

DEVELOPING A TARIFF METHODOLOGY FOR A SECONDARY NATURAL GAS MARKET FOR GHANA

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Presentation Outline

1. Background to Establishment
2. Key Role & Responsibilities under PURC Act 538
3. Envisaged Structure of Gas Sub-Sector
4. Development of Regulatory Mechanisms
5. Values and Principles for Sound Regulatory Practice
6. PURC Tariff Responsibilities
7. Key Tariff Considerations
8. Criteria for financial viability
9. Challenges
10. Conclusions

1. PURC – Background to establishment

1.1 Independent regulatory institution

- * Established by an Act of Parliament (Act 538)
- * To regulate and oversee the provision of utility services (water, electricity and now gas-the reason we are here)
- * Created out of power sector reform recommendation

1.2 Power Sector Reforms – Key Objectives

- * Unbundling of the power system
- * Financial sustainability of sector
- * Attract private investment to improve / increase capital investment

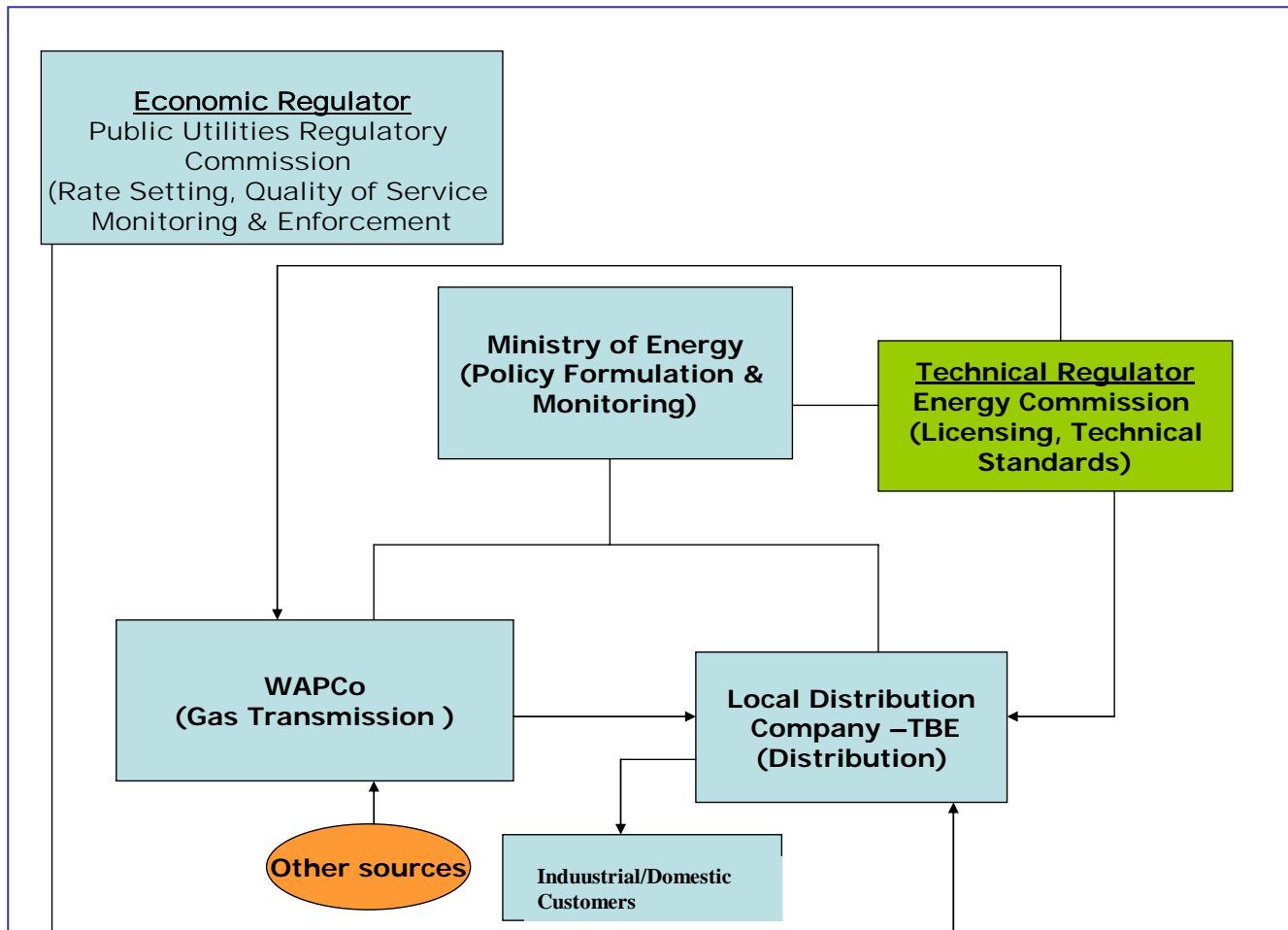
Power Sector Reforms – Key Objectives Continued

