

**PRICING PROCEDURE FOR SMALL AND VERY  
SMALL SELF CONTAINED SYSTEM (SCS)**

**NO. 2/2005**

**Final Edited Version**

**May 2006**

# **SECTION ONE: GENERAL**

## **CHAPTER ONE**

### **General**

#### **Art. 1 Issuing Authority**

This Price Setting Procedure is issued by the Agency in accordance with Art 32(2) of the Council of Minister's Electricity Operation Regulations No. 49/1999.

#### **Art. 2. Short Title**

This Procedure may be cited as the "Pricing Procedure for Small and Very Small Self-Contained System (SCS) No. 2/2005"

#### **Art. 3 Definitions**

In this procedure, unless the context requires otherwise:

1. "Financial Year" means the Ethiopian financial year, from 8 July to 7 July (Hamle 1 to Sene 30 in the Ethiopian calendar);
2. "c used as a subscript" means the subscript "c" next to a symbol denotes that this symbol refers to the Current Financial Year;
3. "Current Financial Year" means the financial year at the time when a Pricing Submission is made. This will normally be at the end of the Financial Year;
4. "c+1 used as a subscript" means the subscript "c+1" next to a symbol denotes that this symbol refers to the Following Financial Year;
5. "Following Financial Year" means the Financial Year after the Current Financial Year;
6. "c-1 used as a subscript" means the subscript "c-1" next to a symbol denotes that this symbol refers to the Previous Financial Year;
7. "Previous Financial Year" means the Financial Year before the Current Financial Year;
8. "c+2 used as a subscript" means the subscript "c+2" next to a symbol denotes that this symbol refers to the Financial Year after the Following Financial Year;
9. "Independent Distributor" means a distribution Licensee other than EEPCo;
10. "Forecast Allowed Revenue" means the allowed revenue calculated ex ante using forecast financial data (rather than actual data) that is used in the Price Applications;
11. "License" means a License for generation, transmission, distribution and sale, export or import that is issued by the Agency;
12. "Licensed Activity" means the activity or activities that the Licensee is Licensed by the Agency to undertake;
13. "Licensee" means a person holding a License to undertake electricity supply operation;

14. "Multiple License Holder" means a person holding more than one License;
15. "Outturn Actual Revenue" means the audited revenue that is actually collected by the Licensee;
16. "Outturn Allowed Revenue" means the allowed revenue calculated ex post using actual financial data (rather than the forecast data) that is used in price submissions;
17. "Outturn Costs" means costs actually incurred in the previous financial year.
18. "Peak Demand" means the highest level of demand for electricity, averaged over any one-hour period, experienced on a Licensee's network in a financial year. In the case of Multiple License Holders the highest level of demand for the purposes of this procedure shall be the sum of the Peak Demands for each of the distribution networks;
19. "Regulatory Asset Base" means the assets that are allowed by the Agency for the purpose of calculating the allowed profits (normally calculated using a rate of return on assets) and depreciation charges. The value of the Regulatory Asset Base may differ from the value of net fixed assets reported in a Licensee's statutory accounts since some assets may have been disallowed by the Agency;
20. "Small Isolated System Licensees" means Licensees that are isolated from the ICS and with a Peak Demand of 500 KVA or less but greater than 100 KVA;
21. "Very Small Isolated System Licensees" means licensees that are isolated from the ICS and with peak demand of 100 KVA or less;
22. "Price Submission" means a submission that is annually made by a licensee for a subsequent price review to be made by the Agency;
23. "Price Application" means an application made by a Licensee, when price changes are required to allow revenues to be sufficient to cover operating costs and finance new investment and to demonstrate the cost build up and performance of the existing price to the EEA. A Pricing Application is not related to a change in the structure or design of pricing;
24. "Price Structure" means the details relating to the pricing schedule including customer categories, demand and kWh charges, pricing blocks, lifeline rates, seasonal and time-of-use charges, fixed charges, charges for reactive power, charges for un-metered supplies, charges for supply at different voltages, and other characteristics of the electricity price;
25. "Price Structure Application" means an application made by a Licensee, usually, but not necessarily, at 4-year interval, for a change to the Structure of Pricing to allow pricing to be more cost reflective or to introduce social pricing. A Pricing Structure Application is not related to a change in the average prices levels;
26. "Operating Expenditures" means an amount of asset consumed and service used in the process of producing and supplying electric services;
27. "Person" means a natural or juridical person;

