REPORT ON THE VIRTUE WEBINAR ORGANIZED BY THE AFRICAN SCHOOL OF REGULATION (ASR)

The African Forum for Utility Regulators (AFUR) participated in the virtual conference organised by the African School of Regulation (ASR) under the theme "**Private investment in electricity transmission in Africa.**"

The Virtual Conference took place on the following days March 11th, 12th and 13th; from 3:00pm to 5:00pm on each of these days.

The African Forum for Utility Regulators (AFUR) took part in Panel #4 (final session) which focussed on coming up with proposals of actionable guidelines to facilitate and attract private investment in the critical transmission investments that African countries need for a sustainable energy development. The final Panel on day three comprised the following:

> ***Moderator****: Ignacio Pérez-Arriaga (Interim Director, African School of Regulation).*
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> ***Panellists:***
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> *• Abel Didier Tella (Director General, Association of Power Utilities of Africa, APUA).*
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> *• Ifey Ikeonu (Energy Policy, Markets, and Regulation Consultant).*
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> *• Elvira Morella (Lead Energy Specialist in the West Africa Energy Unit of the World Bank Group).*
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> *• Wale Shonibare (Director of Energy Financial Solutions, Policy and Regulation, African Development Bank).*
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> *• Tilana de Meillon (Senior Operations Officer, Infrastructure Upstream Africa, International Finance Corporation, IFC).*
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> *• James Manda (Technical Manager, African Forum for Utility Regulators, (AFUR)).*

This final session underscored and consolidated the key messages on the potential of the approaches to attract private capital to the transmission capacity expansion in Africa, the necessary regulatory interventions, the business model design, and the financial instruments, together with the important roles of all actors across the power sector.

From a regulatory standpoint, the Conference came up with a list of flawed regulations that are present in many countries (not only in Africa), which flaws create unnecessary risks for potential investors in transmission networks.

The following were identified as regulatory flaws that may present risks as far as new investments in Transmission is concerned:

i. Failure to segregate or “ring-fence” transmission revenue requirements from end-customer tariffs (the need to securitise the remuneration of ITP projects is very acute in sub-Saharan Africa, due to the absence of creditworthy off-takers, given the financial instability of most utilities).
ii. Remuneration of transmission facilities that is linked to the volume of actual utilisation (physical flows) or of commercial transactions supposedly using these facilities, rather than to the actual costs incurred in investing and maintaining the transmission physical assets, either based on standards, bilateral agreements or auction results.
iii. Regulatory updates of the historical rate bases that are based on concepts such as "replacement costs" or "market value.
iv. Questionable cost allocation methods that result in perceived unfair charges that generate opposition to the investments, particularly for cross-border transmission projects.
v. Frequent recalculations of network usage charges or changes in the calculation methodology.
vi. Performance-based incentives that extend beyond the equipment's reliability, which is the only parameter the transmission investor can control.
vii. Uncertainty regarding the regulatory treatment beyond the economic life of the transmission asset.
viii. The last point (perceived risk) is not purely a regulatory issue, but concerns the reluctance of governments to allow private sector participation in their national transmission networks because of

security of supply concerns, even if the power system operation remains the responsibility of a national grid operator.

With regard to the above regulatory risks, “A call to Action” was made to regulators to examine what works, what can be improved upon and the need for a comprehensive and long-term vision that can attract private investments into the transmission sector in Africa.

In conclusion, it remains therefore for regulators on the continent to propose regulatory reforms that can facilitate the necessary presence of private investment in critical transmission projects that might otherwise take a long time to materialise.

Regulators must remove the current regulatory barriers that discourage or create unnecessary risks for private investment participation in these projects.