

TRADES UNION CONGRESS (TUC)

POSITION ON THE

PROPOSED UTILITY TARIFFS

Once again, the utility companies are frantically making a case for upward adjustments in utility tariffs. And they are doing so at a time when nearly everyone is dissatisfied with the quality of their service delivery. Supply of both electricity and water has become erratic, albeit some improvements in recent times.

On the 12th of June 2013, the Steering Committee of the TUC had a unique opportunity to meet all the players – VRA, GRIDCO, ECG, and Ghana Water. This was a platform provided by the Public Utilities Regulatory Commission for the various entities in the utility sector to justify their proposals for increases in utility tariffs. The interaction afforded the TUC to acquaint itself with the challenges that have bedeviled the power and water sectors. The challenges were laid bare; they were enormous and appear intractable. The interaction afforded the stakeholders the opportunity to brainstorm on the way forward for the utility sector.

The providers enumerated a number of steps that they have implemented and continue to implement to ameliorate the challenges that face the sector. But their star proposal for which reason the forum was organized was for upward adjustment in tariffs. In summary, Volta River Authority (VRA) is asking the PURC to increase its tariff by 137.5 percent. GRIDCO was asking for an upward adjustment of 39.36 percent. And the Electricity Company of Ghana (ECG) is asking for 166 percent increase in electricity tariff across board. Ghana Water is asking for increase of 99.39 percent.

The TUC appreciates the challenges that the utility providers face and more generally the difficulties that have afflicted the provision of electricity and water over the years. It acknowledges the personal discomfort that Ghanaians have had to endure at the hands of the utility providers. It notes in particular, the many businesses that have been impacted adversely the load shedding affected both water and electricity.

In the view of the TUC the challenges that face the utility provision in Ghana are real, endemic and structural. There are management and technical issues that often packaged for consumers to pay in the form of tariffs. Tariff adjustment could potentially be part of the solution. But experience over the past few years have shown that merely raising tariffs unaccompanied by other measures that address the systemic challenges has failed to improve the situation. Low tariffs have been, cited by the utility companies and the managers of the economy as the most important constraint that inhibits quality service delivery. And as a country we continue to pay-lip service to the real challenges. In the process the utility companies have become victims. They get the tariffs adjustment. But they are unable to improve service delivery because the structural challenges remain

as binding constraints. As the ECG noted in its proposals "... the company's corporate image has been seriously dented in recent times."

The TUC views the proposed tariff increased of 166 percent by the ECG to be too high and unacceptable given the fact that Ghanaians are already over-stretched. The failure to allow the automatic adjustment mechanism to work as agreed among the stakeholders in 2010 is the prime reason why the ECG is asking for this high increase. Obviously, this is a political failure for which Ghanaians should not be liable. The political establishment that scuttled the mechanism should deal with it.

Again, we are told by the ECG that, the proposed increase when granted will allow them to move from a loss making position to a position where they can make profit, albeit, marginal. In 2010, the ECG made a marginal profit of about US\$4 million partly as a result of the upward tariff adjustment that year. In 2011, and 2012, the Company made losses of US\$16 million and US\$26 million respectively. Failure to automatically adjust tariffs could be part of the reasons for the losses. Going forward and given the dire economic situation many Ghanaians face, the TUC will recommend that ECG rather aim at cutting losses or at best, breaking even.

But overall, the TUC favours an approach that takes a holistic view of the utility sector. The TUC believes that many Ghanaians are not enthused about the resort to upward tariff adjustments when in fact the major challenges are glossed over. The ECG continues to report systems losses in excess of 20 percent. According to the World Bank, in the last quarter of 2012, the systems loss was about 27 percent. The company earns no revenue for the "losses" but it has to pay its suppliers for it. And according to the Bank, a 10 percent reduction in such losses could earn the ECG some US\$85 million, more than enough to wipe out the losses incurred in 2011 and 2012.

There is also the issue of uncollected revenues by the ECG. Again, according to the World Bank, private consumers owed the ECG about GHC205.4 million. Government agencies and institutions including the Universities owe the ECG a total of GHC428.2 million. Collecting these revenues will make far greater impact on the availability and utility service delivery than perhaps stand alone increases in tariffs. In our interactions with the providers, the ECG made mention of a "Clearing House" arrangement through which government settles its indebtedness to the Company and that government indebtedness was no longer an issue. But it turned out, the "Clearing House" system was suspended in 2012 by the Ministry of Finance and Economic Planning. Thus by the close of 2012 government's indebtedness to ECG stood at over GHC400 million. All this constrained the ability of the ECG to pay VRA and also meet its operational and investment needs.

For the Ghana Water Company and the proposed tariff increase, the least said, the better. The Company loses nearly half of the water it produces. Its official target for what it calls Non-Revenue Water (NRW) is 46.3 percent. Strangely, the PURC allows for NRW of 45 percent. What this means is that the official regulator permits Ghana Water Company to lose nearly half of the product – water – it

produces. It makes sense, therefore, that the Company is in dire financial difficulties. And in the view of the TUC, the Company requires something else rather than tariff increase to fix the many challenges it faces.

It is also important at this stage for government to clarify its role in the provision of utility. Government has primary responsibility for investing in infrastructure for power, water generation and delivery. It is important that government does not shirk that responsibility. Going forward, therefore, there is need to separate the operation costs of service providers from their investment costs. At this stage in our national development, it is simply not possible for consumers to be asked to bear the investment cost of the utilities. About 51 percent of ECG's customers are lifeline consumers. Domestic consumers account for 84 percent of the customers of Ghana Water. Given the level of incomes prevailing in the country, it will be highly unrealistic to think that realistic utility pricing will occur in Ghana anytime soon. That is the fact and reality we must face.

Government subsidies will therefore continue to be important in allowing the majority of Ghanaians to have access to electricity and water. The TUC admonishes the PURC and government to bear this in mind. Any attempt to further over-burden Ghanaians could have undesirable social and political implications.

Signed.....

A handwritten signature in blue ink, appearing to be 'Kofi Asamoah', is written over a light blue rectangular background. The signature is fluid and cursive, with a prominent vertical stroke.

Brother Kofi Asamoah
14/08/2013