

# **“Incentives for Infrastructure Development in a New Regulatory Environment” The Ghana Experience**

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# Outline

- ▶ Introduction
- ▶ State of the Utilities Sector
- ▶ Power sector Reforms
- ▶ Arrival of the Regulator (PURC)
- ▶ Tariff History
- ▶ Tariff Trend
- ▶ Infrastructure Development
- ▶ Conclusion
- ▶ Thank you

# 1. Introduction

## ► Public Utilities Regulatory Commission (PURC) overview

- Establishment

- 1997
- Multi-sectoral regulator (Electricity, Water and Natural Gas)
- To regulate and oversee the provision of utility services

- Product of Power Reforms

- Initiated in early 1990's

## ► Infrastructure situation

- PURC inherited poor state of utilities

## 2. State of the Utilities Sector – Early 1990s

### ► Characterised by

- Chronic lack of investment
- Low tariff – not cost recovery
  - Government as operator and regulator used tariff for political expediency
- Sector unattractive to investors
  - Utilities almost bankrupt/ not viable
- Poor service delivery

### 3. Power Sector Reforms

#### ► Objectives:

- Attract private sector investment
- Ensure viability of utilities
  - unbundle sector
  - Cost recovery tariffs
- Improve efficiency of operations
- Improve Quality of Service to consumers
- Ensure financial sustainability in sector

## 4. Arrival of the Regulator (PURC)

- ▶ In July 1997 attempt by utilities to increase tariff by 300%
  - Protest by Consumer/General public
  - Tariff suspended to bring in Regulator
  
- ▶ Regulator (PURC)
  - Established in October 1997 under the PURC Act, 1997, Act 538 as Economic Regulator and Quality of Service Regulator
  
  - Independent of Government
  
  - Has powers of enforcement

## 4. Arrival of the Regulator (PURC)- Cont'd

### - Key Functions:

- Provide tariff guidelines
- Approve tariff
- Monitor performance of utilities
- Protect interest of consumers and service providers
- Promote competition among operators

### ► Sister Regulator - Energy Commission (EC)

- Set technical standards
- Licensing authority
- PURC and EC maintain close collaboration

# 5. Tariff History

## ► Tariff Performances

- First tariff decisions in 1998 took tariff to economic levels (2.5 cents - >8.0 cents per kWh)
- 1999/2000 – Local currency (Cedi) depreciated and brought tariff value down to previous 1997 levels
- anticipated recovery of utility performance and viability was adversely affected.

## ► Transitional Plan (TP) by PURC to restore tariff to economic levels

- Restore tariff gradually to economic levels
- Commensurate with improvement in quality of service



## 5. Tariff History - Cont'd

### - Obligations of all key stakeholders

- Government of Ghana – provide investment of \$70m to finance specific projects
- Utilities – improve quality of service
- Consumers - conserve energy and pay bills
- Regulators – move tariffs upwards gradually

