



LESOTHO ELECTRICITY AND WATER AUTHORITY

Consultancy Services for the Development of Regulatory Framework on Electricity Resale in the Country

1. Introduction

The Lesotho Electricity and Water Authority (LEWA) is a regulatory authority established in terms of the LEA Act, 2002, as amended. LEWA's mandate is to regulate the Electricity Supply Industry (ESI) by ensuring that an efficient and effective ESI is in place to meet the requirements of existing and future electricity customers. Regulatory activities undertaken by LEWA include, but are not limited to, the following:

- a. Issuing of licences related to the generation, transmission, distribution, supply and import and export of electricity;
- b. Approval of electricity tariffs;
- c. Resolution of customer complaints with the licensees; and
- d. Provision of technical and regulatory advisory services to the Minister of Energy, Meteorology and Water Affairs on any matter relating to the Electricity Supply Industry.

The resale of electricity in the country is fairly small but might be growing due to current property development initiatives that are taking place. Electricity resale occurs when an electricity customer purchases electricity from a licensed retailer and resells that electricity to other customers. These customers are generally tenants of the reseller. Reselling occurs via an electricity distribution system or network owned by the reseller. As a result, it remains unlicensed or unregulated and/or uncontrolled business from a regulatory point of view. In order to acquire a better understanding of the operations in electricity activity involved in the above scenario, the Authority intends to carry out a research to study the magnitude of the market and its associated regulatory implications. The findings of the study will assist the Authority in developing a suitable regulatory framework for resale business.

2. The Objectives of the Assignment

The assignment will initially be aimed at determining the size and scope of the electricity resale market and identify some basic principles to be applied in this market. The results of the research will assist the Authority in producing a set of regulatory tools for the market as well as further defining the pricing principles that should be applied to the resale of electricity. The resulting guidelines will guide and direct the relationship between the supplier and the reseller and between the reseller and the end-user. The document will also provide a mechanism for the resolution of complaints.

The objectives of the regulatory instruments that LEWA envisages to develop are as stated below:-

1. To ensure that the interests and needs of the present and future electricity end-users are safeguarded and met;
2. To promote competitiveness and end-user choice;
3. To provide guidance on how best this market could be regulated while maintaining a competitive environment;
4. To facilitate a fair balance between the interests of end-users, licensees, investors in the electricity supply industry and the public; and
5. To incorporate specific detailed requirements with regard to customer connection and disconnection, customer metering and billing.

3. Scope of the Assignment

The assignment will consist of literature review and an empirical research study in the form of questionnaire to all resellers and key stakeholders in the electricity supply industry in the country. There will be an extensive liaison with resellers in the country to receive their inputs and thoughts on customer categories, customer complaints, supply area of Resellers, tariff setting principles, metering and economic impact of electricity resale.

1. Customer Categories

Customer categories consist of customers who have similar patterns of use although their respective profiles or patterns of use within the economic sectors might vary. Provision is made to use a second level of categorisation; that is, the load factor. The cost of supply analysis may define subcategories within a sector such as low load factor, medium load factor and high load factor. In most instances, these subdivisions are at the discretion of electricity resellers.

Tasks to be undertaken include:

1.1 Comprehend the rationale for operating the resale business and involved customer categories.

1.2 Provide detailed number of resellers customers that are on prepaid and conventional/credit metering and the criteria used to put a customer either on prepaid or credit metering system.

1.3 Explain how customers access electricity tokens, especially the prepaid customers.

1.4 Elaborate on methodology used in compiling respective costs to credit meter users.

2. Customer Complaints

The concept of block of flats developments, security complexes and shopping centres is growing in popularity in the country; as a result, the Authority has received numerous requests for clarification regarding service standards for resellers. Lesotho Electricity Company (LEC) may not be involved in these processes citing that the end users in question are not its direct customers, as it provides a bulk supply to the resellers and that is where its responsibility ends.