28. "Regulations" means the Electricity Operation Council of Minister's Regulations No. 49/1999;
29. "Proclamation" means Electricity Proclamation No. 86/1997;
30. "Ministry" means Ministry of Mines and Energy;

### **Abbreviation**

1. "EEA" means the Ethiopian Electricity Agency;
2. "EEPCo" means the Ethiopian Electric Power Corporation;
3. "ICS" means the Inter Connected (electricity) system (network).;
4. "SCS" means Self-Contained (electricity) System (network);
5. "KVA" means Kilo Volt Ampere;
6. "kWh" means Kilo Watt Hour;
7. "WACC" means Weighted Average Cost of Capital.
8. "CAPM" means Capital Asset Pricing Model.
9. "MLH" means Multiple License Holder;

### **Art. 4 Objectives of the Procedure**

The objectives of this procedure are:

1. To guide Licensees in the preparation of Pricing Submissions of the same to the Agency;
2. To guide the concerned staff members of the Agency where, as a last resort, they are required to prepare electricity prices;
3. To be used as a reference check list by the Agency when annually reviewing the prices of electricity services.
4. To conduct on regular bases an annual review of licensee's financial prudence and price performance with a view to determining the need for an upward or downward revisions of prices and charges as per Art 33 (1&2) of the Regulation.

### **Art. 5 Scope of the Procedure**

The procedure applies to:

- Small Licensees;

- Very Small Isolated Licensees subject to art. 26 and 27(3) of this procedure; and
- Small Isolated System Distributors of EEPCo's SCS.

## **SECTION TWO: PRICE STRUCTURE METHODOLOGY, RESPONSIBILITY AND END USER AND INTER-COMPANY PRICING PRINCIPLES**

### **CHAPTER TWO Price Structures**

#### **Art. 6 Principles of Price Structure**

1. In setting electricity price cost reflective price structure is required to be developed by utilities.
2. In designing a price structure the utilities take into consideration that prices shall:-
  - 2.1 accurately reflect costs so as to achieve economic efficiency, via efficient allocation of resources;
  - 2.2 ensure equity and fairness between different types of consumers;
  - 2.3 be implement able with less difficulty;
  - 2.4 be compatible for the use of appropriate metering;
  - 2.5 be simple to understand; and
  - 2.6 accommodate customer's ability to pay.
3. Price Structures shall be designed and updated on the bases of estimates of marginal/average costs that shall be prepared at four year s interval s.
4. Basic Price Structure Methodology (Cost Build up)
  - 4.1 Generation pricing outside the national grid system (SCS) shall be on the bases of:-
    - a) marginal/average generation capacity cost of an efficient generation facility; and
    - b) marginal/ average energy cost for each facility to be averaged at system level on bases of average share of anticipated load.
  - 4.2 Transmission pricing shall be based on:-

- a) system marginal transmission capacity cost in the ICS; and
- b) average transmission capacity cost for the SCS (where relevant).

4.3 Distribution pricing shall be based on:-

- a) system marginal distribution capacity cost in the ICS; and
- b) estimated or actual accounting cost and an acceptable rate of return for the SCS that shall be issued by the Agency.

4.4 Other charges shall be based on:-

- a) marginal customer related costs of energy and power metering and billing costs; and
- b) capacity costs (for computing reactive power charge for reactive power consumption) that each unit of reactive power consumption entails at the voltage level where it is consumed.

4.5 End-User Price is determined on the bases of the aggregates of generation, transmission and distribution capacity costs, energy costs and loss factors at an appropriate voltage level. Customers shall be responsible for supplying costs at upstream voltage level of their connection point.

