

TARIFF ADJUSTMENT FOR UTILITY COMPANIES: THE POSITION OF COSECA
DELIVERED AT A PRESS CONFERENCE ON 2ND JUNE, 2022

Good morning, Ladies and gentlemen of the press

We have invited you here today, to share with you, our position on recent proposals by almost all the utility companies, for an upward adjustment of their tariffs, and to make recommendations as to how we can improve the efficiency of our utility companies in order for them to deliver affordable services.

The Electricity Company of Ghana (ECG), as we know, is seeking a 148% upward review, while Ghana Water Company (GWCL) is seeking 334% increase. The proposals have justifiably courted public outrage, with some sections of the public, including the Ghana Trades Union Congress, calling for an outright rejection by the PURC, while others agree that there should be an increase, but not to the extent that is being requested.

COSECA has always been at the fore front of analysing and advocating for policy interventions that will address the energy sector challenges, especially those associated with revenue losses and poor customer services, and in the process, secure the best interest of the consumer. As we did during the botched ECG concession arrangements, when we intervened to improve the terms of the concession.

We have once again, analysed the challenges of the power sector, in the light of recent developments, and can confidently state that, a key reason why ECG and Ghana Water Company will need such huge increases in tariffs, is partly due to the long standing inefficiencies in these companies, usually attributed to low level of investment in new technology, political interferences in the affairs of the company; poor outcomes of government's macro-economic management, government's inability to curb illegal mining and its associated pollution of water bodies, which has added to GWCL's cost of water treatment, among others.

Another reason we have found is that, there is a lack of firm and accurate accountability between the players in the energy sector, which has created a situation where estimates are bandied about in a way that facilitates poor management, hiding of losses and potential corruption.

This Black Box approach where some players do not meter their output but estimate them, and where players like ECG are not allowed to determine their total actual cost of production, due to inputs in the form of government's subsidies and denial of revenue through taking out portions of tariffs (such as DSC 2), and the effect of 'political electrification schemes' etc, have made it almost impossible to determine a fair and appropriate tariff that will ensure the company's commercial viability.

PURC in our view is failing to hold the players in the industry to strict accountability. PURC must ensure there is proper accountability which is the basis for the determination of fair and equitable tariffs. There are too many estimations in the determination of tariffs.

Ladies and gentlemen, as Ghanaians engage the PURC on the proposals before it, we believe it is important that we also think about how to reform ECG, Ghana Water Company, and the other utilities to be able to improve their efficiency and to deliver affordable services to their consumers. This, we consider paramount to achieving Goal 7 of the SDGs, which is to ensure access to affordable, reliable, sustainable, and modern energy for all Ghanaians. For us, this is the time to diagnose the roles played by various stakeholders in bringing ECG to its current state, and to propose ways by which we can place the company on a firm footing, in its drive towards sustainability. We take this position, cognizant of the crucial role energy plays in our lives, especially in production, social wellbeing, and poverty reduction among our people.

The Role of Government

A careful analysis of the proposals by the utilities shows that the government has a hand in the huge tariff increases they are seeking, mostly through government's poor management of the macro-economy. From the ECG proposals for instance, it is apparent that, the last time a major tariff review was undertaken, was in 2019. At the time, inflation was around 7.14%. Today, inflation has spiraled out of control, hovering around 23%, according to recent data released by the Ghana Statistical Service. This means inflation has worsened by some 222% since 2019 when tariffs were reviewed. We all buy from the market, and we know what is happening.

Again, the exchange rate of the Cedi to the dollar in 2019 was GHC5.20. Today, it is GHC7.80, representing a 50% worsening of the value of the Cedi against the dollar. The Bank of Ghana policy rate in 2019 was 16%. Today, it's around 19%. What this means is that, the cost of borrowing has gone up and so local companies that borrow to finance their production of key inputs for the utilities will reflect the high cost of borrowing in their pricing.

The point to note here, is that, government's poor management of macro-economic indicators will always reflect badly on the utilities and will come back to hurt consumers in the form of higher tariffs.

This is however, not the whole story of government's complicity in this matter. In 2018, in what was widely believed to be an instigation by government, the PURC approved a 17.5% reduction in electricity tariff for household consumers, a further differentiated reduction for non-household consumers, and for special traffic load consumers. The move led to huge under-recoveries which compounded the poor financial position of the company.

Curiously, barely a year after denying ECG's request for an upward adjustment, the PURC went out of its way to approve 11% increase in tariff for PDS, under the private sector participation in the power distribution sector. This was in addition to government's ring-fencing of all debts of ECG. In essence, it appears, as a people, we are always eager to do for foreign multinationals, what we are unwilling to do for our own.

We hold firmly the position that in principle whatever the government was prepared to do for PDS, must be extended to ECG. In that sense therefore, we should avail to ECG all liens and facilities we availed to PDS. Not only is this fair, but will also greatly improve performance at ECG.



COSECA believes that, our utility companies can do better, if we improved their corporate governance practices, resource them, and hold them accountable. This must go hand in hand with a stoppage of the government interference and political electrification schemes which distort management and operations at ECG.

