



Ref No: PDS/PURC/18/03

9<sup>th</sup> November 2018.

Executive Secretary  
Public Utilities Regulatory Commission (PURC)  
2/F Olympic Committee Building  
No. 53, Liberation Road Ridge  
P.O. Box CT 3095 Cantonments, Accra

**Attn: Mrs. Mami Dufie Ofori**

**Re: Initial Submission of Tariff Proposal for the Determination of Annual Revenue Requirement for Power Distribution Services Ghana Limited**

Dear Madam,

We refer to the "Concession for the Management of, Operation of, and Investments in the Electricity Distribution Business of the Electricity Company of Ghana Limited" ("ECG Transaction") under the aegis of the Millennium Development Authority and the Government of Ghana, acting through the Ministries of Finance and Energy; specifically, to complete Condition Precedent 4 ("CP 4") ("*The PURC shall have approved the PURC Rate Setting Guidelines and the initial rates that the Company shall be authorized to charge*").

As per the Rate Setting Guidelines for Electricity Distribution and Supply Volume 2, which had been approved by the Commission on June 27, 2018, Power Distribution Services Ghana Limited ("PDS") is providing an initial submission of operational expenses (OPEX) and capital expenses (CAPEX) for the first five years commencing on Transfer Date for the determination of Distribution Annual Revenue Requirements.

In this regard, please find attached the filled-up PURC templates and other relevant documents:

- a) F-4D: Distribution System Capital Outlay Data
- b) F-10D: Operation and Maintenance Cost Data
- c) F-11D: Administration and General Cost Data
- d) F-13D: Customer Costs Data
- e) F-15D: Summary of Distribution Costs
- f) F-16D: Relevant Documentation in Respect of Distribution Tariff Proposal
- g) PURC Rate Setting Guidelines Volume 2 approved on 27 June 2018

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For this Initial Submission, kindly refer to the notes below:

1. The Capital Expenditure/Capital Outlay is based on the Financial Proposal submitted to MiDA on March 26, 2018. The amounts reflect the Minimum Distribution Investment Commitment of PDS with respect to the Lease and Assignment Agreement.
2. The Operational Expenditures (OPEX) in this preliminary submission are adjusted as compared with the Financial Proposal submitted by the MERALCO-led Consortium now PDS. This is due to the results of the Exceptions Negotiation, which have been agreed between PDS and Government of Ghana. Resulting in, among others, reduction in bases of securities related to the Lease Payment and Power Purchase from 6 months to 3 and from using an escrow account (for the power purchase security) to a bank guarantee or letter of credit. At this moment PDS hasn't enough information from ECG, namely total value of Assets to be transferred, Moveable Property Assets, and Portfolio PPA, to estimate correct values, that should be adjusted before Transfer Date.

Another reason for the adjustment in OPEX is the analysis of ECG data provided during the Transition Period.

3. The breakdown of the Operations & Maintenance, Administrative & General, and Customer Services OPEX are based on historical ECG expenses made available to PDS through the Virtual Data Room and engagements with ECG. In relation to this, PDS requests the Commission to allow re-submission of OPEX and CAPEX forecast for the Second Regulatory Year based on PDS actual operations of the electricity business of ECG. Any over or under-recovery in the first year would be factored in the re-submission.
4. According to Article 2.5 of the Rate Setting Guidelines, Volume 2, *"The Target Aggregate Technical and Commercial Loss Ratio in respect of each Regulatory Year 't' during the first Regulatory Control period of five years shall equal:*
  - (a) *i. in respect of Regulatory Year 1, provisional baseline aggregate technical and commercial loss ratio established by PURC based on data from the twelve months preceding the transfer date*
    - ii. Thereafter, PURC will engage an independent consultant to undertake a study for establishing an independent baseline ("baseline)*
    - iii. PURC, the Energy Commission, ECG and the Concessionaire can observe, participate in, and make recommendations with respect to the work of the independent consultant*
    - iv. PURC shall make the ultimate decision based on the work of the Independent Consultant.*
  - (b) *in respect of Regulatory Year 2, the actual Aggregate Technical and Commercial Loss Ratio from Regulatory Year 1 (as established under section (a) i-iv above) minus*



*(Percentage Reduction in Aggregate Technical and Commercial Loss Ratio as per Agreement Year 3); ..."*

Thus, a Baseline Loss Study shall be conducted within the first 12 months from the Transfer Date to determine actual Aggregate Technical, Commercial and Collection Loss (ATC&C Loss) at Transfer Date. Adjustments shall be applied during the Second Regulatory Year of the First Regulatory Reset. For purposes of clarification, the loss reduction target as accepted in the Financial Proposal is shown below:

Agreement Year	Percentage Point Reduction in Aggregate Technical and Commercial Loss Ratio below Base Aggregate Technical and Commercial Loss Ratio	Percentage Point Improvement in Collection Loss Ratio below Base Collection Loss Ratio
1	0.0%	-3.8%
2	-1.2%	-5.8%
3	-2.4%	-7.8%
4	-3.6%	-9.8%
5	-4.8%	11.8%

