



# 2022-26 ELECTRICITY BASE TARIFF APPLICATION

AUGUST 1, 2022



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## 1.0 INTRODUCTION

In line with the 2017 Tariff Methodology, once every four years, power sector licensees prepare and submit their business plans to the Malawi Energy Regulatory Authority (MERA) for consideration and approval. The Licensee business plans contain revenue requirements for a four -year period to finance both operational and capital requirements. The business plans under consideration cover the period from 2022 to 2026 (Fourth Base Tariff Application). This document has been prepared jointly by Power Market Limited (PML) as Single Buyer and Electricity Supply Corporation of Malawi (ESCOM) Limited which holds Transmission, System and Market Operator (SMO) and Distribution Licensees.

## 2.0 CONTEXT FOR 2022-26 BUSINESS PLANS

### 2.1 Power Sector Reforms

The Business Plans have 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 is the establishment of single buyer, transmission, SMO and distribution licensees to perform various activities in the electricity supply chain. Subsequently, Government in 2020 operationalized Power Market Limited to hold the Single Buyer License. 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. Our business plans have been developed to comply with reforms frameworks as provided for in the 2016 Electricity Amendment Act, Licensing conditions and regulatory frameworks.

### 2.2 Load shedding and Network Reliability

The country is currently experiencing long hours of loadshedding due to inadequate power supply situation. Customers experience up to 10 hours of loadshedding on a regular basis. This situation has a negative impact of the socio-economic development of the country.

The network is also experiencing high volumes of faults and long clearance times. This is as a result of lack of investment in transmission and distribution network asset maintenance, rehabilitation, and expansion.

Customers have expressed their frustration with lack of network reliability evidenced by long hours of load shedding and high network faults as described above. They are frustrated that the power supply situation in the country is not improving despite the electricity bills that they pay.

Considering the above, we have built our business plans to have adequate power supply sources into the country and to increase network reliability.

### 2.3 Risk and Uncertainty

Determination of revenue requirements for a four-year period carries with it inherent risks and uncertainties due to assumptions used. These risks may arise as result of assumptions made on inflation, exchange rates, sales and revenues, regulatory asset base (RAB), taxes, planned generation capacity etc. These risks will be managed through various instruments such as annual tariff reviews, decoupling mechanism and Automatic Tariff Adjustment Formula (ATAF).

## 2.4 Sector Performance in 2018-22 Base Tariff Period.

### 2.4.1 Technical Performance

At the commencement of the 2018-2022 Base Tariff period, the country had a total installed capacity of 426.93MW. A total of 110.36MW of generation was added to the national grid between 2018 and 2022, representing a 24% increase in installed capacity. Out of the 110.36MW, 80MW is solar generation installed by JCM, while the rest is hydro generation installed by Electricity Generation Company (EGENCO) Limited (19.1), Mulanje Hydro Limited (8.2 MW) and Cedar Energy (3.06 MW). Within the same period, about 80MW of Aggreko diesel generation was leased to minimize the impact of load shedding. The Aggreko contract has now expired, and they are currently decommissioning.

Despite the above additions, the sector continued to experience inadequate power supplies especially towards the end of the tariff period due to the unavailability of 130MW from Kapichira Power Station because of the damage caused by Cyclone Ana. This was a setback in the sector as Kapichira Power Station provides one-third of installed capacity.

Persistently throughout the period of base tariff, energy sales were below target due to a number of reasons, which include:

- generation challenges because of the drought experienced in the country between 2017 and 2019.
- Non-implementation of the phased tariff as approved by the regulator at the beginning of the base tariff period. Some of the planned tariff adjustments were either delayed, reduced or not implemented at all.
- Non-implementation of automatic tariff adjustment mechanism (ATAF) as provided for in the tariff methodology. Between March 2021 and March 2022, tariffs were supposed to be upward adjusted by 13.3% due to ATAF application alone. The ATAF adjustment is even higher considering the recent devaluation of the local currency and associated inflationary pressure.
- Lack of adequate framework for conducting annual tariff reviews and reconciliations which has resulted in some of the adjustment mechanisms not taking place.
- High technical and commercial losses of 22.2% at the end of the tariff period against a target of 16%.
- Non implementation of planned investments in generation capacity, particularly by independent power producers.

As a result of the revenue deficit in the 2018-22 base tariff period, ESCOM underperformed in some of the key performance indicators. These include among others, new connections, adherence to customer service charter commitments and implementation of some planned investments/projects. This is because ESCOM prioritized paying generators and IPPs while its operations suffered.

## 2.4.2 Financial Performance

The sector has reported a total revenue deficit of **MK112.5 billion** in the period of July 2018 to March 2022. The total achieved revenues for the IPPs, SMO, Distribution, and Bad Debts, were less by **MK53.8 billion, MK13.2 billion, MK43.6 billion and MK5.7 billion** respectively as compared to the actual costs reported within the same period. The total revenue deficit is explained in table 1 below:-

Table 1: Analysis of Allowed Revenues and Costs [July 2018 to March 2022]

		IPP Cost	SBL	SMOL	TL	DL	Bad Debts	Levies	Total
Allowed Revenues	MK'000	286,797,822	13,855,164	5,244,019	67,123,104	182,464,359	18,263,543	33,211,074	606,959,085
Impact of Delayed Tariff Adjustment	MK'000					(11,653,600)			(11,653,600)
Excess Losses	MK'000				(11,278,033)	(14,776,944)			(26,054,977)
<b>Revenue Achieved</b>	<b>MK'000</b>	<b>286,797,822</b>	<b>13,855,164</b>	<b>5,244,019</b>	<b>55,845,071</b>	<b>156,033,815</b>	<b>18,263,543</b>	<b>33,211,074</b>	<b>569,250,508</b>
IPP Invoices	MK'000	340,608,196							340,608,196
SB Cost	MK'000		11,589,050						11,589,050
SMO Cost	MK'000			18,395,467					18,395,467
TL Cost	MK'000				55,510,122				55,510,122
DL	MK'000					199,606,250			199,606,250
Bad Debts	MK'000						24,049,489		24,049,489
Levies	MK'000							31,958,418	31,958,418
<b>Total Costs</b>	<b>MK'000</b>	<b>340,608,196</b>	<b>11,589,050</b>	<b>18,395,467</b>	<b>55,510,122</b>	<b>199,606,250</b>	<b>24,049,489</b>	<b>31,958,418</b>	<b>681,716,992</b>
<b>Total Deficit / Surplus</b>	<b>MK'000</b>	<b>(53,810,374)</b>	<b>2,266,114</b>	<b>(13,151,448)</b>	<b>334,949</b>	<b>(43,572,435)</b>	<b>(5,785,946)</b>	<b>1,252,656</b>	<b>(112,466,484)</b>

In the 2018-22 base tariff period, the Regulator has been failing to timely grant a tariff increase in line with the approved plan. These delays resulted into ESCOM reporting a tariff revenue deficit of **MK11.7 billion**. The total deficit on delayed tariff adjustment is a direct cost to the Distribution Licensee.

