



2014



2015



MALAWI ENERGY REGULATORY
AUTHORITY (MERA)

ANNUAL REPORT 2014/2015

MISSION

Regulating the energy sector for sustainable socio-economic development of the nation and the region

VISION

To be a World Class Energy Regulator

CORE VALUES

Transparency
Accountability
Responsiveness
Integrity
Professionalism



1 TABLE OF CONTENTS

2.	INTRODUCTION... ..	5
3.	BOARD CHAIRPERSON'S STATEMENT... ..	6
4.	CHIEF EXECUTIVE OFFICER'S STATEMENT... ..	7
5.	MANDATE... ..	8
6.	CORPORATE GOVERNANCE... ..	9
7.	THE SECRETARIAT... ..	11
8.	ECONOMIC REGULATION... ..	12
9.	TECHNICAL REGULATION... ..	22
10.	REGULATION ENFORCEMENT AND COMPLIANCE... ..	28
11.	HUMAN RESOURCE MANAGEMENT AND ADMINISTRATION... ..	29
12.	FINANCIAL PERFORMANCE... ..	30



2 INTRODUCTION

Each year Malawi Energy Regulatory Authority (MERA) publishes an annual report to share with its stakeholders a review of its operations of the past 12 months. This annual report provides highlights of MERA's activities for the period 1st July, 2014 to 30th June, 2015.

This report is prefaced by statements from the Board Chairperson and the Chief Executive officer, an overview of our mandate and corporate governance. MERA's actual 2014/2015 activities are covered from sections 8 to twelve under five main themes namely Economic regulation, Technical regulation, Regulation Enforcement and Compliance, Human Resource Management and Administration and Financial Performance.

Section 8 on Economic Regulation explores the price setting, preventative measures against market failures and development of improved market systems for the benefit of operators and consumers.

On the other hand, section 9 on Technical Regulation provides insight into the establishment and refining of technical systems, conformity assessments and tracks licencing trends.

Following the section on Technical Regulation is Regulation Enforcement which lists a sample of activities that were facilitated by the legal directorate.

Human Resource Management and Administration is under section 11. This section presents the staffing levels and gender spread across the ranks.

Section 12 is the last section and covers Financial Performance as verified by independent statutory auditors. The various statements and explanatory notes seek to set out the operating results and financial position of MERA as at 30th June, 2015.



3

BOARD CHAIRPERSON'S STATEMENT



The energy industry remains at the forefront of economic, social and political debate. I am, therefore, honoured to have been appointed chairperson of the MERA Board. Together with the entire Board I am committed to face the challenging and stimulating tasks that lie ahead.

The year 2014-2015 marked the beginning of the implementation of the 2014 -2018 strategic plan. The new plan is part of efforts by MERA to ensure the institution's continued effectiveness in light of changes in the operating environment.

We structured our mission and vision to better reflect our commitment to an improved energy sector. Key focus issues include:

- a) Strengthening of the regulatory framework for optimum delivery of regulated services;
- b) Facilitating increased electricity supply;
- c) Enhancing an environment for security of fuel supplies;
- d) Enhancing sustainability of MERA;
- e) Increasing awareness of the role and mandate of MERA,
- f) Strengthening the institutional capacity of MERA for efficient and effective delivery of regulatory services and
- g) Strengthening research in new energy technologies.

I am happy to report that in the year under review, we made material progress in implementing our strategy. Milestones we have achieved include: finalisation of the grid code; development of key performance indicators for monitoring performance of liquid fuels, gas, coal, renewable energy technologies and electricity supply industries; signing of a Memorandum of Understanding for collaborative approach in enforcement of standards with the Malawi Bureau of Standards and development of mandatory regulatory data reporting formats and financial models for determining fuel industry margins.

On behalf of the Board, I would like to thank everyone at MERA for their hard work.

Dingiswayo Jere

BOARD CHAIRPERSON



4

CHIEF EXECUTIVE OFFICER'S STATEMENT

I am pleased to report that during the financial year under review, the Authority spearheaded and participated in a number of activities that laid important foundations for the future.

The electricity sector is dominated by hydropower. The incumbent power utility is unable to meet the ever-increasing demand for electricity due to underinvestment in electric power generation and transmission. In the period under review, MERA finalized the grid code which provides technical and economic guidelines for optimal operation of the grid. The grid code is also structured to create an enabling environment for private sector participation and Independent Power Producers would form an important part of addressing the problem of diversification as well as increasing demand for electricity.



The country enjoyed adequate fuel supplies. MERA further undertook a number of exercises in order to create an investment conducive environment and enhance reliability of fuel supply. Through a consultant, we carried out a review of the fuel industry margins and developed models that reflect licensee's operating costs and offer a reasonable return on investment. We have since implemented the adopted models after a series of stakeholder consultations and will continue to monitor the effectiveness of the models especially with regard to the ever changing business environment.

To ensure that fuel users get a fair deal on petroleum product prices, we participated in the government commissioned task force on the formulation of a bulk procurement system and strategic fuel reserve management. The Authority recommended a fuel Bulk Procurement System for Malawi that sought to address operational and structural challenges that affect cost effective and reliability of fuel supply in Malawi.

Some of the prominent challenges that need to be addressed are: gaps in the energy laws as they continue to constrain the powers and functions of MERA; non-renewal of licenses for the licensees which affects enforcement of regulations and necessitate additional overheads on follow ups; and failure by some licencees to comply with regulatory reporting requirements.

I invite you to explore this report in more detail as we provide information on all major activities conducted during the 2014-2015 financial year.

We remain vigilant in regulating energy for sustainable development.

Raphael Kamoto

CHIEF EXECUTIVE OFFICER

5

MANDATE

MERA is a body corporate established under the Energy Regulatory Act No. 20 of 2004 as the Energy Sector-wide Regulator with the mandate to regulate the energy sector in Malawi in a fair, transparent, efficient and cost effective manner for the benefit of the consumers and operators. This mandate is derived from the Energy Laws in general and the Energy Regulation Act in particular. Specifically, MERA is mandated to:

1. receive and process license applications for energy undertakings;
2. grant, revoke or amend licenses under the Act and Energy Laws;
3. approve tariffs and prices of energy sales and services;
4. monitor and enforce compliance by licensees with licensing conditions granted under the Act and the Energy Laws;
5. develop and enforce performance and safety standards for energy undertakings;
6. prescribe and collect fees, charges, levies or rates under the Energy Regulation Act and Energy Laws;
7. arbitrate commercial disputes under the Act and Energy Laws; and do all such things as are necessary or incidental or conducive to the better carrying out of the functions of the Authority provided for in the Act and Energy Laws;
8. promote the interest of consumers of energy with respect to energy prices and charges and the continuity and quality of energy;
9. monitor the efficiency and performance of energy undertakings, having regard to the purpose for which they were established;
10. in conjunction with other relevant agencies, monitor the levels and structures of competition within the energy sector in order that competition in, and accessibility to, the energy sector in Malawi should be promoted;
11. facilitate increasing access to energy supplies;
12. promote energy efficiency and energy saving;
13. promote consumer awareness and education;
14. promote the integrity and sustainability of energy undertakings and seek to ensure that energy undertakings, whilst providing efficient service, are able to finance the carrying on of the activities which they are licensed or authorized to carry on;
15. in conjunction with other relevant agencies, formulate measures to minimize the environmental impact of the exploitation, production, transportation, storage, supply and use of energy and enforce such measures by the inclusion of appropriate conditions to licenses held by energy undertakings;
16. promote the exploitation of renewable energy resources; and
17. take all such measures as are necessary to fulfil the above purposes through regulations to be made under this Act or the Energy Laws.



6

CORPORATE GOVERNANCE

The Authority, that is the Board of MERA, is appointed under section 4 of the Energy Regulation Act (hereinafter referred to as 'MERA'). The Board is made up of five independent members and three ex officio members comprising the Principal Secretary for Energy, the Director of Energy Affairs and the Chief Executive Officer of MERA.

The non-executive members are appointed by the State President and confirmed by the Public Appointments Committee of Parliament. The appointment of the current , which is in accordance with Energy Regulation Act Number 20 of 2004 took effect from January 2015 and members hold office for a period of 3 years. The independent members of the Board during the report period comprised the following:



Mr D. Jere
Board Chairperson



Miss F.R. Kilembe
Vice Board Chairperson



Mrs E.W. Nuka
Member



Mr K. Msiska
Member



Mr P. Zembani
Member

MERA has three board committees, three board advisory committees and one forum, as follows -

6.1 Board Committees

- 6.1.1 Finance and Audit Committee which is responsible for the financial and audit affairs;
- 6.1.2 Staff Appointments and Disciplinary Committee which is responsible for appointments, remuneration, benefits and discipline of members of staff;
- 6.1.3 Energy Technical and Licensing Committee which is responsible for licensing of all energy undertakings, developing and enforcement of technical performance standards in all licensable energy undertakings.

The Committee liaises with other relevant agencies of government and is responsible to the Board for the processing of licence applications from energy industry investors and enforcing compliance by licensees with the license conditions so as to ensure quality of service and compliance with technical standards in the energy sector, environmental protection requirements and safeguarding public and occupational health and safety.

