

## REJOINDER: PURC'S POSITION ON RECENT MEDIA REPORTS ON ECG

The attention of the Public Utilities Regulatory Commission (PURC) has been drawn to recent media reports<sup>1</sup> bordering on a purported warning by PURC of ECG's potential bankruptcy and unfortunate personal attacks on the leadership of PURC, in particular the Executive Secretary, (published on <https://www.myjoyonline.com/purc-warns-of-ecgs-potential-bankruptcy-in-letter-to-presidency-and-energy-minister/>, <https://www.myjoyonline.com/purc-missed-the-point-on-cash-waterfall-mechanism-fuel-purchases-ecg/> on September 18 and 19, 2024 respectively).

In view of the seriousness of the issues raised in the publications, the Board of the Commission wishes to provide context and clarity to the recent media reports as follows:

### I. PURC's Position on "**PURC warns of ECG's potential bankruptcy in a letter to Presidency and Energy Minister**"

The ECG in a letter to the Honourable Minister of Finance, referenced **MD/MOF/V.10/018** and dated **26th August 2024**, with the subject: "*Request for Buffer Period for Cash Build-Up*", expressed serious concerns regarding their current financial situation and warned that "***this situation if not addressed promptly could lead to severe financial instability and potential bankruptcy for ECG***".

The media publications wrongly created the impression that the Commission on its own originated the issue of bankruptcy without an initial appeal from ECG.

The PURC, on September 16, 2024, wrote an internal communication to the Energy Ministry and the Presidency, to advise on the significant threat that any financial instability of ECG would pose to the sustainability of the sector and the security of electricity supply. The letter, "ECG's Financial Challenges and the Sustainability of the Energy Sector" was written pursuant to PURC's statutory obligation to safeguard stakeholders' interests and to advise any person or authority on public utility matters.

The Commission hereby clarifies that the issue of bankruptcy was raised by ECG itself in its letter of August 26, 2024 among other letters, by which ECG urgently appealed to the Commission and Government for support to prevent bankruptcy. To date, ECG is yet to submit the detailed financial and operational data required and demanded by PURC to substantiate ECG's claims of bankruptcy.

Nevertheless, given ECG's recent financial underperformance, the Commission, in its advice to the Minister, recommended various interventions aimed at charting a path for financial recovery, transforming ECG, and safeguarding the energy sector and the broader economy.

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## 2. PURC's Position on "PURC missed the point on Cash Waterfall Mechanism, fuel purchases – ECG"

The Commission wishes to state unequivocally that the confidential advice was directed at the Ministry of Energy and other stakeholders in good faith with the sole aim of safeguarding the integrity and financial sustainability of the entire energy sector in line with the Commission's statutory mandate.

Unfortunately, ECG in purported response to PURC's advice to the Energy Ministry, attacked the entire leadership of the Commission, particularly, the person of the Executive Secretary in their rejoinder above referred to and dated September 19, 2024. The Commission affirms that decisions of the Commission are collectively taken by the Board and executed by the Executive Secretary.

The Commission particularly felt obliged to write its advisory to the Minister of Energy following serious concerns regarding the operations of the distribution utility raised by the ECG itself in the following series of letters submitted by ECG to two Cabinet Ministers – Energy and Finance:

- ECG's letter to the Honourable Minister of Energy, with the PURC in copy, referenced **MD/MOEN/V.19/098** and dated **28th August 2024**, with the subject: "Request for Capital Expenditure for Replacement of Prepaid Meters".
  - ECG's letter to the Honourable Minister of Energy, with the PURC in copy, referenced **MD/MOEN/V.19/099** and dated **28th August 2024**, with the subject: "Request for Assistance in Exporting Power to Mitigate Foreign Exchange Losses".
  - ECG's letter to the Honourable Minister of Finance, with the PURC in copy, referenced **MD/MOF/V.10/018** and dated **26th August 2024**, with the subject: "Request for Buffer Period for Cash Build-Up".
  - ECG's letter to Independent Power Producers, with the PURC in copy, referenced **MD/IPP/V.11/130** and dated **21st August 2024**, with the subject: "Urgent Request for Review of CWM Financial Model and Support from Central Government".
- a. On issues relating to forex, the Commission affirms that forex losses are addressed in the Commission's Quarterly Reviews which are strictly adhered to, contrary to ECG's assertion that "...**the review overlooks forex losses and delays in payments to Independent Power Producers (IPPs), creating a misleading narrative**" ECG's assertion is therefore not supported by the facts.
- b. On issues relating to the core business of ECG, the Commission states that ECG's excursions into the procurement of fuel deviates from its core business of power distribution and are outside its core mandate. ECG admits in the publication above referred to that "**unlike in previous years, ECG has taken strides to ensure its ability to procure fuel independently, a significant achievement that should be acknowledged rather than downplayed**". The Commission holds the opinion that ECG should concentrate on its core mandate of electricity

distribution business which currently remains inefficient, and not on ancillary businesses of procuring fuel for power generation, which is not a distribution activity.

