

PACE – Useful Guides and Specimen Agreements

| | GUIDES | |
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| G1 | Users Guide to Off-Grid Energy Solutions | Web - based guide to energy needs and solutions |
| G2 | Photograph Guide | Photograph guide to illustrate typical energy products and services. The guide contains the more common off-grid and on-grid energy appliances |
| G3 | Tariff Setting Guidelines | Guidance on Tariff setting for sustainability |
| G4 | Livelihoods survey instruments | Guidance and sample questionnaire etc for community consultation process |
| G5 | Types of Public Private Partnerships | Description of the different forms of Public Private Partnership arrangements commonly in existence |
| | SPECIMEN AGREEMENTS | |
| S1 | Specimen Micro-hydro Constitution | Example of a constitution between members of a micro-hydro project development for Micro Hydro power Generation and Consumer Co-operative Society |
| S2 | Specimen Lease Agreement | Agreement between a Lessor and Lessee for a typical micro-hydro project |
| S3 | Specimen PPA | Power Purchase Agreement for independent power projects |
| S4 | Specimen electricity consumer agreement | Example consumer agreement for sale of electricity |

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1 KEY PRINCIPLES FOR RURAL ELECTRICITY TARIFF SETTING

The most fundamental principle of tariff setting is cost recovery.

It is very important to recognise at the outset that many electricity schemes, at the outset, may need to fully recover costs. In the long term, the principle of cost recovery is a cornerstone of tariff setting. Recovery of all costs means including everything from cost of capital to the operating costs. There is regularly a problem or lack of financial conservatism in integrating full operation and maintenance costs in the tariff. Careful attention needs to be directed at understanding this component.

However, most rural areas, without electricity, do not generate sufficient economic surplus to ensure full cost recovery. Therefore, some sort of subsidies, grants, soft loans necessary to promote rural electrification.

Due to the low level of development of rural areas, a community or district may not be able to contribute to cost recovery at the necessary rate. Although some projects may be implemented in the absence of financial support, most developing countries now have programmes to support such projects. Often these means of support are in turn supported by donor funds.

But, some way must be found to ensure that these incentives go to the most efficient suppliers.

There must be a means of determining which projects are most likely to deliver sustainable electricity supplies in the medium to long term in an economically efficient manner. The next section will explore how to do this.

2 ECONOMIC EFFICIENCY THROUGH TARIFF SETTING

Historically, subsidies tended to be poorly directed. Competing for tariffs is one solution to this

In many countries, subsidies have often been arranged in such a way that those who needed them least benefited the most. This can happen by effective lobbying, negotiation or game playing by business in order to benefit their own position. One of easiest ways to avoid this is to “bid” for tariffs or “compete” for subsidies and the concept of “service equivalence” should be applied.

Those who can assure similar or equal level of electricity service at lowest tariff are then considered the most efficient

Those suppliers who can demonstrate an ability to deliver at the lowest tariff will clearly require the lowest subsidy and are therefore more attractive in terms of providing financial support. This is ensured ONLY if service equivalency is ensured – i.e. same level of service to same sectors, same segments of population, and so on.

3 SUSTAINABILITY THROUGH APPROPRIATE TARIFF SETTING

Two key principles have now become accepted:

- The productive sectors should receive maximum support. For example: employment generation, revenue creation, investment and so on)
- The service sector should be accessible to all

Consequently, if the focus on rural electrification is on productive uses and equal access to primary services, then rural electrification can be sustainable. These are the two primary engines of rural development

4 DIFFERENTIAL TARIFFS¹

All electricity companies in the world sell electricity at different levels.

Different levels of tariff are appropriate for different consumers. The principle here is to develop an appropriate system that fairly and demonstrably meets wider development objectives.

Differential tariffs seek to achieve the maximum returns on investment

There is a balance to be struck such that tariff setting reconciles: a) willingness and ability to pay and b) the need for cost recovery. It must be recognised that differential tariffs are always easiest to agree in a restricted electricity market, which is often the case in rural electrification. Consequently, it is important not to let “monopolies” gauge consumers.

¹ A useful guide (for micro-hydro schemes but applicable in many rural electricity projects) is: Guidelines for Tariff Setting, Alternative Energy Promotion Centre, Energy Sector Assistance Programme, Kathmandu Nepal. It is available at www.cadecnet.org/micro_hydro/Tariff_Guidelines_Main.pdf

5 ACHIEVING EQUITY THROUGH TARIFFS

Competition for subsidies is one way to ensure equity. Setting service requirements on suppliers is another (for example public lighting, electricity for schools, hospitals, clinics, water pumping and so on)

Traditionally, rural electrification has meant “a light bulb in every house.” Moving from away from an approach that requires the provision of electricity to every household in a community or district enables equity to be defined in more global sense, such as access to quality education, health, water and employment. Basic quality of life can be increased substantially through improved community services and this must be recognised as a potentially more important and efficient development priority. This is an important way to achieve social equity and initiate wider development in rural areas.

Finally, tariff setting requires stakeholder participation & agreement on all sides. The process is iterative and optimising tariffs for the various consumers and settings is critical for equity and sustainability.