

PUBLIC UTILITIES REGULATORY COMMISSION



REPORT ON STAKEHOLDER CONSULTATIONS ON TARIFF PROPOSALS FOR THE 2022 – 2027 MULTI YEAR TARIFF REVIEW PERIOD

PART TWO

JUNE 2022

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1. INTRODUCTION

This report narrates proceedings of the second part of the stakeholder engagements by the Public Utilities Regulatory Commission with the regulated utilities and selected stakeholders. The engagements were carried out in accordance with Sections 3(a) and 3(b) of the PURC Act 538.

The report highlights key issues arising from these engagements between 25th May to 1st June 2022. Stakeholders consulted during this period included the Parliamentary Select Committee on Mines and Energy, Parliamentary Select Committee on Finance, and the Ministry of Energy.

2. OBJECTIVES/PURPOSE OF STAKEHOLDER ENGAGEMENTS

The purpose of these engagements was to provide a platform for the regulated companies to present their tariff proposals for the 2022 to 2027 Multi Year Tariff Review period to the Select Committees and the Minister of Energy.

This platform provided the opportunity for the companies to recount their present investments, project their investments over the five-year period, enumerate their challenges and mitigation strategies, as well as highlight their intended strategies of improving reliability and quality of service to customers.

Stakeholders were in turn expected to interrogate the proposals presented, seek clarifications where necessary and provide their inputs, as well as express their expectations on the tariff regime.

3. DURATION OF STAKEHOLDER ENGAGEMENTS – PART TWO

This second part of the stakeholder engagements covered a period of one week, ranging from 25th May to 1st June 2022. Each engagement commenced at 10:00am, and run for about four hours.

4. PARTICIPANTS: UTILITIES AND STAKEHOLDERS

The following companies presented their tariff proposals during the second part of the consultations:

- Ghana National Gas Company (GNGC)
- Ghana National Petroleum Company (GNPC)
- Volta River Authority (VRA)
- Ghana Grid Company Limited (GRIDCO)
- Northern Electricity Distribution Company (NEDCO)
- Electricity Company of Ghana (ECG)
- Enclave Power Company (EPC)
- Ghana Water Company Limited (GWCL)

The engagement schedule, including stakeholders consulted, venues and dates are indicated in the table below.

Stakeholder Category	Stakeholder	Date	Venue
Government Agencies/Legislature	Parliamentary Select Committee on Mines and Energy	25 th May, 2022	Accra City Hotel
	Parliamentary Select Committee on Finance	31 st May, 2022	Alisa Hotel
	Ministry of Energy	1 st June, 2022	Accra City Hotel

5. NATURE OF ENGAGEMENTS/METHODOLOGY

The methodology adopted for these engagements commenced with invitations sent to stakeholders, requesting for their presence at a particular venue, date, and time. Stakeholders were directed to the Commission's website and the website of the utilities for the published proposals. This was to help them prepare ahead of the engagement. Stakeholders were given the opportunity to listen to presentations of tariff proposal submissions from the utilities and to engage in discussions afterwards.

Several engagement techniques were adopted during these consultations. These techniques principally involved the use of PowerPoint presentations which enabled the utilities to present a detailed tariff proposal to stakeholders present. The presentations were followed by question and answer sessions, as well as open discussions by all.

The key issues arising from consultations with stakeholders are summarized in Section 8 of this report.

6. SUMMARY OF REMARKS

6.1 Opening Remarks by the Executive Secretary, PURC

In his opening remarks, Dr. Ackah thanked all Honourable Members for accepting the Commission's invitation to participate in the stakeholder engagements. He indicated that PURC has adopted a transparent and participatory tariff review regime, in order for the final tariff to be acceptable by all. The Commission has therefore engaged other stakeholders on the tariff proposals. In addition, the proposals received from the utilities have been published online and in the print media.

Apart from the stakeholder consultations, the Executive Secretary informed the gathering that the Commission would undertake public hearings across the country. These would be livestreamed for all to get access to the submissions by the utilities.

He provided some lessons learnt from previous engagements. These included:

- i. the need to improve the financial viability of the utilities through improvements in efficiency, cutting down wastage and cost, and
- ii. improvement in customer service delivery due to the plethora of complaints received from customers.

