

INFORMATION FACT SHEET

Regional Electricity Distributors (REDs) – Part 2

The tariff (price) consumers pay for electricity is made up of the following six cost components:

1. **Generation and electricity import costs:** generating of electricity at a power station and import of electricity from abroad (same tariff nationally).
2. **Transmission costs:** construction and maintaining of NamPower's network of high voltage powerline infrastructure (same tariff nationally)
3. **Distribution costs:** construction and maintaining Distributor's network of low-voltage poles and wires that deliver electricity to homes and businesses (same tariff for a distribution area but differs from distributor to distributor)
4. **Retail costs:** connecting customers, billing customers, and managing accounts (same tariff for a distribution area but differs from distributor to distributor)
5. **Local Authority Surcharge (LAS):** A surcharge (levy) that is collected by the distributor to subsidize other non-revenue making services of the Local Authorities. (Differs from Local Authority to Local Authority)
6. **ECB and National Energy Fund (NEF) Levies:** ECB Levy is for the operation of the Electricity Control Board and NEF is for the national energy fund purposes. (Same tariff nationally)

NB: All customer categories are charged VAT except for residential (domestic) customers.

Over the years, the cost of producing energy and the import of electricity have been the main drivers of tariff increases.

Historically, Namibia enjoyed relatively low electricity tariffs due to low electricity generation and import cost attributed to a surplus in generation capacity that existed in South Africa. Over the years as excess capacity reduced in South Africa, therefore resulting in increased import costs. Namibia started investing in local generating to consistently fulfill local demand, which required increased generation costs that are included in the electricity tariff component.

One of the main generators for the country is the Ruacana Power Plant, a runoff river hydro power plant. During good rain periods the plant can generate reasonable amount of electricity of low cost, however during dry seasons when there is less water the production of electricity drops resulting in the need to import electricity at high costs.

Does the establishment of REDs impact electricity prices?

All Distributors including REDs, Regional and Local Authorities incur operational costs when supplying electricity to the

customers. These costs are regulated by the Electricity Control Board in terms of the Electricity Act No 4 of 2007.

The Distributors including the REDs have a responsibility to ensure a reliable and sufficient electricity supply to end users. The cost (Distribution and Retail) of providing these services has an impact on electricity tariffs whether through a RED or any other Distributor.

Before the establishment of the REDs many Distributors were not charging cost-reflective tariffs, notably distribution tariffs did not include necessary cost provisions for maintenance and operating the networks or in some instances diverted revenue from electricity intended for upkeeping of electricity networks to other non-electricity related services (cross subsidizing). This meant that when the REDs were introduced tariffs were increased to ensure cost recovery that will ensure sustainable electricity supply. For the above-mentioned reason, in areas where tariffs are artificially low and unable to cover allowable costs, those tariffs will also have to increase whether there is a RED or not to ensure a sustainable electricity distribution industry.

It is evident that in some of the distribution areas where there a no REDs the network has been neglected and needs major upgrading and maintenance.

Cost reflectivity means that the Distributor is allowed to recover all its cost of supply (allowable cost) as determined by the regulator plus a rate of return determined by the ECB.

The table below shows the average national tariff for end users.

Tariff Component	N\$/kWh
Generation	1.23
Transmission	0.47
Distribution and Supply	0.61
Local Authority Surcharge	0.14
ECB Levy	0.02
NEF Levy	0.02
Average National End User Tariff	2.49

(For further clarification on the establishment of REDs, please contact the ECB at info@ecb.org.na or 061-374 300)