

Work-in-progress journey towards cost-reflective electricity tariffs in Lesotho

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Abstract

Energy Market & Regulatory Consultants in collaboration with researchers from the Energy Research Centre (ERC) of the National University of Lesotho are carrying out a Cost of Service Study and Design of Economic Cost Reflective Tariffs on behalf of the Lesotho Electricity and Water Authority. The paper will share the results of the on-going 9 months study due for completion in January 2018. Lesotho is looking into implementing cost-reflective tariffs for electricity with the aim of promoting efficiency of the electricity industry and thereby reducing costs, to the benefit of the customers. The work includes a review of the regulatory model that best fits the Lesotho situation - a number of approaches are being looked at including the Rate of Return (ROR) regulation and the Incentive Based Regulation (IBR). The optimal model will be determined from the results of the following analyses: demand forecast, development programs and the financial performance of the utility. Transitioning to cost reflective policy often leads to steep increases in electricity prices. This will be a challenge in Lesotho where the average consumption per household has decreased by over 60% between 2001 and 2016 (2,951 kWh/year to 1,157 kWh/year). This demonstrates that the bulk of the large number of new connections have been to poor households, so there is a need to balance efficiency with social stability, access, affordability and fairness. Hence there may be a need to introduce a lifeline tariff. The results from the various components of the study will be presented, showing how they were used to come up with the ultimate model, and how the model could realistically be phased. The results will be useful to a number of African countries who are planning to follow this route.

Keywords: Cost Reflective Tariff; Life line tariff; Demand forecast; Tariff determination

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