

# LESOTHO ELECTRICITY AUTHORITY

## In the matter regarding a

### DETERMINATION OF LESOTHO ELECTRICITY COMPANY (Pty) Ltd's APPLICATION FOR A TARIFF INCREASE FOR 2010/11

#### 1. DECISION

After duly considering the application, the written and oral submissions from stakeholders during public consultation process, reasons, facts and evidence provided, the Lesotho Electricity Authority (LEA) Board, at its meeting held on 28<sup>th</sup> April 2010, decided and resolved as follows:

- The Lesotho Electricity Company (LEC) be allowed a revenue of M353.9 million for 2010/11.
- The energy and maximum demand tariffs for all customer categories be increased as shown in tables 1 and 2 below.

**Table 1: Approved LEC Energy Charges for 2010/11 by the LEA Board**

Customer Categories	Current Energy Charge (M/kWh)	Approved percentage change	Approved Energy Charges (M/kWh)	Adding Customer Levy @M0.0196/kWh	Adding Rural Electrification Levy @M0.015/kWh large customers and @M0.03/kWh for others	Final Approved Energy Charge M/kWh	Current Energy Charges including levies M/kWh	Final Tariff Percentage increase
Industrial HV	0.0870	7.3%	0.0934	0.1130	0.1280	0.1280	0.1160	10.3%
Industrial LV	0.0964	7.3%	0.1034	0.1230	0.1380	0.1380	0.1254	10.1%
Commercial HV	0.0870	7.3%	0.0934	0.1130	0.1280	0.1280	0.1160	10.3%
Commercial LV	0.0964	7.3%	0.1034	0.1230	0.1380	0.1380	0.1254	10.1%
General Purpose	0.7140	6.0%	0.7568	0.7764	0.8064	0.8064	0.7580	6.4%
Domestic	0.6240	7.3%	0.6696	0.6892	0.7192	0.7192	0.6680	7.7%
Street Lighting	0.3543	7.3%	0.3802	0.3998	0.4298	0.4298	0.3983	7.9%

**Table 2: Approved LEC Maximum Demand (MD)  
Charges for 2010/11 by the LEA Board**

<b>Customer Categories</b>	<b>Current MD Charge (M/kVA)</b>	<b>Approved Percentage Change</b>	<b>Approved MD Charges (M/kVA)</b>
Industrial. HV	129.3609	0.0%	129.3609
Industrial. LV	140.8179	7.3%	151.0976
Commercial HV	129.3609	0.0%	129.3609
Commercial. LV	140.8179	7.3%	151.0976

**The figures in the two tables above exclude VAT.**

## **2. THE APPLICANT**

LEC is a Government owned company registered in terms of the Companies Act of 1967. It was established in terms of the LEC (Pty) Ltd Establishing and Vesting Act 2006 wherein the assets, liabilities, rights and obligations of the former Lesotho Electricity Corporation were vested in the company. It was subsequently issued a Composite License in terms of Section 50 of the Lesotho Electricity Authority Act 2002 as amended; (hereinafter referred to as LEA Act) to transmit, distribute and supply electricity.

## **3. THE APPLICATION**

The application states that it is the fifth tariff application since the inception of LEA and it is in line with the license conditions of LEC which prescribe that LEC must submit an application to the regulator when it needs to increase tariffs.

The application also gives details of the environment within which LEC operates and proposes the review of the asset base established in 2007. It also states the revenue requirement that LEC needs to provide reliable and safe electricity, together with tariff levels for various customer categories in order to yield the required revenue. The key drivers for tariff increase are stated as increase in bulk supply tariffs of EDM and Eskom, including increases in operational costs of the company. It is further stated that Government is providing funding<sup>1</sup> for all its electrification projects.

---

<sup>1</sup> LEC informed the Committee during stakeholders' consultations that GOL is also providing the company with M45million for network refurbishments.

