



West Africa: Redesign of Electricity Tariffs for the Ministry of Energy

FTI Consulting supported the Ministry of Energy of a West Africa country to redesign its electricity tariffs for the period 2024-2035. Balancing explicitly economic and social efficiency, our work allowed the development of tariff structure and financial model that would allow the country national utility to recover its costs of producing, distributing and supplying electricity as well as achieving State targets in terms of development and social equity.

SITUATION

The Ministry of Energy faced a major challenge in recovering the costs of the country electricity distribution company. As the existing electricity retail tariffs were outdated, the electricity sector was facing inefficiencies, losses, and underinvestment. Furthermore, the tariffs did not reflect the true cost of service. The country utility was then operating at a loss, unable to recover its operational and capital costs, and dependent on Government subsidies. The tariffs also prevented public investment in the electricity sector, hampering the development of power production capacity and grid expansion.

The Government realized that it needed to reform the electricity retail tariffs to improve the performance and sustainability of the sector, as well as to meet the growing demand for electricity in the country.

OUR ROLE

FTI Consulting was requested by the Ministry of Energy to redefine the electricity retail tariffs for the whole country, including industrial consumers.

FTI Consulting applied its expertise in tariff design, economic regulation, and financial modeling to develop a comprehensive and transparent tariff methodology that is aligned with the best international practices.

Defining Cost Recovery Principles

FTI Consulting redefined the cost recovery principles of the electricity tariff in line with the regulator framework to ensure the financial viability of the country utility, while also ensuring the social efficiency of the tariffs by refining the social tariff. The social tariff aims to provide subsidized electricity from high-income households and industrial to low-income households, while also encouraging energy efficiency and conservation.

Conducting Stakeholder Consultations

Our Team also conducted extensive stakeholder consultations to understand the economic and social objectives of the Government in the electricity sector, and to solicit feedback and suggestions from various public parties.

Developing and Transferring a Fit-for-Purpose Financial Model

We developed a financial model to compute the new tariffs under different scenarios to sustain the costs of the electricity sector and investments in the power production and electricity grid needed. We delivered a user-friendly tariff calculation model to the client, enabling the country Government to update and adjust the tariffs as needed in the future.

FTI Consulting's work will result in a significant improvement in the electricity sector's financial performance. The new tariffs will enable the country utility to fully cover its costs. The new tariffs will also improve social equity in energy by adjusting and documenting cross-subsidies between customer segments to meet the country Government electrification objectives.

OUR IMPACT



We redesigned the cost recovery principles (providing transparency and visibility for economic players and public authorities) to balance economic and social efficiency through explicit criteria



Our tariff calculation model serves as a powerful tool for quantifying the impact of future energy policies, tariff evolutions, and investments in the electricity sector, facilitating a rational decision-making process

8.6m +

The electricity retail tariffs designed by FTI Consulting will positively impact the whole population of the country granting larger access to power and providing visibility for investors and clients



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