

PUBLIC UTILITIES REGULATORY COMMISSION

TEMPLATE FOR FILING

OF

TARIFF PROPOSALS

BY

GHANA WATER COMPANY LIMITED

(PRODUCTION)

MAY, 2013

PUBLIC UTILITIES REGULATORY COMMISSION
PROPOSALS FOR REVIEW OF AGGREGATE REVENUE REQUIREMENT AND TARIFF

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1 Introduction

1.1 Brief Background

GWCL, a wholly owned State Enterprise has responsibility for the Production, Transmission and Distribution of Water in the urban communities in Ghana for public, domestic, commercial and industrial use. The Ghana Water and Sewerage Corporation (GWSC) was converted into a limited liability company under the new name Ghana Water Company Limited in July 1999. GWCL, then GWSC was originally charged to operate as a commercial concern and to ensure that its revenues cover fully its cost from year to year.

1.2 Rationale/Objectives Underpinning Tariff Submission

- Recover cost of operations
- Generate internal funds to provide limited infrastructure improvement to water service delivery. This includes repairs and replacement of broken-down plants and machinery which need immediate attention
- Inflation and exchange rate fluctuations have eroded the effect of the last major tariff increase in June, 2010. The US Dollar which was then GH¢1.44 is almost GH ¢2.00.

1.3 Highlights of Major Issues Which Describe Structure of Tariff Submission)

Major issues that describe the tariff structure includes the following:

- Full cost recovery
- Affordability
- Fairness
- Simplicity

2 Initiatives Undertaken

2.1 Projects Undertaken – Capital expenditure (GH¢)

Since the last tariff review in 2010, GWCL has undertaken a number of projects from its own internally generated funds including replacement of electromechanical equipment, replacement of laboratory and dosing equipment, rehabilitation of various water treatment plants, and repair of civil structures.

A number of capacity expansion projects with financial assistance from GoG and other development partners were also undertaken.

2.2 Compliance with Directives of the Commission

GWCL will continue to comply with the directives from the PURC in respect of :

- Disconnection.
- Billing
- Customer complaints and redress
- Water quality standards as prescribed by Ghana Standard Board.

3 Key Policy Issues for Tariff Consideration

We wish to present the following issues for consideration of the Commission

- Additional categorization of customers – Airports, Ports & Harbours, Sachet water producers
- Introduction of service charge
- Sustenance of life line band
- Deletion of unmetered premises flat rate

4 Proposed Service Delivery and Efficiency Improvements During Tariff Period

4.1 Service Delivery and Efficiency Targets

Performance indicator	2012	2013	2014	2015
Process loss	5.4%	5%	5%	5%

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4.2 Technical / Operating Performance Indicators/Indices

Performance indicator	2012	2013	2014	2015
Capacity utilization	83%	84%	85%	86%
Water produced	254.4Mm3	259.7Mm3	305Mm3	350.3Mm3
Water quality, % compliance	95%	95%	95%	95%

4.3 Financial Performance Indicators/Indices

Performance indicator	2012	2013	2014	2015
Prod Cost /				

5 Key Challenges Likely to Impact Service Delivery

5.1 Electricity Supply

Our operations have been hampered by frequent power outages, low voltage and high voltage. Since the company depends on power from national grid, such interruptions should be reduced to the barest minimum.

5.2 Energy Consumption-Production Plants Electricity Usage

Most of our electromechanical equipment are not energy efficient due to their old age. The company has started installing capacitor banks (among other initiatives) to reduce the energy consumption .

5.3 Availability of Chemicals and Laboratory Reagents

The company is sometimes forced to use alternative water treatment chemicals which are less efficient when chemicals that our treatment plants were designed to use are unavailable. For instance, sometimes we have to use calcium hypochlorite instead of chlorine gas when the latter becomes unavailable.

5.4 Breakdown of Production Facility

Some of our production facilities are prone to breakdown due to the old age.

5.5 Expansion of Production Capacity

The company depends on Government for investment funds. However the inflows of the funds are grossly inadequate. This situation has led to huge shortfall in supply, with consequent low customer satisfaction.

5.6 Production Losses

Old age of our electromechanical equipment results in frequent break down which leads to loss of loss in production hours.

Also the company had to shut down its water production at Kibi due to the activities of Galamsey operations which led to deterioration of raw water quality beyond what the treatment plant was designed to handle. The Galamsey activities are also threatening our operations at Obuasi/Odaso, Daboase and Bosomase.

