



LESOTHO ELECTRICITY COMPANY

Tariff Application to the Lesotho Electricity and Water Authority Board

Financial Year 2015-2016

December 2014

Contents

EXECUTIVE SUMMARY	3
1.0 Background	3
2.0 Drivers for tariff increase.....	3
2.1 Imports	3
3.0 Operating Costs and Maintenance	3
3. 1 Repairs and Maintenance	3
3.2 Operational Costs.....	4
3.3 Connection fee	4
4.0 Revenue Requirement.....	4
5.0 Proposed tariff levels	5
6.0 Recommendation	5

EXECUTIVE SUMMARY

1.0 Background

LEC was established in terms of the LEC (Pty) Ltd Establishing and Vesting Act 2006. It was subsequently issued a Composite License in terms of Section 50 of the Lesotho Electricity Authority Act, (hereinafter referred to as LEA Act) as amended, to transmit, distribute and supply electricity. It has, in terms of the license, an obligation to supply power to all customers who are within its service territory.

2.0 Drivers for tariff increase

2.1 Imports

LEC has a power sales agreement with ESKOM and EDM even though they are short term contract, currently. However on EDM contract, currently a firm contract negotiation is underway, where LEC will be guaranteed as per schedule between 5MW and 45MW of capacity from EDM. The Eskom tariff went up by 12.69% and EDM by 10% for the year 2015-16.

3.0 Operating Costs and Maintenance

3.1 Repairs, Maintenance and Operational costs

The repercussions of not doing maintenance are currently reflected by mounting maintenance backlog on assets where in some cases it is no longer economic to continue their maintenance, spares to repair them are no longer available. As operational cost 70% of the operational costs are largely contractual and others provided by third parties.

3.3 Connection fee

The current connection fee is not reflective of the actual costs and this is one area where there is financial hemorrhage, which LEC requested intervention from the regulator. The company is forecasting to connect 15,000 customers and should all of them connect within 50 meters, LEC will be subsidizing customers with M30 million per annum.

4.0 Revenue Requirement

The revenue requirement for the next financial year is estimated at **M 763,479,924.00** and broken down as follows;

Cost of Sales	M 362 928 819.00
Operating expenses	M 341 815 485.00
Return on assets	M 46 294 504.00
Financing costs	M 12 441 116.00

This revenue requirement is expected to be financed by a nominal increase of **18.32 %** on energy and maximum demand.