Dr. Ishmael Ackah informed government representatives present that, the Commission would undertake its first customer service clinic across the country in September 2022. The essence is to provide utilities the opportunity to enumerate their operational challenges and processes to customers, while at the same time affording customers the opportunity to lodge their complaints with the expectations of receiving resolutions.

He also informed stakeholders that the Commission would publish the Ghana Utilities Performance Index in November 2022. The index would rank utilities across all regions based on their comparative performance using certain indicators. Ultimately this is to promote competition among utilities with respect to efficiency and improvement of service.

According to Dr. Ackah, the Commission has commenced the process of undertaking regulatory audits of all projects submitted by the utilities in their proposals across the country. The audits are to ensure the projects indicated exist, and are being used for their intended purposes of servicing customers well.

The Executive Secretary expressed his thanks to all the Legislators and commended them for their support to the Commission. He stated that the engagements are an important forum for them to provide inputs, comments, and make recommendations to the tariff proposals for a better outcome.

He also promised Honourable Members of the Commission's resolve to balance the interest of consumers who demand reliable, efficient, and cost-effective services, and utilities seeking financial viability.

6.2 Remarks by Chairman, Parliamentary Select Committee on Mines and Energy, Hon. Samuel Atta-Akyea

The Chairman of the Select Committee on Mines and Energy in his remarks, indicated that the issues of the energy sector are not new. He emphasised the important role PURC plays as an economic regulator of utilities.

He maintained that, regulatory decisions of PURC have far reaching consequences due to its human/social dimensions and economic dimensions. As a result, the current engagement becomes relevant, for the regulatory outcomes to be representative of all stakeholders and to benefit the country.

6.3 Remarks by Ranking Member, Parliamentary Select Committee on Mines and Energy, Hon. John Jinapor

Hon. John Jinapor in his remarks to the gathering, expressed his readiness to listen to the utilities on their tariff proposals, and engage them subsequently.

6.4 Remarks by Chairman, Parliamentary Select Committee on Finance, Hon. Kwaku Agyemang Kwarteng

The Chairman of the Select Committee on Finance thanked leadership of the Commission and the utilities for such engagements. He indicated that the Committee is opened to engagements with the utilities for better understanding of their proposals submitted to PURC. Honourable Kwaku Agyemang Kwarteng stressed on the need for the Committee to understand the economy and also to ensure that the accumulation of debts by utilities are minimized and avoided.

He stated there are proponents for cost recovery which is needed to ensure viability of the utility companies. He also indicated the need for customers to pay for the cost of their consumption. When payments are postponed, consumers are bound to pay higher in the future amidst rising inflation and volatile exchange rate. The Chairman informed stakeholders that the Committee calls for efficiency in service provision, so consumers do not pay for the inefficiencies of the utility companies.

6.5 Remarks by Deputy Ranking Member, Parliamentary Select Committee on Finance, Hon. Isaac Adongo

Hon Adongo assured the participants of the Committee's readiness to support the Commission in its mandate as well as support the utilities to be financially viable. He indicated however that, while advocating for financial viability, the utilities must ensure that quality and reliable service is provided to consumers. He further admonished the utilities to enhance efficiency and undertake cost reduction measures in their operations.

6.6 Remarks by Deputy Minister for Energy, Hon. Dr. Mohammed Amin Adam

In his opening remarks during the engagements with the Ministry of Energy, Honourable Dr. Mohammed Amin Adam, commended the utilities for been very responsive and responsible, and also commended PURC for the initiative to ensure that the interest of utilities and consumers are balanced.

He noted that, as a government institution, their objective is to invest in the utilities, which translates into investing on behalf of Ghanaians. Ghanaians are in turn expected to pay for the services provided. Dr. Amin Adam further indicated that due to the investments in the utilities, the Ministry expects efficient, reliable and quality service outcomes, as well as affordability of the services to customers. He also hinted government's efforts in ensuring cost of service is not exorbitant since that would have debilitating effect on the economy.

The Deputy Minister indicated that, the Ministry is prepared to listen to the utilities, scrutinize the proposals and figures presented, and ensure the utilities are operating according to the objectives of government. Ultimately this is to guarantee value for money for Ghanaians.