On the other hand, ESCOM reported more energy losses than what were allowed by the Regulator in the approved plan. Analysis of the impact of these excess losses presented in the table above indicates that during the period under review ESCOM lost a total **MK26.1 billion** due to excess energy losses.

The analysis further shows that out of these losses, Transmission Licensee contributed a total amount of **MK11.3 billion** while **MK14.8 billion** was contributed by Distribution Licensee.



### 3.0 OBJECTIVES AND EXPECTED OUTCOMES OF THE 2022-26 BASE TARIFF.

#### 3.1 Focus on customers and stakeholders

In building the 2022-26 business plan, we have listened carefully to the voice of our customers and stakeholders. We have consulted with various stakeholders such as 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), Hardtalk Energy, Sunbird Hotels etc. We also constantly gather 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 2022-26 revenue requirement determination and submission. These priorities and objectives are described below.

##### 3.1.1 Provision of Continuous and Uninterrupted Electricity Supply.

Customers and stakeholders have clearly emphasized the need for continuous availability of electricity. We have responded to this key area of feedback by providing for procurement of adequate power supply sources, and investment in network infrastructure maintenance, rehabilitation, and upgrades.

It is difficult currently to determine true peak demand due to the load shedding being undertaken in the country. Peak demand has been suppressed for a number of years. Two studies have attempted to determine peak demand through modelling in the past few years. The 2017 Integrated Resource Plan estimated peak demand forecast shown in Table 2, whereas the latest demand forecast has been developed in the Cost of Supply Study (2022), presented in Table 3.

*Table 2: IRP Peak Demand Forecast*

<b>Year</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
<b>Demand (MW)</b>	618	542	596	654

*Table 3: COSS Peak Demand Forecast*

<b>Demand Scenario (MW)</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
<b>High</b>	449	527	573	627
<b>Medium</b>	431	503	544	592
<b>Low</b>	418	485	521	564

Table 4 below shows all the generation and power supply sources that have been contracted to commence operations between now and 2026, while Table 4 shows

potential total power supply capacity (including existing) if all the contracted capacity were to be realized in those particular years.

Table 4: Planned New Power Supply Sources Between 2022 and 2026

Company	Power Supply Type	Contracted Capacity (MW)	Commercial Operations Date
Serengeti	Solar	21	2022
Mozambique-Malawi Interconnector	Interconnector	50	2023
EGENCO	CCGT	50	2023
EGENCO	Solar	20	2023
Voltalia	Solar	40	2023
Atlas	Solar	20	2023
Greencells	Solar	34	2023
AZA	Gas	75	2023
Gebis Waste Energy	Gas	10	2024
Quantel	Solar	50	2025
Droege	Wind	50	2025
YM Power	Wind	109.5	2025
EGENCO Peaking Diesel	Diesel	30	2025
Rukuru Power	Coal	100	2026

Table 5: Existing and Planned Power Supply Between 2022 and 2026

Year	2023	2024	2025	2026
Total Potential Power Supply Capacity (MW)	555	844	854	954

Table 5 indicates that the country would have adequate power supply sources to meet the IRP peak demand forecast, being the worst-case demand forecast scenario (assuming all planned projects are implemented as per their planned commercial operations dates). However, to avoid exposing customers to project development uncertainties, the revenue requirements have only included projects which meet a criterion which has been agreed jointly by PML and ESCOM. Using this criterion, only power purchase costs associated with Malawi-Mozambique interconnection and Serengeti Solar Plant have been included in the base revenue requirements. Power purchase costs for other plants (Table 4) becoming operational within the tariff period will be treated via the tariff adjustment mechanisms. Table 6 below shows the total capacity of power supply sources whose power purchase costs have been included in the base revenue requirements.

Table 6: Power Supply Capacity in 2022-2026 Base Tariff Period

Year	2023	2024	2025	2026
Power Supply Capacity (MW)	555	605	605	605

Network reliability is another important aspect to ensure provision of uninterrupted power supply. A total of **MK 81.1 billion** (MK18.4 billion transmission, MK62.7billion distribution) has been included in the revenue requirement for network maintenance, **MK186.6 billion** (MK7.2billion transmission, **MK179.4billion** distribution) for network rehabilitation, **MK149.24 billion** (MK106.1billion transmission, MK43.2billion distribution) for network reinforcements/upgrade and **MK446.2 billion** (MK239.6billion transmission, MK206.6billion distribution) for network expansion. Total cost of network reliability is **MK863.2 billion** (MK371.3billion transmission, MK492 for distribution).

### 3.1.2 Affordability.

Customers have informed us of the need to have continuous and uninterrupted power supply which is affordable. For this reason, we have deviated from some of the provisions in the Tariff Methodology, as advised by the Regulator (MERA), for the Tariff to be affordable to customers. For example, our asset revaluation has been based on historical costs valuation method to determine regulatory asset base (RAB) used to calculate depreciation and a fair rate of return. This deviation from the Tariff Methodology has led to customer savings of **MK182.3 billion** from ESCOM.

In terms of customer connections, the main concern received from customers was the need for flexibility in dealing with different types of customers. For example, the current average cost to connect residential customers is approximately **MK520 thousand**. Feedback from some customers is that they cannot afford to pay the whole connection cost, while others value a fast connection service and have said there should be flexibility to allow them to buy own materials. Customers currently pay a capital contribution of **MK65 thousand** towards the average cost of a connection, which means the rest (MK455, thousand) is borne by ESCOM to make the connection affordable. Total cost of ESCOM's contribution for the four-year period is **MK 248 billion**. We are aware that some customers can pay more towards the cost of a connection in order to facilitate a speedy connection. For this reason, ESCOM is currently reviewing capital contribution charges which will be incorporated in the tariff next year through an annual tariff review. An increase in capital contribution from customers will result in a decrease of the contribution from ESCOM, which will ease financing pressure from ESCOM and accelerate customer connections.

It is also recognized that some of ESCOM's potential customers cannot afford making any contribution towards the cost of a connection. These potential

customers should also not be left behind in order to meet Government's objective of increasing electricity access. In this regard, ESCOM has made a provision in its revenue requirements to make 40,000 free connections in the tariff period at a total cost of **MK 20.8 billion**.

