulted in LEC's accumulation of at least M80 million¹³ (at least US\$5million) funds in SAPP. The funds in SAPP do not form part of LEC's audited Financial Statements.

LEC has further secured a US\$190 000.00 foreign currency hedging facility with the Standard Lesotho Bank for a maximum period of 180 (one hundred and eighty) days or six months. This is almost equivalent to one-month payment of EDM invoices.

LEC is therefore allowed the proposed M549,147,721,45 for bulk supply costs. However, EDM invoices be paid with funds at SAPP while at the same time LEC should continue to participate in the SAPP market. Table 13 below shows the evolution of bulk supply costs since 2015/16.

Table 13: Evolution of Bulk Supply Costs since 2015/16 Financial Year to date

Year	Energy Purchases (kWh)	Bulk Supply Costs (Maloti)	Average Price (M/kWh)	Percentage change in average price
2015/16	801,868,536.93	342,035,785.00	0.43	
2016/17	885,610,699.70	418,509,819.99	0.47	11%
2017/18			0.49	3%

¹² The information is unaudited.

¹³ This assumes the US Dollar/Loti exchange rate of US1:M16.00

Year	Energy Purchases (kWh)	Bulk Supply Costs (Maloti)	Average Price (M/kWh)	Percentage change in average price
	892,166,284.59	436,155,512.57		
2018/19	890,112,136.98	418,359,448.08	0.47	-4%
2019/20	905,454,793.00	444,136,072.00	0.49	4%
2020/21	876,733,934.61	549,147,721.45	0.630	28%

The above bulk supply purchases result in the global losses as shown in Table 14 below.

Table 14: Energy Purchases, Sales and Losses since 2015/16 Financial Year

Year	Energy Purchases (kWh)	Energy Sales (kWh)	Energy Losses (kWh)	Losses (percentages)
2015/16	801,868,536.93	699,369,164.40	102,499,372.53	13%
2016/17	885,610,699.70	743,407,542.10	142,203,157.60	16%
2017/18	892,166,284.59	778,244,007.70	113,922,276.89	13%
2018/19	890,112,136.98	781,143,853.50	108,968,283.48	12%
2019/20	905,454,793.00	796,134,779.00	109,320,014.00	12%
2020/21	876,733,934.61	786,679,018.00	90,054,916.00	10%

While the losses have shown a decreasing trend since 2016/17, it is not clear how energy resale in SAPP is accounted for, including purchases from SAPP during peak hours.

Directive 3

LEC should be able to scientifically/arithmetically calculate these losses and this should be done by March 2021.

6.1.3.Repair and Maintenance (Including Fuel and Oil for Generation)

As it had been highlighted in the last determination, the repair and maintenance budget should not in any way extend an asset's useful life, but should keep the asset operating at its present condition. Table 15 below shows adjusted (adjusted by projects that should not be financed through repair and maintenance budget) 2020/21 LEC's repair and maintenance budget of M41.1 million. The 2019/20 Financial Year allowed budget figure of M46.8 million for repair and maintenance is allowed in order that the company would use the M5.7 million difference to secure necessary equipment to enable LEC to measure system reliability indices at customer levels, i.e. LEC should be able to measure System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI) as stakeholders in all the public consultations alluded to the Company's unreliable and poor quality of supply, despite the Company achieving its Transmission and Distribution Systems Availability targets.

