



MEDIA STATEMENT

THE POWER SUPPLY SITUATION AND BUSINESS PERFORMANCE UPDATE

ZESCO Limited warmly welcomes you to the first media briefing of the year 2023.

Colleagues, as stated during the last briefing held in December 2022, the Corporation remains intentional in its interactions with the media and shall endeavour to deliver information to you in a structured and well-timed manner to keep our customers and stakeholders well abreast with key developments within the utility.

In this regard, today's briefing will primarily address matters relating to:

1. The current power situation, vis a vis the mitigating measures in the immediate and medium term.
2. An update relating to key deliverables in ZESCO's business transformation trajectory.

1. POWER SUPPLY SITUATION VISA' VIS THE MITIGATING MEASURES

During the power supply status update held on 19 January 2023, and delivered by then Acting Minister of Energy, Hon. Douglas Siakalima, our customers were informed of the reduced load shedding period from 12 hours to 8 hours. The reduction was mainly occasioned by the successful completion of maintenance works of a generating unit at Maamba Collieries Limited Power Plant which injected 150 Megawatts onto the national grid. This brought the total available national generating capacity to 1,910 Megawatts against the power demand of 2,380 Megawatts, thus, reducing the deficit from 620 Megawatts to 470 Megawatts. Further, ZESCO embarked on power importation to cushion the situation, while reducing power exports by 100 Megawatts. Load management by large power consumers yielded a total of 100 Megawatts.

As at 28 January 2023, load shedding was reduced to four (4) hours. This significant improvement has been occasioned by increased power generation output at the other power stations namely the Kafue Gorge and Kafue Gorge Lower that have yielded a total additional 210 - Megawatts as a result of increased water inflows in the Kafue basin. Power generation at Victoria Falls power station has been maximized to 108 Megawatts with the restoration of a 10 Megawatts generating unit which was under repair and increased inflows in the Zambezi River. The Itezhi-Tezhi power station has also increased generation by 10 Megawatts due to increased water levels in Itezhi-Tezhi dam. Consequently, the power generation capacity from ZESCO owned power stations has seen a cumulative gain of 240 Megawatts and an additional 120 Megawatts from the power imports deal with EDM of Mozambique.

To contextualize this power supply status, it is worth appreciating that all of ZESCO's hydro power generating stations are affected by hydrological limitations to varying degrees. As was earlier reported, the 1080 Megawatts Kariba North Bank Power Station has been the most hit as water levels in Lake Kariba have seen a steady decrease in the last 10 years. Presently, the power generation at the power station remains reduced to 250 Megawatts. The water level in Lake Kariba as at 1 February 2023 stood at 476.58masl (1.08m above minimum level). The minimum level being 475.5masl and the maximum level being 488.5masl.

Overall, the country's hydropower generating portfolio which makes up 86 percent of the country's installed power generating capacity, and despite its installed capacity being in excess of demand, all being equal, it has seasonally failed to yield adequate capacity to meet demand, hence, the perennial deficit which occasions load shedding as has been the case.

The above situation makes a case for emphatic steps to invest in a diversified generating portfolio to shift this dependence that exposes the country's power system to immense risks.

Therefore, in the medium term ZESCO is focused on expanding its power generation mix by investing in other renewable energy sources, being solar and wind. The Corporation targets to on board a renewable energy mix composed of a minimum of 800MW of solar energy, 500MW of wind energy, 500MW of hydro in the next 10 years.

ZESCO has made inroads in this sphere and the recent signing of a 2 billion dollar solar deal with MASDAR of the United Arab Emirates facilitated by the President Hakainde Hichilema is that one emphatic step that will boost the country's power generation capacity. Further, ZESCO has progressed procurement for the development of its first 150 Megawatts solar power stations that will be situated in three provinces.

The tender closes in April 2023 after which we expect to accelerate the projects to construction stage. Their commissioning is projected for 2024.

2. PROGRESS ON BUSINESS TRANSFORMATION IN THE LAST ONE YEAR

The road to turning ZESCO around under the new management and ensuring the Corporation takes centre-role in the providing adequate and reliable energy solutions to its customers made significant strides in 2022. Some innovative and environmentally sustainable solutions are being introduced and implemented to ensure the provision of electricity remains customer-centric while at the same time adding value to the main shareholders - ordinary Zambia people.

Here are the top crucial steps that ZESCO has employed in the last one year to rejuvenate the business and ensure total excellence and effective provision of energy solutions to its customers.

2.1 Resuscitating the Kafue Gorge Lower Hydroelectric Power Project

Following the suspension of disbursements by the project lenders, the main commissioning services were suspended by the main contractor due to outstanding payments. As at 11 August 2021, only 150 Megawatts had been commissioned. To unlock the commissioning works, ZESCO self-financed the remaining works leading to the completion and commissioning of the 2nd, 3rd and 4th generators within 6 months. The 5th generator will soon be commissioned to complete the 750Megawatts generation project.

2.2 Renegotiating new tariffs with Independent Power Producers (IPPs)

(a) Maamba Collieries Limited

One of the challenges ZESCO faced was the huge mismatch between the price Independent Power Producers (IPPs) sell power and retail pricing. ZESCO negotiated a 25% reduction on the purchasing tariff with Maamba Collieries Limited (MCL) from US cents 13 per unit (US cents 13/kWh) to US cents 9.06 per unit (US cents 9.06/kWh). This has effectively reduced the average monthly payments to MCL from USD 24 million to USD 16.5 million. MCL is the biggest IPP in Zambia accounting for about 10% of the country's installed generation capacity. The renegotiation of the new tariffs stemmed further rise of ZESCO's debt to MCL.

