



**09 MAY 2017**  
**MEDIA STATEMENT**  
**NAMPOWER TARIFF ADJUSTMENT FOR THE FINANCIAL PERIOD 2017/2018**

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MEMBERS OF THE MEDIA,  
COLLEAGUES,  
LADIES & GENTLEMEN

It is my honour to announce that the Board of Directors of the Electricity Control Board (ECB) approved NamPower tariffs for the financial period 2017/2018.

**1. PROVISION OF THE ELECTRICITY ACT**

The Electricity Control Board is mandated to review and determine electricity tariffs under section 27 (2) of the Electricity Act 2007 (Act No. 4 of 2007).

**2. TARIFF REVIEW PROCESS**

Annual electricity tariff reviews, are conducted to ensure that utilities charge appropriate tariffs to collect sufficient revenue to ensure a reliable, sustainable and an efficient electricity industry at affordable rates.

In reviewing the tariffs, the Regulator considers a number of factors including, National Developmental Plans, Government Policies and Cabinet directives such as the 2005 Cabinet decision that resolved that NamPower tariffs should reach and remain cost reflective by the year 2012.

The Electricity Control Board (ECB) made its decision after conducting due regulatory process which included a stakeholders meeting, in which NamPower made a presentation of its application. This was done to afford interested and affected stakeholders the opportunity to present their views, facts and evidence

on the tariff. Three stakeholder representatives submitted written comments and inputs on the application. The submitted views and inputs of the stakeholders were considered in the decision process leading to the tariff approval.

### **3. TARIFF APPLICATION**

In accordance with the existing legal provisions, NamPower made an application for the tariff review. In its application, NamPower requested for an effective bulk tariff increase with three options of 6.38%, 10.08% and 22.40% for the financial period 2017/2018, an increase from N\$ 1.49 to N\$ 1.59, N\$ 1.64 and N\$ 1.83 per kWh respectively. The requested increase is for the bulk tariff (inclusive of generation and transmission) for the financial period 2017/2018, which will allow NamPower to meet its service delivery costs and for the tariff to remain cost reflective.

#### *Why the three options?*

The three options submitted is in consideration of an under recovery of N\$ 1.3 billion that NamPower incurred during the financial period 2015/2016, during which period, Namibia and the Southern Africa region experienced acute power shortages. In order to avert any possible load shedding, NamPower managed to secure electricity generated from emergency power stations although at a high cost.

The three above mentioned options relates to the different strategies for recovering the under recovery amount. When 100% of the under recovery amount of N\$ 1.3 billion is included it implies that the entire amount will be recovered in the 2017/2018 financial period, if 35% is included there will be another 65% that will be recovered in the period 2018/2019.

On an annual basis NamPower earns revenues based on the determination of a revenue requirement, comprising budgeted costs and approved tariffs. In practice, actual costs and revenues vary from those budgeted resulting in annual over or under recovery of required revenue.

The current tariff methodology makes provision for revenue reconciliations, to ensure that the utility and the customer are protected when the forecast and

actual cost and revenue of NamPower is reconciled. Through a detailed review and approval process by the Regulator, in both events of over and under recovery the benefit is passed to the respective party. Therefore, in line with the reconciliation methodology, the three increase options will recover 35%, 50% or 100% of under recovery amount.

#### **4. REASONS BY NAMPOWER FOR THE INCREASE**

The following reasons were provided by NamPower to justify the requested tariff increase:

- Application of cost reflective tariffs now and the future, to sustain a going concern for NamPower amidst the challenges of ensuring a least cost supply portfolio as well as the capital expansion required to ensure the realisation of Vision 2030 and the Harambee Prosperity Plan supported by the Electricity Supply Industry.
- Provision of the under-recovery from 2015/2016 as the main driver of the proposed increase,
- Not to breach NamPower's Debt Service Cover Ratio and Net Debt to Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) minimum thresholds and ultimately avoiding defaulting on its loan covenants.
- The proposed tariff increase makes provision for the year on year revenue requirement of NamPower, taking only actual costs and losses into account.

#### **5. PRINCIPAL FACTORS CONSIDERED BY THE ECB**

The tariff application review process included the following:

1. Analysing NamPower's submission in accordance with the approved ECB Cost - Plus Tariff Methodology, Revenue Reconciliation Methodology, Regulations, Rules and Government Policies;

2. Ensuring Cabinet decision on cost reflective tariffs for NamPower, In terms of this Cabinet decision the ECB has been granting NamPower real tariff increases from 2005 onwards to ensure that cost reflective tariff levels were reached by 2011/2012 and subsequently sustained beyond that period;
3. Conducting information sharing sessions. The purpose of these sessions was to share information and solicit stakeholders' input on the NamPower application;
4. Taking into consideration expectations of key stakeholders including Government and the possible tariff impact on the consumers and the Namibian economy;
5. The need to create and maintain a conducive environment to attract investment in the energy sector and to stimulate economic growth;
6. The need for NamPower to sustain its operations and service delivery in the short, medium and long term, enhance greater efficiency and seek innovative solutions;
7. The need for NamPower to cover the cost of electricity supply including financial obligation to the Independent Power Producers (IPPs).
8. The implication of the 2015/2016 under recovery on NamPower's ability to continue supplying electricity in the short, medium and long term and the possible future impact on the tariff.