## **Art. 7 Responsibilities for Price Structure**

1. Licensees shall submit their proposals of Price Structures for review to the Agency at four year interval.
2. The Agency shall review the proposals of for Price Structures and shall submit to the Ministry proposals that meet the following conditions:
  - 2.1 Licensees may alternatively propose to the Agency that their Price Structures shall be based on Price Structures proposed by a third party whose price designs have been submitted within the past four years. Such third parties may include another Licensee (such as EEPCo), an industry representative body, a consultant, an academic organization or any other body with the expertise to develop Price Structures.
  - 2.2 Licensees shall not propose to the Agency to use a Price Structure designed by a third party unless the relevant characteristics of the system for which this Price Structure was designed is similar to the relevant characteristics of the Licensee's system.
  - 2.3 Changes to the Price Structure that are approved shall be announced to customers by Licensees no less than one month before the increases are due to take place.
  - 2.4 Licensees shall submit their Price Structure applications to the Agency not less than six months before the start of the Following Financial Year ( $Y_{c+1}$ )
  - 2.5 Licensees may make a submission to the Agency that proposes to maintain the existing Price Structure but shall provide justification for the

continuation of the existing structures based on the information detailed in Article 8.

## **Art. 8 Content of Price Structure Application**

1. The Price Structure Applications submitted by Licensees shall contain a full justification for the proposed Price Structures including:
  - 1.1 marginal/average costs of capacity as may be appropriate, energy, voltage of supply, season and time-of-day and for fixed (metering and billing) and variable components of cost and for interruptible and non-interruptible supply;
  - 1.2 description of the methodologies for calculating marginal/average costs as may be appropriate,
  - 1.3 description of data including demand projections, investment plans, fixed and variable costs, a discount rates etc. and assumptions used to prepare marginal/average costs.
  - 1.4 customer data; typically load factors by customers group and seasonal and daily load patterns including weekdays and week ends (these may be referred to as coincidence factor and diversity factors).
2. Sufficient detail should be provided to the Agency by the Licensee to allow the Agency to replicate, if necessary, the calculations.
3. The review undertaken by the Agency shall consider the responsibilities for Price Structure set out in Art.7 and shall reject proposals that do not comply with these principles.
4. The Agency shall comment on the proposed Price Structure within three months of submission to the Agency.

## **Art. 9 End-User Pricing**

1. The computation of supply costs as in above shall identify capacity and energy costs at various voltage levels of supply, seasons of supply, time-of-use, variable components of costs for interruptible and non interruptible supply where relevant. Prices shall be determined in accordance with the provisions set out in Chapter Six.
2. End-user Prices shall be cost reflective except where the metering or other costs are prohibitive. [For example it is not economically efficient to charge residential consumers a demand charge (Birr/KW of maximum demand per month) because the cost of metering is very high compared to the value of the electricity supplied].
3. Charges shall incorporate price components such as kWh and capacity charges, fixed and variable charges, seasonal and time-of-day components, variations by voltage of supply, geographical variations and other elements to allow cost reflectivity when it is cost effective to incorporate these components.

4. Marginal costs/average costs as may be appropriate shall be estimated for capacity, energy, voltage of supply, season and time-of-day and for fixed (metering and billing) and variable components of cost and for interruptible and non-interruptible supply as may be appropriate.
5. Prices that are designed for low-income household (lifeline price) may deviate from the rule that prices should be cost-reflective. Prices that are designed for low-income households shall be primarily aimed at the poor.
6. Special low price may be charged to users who consume below certain kWh per month. Such level of consumption may be subsidised from those other electricity consumers whose consumption is less sensitive to electricity price.
7. Licensees shall not be obliged to introduce lifeline prices, particularly where the pool of price insensitive electricity consumption is small.

