



PUBLIC UTILITIES REGULATORY COMMISSION

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OUR REF: PURC/ES/UTILITIES/2024.09/801

September 17, 2024

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REVIEW OF THE CASH WATERFALL MECHANISM (CWM): CALL FOR SUBMISSIONS

The Cash Waterfall Mechanism (CWM) and the Natural Gas Clearinghouse (NGC) were adopted on April 2020 and October 2020 respectively to ensure that Revenue collected from the regulated electricity market is allocated across the electricity value chain in an equitable and transparent manner.

The Cash Waterfall Mechanism saw a revision in August 2023 following a directive from H.E. the President of the Republic of Ghana towards the improvement of financial sustainability in the energy sector. Implementation of the revised Cash Waterfall was based on a Revenue Allocation Framework which ensures that collected revenues are disbursed according to the Policy Directive of the Government. The Revised CWM had two levels of payments (Level A and B). Level A payments were to be made to Independent Power Producers (IPPs) directly by ECG and Level B payments to SOEs and fuel suppliers. The new model for payments under the revised CWM considered the following:

a. Assumptions

- 1. Revenue Collection by ECG:** The Electricity Company of Ghana (ECG) was expected to collect a minimum of GHS 1 billion per month over a six-month period as a benchmark for revenue generation.
- 2. Tier A Allocation:** Monthly fix payment of US\$43million to Tier A
- 3. Tier B Allocation:** Net of the ECG collection after the monthly fixed payments to the Tier A to be shared among other beneficiaries of the electricity value chain based on the CWM formula.
- 4. Sankofa Gas:** Ministry of Finance to make payment for gas supply from the Sankofa field by the OCTP partners.
- 5. WAPCo Invoice:** GNPC to make payment for WAPGCo invoices.
- 6. Ministry of Finance (MoF) Contribution:** Ministry of Finance to make up for any shortfalls in Level B payment in the interim.

7. **Increase in Collection Rate:** MoF to provide \$11 million to ECG to complete its Knowing Your Customer (KYC) Project. ECG is expected to increase its monthly collection to GHS 1.4 billion, thereby strengthening the revenue base for sector-wide disbursements after completion of the KYC Project.

b. Performance

The revised CWM has been in implementation following the directive of H.E the President. A summary of collections declared by ECG within the period August 2023 to June 2024 are presented in Table-I,

Table-I: ECG Collection Rate (August 2023 – June 2024)

Summary of ECG Collection				
Month	Minimum Collection Amount Per Government Directive (GHS)	Declared Amount by ECG to CWM (GHS)	Variance (GHS)	Percentage Variance (%)
Aug-23	1,000,000,000.00	801,143,200.00	198,856,800.00	19.89%
Sep-23	1,000,000,000.00	852,740,000.00	147,260,000.00	14.73%
Oct-23	1,000,000,000.00	701,518,305.27	298,481,694.73	29.85%
Nov-23	1,000,000,000.00	1,022,526,491.85	(22,526,491.85)	(2.25%)
Dec-23	1,000,000,000.00	1,000,000,000.00	0.00	0.00%
Jan-24	1,000,000,000.00	820,450,000.00	179,550,000.00	17.96%
Feb-24	1,000,000,000.00	836,787,000.00	163,213,000.00	16.32%
Mar-24	1,000,000,000.00	1,002,850,001.00	(2,850,001.00)	(0.29%)
Apr-24	1,000,000,000.00	832,600,000.00	167,400,000.00	16.74%
May-24	1,000,000,000.00	800,845,000.00	199,155,000.00	19.92%
Jun-24	1,000,000,000.00	884,200,000.00	115,800,000.00	11.58%
Total	11,000,000,000.00	9,555,659,998.12	1,444,340,001.88	13.13%

The total collection by ECG from August 2023 to June 2024 fell short by GHS 1,444,340,001.88, representing an overall percentage variance of 13.13%.

c. Challenges

Following the adoption of the revised CWM, ECG was expected to make monthly payments to the various stakeholders based on the approved monthly model. However, since the inception of the revised CWM, ECG has not complied with the guidelines of the new CWM as directed by the President thus defeating the principle of fair and equitable revenue allocation to sector players.

The lack of transparency and consistency in the payment of collected revenues over the period has burdened the sector with continual deteriorating financial sustainability and worsening quality service delivery, however, the underlisted performance challenges have negatively affected the implementation:

1. **Exchange Rate Discrepancies:** ECG has raised concerns regarding exchange rate disparities between the Bank of Ghana (BOG) rates used by the Commission to calculate tariffs. ECG has indicated that, it buys most of the dollars on open market which rates are higher than the BOG rates. This creates a deficit which has to be paid for.
2. **MoF's Fuel Payments:** The MoF has indicated that, in addition to Sankofa, it is covering the fuel costs for Jubilee as well. This extended commitment has impacted their ability to consistently meet the \$10 million monthly top-up obligations under the CWM framework.
3. **Tier B Allocations:** Revenue disbursed to the Tier B category has been between 20% to 45% of their invoices which cannot cover their administrative and staff cost.
4. **MoF Intervention:** The Ministry of Finance paid half of the expected \$11 million intervention to ECG.

In view of the above, the PURC is requesting key stakeholders, including utilities and relevant Government bodies, to provide suggestions on the following areas:

1. The adequacy and fairness of the current assumptions underpinning the CWM.
2. Challenges encountered in implementing the CWM, particularly with respect to exchange rate discrepancies and revenue collections.
3. Recommendations on improving the mechanism to ensure it remains responsive to sector demands and financial realities.
4. The impact of MoF's expanded fuel cost obligations on the liquidity and financial health of the energy sector.

We kindly request that submissions should reach the Commission by close of work on **Monday, September 30, 2024.**

We count on your usual co-operation.

Yours faithfully,



Ishmael Ackah (PhD)
Executive Secretary

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