The said under recovery was recorded on the generation part of NamPower's business, however during the same period NamPower recorded an over recovery of N\$ 410 million on the transmission part of the business, the full benefit of the over recovery is passed on to the customer in the tariff review for 2017/2018. The net balance of the under recovery is therefore reduced from N\$ 1.3 billion to N\$ 900 million.

9. The challenge posed by the prevailing slowing down especially of some of the major industries such as mining and agriculture in the local economy.

## **6. TARIFF METHODOLOGY**

In conducting tariff reviews the ECB employs a tariff methodology known as a “Cost - Plus” methodology. This implies that the allowed cost of a utility plus a regulated return determines the end-user tariff. The revenue requirement includes all allowable costs of the utilities to cover the cost of supply including the primary energy, energy imports, bulk purchases, operating and maintenance costs, customer service cost, overheads, asset-related costs and investment costs.

## **7. TARIFF REVIEW OUTCOME**

The Electricity Control Board at its 95<sup>th</sup> meeting held on the 4<sup>th</sup> of April 2017 approved an 8 percent tariff increase, translating to an effective bulk tariff increase from N\$ 1.49 to N\$ 1.61 per kWh.

The increase would suffice for NamPower to cover its allowed operating costs, cover part of the under recovery of 2015/2016, fulfil its financial obligations including payment to the local Independent Power Producers and ensure a continued supply of electricity. The approved tariff adjustment is effective 01 July 2017.

The ECB considers the 8 percent tariff increase to be the optimum increase for NamPower and the customers. The allowed increase will ensure that NamPower recovers allowable cost as per the tariff methodology as well as 57% of the under recovery, and the remaining 43% is deferred to the following year (2018/2019).

Should the increase be lower than 8 percent it means that a large portion of the under recovery will be deferred to the following year which will burden the future tariffs adjustments, and will therefore have an impact on the affordability of electricity tariffs.

Taking into consideration the stable electricity supply for both the regional and domestic supply options, the Regulator is confident that the tariff will stabilise in

the short and medium term. The current favourable condition provided by the stable electricity supply industry will allow Namibia an opportunity to increase local generation capacity in a more coordinated manner.

It is the Regulator's responsibility to ensure a sustainable electricity supply industry comprising of financial sound utilities that provides a reliable service to the country at affordable rates, and therefore the approved increase of 8% for the financial year 2017/2018 will ensure that NamPower can sustainably provide for the electricity needs of the country.

The increase is applicable to NamPower bulk customers i.e. Regional Electricity Distributors (REDs), Local Authorities, Regional Councils and Mines. Respective bulk customers (Distributors) will individually apply to the ECB for tariff increases that will be applicable to end consumers.

## **8. ELECTRICITY SUPPLY FUTURE OUTLOOK**

The power supply situation for Namibia and the Southern Africa region at large has been stable over the last 12 months. This has been mainly attributed to new generation capacity added on the grid, as well as good rainfall received toward the end of last year for hydro power.

It is important that the industry does not lose focus in terms of new generation needed, especially during the periods when there seems to be sufficient supply of electricity in the region. The responsible stakeholders should ensure that new power generations are commissioned timely as per the National Integrated Resource Plan.

To date Namibia has commissioned power plants with a total capacity of 30 MW from Independent Power Producers, we are expecting an additional 58 MW, for a total capacity of 83 MW of renewable energy of which 70MW is part of the Interim Renewable Energy Feed in Tariff (REFIT) program. Commissioning of the remaining 55 MW of the REFIT program is expected in the next 6 months.

An additional 101 MW is expected to be commissioned in the next 18 months comprising of, Hardap Solar PV Tender (37MW), and three unsolicited projects

(64MW). In total there will be 184MW of renewable energy by the end of 2018 and this make up 27% of the total installed capacity for the country. Due to intermittence of renewable energy such a high portion of renewable energy should be well managed to ensure a stable electricity network.

## 9. CONCLUSION

In conclusion, it is a fact that any increase in the cost of electricity has an impact on domestic, commercial and industrial consumers and the Namibian nation at large, therefore the Regulators has to ensure that the interest of both the suppliers and consumer are balanced and protected.

The ECB continues to recognise the impact of high electricity tariffs and low electrification rates in Namibia. The two national support mechanisms intended to address the affordability of electricity by less affluent customers and extend electrification to all regions of the country, have been approved by Cabinet and implementation will commence in the current year.

**I THANK YOU**



Foibe L Namene

**Chief Executive Officer**