### 3.1.3 Improved Customer Service

ESCOM will undertake a number of initiatives aimed at improving customer service offering. These include operationalization of a customer contact centre, improving corporate image through rehabilitation of offices and facilities, digitization of key customer service processes such as new connection application process and provision of adequate resources commensurate with growth in customer base and the network through implementation of a zoning system. ESCOM will also develop and implement a customer satisfaction survey, a tool for obtaining customer feedback. Total cost for implementing these customer service improvement initiatives is **MK10.2 billion** over the period.

### 3.1.4 Sustainability of the Energy Sector.

Stakeholders understand the need for adequate revenues, through provision of cost reflective tariffs to different sector players to ensure sustainability of the sector. There is need to balance revenue requirements of all players and to avoid advantaging one player at the expense of others. All sector players should be treated with fairness.

In addition, there is also a need to stabilize the tariff over the tariff period through the establishment of a sector wide price stabilization fund. This Fund should not just cater for generators and IPPs but all sector Licensees. For this reason, it is being proposed that the scope of the Stabilization Fund be expanded to cater for all Licensees and not just generation licensees. A Stabilization Fund of **MK141.43 billion** has been included in the revenue requirement for single buyer licensee to cushion licensees and customers from sector wide risks and frequent tariff shocks. The stabilization Fund shall work jointly with the ATAF, similar to the Fuel Stabilization Fund.

### 3.1.5 Accelerating access to electricity.

Government of Malawi has targeted 30% of the population to have access to grid electricity by 2030. This would require making 1,680,000 new connections by 2030, which would have huge implications on customer bills. In order to balance with the affordability objective, ESCOM has planned to connect a total of 600,000 customers over the tariff period (150,000 per year). These include:

- 240,000 from the World Bank funded Malawi Electricity Access Project (MEAP).
- 60,000 from Malawi Rural Electrification Project (MAREP).

- 300,000 funded by ESCOM through tariff. This includes 40,000 free connections.

ESCOM failed to meet connection targets in the 2018-22 tariff period mainly due to financing arrangements. The requirement that ESCOM should borrow money from banks to connect customers and to claim later from MERA proved a failure, mainly due to the fact that ESCOM could not borrow due to its weak balance sheet. To address this constraint and to accelerate customer connections, ESCOM is proposing to be financed upfront through tariff revenues. ESCOM is committed to ring-fence the revenues for customer connections so that they are solely used for its intended purpose.

### 3.1.6 Efficiency and Effectiveness.

One stakeholder feedback that we have received, which is also a key principle in service delivery, is ensuring value for money. PML and ESCOM recognize the importance of efficiency and effectiveness of service delivery at all levels of the electricity value chain and that only efficient costs should be passed on to customers. It is also important that ESCOM undertakes revenue enhancement measures in order to improve collection efficiency and that all sector players also adopt cost containment measures. The following measures will be undertaken by ESCOM in the tariff period.

#### 3.1.6.1 Revenue Enhancement Measures

##### **Measure 1: Connection inspections and meter audits**

Designed to identify and address illegal connections, tampering of meters and correct application of tariff for the meters.

##### **Measure 2: Installation of feeder metering**

- (i) Designed to enhance measurement of losses.
- (ii) Currently, end user tariff absorbs 16%, whereas ESCOM is reporting 22.2% losses. The losses that are in excess of MERA-approved 16% translate to **MK29.55 billion**.

##### **Measure 3: Automatic meter reading and finalize pre-paid technology rollout**

- (i) Designed to read meters remotely to ensure meter reading is done on a timely basis and in an accurate manner
- (ii) Meter tampering is detected early by software
- (iii) Reduce meter reading errors and collusion possibilities.
- (iv) Metering problems are detected and acted on immediately
- (v) Complete roll-out of prepaid technology will release the much-needed liquidity – as collection days of **90 days** are outside the mandatory **60 days** collection period, and 30 days payment period.

#### **Measure 4: Ring-fencing of tariff revenues**

- (i) This should facilitate timely identification of variances or deficits when they arise.
- (ii) Failure to ring-fence has resulted in commingling of revenues among the licensees.

In general, ESCOM has planned to reduce technical losses in the tariff period from the current 22.2% to 17.4% at a cost of **MK20.4 billion**.

#### *3.1.6.2 Cost Containment Measures*

##### **Measure 1: Procurement Efficiency**

- (i) Pursue full implementation of acquisition of inputs from manufacturers, notwithstanding, procurement delays.
- (ii) Request For Quotations (RFQs) subjected to an impartial tender adjudication review regardless of amount. This applies to all procurements.

##### **Measure 2: Contracting Out**

- (i) To achieve more efficiency in construction of major works for Distribution and Transmission, the Corporation plans to contract out construction of major lines/substations to contractors through Engineering Procurement Construction (EPC) arrangements.
- (ii) To achieve the planned 150,000 new connections per year, ESCOM will engage contractors to reinforce its capacity.
- (iii) Apart from contracting out of construction and maintenance works, ESCOM will continue to outsource and utilize third parties such as cash collection services, security and cleanings services.

##### **Measure 3: Mechanization and Digitization**

ESCOM will mechanize some of its processes such as line construction and maintenance through the use of equipment and tools aimed at enhancing labour productivity and delivery of service.

From the customer service side, ESCOM will introduce initiatives that will allow customers to get some services online such as new applications, complaints management, queries and electricity payments services.

##### **Measure 4: Staff Costs**

- i. To achieve optimal staff compliment, a Human Resource Audit was undertaken, and this is going to be implemented in the tariff period.

- ii. A Functional Review has also been undertaken to determine optimal organizational structures for the licensees.
- iii. Overtime costs to be managed and closely monitored
- iv. ESCOM will review the staff cost ensure that the costs related to maintenance and projects are allocated accordingly.
- v. Recruitment of additional staff will be done in line with the approved organograms
- vi. With increased mechanization, labour costs are expected to be managed.

### 3.1.7 Transparency and Accountability.

To ensure compliance with regulatory requirements, tariff revenues for all Licensees will be ring-fenced in the tariff period. This will ensure that Licensees operate in: (i) an effective and efficient manner, (ii) financially sustainable manner, and (iii) a Fair and transparent manner. In accordance with the Tariff Methodology, PML has set up a ring-fenced Bulk Customer Service Transactions Account (The Settlement Account) meant for collection and disbursement of revenues to all licensees.

Additionally, ESCOM has already undertaken the following steps:

- Revenues for each Licensee have been segregated based on tariff Allocation.
- Bank Accounts for Receipting Licensee Revenues have been Operationalized.
- Direct costs of operating the Licensees and Shared Costs from Corporate Office have been identified.
- Chart of Accounts to allow for Licensee reporting have been implemented.
- Ratios for sharing of Corporate Office Costs have been determined.

