

Malebogo Bakwena

From: Thabiso Shapi <thabisoshapi@ymail.com>
Sent: Wednesday, 15 July 2020 20:48
To: Malebogo Bakwena
Subject: SUBMISSIONS REGARDING THE PROPOSED TARIFFS INCREASES BY BOTSWANA POWER CORPORATION

Good evening Ms Bakwena,

I appreciate the opportunity provided by your organisation to engage and receive stakeholders, especially public opinions regarding the proposed tariffs increases submitted to your organisation by Botswana Power Corporation (BPC). This is the first time I have been afforded this opportunity and I would like to encourage your organisations to maintain engaging stakeholders on all matters of public interest.

Regarding the above mentioned matter, I am against the proposed tariffs. We are currently and continue to suffer the economic impact of Covid-19 whilst simultaneously negatively suffering from the recent 22% tariff hike by BPC. It is therefore premature to add more burden to us as we will continue to suffer the financial strain of this epidemic in 2021 and unlike BPC we do not have privileges of seeking bailouts.

In addition, the increment of tariffs have failed and will continue to fail to rescue BPC from its financial constraints so I strongly advise the BPC management to seek cost efficient and effective ways to run their organisation. Furthermore, I urge the BPC management to exercise patience, as I strongly suspect that as soon as a negative balance sheet reflects on the end of year statements, they panic and immediately dump the burden on customers.

Lastly, the 22% hike was enacted less than 3 months ago, what results have informed the need of another hike? What can the 2 months results inform the finance department to draw a conclusion that the recent hike is insufficient to assist the company to deal with financial constraints as a result of Covid-19? Is the company not taking advantage of Covid-19 once again to dump further costs on the customers?

In closing, I recommend BPC intensifies rural electrification to leverage off economies of scale to turn around their balance sheet and also review their operations internally without engaging consultants who will drain their finances to establish cost efficient models to run the company. Thank you once again for this opportunity to give me submission and I look forward to the public hearing.

Best,
Thabiso



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Ref: RFSD 1/1/22 II

July 28, 2020

Ms Rose N Seretse
Chief Executive Officer
Botswana Energy Regulatory Authority
Private Bag 111
Lobatse

Dear Ms Seretse

**STAKEHOLDER PUBLIC HEARING ON THE BOTSWANA POWER CORPORATION
TARIFF APPLICATION FOR THE 2021/22 FINANCIAL YEAR**

I refer to the letter dated July 16, 2020, on the above.

The proposed increase in electricity tariffs by 5 percent is expected to add approximately 0.27 percentage points to the April 2021 inflation (Table 1). This estimate is only for the monthly electricity consumption of 100kwh and 500kwh included in the consumer price index basket. The estimate is also for the direct impact and does not include second-round effects on inflation. Thus, given that electricity is an important input into a variety of economic activities, the upward adjustment of tariffs could result in an increase in production costs that would be transmitted to inflation. Therefore, the overall impact on domestic inflation could be higher than the estimate of the initial direct impact and, likely to be longer lasting.

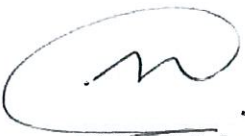
In comparison, the impact of the proposed change is lower than the 22 percent increase in tariffs in April 2020, which contributed 0.78 percentage points to inflation in the same month.

In general, the Bank recognises the need for regular, measured and non-destabilising review and adjustment of electricity tariffs, for cost recovery and sustainability. Furthermore, the adjustment of tariffs towards levels that would cover operating costs and, over the long-term, provide for infrastructure development and renewal, is aligned to the national economic transformation agenda. Among others, restructuring and transformation should increasingly directly place responsibility and accountability for operations and funding of the corporation on the leadership (Board and Executive) of the entity; this would include transition towards accessing the money and capital markets on the strength of own balance sheet. Second, and as a corollary, this would reduce dependence on Government funding, contribute to programmes for rationalisation and proper targeting of subsidies, and, therefore, reduce the fiscal burden. Third, proper attribution of cost provide incentives for optimum use and preservation of resources and, in this instance, prospects for greener technology and slowing the adverse impact of electricity generation on climate change.