It is important to stress that in a meeting with the Economic Management Team (EMT) in November, 2023, ECG as distribution company, was directed NOT to procure fuel again since that distorts revenue allocation in the sector. The Volta River Authority with the support of the Ministry of Finance was asked to perform the fuel procurement function whenever the need arises. The Commission has not received any new official communication that has changed this decision of the EMT. In any case, the tariff takes care of the cost of natural gas. So, if in any event, liquid fuel has to be procured, the necessary regulatory audit will have to take place, inspect invoices, receipts and plants that used them etc. After this, the Commission then accounts for the difference between the cost of natural gas (which consumers have already paid for) and liquid fuel in the quarterly adjustment. When liquid fuel are procured surreptitiously without notice to the regulator and under circumstances that do not lend themselves to proper regulatory audit, the Commission cannot pass such costs to consumers.

- c. Issues relating to the Cash Waterfall Mechanism (CWM): A little background to the genesis of the CWM would help readers understand the Commission's concerns about the ECG's compliance with the mechanism. Pursuant to Cabinet approval, the CWM and the Natural Gas Clearing House (NGCH) 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.

His Excellency the President in August 2023 directed a review of the CWM towards improvement and financial sustainability of the energy sector. The revised CWM had two levels of payments (Levels A and B). Level A payments were to be made to IPPs directly by ECG and Level B payments to SOEs and fuel suppliers. Following the adoption of the revised CWM, ECG was expected to make monthly payments to the various stakeholders based on an approved monthly model. However, ECG has consistently failed to fully comply with the guidelines of the new model as directed by the President, thus defeating the principle of fair and equitable revenue allocation to sector players.

It is worth noting that from August 2023 to February 2024, ECG never complied fully with Level B payments. ECG failed to make payments to several sector entities from August 2023 to February 2024. For months where payments were made to the entities, some entities payments fell short of the expected monthly amount in accordance with the revised CWM whilst some were over paid.

With respect to collections, the table below shows ECG's expected collection per PURC approved tariffs against the actual collections declared by ECG to the CWM. The data declared by ECG itself shows that ECG's average monthly collection ratio over the period January – July 2024 is 45%. This average falls far below PURC's revenue collection benchmark of 98%.

### ECG Expected Collection vs. Actual (Declared) Collection, January – July 2024

Month	Expected Collection as PURC Approved Tariffs (MGHS)	ECG Actual (Declared) Collection to CWM (MGHS)	Collection Ratio (%)
Jan-24	1,905.75	820.45	43.05
Feb-24	1,905.75	836.79	43.91
Mar-24	1,905.75	1,002.85	52.62
Apr-24	1,890.77	832.60	44.03
May-24	1,890.77	800.85	42.36
Jun-24	1,890.77	884.20	46.76
Jul-24	1,966.29	857.00	43.58

The information in the media obscures the issues and unfortunately detract from regulatory investigations into ECG's inefficiencies, particularly in nondisclosure of actual revenues and expenditure, opaque contracting practices, metering and collection.

The Commission wishes to assure the public that it would continue to concentrate on its core mandate of balancing the interests of consumers and utility service providers while at the same time collaborating with all relevant stakeholders to ensure the sustainability of the energy sector.

MR. EBO B. QUAGRAINIE



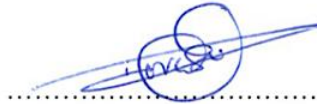
COMMISSIONER

DR. ISHMAEL ACKAH



COMMISSIONER

MRS. DORA OPPONG



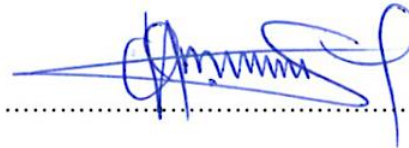
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