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**PRESS STATEMENT ON THE APPROVED NAMPOWER
TARIFF ADJUSTMENT FOR 2010/2011**

ISSUED BY MR SISEHO C. SIMASIKU, ECB CEO.

1. TARIFF APPLICATION REVIEW OUTCOME

We hereby announce that, in response to the NamPower tariff increase application, launched on 10 March 2010, the Electricity Control Board (ECB), after a rigorous review process, awarded an 18% average tariff increase to NamPower for the year 2010/2011.

The ECB, a statutory body established under the 2000 and 2007 Electricity Acts respectively (the former having been repealed by the latter), has amongst other obligations and functions, the sole mandate to regulate and control all electricity generation, transmission and distribution tariffs in Namibia since 2000. The mandate includes developing electricity tariff methodologies as well as independently reviewing and approving electricity tariffs.

As members of the press and public might be aware, NamPower made an application to the ECB on 10 March 2010, in terms of Section 27, of the Electricity Act (Act 4 of 2007), for annual increases in tariffs for its transmission customers. In its submission, NamPower had requested an average tariff increase of 35.16%.

As part of the review process leading to the 18% tariff increase approval decision, the ECB rigorously analysed the NamPower submission and also closely scrutinized and made use of provisions of relevant documentation such as the White Paper on Energy Policy, the approved ECB Tariff Methodology Model, Government Policy guidelines, expectations of key stakeholders and the possible impacts that the tariff could have on the Namibian economy.

2. CURRENT STATUS OF THE NAMIBIAN ESI

The electricity supply industry (ESI) in Namibia and the entire SADC Region is in a crisis caused primarily by power supply shortages. As is already known, the current shortage of generation capacity comes after many years of surplus capacity which had resulted in low electricity prices for a considerably long period. Until recently, Namibia had benefitted from cheap surplus power that was provided through a bilateral trading agreement with the South African power utility, Eskom. However, due to changes in levels of economic activities in the

region, electricity demand has outstripped supply, resulting in import constraints for most regional utilities, including NamPower. This situation has resulted in NamPower running its own expensive thermal power stations such as Paratus in Walvis Bay and Van Eck in Windhoek, the introduction of demand side management (DSM) and implementing plans for investment in generation and transmission infrastructure. The regional energy shortage has forced import-dependent countries like Namibia, to pay exorbitant (emergency) prices for energy imports, in cases where the imports are made available. This is particularly the case with imports secured from Eskom. In the long run, this state of affairs is not sustainable as the tariffs will not be affordable to the consumers in Namibia.

3. PRINCIPAL FACTORS CONSIDERED

The tariff application review process leading to approving the 18% increase considered a number of factors, including the following:

- The Cabinet decision that NamPower be allowed to be cost reflective in 2011/2012 due to the financial crisis that affected the whole world in 2009/2010, especially the suppressed performance of the mining and manufacturing industries which had an indirect negative impact on other sectors of the economy.

- The N\$120 million which the Government provided to subsidise the fuel cost for the Van Eck power station. This brought relief to the consumers by contributing to the overall reduction of the anticipated increase in tariffs. It is envisaged that the government will continue in the coming years to provide a fuel subsidy to ease the pressure of tariff increases.
- The prevailing power shortages in the Southern African region and the need to streamline generation strategies to adequately address the security of supply. Namibia needs to be self sufficient in electricity supply since electricity is pivotal to achieving development plans enshrined in Vision 2030 as it is a critical performance input for the mining, manufacturing, and other industrial sectors.
- The need to create and maintain a conducive environment to attract investment in the energy sector and to stimulate economic growth.
- The need for NamPower to sustain its operations and service delivery in the short, medium and long term.
- Funding of capital projects. It has become increasingly clear, from regional project plans, that tariffs alone cannot fund electricity capital projects such as power stations and transmission lines. Consumers usually pay for the use and consumption once the infrastructure has been constructed by government.

Reliance on imports has posed a challenge in terms of maintenance of cost reflectivity as a result of import price volatility.

4. STAKEHOLDER CONSULTATIONS

As part of the review process, the ECB extensively consulted with the majority of key stakeholders, including NamPower and the diverse spectrum of consumers who overwhelmingly responded by submitting their comments in writing.

The review process also included a consultative meeting with the Office of the Prime Minister, the Ministry of Mines and Energy, the Ministry of Agriculture, Water and Forestry, NamPower, Namwater and other stakeholders who also shared their views on the subject matter.

5. FUTURE PROSPECTS

The approved 18% average tariff increase is considered optimal for all stakeholders and the economy. The following factors contributed to the minimizing of the tariff increase:

- Government's partial funding for infrastructure, especially the Anixas power station,
- Government subsidy for coal used at Van Eck power station,
- Cabinet authorization for NamPower to defer implementation of cost-reflective tariffs to 2011/2012.

It has therefore become increasingly clear that the government needs to play an active role to ensure adequacy of electricity by supporting funding of capital projects for generation and transmission infrastructure through equity injection into NamPower, Public Private Partnerships (PPPs) or any other form appropriate to Government. The industry is thus grateful that the government grant-funded the construction of Anixas Power station through equity injection into NamPower. This went a long way into minimising the increase in tariffs, in line with the the generally accepted view that power projects cannot be funded by tariffs alone.

6. CONCLUDING REMARKS

It is logically predictable that electricity prices in Namibia, just like in most SADC countries, will continue to rise over the next five years mainly due to the following factors:

- Various capital projects need to be undertaken in generation and transmission in order for Namibia to become self-reliant in meeting its power demand and move away from being a net importer. It is very clear from the electricity supply crisis in the region that South Africa is no longer in a position to provide its neighbours with power unless it is availed as emergency power at exorbitant prices. Importing power from its neighbours is not a perpetually sustainable option for Namibia since it has no control over the energy import price escalations and will have a

negative impact on NamPower, its customers and the economy as a whole.

- There is a need to build power stations to address the power shortage gaps and enhance security of supply as soon as possible to ensure continued investment in the mining and manufacturing industries, whose output will further boost economic growth.
- There is a need to recover and provide for the costs of future network and generation expansions to alleviate possible future price shocks to consumers.
- Substantial increases in the demand for new electricity generation & transmission infrastructure, not only in the region, but also globally, exerts upward pressure on the capital cost of these new investments.

The approved average tariff adjustment of 18% for the 2010/2011 financial year is intended to ensure that NamPower can sustainably provide for the future electricity needs of the nation.