#### **Art.10 Non-Tariff Charges**

1. Non-tariff charges shall be levied to recover the costs of supplying to individual customers such as: connection costs, meter-installation, alteration costs, sales service charge, the cost of network extensions and upgrading in the case of the extension of a distribution.
2. Costs to be recovered by electricity price shall not be in any way included in non-tariff charges.
3. Non-tariff charges shall be equitable and fair.
4. Non-tariff charges shall be imposed only on:
  - a) exclusively benefited specific customer,
  - b) exclusively benefited group of customers,
5. Such charges shall be distinguished from tariff charges.
6. Non-tariff charges shall be recovered directly from the customer either as an up-front payment or as a monthly or annual amount.
7. Non-tariff charges shall be levied on customers as fixed charges.
8. Procedures to effecting non-tariff charges shall be submitted to the Agency together with submission of Price Structure Applications or at any time upon the Agency's demand.



## **CHAPTER THREE**

### **Inter-Company Pricing**

#### **Art. 11 Inter-Company Price**

1. Inter-company prices shall include independent distributors wheeling or selling to other independent distributors.
2. The Price Structures for inter-company prices proposed by licensees shall comply with the principles of cost reflectivity.
3. Wheeling price shall be a simple kWh charge.

## **SECTION THREE: ANNUAL PRICE REVIEW AND PRICE METHODOLOGY**

### **CHAPTER FOUR Price Review Methodologies**

#### **Art. 12 Principles**

On bases of the Price Structure developed after those principles in article 6 of this Procedure, the review process shall consider the following end use pricing principles:

1. Generate sufficient revenues to maintain the financial viability of Licensees and allow them to attract funds to finance required investments.
2. Reflect the costs imposed on the electricity system by different users;
3. Be competitive in comparison with similar services.
4. Provide incentives for electricity to be supplied and used efficiently;
5. Be designed such that users with similar usage patterns served by same Licensee make similar payments; provided that, under special circumstances deviation in price structure and level may be necessary so as to provide for other considerations (economic and social conditions).
6. Not discriminate between customers except on the bases of the costs they impose on the electricity system;
7. Not include non-tariff charges in the price determinations.

#### **Art. 13 Multiple License Holders**

Licensees shall normally submit a single Price Submission for each Licensed Activity. Persons with more than one distribution License in areas close to each other shall submit a

consolidated Price Submission. Independent Isolated Distributors are expected to have a single License for their generation and distribution activities

#### **Art. 14 Annual Price Review Timetable**

1. Licensee shall submit Price Submissions for price review for the Following Financial Year ( $Y_{c+1}$ ) to the Agency at the end of the Current Financial Year ( $Y_c$ ).
2. The Price Submissions made by Licensees shall be based on forecast for the Current Financial Year ( $Y_c$ ) using available financial information for the first six months of the current year (where actual recorded data not available) and best estimates for the remainder of the current year and for the Following Financial Year ( $Y_{c+1}$ ).
3. Price Submissions that are received by the Agency at the end of the Current Financial Year shall be reviewed and if required comments shall be sent to the Licensee within ten weeks of the receipt of the submissions.
4. The Licensee shall respond to such comments made by the Agency stating the measures to be taken on the comments.
5. On the basis of this procedure and Uniform System of Accounts, as may be appropriate, revenue shall be determined. Where appropriate Licensees shall make price rebalance on the basis of this revenue. The Agency shall review the rebalanced price before implementation.
6. When price changes are required, Licensees shall include Price Applications together with their annual Price Submissions.
7. When the number of Licensees increases, the Agency may face a heavy workload during a short time period following the Price Submissions. The Agency, therefore, may require Licensees to stagger their Price Submissions rather than submit them all at the same time.
8. It shall remain at the Agency's discretion to consider, based on the principles in this section and subject to the objectives of this procedure (Article 4 (4)), an annual or accumulated interim price adjustment. This adjustment shall be submitted to the Ministry for decision.
9. Licensees shall announce price changes to customers no less than one month before the increases are due to take place.

#### **Art.15 Content of Price Submissions**

1. Licensees shall submit with their annual Price Submissions:
  - 1.1. Audited financial information for the Previous Financial Year ( $Y_{c-1}$ ) in the required format.