7. SUMMARY OF PRESENTATIONS

7.1 Presentation of Tariff Proposal by GNGC

GNGC's presentation focused on the company's existing and planned infrastructure, the Commission's hybrid tariff methodology and proposed tariff. The Commission's hybrid tariff methodology considers the fixed operation expense, return, depreciation, working capital, and corporate taxes as the total cost of service on the expected throughput. The proposal considered the main scenario which excludes China Development Bank (CDB) loans and various sensitivities based on the following scenarios; tariff Based on CDB Asset Inclusion, Tariff Based on no NGL Offsetting, Tariff Based on 50% Condensate Natural Gas Liquids (NGL) Offsetting and Tariff Based on only LPG as Offset. The overall tariff requested by GNGC is US\$2.115/MMBtu in 2022 which represents an increase of 199% over the prevailing tariff.

7.2 Presentation of Tariff Proposal by GNPC

GNPC's gas pricing approach focused on gas costs and the multi-year gas commodity costs proposed. GNPC defined the weighted average cost of gas as the sum of the gas commodity cost and the regulated service charges. The Aggregate Service Cost incurred to deliver gas to consumers as considered as WAGP transmission cost (reverse flow), Gas Management Services Cost, VRA Gas Interconnection Cost (VGIF), Western (Prestea)-Kumasi Pipeline Cost, and Gas Intermediation Service Charge. The regulated service charges were explained to be made up of GNGC Processing, Transmission Levy and the PURC Regulatory Levy. The key assumptions underpinning GNPC's tariff proposal included exhaustion of the Jubilee foundation volume and expectations for Liquefied Natural Gas (LNG) by Q3 2022, and an annual growth in demand of 10%. The overall tariff requested by GNPC in 2022 is US\$7.9143.

7.3 Presentation of Tariff Proposal by VRA

Tariff proposal presentation by VRA highlighted their key performance improvement projects, tariff proposal and reactive power compensation. VRA discussed strategic operational matters which included relocation of the AMERI Power Plant and the T1 life extension. Key assumptions such as the weighted average cost of gas and the exchange rate, Electricity Market Oversight Panel (EMOP) allocation, projected supply and demand for DISCOs were the basis for tariff adjustment. With regards to reactive power compensation, VRA used a formula for basic reactive power which incorporated the

nameplate power factor. The overall tariff requested by VRA for 2022 is Ghp38.6879/kWh, representing an increase of 37%.

7.4 Presentation of Tariff Proposal by GRIDCo

GRIDCo's presentation focused on a breakdown of their assets, operational and technical challenges, proposed initiatives and capital investment projects, and their tariff proposal. The transmission operator discussed their network constraints on the NITS and a proposal for reactive power compensation. The company's financial losses due to embedded generation and associated risk of stranded assets were brought to the fore. GRIDCo's tariff proposal included two scenarios with or without corporate tax. The overall tariff requested by GRIDCo is Ghp8.8308/kWh, which represents an increase of 48%.

7.5 Presentation of Tariff Proposal by NEDCo

Presentation by NEDCO to stakeholders centered on the tariff structure and current tariff, initiatives and projects undertaken, major issues on the tariff submission, company financial performance, challenges and proposed recommendations, and the proposed tariff rates. NEDCO enumerated the reasons for the increase in cost of electricity supply as due to low customer density, exchange rate depreciation, high proportion of residential customers, and a larger proportion of lifeline customers. Proposed and completed projects of NEDCo are targeted at reducing losses, improving reliability, and quality of service. The utility's financial performance between 2017 and 2021 has been saddled with losses. The overall tariff requested by NEDCo for 2022 is Ghp66.81/kWh, which represents a 113% increase over the prevailing tariff.

7.6 Presentation of Tariff Proposal by ECG

The ECG's tariff proposal presentation focused on the utility's regulatory period performance, assumptions underlying the tariff proposal, current, ongoing, and planned investment projects, renegotiation of PPAs, and the proposed tariff rate. ECG enumerated the major challenges impacting their tariff proposal as inflation, exchange rate depreciation, cost of reserve margin or idle capacity, unrecovered pass-through generation costs, re-structure of the prevailing tariff structure, recovery of the cost of only 30% of the street light tariff, recovery of investment cost and inadequate distribution service charge. The overall tariff requested by ECG in 2022 is Ghp39.95/kWh which represents an increase of 148% over the prevailing tariff.