Table 15: Adjusted 2020/21 Allowed LEC Repair and Maintenance Budget

Repairs and Maintenance Budget 2020/21	Amount
1. Securing of cleaning detergents	500,000
2. Secure critical spares for circuit breakers and transformers	1,000,000
3. Helicopter/Drone inspections	2,600,000
4. Service contract for maintenance of circuit breakers	3,500,000
5. Oil analysis tests	300,000
6. Maintenance of transformer tap-changers	8,800,000
7. Replacement of mineral oil with ester oil on Tx transformers for efficient & safe operation	8,000,000
8. Renew aged Pylon numbering - 'Muela 1&2 to Maputsoe to Mabote 132kV lines	3,000,000

Repairs and Maintenance Budget 2020/21	Amount
9. Implement Network routine maintenance Plans	4,800,000
10. Repair the helicopter inspection report defects	600,000
11. Carry out the routine maintenance as per the plan and schedule	1,200,000
12. Prevention of soil erosion along the power lines	600,000
13. Maintain access roads	120,000
14. Acquire parts for maintenance (Hydro plants)	36,000
15. Acquire parts for maintenance (diesel generators)	200,000
16. Carry out transformer service & repairs	200,000
17. Civil works & drainage repairs for substations and switching stations and drainage	300,000
18. Replacement of vandalised towers members and bolts on 132kV lines	418,000
19. Secure critical spares: CB's, NECRT's, VT's, CT"s	500,000
20. Test meters to ensure optimal accuracy	435,000
21. Procure PPE/C	2,875,250
22. Purchase consumables for maintenance, e.g. lubricants, batteries for measuring instruments	100,000
23. Avail substations maintenance lubricants, house-keeping materials & chemicals.	400,000
24. Securing substations bulbs, switches, light fittings, starters,	300,000
25. Purchase consumable & accessories for protection maintenance	20,000
26. Attend to metering faults within 24hrs	120,000
27. Procure stickers	160,000
28. Equipment and tools less than M2,000	9,600

Repairs and Maintenance Budget 2020/21	Amount
29. Provide required instruments & tools	30,000
TOTAL	41,123,850

LEC is allowed proposed diesel and oil budget of M2,670,000.00 for generation but be treated as pass through in order for the Authority to monitor adherence to the approved purpose.

Directive 4

LEC is hereby directed to quarterly account for the use of diesel and oil for power generation. The allowed budget for this purpose should be ring-fenced and be treated as pass-through cost.

6.1.4. Operating Expenses

As reflected in Table 16 below, LEC has largely been able to maintain and control its operating expenses within the allowed budget. In some instances, it has reduced its operating expenses below the allowed revenue. It is therefore concluded that LEC's proposed budget for the Financial Year 2020/21 of M120,461,885.00 be decreased by 5.7% to M109,834,771.19. It is also expected that LEC might realise savings due to COVID-19 as some planned activities such as training and international travel did not take place. Fuel costs also went down due declined in global demand.

Table 16: Actual and Forecasted Operational Expenses since 2015/16

Financial Years	Allowed Expenses	Actual/Forecasted Expenses	Percentage Variance
2015/16	82,381,135.97	86,338,582.00	5%

Financial Years	Allowed Expenses	Actual/Forecasted Expenses	Percentage Variance
2016/17	88,010,761.00	54,840,939.00	-38%
2017/18	101,685,172.98	98,825,334.00	-3%
2018/19	111,229,468.85	110,211,414.09	-1%
2019/20	116,438,255.65	122,352,416.00	5%
2020/21	109,834,771.19	120,461,885.00	-5.7%

6.1.5. Labour Costs

As shown in Table 17 below, since 2015/16, Audited or actual LEC's labour costs had been higher than, the approved budget set by the Authority except for the projection for 2019/20. For 2020/21, the principle (of adjusting LEC's labour expenses based on inflation and half increase in connections) is again relaxed¹⁴ and the 2019/20 budget is adjusted based on average annual inflation rate of 5.2%. Allowed LEC's labour costs budget for 2020/21 is therefore M192.04 million. From the allowed budget, it is decided that instead of M12¹⁵ million requested by LEC, M7.7 million be allocated for the LEC Performance Incentive Scheme (annual performance bonus). Disbursement of the budget would be aligned to achievement of agreed Key Performance Indicators (KPIs).