The application provides a snap-shot of the economic situation and how the recession has affected the manufacturing and mining sectors globally and the effects of it in Lesotho. It also deals with the decline of Southern African Customs Union revenue and how that would affect Lesotho. However, very little is written about the impact of the economic situation on the power sector and how the proposed tariffs would affect the current economic situation.

The application further provides information on possible projects in the country that might result in speedy economic recovery and increased electricity consumption. It states that the increase in electricity would, however, result in increased imports from EDM and Eskom, hence necessitating reinforcement of the transmission and distribution systems.

The application states the key drivers for tariff adjustment as 2009 Eskom Interim tariff increase and tariff adjustments, EDM bulk supply tariff increase and increase in operational expenses. The application further says LEC has lost M7million<sup>2</sup> to customers due to the Eskom interim tariff increase of June 2009.

The application also provides information on the asset valuation exercise that was conducted by the company and proposed the new regulatory asset base.

Following the above, the application provides a summary budget for each item to be financed and the overall budget of M422 million with details provided in Annex 4. In its modification, LEC revised its salary bill from M101million to M93million, resulting in a revenue requirement of M414million.

The application further analyses Affordability<sup>3</sup> using data from the Bureau of Statistics on household budget survey of 2002/03. The analysis concludes that based on the survey electricity will be affordable at the proposed tariff levels for 2010. It is worth noting that

---

<sup>2</sup> Supporting documentation on this is not provided and therefore it has not been factored in as recoverable cost for 2010/11.

<sup>3</sup> During the public hearing stakeholders felt that the affordability analysis is based on outdated information and it needs to be reviewed using the more recent studies.

the affordability analysis text has been the same for the previous tariff submissions of the company.

Finally, the application requests LEA to approve LEC's revenue requirement of M422million for 2010/11 and the proposed budget items to be financed. Annex 4 thereof gives the envisaged tariffs by customer category, resulting in increases ranging from 14 to 17%.<sup>4</sup>

#### **4. APPLICABLE LAW**

The legal mandate of the Lesotho Electricity Authority to make a determination of tariff applications is derived from the LEA Act. In terms of this act, Section 22 (f) thereof, it is the function of LEA to regulate prices charged to electricity consumers.

#### **5. PUBLICIZING OF THE APPLICATION**

In terms of Section 24 (6) of the LEA Act, the Authority is required to publish a notice in the newspapers and other local media to allow electricity consumers and other interested stakeholders to comment on the reasonableness of the tariffs applied for. Accordingly, a public notice was issued to print (Lesotho Times, Sunday Express, Moeletsi oa Basotho, Lesotho Today, Lentsoe-la-Basotho, Informative, Moafrika and Mololi) and electronic (Radio Lesotho, Harvest FM, Moafrika FM, Ultimate FM, Catholic Radio, Thaha-Khube and Peoples' Choice FM) media on the 16<sup>th</sup> March 2010 for stakeholders to comment. Stakeholders were given until the 7<sup>th</sup> April 2010 to submit comments. The notice further requested those stakeholders who were interested in making oral presentations before the LEA Board to indicate such interest so that appropriate arrangements could be made. At the close of that day comments had been received from Consumer Protection Association (CPA), two large industrial customers (Formosa Textile Co.(Pty) Ltd and Shinning Century Limited), Catholic Commission for Justice and Peace (CCJP), potential

---

<sup>4</sup> LEC proposed tariff increase includes customer and rural electrification levies which should not be part of revenue requirement of the utility.

customers and domestic customers<sup>5</sup>. Submissions details are attached for ease of reference.

## **6. PUBLIC CONSULTATION SESSION**

A public hearing was held on 13<sup>th</sup> April 2010. LEC and representatives of Lesotho Textiles Exporters Association (LTEA), Consumer Protection Association (CPA) and Catholic Commission for Justice and Peace (CCJP) made presentations before the LEA Tariffs and Pricing Board Committee.