7.7 Presentation of Tariff Proposal by GWCL

The water utility presented a summary of their current operational and technical situation and challenges, initiatives undertaken since 2019, the rationale for adjustment in tariff, planned initiatives and revenue requirement. In a bid to increase requests for new service connections whilst reducing the cost, GWCL proposed the meter cost for new service connections as an operations cost to be captured in the tariff. GWCL also proposed reclassification of the tariff bands, to reduce cost and improve cost recovery. GWCL presented three proposals for recovery of cost. The tariff requested by GWCL for full cost recovery in 2022 is Ghs28.20/m³ which represents an increase of 300% over the prevailing tariff.

7.8 Presentation of Tariff Proposal by EPCL

The focus of EPCs tariff proposal was mainly centered on their key performance indicators, projects and initiatives undertaken since the July 2019 tariff review, assumptions underlying tariff proposal, proposed service delivery and efficiency improvements, key policy issues and challenges likely to impact service delivery, and their proposed tariff rate. The overall tariff requested by EPCL is Ghp42/kWh which represents an increase of 38% over the prevailing tariff.

8. HIGHLIGHTS OF KEY ISSUES

This section provides a summary of the key issues arising from the engagements with the Select Committees and the Ministry of Energy between 25th May to 1st June 2022. The issues are presented in accordance with proceedings after each presentation, and in line with the order of consultation.

8.1 First Consultation: Parliamentary Select Committee on Mines and Energy

Issues Arising from Presentations by GNPC, GNGC, VRA, GRIDCO, ECG, NEDCO, and EPC

1. Questions, Comments, and Suggestions

- PURC needs to take into account the role of IPPs due to the major role they play in the sector.
- The proposed 5-year major tariff review as well as the proposals presented are based on an assumption that macroeconomic factors and certain conditions hold. However, volatilities in inflation and the exchange are beyond the control of PURC. There are bound to be challenges with volatilities in these indicators.
- Are the utility tariffs set by PURC cost reflective? Once PURC has indicated that the tariffs are cost reflective, then the proposed tariffs should build on previous tariffs.
- The PURC needs to consider the application of tariff bands in tariff structures.
- ECG's projections assumed the same base rate for AKSA. That is problematic. The AKSA contract expires in June 2022. Capital recovery has been considered in the negotiations.
- What is the status of AKSA?
- AMERI was negotiated so that after 5 years it becomes a legacy plant. How has AMERI been factored in the proposals?
- GNPC indicated in their proposal that gas from Nigeria is bought at a discounted price. Why is GNPC therefore going in for LNG when there is a cheaper alternative available.
- ECG has not provided the rate at which its losses are increasing. These inefficiencies cannot be built into the tariff.
- Is there a policy against take or pay? How much is ECG paying for excess capacity? What is the difference between excess capacity and reserve margin? PURC needs to determine who pays for reserve margin, so it is not considered as excess capacity.
- The country needs a development reserve or margin to attract investment. This should be factored in the national budget.
- The utilities requesting for tariff increments have not presented their audited financial statements. It is important for the financial statements to be presented so stakeholders can relate the proposals to good financial management.
- The efficiency targets of the utilities have not been met. Why should consumers pay for technical and commercial losses of the utilities? It is important SIGA is engaged in these discussions so that when utilities do not meet efficiency targets, their inefficiencies are not passed on to consumers.
- The utilities need to present a different scenario of tariffs determination and amount without their losses.
- Is PURC committing to the quarterly adjustments? During the era of PDS, there was a guarantee that government would compensate PDS for any revenue shortfalls when tariff increments are not considered by PURC during the quarterly adjustments. Does ECG have a similar arrangement?

