

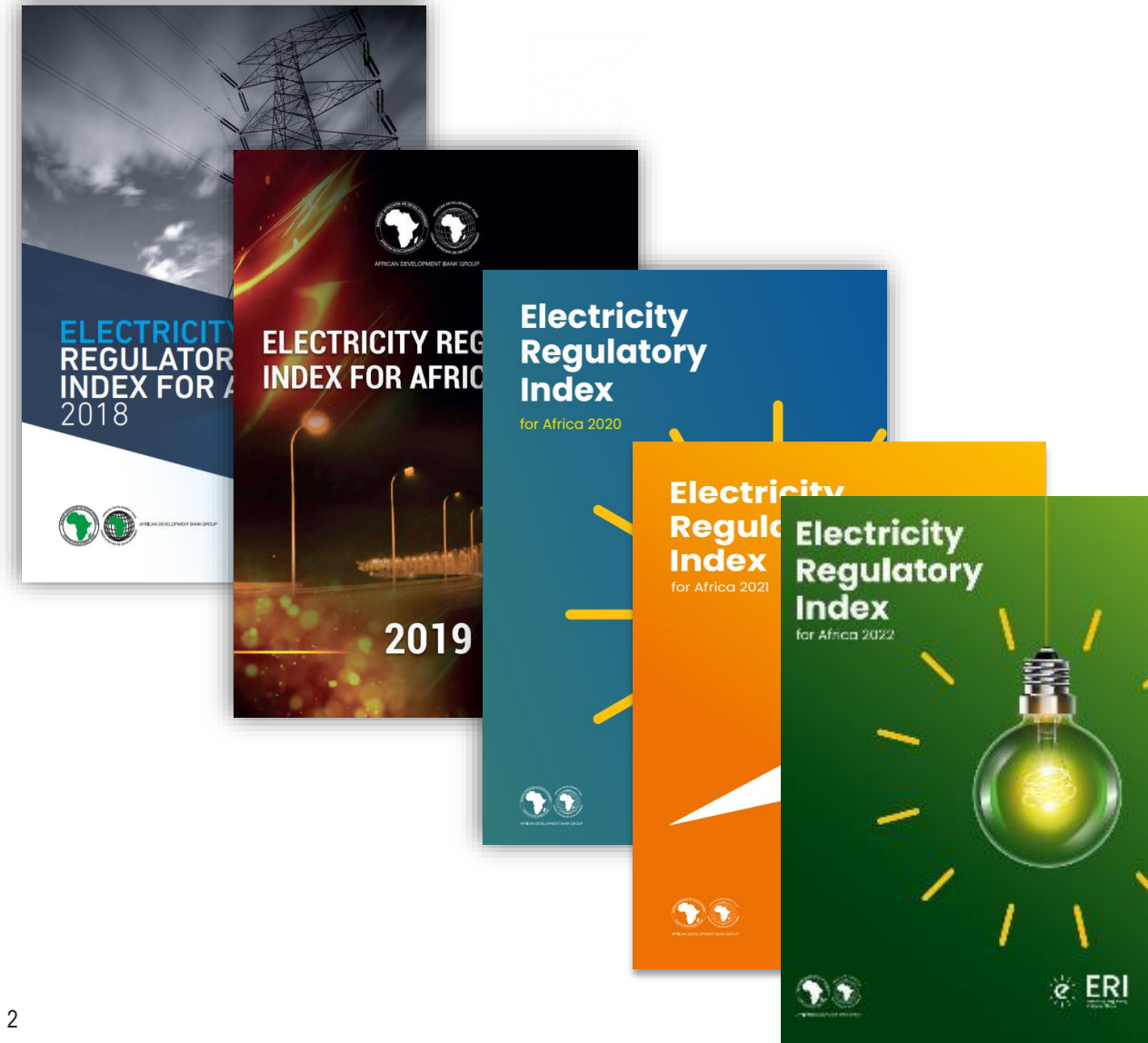
Electricity Regulatory Index for Africa (ERI) 2022