In the public consultation session LEC gave a broad overview of the company's performance during the previous year, the challenges facing the electricity supply industry in the country, the reasons why the company needs resources, proposed strategies for implementation moving forward and a brief explanation of why the company is requesting a tariff adjustment of that magnitude for the financial year 2010/11. It concluded by providing the company's break-even analysis for 2010/11.

The representative of LTEA emphasized that the proposed increase by LEC comes at a time when the textile industry is faced with decline in orders from abroad due to the economic recession, which have dire implications like job losses that further exacerbate the prevalence of poverty in the country. LTEA explained that, whilst electricity constitutes a significant percentage of their input costs, maintaining the current costs would assist them as they are faced with many challenges such as diversifying their output and improving their productivity so that they can also compete with other countries in the world, especially those from East Asia.

The representative of the CCJP argued that electricity is a basic right for all citizens and it must be provided to every Mosotho in order to improve their quality of life, especially for women who need fuel for various household chores like cooking, heating and ironing

---

<sup>5</sup> One letter was signed by 194 customers and the other by 19. There were also three individual submissions from domestic customers.

within their households. Further stating, CCJP emphasized that LEC should fund capital projects with long-term capital loans underwritten by the Government, forwarding the reason that tariffs should only cover items such as operational expenditure, routine maintenance, administration and costs associated with running of the power supply networks. In making recommendations, CCJP proposed that the tariff increase by LEC should not apply equally across, but should rather be structured in such a way that the increase be proportional to the income earned. So in essence, those who earn more should pay more for electricity and *visé versa*, depending on the usage.

The CPA representative argued that LEC should defer some of its proposed expenditure on new vehicles and the replacement of their old security fences in their substations. CPA recommended that LEC should immediately cease to give free electricity units to its employees as part of their fringe benefits during this financial crisis in order to increase revenue collection. The CPA further proposed that more time should be set aside for extensive public consultations on issues of electricity including its efficient use and changes in tariff.

The representatives of the CPA and CCJP, in making their presentations, re-emphasized what was contained in their written submissions and requested the Authority to consider an increase of 4.1% (CPI for January 2010) as an increase in tariff. The representatives of these two organizations were also of the view that LEC should be told to re-submit its application after it emerged that LEC had not provided all of the information required to inform decision on its application.

## 7. ANALYSIS OF THE APPLICATION

### 7.1 The Main Drivers for LEC's Tariff Increase

#### 7.1.1 Bulk Supply Cost Increases from Eskom and EDM

The bulk supply cost estimates provided by LEC seem to be on the low side because they had not included the environmental levy, the wheeling charges, and the control area charge<sup>6</sup>, and they are based on an old Eskom tariffs structure. Another factor that results in underestimated bulk supply costs is the calculation of the forecasted kVA demand using an unrealistically high power factor of 0.98. LEC does not forecast the kVA demand directly from historical values but instead forecasts the kW and then uses power factor to convert to kVA. Using the threshold power factor of 0.85 stipulated in the Electricity Import and Export Agreement between Eskom and LEC, the revised bulk supply costs increase. When incorporating all these factors the bulk supply costs are changed resulting in total bulk supply costs of around M142million as reflected in table 1 below.

**Table 3: Revised Bulk Supply Cost Estimates**

Supply Source	kWh	Costs Proposed by LEC in Maloti (M)	Average Costs in Maloti/kWh	Costs Revised by LEA in Maloti (M)	Average Costs in Maloti/kWh
EDM	34 500 000.00	13 661 986.36	0.40	13 661 986.36	0.40
'Muela	500 384 751.00	67 647 219.71	0.14	67 647 219.71	0.14
Qacha's Nek	5 225 503.00	4 755 361.29	0.91	3 380 030.53	0.65
Clarens	65 790 091.00	23 840 059.83	0.36	25 759 706.13	0.39
Maseru Bulk	48 814 634.00	28 187 805.29	0.58	31 155 755.40	0.64
<b>Total</b>	<b>654 714 979.00</b>	<b>138 092 432.49</b>	<b>0.21</b>	<b>141 618 650.07</b>	<b>0.22</b>

---

<sup>6</sup> The South African Government introduced the environmental levy in 2009 and the wheeling charge is applicable to imports from EDM, and the control charge is applicable for monitoring the imports by LEC.

