

# Electricity Tariff Reform

Afghanistan Energy Study Meeting

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# Where are we?

- Tariffs are insufficient to cover DABS cost of service
- Changes in key costs of service (e.g. exchange rates) do not get reflected in a timely manner
- Many different tariffs – customer class (7), province (16 although some are the same), and level of household consumption (5) – without a clear underlying rationale based on cost of supply

# Where do we want to be?

- Tariffs should be sufficient to recover DABS 'prudently incurred' costs of supply
- Tariffs should encourage DABS to operate efficiently and encourage customers not to waste electricity
- General tariff levels should be reviewed and adjusted at least once a year to reflect changes in the utility's costs

- Significant changes in key costs of service should trigger an automatic tariff adjustment outside of the regular adjustment schedule
- Where possible, prices charged to customers should reflect the cost of supply.
- Cross subsidies should be minimized. Where subsidies are needed, they should be a direct transfer from the Government to DABS or to the electricity customer.

# How do we get there?

- **First priority – ensure revenues cover cost of supply**
- Agree to a program of real increases in electricity tariffs sufficient to achieve cost recovery within 5 years (roughly 3 to 4 percent per annum)
- Apply for debt restructuring
- Review the importance of exchange rates as a cost determinant and identify what level of change in exchange rates should trigger a change in electricity tariffs. Implement a mechanism whereby tariffs are adjusted automatically whenever the trigger level is reached.
- Review the block tariff structure for residential customers

- **Second priority is fixing the structure**
- Begin the process of gathering information needed to measure costs of service to different customer classes (Uniform System of Accounts)
- Define tariff setting principles including
  - Protection of low-income households – lifeline tariffs, cross-subsidies vs direct subsidies
  - Regional vs national tariffs for grid connected customers
  - Customer classifications – customers with similar costs of service can be combined into a single category
  - Efficiency incentives – for the utility and for the customer

# Protection of low-income households

- Lifeline tariffs (i.e. the lowest tariff block) should provide enough power to meet the needs of low income households – normally 50 to 100 kWh per month
- Decisions on how subsidies are delivered – whether directly to the customer or through tariffs?
- If through tariffs should it be through cross-subsidy or direct subsidy from the government to the utility?

# Regional vs national tariffs for grid connected customers

- Segmentation of the grid means that cost of serving grid customers in different areas can differ dramatically
- Charging tariffs that reflect the actual cost of service sends a valuable message to customers regarding the true cost of supply and hence the importance of implementing efficiency measures.
- On the other hand, some of the higher cost service areas may also be the most vulnerable in terms of income and access to alternatives.
- Need to find a balance between protection of low-income consumers and ensuring efficient use of electricity supply



# Customer classifications

- Customers with similar costs of service can be combined into a single category.
- Consideration could be given to offering the same tariff to holy places, government organizations and NGO's on the basis that their consumption patterns, hours of operation, and administrative needs are roughly similar.
- The split between registered and non-registered firms might also be reconsidered. Here it might be more appropriate to distinguish based on supply voltage – low voltage (220), medium voltage (440) and high voltage (above 440)

# Efficiency incentives

- Major challenge with regulated utilities to encourage them to operate efficiently. Since tariffs are set to recover costs, the utility has little incentive to reduce its costs of operations.
- A variety of measures have been tested and implemented over time. These should be examined for applicability in the Afghan environment.
- It is generally accepted that encouraging customers to implement energy efficiency measures is one of the lowest cost means of meeting future demand.
- There is extensive guidance available from the experience of others.