### 3.1.8 Network Resilience.

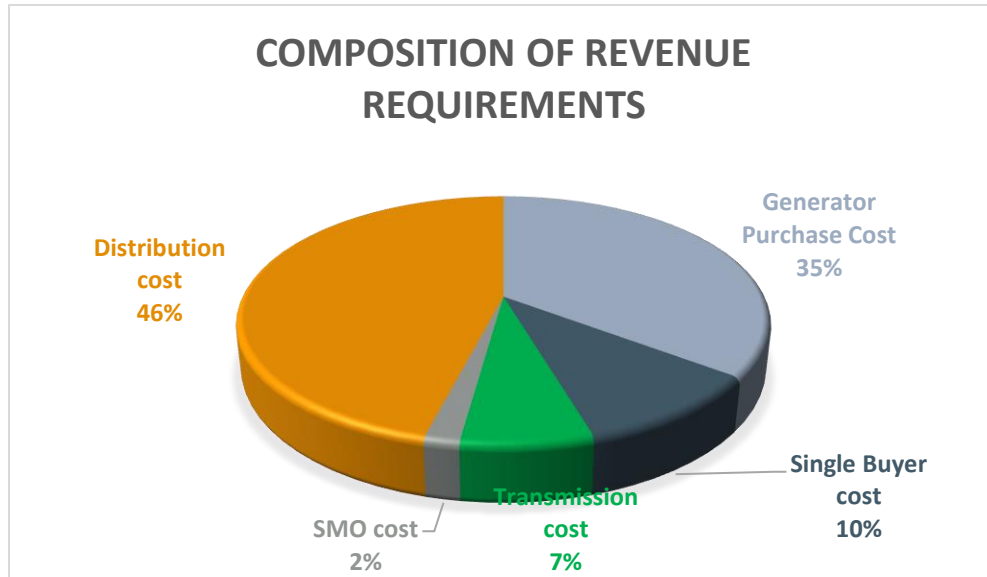
There have been concerns from some of our stakeholders over the resilience of network assets due to the effects of climate change. This has been exemplified by the damage done to generation, transmission and distribution assets in the lower shire due to cyclone Ana. In response, ESCOM will transition from using wood poles to concrete poles in transmission infrastructure which will be designed to withstand effects of climate change. Specifically, ESCOM will invest **MK11.93 billion** in transmission and distribution infrastructure that has been designed to enhance resilience.

## 4.0 COST OF DELIVERY ON CUSTOMER AND STAKEHOLDER PRIORITIES

Total cost to deliver on customer and stakeholder priorities over the four years is **MK1,650.73 billion**. This is comprised of generation purchase costs (MK581.66 billion), single buyer licensee costs (MK167.90 billion), transmission licensee costs (MK112.15 billion), system and market operator licensee costs (MK30.2 billion) and distribution licensee costs (MK758.82 billion).



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



**Figure 1: Composition of Revenue Requirements**

Below is a summary of the Revenue Requirements for the individual cost components in the electricity value chain.

#### 4.1 Power Purchase Costs

The planned power procurements in the fourth base tariff will be sourced from hydro, thermal and solar. It also recognizes the fact that EGENCO is the largest generator and contributes over 75% of the generation capacity for the country, mainly from its hydro power plants. Therefore, power purchase costs have considered revised tariffs for the EGENCO hydro and thermal power plants. The purchase costs for all the planned energy and capacity are summarized in Table 7 below.

Table 7: Total Purchase Costs

Description	Unit	Base Year	2022/23	2023/24	2024/25	2025/26	Total
Installed Capacity	MW	537.29	558.30	608.30	608.30	608.30	2,383.18
Energy Generated	GWh	2,216.30	1,922.86	2,525.14	2,612.74	2,612.74	9,673.48
Energy Purchase Cost	MK Billion	30.78	44.24	73.28	82.56	82.75	282.83
Capacity Purchase Cost	MK Billion	58.99	69.01	69.75	71.45	72.67	282.88
<b>Total Purchase Cost</b>	<b>MK Billion</b>	<b>89.77</b>	<b>113.25</b>	<b>143.03</b>	<b>154.01</b>	<b>155.42</b>	<b>565.71</b>



The total power purchase cost for the power supply sources for the four-year fourth base tariff period is MK565.71 billion. If the wheeling charges for Mozambique-Malawi interconnector amounting to MK15.95 billion are included, the total power purchase costs amount to MK581.66billion.

## 4.2 Single Buyer Licensee Costs

Power Market Limited (PML) was set up in January 2020, as an independent entity to operationalize the Single Buyer function within the electricity supply chain. PML was granted a Single Buyer License by the Regulator in December 2020. The duties and functions of the Single Buyer are set out in Section 20B of the Electricity (Amendment) Act, as follows:

- i. prepare long term forecast of demand, taking into consideration the targets of electric supply coverage and expected economic growth in consultation with the Minister;
- ii. undertake least cost long-term generation and transmission plan;
- iii. prepare a ranking of generation projects to be tendered out with the approval of the Minister;
- iv. prepare a ranking of transmission projects to be built, in coordination with transmission licensee, with the approval of the Minister;
- v. organize, with the approval of the Minister, open tenders for independent power producers that will comply with guidelines established by the Authority;
- vi. evaluate unsolicited proposal from independent power producers and recommend to the Minister for approval;
- vii. negotiate and submit power purchase contracts to the Authority for approval, and sign contracts with independent power producers;
- viii. prepare the annual generation forecast;
- ix. conclude power purchase agreements with generation licensees;
- x. conclude power supply contracts with distribution licensees; and
- xi. conclude power purchase agreements for importation and exportation of electricity.

### 4.2.1 Single Buyer Revenue Requirement

The total Single Buyer revenue requirement amounts to **MK167.90 billion**. Out of this amount, **MK26.48** is SB own costs comprising SB assets (MK 4.76 billion), Bank Guarantee charges (MK4.24 billion) and SB operational costs (MK17.47 billion). The balance of MK141.43 billion is capital for Stabilization Fund which is three months' worth of power purchase costs. The main purpose of this account is to offset the claims by the Licensees and therefore act as guarantee for the supply of the required funds. The Stabilization fund, although part of SB revenue requirement, is meant to cater for all licensees in the sector. The specific revenue requirement for SB operations stands at 2% of the sector revenue requirement (**MK26.74 billion**).