### 7.1.2 Operating Expenses and Staff Costs

The LEC budget suggests that operating expenses and staff cost will be M64 418 959 and M93 522 099.80 respectively in 2010/11. This means that operating expenses and staff costs will increase by 18% and 20%<sup>7</sup> respectively for this financial year. The proposed 18% increase in operating expenses is more than the Consumer Price Index<sup>8</sup> (CPI)-derived from 2008 and 2009 data published by the Lesotho Bureau of Statistics- of -5% for the sector which is the one applicable in 2010/11. Applying the CPI on LEC operating expenses is consistent with the treatment of LEC operating expenses for the previous year, 2009/10. When using the same principle, LEC's operating expenses for 2010/11 would be **M52 989 175.64** not **M64 418 959.00** as proposed by LEC. The reason advanced by LEC that this is due to increased repairs and maintenance costs is not relevant, and this was clarified in LEA's Determination on the LEC Application for a Tariff Increase for the Financial Year 2009/10, i.e. 'Contrary to LEC's contention that the operating costs are high due to high costs of materials procured abroad, the budget does not include procurement of equipment that exceeds M2, 000.00. **The increased costs for such equipment would be shown by high costs of materials and equipment for repairs and maintenance (included under cost of sales)** and for electrification projects in the country.'

When the above mentioned principle is applied to LEC's staff costs, the salary bill for the utility would be M83 414 176.71 and this figure is still lower than the revised LEC figure of M93 522 099.80, a difference of M10 107 923.09. The LEC figure constitutes a 20% increase in salaries. The proposed figure for last year was M87 037 830 and the allowed was M83 268 781.20<sup>9</sup>.

---

<sup>7</sup> LEC confirmed during the public hearing meeting that staff basic salaries will increase by 6.5% in 2010/11. The remainder of the increase is due to additional staff including that for manning new offices.

<sup>8</sup> During the public hearing LEC hinted that the Producer Price Index (PPI) may be the most appropriate index for adjusting its costs. The CPI represents prices at consumer level while the PPI represents prices at wholesale market. Applying PPI to adjust operating expenses of LEC would not be appropriate as items under this budget are mostly affected by CPI.

<sup>9</sup> This figure was derived from an estimate of 2008/09 of M75 016 920.00. The audited figure turned out to be M70 035 328.



### **7.1.3 Depreciation Charge**

Whilst LEC has charged the new depreciation based on its network asset valuation, it is not clear whether all the assets valued are currently used and useful in the supply of electricity. Some parts of LEC network, for instance, Tikoe 33/11 kV and Mohales' Hoek 132/33 kV substations, including LHDA networks that were designed for construction purposes are not utilized as per their designs and if they were to be replaced tomorrow, an efficient solution would be found based on existing and projected loads. In view of the fact that there is no formal arrangement between LEC and LHDA regarding operation and maintenance of the transmission assets of LHDA, it may be necessary that the assets be transferred formally to LEC before any depreciation charge can be allowed. In view of the above, the depreciation charge of M44 086 779 proposed in the LEC's budget appears the most appropriate as opposed to that in the application of M60million. It would therefore be reasonable to phase-in the depreciation charge of the revalued assets in order to allow for the smoothing of tariffs over time. Finally, LEC should establish a 'Depreciation Account' into which depreciation charge funds should be deposited and be used solely for the replacement of assets.