- 1.2. The Outturn Allowed Revenue for  $Y_{c-1}$  based on the outturn costs in the Previous Financial Year ( $Y_{c-1}$ ).
  - 1.3. In the submissions, the Licensee shall show the variance between the Licensee's estimate of Outturn Allowed Revenue for  $Y_{c-1}$  and the revenue that was approved in the Previous Financial Year (the Forecast Allowed Revenue for  $Y_{c-1}$ ) and the revenue that was actually collected by the Licensee (Outturn Actual Revenue for  $Y_{c-1}$ ).
  - 1.4. Submissions for price reviews for the Following Financial Year ( $Y_{c+1}$ ) shall show the Licensee's projections of costs and the Licensee's own estimate of allowed revenue (Forecast Allowed Revenue for  $Y_{c+1}$ ).
  - 1.5. The Licensee's Forecast Allowed Revenue for  $Y_{c+1}$  shall be corrected for over or under recovery of revenues in the Previous Financial Year ( $Y_{c-1}$ ).
2. The Price Submissions made by Licensees for review shall include, among other things, information on:
    - 2.1 kWh sales and revenues by consumer group,
    - 2.2 consumer numbers by consumer group,
    - 2.3 monthly electricity production or purchases and monthly maximum demand,
    - 2.4 annual electricity production by plant,
    - 2.5 a summary description of major changes in the asset base,
    - 2.6 monthly fuel consumption, if any, by plant,
    - 2.7 fuel consumption, if any, per KWh generated,
    - 2.8 annual energy losses,
    - 2.9 bill collection (account receivable at year end),
    - 2.10 year end staff per,
      - 2.10.1 KVA of annual maximum demand,
      - 2.10.2. KWh sold per year,
      - 2.10.3. Customer at year end.
    - 2.11 a summary of load shedding by month, if any.
    - 2.12 non-tariff charges.
  3. The above information shall be used by the Agency to review the efficiency and performance of Licensees.

4. Licensees shall provide explanations and commentary on any increase in costs, improvements or worsening of performance.
5. The Agency shall demand additional information or explanations, where necessary, to clarify data provided by a Licensee or as part of the review of the efficiency of the Licensee to help the Agency undertake a quick price review.
6. Licensees shall be required to provide sufficient data and explanations with their initial Price Submission.
7. Licensees shall be required to submit their financial data and calculations in electronic form in a spreadsheet model available from the Agency.
8. The content of submissions for the price structure is described in chapter two of this procedure.
9. Licensees shall present in the Price Submissions the Outturn Allowed Revenue of the previous financial year ( $Y_{c-1}$ ) and the Forecast Allowed Revenue of the following financial year ( $Y_{c+1}$ ) (calculated as described in chapter five) of this procedure.
10. The Agency shall accept price Applications that comply with this procedure or reject Price Applications that do not comply and shall notify the Licensees by means of a formal written letter.

## **CHAPTER FIVE**

### **Allowed Revenues and Operating Expenditures**

#### **Art. 16 Allowed Revenues**

The Forecast Allowed Revenue for the Following Financial Year shall be calculated as:

$$R_{c+1} = C_{c+1} + P_{c+1} \pm A_{c-1}$$

Where;

$R_{c+1}$  = The licensee's Forecast Allowed Revenue for the Following Financial Year

$C_{c+1}$  =The Licensee's forecast Allowed Operating Expenditures in the Following Financial Year calculated according to Article.17 of this procedure.

$P_{c+1}$  = Allowed Profits, estimated using the criteria in Article. 19 of this procedure, for the Following Financial Year.

$A_{c-1}$  = correction for under or over-recovery of revenues in the Previous Financial Year calculated by comparing the Outturn Allowed Revenue with the Actual Revenue.

