

## Load shifting zambia

By Luckson Sikananu, Lusaka, Thursday, 25 July 2024 -- Zambia is grappling with chronic power shortages and load shedding, which have far-reaching implications for its economic growth and quality of life. The root causes are multifaceted, including ageing infrastructure, reliance on hydropower, and financial instability of ZESCO, the national electricity utility.

One of the most pressing issues facing ZESCO is the non-cost-reflective nature of current electricity tariffs. For years, tariffs have been kept artificially low due to socio-political pressures. This pricing strategy has resulted in substantial revenue shortfalls, preventing ZESCO from investing adequately in infrastructure maintenance and upgrades. Aligning electricity tariffs with the actual cost of production and distribution ensures that ZESCO can generate sufficient revenue to cover its operational and capital expenses.

The strategy involves negotiating with stakeholders, including the government and consumer groups, to gradually increase tariffs to reflective levels. This could be phased over a period to mitigate the immediate impact on consumers while providing ZESCO with the necessary revenue boost. To protect low-income households from tariff hikes, targeted subsidies can be implemented. These subsidies ensure that vulnerable populations are not disproportionately affected while still moving towards cost-reflective pricing for the broader consumer base.

Establishing a robust framework to identify and subsidise eligible households can help balance financial sustainability with social equity. This might involve cross-subsidisation where higher tariffs for industrial and commercial users offset the cost of residential subsidies.

A cost pass-through mechanism allows ZESCO to adjust electricity tariffs based on changes in operational costs, particularly those related to fuel prices. This mechanism ensures that fluctuations in fuel prices are directly passed on to consumers, rather than being absorbed by the utility. Given Zambia's heavy reliance on hydropower and the increasing dependence on thermal power plants during dry periods, implementing a cost pass-through mechanism is essential for maintaining financial stability.

The implementation of this mechanism begins with establishing a regulatory framework that allows for periodic review and adjustment of tariffs based on cost changes. Transparent communication with consumers about the rationale and benefits of this adjustment is crucial. This approach has been successfully adopted in several countries, including Kenya, where the Energy and Petroleum Regulatory Authority (EPRA) has implemented a similar mechanism to stabilise the financial performance of utilities and maintain a more reliable power supply.

The benefits of a cost pass-through mechanism are significant. It ensures financial stability for ZESCO by allowing the utility to avoid financial distress during periods of high fuel prices. This approach attracts

investment by creating a predictable financial environment and encourages efficient cost management as utilities are incentivised to manage operational costs effectively. Furthermore, consumers benefit from lower electricity bills when fuel prices decrease, promoting fair and transparent pricing.

Another relevant example is Zimbabwe, where the Zimbabwe Electricity Supply Authority (ZESA) has faced similar challenges. Zimbabwe has begun implementing demand response programmes and investing in smart grid technologies to enhance load management and reduce power outages. These initiatives have shown promising results, indicating that Zambia can achieve similar successes by adopting tailored strategies.

The successful implementation of these reforms will depend on robust regulatory frameworks, clear communication with stakeholders, and sustained political will. Learning from the successes and challenges of other nations, Zambia can build a resilient power sector that supports its development goals and improves the quality of life for all its citizens.

An award-winning journalist, Luckson has received multiple accolades for his work as a business journalist and media consultant in Zambia. His extensive coverage spans crucial topics such as geopolitics, emerging technology, and climate change. Luckson's career is distinguished by his ability to bridge the gap between complex issues and accessible communication. His expertise in journalism, media, and communication is underpinned by a robust academic foundation and hands-on experience in the field

Passionate about telling stories that matter, Luckson is dedicated to communicating for impact. He aims to inspire positive change and innovation through his storytelling, demonstrating a profound commitment to making a difference in the world.

The Financial Insights of Zambia was established in 2017 as a follow up to the success of The Financial Health of Zambia's Premier Companies blog which was birthed as an idea that would address the challenge Zambia investors had in understanding how companies within the economy created value. Armed with the annual reports of companies listed on the Lusaka Stock Exchange, we bring business analysis and valuation of these premier companies.

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