6.2 Advisory Committees

- 6.2.1 The Arbitration, Mediation and Legal Committee which is responsible for all legal matters, arbitration and mediation of disputes between licenses in the energy sector and consumer complaints in the energy sector.
- 6.2.2 The Energy Pricing Committee is responsible for setting tariffs for Energy sales and all matters incidental to tariffs in the energy sector. The committee has extended membership that includes the Reserve Bank of Malawi, the Department of Economic Planning and Ministry of Finance, apart from members of the MERA Board.
- 6.2.3 The Customer and Consumer Forum whose role is to create an open interactive platform through which the Board can meaningfully and effectively engage the public on matters affecting consumers and those arising from their commercial interactions with energy licensees and fellow customers. The Forum also supports the public in its information needs so as to have informed energy consumer choices and decisions; protecting the environment and the energy consumers and the public



from adverse commercial malpractices within the energy sector. Members outside the Board include Malawi Confederation of Chambers of Commerce and Industry, Consumer Association of Malawi, the Coordinating Union for the Rehabilitation of the Environment, the University of Malawi Faculties of Commerce and Science and Mzuzu University Faculty of Renewable Energy.

- 6.2.4 The Installation Permits Committee is responsible for certifying electrical installers in accordance with the Electricity by-laws of 2012. Apart from MERA Board members, it also includes the Malawi Institute of Engineers, Mzuzu University Centre for Renewable Energy Technology, National Construction Industry Council and Electricity Supply Commission of Malawi.



SUPPORTING SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT : A Distillation Tower at Ethanol Company Limited, Dwangwa.

7

THE SECRETARIAT

The Secretariat is responsible for the day to day operations of MERA. The Secretariat's executive management is made up of The Chief Executive Officer and four directors.



Raphael Kamoto
CHIEF EXECUTIVE OFFICER



Eunice Potani
**DIRECTOR OF ECONOMIC
REGULATION**



Elias Hausi
**DIRECTOR OF FINANCE AND
ADMINISTRATION**



Welton Saiwa
**DIRECTOR OF TECHNICAL
REGULATION**



Stan Ishmael Chioko
**DIRECTOR OF LEGAL AFFAIRS AND
BOARD SECRETARY**

8

ECONOMIC REGULATION

8.1 Liquid Fuels and Gas Sector

a) Review of In Bond Landed Cost (IBLC) and Maximum Pump Prices for Petroleum Products

In the 2014/15 financial year, monthly reviews of pump prices for petroleum products were undertaken using the Automatic Pricing Mechanism (APM).

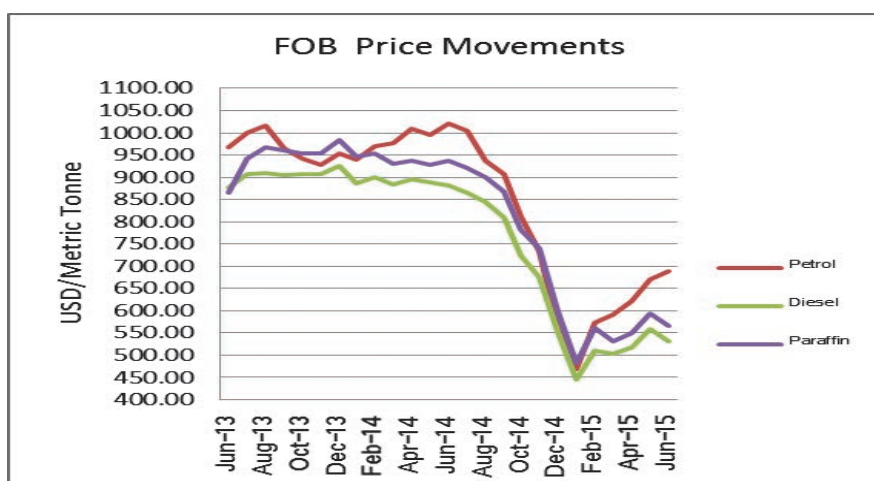
The trends on the fuel FOB prices and exchange rate of Malawi Kwacha against US Dollar which are the main determinants of the landing costs of petroleum products in the review period are as presented below;

b) FOB Prices

FOB prices of petroleum products on the international market generally increased albeit at a lower rate during the 2014/15 financial year when compared to trends recorded in the previous year. The lower prices were attributed to excess supply of petroleum products on the international market that arose due to weaker fuel demand arising from under performance of major economies coupled with increased oil production by the United States of America. Further, the decision by OPEC not to reduce production quota in an environment of low oil prices flooded the market resulting in further downward pressure of petroleum product prices.

A rebound in the petroleum products FOB prices was however noted between February 2015 and June 2015 following the decision to reduce operational oil rigs in the U.S as the lower prices made oil production financially unsustainable. The impact of geopolitical factors was outweighed by less than impressive global economic performance and increased output by the U.S. and OPEC members resulting into very minimal price increases.

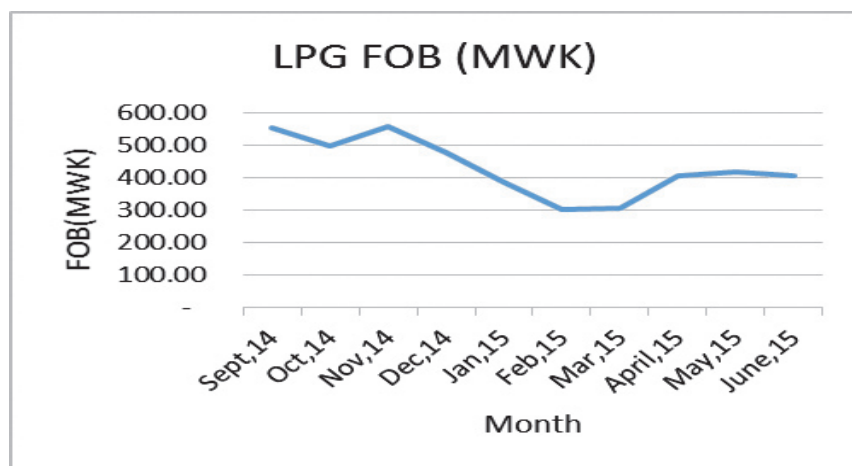
TABLE 1. FOB PRICE MOVEMENTS



c) **Liquefied Petroleum Gas (LPG) FOB Trends**

LPG prices also took a similar trend to that of other Petroleum products. LPG prices averaged K429.81 per kg in the period under review with a sharp decline noted in November when oil prices went tumbling down and a rebound from the month of March, 2015 as shown in the table 2:

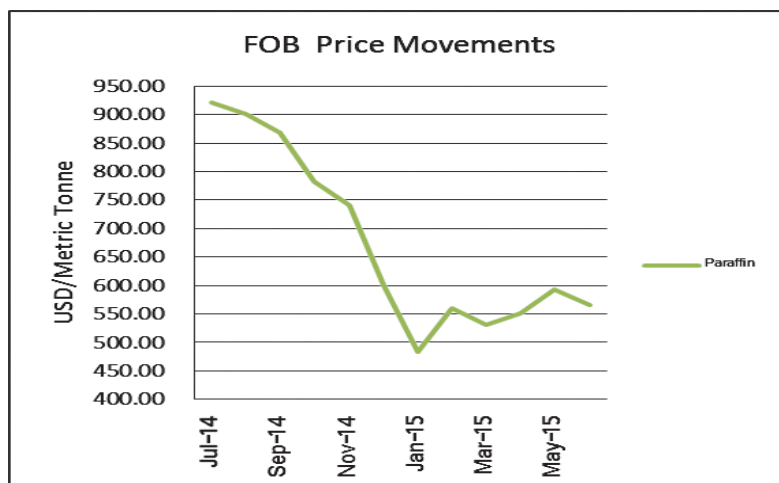
TABLE 2. LIQUEFIED PETROLEUM GAS (LPG) FOB TRENDS



d) **Jet A-1 FOB Trends**

The Jet A-1 price trend in the review period is noted to be the same as that of Kerosene as the two products are essentially the same. The Jet A-1 FOB price trend is presented in the table 3;

TABLE 3. JET A-1 FOB TRENDS



e) **Exchange Rate Movements**

The Malawi Kwacha depreciated by 16.65% in the first half of the 2014/15 financial year following the closure of tobacco marketing season and continued withholding of direct budgetary support by the major donors due to the “cash gate” saga. The Kwacha

trend took a new twist from November 2014 to May 2015 which saw the Kwacha regaining its strength following a currency swap operation which the Reserve Bank of Malawi implemented through the PTA bank. This intervention resulted in adequate supply of foreign currency leading to unexpected appreciation and stability of the Kwacha in the traditionally foreign exchange lean period.

In June 2015, the Kwacha stagnated despite ongoing tobacco sales due to Authorised Dealer Banks' speculation that a shortage of foreign currency would be experienced later in the year due to lower tobacco volumes presented at the Auction floors. Below are movements of the kwacha against the dollar as registered from April 2012 to June 2015 and daily exchange rates recorded in the financial year under review.