## **Art. 17 Operating Expenditures**

1. Licensees shall include Operating Expenditures in the Price Submission that are incurred in undertaking the Licensed Activities.
2. Operating Expenditures unrelated to the Licensed Activity shall not be included in the Price Submissions.
3. Licensees shall take reasonable steps to ensure that Operating Expenditures are kept to a minimum consistent with the provision of services at a level of quality identified in the Electricity Service Quality Standards Directives issued by the Ministry and updated from time to time, in particular:
  - 3.1. expenses shall be incurred for the production, transmission, distribution or supply of electricity.
  - 3.2. expenses shall be prudently incurred after careful consideration of available alternatives.
  - 3.3. expenses shall be incurred in the normal operations of the business.
4. When an acceptable expense is incurred that requires capitalization, consideration shall be given by the Licensee to spreading the expenses shall be spread over a number of years to match the time periods over which the benefit is derived.
5. Expenses on research and development, lobbying and advertising may be included, in part or in whole if they are reasonably regarded as related to the Licensed Activities.
6. Operating Expenditures included in Licensees' Price Submission s shall also comply with the criteria listed in the Income Tax Proclamation No.286/2002
7. The Agency shall review operating expenditures in Price Submissions by comparison with comparable data from other Licensees or utilities in other countries and may require the Licensees to reduce the Operating Expenditures in the Price Submissions to a level consistent with industry norms.
8. Licensees are encouraged to submit benchmarking information with their Pricing Submissions in support of their submissions on Operating Expenditures.

## **CHAPTER SIX Return on Investment or Other Financial Criteria**

### **Art. 18 Principles**

1. The profit levels or returns on investment may be set to reflect a rate of return on net asset values, but profit levels may also be calculated using other criteria such

- that, the utility achieves other financial targets such as debt service coverage or self-financing.
2. For Self Contained System Licensees, rate-of-return criterion for revenue targets shall be used.

## **Art. 19 Computation of Allowed Profit for a Rate of Return Regulated**

### **Licensees.**

$$P = \text{RoR} \times \text{RAB}$$

Where;

P = Allowed Profit

RoR = Allowed Rate of Return

RAB = Regulatory Asset Base

## **Art. 20 Regulatory Asset Base**

1. The Regulatory Asset Base shall comprise:

$$\text{RAB} = \text{GV} - \Sigma\text{D} + \text{I} + \text{W}$$

Where;

RAB = regulatory asset base

GV = gross value of fixed assets in operation

$\Sigma\text{D}$  = accumulated depreciation

I = inventory

W = working capital

2. The Agency shall instruct Licensees from time to time regarding the bases for the valuation of the gross value of fixed assets and whether the assets shall be based on historic costs or re-valued and, if re-valued, the method by which they shall be re-valued.
3. The Agency shall review the asset additions described in the Price Submission and may disallow assets from the Regulatory Asset Base if these assets are not in operation.
4. To avoid the risk that assets may be disallowed by the Agency from the Regulatory Asset Base after they have been commissioned, Licensees shall be required to seek the Agency's prior consents for their investments.

5. The Agency shall notify Licensees of any threshold values or other criteria that shall adopts in relation to seeking prior approval for investments.

## **Art. 21 Allowed Rate of Return**

1. The Rate of Return to be used by Licensees shall be fixed from time to time and notified to Licensees.
2. The formula for calculating Allowed Profit shall be issued to Licensees, individually or collectively, by the Agency by means of a formal written letter. The formal written letter shall be issued within three months of the end of each Financial Year. However, where a formal written letter has been issued to a Licensee in the Previous Financial Year or earlier, the Agency may choose to keep the formula unchanged and in this circumstance shall not issue a new formal written letter.
3. The Agency shall choose a formula that will, if the Licensee is reasonably efficient, allow the Licensee to earn a profit equivalent to that which a similar private company would earn. A similar private company is one that provides services that have a similar risk profile to that of the Licensed Activity
4. The Agency shall estimate the Rate of Return by reference to the Weighted Average Cost of Capital (WACC) and the Capital Asset Pricing Model (CAPM).
5. The Rate of Return to be fixed shall reflect post-tax returns.
6. The Agency shall fix reasonable debt equity ratio to be used in the calculation of Allowed Rate of Return.