- * Improve Efficiency in production and delivery of utility services
- * Improve quality of service to consumers
- * Establish a framework for effective regulation

2.0 Key Role and Responsibilities under PURC Act 538

- Provide guidelines for rates to be charged by utilities.
- Examine and approve rates to be charged by utilities for services provided
- Monitor standards of performance for provision of utility services
- Protect interest of both consumers and providers of utility services
- Promote fair competition among public utilities

3.0 Envisaged Structure of Gas sub-sector



4.0 Development of Regulatory Mechanisms

- Regulatory Philosophy
 - Consultation and collaboration with Stakeholders
- Development of Tariff Guidelines/Tariffs
- Consumer Protection
 - Regulations on service termination
 - Regulations on complaint procedure
 - Regulation on Consumer Service Committee
- Monitoring of Utility Operations
 - Reporting – Operational and Financial
 - Monitoring task force

Development of Regulatory Mechanisms continued

- Complaint Handling and Resolution
- Public Awareness / Education
 - Empowerment of Consumers
 - Through Workshop / Seminars
 - Through Residential and Trade Associations

5.0 Values and Principles for Sound Regulatory Practice

- Equity and Fairness
- Consistency
 - Regulatory policy, Rules and standards must be implemented fairly and consistently
- Transparency
 - ensure openness and keep regulations simple and user friendly
- Predictability
 - Well publicized policies and methodologies will assist all stakeholders
- Efficiency
 - benefits of regulatory regime need to be balanced against costs

- Proportionality
 - regulator should only intervene when necessary. Remedies should be appropriate to the risk posed, and costs identified and minimised
- Targeting
 - regulation should be focused on the problem, to minimise side effects
- Expertise
 - regulator should have the necessary expertise
 - Importance of sound recruitment and training

6.0 PURC Tariff Responsibilities

- Develop tariff setting mechanism which is fair and predictable.
- Draft report on tariff Methodology for Gas has been submitted by a consultant and is under consideration at the moment
- Ensure transparency in the tariff making process.
- Set efficient economic tariffs, based on efficient production costs
- Provide opportunity for utilities to earn reasonable margin
- To enable utilities to improve quality of service

7.0 Key Tariff Considerations for Gas

7.1 Objectives of tariff

- Ensure full Cost recovery of reasonable and efficient costs
- Encourage efficiency through performance targets
- Provide incentives for operational efficiency
- Ensure financial viability of LDC(s)

7.2 Tariff structure

- The tariff structure for gas is expected to be single and cost reflective (future domestic consumers). A departure from that of Electricity and Water, to avoid problems associated with those structures
- Postage stamp tariff approach to secondary gas transportation

Tariff Structure (continued)

Quality of Service Consideration

- Efficiency benchmarks set, e.g. Collection rate and Loss reduction
- Automatic Adjustment Formula
 - To maintain value of tariff
 - Correct factors outside control of LDC(s)

8.0 Criteria for Financial Viability

- Full coverage of cost – based on efficiency benchmarks –
- Reasonable rate of return to cover debt service obligation and agreed reasonable investments
- Cash flow – adequate to cover above.

9.0 Challenges

1. Regulatory Independence

Determined by:

- Level of discretionary decision making power
- Staffing autonomy, own procedures, determine own salaries
- Funding mechanism

2. Accountability

- Regulators must be able to justify decisions
- Regulatory decisions can be subjected to public and stake holder scrutiny

- Obligation to explain rationale /reasons for major decisions
- Finances subject to audit by Auditor General
- Annual Reporting to Parliament

3. Staffing

- Capacity building
- Skills training
- Appropriate salaries
- Staff retention

4. Resource Constraints

5. Public Education and effective Communication Strategy

10.0 CONCLUSION

1. **Initial years to be devoted to building capacity of the gas market, both locally and internationally**

2. **Steps are being taken to address gas tariffs**
 - * Tariff decisions taken will ensure viability of LDC(s)
 - * Tariff Setting Guidelines – framework/mechanism
 - * Ensure economic tariffs

3. **Monitoring of the system will:**
 - Enhance efficiency
 - Promote fair competition

4. Provide positive signals for potential operators
5. **Process – emphasis on consultation with all major stakeholders**
6. **Emphasis on quality control and safety considerations to help in improving quality of service to consumers**

Thank you for your attention