The South African Rand which is applied in LPG pricing was generally stable in the period under review averaging K41.45 to a Rand. An upward trend of the exchange rate against the Rand was noted in November, 2014 and December, 2014 the same period the USD dollar took a similar trend suggesting there could be some correlation in movements of the two currencies. The exchange rate trends of the two currencies are presented in tables 4 and 5;

TABLE 4. EXCHANGE RATE MOVEMENTS MWK/US\$

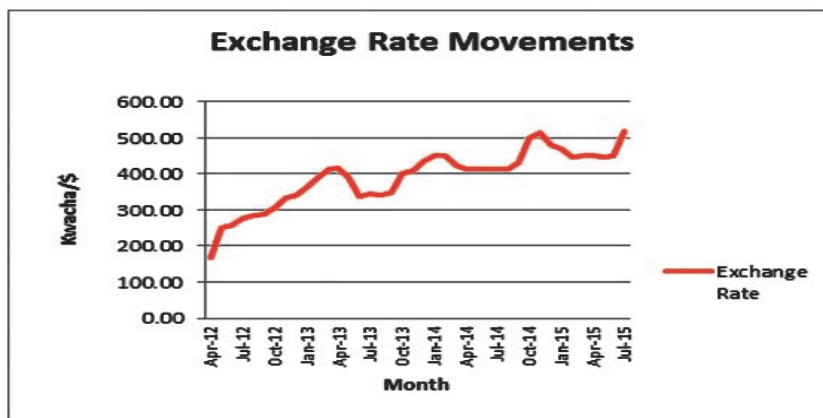
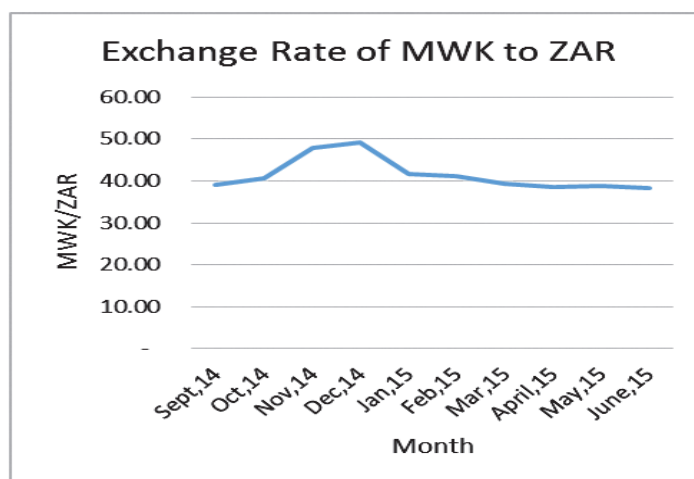


TABLE 5. EXCHANGE RATE MOVEMENTS MWK/ZAR



f) Resultant Pump Prices

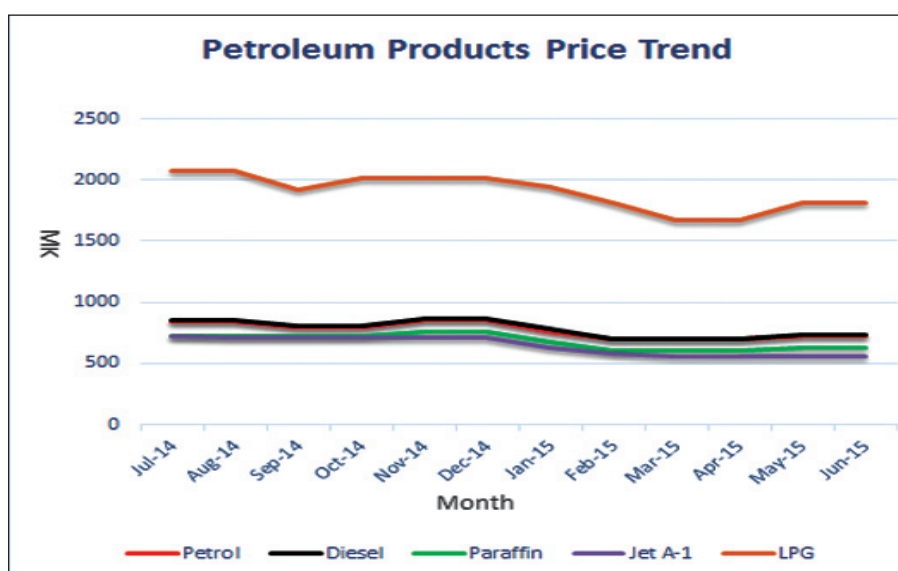
Following the developments highlighted above and in line with the principal of Automatic Pricing Mechanism (APM), pump prices for petroleum products in 2014 /2015 financial year were implemented as follows;

TABLE 6. RESULTANT PUMP PRICES

Month	Petrol (Mk/Litre)	Diesel (Mk/litre)	Paraffin (Mk/Litre)	Jet A-1 (Mk/Litre)		LPG (Mk/Kg)
				KIA	Chileka	
Jul-14	839.00	853.40	719.30	719.39	715.21	2,079.69
Aug-14	839.00	853.40	719.30	708.64	700.28	2,079.69
Sep-14	796.20	805.50	719.30	708.64	700.28	1,917.18
Oct-14	796.20	805.50	719.30	708.64	700.28	2,014.66
Nov-14	856.70	865.90	756.10	708.64	700.28	2,014.66
Dec-14	856.70	865.90	756.10	708.64	700.28	2,014.66
Jan-15	760.40	785.40	678.80	634.54	624.48	1,949.59
Feb-15	696.30	705.50	609.30	582.33	555.22	1,817.22
Mar-15	696.30	705.50	609.30	561.58	531.24	1,674.71
Apr-15	696.30	705.50	609.30	561.58	531.24	1,674.71
May-15	723.60	734.60	633.20	561.58	531.24	1,814.51
Jun-15	723.60	734.60	633.20	561.58	531.24	1,814.51

A graphical presentation of the price movements of petroleum products is depicted below:

TABLE 7. PRICE MOVEMENTS OF PETROLEUM PRODUCTS



g) Fuel Supply and Stock Position

The country registered and enjoyed adequate and uninterrupted supply of fuel in the period under review. On average, the day's coverage on the three products were recorded as follows;



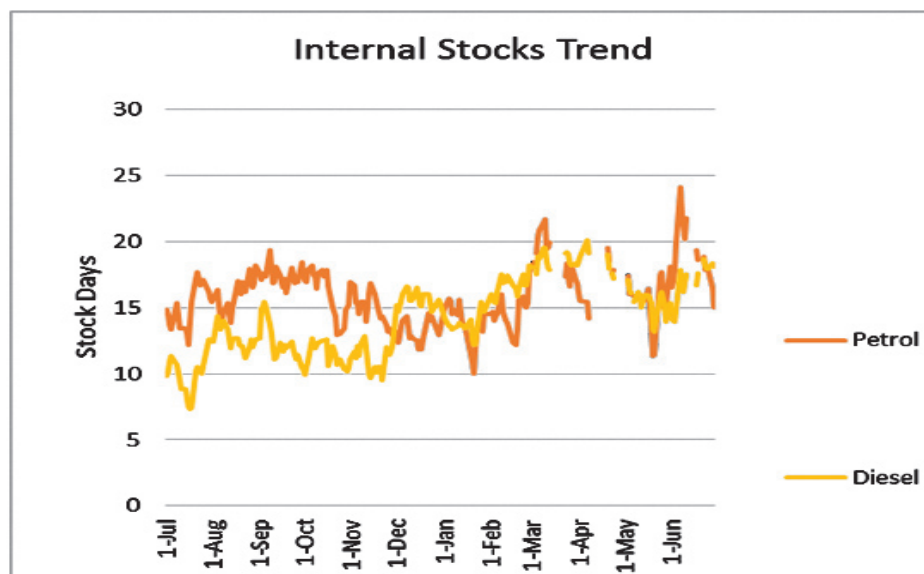
Petrol - 15.85 Days

Diesel - 14.24 Days

Paraffin - 8.04 Days

The day's fuel stock coverage is summarised graphically in the table below:

TABLE 8. INTERNAL STOCK TREND



h) Performance on Financial Instruments Supporting Fuel Imports

The importation of the fuel volumes was supported by financial instruments amounting to USD100 Million secured by NOCMA from the PTA Bank and the USD128.3 Million secured by PIL from local commercial banks as revolving facilities.

During the biannual performance review for the fuel supply contracts, it was observed that multiplicity and over subscription on financial instruments had an incremental impact on the landing cost of petroleum products. Importers had already committed most of the instruments to the running supply contracts with several financial institutions which run up to December, 2015. Efforts will be made to ensure that all importers will renegotiate and rationalise the subscribed financial instruments in line with the assessed requirements at the point of renewal to minimise costs arising from such instrument and MERA will have an oversight role in this process.

i) In Bond Landed Cost (IBLC) Recoveries and PSF Performance

The general performance of the two main importers Petroleum Importers Limited (PIL) and National Oil Company (NOCMA) improved in the period under review when compared with the performances recorded in the previous year. Both PIL and NOCMA trading accounts recorded over recoveries in 8 of their 12 months of trading operations. The improved performance was attributed to a favourable operating environment in

fuel trading business.