During the dry season the company has to reduce production at some of our stations when the source of raw water dries up. Some stations that can be cited include Konongo and Inchaban.

5.7 Metering and Accounting

Most of our stations do not have production meters. Readings are usually estimated and thus may have certain margin of error.

5.8 Billing and Collection

Not applicable

5.9 Organisational Reform and Restructuring

The Government of Ghana has announced its intention to merge GWCL and GUWL. This is causing uncertainty and low morale affecting productivity.

5.10 Commercial Customer Complaints and Dispute Resolution

Not applicable

5.11 Resolution of Court Cases

The company still has some outstanding court cases relating to land. In cases where payment of compensation has not been fully settled the land owners have attempted to stop our operations. Timely completion of new projects are not realized due to disagreement over compensation issues.

5.12 Government and Public Sector Debts

Not applicable

5.13 Bad Debts

Not applicable

5.14 Surcharge and Subsidies

Not applicable

5.15 Government Grants

They come in the form of foreign loans and grants. However they are inadequate.

5.16 Access to Finance and Repayment of Financing Costs

Due to poor financial health of the company we are unable to attract external commercial funding.

5.17 Tariff Structure and Rates

Inadequate approved tariffs results in our inability to recover cost.

5.18 Independent Water Producers-IWPs

Not applicable

5.19 Water Purchase from Independent Water Producers

Not applicable

5.20 Human Resource-Skilled Manpower

The company is unable to retain professionals due to unattractive condition of service.

5.21 Production Infrastructure Constraints

Many of the infrastructures are developed by government. Unfortunately this is not forthcoming. Also the cost of maintaining the existing infrastructure is high and the current tariff is not enough to contain it.

6 Strategies to Address Key Challenges

- Liaise with ECG to provide the company with dedicated lines to our stations.
- Procure equipment to stabilize supply voltage.
- Continue with the installation of capacitor banks.
- Continue with the Installation of efficient lab and dosing equipment
- Use alternative and more efficient chemicals where applicable
- Allocate sufficient fund to carry out repair, replace and rehabilitate aged equipment.
- Continue to liaise with government to make necessary funding available to carry out the needed investment.
- Liaise with security agencies to check illegal small scale mining operations.
- Hasten the payment of compensation.
- Liaise with PURC to ensure the approval of adequate tariffs.
- Provide attractive conditions of service for staff to retain staff.
- Complete the installation of production meters

7 GWCL WATER PRODUCTION SYSTEM RELATED DATA

7.1 Projected Water Production Data

Table-1 GWCL Water Production Systems Data 2011-2015

Parameter	Unit	2011	2012	2013	2014	2015
A. Projected Raw Water Abstraction Capacity	M ³ /Day	709,055	709,855	745,390	857,198	900,058
B. Gross Production Capacity	M ³ /Day	903,455	931,397	931,397	977,967	1,026,865
B1. Conventional Systems	M ³ /Day	876,879	903,999	903,999	949,199	996,659
B2. Unconventional Systems	M ³ /Day	26,576	27,398	27,398	28,768	30,206
C. Authorised Water Usage @ Production Site	M ³ /Day	35452.75	35,453	37269.5	42859.9	45002.9
D. Average Net Effective Production Capacity	M ³ /Day	682,860	696,991	711,454	835,617	959,726
D1. Conventional Systems	M ³ /Day	668,800	682,625	696,790	819,079	939,441
D2. Unconventional	M ³ /Day	14,060	14,366	14,664	16,538	20,285
E. Water Available for Transmission	M ³ /Day	682,860	696,991	711,454	835,617	959,726
F. Target Availability of Production Plants	%	18	17	16	15	14

7.2 Capital Expenditure

Table-2 Summary of Water Production Related Capital Investment Plan (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Capital Cost	30	30	200	200	200
Initial Spares					
Additional Capitalisation					
Renovation & Modernisation (R&M)			90	90	100
Rehabilitation & Resettlement (R & R)			20	20	20

7.3 Capital Expenditure Financing Plan

Table-3 Summary of Water Production Related Capital Expenditure Financing Plan (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Accumulated Depreciation	234.19	240.26	246.33	253.00	260.35
Retained Earnings	(14.7)	(7.2)	(7.1)	0	5
Commercial Borrowings:					
Domestic					
Foreign					