Table 17: Actual and Forecasted Labour Expenses since 2015/16

Years	Allowed Expenses	Actual and Forecasted Costs ¹⁶	Percentage Change in Allowed costs	Percentage Change in Actual costs
2015/16	139,973,259.76	143,635,564.00		
2016/17	147,951,504.43	166,489,649.00	6%	16%
2017/18	161,417,342.08	174,730,057.00	9%	5%

¹⁴ A detailed performance-incentive based scheme is now proposed.

¹⁵ This was included in LEC's proposed budget of M196,342,126.00 for the Financial Year 2020/21.

¹⁶ 2018/19 to 2020/21 figures are forecasts not actual figures

Years	Allowed Expenses	Actual and Forecasted Costs¹⁶	Percentage Change in Allowed costs	Percentage Change in Actual costs
2018/19	174,355,571.03	180,426,397.00	8%	3%
2019/20	182,550,282.87	174,355,571.00	4.7%	-3%
2020/21	192,042,897.58	196,342,126.00	5.2%	12.61%

The Company's staff productivity increased from one staff per 539 connections in 2019/20 to approximately one staff per 570 connections in 2020/21. The Company has performed above the set target of one staff per 400 connections and its staff productivity shows a remarkable improvement.

6.1.6. Depreciation Charge

LEC had in the past established the 'Depreciation Account' but had not accounted for its annual balances and had not reported on the use or on projects financed through the fund.

For 2020/21, LEC proposed a depreciation charge of M116 million and that is a 6% increase compared to M109.04 million approved budget in 2019/20. While the proposed depreciation charge is considered reasonable and it is decided that it should be reduced by -8.3% in full as shown in Table 18 below as these funds are not for immediate use and the shortfall will be considered in the subsequent tariff applications. LEC's reporting on the use of depreciation funds is wanting, and the depreciation funds should only be used for replacement of old and obsolete assets and the Company should periodically report on the status of the funds and projects financed therefrom.

Table 18: Actual and Forecasted Depreciation Expense since 2015/16

Depreciation Charges	Financial years					
	2015/16 Audited in Million Maloti (M)	2016/17 Audited in Million Maloti (M)	2017/18 audited in Million Maloti (M)	2018/19 Revised Forecasted in Million Maloti (M)	2019/20 Revised Forecasted in Million Maloti (M)	2020/21 Forecasted in Million Maloti (M)
Actual/Proposed	82,057,086.00	105,649,609.00	111,758,828.00	112,741,663.00	104,654,205.00	116,000,000.00
Allowed	95,708,516.00	100,005,205.00	100,005,205.00	112,741,663.00	109,039,670.30	100,039,670.00
Percentage changes between allowed budgets	- 14.3%	5.6%	11.8%	0%	-3%	-8.3%

Directive 5

LEC must submit a comprehensive report to the Authority every quarter on the status of the funds and projects financed through depreciation funds.

6.1.7. Return on Assets

In line with best practice, LEC should not include customer financed assets in its asset base. Efforts taken by the Authority to incentivise LEC to comply with regulatory prescripts and address concerns of the Authority regarding its current practice of capitalising customers' financed assets were unsuccessful. As such, this continues to create challenges regarding determination of the utility's Regulatory Asset Base (RAB). Furthermore, until LEC has shown any obligation to declare dividends, the Authority decided to disallow inclusion of the proposed M160.7 million return in its revenue requirement for 2020/21. LEC is allowed financing costs of M6.3 million for the Financial Year 2020/21.

Directive 6

LEC must submit a detailed updated asset register which shall consist of Asset Description, Unique ID, Location, Value, Annual Indexation factor, Funds Source or Sponsor and Ownership for approval by the Authority before the next tariff application

LEC currently has four loan facilities, namely: -

1. **General Short-Term Banking Facility (GSTBF):** The facility is aimed at assisting LEC with working capital requirements for the upgrade and maintenance of the existing electricity network. The total amount is M25 million.
2. **Corporate Card Facility:** - The facility has been agreed solely to assist LEC with payments for entertainment and other operating expenses. The total amount is M50 000.00.
3. **Vehicle and Asset Finance Facility:** - This is aimed at the purchase of vehicles for LEC's business. The total amount is M18.92 million.