(b) Itezhi Tezhi Power Company (ITPC):

ZESCO Limited owed Itezhi Tezhi Power Corporation (ITPC) more than USD Five Hundred Million (USD 500 million) which had accrued over the years, due to a poorly structured tariff and hence built up a debt which could not be serviced with ZESCO's cash flows. In December 2021, ZESCO engaged into negotiations with ITPC and successfully negotiated and corrected the commercial tariff from US cents 11 per unit (US cents 11/kWh) to US cents 5.46 per unit (US cents 5.46/kWh). This tariff restructuring has culminated into a reduction of ZESCO's debt to ITPC from USD511 million to USD304 million as the tariff reduction was effected to the Commercial Operation Date (COD).

2.3 Connection backlog

ZESCO had a connection backlog of over 67,000 customers as of 3rd December 2021 which ranged from 2014 to 2021. ZESCO set out to clear the backlog within a year. By the end of the first quarter 2022 and quarter2 of 2022, the backlog had reduced to under 37,000 and 25,000, respectively. The backlog is sitting under 11,000 connections as at now with all standard connections completed and the only ones remaining are non-standard. This process was derailed when the Zambia Public Procurement Authority (ZPPA) was petitioned over the importation of the poles which were not readily available in Zambia.

2.4 CEC/ZESCO Bulk Supply Agreement

The two-year stand-off over the Bulk Supply Agreement (BSA) between ZESCO Limited and the Copperbelt Energy Corporation Plc (CEC) created a legal impasse and a terse uncertainty in the economy at the time of the downturn. The new 13-year BSA is much improved from the previous contract and should help enhance ZESCO's revenue streams.

2.5 Resolution of legacy differences with mining companies

In November 2022, ZESCO and the Copperbelt Energy Corporation (CEC) announced that they had resolved a dispute with the mining companies.

The dispute dates to April 2014 when the Energy Regulation Board (ERB), acting unilaterally, directed ZESCO and CEC to raise tariffs for mining companies in a move that triggered a litany of legal disputes in arbitrations and court cases that affected payment of the electricity bills by the mining companies. The resolution of the dispute should ease liquidity of ZESCO.

2.6 The Solar Energy Revolution

ZESCO has embarked on an investment drive that will see all provinces have at least one Solar PV farm. The initial plan is to start with 150Megawatts in 2023 as part of the Corporation's Strategic Plan which aims to construct up to 800 Megawatts of on-grid solar power generation by 2032. ZESCO's solar projects received a major boost when Republican President Mr. Hakainde Hichilema witnessed the signing of a Memorandum of Understanding (MoU) and a landmark Joint Development Agreement (JDA) between Zambia and the United Arab Emirates to facilitate a US \$2 billion investment in renewable energy in Zambia.

2.7 Reduction of debt by \$500 million:

ZESCO's huge debt encumbrance has hindered the Corporation from functioning optimally. As at December 2022, ZESCO had a debt burden of \$3.5 billion. Within a period of 12 months ZESCO's debt level has been brought down to around \$3 billion. The reduction has mostly been driven by the renegotiating of existing contracts and improving the Corporation's financial discipline which has resulted in ZESCO meeting obligations as and when they fall due.

2.8 Termination of Contracts for Nakonde and Pensulo – Mansa Transmission Projects

The respective contracts were signed in 2016 at a combine cost of USD512,053,522(USD288,046,064.00) DDP for Kasama – Nakonde and US\$ 224,007,458.25 DDP for Pensulo - Mansa). In October 2022, ZESCO informed the respective contractors that their contracts shall be terminated as per due contractual provisions. Since the signing of the contracts in 2016, the contracts have not been effective primarily due to the challenges with attaining financial closure for the debt component of the projects. ZESCO has subsequently been exposed to the pass on costs of extension of Advance Payment and Performance Guarantees since 2016.

Further, ZESCO realized that under the current debt situation of the country and the Company, the project financing model is no longer tenable, hence the need to terminate the contracts at the convenience of the employer as per due General Conditions of the Contracts. By December 2022, out of a combined advance payment of USD55,852,087.03 disbursed by ZESCO, the respective contractors have refunded a total of USD24,746,728.79 to ZESCO following the respective reconciliations of value of work done thus far by the contractors. The respective contracts termination processes are scheduled to be completed within the first quarter of 2023. The projects shall be repackaged and financed under more attractive financing terms and competitive pricing.

2.9 Abolition of Personal to holder Motor Vehicles:

This action was implemented by ZESCO to reduce the cost of purchasing Personal to Holder Vehicles and their maintenance costs.

2.10 Abolition of Staff Tariff:

Previously, ZESCO staff were entitled to free 1200 units of electricity paid for at a relatively low and uneconomic rate. The benefit was abolished, and staff now pay for electricity at the market price and are therefore contributing to the revenue pool.

3. CONCLUSION

ZESCO has set itself on a path to improve service delivery informed by its recently launched strategic plan which places a high premium of service excellence and customer satisfaction. As we venture into 2023, the Corporation shall continually build on the highlighted progress to create greater value for its customers and the shareholder.

Thank you all for your attention.

SIGNED BY: 

DATE: 

VICTOR B. MAPANI
MANAGING DIRECTOR