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Additional Equity Contribution By Shareholder(s)	854.46	854.46	854.46	854.46	854.46
Grants:					
Domestic					
Foreign	10.56	10.56	10.56	10.56	10.56
Tariff Revenue (Revenue from Projected Capacity Charge)					

8 Operation and Maintenance Costs

Table-4 Water Production Related Operation and Maintenance Costs (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Fixed O & M Costs	6.77	7.11	7.47	78.40	82.33
Variable O & M Cost					

9 Administration and General Costs

Table-5 Water Production Related Administration and General Costs (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Fixed O & M Costs	0.56	0.62	0.68	0.75	0.82
Variable O & M Cost					

10 Human Resource Costs- Employee Costs

Table-6 Water Production Related Human Resource Costs (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Fixed O & M Costs	9.91	12.03	13.23	14.55	16.01
Variable O & M Cost					

11 Public Education

Table-7 Summary of Public Education Costs (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Stakeholder Communication & Sensitisation (Public Education)	0.03	0.032	0.034	0.035	0.04

12 Financing and Interest Costs:

Table-8 Water Production Related Financing and Interest Costs (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Interest on Foreign Loans	2.9	2.2	2.2	2.2	2.2
Interest on Domestic Loans					
Interest on Working Capital Loan					

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13 Return on Equity

Table-9 Water Production Related Equity Financing Costs (%) 2011-2015

Item	2011	2012	2013	2014	2015
Rate of Return	-0.21	-0.19	-0.10	0.02	0.02

14 Depreciation

Table-10 Depreciation (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
Depreciation of Production Assets	2.9	3.6	3.9	4.4	4.8

15 Projected Water Production Revenue Requirement

Table-11 Summary of Water Production Revenue Requirement (Million GHS) 2011-2015

Item	2011	2012	2013	2014	2015
A. Capital Recovery Component (CRC)	30	30	30	30	30
B. Fixed O & M Component (FOMC)	80.7	91.9	120.1	132.1	145.3
C. Revenue from Water Charge	168.7	188.6	200.2	272.0	330.0

16 Proposed Tariff and Rates Structure

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EXPECTED REVENUES

THE COST BUILDUP

	Production GH¢000	Transmission GH¢000	Distribution GH¢000	Commercial GH¢000	General Admin GH¢000	Total GH¢000
Personnel	14,705	565	11,455	14,988	29,056	70,769
Proposed Salary Increase	6,151	236	4,792	6,269	12,154	29,602
Long Service Award Provision-30%					2,911	2,911
Chemicals	16,400					16,400
Electricity	70,158	926	3,858	283	10,934	86,159
Fuel	1,034	4	1,277	986	2,121	5,422
Materials	53	149	4,382	129	544	5,257
Reagents	691					691
Equipment	23	11	783			817
Overheads	1,648	56	1,532	2,437	12,913	18,586
Bad debts				5,768		5,768
R & M	6,508	160	6,603	638	586	14,495
Depreciation	2,724	418	1,093	837	996	6,068
Rehab & Replace	75,000	8,000	60,000			143,000
Financial cost					913	913
Levies					1,776	1,776
Interest on Loans					2,373	2,373
Exchange Loses					6,765	6,765
Return on assets					19,566	19,566
Total	195,095	10,525	95,775	32,335	103,608	437,338
ABSORPTION						
COMMERCIAL						
Distribution - 100%	-		32,335			
GENERAL ADMINISTRATION						
Production - 60%	62,165					
Transmission - 10%		10,361				
Distribution - 30%			31,082			
TOTAL	62,165	10,361	63,417			

GRAND TOTAL	257,260	20,886	159,192			437,338
OUTPUT (m3)	139,454,145					
Cost per m3	1.8448	0.1498	1.1415			3.1361

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In arriving at the proposed tariff we have assumed that cost of Electricity will go up by 75%. The tariff for Water should be adjusted in accordance with the applicable Electricity tariff.