- NEDCo would always have extra-ordinary challenges even with the best of Management. NEDCo's total consumption is relatively smaller than other utilities. Can a part of NEDCo's tariff be apportioned as social?
- If there are wide variations in gazetted tariffs and proposed tariffs, there are bound to be shocks especially with respect to the gas and petroleum sectors.
- The street light levy is split into two. A portion goes to ECG, while the other portion goes to the Ministry of Energy for maintenance of the street lights. Does ECG want a levy or a special tariff for street light?
- How does PURC intend to absorb the shocks imminent in the system when tariffs are increased? PURC should have a strategy focused on absorbing the shock.
- If tariffs are increased beyond a certain threshold, general prices of goods would increase. The tariff setting process should be balanced.
- ECG should consider cutting cost as much as it can.

Responses by utilities:

- GNPC only receives reverse flow. VRA is contracted to determine gas flow from Nigeria through a Ministry of Energy policy.
- LNG is cheaper today than what is currently acquired from Nigeria. LNG price for 2022 is fixed, and this fixed price is running throughout year 2022.
- LNG is a take or pay contract. There is a policy directive for GNPC not to engage gas suppliers on take or pay contract.
- Jubilee free gas is not priced. This would however not be free from the last quarter of 2022 due to the changing gas sector landscape.
- Excess capacity or the idle capacity indicated in ECG's proposal is separated from the reserve margin. Both are not the same.
- ECG is not the beneficiary of DSC2. That charge goes to the generating companies for the purposes of managing the losses.

Responses by PURC:

- PURC does not take decisions to stifle the utilities of cash flow. Tariffs set are based on what is determined as the total revenue requirements needed by the utilities. These are explained in the tariff decisions.
- According the pricing methodology, the tariffs for IPPs is a pass-through. Power Purchase Agreements (PPA) of the IPPs are quoted in USD. PURC vets variable charges of the IPPs based on their invoices to ECG. This is taken into account during the quarterly adjustments.
- Submission of the audited accounts of the utilities are part of their submission requirements to the Commission. Currently, the Commission has received up to the 2020 Audited Accounts of the utilities. Based on these audited accounts, the Commission is able to determine the impact on the finances and operations of the utilities if losses are reduced.
- On demystifying the tariff setting methodology, the PURC rate setting guidelines is available and accessible to stakeholders. Utilities understand better how the tariffs are computed.
- The street light levy is a policy issue. The levy is being paid, however, the utilities have indicated that is not enough.

8.2 Second Consultation: Parliamentary Select Committee on Finance

Issues Arising from Presentations by GWCL, GNPC, GNGC, VRA, GRIDCO, ECG, and NEDCO

1. Questions, Comments, and Suggestions

- The Chairman of the Committee indicated that although the presentations have been educative, the Committee has had little time to scrutinize the proposals, for a thorough assessment to be made. As a result, the Committee may not be able to offer adequate inputs with regards to the proposals. Additional forum should be created for such purposes.
- The Deputy Ranking Member, Honourable Isaac Adongo, indicated that the problems running through the presentations hinges mostly on revenue and some few expenditures related issues. Expenditures of the utilities must also be presented for consumers to be aware of how the utilities are spending the tariffs approved.
- GWCL has undertaken a revaluation of their assets, and at the same time intends to take an equivalent amount of depreciation to be charged to consumers, when these assets have been in their books for a while. Once these assets have not been written, there should be a value in their books. Why would a consumer pay for an activity that does not exist? Consumers should not pay for revaluation of assets. This premise should cut across all utilities and be thoroughly investigated.
- The Committee acknowledges that the utilities are challenged with foreign exchange losses.
- Why should customers who already have meters be made to pay for new meters. This calls for a thorough evaluation.
- The disaggregation of total revenue to total cost has not been presented. A breakdown of revenues have also been missing in all presentations.
- On the average, why would an organization be running high administrative costs? The solution must be with the organization and not the customer.
- Should customers be pre-financing proposed and planned infrastructure investments?

The Committee will convene a meeting on the various presentations, and analyse the proposals in details. Some of the recommendations made, would also be considered by the Committee.

8.3 Third Consultation: Ministry of Energy

Issues Arising from Presentation by VRA

1. Question

- VRA has available capacity of 12,000GWh. How much of this is exported, and to what extent will the export earnings affect domestic pricing or subsidies to domestic customers?