The Galmsey Conundrum

For GWCL in particular, government's failure to curb illegal mining activities around water bodies has led to an increase cost of treatment of water which must necessarily be borne by either the government or consumers.

Political Interferences

Our investigations have shown that, huge numbers of customers connected to the grid are not captured in ECG's data base and therefore constitute a major source of commercial losses to the company. The problem has arisen as a result of politicians getting involved over years in meter procurement and installation without due notice or the supervision of ECG. While we are happy that, this anomaly is being resolved through the re-engineering of relevant procurement protocols, it is important that the company took urgent steps to capture all such meters in its database to reduce revenue losses.

ROLE OF ECG/NEDCO/GHANA WATER

The utility companies have been poorly managed over the years, and it is our hope that with new managements and boards in place, they will take steps to improve on areas such as procurement, finance and customer service, among others.

Secondly, the utility companies, especially the ECG and Ghana Water are operating without proper coordination between them and contractors working in various locations. For instance, road contractors construct/repair roads that destroy pipelines, electricity lines which contribute to a lot of distribution losses as these go unreported for days.

Furthermore, it is our contention that the current commercial and technical losses components, contributing to the high tariffs can be drastically reduced with efficient management. Not too long ago, ECG did commercial losses of 22-23%, so why are they currently posting losses of more than 28%?

If there was any good that came out of the PDS deal, it was the improvement of customer service, with the same ECG workers being posted to PDS, yet the workers became very professional and prompt in their services to customers, which included quick feedback, courteous responses that resulted in quick resolution time. The question to ECG is why has customer service worsened since the return from PDS to ECG with the same workers?

PURC

Ladies and gentlemen of the media, the Public Utility Regulatory Commission (PURC) in our honest opinion has been very inefficient, mismanaged and at best seems not to appreciate their role, or are grossly incompetent at it. There is enough blame sharing to go round from government to management of utility companies, however the PURC is the number one reason why we have the tariffs currently piled up, and resulting in ECG's demand for 148% and GWCL's 334% upward adjustment in tariffs.

First and foremost, PURC for the past few years has refused, failed or neglected to implement the automatic adjustment/quarterly adjustment formula. This has led to the accumulation of these high tariffs over the period thereby burdening the consumer with these accumulated tariffs in such hard times.

Secondly it is the core mandate of the PURC to ensure that technical and commercial losses are at their barest minimum through effective monitoring and evaluation of the utility companies. The lack of effective monitoring and evaluation has led to an increase in technical and commercial losses of the utility companies, and this cannot be allowed to continue. The poor customer cannot keep bankrolling the incompetence of the PURC in ensuring improved services, and reduced losses in the operations of the utility companies.

Furthermore, the PURC has failed to monitor the utilization of legacy hydro (i.e. power generation from Akosombo and Kpong) which has further imposed punitive generation tariffs on the consumer. It is important for the PURC to check and monitor the portfolio of VRA's generation mix between legacy hydro and thermal power generation, as both have implications on tariffs. In summary, we are saying that, the PURC's failure to monitor and measure what quantity of the power supplied is hydro or thermal allows VRA to say what amount of their power is thermal, which cost more than hydro without it being independently verified by PURC. The simple solution is for the PURC to ensure VRA is metered. This for several years has not been done and our question to the PURC is why? Whose interest are they serving here?

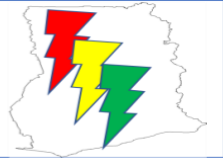
Ladies and gentlemen, COSECA wants to state emphatically that, in principle, we are in support of an upward tariff adjustment to ensure our utilities do not grind to a halt, considering the economic challenges that all sectors are currently facing. However, from the PURC's own publication of electricity tariffs published on 16th December, 2020 and its gazetted tariff of 1998-2019, we are very clear in our minds that if the PURC was to do its work properly, we should not see more than 20% in electricity tariff adjustment and should the electricity tariffs be 20% or less, it will automatically also lead to a reduction of water tariffs as electricity constitutes about 30% of the cost of water.

The following breakdown of the PURC's own electricity tariffs for 2020 is proof of the fraud PURC has perpetrated on the Ghanaian consumer and which must cease with immediate effect or face potential legal action from us.

On page 1 of the 16th December, 2020 electricity tariffs publication, paragraph 6 point 5 states "The distribution service charges (DCS) provided in the third schedule are the rates applicable to the distribution of electricity by DISCO, from 1st January, 2021 as follows:

- a. DSC 1 is the rate for DISCOs to recover the cost of distribution network operations.
- b. DCS2 is the rate for DISCOs to recover distribution losses.

Kindly note that ECG is the main distribution company in Ghana and the above should apply to ECG entirely. This was the case until March 2018 (refer to PURC Gazetted Tariff 1998 to 2019).



Ladies and gentlemen, until March, 2018 there was only one distribution service charge, which went to ECG, and subsequently PDS. In March 2018, the PURC decided to split the distribution service charge into 1 and 2.

Our checks have since confirmed that the PURC has failed, refused or neglected to pay the DSC2 to the ECG since 2018. Unconfirmed sources say DSC2 is being paid to the Generation Companies (GENCos). We however believe this information to be true and we ask the PURC to restore DSC2 to its rightful beneficiary as provided for in its tariff formula.