### **7.1.4 LEC's Revenue Requirement**

The proposed LEC's revenue requirement includes the customer and rural electrification levies of around M21.3million. The monies from the two levies are not part of LEC's revenue and as such should be excluded. LEC's revenue requirement should include bulk supply costs (repair and maintenance and fuel for generation), operating expenditure, staff costs, depreciation expenses and return on its investment. When these levies are excluded, the LEC's revenue requirement, with the revised salary bill, becomes M394.6million. Taking into account the increased bulk supply costs, reduced staff costs, operating expenses and depreciation, the revenue requirement drops to M350.4million. Based on the current tariffs and the forecasted demand, LEC would only be able to generate M337.2million. This amount would not be sufficient to satisfy the proposed LEC's needs and LEC would make losses of M38.5million and M3.5million as per LEC

proposal and LEA Analysis, respectively. This is shown in table 4 below. Thus the results show that in both cases there is a need for tariff adjustment.

**Table 4: Comparison of LEC Revenue Requirement as per LEC Proposal and LEA Analysis**

	<b>2010/2011 Revenue in Maloti</b> Based on LEC Proposal	<b>Revised 2010/2011 Revenue in Maloti</b> Based on LEA Analysis
kWh sold	589 825 553.05	589 825 553.05
Total Revenue from Sales	337 200 000.00	337 200 000.00
Total Revenue from Conn. Fees		
Miscellaneous other income		
Other income		
<b>LEC Total Revenue</b>	<b>337 200 000.00</b>	<b>337 200 000.00</b>
Bulk Supply Costs	138 092 432.49	141 618 650.07
Repair and Maintenance	17 681 999.00	17 681 999.00
Fuel for generation	955 000.00	955 000.00
<b>Total Cost of Sales</b>	<b>156 729 431.49</b>	<b>160 255 649.07</b>
Average unit cost (M/kWh)	0.27	0.27
Operating Expenditure	64 418 959.00	52 989 175.64
Staff cost	93 522 099.80	83 414 176.71
Depreciation Expense	60 986 779.00	44 086 779.00
<b>Total Operating Costs</b>	<b>218 927 837.80</b>	<b>180 490 131.35</b>
Finance Costs		
<b>Profit/loss for the period before tax</b>	<b>(38 457 269.29)</b>	<b>(3 545 780.41)</b>

### 7.1.5 LEC's Return on Investment

Analyzing LEC's investment since 2006/07, the company is entitled to a return of M8.9million on its investment. In order to earn this return and meet its tax obligations, it needs to generate at least M13.2million extra revenue from its customers.

### 7.1.6 LEC's Previous Financial Performance

Table 5 below gives a brief summary of LEC's past financial performance.

**Table 5: Summary of Key Performance Indicators for the Past Years**

KEY RATIO ANALYSIS	FINANCIAL YEARS			
<b>LEVERAGE/GEARING</b>	<b>2005/2006</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>
Sales / net assets	0.3	0.3	0.3	0.2
Debt equity ratio		20%	30%	
Debt Ratio	0.6%	0.9%	1.3%	0.9%
<b>PROFITABILITY</b>				
Gross profit margin	61.5%	68.2%	68.9%	68.3%
Net Margin	7.8%	7.5%	9.0%	7.1%
Return on total assets	2.2%	2.3%	2.7%	1.4%
Return on Equity		53.4%	63.1%	
Operating expenses/sales	53.2%	51.4%	56.4%	58.7%
Operating profit margin	8.3%	16.8%	12.5%	9.6%
Interest cover	19.3	119.7		180.1
Tax rate	2%	55%	28%	26%
<b>EFFICIENCY</b>				
Fixed Assets Turnover	0.32	0.34	0.33	0.21
Total Assets Turnover	0.29	0.31	0.30	0.20
Sales/net working capital	4.0	3.2	3.8	3.9
Days receivables	46	57	79	77
Accounts receivable/ sales	12.7%	15.7%	21.6%	21.2%
Inventory days	45	87	144	117
Closing inventory/ sales	5.1%	8.3%	14.0%	11.6%
Days payables	141	258	295	340
Inventory/Current Asset	11%	13%	22%	17%
<b>LIQUIDITY</b>				
Current ratio	2.14	1.99	1.69	1.60
Quick ratio	1.91	1.73	1.32	1.33
Days of Cash	106.58	139.09	104.48	125.63
<b>PRICE MOVEMENT</b>				
Average costs price	0.1648	0.1603	0.1596	0.1763
Average Sales price	0.3997	0.4622	0.4494	0.4895
Average price increases		0.16	-0.03	0.09