Table 8 Single Buyer Revenue Requirement

<b>SB Account Costs</b>	<b>Unit</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
Electricity Purchased	GWh	1,923	2,525	2,613	2,613	9,673
<b>Annual Purchase Cost</b>	<b>MK '000</b>	<b>113,251,795</b>	<b>143,030,513</b>	<b>154,008,813</b>	<b>155,418,041</b>	<b>565,709,163</b>
Bank Guarantee Charges	MK '000	849,388	1,072,729	1,155,066	1,165,635	<b>4,242,819</b>
<b>Total SB Account Costs</b>	<b>MK '000</b>	<b>114,101,184</b>	<b>144,103,242</b>	<b>155,163,879</b>	<b>156,583,677</b>	<b>569,951,982</b>
<b>RAB</b>	<b>Unit</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
Stabilization Fund	MK '000	28,312,949	35,757,628	38,502,203	38,854,510	141,427,291
SB Assets	MK '000	3,109,987	500,000	550,000	605,000	4,764,987
Total RAB	MK '000	31,422,936	36,257,628	39,052,203	39,459,510	146,192,278
<b>GENERAL EXPENSES</b>	<b>Unit</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
Personnel Expenses	MK '000	1,253,993	1,416,667	1,558,334	1,714,167	5,943,161
Operations	MK '000	1,368,809	1,505,690	1,656,259	1,821,885	6,352,643
Administration	MK '000	1,114,587	1,226,046	1,348,650	1,483,515	5,172,798
<b>Total</b>		<b>3,737,389</b>	<b>4,148,403</b>	<b>4,563,243</b>	<b>5,019,567</b>	<b>17,468,602</b>
<b>REVENUE REQUIREMENT</b>	<b>Unit</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
General Expenses	MK '000	3,737,389	4,148,403	4,563,243	5,019,567	17,468,602
SB Assets	MK '000	3,109,987	500,000	550,000	605,000	4,764,987
Bank Guarantee Charges	MK '000	849,388	1,072,729	1,155,066	1,165,635	4,242,819
<b>Total</b>	<b>MK '000</b>	<b>7,696,764</b>	<b>5,721,131</b>	<b>6,268,309</b>	<b>6,790,202</b>	<b>26,476,407</b>
Stabilization Fund	MK '000	28,312,949	35,757,628	38,502,203	38,854,510	141,427,291
<b>Total SB Costs</b>	<b>MK '000</b>	<b>36,009,713</b>	<b>41,478,760</b>	<b>44,770,512</b>	<b>45,644,713</b>	<b>167,903,698</b>
<b>Total</b>	<b>MK '000</b>	<b>52,507,127</b>	<b>58,756,101</b>	<b>63,772,889</b>	<b>65,276,419</b>	<b>236,152,549</b>
Energy Billed to Customers	kWh	1,516,197,723	2,023,599,119	2,149,733,176	2,176,711,284	7,866,241,303
<b>SB Tariff (SB Operations)</b>	<b>MK/KWh</b>	<b>5.08</b>	<b>2.83</b>	<b>2.92</b>	<b>3.12</b>	<b>3.48</b>

SB (Stabilization Fund)	Tariff MK/KWh	18.67	17.67	17.91	17.85	18.03
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### 4.3 Transmission Licensee Costs

ESCOM Transmission Business evolves from the Electricity amendment act 2016, whose mandate is to;

- xii. Build, operate and maintain the transmission network in Malawi.
- xiii. Undertake transmission planning in collaboration with the Single Buyer licensee.
- xiv. Provide information for the Single Buyer licensee's planning activities.
- xv. Coordinate the operation of the transmission system with the System and Market Operator licensee.
- xvi. Comply with the operation procedures and criteria established in the Market Rules and Grid Code for the reliable and economic operation of the transmission system; and
- xvii. Coordinate the importation and exportation of electricity as instructed by the Single Buyer Licensee.

#### 4.3.1 Transmission Revenue Requirements

The total Revenue Requirement for the Transmission Licensee is **MK112.2 billion** composed of **MK63 billion OPEX**, **MK15.7 billion** Depreciation, and **MK33.4 billion** Return on Assets. The table below presents the total Revenue Requirements for the Transmission Licensee in order to discharge its mandate to its stakeholders.

Table 7: Transmission Revenue Requirement

REVENUE REQUIREMENT	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
OPEX	MWK '000	13,344,180	14,776,606	16,456,451	18,443,794	63,021,031
Depreciation	MWK '000	1,618,558	2,820,801	4,462,300	6,826,571	15,728,230
Return	MWK '000	3,540,925	6,264,432	9,767,232	13,825,717	33,398,306
<b>Total</b>	<b>MWK '000</b>	<b>18,503,663</b>	<b>23,861,839</b>	<b>30,685,984</b>	<b>39,096,082</b>	<b>112,147,568</b>
OPERATING EXPENSES	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
Payroll	MWK '000	3,958,482	4,354,331	4,789,764	5,268,740	18,371,317

REVENUE REQUIREMENT	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
Services, supplies and sundries	MWK '000	1,402,509	1,558,950	1,748,246	1,979,517	6,689,222
Maintenance	MWK '000	3,858,133	4,288,485	4,809,214	5,445,414	18,401,246
Operations	MWK '000	820,495	912,017	1,022,758	1,158,057	3,913,327
Training expenses	MWK '000	120,488	133,927	150,189	170,058	574,662
Share of Head Office Cost	MWK '000	3,184,072	3,528,896	3,936,281	4,422,007	15,071,256
<b>Total</b>	<b>MWK '000</b>	<b>13,344,180</b>	<b>14,776,606</b>	<b>16,456,451</b>	<b>18,443,794</b>	<b>63,021,031</b>
<b>REGULATED ASSET BASE</b>						
Capex						
Existing Assets - Utility funded	MWK '000	10,925,809	10,141,592	9,597,637	8,984,653	8,984,653
New Assets - Utility funded	MWK '000	9,513,131	27,086,845	49,087,410	74,508,577	74,508,577
<b>Total Assets - Utility funded</b>	<b>MWK '000</b>	<b>20,438,940</b>	<b>37,228,437</b>	<b>58,685,047</b>	<b>83,493,229</b>	<b>83,493,230</b>
<b>DEPRECIATION</b>						
Existing network Assets - Utility funded	MWK '000	897,697	784,216	655,116	612,984	2,950,013
New network Assets-Utility funded	MWK '000	720,862	2,036,585	3,807,184	6,213,587	12,778,218
<b>Total - Utility funded</b>	<b>MWK '000</b>	<b>1,618,558</b>	<b>2,820,801</b>	<b>4,462,300</b>	<b>6,826,571</b>	<b>15,728,230</b>

