



2023 - 2027 ELECTRICITY BASE TARIFF APPLICATION

1.0 Introduction

In line with the 2017 Tariff Methodology, once every four years, ESCOM submits a base tariff application to the Malawi Energy Regulatory Authority (MERA) for consideration and approval. The tariff application contains revenue requirement (RR) for a four -year period to finance operational and capital requirements. ESCOM has submitted an application for the fourth base tariff covering the period from 2023 to 2027. The application has been revised by ESCOM to align with the new market structure, following Government's decision to dissolve PML and transfer the Single Buyer function back to ESCOM.

2.0 Context and Objectives of the Base Tariff Application

The base tariff application for the 2023-2027 period has been prepared in the context of Power Sector Reforms being implemented by the Government of Malawi following the enactment of the Electricity Amendment Act in 2016. The main objective of the reforms is to provide a conducive environment for private sector participation in the electricity sector, especially in generation. The reforms culminated into unbundling of generation from ESCOM and the subsequent formation of the Electricity Generation Company (EGENCO) which took over generation assets formally owned by ESCOM. The other key component of the reforms was the establishment of single buyer and SMO licensees to perform various activities in the electricity supply chain. As a result of these reforms, the country is now able to procure generation from independent power producers (IPPs) to supplement Government efforts in increasing power supply in the country.

3.0 Focus on customers and key stakeholders.

In building the 2023-27 business plans, which have informed the proposed tariff adjustment, ESCOM carefully took into account suggestions and proposals from its large customers and key stakeholders such as the Ministry of Energy, the Energy Regulator (MERA), Malawi Confederation of Chambers of Commerce and Industry (MCCCI), Economists Association of Malawi (ECAMA), Society of Accountants in Malawi (SOCAM), Consumers Association of Malawi (CAMA), Miners Association, Industrial customers (Illovo, Blantyre Water Board), Hard talk Energy, Sunbird Hotels etc. ESCOM also regularly gathers feedback from customers through ESCOM's customer service outlets as well as from social media platforms. The common themes from the feedback received from our customers and stakeholders which have formed the basis of the priorities and objectives of the 2023-27 revenue requirement determination and submission.

4.0 Cost of Delivery on Customer and Stakeholder Priorities

Total cost to deliver on customer and stakeholder priorities over the four years (2023-2027) is **MK1,846.67 billion** (One trillion, eight hundred forty-six billion, six hundred and seventy million Malawi Kwacha). This is comprised of power purchase costs (**MK915.31 billion**), single buyer licensee costs (**MK22.49 billion**), transmission licensee costs (**MK95.00 billion**), system and market operator licensee costs (**MK40.68 billion**), distribution licensee costs (**MK552.09 billion**), stabilization fund (**MK74.14 billion**), levies (**MK93.28 billion**) and bad debts (**MK53.68 billion**).

Figure 1 below shows the composition of the individual cost components as a percentage of total costs.