The registered improvement in the monthly trading positions resulted in clearance of the back log of levy arrears in the month of May, 2015 as over recoveries from the monthly trading were directed towards clearance of the backlog of trading losses and levies payable to various beneficially institutions.

As of 30th June, 2015 the overall PSF position reflected a reduced negative balance for NOCMA of MK2.61 billion from MK8.65 billion same period last year. PIL on the other hand registered an increased positive balance of MK16.019 billion from a negative balance of MK584.339 million registered in a same period in the previous year. The negative position for NOCMA represents funds that were owed to levy beneficiaries if it were not for other interventions made through the introduction of the IBLC loss recovery line and directing some of PIL's over recoveries towards clearance of levy arrears owed by NOCMA.

j) Review of Industry Trading Margins

To allow the operators in the fuel industry cover the erosion on industry working capital and profitability due to fluctuations in the exchange rate and inflation rate transport rates, wholesale and distribution margins were revised upwards by 17.43% while retail margins were maintained at 6% of the wholesale price in November, 2014.

Following a route assessment exercise, the road freight rates on the Northern Corridor were also revised upwards as presented in the table 9;

TABLE 9. REVISED ROAD FREIGHT RATES

Loading Port	Off loading Port	Old Rate (K/Litre)	Proposed New Rate (K/Litre)	% Change
Dar-es-Salaam	Lilongwe	88.05	108.82	23.59%
	Mzuzu	75.75	94.96	25.36%
	Chirumba	67.82	89.45	31.89%
Mbeya	Lilongwe	53.61	61.21	14.18%
	Mzuzu	44.49	46.80	5.19%
	Chirumba	39.83	41.81	4.97%

k) Study Tour on the Bulk Fuel Procurement System

To ensure security of fuel supply in the country and increase storage capacity, minimize transaction costs on fuel importation, create level playing field for all players in the market and benefit from economies of scale, Government spearheaded the formulation of the bulk fuel procurement system and strategic fuel reserve management plan.



To this effect, a task force comprising of Ministry of Natural Resources Energy and Mines (MNREM), NOCMA, Malawi Energy Regulatory Authority (MERA), Ministry of Finance (MoF) and Petroleum Importers Limited (PIL) was sanctioned to study and advise on the Bulk Procurement System (BPS) and management of strategic fuel reserves that will ensure security of supplies into the country.

The team visited Lusaka, Zambia from 20th to 23rd July and Dar es Salaam Tanzania from 23rd to 26th July 2014. The outcome of the tour was a report on implementation modalities of the BPS in the two countries as well as the management plan of strategic fuel reserves and the proposed model of the BPS in Malawi.

l) Proposed Bulk Fuel Procurement Model For Malawi

The Authority recommended a fuel Bulk Procurement System (BPS) for Malawi that sought to address operational and structural challenges that affect cost effective and reliability of fuel supply in the country. The report was presented and submitted to Government through Ministry of Natural Resources Energy and Minerals and the report was further presented to Public Sector Reform Committee of Government.

m) Financial Models for Determining Wholesale, Retail, Distribution and Wholesale Margins by KPMG

As one way of creating a conducive environment for investment and ensuring that fuel users get a fair deal on petroleum product prices, MERA engaged KPMG consultants to carry out a review of the fuel industry margins and develop appropriate methodology and financial models for determining wholesale, retail, storage and distribution margins in the fuel sector. The final report was adopted by MERA after a series of stakeholder consultations on the outcomes of the study. The study developed models that reflect licensee's operating costs and offer a reasonable return on investment which the Authority has since implemented the adopted models and will continue to be updated with changing business environment.

n) Route Assessment Exercise and Proposed Improvement on the Performance of the Northern Corridor

MERA in collaboration with the Ministry of Transport and Public Works and the Ministry of Natural Resources, Environment and Mining undertook a route assessment exercise in the Northern Corridor. The exercise was to assess the road condition, to establish the handling capacity of the northern corridor for fuel imports and to establish and confirm all related costs in the fuel transportation chain for the northern corridor and come up with a freight rate that would adequately compensate road transporters. The outcomes of the tour were computation of road freight rates for all the routes in the northern corridor based on confirmed costs that transporters incur, recommendations on how Malawi Cargo Centre Limited facilities can be efficiently utilised to reduce the landed cost of Petroleum products through the Northern Corridor and establishment of the road condition to ensure its fitness for the transportation of fuel products.

o) Regulatory Audits

Regulatory audits assist the authority in verifying compliance to levy remittances, demand patterns, costs verification and establish the returns realized by operators in order to reinstate profitability levels. Audit on Oil Marketing Companies, Oil Importing Companies, Liquefied Petroleum Gas importing Companies, Ethanol Producing Companies and Retail Service Stations were conclude December 2014 and a final draft for the quarter ending June 2015 has been submitted and is being reviewed for comment before the report is adopted.

The results of the audit reports revealed that there is generally good compliances by licensees on statutory requirement for levy remittances and implementation of various changes on the petroleum products pricing structures using international acceptable accounting principles. A few of the non-compliance areas relate to delayed remittances and computational errors due to use of outdated pricing schedules. Appropriate steps are taken on an on- going basis to carry reconciliation adjustments.

p) Determination of Proper Accounting Procedures for Oil Companies.

Following the observed inconsistencies in financial reporting by oil market industry players and the impacts of such practices on the landed cost of Petroleum products and the ultimate price consumers pay at the pump, MERA engaged KPMG to evaluate the level of compliance based on accounting principles applied in the fuel industry and recommend best accounting practices that fully comply with International Accounting Standards, adherence to legislation as they relate to the handling of the over-recoveries and under-recoveries and treatment of exchange losses incurred by fuel importers and the determination of appropriate credit period for the remittance of levies.

The draft report on this study was submitted to the Authority and was discussed by major stakeholders. Comments received from the consultations were being reviewed and would be incorporated in the final guidelines expected to be finalized for implementation by December 2015.

q) Mandatory Regulatory Data Reporting Formats

In order to have a standard data base of industry which is vital as a basis for regulatory decisions, the authority designed reporting templates for Oil Importing Companies and Oil Marketing Companies and the returns that are used for submission of information to the authority on the 10th of each month. These templates allow the Authority to collect data on total imported volumes, average fob prices, total in-transit losses, payable levies, regional distribution of fuels and total volume sold by OMC.

A majority of licensees complied with the call for submission of mandatory regulatory data which has been useful to various stakeholders and which the Authority has used in carrying out several economic analyses for decision making in the fuel subsector. The Authority will continue with verification exercises to establish accuracy and completeness of the data submitted by licensees as one way of ensuring compliance by licensees.

8.2 Electricity Sector

a) Assessment of ESCOM's Annual Performance on the New Base Tariff and Tariff Review under the Automatic Tariff Adjustment Formula (ATAF)

In September 2013, the Electricity Supply Corporation of Malawi (ESCOM) Limited applied for a 58% base tariff increase for a four year (2014-2017) period following the expiry of the first base tariff in December 2013. After a thorough review of the application and careful consideration of the ESCOM justification for the proposed tariff increase, the Authority (MERA) approved and granted ESCOM an overall 37.28% base tariff increase. This approval moved the average tariff from MK31.54/kWh to an average of MK43.24/kWh.

The MERA Board further resolved that the implementation of the approved tariffs should be phased and spread over the four years, and that tariff increases for subsequent years will be subject to ESCOM's demonstrated achievements in meeting the set performance targets. It was therefore resolved that 13.5% tariff increase be granted to ESCOM in the first year of the base tariff effective 4th April, 2014, with subsequent adjustments to coincide with the beginning of ESCOM's financial year as follows:

18.18% tariff increase with effect from 1st July, 2015;

8.9% with effect from 1st July, 2016; and

1.9% with effect from 1st July, 2017.

The first year tariff increase of the base tariff moved the average tariff from MK31.54/kWh to 35.69/kWh.

In June 2015, ESCOM concluded the implementation of 13.5% tariff increase, the first tranche of the second base tariff which took effect from 4th April, 2014. To ensure that ESCOM satisfied the tariff implementation requirements which were set by the MERA Board as conditions for granting the tariff approval, MERA monitored ESCOM's performance by reviewing ESCOM's quarterly management accounts and other technical and operational reports including performance updates on a set of Key Performance Indicators (KPIs) agreed between ESCOM and the Authority. The KPIs are intended to improve ESCOM service delivery, enhance revenue management, improve staff productivity, improve service quality and enhance customer service and care.