From the analysis below, we believe electricity tariffs will not need to be more than 20% if PURC had done the right things by ensuring DSC2 goes to ECG.

Currently DSC1 constitutes an estimated 16p/kwh. This is the money made available to ECG from the Distribution service charges contained in the PURC published tariffs of 2020. DSC2 constitutes an estimated 15.42p/kwh. $DSC1 + DSC2$ i.e. $16p/kwh + 15.42p/kwh = 31.42p/kwh$. Ladies and gentlemen, the equivalent of the 148% tariff increase ECG is seeking is 40p/kwh. In effect, ECG wants 40p/kwh representing 148% of the current 16p/kwh they are getting.

It is our strong contention that if the PURC gave DSC1 & 2 to the ECG which was the case until March 2018, ECG will have 31.42p/kwh of the 40p/kwh they are requesting. These are monies we are already paying which is being collected but not being made available to ECG.

The PURC with immediate effect should pay all DSC1 & 2 to ECG, and we will be ready to support any further negotiation for the remaining 9p/kwh which could be made-up through subsequent automatic adjustments over time.

We refuse to support the incompetence of the PURC at managing the utilities and passing that incompetence to us the consumers as a cost. We are serving notice that we will seriously consider legal action should the PURC continue to be derelict in its responsibilities to the Ghanaian consumer.

Another set of issues that need resolving, has to do with the plethora of energy funds and scheme such as ESLA, Covid Levy, Government Stabilization payments to ECG, auxiliary Services charges to GenCos.

It is our contention that, these funds are not being well managed. We therefore call for urgent audit of the revenues from these funds and increased transparency in how they are managed, and who manages them. For example, how much have we made from Covid Levy? And how much are we left to pay? Where is that money going to, and who is making that decision?

It is our contention that, the management of these funds, if properly done will make tariff increments unnecessary or minimal.

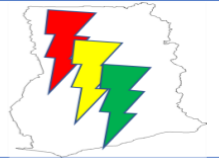
It is also imperative that, the Gencos are held accountable for their slippages. We know as COSECA, that a lot of problems with power outages etc. come from GenCos not

performing adequately in the chain, and failing to keep their systems on, thus causing outages which are blamed on ECG. The power distributor is the entity we interface with, so all opprobrium is directed at them. It is time ECG itself communicate better and explain when the problems are caused by the GENCos.

It is also time ECG established a firm set of Service Level Agreements with the GenCos and GridCo as is done in all serious energy markets, to the effect that any unit which causes failure in the chain for whatever reason, will be heavily penalized in financial terms. If the GENCOS and others in the chain were certain that any slips on their part will cause them serious financial losses, they will be motivated to avoid these slippages.

Summary of Demands and Conclusion

1. PURC should establish a project with a clear timeline by which all entitled in the energy chain will be metered in a verifiable way to determine each unit's cost of production/service.
2. ECG should ensure that it properly accounts for all its cost components and determines its true cost of production. ECG should take into account all external payments made on its behalf and account for them. This will be the basis for implementing the full cost recovery principle (which we support).
3. The government and PURC can then figure out how much will be offered to ECG by way of support and subsidies and how much ECG is properly entitled to from all the energy funds available including tariffs which customers have already paid (e.g., DSC) and ensure that those funds are properly paid to ECG. It is our firm belief that if this reconciliation is done there will be little or no need for tariff increment.
4. ECG under its new management should establish Service Level Agreements with GenCos and GridCo and ensure they improve their communication systems to highlight the causes of problems in the sector, instead of taking all the blame. The SLAs should also exact financial sanctions for performance flaws to motivate players to avoid such flaws.
5. COSECA is requesting that, government increased its capex to the utility companies to ensure retooling, expansion and improved service delivery.
6. Government should stop interfering with the work of the utility companies especially when it comes to procurement and management of these companies.
7. Government should demonstrate greater and genuine commitment to the fight against galamsey to reduce the risk of Ghana running out of portable water in the near future.
8. The PURC should immediately pay all DSC to ECG, ensure VRA is metered, go back to the automatic adjustment formula and start effectively monitoring and evaluating the performance of the utility companies.



9. We challenge the management of the utility companies to turn around their fortunes, by taking urgent steps to reduce technical and commercial losses, and to prove to Ghanaians that we can manage our own affairs. To this effect, we wish to see improved accountability by the utility companies through the PURC, publication of their KPI's to enable the general public and CSO's to monitor and critique their performance.
10. The utility companies should have a coordinating unit/department that certifies all contractors whose work will affect their lines. This will ensure distribution losses caused by various contractors are cut to the barest minimum through the coordinating unit.
11. We also strongly suggest that utility companies introduce hotlines for reporting power and water theft i.e. illegal connections and a reward system to encourage people to report theft.
12. The ECG taskforce created to check illegal connections and non payment of bills, and to disconnect all types of consumers including government agencies should be made a standing force and fully resourced.

We want to use this opportunity to serve notice to the utility companies that we will be doing our own monitoring and evaluation as the PURC has failed in this direction. Thank you all and may God bless our homeland Ghana.