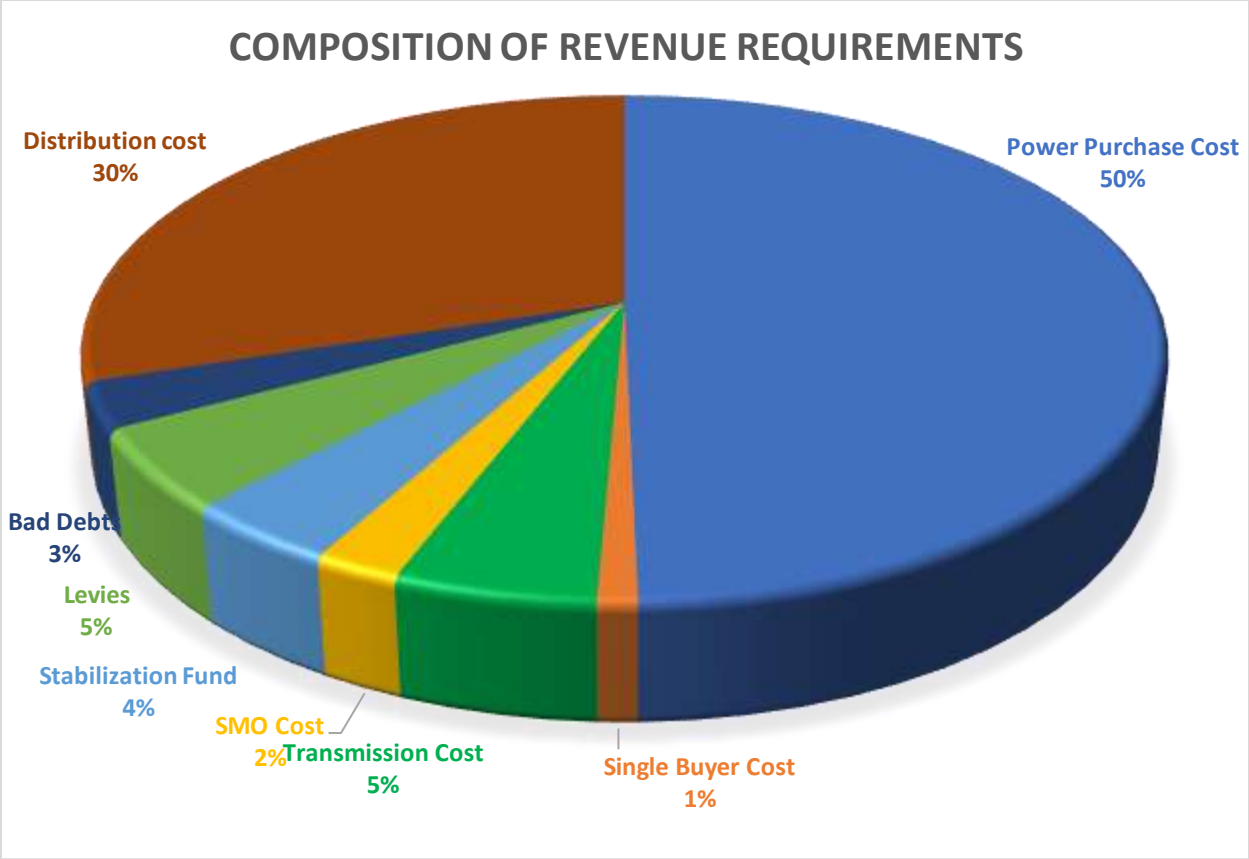


Figure 1: Composition of Revenue Requirements

4.1 Power Purchase Costs

The planned power procurements in the fourth base tariff are planned to be sourced from hydro, Malawi-Mozambique (MA-MO) Interconnector, thermal and solar. EGENCO will contribute 60%, MO-MA 30%, and others 10% of the generation capacity for the country. The power purchase costs have considered revised tariffs for the EGENCO hydro and thermal power plants, interconnector, and IPP tariffs. The power purchase costs for EGENCO are based on a capacity and energy tariff split with the ratio of **65%** (capacity) and **35%** (energy).

The total power purchase cost for the power supply sources for the four-year fourth base tariff period is estimated at **MK915.31 billion**. This amount comprises the energy purchase cost for the interconnector, energy purchase cost for EGENCO and other IPPs, capacity purchase cost, deemed energy charges, and wheeling charges for the interconnector.

4.2 Single Buyer Licensee Costs

The total Single Buyer (SB) revenue requirement amounts to **MK22.49 billion**. Out of this amount, SB operational costs are at **MK18.12 billion**, depreciation at **MK1.30 billion**, bank guarantee charges are at **MK2.22 billion** and return on investment is pegged at **MK843.82 million**.

4.3 Transmission Licensee Costs

The total revenue requirement for the Transmission Licensee is **MK95 billion** composed of **MK72.04 billion** operational costs, **MK5.56 billion** as depreciation, **MK2.06 billion**, being principal repayment, and **MK15.36 billion** as return on assets.