5. The PURC shall provide adequate Annual Revenue Requirement to PDS to cover allowed ATC&C losses based on the Baseline Loss Study and five-yearly loss reduction percentage points in the Financial Proposal submitted by the MERALCO-led Consortium.
6. As stated in Sec 3.2.2(b) of the Request for Proposals dated March 12, 2018, *"The Operating Expenses that shall be used during each of the first Five Agreement Years to calculate the rates the Company will be authorized to charge in accordance with the PURC Rate Setting Guidelines. The Operating Expenses bid by each Pre-Qualified Bidder shall exclude the employment-related costs the Company will incur in connection with the employment of the employees of ECG that are transferred to the Company. The employment-related costs the Company will incur in relation to such transferred employees will be separately approved by PURC pursuant to the Rate Setting Guidelines, which recognize the obligations of the Company pursuant to Section 5.4 (Employment) of the Lease & Assignment Agreement."* Thus, the submitted Distribution Operational Expenditures excludes "employment related costs" since the absence of information on the Transferred Staff makes it impossible for PDS to determine the required costs for proper staffing of PDS.

As per Article 1.2.3 of the PURC Rate Setting Guidelines, Volume 2, *"PURC shall give due consideration to Government's Employment Protection Policy for the ECG Concession in the Major Tariff Review with respect to prudent staff costs approved by PURC as pass-through in the Operating Expense (Distribution) component of the Annual*

*Revenue Requirement (Distribution) in order to protect all existing ECG staff transferred to the Concessionaire.*

*PURC shall ensure that EDNSO maintain a separate line item for ECG transferred staff costs as part of the Operating Expense which shall be monitored to ensure compliance with the Government's Employment Protection Policy."*

7. As stated in Article 1.8 of the Rate Setting Guidelines Volume 2, under Note 3, "The Equity Yield will be agreed with the Preferred Bidder", and Note 4, "The Debt Margin will be agreed with the Preferred Bidder and apply during the first Regulatory Control Period", following that, the Equity Yield and Debt Margin were accepted in the Financial Proposal.

<b>Agreement Years</b>	<b>Equity Yield</b>
1 through 20	18.0%
<b>Agreement Years</b>	<b>Return of Debt</b>
1 through 5	6.8%

In addition, the following are key points relating to power supply and transmission which shall be taken into consideration by the Commission in determining the Revenue Requirement for PDS:

8. As stated in Section 2.2 of the PURC Rate Setting Guidelines, Volume 2, "The Power Purchase Cost shall be treated as a passthrough... the Portfolio Capacity & Energy Payment for Regulatory Year 't', which equals the sum of:

(i) the Portfolio Capacity & Energy Charge (as defined under the Bulk Supply Agreement) payable under the Bulk Supply Agreement in respect of month 'm';

(ii) the sum of capacity charges and/or energy charges payable under any other agreements or other arrangements under which the EDNSO may purchase capacity or energy in respect of month 'm'; and

(iii) the sum of all charges payable to GridCo or any other entity under any agreements or other arrangements in respect of ancillary services or transmission of electricity from generators to the Bulk Supply Points during month 'm'.

*stated in US Dollars, calculated assuming that the EDNSO purchases during month 'm' a quantity of electricity that is equal to  $1 / (1 - (ATLR + TATCLR))$  multiplied by the Aggregate Sales Quantity for month 'm', where TATCLR means the target Aggregate Technical and Commercial Loss Ratio applicable during month 'm', and ATLR means the actual transmission loss ratio (as opposed to the benchmark transmission loss ratio) applicable during month 'm'."*

Thus, PDS is responsible to pay only for the cost of energy supplied based on the consolidated Bulk Supply Tariff ("BST") as approved by the PURC, measured at the Bulk



Supply Points increased by transmission losses defined by the PURC. PDS shall have no liability for costs of supply beyond the BST as approved by PURC.

With regards to transmission, PDS shall make payment to GridCo based on the PURC approved tariff for Transmission Cost (including transmission losses) for the transmission of energy from the gate of supply to the secondary side of the Bulk Supply Points ("BSPs"). When the energy of bulk supply is measured at the gate as basis for the payment for bulk supply cost, the cost of transmission loss is considered to have already been paid directly to ECG. When the energy of supply is measured at the Bulk Supply Points (or Withdrawal Points, as may be directed by the PURC) as basis of payment for the bulk supply cost, the cost of transmission loss shall be paid directly to ECG.

9. The Supply shall be the responsibility of ECG, as it is the party that has contracted with the portfolio of power producers. ECG shall be responsible for the application of the Automatic Adjustment Formula ("AAF") of the PURC.

10. These particular risks that are outside the purview of PDS are the following:

- a. In case of shortfall caused by the difference between (i) the condition of Portfolio PPA for which power is supplied to PDS customers and calculations and (ii) the BST being passed to the end consumers;
- b. fuel price adjustments, which should be addressed through the AAF; and
- c. actual dispatch which would cause price difference between BST and actual cost of generation for a particular mix of dispatch.

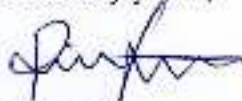
11. For the avoidance of doubt:

- a. Ownership of the existing Power Purchase Agreements (PPA) would remain with the Electricity Company of Ghana (ECG) and therefore the burden of excess capacity when they arise would not be the responsibility of PDS; and
- b. ECG shall not pass any excess capacity costs to PDS.

We look forward on your further instructions on these matters.

Please accept our assurances of our highest esteem.

Sincerely yours,



**Philip Ayesu**  
Chairman