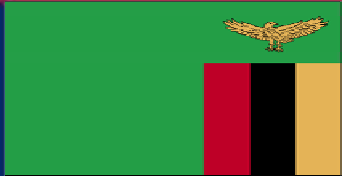




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National Association of Regulatory Utility Commissioners



ERB/NARUC REGULATORY PARTNERSHIP

MONITORING THE UTILITY'S FINANCIAL PERFORMANCE

ERB/PUC 3rd Activity, 22/03/06 – Lusaka

Introduction

- One of the major functions of a regulator is to monitor the performance of regulated utilities.
- This monitoring of performance is necessitated primarily by the monopolistic nature of the industry.
- The regulator has to ensure that the monopolist does not take advantage of his position and impose excessive costs or provide insufficient services to the customers.

Purposes of Monitoring

- The regulator has a role to ensure that utilities operate efficiently, as this has a bearing on the welfare of both the utility and the consumer.
- Financial performance monitoring aims at ensuring;
 - A. Sustainability of service provision
 - B. Just and reasonable pricing
 - C. Investment promotion

Legal Framework

- The Energy Regulation Act, Cap 436 of the laws of Zambia gives the ERB a legal mandate to monitor the performance of regulated undertakings
- Other instruments that support this role include;
 - Regulations
 - License conditions
 - Board directives/orders
 - Standards/codes/guidelines

Sources of Information

- The following are the ERB's major sources of information for financial performance monitoring;
 - Periodic (annual) financial statements
 - Annual Reports
 - Tariff Filing information
- Currently, the ERB is working on an audit framework that will be based on KPIs. This process will necessitate additional performance reporting requirements (at shorter intervals).

Reporting Systems

- Currently most information reporting from utilities to the ERB is manual (hard copy records)
- The ERB is now encouraging 'soft copies' in addition to the manual records, to facilitate easier processing of the data
- The ERB hopes to move towards electronic filing in the next 3-5 years.
- However, the Tariff Filing Guidelines have already incorporated excel spread sheets for the 'cost of service' template.

Performance Indicators

- The ERB, with the help of the IPA consultants, is in the process of developing performance indicators that will form the basis for the monitoring of the financial performance of ZESCO.
- These KPIs will then be extended to the other utilities.
- The performance indicators are being developed with the aid of benchmarking data from similar utilities in the region.

Performance Indicators

- The key areas for which performance indicators are being developed include the following;
 - Metering
 - Billing
 - Collection of bills
 - Cash flow management (including receivables, payables, and stock management)
 - Customer service
 - Staff productivity
 - Credit worthiness
 - Loss reduction

KPIs – Metering, Billing & Collection

- % number of customers metered
 - Measures progress on goal of metering
- KWh billed as % of KWh distributed to end users
 - Measures unmetered consumption and non-technical losses, e.g. theft of electricity
- Amount collected as % of billing
 - Measures commercial losses from amount billed but not collected

KPIs – Cash-flow Management

- Receivables as % of Turnover
 - Indicates amount of working capital tied up
- Payables as % of Turnover
 - Indicates inability to pay suppliers (threat to supply security)
- Stock as % of Working Capital
 - Indicates proper balancing between uses of working capital



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KPIs – Customer Service and Staff Productivity

- Customer Minutes Lost
 - Measures system reliability
- Number of Customers/Number of Employees
 - Measures staff productivity at corporate level
- GWh/Number of Employees
 - Measures staff productivity at Generation

KPIs – Customer Service and Staff Productivity

- Km of HV Lines / Number of Employees
 - Measures staff productivity at transmission
- Km of LV Lines / Number of Employees
 - Measures staff productivity at distribution

Conclusion

- The ERB is stepping up its efforts at monitoring performance of utilities
- The development of KPIs and introduction of regulatory audits later this year are a major step towards fulfilling this important mandate
- ERB hopes to learn more from the PUC regarding performance monitoring through this partnership