In assessing the above key performance indicators (gearing, profitability, efficiency and liquidity ratios) the LEA Board has noted as follows:

- a) Gearing Ratios:** LEC has a very low debt ratio and the situation may remain the same for sometime due to low returns from investing in electrification. The business should remain financed through equity and, possibly, concessionary finances.
- b) Profitability Ratios:** LEC's operating expenses constitute more than 50% of sales. While the gross margin remains fairly constant. The returns on its assets are also low.
- c) Efficiency Ratios:** The analysis of LEC's efficiency ratios indicate that it is taking two months for the company to collect from its customers while at same time it is taking too long to settle its debtors, almost a year. Finally, 21% of its sales are accounts receivables and the company's assets turnovers are fairly low.
- d) Liquidity Ratios:** The two ratios for LEC are all above one and this is an indicator that the company can fairly meet its short-term debts without any problem. However, it seems the quick ratio is declining and this means the company must improve on its collections and manage its inventories. They are both increasing and the likelihood of bad debts is also high.

## **8. CONCLUSIONS**

LEA's analysis of the LEC Tariff application has found no justification for a M414million revenue requirement. LEA Board therefore has concluded as follows:

- A.** The LEC revenue requirement has included cost items that cannot be justified, that is, rural electrification and customer levies and high operating expenses.
- B.** The depreciation charge contained in the tariff application assumes LEC is the one legally responsible for the replacement of LHDA's transmission assets. However, the LHDA transmission assets are not yet formally transferred to LEC.
- C.** The company is not putting aside funds for the replacement of the assets despite being allowed to charge depreciation.
- D.** The return on assets is also high based on the company's investments since 2006/07.
- E.** The company's operating expenses are proposed to increase by 18%, way above the sector related consumer price index (CPI) of -5%. The increase does not give a sign of efficiency in the company. The costs involved under this budget line can be fully controlled by the LEC management.
- F.** LEC's staff costs increase remains high, above national inflation and this is one of the significant drivers for the tariff increase applied for.
- G.** The LEC's bulk cost estimates are based on an old Eskom tariffs structure and do not include environmental levy, wheeling charge and control area charge.
- H.** The proposed tariff increases by LEC will result in the company making profits that are not consistent with its level of investment.

- I. The tariff for the general purpose customers remains high compared to the domestic customers yet the costs of connecting and servicing these two classes of customers are essentially the same. There is no justification provided by LEC. In fact the tariff for this customer category should be lower than the domestic customer due to their higher load factor compared to the domestic customer.
- J. The tariffs for industrial and commercial high voltage customers should be distinctly different from the tariffs for industrial and commercial low voltage customers in order to reflect varying costs (infrastructure required and the level of losses) involved in serving these two customer categories.

The tariffs that would enable LEC to generate its required revenue of **M350.4million** plus an excess of around M3.5million; that is a total of **M353.9million** revenue are shown in tables 6 and 7, in columns 4. The excess would be sufficient to cover pass-through costs, mainly bulk supply costs from Eskom.

