



**3rd Meeting of the OECD Network on the Governance
of State-Owned Enterprises in Southern Africa**

Forging Ahead with Reforms

***SESSION 4: SOEs IN THE INFRASTRUCTURE SECTOR
Fostering partnerships and enhanced implementation capacity***

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Participation of SOEs in Infrastructure Provision

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The Role of SOEs as Players in Infrastructure Projects

- Introduction
- Formation of ZESCO
- Commercialization & Liberalization of Power sector
- Existing Power Infrastructure- Power Plants
- Up coming power infrastructure
- Regulatory & Legal frame work

INTRODUCTION

- ZESCO – private limited Company, incorporated & domiciled in the Republic of Zambia & wholly owned by the Government of Zambia
- ZESCO was formed in 1970 under the Companies Act as the state owned electricity company
- Commercialized in 1996 following the revised Electricity Act of 1995, which removed the monopoly of ZESCO and provided for the entry of new players.
- The Ministry of Finance represents the Republic of Zambia as the sole shareholder of ZESCO, however, it is the Ministry of Energy, Mines & Water Development which acts as the executing authority vis-à-vis the company. ZESCO's Board of Directors is appointed by the latter.

Regulatory & Legal

- Electricity Act
- Energy Regulation Act
- Public Procurement Act of 2008/ ZPPA
- Companies Act
- Energy Regulation Board- issuance of Licenses
- Generation licence; Transmission licence; Supply licence; Distribution Licence & Supply licence.
- Application of tariff increase
- KPIs

Corporate Governance

- TA – EIB
- Current Scenario within the Company
- Dissolution of ZESCO's Board of Directors
- Appointment of new Board members on-going
- Company is managed by Managing Director & seven directors heading following;
- Generation; Transmission; D&CS; CA/BD; Legal & Company Secretary; Finance & HR/A

ZESCO's current infrastructure

- Kafue Gorge Power Station- 990mw (installed capacity) available capacity 960MW
- Kariba North Bank Power Station -690MW(installed capacity) 540MW available capacity
- Victoria Falls Power Station 108MW (both installed & available capacity)
- Small Hydro's-
- Lusiwasi – 12MW(installed) 8MW(available)
- Musonda Falls -5 MW(installed) 4 MW(available)
- Chisamba Falls 6MW (installed) 4.1MW (available)

New infrastructure

- No new power plants for over 40 years
- KNBE 360MW Peaking station(KNBPC- wholly ZESCO subsidiary) US\$420, (US\$315m China Exim Bank & US\$105m DBSA)
- Itezhi Tezhi hydro Power station 120MW(ZESCO & TATA) US\$235m
- Kafue Gorge Lower hydro power station 750MW(US\$1.5bn

New infrastructure Cont'd

- 1 MW Shiwang'andu Mini Hydropower Project
- Rehabilitation & uprating of small hydro power stations.

Transmission Projects

- Non storage of commodity means –
- The hydropower plant would require the transmission connection to be ready several months prior to final commissioning of the power plant.
- Prior to commissioning of generation station TL needs to be in place to evacuate power to the distribution network via the substations

Transmission Projects cont'd

- **Connection of Luangwa to the National Grid- Lusaka Luangwa TL US\$63m** – area been powered by diesel generator for past 40yrs
- **ITT Mumbwa Lusaka West Transmission Line Project-** evacuate power from Itezhi Tezhi hydro power station; 142KM 220kV & 134 KM of 330 kV Transmission Line from proposed ITT Power Station to proposed 330/220/33kV substation in Mumbwa US\$133m inclusive of duty & taxes - AFDB, EIB & KFW

Transmission Projects cont'd

- **Pensulo Kasama 330kV Transmission Line Project** US\$285m Industrial & Commercial Bank of China (ICBC)
- Main objective- to improve the quality of power supply to Northern, Luputa & Muchinga Provinces.
- **Pensulo –Msoro Chipata West 330kV TL project** US\$166m ICBC; EPC –TBEA company of China
- Main objective- to increase transmission capacity in Eastern province & address the poor voltage in the area.
- Numerous other TL projects in the pipeline.

Challenges

- Development of power stations involves million of dollars, even billions- KGL
- Cost reflective tariffs needed to attract proper investment
- 2007 ERB & ZESCO commissioned a Cost of Service Study which outlined following;-
- ZESCO's tariffs are far too low- not able to cover the supply costs from existing installations;
- Not able to allow for adequate maintenance & necessary expansion of its system
- Mining customers were heavily subsidized at the expense of the retail customers.
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Challenges Cont'd

- Main Challenge faced by ZESCO in the past with regard to tariff application is that if an application coincides with an election year, can wave good bye to any hope of getting a meaningful increase if at all.
- This forces the company to operate with huge costs without a corresponding meaningful tariff to cushion those costs.
- SI 33 All domestic transactions – local currency
- Current PPAs revenues previously in US\$ now in local currency. FOREX associated risk- (Hedging instruments)

Conclusion

- Huge expense associated with infrastructure in the power sector means SOEs play a vital role in the development of infrastructure,
- GRZ able to borrow funds at government levels at concessionary rates and on-lend to SOEs for the development of the sector
- Whereas in the private sector such development of infrastructure would see a huge cost on the end users in order for the entity to recoup its costs.

THANK YOU