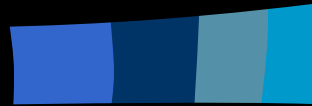
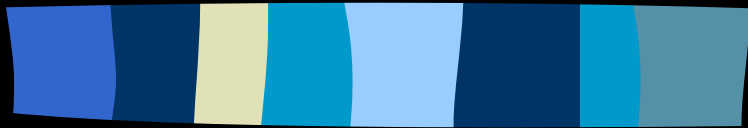


Energy Regulation Board



Conducting a Rate Review

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Introduction

- Mandate of ERB.
 - The mandate to conduct a rate review is derived from section 8 of the electricity act which states:

“The board may, if it considers it appropriate, on its own motion review a notice by an operator of an undertaking to vary or alter charges in respect of any supply of electricity.”



Procedure

- Before a regulated utility may change the regulated rate, the utility must:
 - File an advice letter (request) with the ERB at least 30 days before the effective date.
 - The utility must clearly state what percentage of increase is being requested.
 - Must state reasons for the tariff change, and how those changes will affect company revenues.
 - The company must fully document its need for the proposed increase in revenue.
 - The utility must in accordance with the electricity act, notify its customers of the intended tariff changes.

The Rate Case

- Determining a reasonable and just percentage of increase (or decrease) in rates is the purpose of all parties involved.
 - The board decides how the change in rates will be distributed between different classes of customers, I.E.
 - Residential, metered and un-metered households.
 - Commercial (Business).
 - Social services, such as hospitals.
 - Maximum Demand tariffs, such as the industrial sector.

Bulk supply tariffs (for large scale customers e.g. CEC) and Export tariffs (electricity sold outside Zambia) are not affected by the ERB tariff review.



Step 1: Review And Action

- The company's request is reviewed by an ERB team made up of the engineering, economics, financial and legal professionals.
 - During this process, requests for clarification and supplementary information are made to the utility.
 - Staff make a recommendation for action to the board.
 - At this stage, several options are made for review to the board.
 - Option 1: if the application is justifiable, staff recommend to the board that new rates should go into effect.
 - Option 2: if request requires further study the board may suspend the matter, in this case existing rates remain in effect.



Pre- Hearing Board Meeting

- At the conclusion of step 1, the Board meets to review the preliminary investigations into the rate case.
 - The board discusses specific issues and other procedural matters.
 - In certain instances, ERB staff may be called upon to present options for analysis of utility economics and rates.



Interested Party Intervention

- In both cases, (option 1 and 2), the utility, customers and other interested parties may become actively involved in the process through a public hearing.
 - At this stage, customer groups, organizations, and individuals can file petitions to the ERB to become 'objectors' in the rate case.
 - These may either represent themselves or can choose appropriate expertise to represent them.
 - Only objectors who filed written submissions with the ERB are allowed to make presentations during the public hearing.
 - Other stakeholders who did not file written objections are allowed to submit their objections at the discretion of the board.



Rate Case Recommendation And Decision

- After the public hearing, ERB staff will make a recommendation to the board.
 - The recommendation will take into account the total revenue required to achieve a specific rate of return on the utility's investments.
 - The recommendation also takes into account both oral and written comments which are considered by the board in making their decision.



Post Hearing Board Meeting

During the post hearing meeting, the Board convenes to analyze recommendations made by staff.

- The Board could decide to adopt the recommended decision, or alter part or all of the decision.
- At this stage the Board may ask staff to conduct further analysis into the rate case to determine specific parameters.
- After the Board's final decision is signed and issued, the utility shall make whatever rate changes are authorized.
- These rates go into effect on a specified date.
- The decision of the board is final.



Challenges to Conducting a Rate Review

- i. Period for decision making:
The law does not specify the period within which the decision must be made. This erodes public confidence.
- i. Quality of objections.
Most objections received by the ERB are of low quality and are filled without much research.
- i. Low income levels.
The low income levels renders the upward tariff revision a delicate matter. Most customers complain of the high electricity tariffs in Zambia, even if these are lower than most countries in the SADC region.