4.4 System Market Operator Licensee Costs

The activities of the System and Market Operator (SMO) are predominantly operational and are human capital intensive. Most of the transactions require professional staff as indicated in the previous sections. Therefore, SMO intends to spend about **MK1.68 billion**, **MK1.93 billion**, **MK2.22 billion**, **MK2.55 billion** for Payroll for financial years 2023 through 2027.

Depreciation charged on the regulated asset base for the SMO assets and equipment is calculated at **MK3.28 billion** out of which **MK1.82 billion** is from the Utility Funded Existing Assets, and **MK1.00 billion** from the Utility Funded New Assets.

The total SMO allowed return for the 2023-27 Base Tariff period has been calculated at **MK4.08 billion**.

4.5 Bulk Revenue Requirement and Bulk Tariff

The bulk revenue requirement comprises power purchase costs and revenue requirements for all licensees excluding the distribution licensee. From the power purchase costs and RR for Transmission, SMO and SB, the total RR is K1.144 trillion. The bulk revenue requirement and the estimated energy that will enter distribution are used to calculate the bulk tariff. Over the four-year period from 2023 to 2027, about 10.6 million MWh are expected to enter the distribution network. From these figures, the bulk tariff is **MK104.69/kW**

4.6 Distribution Licensee Costs

The total Revenue Requirement for the Distribution Licensee is **MK552.09 billion** composed of **MK360.48 billion** as operational costs, **MK42.06 billion** to cover depreciation expenses, **MK17.86 billion** to cover principal repayment, and **MK131.69 billion** as return on assets.

4.7 Distribution Tariff

There is a significant increase in the distribution tariff from the third base tariff period due to the need to ensure improved customer service, sustainability of the power sector and acceleration of electricity access, among others. The average tariff is therefore **MK58.46/kWh**. This tariff has been derived from distribution licensee revenue requirement (at K552.09 billion) and the estimated energy that that will be billed to customers, estimated at 9.4 million MWh.

5.0 Levies

The 2023-2027 Tariff application has also provided for 4.5% MAREP levy and 1% MERA levy as required by the Energy Laws. This translates to an average of **MK9.92/kWh** for the four-year period.

6.0 Bad Debts

It is ESCOMs commitment to finalize the migration of all customers from the post-paid to the pre-paid metering system. At the moment, most domestic customers have already been migrated to pre-paid metering migration at over 90%. However, most Maximum Demand (MD) customers are yet to be migrated. ESCOM requires approximately **MK20 billion** to complete migration. ESCOM plans to migrate MD customers in phases within the four-year period. For this reason, a provision for bad debt has been included in the tariff build up at **MK5.95/kWh** due to the potential risk of non-collection from some postpaid MD customers.

7.0 End User Tariff

The average end user tariff for the base tariff period has increased to an average of **MK177.26/kWh** from the current average of **MK104.46/kWh**. This represents an increase of **69.7%**. This increase is mainly due to power purchase costs which include cost to purchase power from Mozambique-Malawi Interconnector and Serengeti Solar Plant; Inclusion of the wheeling charges for the Interconnector, introduction of the Stabilization Fund and efforts to improve service delivery to customers. Additionally, the devaluation of the kwacha over the years, with a major devaluation in May 2022 by the Reserve Bank of Malawi, has contributed to the significant increase in total costs.

8.0 Conclusion and the Way Forward

The public and key stakeholders are being informed that that ESCOM has submitted an application in which it is asking the Malawi Energy Regulatory Authority (MERA) to consider and approve a **69.7%** tariff increase. This application for the tariff increase is for the period 2023 to 2027 and is a successor base tariff to the one that was implemented from 2018 to 2022. It is noted that the new application is a significant reduction from the **99.9%** that ESCOM and the PML jointly asked before PML was dissolved. The public and all stakeholders are advised that the full version of the base tariff application for the period 2023 to 2027 can be accessed on the websites of MERA (www.mera.mw) and ESCOM (www.escom.mw).

In this regard, the public and key stakeholders are asked to **submit comments and suggestions** on the ESCOM Base Tariff Application **by 29 June 2023** to the following address:

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Or

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