It is recognised that to achieve the intended objectives, this transition should entail significant improvements in efficiency and effectiveness of service delivery, which for the country should be a key contributor to acceleration of economic activity towards attainment of the national aspiration of high income status. Therefore, in the absence of market competition (and only monopoly operator), there should be strong governance architecture including regulatory, to ensure that tariff increases are not used to cover inefficiencies.

Overall, the Bank has no objection to the proposed electricity tariffs adjustment for the 2021/22 financial year.

Yours sincerely

A handwritten signature in dark ink, consisting of a large, stylized 'M' followed by a series of loops and a final flourish.

Moses D Pelaelo
GOVERNOR

Table 1: Estimated Impact of the Proposed Electricity Tariffs Adjustment for 2021/22

| <i>Tariff Adjustment</i> | <i>Price Change</i> | <i>Impact on Inflation (Percentage Points)</i> |
|---------------------------------|---|---|
| <i>5 Percent</i> | <i>Electricity, 100kwh per month</i> <i>5%</i> | <i>0.27</i> |
| | <i>Electricity, 500kwh per month</i> <i>5%</i> | |

COMMENTS ON
BOTSWANA POWER CORPORATION (BPC)
TARIFF APPLICATION FOR 2021/22 FINANCIAL YEAR

BPC's goal of providing reliable and affordable access to electricity is a good and very noble aspiration.

The challenge as it is the case with most aspirational goals is how do we get there and how will we know we are there.

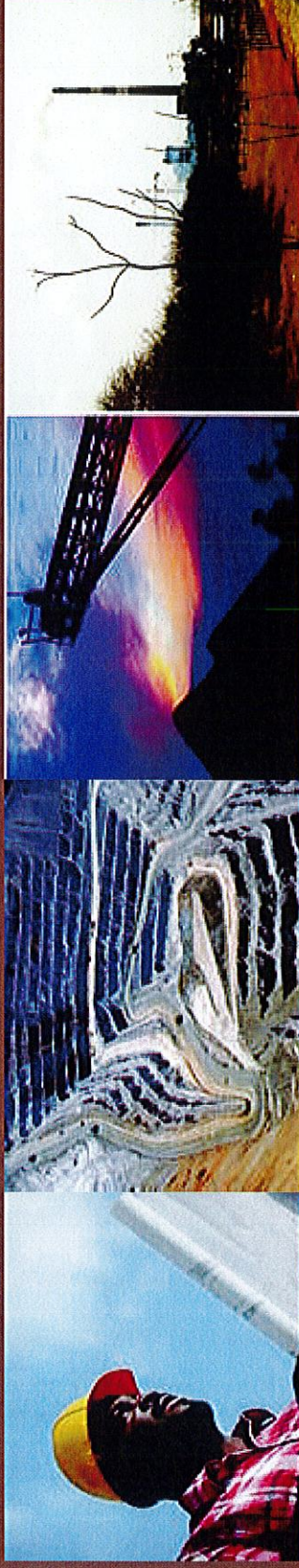
Perhaps the starting point would be to look at how BPC compares in terms of performance with similar power utilities around the world, e.g., average O&M cost per megawatt, capital expenditure performance indices, staffing levels and etc. This should give us a clearer picture of where BPC in the global scheme of things.

The easiest way to reduce disparity between average cost per unit and the electricity selling price for a utility is to increase selling price which is not necessarily good for the economy. The discussion of what is an economically viable selling price for any producer is also quite challenging in the absence of competition.

To deal with the question of affordable, whilst BPC must be encouraged to be more efficient, there will be constraints in terms of best level of efficiency which can be achieved as a Government owned agency. Perhaps it is now time for Botswana to look at opening up the power market further to allow private developers not only to generate power but to sell to users, and this could be limited to users above a certain level. This should encourage competition and which should in the long term drive affordability.

Reliability should not only look at more generation by one entity (BPC) but Botswana should take deliberate steps to have more generation companies with diversified fuel sources.

Developing an energy sector in Botswana and more specifically a power sector providing a reliable and affordable service to Botswana is a major undertaking which cannot be BPC centric and in line with the current review of tariffs, MMGE/BERA need to look at what other reforms can be implemented within the sector to achieve the same goal of reliable and affordable access to electricity.