AFRICAN DEVELOPMENT BANK GROUP

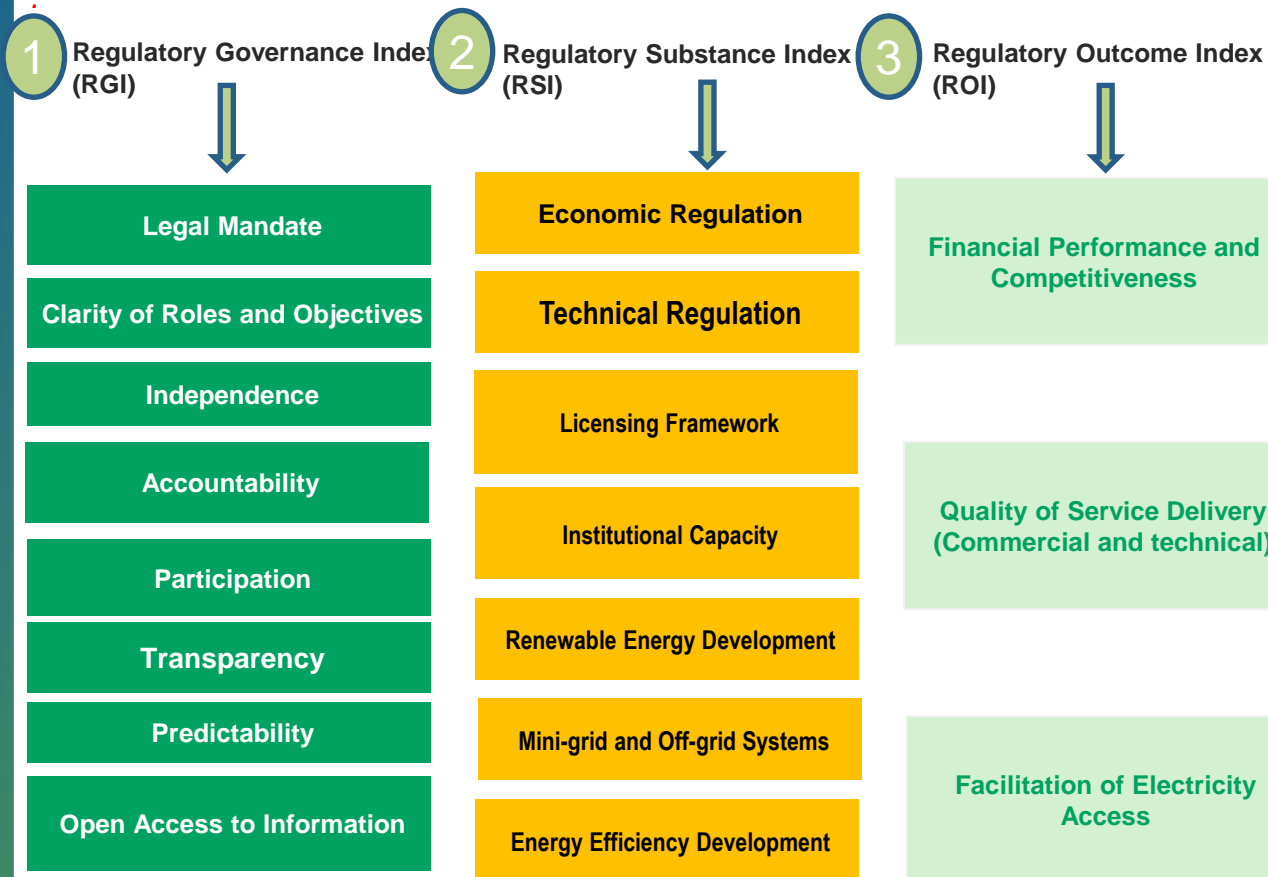
The ERI is an empirical assessment of the Regulatory Environment and Performance of Electricity Regulators in Africa

- The ERI instrument includes **benchmarks based on a continuously growing, proprietary database of utilities and regulators across the African continent**. It also tests the actual impact of the regulator's actions on the power sector to:
 - Assess underlying regulatory **factors that impact performance**
 - Understand regulatory shortcomings to **identify a set of interventions for success**
 - **Prioritize the intervention programs needed** to improve regulatory performance
 - **Regularly track ongoing progress** and catch potential issues early on



The ERI measures the performance of national regulatory systems against international best practices, and provides tailored recommendations

18 Indicators across 3 Regulatory Dimensions/Pillars



"Institutional and legal design of the regulatory system and framework within which decisions are made"

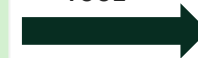
The **"how"** of regulation

"Actual decisions, whether explicit or implicit, made by the regulatory entity or other entities within the government, along with the rationale for the decisions"

