ACEP
Africa Centre for Energy Policy

Address: P. O. Box CT 2121 Cantonments Accra
Website : www.acepghana.com
Email : Info@acepghana.com
Tel : +233 (0)302 900730

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The Executive Secretary
Public Utilities Regulatory Commission (PURC)
P.O. Box CT 3095
Cantoments, Accra

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REGULATORY COMMISSION

Dear Sir,

ACEP'S INPUT TO THE PURC'S 2018 TARIFF REVIEW EXERCISE - TARIFF REDUCTION NECESSARY

ACEP wishes to commend the PURC for pursuing transparency and inclusivity in the review of tariffs. We appreciate the fact that the right tariffs are important for the sustainability of the power sector and the general economy of the country. Therefore, in spite of the locked-in expectation of the public to proposals made by government, ACEP expects the PURC to adequately examine the various proposal submitted by stakeholders to make the tariff determination economically sustaining for industry whiles accounting for the tariff competitiveness of Ghana in the sub-region for investment attraction.

Important issues to consider in this major review:

1. **Oversupply of power against lower demand growth:** In 2018, there is imminent excess capacity of power which must be consumed, either through the export market (Ghana is already priced out of the export market) or deliberate policy to boost demand in-country. The consequence of not utilizing the excess capacity will require that the repulsive capacity charges on the available plants will have to be absorbed in the tariff. Otherwise government risks piling debt as the guarantor of all the plants that will be available in excess of demand.
2. **The current tariff levels is anti-business:** This is evident in the demand growth pattern for electricity. The current peak demand of about 2100 MW is almost the same as 2014 peak demand. This trend contrasts the projected annual growth of about 10% to 12%. The reality is that the grid is becoming unattractive; many businesses have had to evolve to adopt survival strategies for their energy needs. The industrial consumer is burdened with the following:
    a. **Higher tariff than the domestic consumer**: For a long time, industrial consumers have been subsidizing electricity cost to the domestic consumer. This approach needs to change to create relief for businesses.
    b. **Government taxes:** The 17.5% VAT tends to punish industry more. Interestingly, government's proposal to reduce tariffs avoided looking at its own burden on industry.

These elements of imposition are pushing many businesses to resort to self-generation which avoids both the high tariffs and the VAT on electricity.

3. **Over pricing of generation plants:** Many of the generation plants are overpriced, burdening the tariff review with limited maneuverability for reduction. With the status of AMERI unknown and Karpower's albatross accepted by the current government, not much savings can be made on capacity charges, unless PURC is willing to encourage government to revisit the renegotiation of high capacity charges. Renegotiation of the capacity charges is not only necessary for government but also for the generation companies. The risk of default in paying the generation companies can better be mitigated with sustainable rates of capacity charges and all other input variables.

Location: Avenue D, Hse. No. 119 D, North Legon

4. **Exchange rate**: The cedi has lost value since the last review of tariffs. The current tariff has devalued by about 13% since the last review. Without significant shift in other variables, downwards adjustments threaten the sustainability of the power sector.
5. **Domestic gas price:** Government in recent times has been communicating a reduced gas price for industry at $6.5/MMBtu. The communication, however, lacks the details on how that savings has been achieved and whether the power sector is part of the considered industries. PURC needs to be transparent on information transmitted by government on gas pricing to shape the public discussion during the consultation.
6. **LNG price negotiated:** The recent Gas Sales Agreement (GSA) between government and Gazprom is expected to deliver gas to Ghana in 2019. The market for that gas is largely the power sector. PURC needs to pay attention to the fact that LNG price is going to oscillate against Brent Crude Oil, removing the element of stability associated with gas prices. At the time the contract was negotiated, the LNG price was put at $7.7/MMBTU using the following formula in the contract: Contract price = 12.5%xBrent + 0.76. Today the LNG price would be $9.63/MMBTU due to movements in oil prices by applying the same formula. In this tariff review PURC needs to determine viable pass-through gas price to compel off-takers to negotiate sustainable gas prices.

ACEP appreciates the enormity of the task before the Commission in navigating the complex issues to be considered. Ultimately, we believe the acceptable tariff which can spur demand growth, halt self-generation, and reduce the risk posed by excess capacity will be a rate below the marginal cost of self-generation. This requires significant concessions from generators, distributors, the transmissions company and the major input suppliers to address the issues raised. It is our hope that the public engagements on the proposals will elicit consensus that will breath sustainability on the power sector.

Yours faithfully,

Benjamin Boakye

Executive Director