BOTSWANA POWER CORPORATION LIBERALISATION – BERA PUBLIC HEARING

Charles Siwawa CEO – BCM 31st JULY 2020

INTRODUCTION



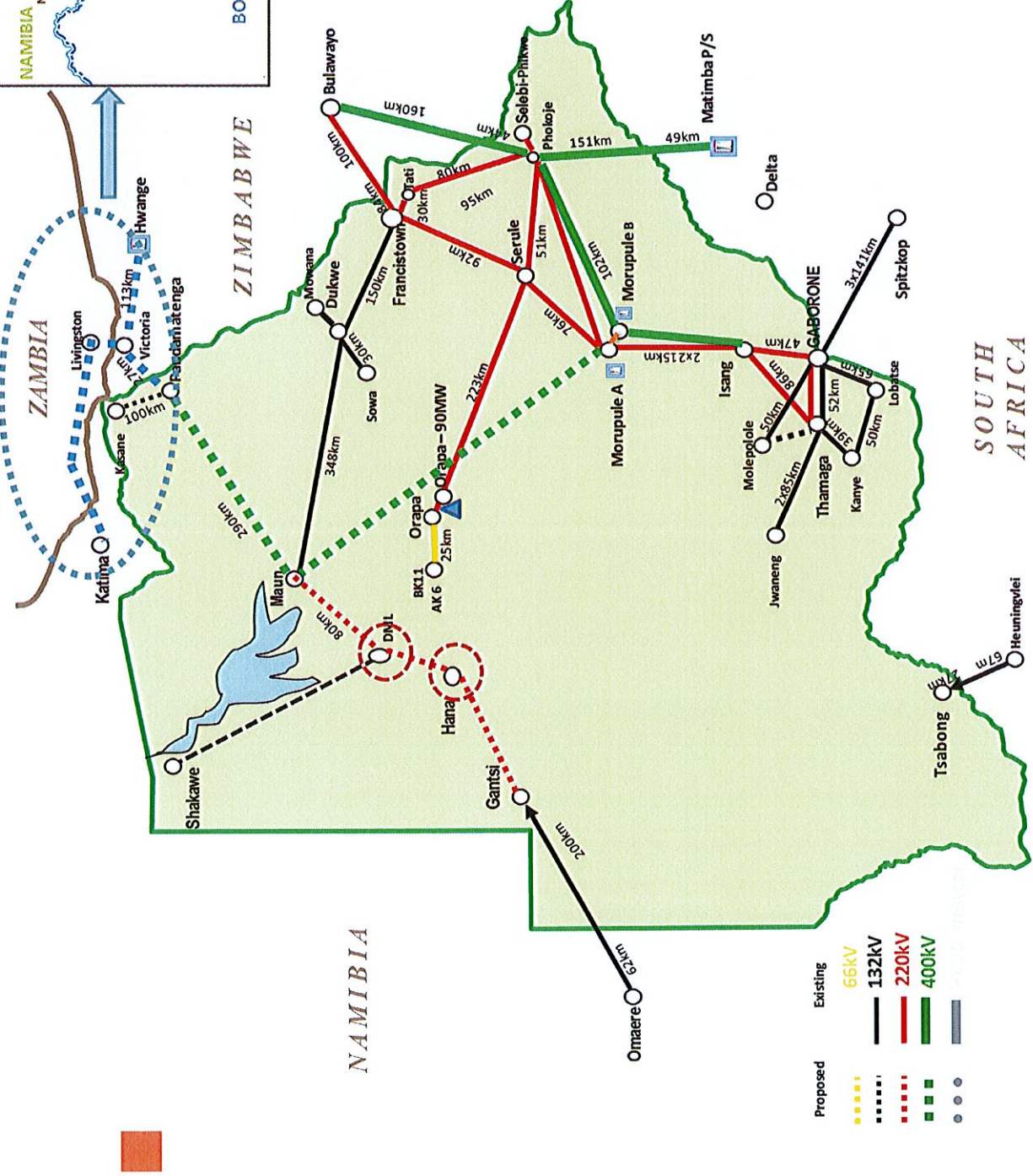
- Botswana Power Corporation (BPC) was established as a parastatal in 1970
- The objective was to generate electricity and supply this to the consumers
- The population was below 1.0m people and still sparsely distributed
- BPC has done well in the fulfilment of its mandate