The **"what"** of regulation

"Assesses the impact of regulator's actions and decisions on the performance of the power utility and consumers"

ACTION-ORIENTED DIAGNOSTIC TOOL



POLICY AND REGULATORY RECOMMENDATIONS (indicative)

SHORT TERM (1-2 years)

Develop model regulatory accounting framework	*	
Develop action to reduce distribution losses	*	
Undertake quality of service performance assessments	*	*
Develop fully documented Licensing Framework & Procedures		*

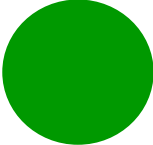
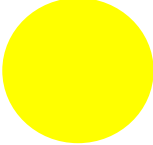

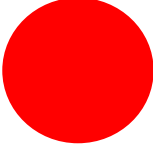
MEDIUM TERM (3-5 years)

	Country A	Country B
Amend Laws for Regulatory Independence	*	
Establish a law on renewable energy		*
Establish a law on development of mini grid and off grid system Equipment	*	*
Establish a law on energy efficiency	*	



Once computed, the ERI results of the countries that are surveyed are ranked in four categories, from the lowest to the highest level of regulatory development according to best practice

What are the ERI performance bands?

COLOR	SCORE RANGE	INTERPRETATION
	0.800 to 1.000	High level of regulatory development, with most elements of a strong policy, regulatory, legal and institutional framework in place
	0.600 to 0.799	Substantial level of regulatory development, with many elements of a supportive regulatory framework, alongside some weaknesses in legal and institutional structures
	0.500 to 0.599	Medium level of regulatory development, with basic elements of a supportive regulatory framework, with implementation constrained by legal and institutional gaps and low regulatory capacity
	0.000 to 0.499	Low level of regulatory development, with few or no elements of a supportive regulatory framework and insufficient or nonexistent legal and institutional structures and regulatory capacity

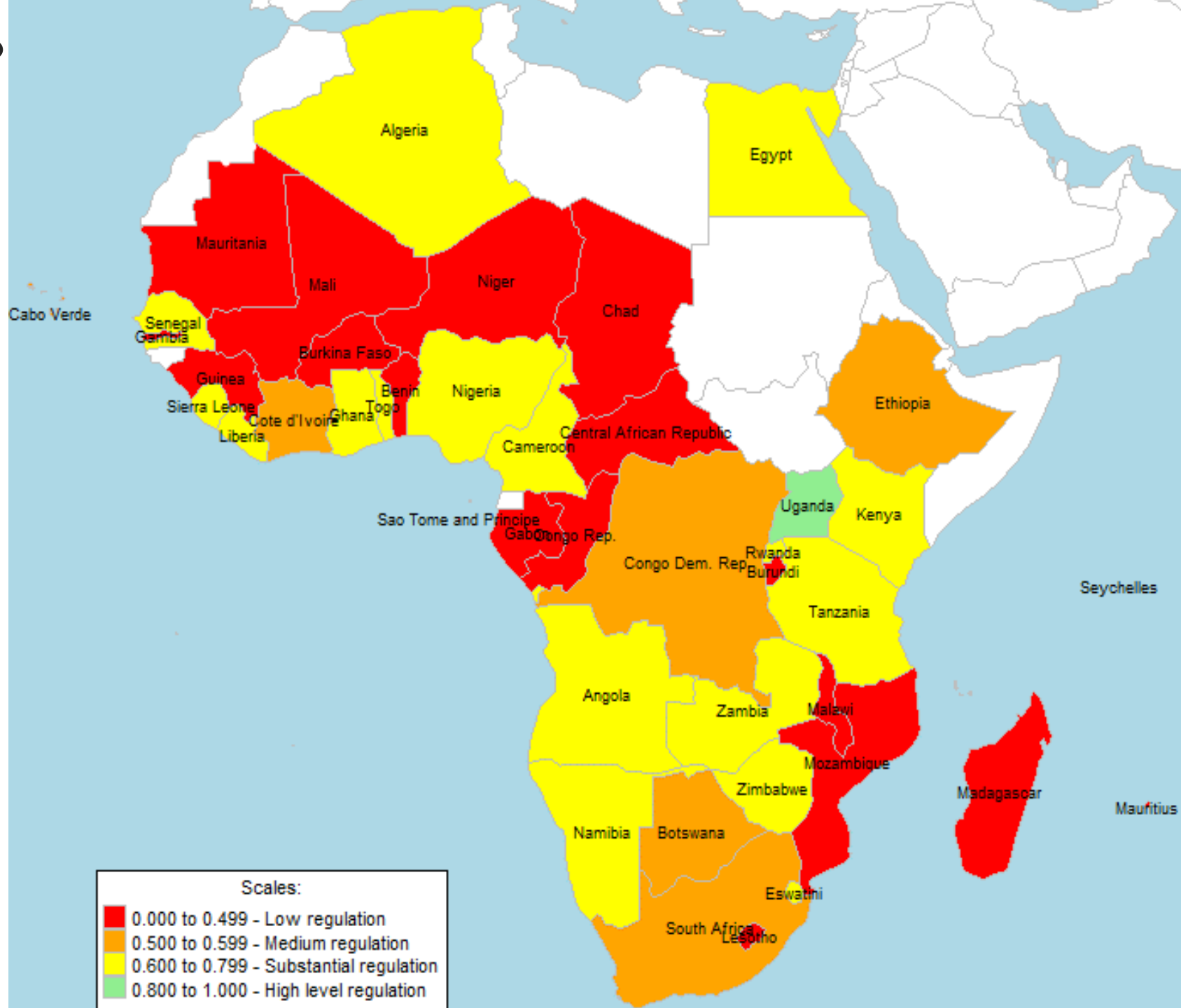
How are countries performing?