PROPOSED TARIFF STRUCTURE

From the foregoing, we wish to make a proposal for an increase of 112% in average tariff in 2013 represented as follows;

		EXISTING RATE (GH p/m ³)	PROPOSED INCREASE (%)	PROPOSED RATE (GH p/m ³)
(a)	Metered Domestic 0 -15 m ³	85.26	99.39	170
	Metered Domestic Above 16 m ³	127.81	111.25	270
(b)	Commercial/Industrial	181.68	125.67	410
(c)	Public Distribution/Gov't Depts.	163.96	125.66	370
(d)	Premises without connection (public Standpipe)	84.29	101.68	170
(e)	Sachet Water Producers	181.68	228.49	596.8
(f)	Special Commercial/GHAPOHA	516.64	131.03	1193.6
	Surcharges			
	(i) Sewer	35%		
	(ii) Fire - Fighting Levy	1%		
	(iii) Rural Water Dev't Levy	2%		

WATER PRODUCTION BUDGET 2013

ASSUMPTIONS

	Annual Production	259,680,752m ³		
	NRW (%)	46.3		
	Sales Volume	139,454,145		
		Planned Water Sales		
			Tariff Rate	Expected Revenue
				(GH)
		(m³)	(GH p)	
a.	Metered Domestic (0 – 15 m ³)	45,718,094	170	77,720,760
	Metered Domestic (16m ³ and above)	25,708,395	270	69,412,667
b.	Commercial / Industrial	36,841,327	410	151,049,441
c.	Public Institutions / Gov't Dept	27,850,761	370	103,047,816
d.	Premises without connections (Public stand pipes))per m ³	4,284,732	170	7,284,044
e.	Sachet water producers	2,021,265	596.8	12,062,910
f.	Special Commercial/GHAPPHA	399,840	1193.6	4,772,490
	WATER SALES	142,824,414		425,350,127
	FIXED CHARGES			6,055,140
	TOTAL SALES			431,405,267
	<u>Surcharges</u>			
i.	Public use of sewer			
	Fire Fighting Levy			
ii.	Rural Water Development Levy			

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GWCL PROFIT & LOST ACCOUNT

	2006	2007	2008	2009	2010	2011
	₹ '000	₹ '000	₹ '000	₹ '000	₹ '000	₹ '000
Revenue	59,083	72,821	104,709	106,823	148,752	172,591
Operating cost	56,945	75,607	107,813	100,870	124,639	170,482
Operating surplus	2,138	(2786)	(3,104)	5,953	24,112	2,109
Interest on loan	(3,537)	(2,611)	(2,800)	(2,296)	(3,157)	(2,900)
Exchange loss	(1,5920)	(5,083)	(27,777)	(26,454)	(8,366)	(13,916)
Surplus (Deficit) for the year	(2,981)	(10,480)	(33,681)	(22,797)	12,581	(14,706)
Income surplus A/C	(208,610)	(219,091)	(252,771)	(266,004)	(253,415)	(272,188)
C/F (deficit)						

16.1 Projects Undertaken – Capital expenditure (GH₹)

Provision of electro-mechanical tools for several stations	191,253.70
procurement and supply of 10MVA 33/3.45 power transformer for Weija	2,334,952.50
procurement and supply of 10MVA 33/3.45 power transformer for Kpong H/W	2,334,952.50
Supply and installation of butterfly valves, adaptors and couplings for Weija transmission pipelines	592,833.00
10 Nr. Ritz pumps in the Eastern region	

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	433,957.13
Motor Half regional coupling	193652.95
Weija coupling pair	83,000.00
Spare parts for Brimsu & Legon Booster	279,689.75
Miscellaneous valves in Ashanti	492,000
Spare parts for Accra Booster	205,000.00
Supply & installation of chlorine tablet disinfection equipment	177,700.00
provision of analytical equipment	35,086.00
critical electrical spare parts for control panel at Weija	3,157,507.80
Control cables for Kpong H/W	630,000.00
High and Low Lift pumps for Agordome	692,826.36
Rehabilitation of Daboase and Bosomase intake stations	3,403,837.58
Repairs of clarifier at Daboase	708,560.44
Retrofitting or installation of circuit breaker for Kpong high and low lift stations	230,201.36
Magnetic contactor, voltage relay at Inchaban	183,847.80
Replacement of clarifier bridge wheel for Sekyere Hemang	45,263.80
Mains extension	5,410,000.00
Mains extension in the central Region	68,377.39
Dosing and laboratory equipment at Brong Ahafo Region	44,683.98
Electromechanical equipment in the Ashanti Region	100,297.80
Office Equipment in Ashanti Region	20,000.00
Vertical Turbine Pumps for Upper East Region	84,800.00
Office Equipment	7,232.00
Electromechanical equipment	16,328.00
Account for Western Region	8,920.00
Electromechanical equipment	94,817.60
Dosing and laboratory equipment in the Western Region	400,000.00
Bungalow Repairs at Eastern Region	60,000.00
Office equipment at the Eastern Region	10,000.00
Electromechanical equipment at the Eastern Region	400,000.00
Lime and Dosing at Eastern Region	250,000.00
Remuneration of civil works at Eastern Region	60,000.00
Poly tanks at Volta Region	5,000.00
Office equipment at Volta Region	20,000.00
Electromechanical equipment at Volta Region	332,000.00