### - Outcome of TP

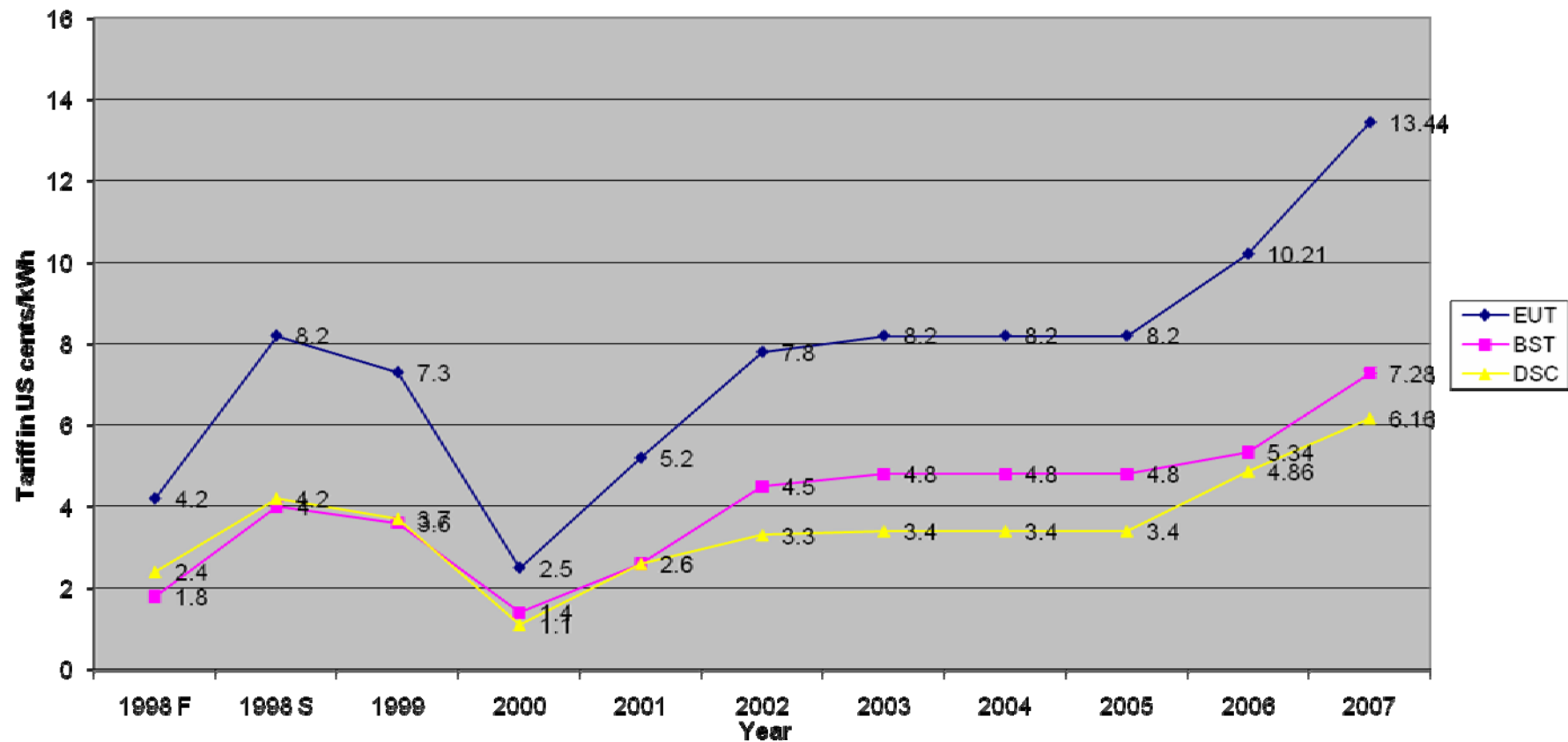
- Awareness created but expected outcomes not achieved wholly
- Expected capital injection expected from Government not materialise
- No improvement in “service delivery” but PURC tariff remained reasonably high
- PURC tariff back to 8 cent /kWh

### ► Automatic Adjustment Formula (AAF)

- To maintain value of tariff

# 6. Tariff Trend

Tariff trends in Electricity



## 7. Incentives for Infrastructure Development

### ► Emergence of IPPs – Prospects and Challenges

#### - Prospects (1997/98 + 2006/07)

- Triggered by Energy crisis caused by low inflows of water into hydro Dam
- IPPs attracted to bridge demand/ supply gap
- Tariff levels – remain reasonably high
- Compete with main generator – VRA
- Political stability
- Government guarantee expected in some cases

#### - Challenges

- VRA controlled cheap hydro- sector not yet unbundled
- VRA integrated with transmission - stumbling block
- No open access to transmission - no level playing field
- Tariff value drop in 1999/2000 – unattractive to investors
- High tariff demands of IPPs - affordability

## 7. Incentives for Infrastructure Development – Cont'd

- ▶ Government Initiatives to inject capital
  - Increase capital investment (PURC encouragement)
    - Supplementary Budgetary allocation – (2007) to VRA, ECG, GWCL
    - Government issue of \$750m Sovereign Bond (2008) substantial allocation for investments in generation and distribution
  - Real moves to unbundle sector
    - Creation of Electricity Transmission Utility Ghana GRIDCo (2008)
  - West Africa Gas Pipeline Project (WAGPP)
    - >\$700m investment to pipe natural gas from Nigeria to Ghana through Benin and Togo
    - Prospects of cheaper and cleaner gas
    - Prospects for IPP interest in Ghana

## 7. Incentives for Infrastructure Development– Cont'd

- West Africa Power Pool (WAPP)
  - Infrastructure support from the World Bank to strengthen the transmission system
  - Further IPP boost with prospect for cross border trading
  
- ▶ Political Stability and Good Economic Policies
  - Improvement Effectiveness in Regulations
    - Tariffs cost Recovery
    - Monitoring Utility Performance
    - Enforcement of Sanctions
    - Increase responsiveness to public/customers

## 8. Conclusion

### Achievements – 12 years of Regulation

- ▶ Development of infrastructure had a faltering start even when sector reforms were initiated in mid 1990s
  - Improved in mid 2000s to date
- ▶ Establishment of Regulatory regime (PURC + EC) set parameters for discipline and framework for all stakeholders
  - Tariff – viability of utilities and financial sustainability
  - Regulations to check/monitor utility behaviour
  - Push for Government investment in the utilities sectors
  - Improvement in service delivery
  - Strengthening of Regulator critical to maintain sound environment

## 8. Conclusion – Cont'd

- ▶ Political Stability and Sound Energy Policies
  - Achieved sector unbundling
  - Conducive environment to attract IPPs
  - Maintain support from donor agencies
  - Both need to be maintained

# Thank You