

PUBLIC UTILITIES REGULATORY COMMISSION

PRESS RELEASE ON AUTOMATIC ADJUSTMENT FORMULA

In July 2002, the Public Utilities Regulatory Commission (PURC) published its Proposed Transitional Plan for Electricity Rate Adjustment for the period 2001-2004. A key component of the Transitional Plan involved the implementation of an Automatic Tariff Adjustment Formula (ATAF) - a pricing mechanism that tracks and incorporates movements in key determinant uncontrollable variables to reflect the actual cost of electricity generation, transmission and distribution.

The main objective of the ATAF was to review quarterly, electricity tariffs to reflect changes in factors whose effects on operations were considered to be beyond the control of the utility companies namely the Volta River Authority (VRA), Ghana Grid Company (GRIDCo) and Electricity Company of Ghana (ECG). To a very large extent, volatility in the spot price of light crude oil (LCO) on the international oil market and the Ghana Cedi-US Dollar exchange rate and their impact on electricity generation from thermal sources became the main focus of the model. Though the Commission's Proposed Transitional Plan for Electricity Rate Adjustment was designed solely for electricity, its implementation also affected water tariffs.

With respect to tariff adjustments based on the ATAF, it is worth noting that though Crude Oil Prices surged during the period of implementation of the formula (November 01, 2003 - April 30, 2006), improved electricity generation from hydro sources, coupled with stability in the Cedi-US\$ Exchange Rate over this period ensured that no major tariff adjustments were required. These developments led the Commission to discontinue application of the model in the second quarter of 2006. Additionally, the discontinuation of the model was to offer the utility service providers the opportunity to submit proposals to the Commission and to justify the need for any tariff adjustments.

However, the Commission at its last Tariff Adjustment announced in May 2010 effective June 2010 indicated the re-introduction of the Automatic Tariff Adjustment Formula (ATAF). This is as a result of changes in macroeconomic indicators as well as escalating World Crude Oil Prices. The re-introduction of the formula would reduce the financial burden on consumers associated

with onetime tariff adjustments whilst at the same time ensuring the financial viability of the Utility Service Providers. It would also afford an opportunity through fair pricing, transparency, and equity in the provision of utility services country wide.

The re-introduction of the Automatic Tariff Adjustment Formula would however not substitute any major Tariff Reviews. The Commission would undertake major Tariff Reviews as and when it becomes necessary, with the Utility Companies submitting proposals to the Commission for a holistic review of their costs, which is likely to take place periodically preferably every four to five years.

In computing the tariff using the Automatic Tariff Adjustment Formula (ATAF), indicators such as the following are considered:

- Ghana Consumer Price Index (CPI)
- Ghana Cedi US \$ Exchange Rate
- Fuel Price (Light Crude Oil)
- Hydro/Thermal – Electricity Generation mix
- Disaggregated cost of operations.

In addition, factors such as, Local Cost, Labor Cost, Depreciation (foreign and local), Fuel Cost, Water Treatment Chemical Cost and Electricity Costs are all considered before a decision is arrived at.

The Commission wishes to strongly emphasize that it is not pleased with the current quality of service being supplied to consumers by the Utility Service Providers. As part of efforts aimed at improving the quality of utility services provided to customers by the service providers, the PURC will ensure that stringent but realistic quality of service benchmarks under relevant regulations (LI 1935, LI1816, LI 1651) are adhered to by the utility service providers.

Failure to comply with these benchmarks will result in the application of penalties and sanctions under these regulations.

Operational benchmarks and regulatory targets that have been instituted by the Commission are keenly monitored and it is the expectation of the Commission that these benchmarks would be complied with to bring a more efficient and reliable delivery of water and electricity service in the country and also bring relief to consumers.

PURC recognizes the right of access to utility services, but in the same vein, wishes to encourage consumers to be responsible by paying promptly for utility services, and promptly report antisocial acts such as illegal connections which adversely affect the operations of utility companies.

Furthermore, consumers should adopt conservation practices to minimise wastage in the use of these services provided. In this regard all stakeholders are encouraged to intensify efforts at promoting energy and water conservation through awareness creation especially using the media and other communication techniques.

Consumers are also advised to report to the Commission after consulting with utility service providers whenever they have challenges with their utility services for quick, prompt and effective resolutions.