In an attempt to address the above shortcoming, the Authority is collecting data on the resale of electricity in order to develop a framework to regulate resale business as a strategic and regulatory intervention to level the playing field for both resellers and end users. Most requests for clarification to LEWA are regarding: quality of service, rights and responsibilities of affected parties, dispute resolution, tariffs and pricing principles, billing, connection and disconnection charges, etc.

Tasks to be undertaken include:

2.1 Gather information regarding the types of complaints received and their origin.

2.2 Collect data on how disputes resolution process is undertaken.

2.3 Explain in details the turn-around time in disputes resolution or customer complaints?

2.4 Elaborate on the process followed prior to connection, disconnecting and reconnecting a customer. What are the steps involved?

3. Supply Area of Resellers

In terms of the LEA Act, 2002, as amended, trading in electricity by licensees is a regulated business. However, electricity resale takes place outside the scope of regulated entities as unlicensed entities buy electricity in bulk and resell it to their customers/end-users.

Tasks involve the following:

3.1 Collect information on the total number of customers served by the resellers.

3.2 Provide in details how much bulk electricity is being purchase in kilovolt Amperes (kVA) or kilowatt-hour (kWh) and from whom?

3.3 Explain who is responsible for maintenance of infrastructure between the point of supply and the customer's metering point.

3.4 Quantify how much electricity is actually sold to the customers per month?

3.5 Explain how much does it cost to service each customer and if there are different costs to supply, they should be highlighted and their rationale.

3.6 Elaborate on whether there are losses encountered (technical or administrative) and how much these losses constitute in terms of overall total bulk purchases?

4. Tariff-Setting Principles

It is very important for electricity resellers to abide by conventional tariff-setting principles and understand how the cost recovery methodologies operate within the regulatory framework. The resale of electricity should be based on the following principles:

- Transparency;

- Fair and equitable recovery of costs;
- Protection of end users; and
- Promotion of access to affordable electricity.

In order to ensure that the principle of fair and equitable electricity pricing is implemented, it is crucial that each individual premises is independently metered, that each customer has its individual meter, and that will afford customers an opportunity to verify their consumption levels so that they pay exactly for what they consume.

On the other hand, electricity consumption for common usage areas such as lifts, electrically operated gates, air-conditioning, and complex lights, should be included in the levy that all end-users pay to the owner as part of the service costs of the entire complex.

Tasks undertaken include:

4.1 Collect information regarding whether resellers do undertake 'Cost of Supply Studies' for their electricity business.

4.2 Collect information indicating how many customers' tariff categories are being applied and a brief description of how each category is determined and the financial implications to the overall revenue requirements of the companies.

4.3 Mention whether the undertaking of electricity resale makes a profit on residential, industrial and commercial customers per each category.

4.4 Elaborate on whether reseller would like to have a special tariff and if so what would be the components of such a tariff?

5. Metering

In order to make an accurate determination of how much electricity is consumed by each customer or end-user, individual metering is of critical importance. Metering and sub-metering are the most appropriate ways to measure the amount of electricity bought and resold. It is very important that metering equipment is tested and approved by a creditable entity such as the South African Bureau of Standards

(SABS) and is installed and programmed in accordance with equipment manual from the suppliers.

Tasks to be performed include collection of information on:

5.1. The types of metering equipment that are being used to measure electricity consumption of customers/end-users.

5.2. The function of meter-reading being discharged and the intervals involved in doing consumption verification? Are customers/end-users allowed to do their own meter readings?

5.3. How visible and accessible are the meter(s) to the end-users and the meter reading staff?

5.4. How costs related to the maintenance of the meter(s) are dealt with and whether there is maintenance schedule in place. This should also include information on the kind of maintenance done on the meters.

5.5 How often are meters calibrated to ensure accuracy in readings and whether the metering staff is accredited to do the calibration and metering maintenance? If not, who does it for the Resellers?

5.6 The accuracy levels of the metering equipment. Do the resellers sometimes encounter malfunctioning leading to escalated/decreased prices charged to end users and what remedial measures are in place to effect necessary corrections? Do the resellers normally carry out meter test as per customer request?