REVENUE REQUIREMENT	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
<b>GROSS ASSETS</b>						
Existing Assets - Utility funded	MWK '000	18,722,112	18,722,112	18,722,112	18,722,112	18,722,112
New Assets - Utility funded	MWK '000	10,233,993	23,399,534	35,596,617	49,677,537	49,677,537
Total - Utility funded	MWK '000	28,956,105	42,121,646	54,318,729	68,399,649	68,399,649
HO Share - Existing Assets - Utility funded	MWK '000	8,364,839	8,364,839	8,364,839	8,364,839	8,364,839
HO Share - New Assets - Utility funded	MWK '000	988,239	1,273,914	2,949,399	7,816,402	7,816,402
Total - Utility funded (excl HO)	MWK '000	19,603,027	32,482,893	43,004,491	52,218,408	52,218,408
<b>WORKING CAPITAL</b>						
Working Capital	MWK '000	1,418,620	1,440,898	1,606,510	1,850,704	1,850,704
<b>RAB</b>						
Net Assets - Utility funded	MWK '000	20,438,940	37,228,437	58,685,047	83,493,229	83,493,229
Working Capital	MWK '000	1,418,620	1,440,898	1,606,510	1,850,704	1,850,704
RAB	MWK '000	21,857,560	38,669,334	60,291,557	85,343,933	85,343,933
<b>INVESTMENT COST</b>						
WACC nominal pre-tax	%	16.20%	16.20%	16.20%	16.20%	16.20%
Depreciation	MWK '000	1,618,558	2,820,801	4,462,300	6,826,571	15,728,230

REVENUE REQUIREMENT	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
Allowed Return	MWK '000	3,540,925	6,264,432	9,767,232	13,825,717	33,398,306
Total	MWK '000	3,540,925	6,264,432	9,767,232	13,825,717	33,398,306

#### 4.3.2 Operational Expenditure (OPEX)

Apart from building and expanding the system, the Transmission Licensee is also mandated to operate and maintain the transmission network in Malawi. These two mandates are material and labor intensive in nature. As a result, Transmission plans to spend a total of **MK13.3 billion**, **MK14.8 billion**, **MK16.5 billion**, and **MK18.4 billion** on its operations for financial years 2022 through 2026 respectively.

#### 4.3.3 Depreciation

Depreciation charged on the Regulated Asset Base for the Transmission network is calculated at **MK15.7 billion** out of which **MK2.9 billion** is from the Utility Funded Existing Assets, and **MK12.8 billion** from the Utility Funded New Assets.

#### 4.3.4 Allowed Return

The allowed return has been calculated at **MK33.4 billion**.

#### 4.4 System Market Operator Licensee

The mandate of System and Market Operator, in line with the Licensing Conditions and obligations, are to manage the Interconnected Power System (IPS) and the Electricity Market of Malawi. The mandate can be broken down into the following obligations:-

- i. To efficiently discharge the obligations imposed upon it by this licence;
- ii. To facilitate effective competition in the generation, trade and supply of electricity;
- iii. To promote efficiency in the implementation and administration of the Market Rules;
- iv. To efficiently implement and manage the balancing and settlement as provided by the Market Rules;
- v. To produce plans of expected system operation pursuant to the relevant provisions of the Market Rules;
- vi. To assist the Single Buyer in the preparation of the Year Ahead Plan;
- vii. To produce intra-year system operation planning; and
- viii. To centrally administer a planning process for the long-term operation of reservoirs with storage capacity

#### 4.3.1 Revenue Requirements of SMO

This section contains information regarding required financial resources for the System and Market Operator (SMO). This covers Operational Expenditure, Capital Expenditure and Capital Projects planned for SMO operations in the next four (4) years.

The asset values are input into the Financial Model to determine the revenue requirement for SMO. Previously SMO was allocated small revenue requirement which culminated into the SMO tariff of MK00.62/kWh due to anomaly in accounting SMO Assets. The SMO assets of SCADA and Communications were allocated to Transmission Licensee account instead of that of SMO. In this Business Plan, this anomaly has been corrected; SCADA and Communications have been moved into SMO accounts.

Table 8: System Market Operator Licensee Revenue Requirements

REVENUE REQUIREMENT	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
Opex	MWK '000	4,396,717	4,862,969	5,389,137	6,001,952	20,650,775
Depreciation	MWK '000	569,451	758,786	1,118,940	1,912,102	4,359,279
Return	MWK '000	742,680	888,674	1,311,368	2,249,014	5,191,737
<b>Total</b>	<b>MWK '000</b>	<b>5,708,848</b>	<b>6,510,429</b>	<b>7,819,446</b>	<b>10,163,069</b>	<b>30,201,791</b>
OPERATING EXPENSES	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
Payroll	MWK '000	2,009,759	2,210,735	2,431,808	2,674,989	9,327,291
Services, supplies and sundries	MWK '000	1,362,594	1,514,583	1,683,526	1,887,948	6,448,650
Maintenance	MWK '000	303,218	337,040	377,965	427,965	1,446,187
Operations	MWK '000	164,078	182,380	204,525	231,582	782,565
Training expenses	MWK '000	257,209	285,900	320,615	363,028	1,226,752
Share of Head Office Cost	MWK '000	299,859	332,332	370,698	416,441	1,419,330
<b>Total</b>	<b>MWK '000</b>	<b>4,396,717</b>	<b>4,862,969</b>	<b>5,389,137</b>	<b>6,001,952</b>	<b>20,650,775</b>
REGULATED ASSET BASE	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
<b>NET ASSETS</b>						
Existing Assets - Utility funded	MWK '000	3,563,153	3,098,203	2,655,706	2,221,168	2,221,168
New Assets - Utility funded	MWK '000	638,371	1,965,658	4,990,066	11,161,474	11,161,474
<b>Total Assets - Utility funded</b>	<b>MWK '000</b>	<b>4,201,524</b>	<b>5,063,862</b>	<b>7,645,772</b>	<b>13,382,642</b>	<b>13,382,642</b>

REVENUE REQUIREMENT	Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
<b>DEPRECIATION</b>						
Existing network Assets - Utility funded	MWK '000	478,255	464,949	442,498	434,538	1,820,240
New network Assets- Utility funded	MWK '000	91,196	293,836	676,443	1,477,564	2,539,039
<b>Total - Utility funded</b>	<b>MWK '000</b>	<b>569,451</b>	<b>758,786</b>	<b>1,118,940</b>	<b>1,912,102</b>	<b>4,359,279</b>
<b>GROSS ASSETS</b>						
Existing Assets - Utility funded	MWK '000	6,657,264	6,657,264	6,657,264	6,657,264	6,657,264
New Assets - Utility funded	MWK '000	729,567	1,621,123	3,700,850	7,648,972	7,648,972
<b>Total - Utility funded</b>	<b>MWK '000</b>	<b>7,386,832</b>	<b>8,278,388</b>	<b>10,358,115</b>	<b>14,306,237</b>	<b>14,306,237</b>
HO Share - Existing Assets - Utility funded	MWK '000	787,756	787,756	787,756	787,756	787,756
HO Share - New Assets - Utility funded	MWK '000	93,067	119,970	277,759	736,107	736,107
<b>Total - Utility funded (excl HO)</b>	<b>MWK '000</b>	<b>6,506,009</b>	<b>7,370,662</b>	<b>9,292,601</b>	<b>12,782,374</b>	<b>12,782,374</b>
<b>WORKING CAPITAL</b>						
Working Capital	MWK '000	382,923	421,777	449,095	500,163	500,163
<b>RAB</b>						
Net Assets - Utility funded	MWK '000	4,201,524	5,063,862	7,645,772	13,382,642	13,382,642
Working Capital	MWK '000	382,923	421,777	449,095	500,163	500,163
<b>RAB</b>	<b>MWK '000</b>	<b>4,584,447</b>	<b>5,485,639</b>	<b>8,094,866</b>	<b>13,882,805</b>	<b>13,882,805</b>
<b>INVESTMENT COST</b>						
WACC nominal pre-tax	%	16.2%	16.2%	16.2%	16.2%	
Depreciation	MWK '000	569,451	758,786	1,118,940	1,912,102	4,359,279
Allowed Return	MWK '000	742,680	888,674	1,311,368	2,249,014	5,191,737
<b>Total</b>	<b>MWK '000</b>	<b>742,680</b>	<b>888,674</b>	<b>1,311,368</b>	<b>2,249,014</b>	<b>5,191,737</b>