TABLE 10. A SUMMARY OF ESCOM'S KPIS FROM APRIL 2014 TO MARCH 2015.
Summary of KPIs Achievement against the agreed targets for April 2014-March 2015

KPI Description	2013	April 2014-March 2015	
	Baseline	Target	Actual
EFFICIENCY RATIOS			
Net Surplus/Revenue (%)	33%	20%	32%
Payroll/Total Costs (%)	51%	30%	28%
Maintenance (%)	31%	43%	17%
Average Debt Collection Period (days)	60	30	68.5
Bad Debts/Turnover (%)	17%	5%	6%
Trade Receivables/Turnover (%)	22%	20%	31%
Trade Payables (days)	60	30	34.25
PROFITABILITY RATIOS			
Return on Capital Employed (%)	24%	24%	14%
Return on Shareholders Funds (%)	24%	24%	15%
LIQUIDITY RATIOS			
Current Ratio	6.0 to 1	2 to 1	15.8 to 1
Acid Test Ratio	4.5 to 1	1 to 1	11.5 to 1
Gearing Ratio	40	40	34
CAPITAL STRUCTURING (GEARING)			
Equity			
Debt/Equity (%)	47%	66%	30%
Debt Servicing			
Interest Coverage (times)	19	3	12,858
Interest /PBIT (%)	5%	33%	0.00%
STAFF PRODUCTIVITY			
Customers per Employee	95	99	110
ENGINEERING DATA/INFORMATION			
System Losses (%)	22.30%	20%	24%
Generation Plant Availability	92.4%	90%	92%
Average Distribution Frequency of Forced Outages/interruptions (ratio)	8.4	8.4	6.4
Average Distribution duration of outages/interruptions (Hrs)	25.8	25.8	18.2
Energy Generated Per Employee (MWh)	736.2	150	192
Faults per 100 Customers (No)	37.5	20	4.5
Number of connections per annum	45,000	45,000	34,800
Electrification (Access)	10.30%	10.20%	10.00%
Quotation Days	32	14	32.8
Service Charter		Launched and implemented	



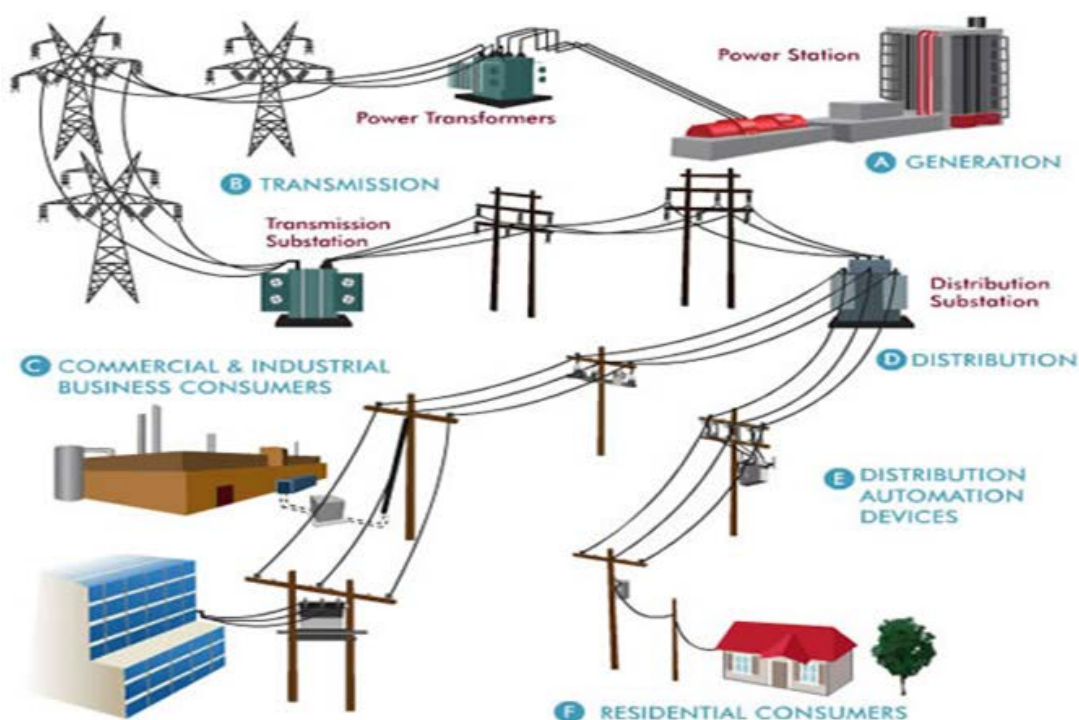
At the end of the 2014/2015 year, the MERA Board was reviewing the Corrective Action Matrix submitted by ESCOM together with ESCOM application to implement the second tranche of the base tariff of 18.18 % planned for implementation in the 2015/ 2016 financial year.

b) Review of ESCOM's Electricity Tariffs under Automatic Tariff Adjustment Formula

In accordance with the requirements of the law and on the basis of the new base tariff, MERA continued to monitor and assess trends in economic fundamentals (i.e. the exchange rate and inflation rate) that impact on the ESCOM's financial position with a view to ensuring that ESCOM's approved revenues are sustained over the base tariff period.

At the time of effecting the new base tariff on 4th April, 2014, and this was the last time electricity tariffs were adjusted and, therefore, acts as a base for subsequent tariff reviews, the exchange rate was at MK424/US\$1, while inflation reached 24% (for the month of March 2014).

The economic fundamentals remained unstable over the last half of the 204/2015 financial year albeit on a moderate scale. There was a declining trend in the inflation rate and the local currency appreciated during the period from January to May 2015. Over the period under review, the local currency depreciated from MK424/US\$ in April 2014 to MK468/US\$ in November 2014 and reached its peak at MK515/US\$ in December 2014 before appreciating to MK480/US\$ in January 2015. On the other hand, inflation rate was on a downward spiral from 24% in April 2014 to 18.8% in May 2015. On the basis of the provisions for ATAF, electricity tariffs were maintained.



Electricity power system

9

TECHNICAL REGULATION

9.1 Development of Fuel Storage Capacity

a) Installed Capacity

As at 30 June, 2015, total installed capacity of fuel storage facilities, for both the private sector and public, was equivalent to 20 days cover and comprised as follows:

Eighteen (18) days cover for the private sector, being the largest commercial service provider and Two (2) days cover for Government facilities at Chilumba in Karonga, Mchinji and at Chipoka in Salima.

b) New Capacity Under Development

The National Oil Company of Malawi (NOCMA) was finalizing development of new fuel storage facilities in Mzuzu, Blantyre and Lilongwe with a total capacity equivalent of 56 days cover.

As at June, 2015, all three sites were recommended for licensing subject to approved environmental management plans (EMPs) and successful commissioning test.

The energy policy of 2003 (under review) requires a minimum of installed fuel storage capacity equivalent of 90 days cover for any landlocked country like Malawi comprising 30 days cover provided by the private sector and 60 days by Government.

The total installed fuel storage capacity for Malawi will be equivalent of 75 days cover after a successful commissioning of the NOCMA facilities.

TABLE 11. CAPACITIES OF PRIVATE AND PUBLIC FUEL STORAGE FACILITIES

Capacities of Private and Public Fuel Storage Facilities								
			PETROL	DIESEL	PARAFFIN	TOTALS	EQUIVALENT	ENERGY POLICY
							DAYS COVER	DAYS COVER
	Daily Demand (Litres/day)		370	639	70	1,079	2014/2015	2014/2015
			m3	m3	m3	m3		
1	Private Sector		5,759	12,014	1,155	18,928	18	30
2	Gvt. Rehab. Facilities		571	1,055	160	1,786	2	
3	Gvt. Strategic Facilities (Commissioning in Progress)		25,000	35,000		60,000	56	60
	GRAND TOTAL		31,330	48,069	1,315	80,714	75	90
	Shortfall Towards Energy Policy Requirement							15

9.2 Development of Standards and IPP Framework

a) Standards

The Authority published in Government Gazette through the Malawi Bureau of Standards (MBS) Liquid Fuels, Gas, Coal and Renewable Energy Technologies standards.

MERA developed minimum requirements as key performance indicators (KPIs) for use as a check list in monitoring performance of liquid fuels, gas, coal, renewable energy technologies and electricity supply industries.

MERA signed a Memorandum of Understanding (MOU) with the MBS for collaborative approach in enforcement of the standards.

b) Grid-Code

MERA finalised the grid code to create an enabling environment for private sector participation. The grid code comprised the following components:

- i. Governance Code;
- ii. Information exchange code;
- iii. Network Operation Code;
- iv. Network Connection Code; and
- v. Metering Code.

MERA further presented the grid code for further consultation and development of IPP framework.

9.3 Electricity Regulation

a) Technical Performance for the Electricity Supply Industry

Out of the twelve (12) technical Key Performance Indicators (KPIs), ESCOM achieved four set targets. Notable areas in which ESCOM performed better than the set standards include the following:

- i. Generation availability;
- ii. Energy generated per employee ratio;
- iii. Number of customers per employee ratio; and
- iv. Implementation of the ESCOM Customer Service Charter

Notable areas that ESCOM failed to achieve set targets include the following:

- i. Increasing losses from 23% in the 2013/14 to 25% in 2014/15;
- ii. Failure to reporting on frequency and duration of forced outages;
- iii. Number of new connections and days to quote for the new connections;
- iv. Environmental audit of all major projects without record of approved environmental management plans; and
- v. Securing and protecting way leaves of power lines.

b) Compliance Enforcement

MERA presented to ESCOM’s Board areas of non-performance, requirements of the Electricity by laws 2012, key performance indicators and energy laws in general for their compliance.