5.7 The resellers conduct customer awareness surveys and if not, how do they intend to raise awareness regarding customers understanding of the metering system for their own reading?

5.8 Whether the metering systems have the capability to do real-time energy usage recording/reading?

5.9 As part of asset management framework, what are the resellers' strategies to grade the metering life span and is there a strategy for upgrading or

replacing those that have come to the end of their life, and what is the life span of the meters?

5.10 As resellers, how do they ensure that meters are suitable for measuring consumption?

5.11 Whether the meters have a facility to store data for the previous month's consumption for future reference and how much data (in terms of months) can be stored?

5.12 What type of infrastructure is being used for distribution/supply of power? (Bare overhead lines, airdac or underground cable)

5.13 Whether the resellers make use of a mini-substation/kiosk to provide Point of Common Coupling (PCC) between themselves and their customers?

6. Economic Impact

The emergence of the electricity resale business like any other business venture, brings with it opportunities for both the skilled and unskilled job seekers in Lesotho's economy. Nevertheless, it has not been realistically quantified as to how many jobs have been created and lost over time, as more and more electricity resellers enter this potential market.

Tasks involved include:

6.1 Gathering of information on the total number of employees employed mainly for the resale of electricity (technical and non-technical).

Tasks involved collection of information on:

7.1 What are possible benefits of having resellers in the ESI in the country?

7.2 What are the existing advantages and disadvantages of having resellers in the ESI.

Activities involved:

8.1. From the resellers' conviction and understanding of the subject relating to the current reality that there are electricity resellers within the ESI, and that they are rendering a service which could be beneficial while at the same time the customer could be enduring the negative external consequences of high prices, what could be done in order to legitimise the electricity resellers' business. Furthermore, SHOULD THE REGULATOR LICENSE OR REGISTER THE RESELLER BUSINESS ACTIVITIES? Please provide an elaborative motivation for such preference.

8.2. Given that LEWA is seeking information from the interested and affected parties within the Electricity Supply Industry (ESI), is there anything that as a reseller you wish to bring to the attention of the Regulator?

4. Deliverables

- Inception report issued within two (2) months of study launch and field visit;
- Draft Study Report with consultant findings and recommendations;
- Draft Regulatory tools for the Resale of Electricity;
- Final Study Report with consultant findings and recommendations; and
- Presentation workshop for all stakeholders with special introduction for the top management of the Ministry of Energy, Meteorology and Water Affairs.

4.1 All deliverables will be in English and shall be submitted in electronic forms as well as in bounded five (5) copies of the final report. Each task of the Terms of Reference shall form a separate chapter of the Final Report.

5. Responsibilities of LEWA

LEWA will provide the Consultant with an office space with basic office furniture, access to printers and copiers, and fax machines. LEWA will also be responsible for providing local facilities and local costs associated with organization of workshops and presentations to be made to stakeholders by the consultant.

6. Level of Effort and Duration of Assignment

The duration of the assignment is for five (5) months from the date of contract signature to completion and submission of the final reports by the Consultant to the Client.

7. Qualifications and Experience of Consultant (Individual)

7.1 The consultant's core expertise should be in the field of power/electrical engineering with the requisite academic qualification of at least a Degree and a minimum of 10 years of experience in the power sector.

7.2 The individual consultant should have:

- Demonstrated experience of having carried out 2 similar assignments in the last 5 years;
- Demonstrated knowledge of electricity industry and private sector participation;
- Demonstrated experience relevant to all aspects of the assignment; and
- Demonstrated success in building consensus among stakeholders and in achieving acceptance and recognition of the benefits of the regulatory tool for the power sector.

8. Deadline for submission of Proposals

All proposals should be submitted on/before **November 17, 2014 at 12h00** to the following address:

The Tender Committee
Lesotho Electricity and Water Authority
7th Floor, Moposo House, Kingsway Road
Private Bag A315
Maseru 100
Lesotho