#### 4.3.2 OPEX Plan

The activities of 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 **MK2 billion, MK2.2 billion, MK2.4 billion, MK2.6 billion** for Payroll for financial years 2022 through 2026.



#### 4.3.3 Depreciation

Depreciation charged on the Regulated Asset Base for the SMO assets and equipment is calculated at **MK4.4 billion** out of which **MK1.8 billion** is from the Utility Funded Existing Assets, and **MK2.5 billion** from the Utility Funded New Assets.

#### 4.3.4 Allowed Return

The total SMO allowed return for the 2022-26 Base Tariff period has been calculated at **MK5.2 billion**.

#### 4.4 Distribution Licensee Costs

The Distribution Licensee (DL) was formed by an Act of Parliament of the Republic of Malawi under (Section 20 [2] of the Electricity (Amendment) Act 2016. The DL has a legal mandate to perform the following duties and functions:

- i. Plan, build operate and maintain the distribution network in Malawi.
- ii. Supply electricity to consumers.
- iii. Take meter readings, prepare and deliver invoices, and collect payments from consumers.
- iv. Provide information to the Single Buyer licensee for planning and forecasts purposes.
- v. Coordinate the operation of the distribution system with the System and Market Operator licensee.
- vi. Forecast the electricity consumption in each node or zone supplied by the licensee at every time segment of the day; and
- vii. Provide information to the System and Market Operator licensee for the daily generation dispatch.

Besides the tasks of planning, constructing, operating, maintaining Distribution network and provision of customer services functions, the Licensee is also responsible for implementation of some key activities within its area of operations such as prepayment metering, retailing, customer services and demand side management.

Table 9: Distribution Revenue Requirements

REVENUE REQUIREMENT		Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
Opex	MWK '000		77,729,958	84,923,451	93,325,921	103,224,340	359,203,669
Depreciation	MWK '000		8,471,270	18,067,674	33,833,406	56,069,184	116,441,534
Return	MWK '000		25,332,392	48,458,378	82,460,055	126,920,955	283,171,779
<b>Total</b>	<b>MWK '000</b>		<b>111,533,620</b>	<b>151,449,503</b>	<b>209,619,381</b>	<b>286,214,478</b>	<b>758,816,983</b>
OPERATING EXPENSES		Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
Payroll	MWK '000		24,445,674	26,890,241	29,579,265	32,537,192	113,452,373
Services, supplies and sundries	MWK '000		10,119,919	11,248,736	12,614,611	14,283,372	48,266,637
Maintenance	MWK '000		13,142,911	14,608,924	16,382,810	18,550,058	62,684,704
Operations	MWK '000		4,502,651	5,004,895	5,612,614	6,355,095	21,475,255
Service Drops (Incl free connections)	MWK '000		10,401,377	10,401,377	10,401,377	10,401,377	41,605,508
Training expenses	MWK '000		4,522,985	5,027,497	5,637,960	6,383,794	21,572,236
Share of Head Office Cost	MWK '000		10,594,441	11,741,781	13,097,283	14,713,453	50,146,957
<b>Total</b>	<b>MWK '000</b>		<b>77,729,958</b>	<b>84,923,451</b>	<b>93,325,921</b>	<b>103,224,340</b>	<b>359,203,669</b>
REGULATED ASSET BASE		Unit	2022/23	2023/24	2024/25	2025/26	TOTAL
<b>NET ASSETS</b>							
Existing Assets - Utility funded	MWK '000		58,426,694	55,055,380	52,108,992	49,127,207	49,127,207
New Assets - Utility funded	MWK '000		62,783,584	197,222,250	404,746,247	677,718,226	677,718,226
<b>Total Assets - Utility funded</b>	<b>MWK '000</b>		<b>121,210,278</b>	<b>252,277,631</b>	<b>456,855,239</b>	<b>726,845,433</b>	<b>726,845,433</b>
<b>DEPRECIATION</b>							
Existing network Assets - Utility funded	MWK '000		3,930,381	3,553,422	3,128,496	2,981,785	13,594,084
New network Assets- Utility funded	MWK '000		4,540,889	14,514,252	30,704,909	53,087,399	102,847,450
<b>Total - Utility funded</b>	<b>MWK '000</b>		<b>8,471,270</b>	<b>18,067,674</b>	<b>33,833,406</b>	<b>56,069,184</b>	<b>116,441,534</b>
<b>GROSS ASSETS</b>							
Existing Assets - Utility funded	MWK '000		88,765,253	88,765,253	88,765,253	88,765,253	88,765,253
New Assets - Utility funded	MWK '000		67,324,473	148,952,919	238,228,906	326,059,377	326,059,377

