



USAID
FROM THE AMERICAN PEOPLE



National
Association of
Regulatory
Utility
Commissioners

FEATURE STORY

Ethiopians Work To Lay Groundwork For Sound Electricity System

With USAID and NARUC support, regulators in Ethiopia are working with the country’s utilities to better understand the costs of operating the power system.



“Once a study is done and presented to our office we shall adopt the review process as we have seen applied in Missouri Public Service Commission.”

- Getahun Moges, Ethiopian Energy Authority Director General

From cost-reflective tariffs to cross-border trade, Ethiopians have big ideas for where they want their power system to go and how they’re going to get there. The country is taking steps now to put the electricity sector on a path that will support growth and sustainability and enable the export of a significant amount of power in the years ahead.

Under Power Africa and with the support of the United States Agency for International Development (USAID), the National Association of Regulatory Utility Commissioners (NARUC) is supporting the Ethiopian Energy Authority (EEA) as it calls for the country’s major utilities to move ahead on a cost of service study. Like laying a solid foundation for a home, a cost of service study builds understanding and clarity on how much customers should pay and how much utilities should receive to keep the power system up and running. In Ethiopia, this marks a shift from using actual costs for planning to forward-looking cost projections to help the country better prepare for competition in the sector.

Such studies are an essential first step toward developing cost-reflective tariffs, particularly as countries seek to balance financial and political realities. They also are critical for understanding which types of customers – typically, residential, commercial, or industrial – are putting the most demands on the grid, and allows regulators to structure rates so that those who require the most pay the most. The study will also be important given Ethiopia’s efforts to improve the accuracy of its energy system forecasting.

The EEA’s ongoing partnership with NARUC, enabled through its cooperative agreement with USAID, has provided insight to EEA about the advantages of this approach. During an August 2015 partnership exchange, EEA officials worked with NARUC’s expert volunteers at the Missouri Public Service Commission to explore tariff review mechanisms, equitable allocation of costs, accounting principles, and other concepts to ensure that customers pay appropriate rates and utilities earn a reasonable return on their investment.

Following the collaboration with NARUC’s expert volunteers, EEA officials are encouraging the country’s utilities to engage with a consulting firm and expedite work on a cost of service study. This will support not only the tariff revision process but also help to attract investment in both the power industry and the economy at large.

The cost of service study is one facet of Ethiopia’s ongoing reform process, which aims to attract fresh investment and improve the quality and sustainability of its electricity system. With its partners at USAID and Power Africa, NARUC will remain engaged with regulators in Ethiopia and across Sub-Saharan Africa as this vital work continues.

February 2016