4. Pre-Settlement Limit Facility: - The facility is aimed at assisting LEC to hedge and or cater for the LEC's foreign currency exposure. The total amount is US\$190 000.00.

The above costs are not allowed into the tariffs due to the following reasons:

- a. The LEC's Revenue Requirement already includes full depreciation charges for the upgrading of the current network infrastructure and repair and maintenance charge. LEC receives most of its revenue in advance due to the prepayment system for both domestic and general purpose customers hence there is no justification for the working capital requested;
- b. LEC's vehicles are annually depreciated and as such depreciation charge should be used to replace them instead of vehicle loan facility;
- c. The Corporate Card Facility is largely not related to the efficient and effective supply of electricity;
- d. The Pre-Settlement Facility is considered not sufficient to assist the Company to fully hedge the foreign exchange risks associated with EDM contract. LEC's participation in the SAPP market can effectively hedge against this risk as this is Dollar-Based.

6.1.8. Introduction of Lifeline Tariffs

In 2019/20 the Cost of Electricity Service Study recommendation regarding the lifeline tariff was implemented in order to address concerns of the stakeholders from the past public consultations regarding service access to the vulnerable groups (the poor, orphans, old-aged, unemployed and low-income earners) and promotion of consumption. The domestic customers' tariff was stepped into two bands, standard tariff and lifeline tariff. From the Authority's preliminary analysis of the LEC's revenue from domestic customers during the period April 2018 until January 2019 and compared with the same period (April 2019 until January 2020), the implementation of the lifeline tariff did not make LEC financially worse-off even though the Company alleged so. The preliminary analysis is shown in Table 19 below.

Table 19: Domestic Customers Generated Revenue for 2018/19 and 2019/20 Financial Years

Month	REVENUE (DOMESTIC CUSTOMERS) (M)		PERCENTAGE CHANGE (%)
	2018/19	2019/20	
April	28,216,600.71	31,182,868.75	10.5%
May	30,971,130.03	29,623,357.90	-4.4%
June	31,559,711.25	30,698,166.12	-2.7%
July	33,378,607.51	33,547,431.43	0.5%
August	31,533,061.86	32,165,379.69	2.0%
September	29,918,998.86	29,864,835.34	-0.2%
October	29,856,166.56	29,315,974.66	-1.8%
November	27,791,743.60	27,969,158.65	0.6%
December	32,241,357.84	32,655,533.77	1.3%
January	29,530,977.73	29,519,310.49	0.0%
Total	304,998,355.95	306,542,016.80	0.5%

6.2. Adjusted Revenue Requirement

Adjustments made in 6.1 above, produced the Revenue Requirement shown in Table 20 below.