CHALLENGES



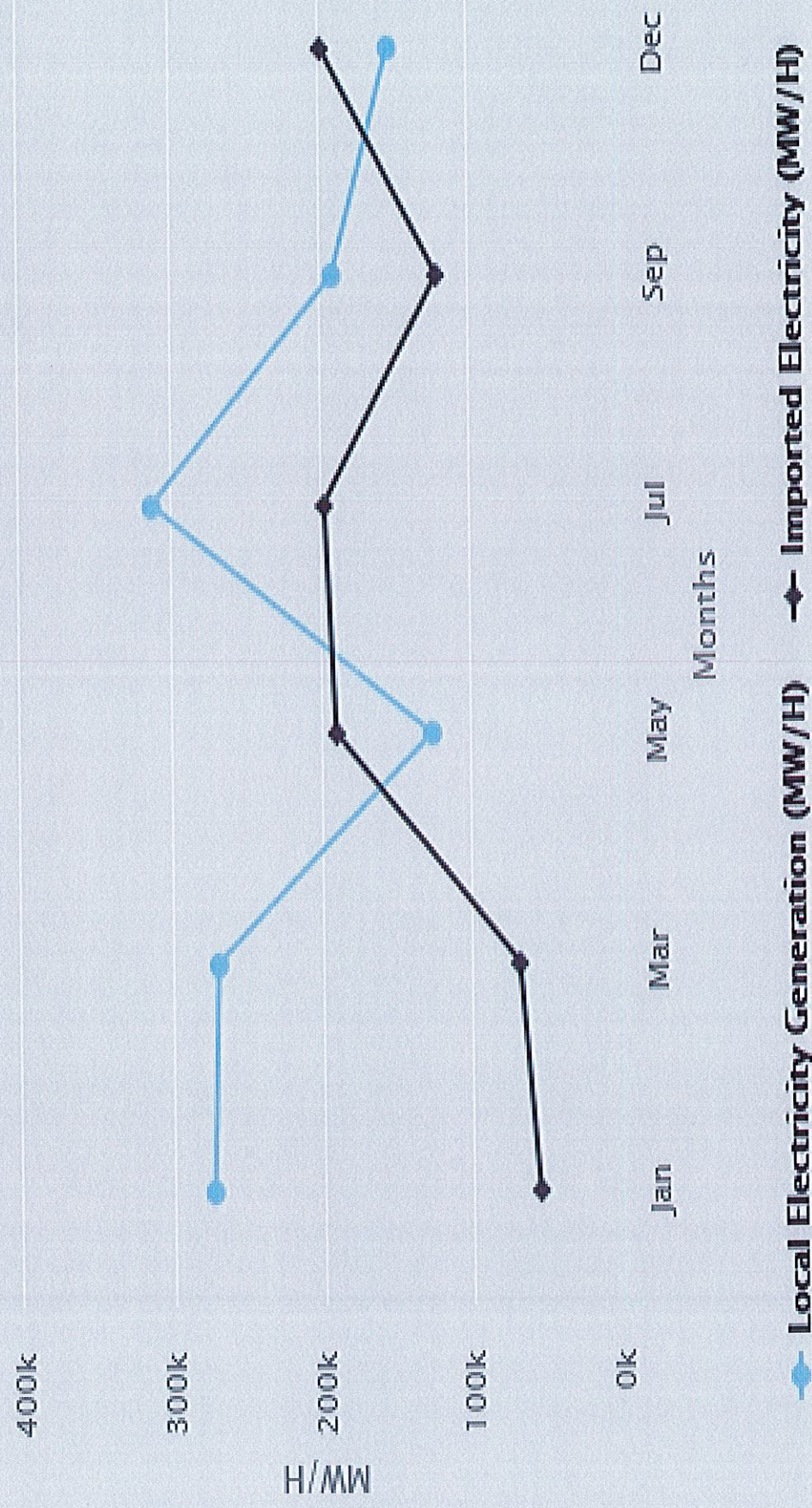
- Botswana's population growth has been on the increase since the establishment of BPC (2.01m 2011 census)
- The desire to have electricity by the consumer has seen similar quantum leaps in urban and rural centres
- Botswana as a country is huge and the population density is relatively low by world standards
- All these contribute to heavy demand on BPC services