## **Art. 22 Computation of Allowed Profit for a Financial Covenant**

### **Regulated Licensees.**

#### **1. Self-Financing Ratio**

- 1.1 Profits shall be such that retained earnings are not less than 25% of the Licensee's capital expenditures expected to be incurred. This ratio is defined as;

$\frac{\text{Funds from Internal Resources}}{\text{Average 3 year Investment (including Interest During construction)}}$
--

- 1.2 Funds from Internal resources are defined as the difference between:

the sum of operating revenue from all sources, consumer deposits, consumer contributions, net non-operating income and any reduction in working capital other than cash; and

the sum of all operating expenses, including taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

## 2 Debt-Service Coverage

2.1 The net revenues of the Licensee shall be at least 1.5 times the estimated maximum debt service requirements of the Licensee. This is defined as:

$\frac{\text{Net Operating Revenue}}{\text{The Servicing Requirements for Long-term Loans}}$
--

2.2 Net Operating Revenue in this context means the difference between:

the sum of revenues from all sources related to operations including provision for depreciation, other non-cash operating charges, interest, other charges on debt and net non-operating income; and

the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes.

### Art. 23 Corrections

1. Forecast Allowed Revenue for the Following Financial Year in the content of a Pricing Submission described in Art.15 shall include a Correction Factor ( $A_{c-1}$ ) to correct for under or recovery of revenues in the Previous Financial Year as follows.

$$A_{c-1} = R^O_{c-1} - R_{c-1}$$

Where;

$A_{c-1}$  = Correction for the Previous Financial Year

$R^O_{c-1}$  = the Outturn Allowed Revenue for the Previous Financial Year.

$R_{c-1}$  = the outturn actual revenue for the Previous Financial Year

2. The actual revenue for the Previous Financial Year shall only be related to revenues relating to the Licensed Activities.

3. The Outturn Allowed Revenue for the Previous Financial Year shall be calculated as:

$$R^O_{c-1} = C^O_{c-1} + P_{c-1}$$



Where;

$R_{c-1}^O$  = the outturn Allowed Revenue for the Previous Financial Year

$C_{c-1}^O$  = the outturn costs in the Previous Financial Year calculated according to the Uniform System of Accounts issued by the Agency.

$P_{c-1}$  = Allowed Profits, re-estimated using the criteria in Art.19, for the Previous Financial Year.

4. An adjustment may be made by the Licensee for loss of, or gain from potential interest on the Correction Factor at the Commercial Bank interest rate.

## **Art. 24 Price Calculations**

1. As may be required a price for the Following Financial Year shall be calculated by the Licensee using Price Structures as described in Art.6-11 of this procedure, and shall be presented in the Price Submissions.
2. The Price shall be set at a level that shall be forecast by the Licensee to earn the Forecast Allowed Revenues for the Following Financial Year ( $R_{c+1}$ )
3. The Price schedule ( $P_{c+1}$ ) for the Following Financial Year shall be set by the Licensee such that:

$$P_{c+1} \times S_{c+1} = R_{c+1}$$

Where;

$P_{c+1}$  = the matrix of Price classes and components of price (the price schedule).

$S_{c+1}$  = a matrix representing projections of sales (kWh, kVA, consumer numbers, etc) in each price class and for each component of the price.

4. The Pricing ( $P_{c+1}$ ) shall be adjusted by the Licensees such that the Allowed Revenue ( $R_{c+1}$ ) is achieved.

## **CHAPTER SEVEN Very Small Licensees**

### **Art. 25 Principle**

Very Small Licensees shall be guided by this procedure but shall not be required to seek approval for Price Structures or approval for price increases. Nevertheless, each year Very Small Licensees shall submit to the Agency details of the price charged to customers.

### **Art. 26 The Right to Complain**

1. Consumers in communities served by Very Small Licensees who feel that they are being overcharged shall have the right to complain to the Agency.

2. In the event of complaint by consumers in the licensed area, the Agency shall:
  - a). Review the information submitted by the complainant,
  - b). If the initial review suggests that prices could be excessive then, the Agency shall instruct the Licensee to submit, within six to eight weeks, a Price Submission using financial information for the Previous Financial Year prepared in accordance with this procedure.
  - c). If after review of Price Submission the Agency continues to have concerns that the level of prices charged by the Licensee are excessive, the Agency shall invite an independent auditor or send its own staff to review the cost and revenue data in the Price Submissions.