Table 20: 2020/21 Financial Year LEC Revenue Requirement

Cost Items	Approved in 2019/20	Revised forecast 2019/20	Variance between Approved and actual in 2019/20	Projected LEC Costs for 2020/21	Adjusted Costs for 2020/21 based on the approved costs in 2019/20	Adjusted LEC Costs minus projected Costs for 2020/21
Cost of Sales	481,332,181.21	509,695,941.21	28,363,760.00	607,729,571.45	518,649,833.66	89,079,737.79
Bulk Purchases	432,409,049.79	444,136,072.00	11,727,022.21	549,147,721.45	469,147,721.45	80,000,000.00
Repairs and maintenance	46,832,112.21	63,468,850.00	16,636,737.79	55,911,850.00	46,832,112.21	9,079,737.79
Diesel and Lubricants	2,091,019.21	2,091,019.21	-	2,670,000.00	2,670,000.00	-
Operating Expenditures	413,960,438.52	395,153,420.09	18,807,018.43	439,804,011.00	408,557,976.77	31,246,034.23
Labour	182,550,282.87	174,355,571.00	8,194,711.87	196,342,126.00	192,042,897.58	4,299,228.42
Depreciation	109,039,670.00	104,654,205.00	4,385,465.00	116,000,000.00	100,039,670.00	15,960,330.00
Operating expenses	116,438,255.65	110,211,414.09	6,226,841.56	120,461,885.00	109,834,771.19	10,627,113.81
LEWA License	5,932,230.00	5,932,230.00	-	7,000,000.00	6,640,638.00	359,362.00
Sub-total (Cost of sales and operating expenditures)	895,292,619.73	904,849,361.30	9,556,741.57	1,047,533,582.45	927,207,810.43	120,325,772.02
Return on Asset			-	160,731,536.00		160,731,536.00
Financing costs	6,189,018.00	6,189,018.00			6,269,263.00	
LEC's Total Required Revenue (excl. levies)	901,481,637.73	911,038,379.30	9,556,741.57	1,208,265,118.45	933,477,073.43	281,057,308.02

The allowed Revenue Requirement will be able to finance prudently incurred costs of the Company for the Financial Year 2020/21, and based on the allowed revenue requirement, LEC's revenue will increase by 0.45% and average tariff by 2.13% as shown in Table 21 below.

Table 21: Energy Sales (kWh), Connections and Average Revenue (Maloti/kWh)

Item	Projected Actuals in 2019-20	Projected in 2020-21	Change in Percentage
Demand (Energy (kWh) and MD) Sales	799,799,953.00	786,679,018.00	-1.64%
Connections	274,757	290,904	5.88%
Total Revenue (M)	929,263,848.06	933,477,073.43	0.45%
Revenue (M) Required per kWh	1.1619	1.1866	2.13%

6.3. Approved Tariffs

To achieve the allowed adjusted required revenue of M933. 48 million the tariffs would remain the same as shown in Tables 22 and 23 below.

Table 22: Approved LEC Energy Charges for 2020/21

Customer Category	Current 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 for large customers and @M0.035/kWh for others	Final Approved Energy Charge	Current Energy Charges including levies	Final Tariff Percentage increase
Industrial HV	0.1936	0.0000%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0000%
Industrial LV	0.2144	0.0000%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0000%
Commercial HV	0.1936	0.0000%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0000%
Commercial LV	0.2144	0.0000%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0000%
General Purpose	1.5835	0.0000%	1.5835	1.6258	1.6608	1.6608	1.6608	0.0000%
Domestic	1.4009	0.0000%	1.4009	1.4432	1.4782	1.4782	1.4782	0.0000%
Street Lighting	0.7952	0.0000%	0.7952	0.8375	0.8725	0.8725	0.8725	0.0000%
Lifeline Domestic	0.6500	0.0000%	0.6500	0.6923	0.7273	0.7273	0.7273	0.0000%

Table 23: Approved LEC MD Charges for 2020/21

Customer Category	Current Maximum Demand Charge (M/kVA)	Approved Percentage Change	Approved Maximum Demand Charges (M/kVA)
Industrial HV	272.7953	0.0000%	272.7953
Industrial LV	318.6317	0.0000%	318.6317
Commercial HV	272.7953	0.0000%	272.7953
Commercial LV	318.6317	0.0000%	318.6317

The figures in Tables 22 and 23 exclude VAT¹⁷.

7. LEC'S ANNUAL PERFORMANCE REVIEW

Analysis of the utility's annual compliance will only be possible through information gathered during inspections and monthly reporting formats throughout the year. Stakeholders during public consultations alluded to unreliable power supply emanating from unannounced power cuts. This adversely affected economic and social activities of the consumers.

Furthermore, as has been highlighted in the 2019/20 Tariff Determination, 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 2018/19:** LEC has not been able to provide the Authority with the integral part of its submission, its financial statements for the Financial Year 2018/19. As such the Authority bases for an assessment of the Company's financial performance is not substantiated.