Transmission Grid Expansion Plan



ELECTRICITY GENERATION

Electricity Generation 2019



COMPANY STRUCTURE



- BPC has four components of electricity generation, transmission, distribution and supply
- The size of the country together with low population density means that resources to get electricity to the consumer are spread thin on the ground
- To improve on efficiencies, unbundle the units to offer competitive operations
- This has been achieved already by drafting into law the Independent Power Producers to work alongside BPC generation
- The aim is to approach this option gradually and use a complete assessment review of the changes.
- The next step could be to look downstream for further unbundling

WAY FORWARD



- ❑ The unbundling process requires cost balancing in a country the size of Botswana
- ❑ In-depth studies are required to arrive at sustainable conclusions and recommendations
- ❑ Consultations are necessary to bring all stakeholders on board



THANK YOU FOR YOUR TIME

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**BOTSWANA POWER CORPORATION ELECTRICITY TARIFF
ADJUSTMENT PROPOSAL FOR THE 2021/22 FINANCIAL YEAR
INPUT FROM THE BOTSWANA TEACHERS UNION (BTU)**

1. INTRODUCTION

1.1. Pursuant to the invitation the Botswana Energy Regulatory Authority (BERA) extended to the Botswana Teachers Union (BTU) through a letter dated 16 July 2020 to a public hearing on the Botswana Power Corporation (BPC)'s Tariff Adjustment Proposal for the 2021/22 Financial Year, the BTU herewith submits written input. The BTU has had opportunity to go through the BPC Tariff Proposal, which is obtainable from the BERA Website (<http://www.bera.co.bw>), and wishes to make a reasoned submission as captured hereunder.

2. BACKGROUND

2.1. Electricity is an essential commodity to the constituency BTU represents (educators), the learners it serves and indeed the general population and industry. Electricity is one of the most essential consumer services. It lights homes and powers an assortment of household appliances - television, radio and irons - that make households more livable and enhance human welfare. It produces the energy a rapidly increasing number of Botswana households use to cook meals and heat or cool down their homes. It is the source of the energy that powers industry so that firms work and grow to create jobs, and hospitals and schools work well to produce and preserve the human capital we need to develop our country and its people. Electricity is absolutely essential to our social and economic lives. It must be universally available and affordable to households and firms, the former to meet a basic need, the latter to competitively produce goods and services.

2.2. BTU appreciates that electricity is delivered to users at a cost that comprises three main elements - generation, transmission and distribution. Consequently, for BPC to sustainably deliver electricity to users, the latter must pay tariffs that sustain all the three elements of the electricity supply value chain, namely generation, transmission and distribution. The act of balancing revenues and costs must be understood in the context of the BPC's five-year transformation strategy, Masa 2020, whose objective is to ensure that BPC is financially self-sustaining, and provides reliable and affordable access to electricity. The Masa strategy cycle ends at the close of the Financial year 2020/21. Masa 2020 has five (5) strategic objectives, namely;

- a) Move towards affordable and economic electricity tariffs to reduce disparity between average cost per unit and the electricity selling price
- b) Improvement in Operational efficiency
- c) Reduction of tariff subsidy in line with the tariff increase
- d) Prioritization of distribution and transmission network maintenance
- e) Increase in internal generation capacity (Morupule A and Morupule B Plant Availability)

2.3. The BPC's tariff adjustment proposal must be understood against the foregoing intents of Masa 2020. These intents strike a balance between users' obligations to pay for the electricity they consume and the supplier's obligation to avail electricity efficiently. BTU's submission is therefore premised on the foregoing strategic objectives (par 2.2 (a-e)).

3. THE BPC TARIFF ADJUSTMENT PROPOSAL

3.1. The BPC proposes a 5% average tariff adjustment for the year ending 31 March 2022 (reflected as 2021 in Table 1, and envisages further tariff adjustments of 4% for both 2021/22 and 2022/23. As figure 1 shows, the proposed tariff increase follows rapidly on a 22% tariff increase that took effect in March 2020, which suggests a cumulative un compounded increase of 27% in just the two years to end 2020. As Table 1 shows, tariff adjustments of 7.5% were made in 2015 and 2017, with a further adjustment of 10% made in 2018. The cumulative effect of these increases is that electricity costs would have risen by at least 52% for households and at least 66.5% for businesses and other users. This is quite steep and potentially disruptive.