<b>Total - Utility funded</b>	<b>MWK '000</b>	<b>156,089,726</b>	<b>237,718,172</b>	<b>326,994,159</b>	<b>414,824,630</b>	<b>414,824,630</b>
HO Share - Existing Assets - Utility funded	MWK '000	27,832,532	27,832,532	27,832,532	27,832,532	27,832,532
HO Share - New Assets - Utility funded	MWK '000	3,288,193	7,526,919	17,340,526	43,348,233	43,348,233
<b>Total - Utility funded (excl HO)</b>	<b>MWK '000</b>	<b>124,969,001</b>	<b>202,358,722</b>	<b>281,821,101</b>	<b>343,643,866</b>	<b>343,643,866</b>
<b>WORKING CAPITAL</b>						
Working Capital	MWK '000	35,162,511	46,848,159	52,157,444	56,617,251	56,617,251
<b>RAB</b>						
Net Assets - Utility funded	MWK '000	121,210,278	252,277,631	456,855,239	726,845,433	726,845,433
Working Capital	MWK '000	35,162,511	46,848,159	52,157,444	56,617,251	56,617,251
<b>RAB</b>	<b>MWK '000</b>	<b>156,372,788</b>	<b>299,125,790</b>	<b>509,012,683</b>	<b>783,462,684</b>	<b>783,462,684</b>
<b>INVESTMENT COST</b>						
	<b>Unit</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>TOTAL</b>
WACC nominal pre-tax	%	16.2%	16.2%	16.2%	16.2%	16.2%
Depreciation	MWK '000	8,471,270	18,067,674	33,833,406	56,069,184	116,441,534
Allowed Return	MWK '000	25,332,392	48,458,378	82,460,055	126,920,955	283,171,779
<b>Total</b>	<b>MWK '000</b>	<b>25,332,392</b>	<b>48,458,378</b>	<b>82,460,055</b>	<b>126,920,955</b>	<b>283,171,779</b>

#### 4.4.1 Distribution Revenue Requirements

The total Revenue Requirement for the Distribution Licensee is **MK758.8 billion** composed of **MK359 billion** OPEX, **MK116.4 billion** Depreciation and **MK283.2 billion** Return on Asset.

The table below presents the total Revenue Requirements for the Distribution Licensee in order to discharge its mandate to its stakeholders.

#### 4.4.2 OPEX Plan

Apart from building and expanding the Distribution system, the Licensee is also mandated to operate and maintain the Distribution network in Malawi. These mandates are material and labor intensive in nature. As a result, Distribution plans to spend a total of **MK77.7 billion**, **MK84.9 billion**, **MK93.3 billion**, and **MK103.2 billion** on its operations within the 2022-26 Base Tariff period respectively

#### 4.4.3 Depreciation

Depreciation charged on the Regulated Asset Base for Distribution Licensee network assets and equipment is calculated at **MK116.4 billion** out of which

**MK13.6 billion** is from the Utility Funded Existing Assets and **MK102.9 billion** from the Utility Funded New Assets.

#### 4.4.4 Allowed Return

The total Distribution Licensee allowed return for the 2022-26 Base Tariff period has been calculated at **MK283.2 billion**.

#### 4.5. 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 MK94.35/kWh.

DISTRIBUTION TARIFF	Unit	2022/23	2023/24	2024/25	2025/26	Total
Distribution Own Costs	MK '000	111,533,620	151,449,503	209,619,381	286,214,478	758,816,982
Energy Billed to Customers	kWh	1,516,197,723	2,023,599,119	2,149,733,176	2,176,711,284	7,866,241,303
<b>Distribution Tariff</b>	<b>MK/kWh</b>	<b>73.56</b>	<b>74.84</b>	<b>97.51</b>	<b>131.49</b>	<b>94.35</b>

## 6.0 BULK TARIFF

The bulk tariff revenue requirement comprises power purchase costs and revenue requirements for all licensees excluding the Distribution licensee. The average bulk tariff is MK113.37/kWh.

<b>BULK TARIFF</b>	<b>Unit</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total</b>
Purchased energy from power plants	MK '000	44,242,675	73,277,827	82,562,823	82,750,733	282,834,058
Purchased capacity from power plants	MK '000	69,009,120	69,752,686	71,445,991	72,667,309	282,875,106
Wheeling charges	MK '000		4,350,816	5,801,088	5,801,088	15,952,991
Transmission Own Cost	MK '000	18,503,663	23,861,839	30,685,984	39,096,082	112,147,568
SMO Own cost	MK '000	5,708,848	6,510,429	7,819,446	10,163,069	30,201,792
SB Own cost	MK '000	7,696,764	5,721,131	6,268,309	6,790,202	26,476,407
Escrow/Stabilization Costs	MK '000	28,312,949	35,757,628	38,502,203	38,854,510	141,427,291
<b>Total Bulk Cost</b>	<b>MK '000</b>	<b>173,474,019</b>	<b>219,232,357</b>	<b>243,085,843</b>	<b>256,122,993</b>	<b>891,915,212</b>
Energy Billed to Customers	kWh	1,516,197,723	2,023,599,119	2,149,733,176	2,176,711,284	7,866,241,303
<b>Bulk Tariff</b>	<b>MK/kWh</b>	<b>114.41</b>	<b>108.34</b>	<b>113.08</b>	<b>117.67</b>	<b>113.37</b>

## 7.0 SUMMARY OF TARIFF COMPONENTS

<b>Component</b>	<b>Unit</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Average</b>	<b>Percentage</b>
Power Purchase Cost	MK/kWh	74.69	70.68	71.64	71.40	72.10	35%
Wheeling charges Tariff	MK/kWh	-	2.15	2.70	2.67	1.88	1%
Transmission Tariff	MK/kWh	12.20	11.79	14.27	17.96	14.06	7%
SMO Tariff	MK/kWh	3.77	3.22	3.64	4.67	3.82	2%
SB Tariff	MK/kWh	5.08	2.83	2.92	3.12	3.48	2%
Stabilization Fund Tariff	MK/kWh	18.67	17.67	17.91	17.85	18.03	9%
Distribution Tariff	MK/kWh	73.56	74.84	97.51	131.49	94.35	45%
<b>Total End User Tariff</b>	<b>MK/kWh</b>	<b>187.98</b>	<b>183.18</b>	<b>210.59</b>	<b>249.15</b>	<b>207.72</b>	

## 8.0 END USER TARIFF

The average end user tariff for the base tariff period has increase to MK207.72/kWh from an average of MK104.46/kWh in the third base tariff period. This represents an increase of 99%. This increase is mainly due to EGENCO power plant tariffs which have been revised to ensure cost reflectivity of the tariff; Inclusion of the Stabilization Fund and efforts to improve service delivery to customers by the

Distribution Licensee. Additionally, the devaluation of the kwacha has contributed to the significant increase in power purchase costs.

END USER TARIFF	Unit	2022/23	2023/24	2024/25	2025/26	Average
Bulk Tariff	MK /kWh	114.41	108.34	113.08	117.67	113.37
Distribution Tariff	MK /kWh	73.56	74.84	97.51	131.49	94.35
<b>End User Tariff</b>	<b>MK /kWh</b>	<b>187.98</b>	<b>183.18</b>	<b>210.59</b>	<b>249.15</b>	<b>207.72</b>

## 7.0 SUBMISSION

The proposed Revenue Requirement is based on cost recovery principles to allow the licensees to recover cost of service including a reasonable return on capital, encourage efficiency in the delivery of service to customers and improve financial sustainability. Licensee revenue requirements have been separately identified as per the requirements of the 2017 Tariff Methodology.

Submitted for your consideration and approval.