Directive 7

LEC must ensure that its Financial Statements are audited and that non-audited financials should not form part of the future tariff applications.

¹⁷ VAT is charged by Government and payable to Lesotho Revenue Authority

B. Ring-Fenced Depreciation Account: LEC has failed to report on the status of the account and the projects it had financed in 2018-19 and 2019-20 to date. This makes it difficult for the Authority to monitor usage of the funds.

C. The LEA Act, 2002, as amended, in respect of providing regulated accounts for its businesses. LEC, in terms of the Act and its license, is required to prepare audited financial statements for its three regulated businesses. However, since it was issued a license, the Company has been unable to comply with these regulatory requirements.

Directive 8

LEC must ring-fence its regulated businesses in line with LEA Act, as amended and other regulatory instruments, by March 2021.

D. Tariff Filling and Review Procedure: LEC has failed to adhere to section 4 of the document. The approved chronological structure is that all Attachments/Appendix should follow a brief executive summary and a detailed basis for the application.

Directive 9

LEC must prepare and submit its future tariff application in line with Tariff Filling and Review Procedure.

- 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 (even after 2019/20 'Muela shut for two (2) months that compelled import of all energy from the expensive suppliers) makes it hard for the Authority to do necessary adjustments to its bulk supply costs. Furthermore, LEC has not provided information (kWh purchased or sold as well as related finances) regarding its participation in SAPP. This makes it difficult to accurately implement the Pass-through Principle. It is also important for the company to provide conditions for its SAPP foreign account and periodically report on its status 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; and

8. INTRODUCTION OF KEY PERFORMANCE INDICATORS (KPIs)

It is decided that LEC's performance for 2020/21 be monitored with specific KPIs that are being prepared in collaboration with LEC. The KPIs will be finalised and submitted for LEWA Board consideration and subsequent approval.

9. ELECTRICITY TARIFF INCREASES AND THE COVID-19 PANDEMIC

In making its final decision the Authority considered the prevailing situation of Covid-19 and its attendant negative consequences, particularly the economic meltdown as well as the subsequent GOL Policy Statement that Small, Medium, Micro Enterprises (SMMEs) should engage with the utility companies to negotiate payments schedules. The Authority has, to the extent possible, attempted to strike a balance between LEC's financial sustainability and the impact of electricity increase on the Lesotho's economy. The decision not to change the electricity tariffs also considers consumers and mitigates the possible negative effect on their livelihoods.

10. CONCLUSIONS

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 responses to both LEWA and public comments, including the effects of Covid-19, analysed by the Authority revealed that justification for M1.217 billion Revenue Requirement is not in line with LEWA's Regulatory Principles and Guidelines. The Authority has made the following observations:

- A.** In order to meet its Revenue Requirement of M1.217 billion, energy and maximum demand charges would need to increase by 23.8878%; and
- B.** The introduction of pro-poor tariff¹⁸ which is in line with The Energy Policy (2015); the Lesotho Electricity Authority Act, 2002, as amended; and LEA (Electricity Price Review and Structure) Regulations, 2009 has not adversely affected LEC revenue requirement.

¹⁸ LEC has not disaggregated domestic consumption into the domestic customers' bands

The Authority has concluded as follows:

- A. LEC's operating expenses are M109.83 million instead of M120.46 million requested by the Company;
- B. LEC's allowed repair and maintenance is M46.8 million. This is inclusive of M5.7 million for the Company to secure necessary equipment for measurement of SAIFI and SAIDI;
- C. LEC's allowed labour costs are M192.04 million (inclusive of M7.7 million for Employee Performance Incentive Scheme and 5.2% annual inflation rate) instead of M196.34 million. M 7.7 million from the proposed budget should be allocated for the LEC employee Performance Incentive Scheme (annual performance bonus). Disbursement of the budget would be aligned to achievement in agreed Key Performance Indicators (KPIs);
- D. LEC is allowed depreciation charge of M100 million instead of M116.00 million as it has been proposed by LEC;
- E. The Company is allowed M 549.15 million in line with its proposed bulk supply cost and only M469.15 million will be recovered from tariffs while the remaining M80.00 million will be paid from LEC's SAPP funds. The Company is further directed to report on the performance of the account with SAPP and its purchases through its participation in SAPP;
- F. LEC is allowed financing costs of M 6.27million instead of M160.73 million return on assets as the Company has never declared dividends.