Response:

- On the average, about 12% of VRA's power sales goes to the export market. The power pricing is highly transparent. VRA commits its thermal plants along the hydro allocated by EMOP to the export market. Therefore, depending on the allocation, the price is determined. VRA's cheapest plants are allocated to the regulated market.

2. Question

- Has the reactive power compensation been a feature of previous tariff settings?

Response

- VRA has been providing reactive power for several years now. In the proposed tariff regime, the Commission brought out guidelines for estimating reactive power compensation. VRA leveraged on the Commission's guidelines.

3. Question

- VRA's operating and maintenance expenditure, specifically administrative cost did not feature in the presentations. Will that be provided to the Ministry?

Response

- Affirmative response.

Issues Arising from Presentation by GRIDCO

1. Questions

- Reactive power compensation has become a major issue. The utilities requesting for it needs to engage the Ministry to determine the policy direction on that.
- Ancillary service charges did not feature in GRIDCO's presentation. Does GRIDCO still get it? The Ministry is interested due to some diverging views on the ancillary service charged.

Response

- Ancillary service charges were briefly highlighted in the presentation, subsumed under the reactive power compensation. It is part of TSC1. The Commission will engage GRIDCO on all the other components of the tariff. A discussion beyond this forum is needed on the ancillary service charges.

2. Comments and Suggestions

- It would be in the interest of the Ministry to determine whether the capital investment plans presented are consistent with GRIDCO's workplan submitted to the Ministry. A few projects were mentioned in the proposal which are not in the workplan. Harmonization of both is important. Capital investments and new project plans not discussed with the Ministry should not be part of the tariff proposal.
- Some of the capital investment plans will affect future tariffs. Depending on year of completion the costs are likely to be factored in the tariffs. However, usually, there are delays in completing some of the planned projects. PURC needs to determine what cost overruns are associated with projects, especially projects associated with procurement challenges and delays, so that cost overruns are not passed on to customers.

Issues Arising from Presentation by ECG

1. Question

- What is ECG's balance sheet position, in terms of total assets versus total liabilities.

Response

- The specific figure would be provided to the Ministry. Under Cash Water Fall mechanism, ECG receives Ghs133 million monthly. If all statutory debts are paid (Ghs118 million), ECG is left with only Ghs15 million to pay all suppliers.
- ECG has no CAPEX and is unable to plug the losses, although the company is expected to support the value chain. Currently ECG is unable to do so due to inadequate funds.

2. Comments and Suggestions

- Government has paid Ghs6 billion to ECG to clear its legacy debt. This was more than the actual debt amount.
- ECG did not break down its OPEX. That information is needed to interrogate the line items under OPEX.
- Tariff rationalization must be considered. Anything that increases the revenue requirements of utilities should help reduce tariff. If the current tariff structure is to be revised to a 2-block tariff structure, this should encourage consumption and increase revenue. That revenue is to be applied to tariff reduction purposes.
- A significant reduction in system losses has been proposed. There should be investments towards this. The revenue this translates into should offset investment costs, and should not be part of the tariff.
- Improvements in reliability indices should translate into revenue, which should finance certain investments.
- Innovative services proposed by ECG is commendable, and that is what is expected of ECG. Revenues accruing from these innovative services should not be part of ECG's revenue requirements.
- ECG is expected to generate more than their revenue requirements. Hence any improvement in the system should be given back to customers in the form of reduced tariffs. For instance, how much is the reduction in system losses and reliability improvements translating into revenue.
- The 16% WACC needs to be interrogated to determine what investment capacity has been put in the determination of the WACC. Does WACC computation include short-term or long-term debts? The Ministry needs to know the true picture to determine how the burden to customers can be reduced.

9. CONCLUSIONS

This second part of the stakeholder consultations has brought to the fore, some pertinent operational and technical challenges utility companies need to address going forward to enhance their operations, and to ensure better provision of services to customers. Honourable Members have in turn been adequately informed about these challenges, and have also made valuable contributions that would help enhance operations and service delivery to customers.

In all, the objectives set out by the Commission has largely been achieved. In the coming days, the Commission intends to undertake public hearings across the country, to ensure the general public is

adequately informed about the tariff proposals submitted by the utilities for the 2022 – 2027 Multi Year Tariff Review period.