Sample composition

- 43 countries
- 44 Regulatory Authorities
- 44 Power Utilities

Geographic distribution

- East (9 countries)
- Central (7 countries)
- North (2 countries)
- South (10 countries)
- West (15 countries)



Key findings of ERI 2022

Governance



- **84% of countries surveyed fell within the green and yellow performance bands on RGI.**
- Another positive change is that the number of countries with low level of regulatory development (Red Band) in RGI reduced from 4 in 2021 to 2 in 2022 (50% reduction).
- Regulatory Independence remains the weakest sub-indicator under RGI as Government and Stakeholders continue to exert some amount of influence on regulators in most countries
- **81% of the countries surveyed showed a lack of full independence of the regulatory authorities from stakeholders and government.**

Substance



- Regulators in most countries have developed or updated regulatory instruments to enable them to be assertive over the sector they regulate.
- Number of countries confirmed to have conducted **Cost of Service Study (CoSS)** increased from **9 in 2021 to 27 in 2022 with 17** of them confirming having implemented the CoSS.
- Number of countries **without Tariff Methodologies** reduced from **13 in 2021 to 9 in 2022** as more countries take steps to either develop and publish their TM or update existing ones.
- Countries with **quality-of-service code and transmission grid code** increased from **21 in 2021 to 27 in 2022** as more countries take steps to finalise and publish these documents.

Outcome



- Financial performance is the weakest dimension of the ROI, with an average score of **0.396**.
- However, ROI recorded the biggest improvement in 2022 (17% improvement over the average score of 2021).
- Improvements that have been recorded in ROI in 2022 is attributed to actions taken by the regulators and utilities to improve the financial performance of the utilities by **focussing on improvements in Tariff Methodologies (TMs) and utility financial performance**.
- Sixteen (16) countries developed and implemented regulatory instruments that impacted ROI. These are mainly utility related involving **tariffs, quality-of-service, and loss reduction** among others.



Deficiencies in Stakeholder Independence

Indicator	North Africa	West Africa	Central Africa	Eastern Africa	Southern Africa	Africa
Independence from stake holder	38%	32%	18%	33%	24%	28%
Are there provisions in the Law that prohibit the appointment of Commissioners/CEO/ Director General of the Regulatory Authority, if any of them has previously held a position in the regulated utility company? Yes=1; No=0	0%	0%	0%	22%	10%	7%
Are there provisions in the Law that prohibit the Commissioners or CEO/Director General of the Regulatory Authority from accepting employment in the regulated utility company after the end of their term in office? Yes=1; No/ Not specified=0	50%	47%	28%	33%	20%	35%
Are there any provisions in the Law prohibiting the CEO/Director General or Commissioners, from having any personal interest in the regulated electricity utility? Yes=1; No/ Not specified=0	100%	87%	57%	78%	80%	79%