**Table 6: Approved LEC Energy Charges for 2010/11 by the LEA Board**

Customer Categories	Current Energy Charge (M/kWh)	Approved percentage change	Approved Energy Charges (M/kWh)	Adding Customer Levy @M0.0196/kWh	Adding Rural Electrification Levy @M0.015/kWh large customers and @M0.03/kWh for others	Final Approved Energy Charge M/kWh	Current Energy Charges including levies M/kWh	Final Tariff Percentage increase
Industrial HV	0.0870	7.3%	0.0934	0.1130	0.1280	0.1280	0.1160	10.3%
Industrial LV	0.0964	7.3%	0.1034	0.1230	0.1380	0.1380	0.1254	10.1%
Commercial HV	0.0870	7.3%	0.0934	0.1130	0.1280	0.1280	0.1160	10.3%
Commercial LV	0.0964	7.3%	0.1034	0.1230	0.1380	0.1380	0.1254	10.1%
General Purpose	0.7140	6.0%	0.7568	0.7764	0.8064	0.8064	0.7580	6.4%
Domestic	0.6240	7.3%	0.6696	0.6892	0.7192	0.7192	0.6680	7.7%
Street Lighting	0.3543	7.3%	0.3802	0.3998	0.4298	0.4298	0.3983	7.9%

**Table 7: Approved LEC Maximum Demand (MD) Charge for 2010/11 by the LEA Board**

Customer Categories	Current MD Charge (M/kVA)	Approved Percentage Change	Approved MD Charges (M/kVA)
Industrial. HV	129.3609	0.0% <sup>10</sup>	129.3609
Industrial. LV	140.8179	7.3%	151.0976
Commercial HV	129.3609	0.0%	129.3609
Commercial. LV	140.8179	7.3%	151.0976

The above figures in tables 6 and 7 exclude VAT.

The above tariffs will enable the utility to generate **M353.9**million from its customers. This is shown in tables 8 and 9 below.

**Table 8: Expected Revenue from Energy Sales**

Customer Category	Energy Forecasts in kWh	Approved Energy Charge in Maloti/kWh	Total Revenue in Maloti (M)
Industrial HV	160 084 080.00	0.0934	14 944 008.95
Industrial LV	39 793 083.00	0.1034	4 116 085.08
Commercial HV	48 654 245.00	0.0934	4 541 922.42
Commercial LV	60 098 318.00	0.1034	6 216 401.74
General Purpose	92 105 171.00	0.7568	69 708 877.62
Domestic	183 774 232.00	0.6696	123 046 404.58
Street Lighting	5 316 424.05	0.3802	2 021 112.50
<b>Total</b>	<b>589 825 553.05</b>		<b>224 594 812.91</b>

**Table 9: Expected Revenue from Maximum Demand Sales**

Customer Category	MD Forecasts in kVA	Approved MD Charge in M/kVA	Total Revenue in Maloti (M)
Industrial HV	306 067.02	129.3609	39 593 105.17
Industrial LV	318 104.84	151.0976	48 064 880.00
Commercial HV	134 612.91	129.3609	17 413 647.19
Commercial LV	160 670.27	151.0976	24 276 893.26
<b>Total</b>	<b>919 455.04</b>		<b>129 348 525.63</b>

The effect on LEC's business will be as shown in table 10 below.

<sup>10</sup> The proposed increase is zero because these customers are cross-subsidising the industrial and commercial LV and the imbalance should be gradually addressed.