The presentation focused on critical areas and placed responsibility on the Board to ensure compliance by ESCOM. MERA warned that penalties will be meted on ESCOM for continued non-compliance.

9.4 Liquid Fuels and Gas Regulation

a) Fuel Ethanol - Unleaded Petrol 20% Blending

Compliance remained a challenge due to seasonal production of fuel ethanol and limited supply of raw materials. Industry embarked on projects to produce locally raw materials to increase supply and, further, to introduce fuel flexible ethanol driven vehicles to match demand with planned increased supply.

Imports of raw materials were made for immediate relief to increase the production capacity.

b) Malawian Empowerment Law

MERA submitted for gazetting a by-law to provide a framework for franchising retail outlets in compliance with the Malawian empowerment laws (that wholesalers be limited to own two retail outlets).

c) Minimizing Interruptions in Fuel Supply - In transit Fuel Losses

Following a survey of 2013/14 industry performance, consistently higher in-transit losses of over 0.6 % were recorded by all categories in the fuel supply chain as presented below:

TABLE 12. % LOSSES BY PORT OF SUPPLY AND SUPPLIER – 2013 FIGURES

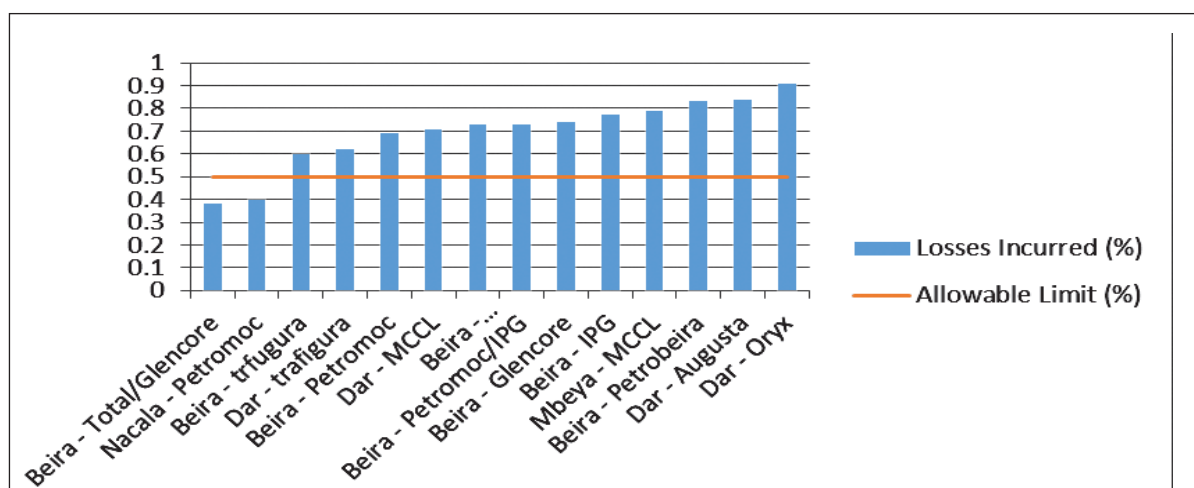


TABLE 13. % LOSSES BY LOCATION OF OMC's DEPOTS – 2013 figures

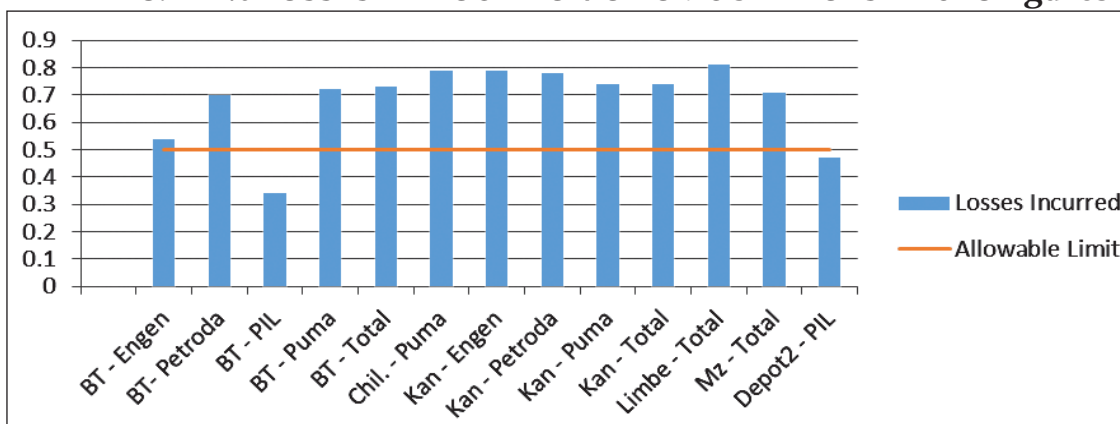
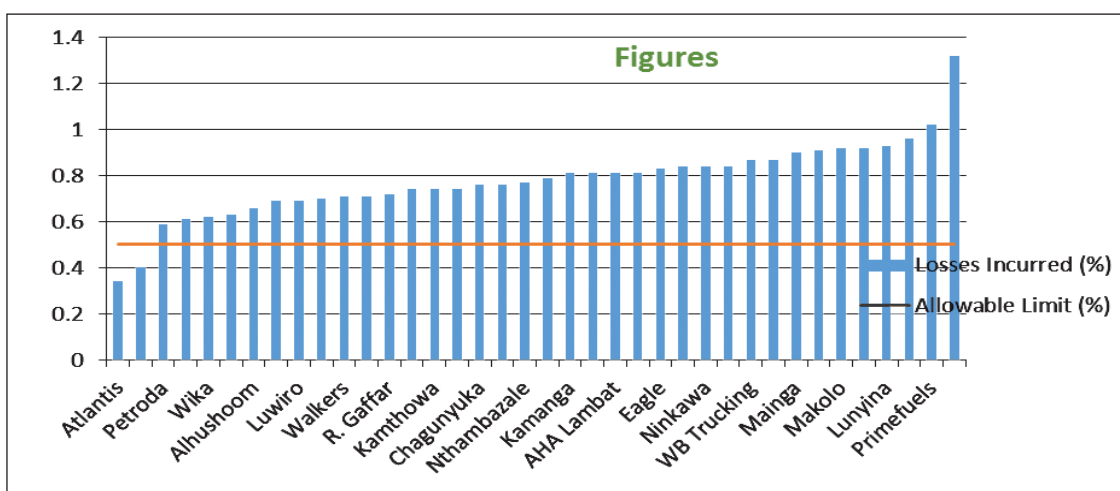


TABLE 14. % LOSSES INCURRED BY TRANSPORTERS 2013 figures



Exceptional performance with lower losses were recorded by the following:

- The railway transportation system;
- Glencore terminal in Beira and Petromoc terminal in Nacala;
- Petroleum Importers Limited Depots in Blantyre; and
- Atlantis and Petroda Malawi Limited road transporters.

9.5 Energy Licensing

As at 30th June, 2015, number of licenses, registration certificates and permits issued and renewed decreased by 10% from 993 to 891. The following categories comprise the energy sector licensees:

a) Liquid Fuels and Gas Licences (LFG)

Number of LFG licences increased by 8% from 238 to 257. New licences were issued for fuel transportation and retailing.

TABLE 15. SUMMARY OF LIQUID FUELS AND GAS LICENCES ISSUED

Type of Licence	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014-	2014-2015
Production	2	2	2	3	3	3
Importation	8	8	16	15	21	17
Wholesale	8	7	12	12	15	14
Storage	19	18	21	22	23	22
Transportation	3	6	13	13	16	24
Retail	98	139	149	156	160	177
TOTAL	138	180	213	221	238	257

b) Electricity Supply Licences

A new electricity generation licence was given to Mulanje Electricity Generation Agency (MEGA) for generation capacity of 88kW to supply a mini grid system under development at Bondo Village in Mulanje resulting in a total of eight (8) electricity licences.

Nkula A and Tedzani I & II licences remained outstanding awaiting major rehabilitation works. Amendment of Kapichira generation licence to reflect new capacity for phase II remained outstanding. MERA discussed with ESCOM Board to meet the requirement.

TABLE 16. ELECTRICITY LICENCES ISSUED TO ESCOM

Item No.	Description of Electricity Licence	Number of Licences
1	Electricity Distribution Licence	1
2	Electricity Transmission Licence	1
3	Electricity Exportation Licence	1
4	Electricity Generation –Nkula B	1
4	Electricity Generation- Tedzani III	1
6	Electricity Generation- Kapichira	1
7	Electricity Generation –Wovwe	1
8	Electricity Generation – MEGA	1
	TOTAL	8

c) Certification of Private Generation and Private Fuel Storage Facilities

The number of registration certificates for private generation increased from 113 to 177 while renewal of registered private fuel storage facilities dwindled from 22 to 15. The drop in number of renewed registration for private fuel storage facilities was due to lack of follow up inspection visits and invoicing due to limited capacity within MERA.