Based on the above-mentioned conclusions by the Authority, LEC's allowed revenue for the Financial Year 2020/21 will be **M933.48 million** and tariffs will remain unchanged as shown in Tables 24 and 25 below to meet the allowed Revenue Requirement.

Table 24: Approved LEC Energy Charges for 2020/21

Customer Category	Current 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 for large customers and @M0.035/kWh for others	Final Approved Energy Charge	Current Energy Charges including levies	Final Tariff Percentage increase
Industrial HV	0.1936	0.0000%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0000%
Industrial LV	0.2144	0.0000%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0000%
Commercial HV	0.1936	0.0000%	0.1936	0.2359	0.2559	0.2559	0.2559	0.0000%
Commercial LV	0.2144	0.0000%	0.2144	0.2567	0.2767	0.2767	0.2767	0.0000%
General Purpose	1.5835	0.0000%	1.5835	1.6258	1.6608	1.6608	1.6608	0.0000%
Domestic	1.4009	0.0000%	1.4009	1.4432	1.4782	1.4782	1.4782	0.0000%
Street Lighting	0.7952	0.0000%	0.7952	0.8375	0.8725	0.8725	0.8725	0.0000%
Lifeline Domestic	0.6500	0.0000%	0.6500	0.6923	0.7273	0.7273	0.7273	0.0000%

Table 25: Approved LEC MD Charges for 2020/21

Customer Category	Current Maximum Demand Charge (M/kVA)	Approved Percentage Change	Approved Maximum Demand Charges (M/kVA)
Industrial HV	272.7953	0.0000%	272.7953
Industrial LV	318.6317	0.0000%	318.6317
Commercial HV	272.7953	0.0000%	272.7953
Commercial LV	318.6317	0.0000%	318.6317

The figures in Tables 24 and 25 exclude VAT.

11. APPROVAL AND DIRECTIVES

The Authority approved that the existing LEC's tariffs remain unchanged for the Financial Year 2020/21, and the Company was directed as follows:

- A. Ensure that its Financial Statements are audited and that non-audited financials should not form part of the future tariff applications;
- B. Prepare and submit its future tariff application in line with Tariff Filling and Review Procedure;
- C. Develop and implement a refund formulae/policy for pioneer developers by December 2020;
- D. Ring-fence its regulated businesses in line with LEA Act, as amended and other regulatory instruments, by March 2021;
- E. Scientifically/arithmetically calculate the energy losses and this should be done by March 2021;
- F. LEC must submit a detailed updated asset register which shall consists of Asset Description, Unique ID, Location, Value, Annual Indexation factor, Funds Source or Sponsor and Ownership for approval by the Authority before the next tariff application;
- G. Prepare quarterly account for the use of diesel and oil for power generation. The allowed budget for this purpose should be ring-fenced and be treated as pass-through cost;
- H. In its monthly reporting through the MRFs, LEC should disaggregate domestic customers consumption and revenue into the two (2) established tariff bands; and
- I. Submit a comprehensive report to the Authority every quarter on the status of the funds and projects financed through depreciation funds.

12. COMMUNICATION

The decision of the Authority has been communicated to the applicant, LEC, by a letter dated 30th July, 2020, and to the general public through a print and electronic media on 30th July 2020



Date: 19/08/2020

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CHAIRMAN OF THE LEWA BOARD