3. Where a Licensee is found to be charging excessive prices, the Agency may:

- a) require the Licensee to make annual Price Submissions thereafter until the Agency is satisfied that the Licensee is setting price properly in accordance with the principles in this procedure, and/or
- b) make the Licensee lower prices and reduce the Allowed Revenues in order to compensate for previous overcharging, and/or in case of serious overcharging by the Licensee, the Agency may revoke the License.

## SECTION FOUR: PRICE ADJUSTMENT, ACCOUNTING STANDARD AND REPORTING

### CAPTERT EIGHT Automatic Adjustments

#### Art. 27 Automatic Adjustments

1. The Agency shall encourage Licensees to submit proposals for formulae for automatic adjustment of prices.
2. The Agency shall consider proposals from Licensees operating isolated grids for formulae for automatic adjustment of price to reflect movements in the price of diesel. The formula shall take the form of:

$$P'_q = \frac{P_0 \times w \times (D_q + T)}{D_0} + P_0 \times (1 - w)$$

Where;

$P_q$  = average price of electricity in period q after automatic adjustment for diesel cost movements

$P_0$  = base average price of electricity

w = weighting of diesel costs in the allowed revenue (and therefore in the base average price of electricity  $P_0$ )

$D_q$  = benchmark diesel price in period q

$D_0$  = diesel price, including transport cost, that is used to calculate the base average price of electricity ( $P_0$ )

T = transport cost used to calculate the base average price of electricity ( $P_0$ )

- 3 The parameters  $P_0$ , W, T and  $D_0$  will vary from Licensee to Licensee but the benchmark price of diesel ( $D_q$ ) may be from a published source and common to all Licensees.
4. The benchmark price shall be the data published by Ministry of Trade and Industry. The formula shall take account of transport costs to Licensees' generating sets through the parameter T.
5. Licensees with automatic indexation of diesel fuel costs shall submit an annual reconciliation of actual revenues against allowed revenues as detailed in article 15.
6. Responsibilities for designing automatic adjustment formulae shall be identical to responsibilities for Price Structure more generally and are described in Art.7.

## **CHAPTER NINE**

### **Miscellaneous Provisions**

#### **Art. 28 Accounting Standards**

All Small Licensees shall follow the Uniform System of Accounts issued by the Agency other than Very Small Licensee.

#### **Art. 29 Reporting Requirements**

1. Small Licensees shall submit their accounts and Price Submissions that have been audited by a qualified, independent auditor.
2. Small Licensees shall allow full access by the auditor to all relevant accounting data.
3. The independent auditor shall certify that he has reviewed the cost and revenue data and the calculations contained in the annual submission to the Agency and confirms that, to the best of his knowledge, they are correct.
4. Licensees shall use the same auditor to certify both their submissions to the Agency and their reports to shareholders relating to their annual accounts.
5. Small Licensees shall maintain financial data, including records and accounts, adequate to reflect the operations, resources and expenditures related to its Licensed Activities.

6. All Licensees other than Very Small Licensees shall self-certify their submissions to the Agency. From time-to time, the Agency shall inspect and review, or appoint an Independent Auditor to inspect and review, a random selection of submissions and any submission that cause the Agency concerned.
7. The costs to be incurred in association with the independent auditor shall be covered by the respective Licensee.
8. All Licensees shall retain for at least 10 years, all records (contracts, orders, invoices, bills, receipts, etc) evidencing their expenditure.

### **Art. 30 Public Information**

1. Key documents and exchanges between a Licensee and the Agency shall be made available by the Agency and the Licensee to the Licensee's customers and consumer groups in the Licensee's geographical area, upon request.
2. Copies of Price Submission shall be made available for view by customer at manned premises of the Licensee at locations, such as power stations or district offices, which are accessible to consumers within the distribution area.
3. The Agency shall comply with its public consultation procedures in allowing customers and consumer groups to challenge information in the Price Submissions.

### **Art. 31 Effective Date**

This Procedure shall enter into force as of the date signed by the General Director of EEA.

Done at Addis Ababa, this 7<sup>th</sup> day of April, 2005