TABLE 17. CERTIFICATION OF PRIVATE GENERATION AND PRIVATE FUEL STORAGE FACILITIES

Type of Certificate	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Storage Registration	0	6	10	14	22	15
Private Generation	112	115	229	97	113	177

MERA procured annuity billing accounting package for invoicing to facilitate renewal of energy registration certificates, licences and permits.

d) Electrical Installations Permits

Number of electrical installations permits increased by 28% from 339 to 434. The Permits were issued as presented below;

TABLE 18: ELECTRICAL INSTALLATIONS PERMITS ISSUED FROM 2010 -2015

Category	Assessment Year at 30 th June					
	2010	2011	2012	2013	2014	2015
Class A (Unlimited)	8	9	10	11	15	15
Class B (Up to 33,000V)	8	18	19	22	27	32
Class C (Up to 400V)	8	27	32	52	72	75
Class D (Up to 240V)	35	77	83	154	177	208
Class E (Renewable)	12	24	27	36	41	72
Class E (Refrigeration)	-	2	3	5	7	7
Totals	71	157	174	280	339	434



ENFORCING COMPLIANCE WITH STANDARDS: MERA Officials inspecting a Filling Station in Chitipa

10 REGULATION AND ENFORCEMENT COMPLIANCE

10.1 CIVIL AND CRIMINAL LITIGATION

In the period under review, MERA was involved in the following civil cases:

- (a) The State & MERA ex parte Albert Kasawala
- (b) MERA VS INJENA Petroleum Limited Petitioner. CASE no.1 of 2012
- (c) Jones Banda VS MERA. CIVIL CAUSE NUMBER 758 OF 2014
- (d) Republic VS Kennedy Samala, CRIM. CASE NO. 18 OF 2013
- (e) MERA VS EDKOM Oil Company Limited, Commercial Cause NO. 33 OF 2015

10.2 LEGAL ADVISORY SERVICES

MERA provided both written and viva voce advisory opinions to stakeholders including the Malawi Government on various matters of regulatory substance under the Energy laws.

10.3 AMENDMENT OF ESCOM'S LICENSING CONDITIONS

MERA has amended ESCOM's licensing conditions to provide for the imposition of monetary penalties in the event that ESCOM fails to comply with the Energy laws, Licensing conditions and decisions of MERA. The maximum amount of penalty is K5,000,000. This is to ensure that ESCOM duly complies with all the regulatory requirements as provided under the Energy laws

10.4 BOARD SECRETARIAL

Four ordinary Board meetings and 7 extra-ordinary Board meetings were held in compliance with the Energy laws.

11

HUMAN RESOURCE MANAGEMENT AND ADMINISTRATION

11.1 STAFF COMPLIMENT

The Secretariat has a total number of established positions of 68. The staff compliment had grown to 56 by 30th June, 2015. The spread was as follows:

TABLE 19. MERA STAFF COMPLIMENT

DEPARTMENT/SECTION	FILLED POSITIONS
Management (CEO's office)	1
Finance and Administration	26
Technical Regulation	19
Economic Regulation	5
Legal Directorate	3
Audit Section	2
TOTAL	56

11.2 GENDER SPREAD

POST	NO. OF FEMALES	NO. OF MALES	TOTAL
Chief Executive Officer	0	1	1
Directors (M2)	1	3	4
Senior Officers (MM)	1	12	13
Personal Assistant (P1)	1	0	1
Professional Officers (P1)	3	10	13
Administrative Assistants (P2)	4	0	4
Assistant Officers (P2)	2	2	4
Receptionist (SS1)	1	0	1
Border Monitoring Clerks (SS1)	0	5	5
Chauffer (SS2)	0	1	1
Drivers (SS2)	0	5	5
Messengers (SS2)	1	3	4
Cleaners (SS2)	0	1	1
TOTAL	13	42	56

This represented 23% female and 77% male employees.



12 FINANCIAL PERFORMANCE

MERA produced its 2014/2015 financial statements, which were audited by independent Statutory Auditors, Deloitte and Touche. This report provides extracts from the audited Financial Statements.

12.1 STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Energy Regulation Act, Chapter 73:02, requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the operating results for that year and submit to the Minister, annual reports of the proceedings of the Authority containing particulars with respect to such matters as the Minister may direct.

It also requires the directors to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority and enable them to ensure that the financial statements comply with the Energy Regulation Act, Chapter 73:02.

In preparing the financial statements the directors accept responsibility on behalf of the Authority for the following:

- maintenance of proper accounting records;
- selection of suitable accounting policies and consistent application thereof;
- making judgements and estimates that are reasonable and prudent;
- compliance with applicable accounting standards when preparing financial statements, subject any material departures being disclosed and explained in the financial statements; and
- preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Authority will continue in business.

The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Authority and the Group and to maintain adequate systems of internal control to prevent and detect fraud and other irregularities.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Authority and of its operating results and are signed on its behalf on by:



.....
DIRECTOR



.....
DIRECTOR

12.2 INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF THE MALAWI ENERGY REGULATORY AUTHORITY

Report on the Financial Statements

We have audited the accompanying financial statements of Malawi Energy Regulatory Authority as set out on pages 5 to 42, which comprise the statements of financial position as at 30th June, 2015, statements of comprehensive income, statements of changes in funds and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

Directors are responsible for preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and requirements of the Energy Regulation Act, Chapter 73.02; and for such internal control as directors determine is necessary to enable preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Malawi Energy Regulatory Authority as at 30th June, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Energy Regulation Act Chapter 73.02, Section 26.

Public Accountants
Lilongwe, Malawi
October 2015

12.3 STATEMENTS OF FINANCIAL POSITION

The balance sheet as at 30 June, 2015 was as shown below:

	Notes	2015 K'000	2014 K'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	275 887	146 336
CURRENT ASSETS			
Inventories	5	1 980	5 419
Receivables	6	5 981 630	21 938 988
Short term investments	7	12 319 510	4 251 905
Cash and cash equivalents	8	4 107 928	626 877
Total current assets		22 411 048	26 823 189
TOTAL ASSETS		22 686 935	26 969 525
FUNDS AND LIABILITIES			
FUNDS			
Fuel storage facility rehabilitation fund	9	693	3 374
Fuel storage fund	10	5 166 990	2 528 666
Price stabilisation fund	11	7 976 634	1 370 190
Fuel in transit fund	12	5 331	-
Capital fund	13	141 483	141 483
General fund	14	2 478 680	1 155 332
Total funds	15	769 811	5 199 045
NON-CURRENT LIABILITIES			
Deferred income	16	110 635	114 733
Total non-current liabilities		110 635	114 733
CURRENT LIABILITIES			
Payables	15	6 766 253	21 626 809
Deferred income	16	40 236	28 938
Total current liabilities		6 806 489	21 655 747
TOTAL FUNDS AND LIABILITIES		22 686 935	26 969 525

The financial statements were authorised for issue by the Board of Directors on 31st October2015 and were signed on its behalf by:



.....
DIRECTOR



.....
DIRECTOR



12.4 STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	<u>Notes</u>	<u>2015</u> K'000	<u>2014</u> K'000
INCOME			
Fuel levies	17	1 899 055	1 156 131
Electricity and gas levies	18	567 785	489 189
Fees	19	63 096	54 198
Total income		2 529 936	1 699 518
EXPENDITURE			
Administration expenses	Appendix I	(180 114)	(157 308)
Staff expenses	Appendix I	(584 751)	(423 893)
Board expenses	Appendix II	(66 565)	(45 328)
Operational expenses	Appendix II	(493 662)	(420 630)
Depreciation	4	(68 258)	(26 884)
Total expenditure		(1 393 350)	(1 074 043)
Surplus for the year before other income and charges	1	136 586	625 475
Other income	20	245 525	121 839
Bank and finance charges		(9 878)	(5 774)
Interest on outstanding levies		1 115	1 605
Surplus for the year		1 373 348	743 145

12.5 STATEMENT OF CHANGES IN FUNDS

For the year ended 30 June 2015

	Price stabilisation fund K'000	Fuel storage fund K'000	Fuel storage facility rehabilitation fund K'000	Fuel storage intransit fund K'000	Capital fund K'000	General fund K'000	Total funds K'000
2014							
At the beginning of the year	445 611	812 457	255 701	-	141 483	412 187	2 067 439
Surplus for the year	-	-	-	-	-	743 145	743 145
Receipts during the year	12 826 555	3 500 772	11 072	-	-	-	16 338 399
Expenditure incurred during the year	(11 901 976)	(1 784 563)	(263 399)	-	-	-	(13 949 938)
At the end of the year	1 370 190	2 528 666	3 374	-	141 483	1 155 332	5 199 045
2015							
At the beginning of the year	1 370 190	2 528 666	3 374	-	141 483	1 155 332	5 199 045
Surplus for the year	-	-	-	-	-	1 373 348	1 373 348
Transfer to Malawi Government	-	-	-	-	-	(50 000)	(50 000)
Receipts during the year	40 918 377	3 988 667	518	50 871	-	-	44 958 433
Expenditure incurred during the year	(34 311 933)	(1 350 343)	(3 199)	(45 540)	-	-	(35 711 015)
At the end of the year	7 976 634	5 166 990	693	5 331	141 483	2 478 680	15 769 811