**Table 10: LEC Business in 2005/06 - 2010/11-Revised LEA Figures**

	2006/07 Audited	2007/08 Audited	2008/09 Audited	2009/10 Approved Budget	2010/2011 Based on LEA Analysis
kWh sold	472 456 862.92	507 859 726.59	536 001 178.44	568 850 309.87	589 825 553.05
Total Revenue from Sales	218 372 688.00	228 217 297.00	262 348 783.00	292 827 816.40	353 943 338.53
Total Revenue from Conn. Fees	25 507 536.00	21 909 500.00	33 250 131.00	18 065 398.00	
Miscellaneous other income	2 442 049.00	159 281.00	72 709.00	1 765 124.00	
Other income	6 326 875.00	10 157 654.00	11 317 354.00	2 753 229.00	
<b>LEC Total Revenue</b>	<b>252 649 148.00</b>	<b>260 443 732.00</b>	<b>306 988 977.00</b>	<b>315 411 567.40</b>	<b>353 943 338.53</b>
Bulk Supply Costs	75 739 466.88	81 069 074.00	94 493 060.00	102 721 916.07	141 618 650.07
Repair and Maintenance	4 064 488.12	18 053 023.00	32 162 019.00	11 826 100.00	17 681 999.00
Fuel for generation			368 465.00	650 000.00	955 000.00
<b>Total Cost of Sales</b>	<b>79 803 955.00</b>	<b>99 122 097.00</b>	<b>127 023 544.00</b>	<b>115 198 016.07</b>	<b>160 255 649.07</b>
Average unit cost	0.17	0.20	0.24	0.20	0.27
Operating Expenditure	31 795 544.00	32 747 299.00	47 269 559.00	55 778 079.62	52 989 175.64
Staff cost	50 430 661.00	63 575 527.00	70 035 328.00	77 739 214.08	83 414 176.71
Depreciation Expense	29 993 322.00	32 442 719.00	36 690 004.00	36 462 716.00	44 086 779.00
<b>Total Operating Costs</b>	<b>112 219 527.00</b>	<b>128 765 545.00</b>	<b>153 994 891.00</b>	<b>169 980 009.70</b>	<b>180 490 131.35</b>
Finance Costs	307 052.00		139 819.00		
<b>Profit/loss for the period before tax</b>	<b>60 318 614.00</b>	<b>32 556 090.00</b>	<b>25 830 723.00</b>	<b>30 233 541.52</b>	<b>13 197 558.12</b>

The M13.2million is sufficient for LEC to earn a return of M8.9million, as opposed to LEC's figure of M19million, on its investments since 2006/07.

Finally, the LEA Board has, therefore, resolved that:-

- The LEC be allowed a revenue of M353.9 million for 2010/11.
- The energy and maximum demand tariffs for all customer categories be increased as shown in tables 11 and 12 below.



**Table 11: Approved LEC Energy Charges for 2010/11 by the LEA Board**

Customer Categories	Current Energy Charge (M/kWh)	Approved percentage change	Approved Energy Charges (M/kWh)	Adding Customer Levy @M0.0196/kWh	Adding Rural Electrification Levy @M0.015/kWh large customers and @M0.03/kWh for others	Final Approved Energy Charge M/kWh	Current Energy Charges including levies M/kWh	Final Tariff Percentage increase
Industrial HV	0.0870	7.3%	0.0934	0.1130	0.1280	0.1280	0.1160	10.3%
Industrial LV	0.0964	7.3%	0.1034	0.1230	0.1380	0.1380	0.1254	10.1%
Commercial HV	0.0870	7.3%	0.0934	0.1130	0.1280	0.1280	0.1160	10.3%
Commercial LV	0.0964	7.3%	0.1034	0.1230	0.1380	0.1380	0.1254	10.1%
General Purpose	0.7140	6.0%	0.7568	0.7764	0.8064	0.8064	0.7580	6.4%
Domestic	0.6240	7.3%	0.6696	0.6892	0.7192	0.7192	0.6680	7.7%
Street Lighting	0.3543	7.3%	0.3802	0.3998	0.4298	0.4298	0.3983	7.9%

**Table 12: Approved LEC Maximum Demand (MD) Charge for 2010/11 by the LEA Board**

Customer Categories	Current MD Charge (M/kVA)	Approved Percentage Change	Approved MD Charges (M/kVA)
Industrial. HV	129.3609	0.0%	129.3609
Industrial. LV	140.8179	7.3%	151.0976
Commercial HV	129.3609	0.0%	129.3609
Commercial. LV	140.8179	7.3%	151.0976

**The figures in the two tables above exclude VAT.**

## 10. EFFECTIVE DATE

The effective date of the new tariff structure shall be 1<sup>st</sup> May 2010

## 11. COMMUNICATION

The decision of the LEA Board has been communicated to the applicant, LEC, by a letter dated 30<sup>th</sup> April 2010 and to the general public on the 29<sup>th</sup> April 2010 via a press conference and a press release.

  
CHAIRMAN OF THE LEA BOARD

DATE...04/06/2010