Table 1: BPC Tariff Adjustments (2015-2016)

| USER CATEGORY | TARIFF INCREASE (%) | | | | | | |
|--|---------------------|------|------|------|------|------|------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Domestic Consumption < 200kwh/month | 7.5 | - | 7.5 | 10 | - | 22 | 5 |
| Domestic Consumption >200kwh/month | 10.0 | - | 10 | 10 | - | 22 | 5 |
| Small Business Consumption < 500 kwh/month | 17.5 | - | 12 | 10 | - | 22 | 5 |
| Small Business Consumption > 500 kwh/month | 17.5 | - | 13 | 10 | - | 22 | 5 |
| Medium Business | 17.5 | - | 13 | 10 | - | 22 | 5 |
| Large Business | 17.5 | - | 13 | 10 | - | 22 | 5 |
| Water Pumping, Mining | 17.5 | - | 13 | 10 | - | 22 | 5 |
| Government | 17.5 | - | 13 | 10 | - | 22 | 5 |

3.2. In making its proposal, the BPC has cited two main factors, namely:

- The statutory requirement for BPC "...to conduct its affairs on sound commercial lines and to produce a net operating income by which a reasonable return can be measured" (Botswana Power Corporation Act [CAP 74:01], Section 17).
- The Corporation's Financial Position: For the years (2007/08 to 2015/16, the Corporation incurred operating losses, ranging from P85 million in 2007/08 to P 1.370 billion in 2016/17. Consequently, the government consumer tariff subsidy to BPC increased from P454.00 million in 2010/11 to P2.321 billion in 2015/16. In 2018 and 2019 respectively, the corporation made operating profits of P1.158 billion and P727.979 million respectively, inclusive of Government's Consumer Tariff Subsidies of P1.457 billion and P800.00 million respectively. Without the Tariff Subsidy, BPC would have made Operating Losses of P299 million and P72 million in 2018 and 2019 respectively. The Corporation reasons that it needs to increase tariffs in order to attain the healthy liquidity position necessary to undertake overdue refurbishments of its transmission and distribution infrastructure.

4. THE BTU POSITION

4.1. Whilst the BTU appreciates the logic behind the BPC's Tariff adjustment proposal, it opposes it in the strongest terms. The following are our reasons:

- a) The rapid increase in electricity tariffs since 2015 is so steep as to be disruptive to both households and firms. We note in particular, that the proposed across the board 5% increase in tariffs follows only a year after tariffs were hiked by 22%. This is not good for households and firms. They have not as yet adjusted to the shock effect of substantial tariff hike.
- b) The BPC appears to rely exclusively on tariff increases to bridge the gap between average cost and average revenue and achieve commercial viability. It states in its proposal that commercial viability "...is achievable through gradual migration of electricity tariffs to a cost reflective status on yearly basis". The regulator should not encourage this reasoning. It is dangerous. Electricity is a critical input in production. Higher tariffs could adversely affect the external competitiveness of Botswana firms and products, frustrating both export growth and import substitution efforts as well as investment and growth. BPC must be challenged to pursue viability through demonstrable commitment to, and performance on, improved efficiency and strong cost containment as well.
- c) The BPC proposal does not appear to be informed to any degree by an assessment of the likely welfare impacts on the households, and the impacts on industry and the economy as whole. The proposal is purely introverted, focused on extracting more from users to cover costs, with no regard. Yet, policy best practice, and the reality of the strategic importance of electricity in industry and human welfare, require that electricity tariff adjustments be based on robust Regulatory Impact Assessments (RIAs). The social and economic consequences of electricity tariff increases are potentially high. As argued in 4(b) They could hurt the economy significantly by eroding productivity and competitiveness. BTU therefore urges BERA to reject the tariff increases until an *ex post* RIA is done for the 22% increase that took effect in March 2020, and an *ex ante* RIA is undertaken for the proposal for 2021/22.
- d) Overall, the regulator must demand that BPC demonstrates strong performance on improving operational efficiency and cost containment. Botswana needs this as part of a balanced approach to commercial viability and sustainability

4.2. We are grateful for the opportunity to make this submission.