Details of the account funds are analysed in the notes 9 to 14 of the financial statement

12.6 STATEMENTS OF CASH FLOW

The cash flow statement for the period to 30 June, 2015 is as shown below:

	Notes	2015 K'000	2014 K'000
Cash flows from operating activities			
Surplus for the year		1 373 348	743 145
Adjustments for:			
- Depreciation for non-current assets	4	68 258	26 884
- Profit on disposal of non-current assets		(14 548)	-
- Payment to Malawi Government		(50 000)	-
- Interest receivable	20	(222 307)	(117 994)
Operating surplus before changes in working capital		1 154 751	652 035
Decrease in receivables		15 957 358	1 637 684
Decrease/(increase) in inventories		3 439	(4 451)
(Decrease) in payables		(14 860 556)	(1 541 094)
Increase/(decrease) in deferred income		7 200	(9 436)
Net cash generated from operating activities		2 262 192	734 738
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(210 262)	(81 584)
Interest receivable	20	222 307	117 994
Disposal proceeds/insurance claims		27 001	-
Short-term investments		(8 067 605)	(3 679 341)
Net cash used in investing activities		(8 028 559)	(3 642 931)
Cash flows from financing activities			
Decrease in fuel storage facility rehabilitation fund		(2 681)	(252 327)
Increase in fuel storage fund		2 638 324	1 716 209
Increase in fuel in transit fund		5 331	-

Increase in price stabilization fund		6 606 444	924 579
Net cash generated from financing activities		9 247 418	2 388 461
(Decrease)/increase in cash and cash equivalents		3 481 051	(519 732)
Cash and cash equivalents at the beginning of the year		626 877	
Cash and cash equivalents at the end of the year	8	4 107 928	626 877

12.7 NOTES TO THE FINANCIAL STATEMENTS

12.7.1 Significant accounting policies

The principal accounting policies of the Authority, which are set out below, have been consistently followed in all material respects.

12.7.2 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

12.7.3 Basis of Preparation

The financial statements are prepared in terms of the historical cost basis except for certain financial instruments which are measured at fair value at the end of each reporting period. Historical cost convention is generally based on fair value of the consideration given in exchange for goods and services. Other procedures are not adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

12.7.4 Income

i) Energy regulation levy

Energy regulation levy is receivable from companies and organisations registered with MERA for importing fuel products into Malawi. The value of the levy is contained in the fuel price building-up which is subject to change from time to time. The levies are receivable within 45 days from the date of sale and are accounted for every fortnight. Currently the companies licensed to import fuel are Petroleum Importers Limited, National Oil Company of Malawi, Edkom, Petroda, Puma (diesel), Energem Petroleum Company Limited and Injena Petroleum Company. Fuel imports by Energem Petroleum Limited, Edkom, Puma (diesel), Petroda, Total Malawi Limited, Mount Meru, Galp Mozambique (Malawi Branch) and Injena Petroleum are very erratic hence very little levy was paid by these companies.

ii) Electricity levy

Electricity levy is accounted for when an organisation licenced to distribute electricity in Malawi has made a sale and the levy is receivable 45 days from the end of the month of the sale. Currently Electricity Supply Corporation of Malawi is the only licensed supplier of electricity.



iii) Licence fees

Licence fees is payable upon being licensed and is receivable annually in advance. The recognition is on accrual basis.

12.7.5 Income tax

The Malawi Energy Regulatory Authority is a non-profit making organization and is exempt from income tax under sub-paragraph (b) (iii) of the First Schedule of the Income Tax Act.

12.7.6 Cash and cash equivalents

Funds on call and on deposits	2 050 592	12 857
Current accounts	2 057 336	614 020
Total cash and cash equivalents	4 107 928	626 877

Funds on call and on deposit earned interest of between 0.25% and 18% per annum.

12.7.7 Fuel storage facility rehabilitation fund

At the beginning of the year	3 374	255 701
Receipts during the year	518	11 072
Payments during the year	(3 199)	(263 399)
At the end of the year	693	3 374

Through the Authority, the Malawi Government is in the process of rehabilitating all its fuel storage facilities. To this effect it has set aside funds for purpose. The Authority is only responsible for managing such funds on behalf of the Malawi Government. The bank account for this fund is maintained at FDH Bank.

12.7.8 Fuel Storage Fund

	2015 K'000	2014 K'000
At the beginning of the year	2 528 666	812 457
Receipts during the year	3 988 667	3 500 772
Payments during the year	(1 350 343)	(1 784 563)
At the end of the year	5 166 990	2 528 666

Through the Authority, the Malawi Government has put in place a fuel storage fund. This fund is to be used to motivate the Oil Marketing Companies to store more volumes of fuel. Any stockholding costs is compensated from this fund. The Authority's responsibility is to manage these funds on behalf of Malawi Government. Fuel storage funds are held at the Authority's bank accounts at FDH Bank and NBS Bank.

12.7.9 Price Stabilisation Fund

	2015 K'000	2014 K'000
As at the beginning of the year	1 370 190	445 611
Receipts during the year	40 918 377	15 907 699
Payments during the year	(34 311 933)	(14 983 120)
At the end of the year	7 976 634	1 370 190

The fund is used to cushion against the effects of any price adjustments especially where the world market prices change while there is no change in the pump price. The Authority's responsibility is to manage these funds on behalf of Malawi government. The funds for price stabilisation are held at the Authority's bank accounts with National Bank of Malawi and Standard Bank.

12.7.10 Fuel in-transit Fund

	2015 K'000	2014 K'000
Receipts during the year	50 871	-
Payments during the year	(45 540)	-
At the end of the year	5 331	-

The fund is has been established in the current year. The fund established for a research which is being undertaken to find out ways to reduce fuel losses in transit from the port to Malawi. The Authority' s responsibility is to manage these funds on behalf of Malawi government. The funds for price stabilisation are held at the Authority's bank accounts with Standard Bank.

12.7.11 Capital fund

	2015 K'000	2014 K'000
At the beginning and end of the year	141 483	141 483

The capital fund represents the initial funds injected into the Authority by the Malawi Government. These represented cash, assets and expenditure incurred on the Authority's behalf.

12.7.12 General fund

	2015 K'000	2014 K'000
At the beginning of the year	1 155 332	412 187
Transfer to Malawi Government	(50 000)	-
Surplus for the year	1 373 348	743 145
At the end of the year	2 478 680	1 155 332

The general fund represents the cumulative net earnings for the Authority.

12.7.13 Payables

	2015 K'000	2014 K'000
Trade	36 171	26 076
Taxes	4 962	133
Provision for contract gratuity	6 116	3 115
Other	41 851	52 175
Levies holding	6 672 825	23 804 072
Interest on levies	4 328	35 808
At the end of the year	6 766 253	23 921 379
Provision for doubtful receivables – levies (note 6)	-	(2 294 570)
	6 766 253	21 626 809

Trade payables represent amounts due to suppliers. Taxes relate to fringe benefits tax payable. Provision for contract gratuity relates to gratuity for the directors. Other payables includes Tevet levy, statutory audit fees, regulatory audit fees and consultancy fees.

The Levies Holding Account represents funds held by MERA for onward transmission to other parties.

The Directors consider that the carrying amount of payables approximates to their fair value.



12.7.14 Deferred income

	2015 K'000	2014 K'000
Non-current deferred income	110 635	114 733
Current deferred income	40 236	28 938
	150 871	143 671
The movement is analysed as follows:		
Balance as at the beginning of the year	143 671	153 107
Receipts during the year	115 689	44 762
Transfer to income statement	(108 489)	(54 198)
Balance at the end of the year	150 871	143 671

The current deferred income represents advance receipts in respect of licence fees that was received by 30 June 2015 for the 2015/2016 period. The non-current deferred income represents advance receipt from ESCOM as generation distribution, transmission and exportation licence fees for the next 30 years.

The directors consider that the carrying amount of deferred income approximates to their fair value.

12.7.15 Fuel levies

	2015 K'000	2014 K'000
Total fuel levies	1 899 055	1 156 131



An aerial view of a Blantyre NOCMA Fuel Depot

12.7.16 Electricity and gas levies

Electricity Supply Corporation of Malawi	567 353	488 811
Afrox Malawi Limited	432	378
Total electricity and gas levies	567 785	489 189

12.7.17 Fees

Licence fees	63 096	54 198
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Licence fees include application fees and payment for annual licences.

12.7.18 Other income

	K'000	K'000
Bank interest receivable	222 307	117 994
Disposal of fixed assets	14 548	-
Staff loan interest	7 249	1 961
Sale of Tender documents	1 401	541
Legal fines	20	1 103
Sale of consumables	-	240
Total other income	245 525	121 839