Deficiencies in Economic Regulation – Tariff Setting

	Indicator	North Africa	West Africa	Central Africa	East Africa	Southern Africa	Africa
1	Economic Regulation: Tariff Setting	84%	46%	22%	66%	45%	48%
2	Has the regulator developed a well-documented Tariff-Setting Methodology? Yes=1; No=0	100%	73%	43%	89%	100%	79%
3	Does the Tariff Methodology include an Automatic Tariff Adjustment or Tariff Indexation Mechanism? Yes=1; No=0	50%	47%	29%	78%	40%	49%
4	Does the Tariff Methodology include a schedule for major tariff reviews? Yes=1; No=0	100%	60%	43%	67%	70%	63%
5	Is there a written formula that prescribes how end-user tariff levels are to be set? Yes=1; No=0	100%	80%	14%	78%	90%	72%
6	Are there regulatory mechanisms to compensate generators for the provision of firm capacity or ancillary services (e.g., frequency or voltage control, spinning reserve)? Yes=1; No=0	100%	47%	14%	67%	30%	44%
7	Does the regulatory entity ensure utilities are compensated for the costs of stranded assets (i.e., assets that have lost their value due to regulatory changes)? Yes=1; No=0	100%	60%	71%	67%	10%	53%
8	Has the regulator developed/validated a network connection policy as part of its tariff? Yes=1; No=0	75%	37%	14%	44%	25%	34%
9	Has the regulator carried out a recent (less than 5 years) study on the cost of service? Yes=1; No=0	100%	47%	29%	78%	80%	60%



Key recommendations of ERI 2022

Governance



- Amend regulations or enact new regulations to prevent commissioners or the CEO being appointed if they are from the utility company or vice-versa, in order to enforce required cooling-off periods.
- Reduce the level of financial influence from the government on regulators. This can be achieved by amending laws **enabling the regulator to generate revenues from levies and fees with levels approved by parliament**

Substance



- Implement tariff reviews in accordance with the approved Tariff Methodologies and schedules.
- Develop and enforce grid codes, distribution codes and quality-of-service codes
- The regulator should develop regulatory tools and instruments including draft Power Purchase Agreements (PPAs), proposed tariff structures and other mechanisms to drive the sector's growth.
- Develop and implement supply-side and demand-side energy efficiency policies, regulations and action plans to reduce technical and non-technical losses in the electricity sector.

Outcome



- Develop and implement **Regulatory Accounting Frameworks** to guide utilities in tariff data collection and application.
- The survey shows that for 75% of electricity utilities, their tariffs fail to cover their prudent costs. Countries should conduct a Cost of Service Study (CoSS) regularly (at least once every 5 years) to aid in unbiased tariff determination.
- Revise tariff methodologies to include all important attributes relevant for a country's own context. e.g Tariff schedules should be included in the tariff methodology. The tariff regime, tariff review procedures and the timetable must be clearly stipulated in the regulatory framework across all regions.



ERI Implementation Programs

Collaboration

- Development of Guidelines for Advancing Economic and Commercial Quality of Service Regulation in Africa's Power Sector based on the ERI results in partnership with USAID/ NARUC.
- Following the publication of the Guidelines, technical assistance projects are being implemented in two countries (Eswatini and Togo) to directly address gaps in their Economic and Commercial Quality-of-Service Regulations, highlighted in the ERI.
- Working with Power Africa under the West Africa Energy Programme (WAEP) to implement ERI recommendations in some West African Countries

Regional Harmonization Initiatives

Providing Technical Assistance to regional regulatory bodies for the development of tools and frameworks for harmonization of regulatory frameworks in the respective regions of Africa

- TA for ECOWAS, COMESA, and SADC for regional KPIs and tariff reviews under implementation by ERETA, RAERESA and RERA
- TA for ECCAS to support the development of the Institutional and Regulatory Framework for Electricity in Central Africa

National Initiatives

The Bank is deploying bespoke regulatory digitalisation initiative through the deployment of functional Database management Systems (DBMS) for national regulators. To enhance transparency and stakeholder participation in the regulatory process, obtain accurate and timely information to enhance regulatory decision and improve quality of service regulation

- Functional DBMS deployed and commissioned for PURC in Ghana in 2021
- On-going digitalization initiatives in Uganda, Tanzania, and Nigeria.



ERI Report available on: [Home | Africa Energy Portal \(africa-energy-portal.org\)](https://africa-energy-portal.org)



Thank you



ERI
Electricity Regulatory
Index for Africa