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Dosing and Laboratory at Volta Region	115,000.00
Computers and Peripherals	11,000.00
Electromechanical equipment	185,000.00
Vehicle purchased for operations from 2010 - 2012	7,723,422.00
	31,833,001.44

SERVICE CHARGE

Customers	Rate/month GH¢	Unbilled	Billed	Amount/annual GH¢
Domestic	1	92,882	291,383	3,496,596
Commercial	4	27,744	44,491	2,135,568
Industrial	50	328	308	184,800
Government	2	1,373	5,534	132,816
Sachet Water	10	428	768	92,160
Special Commercial(Ports & Bottling)	100	3	11	13,200
Total		122,758	342,495	6,055,140

Ghana Water Company Limited wishes to introduce a fixed Service Charge for each category of Customer as part of monthly bills to be paid by customers as follows:

JUSTIFICATION FOR THE SERVICE CHARGE

1. Fixed Cost: - Cost incurred in an accounting period, i.e., within certain output or turnover limits, tends to be unaffected by fluctuations in the level of activity (output or turnover).
A minimum charge towards infrastructural maintenance would be levied on all active customers.
2. Industrial Practice: - Public utilities including Electricity Company Of Ghana and Communication Service providers are guaranteed a fixed monthly charge from each customer even when the customer does not utilize the service available.

GHANA PORTS AND HARBOR AUTHORITY AS A SPECIAL COMMERCIAL CUSTOMER.

Ghana Ports and Harbor Authority (GPHA) is charged with the responsibility of planning, building, managing, maintaining and operating the two main ports of Ghana- Tema and Takoradi.

Within such limits as may be fixed by the Minister, GPHA prescribe rates, charges and dues for services provided by the authority under (PNDCL 160) of 1986 section 75.

As part of its conservancy service, GPHA supplies potable water provided by GWCL to ships that dock at Tema and Takoradi ports and then bills its customers in US Dollars.

Commercial and Industrial customers who use our water as input for production always pay a higher rate. They pay a rate of GH¢ 1.8168 per m³. GPHA is a customer in this category.

This proposal is to isolate the two meters in Tema and one also in Takoradi where potable water supplied by GWCL is sold to foreign vessels that dock at the ports and charge the Special Commercial Rate.

SACHET WATER PRODUCERS

Sachet water has risen from obscurity to become one of the most important drinking water sources in Ghana in just a few years. There is sufficient evidence in our books that about 85% of these Sachet water producers directly access water from GWCL.

Sachet water producers simply bag GWCL'S Potable water for sale at a price high and above our tariff level.

Most of these Sachet water customers are based in Tema, closer to the Kpong Treatment Plant where supply is reliable. Others can also be found in the Accra East region.

To avoid paying the tariff for bottled water, these producers claim to have shifted from bottling to sachet water.

We are thus proposing for the creation of a new category for Sachet water producers in the tariff table.

Total consumption for Sachet water producers is 2,021,265m³ for the year 2012

DELETION OF UNMETERED PREMISES FLAT RATE

This specific tariff rate has outlived its usefulness as it is no longer being applied in billing. Currently all unmetered premises have been placed on averages derived from historical readings registered by the meter when it was functional. Besides, current policy on new service connections requires that all new connections must be metered. We therefore advocate for the abolition of this unmetered premises flat rate.

REVIEW OF LIFELINE BAND

Statistics in the database indicate that 60% of the domestic customers fall within the domestic lifeline band whilst 40% have their consumption above the lifeline band.

This constitutes a greater loss to GWCL. It is therefore propose that lifeline band should be reduced from 0 – 20m³ to 0 – 15m³

Alternatively, all those domestic customers whose consumption go beyond the lifeline band should be billed with the higher price in the domestic category