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## **Discrepancies in Electricity Pricing: A Review of Inflation and Exchange Rate Pass-Through in Ghana's Quarterly Tariff Review Mechanism**

### **Introduction**

The Public Utilities Regulatory Commission (PURC) operates on the foundational principle of fairness through its Quarterly Tariff Review Mechanism to cover operational costs of utilities. The review is done to ensure that utility companies remain financially viable while consumers pay a fair price that reflects the genuine and uncontrollable costs of service provision which are primarily the exchange rate, inflation and Weighted Average Cost of Gas (WACOG) as well as the energy mix. However, the true test of the integrity of this mechanism lies not in its application during times of rising costs but in its responsiveness when those costs fall. An examination of the stark variance between the projections used for the Fourth Quarter of 2025 and the actual economic outcomes, followed by the favorable trends entering the First Quarter of 2026, reveals an unambiguous and urgent need for a significant reduction in electricity tariffs. To do otherwise would be to abandon the core principle of cost-reflective pricing and impose an unjustified financial burden on Ghanaian households and businesses.

### **Consumer Overpayment of utility tariff on electricity in the fourth quarter of 2025 (1Q25)**

The PURC's decision to increase electricity tariffs by 1.14% for Q4 2025 was predicated on specific, and as it turned out, profoundly pessimistic economic assumptions. The most critical of these was the projected Ghanaian cedi to US dollar exchange rate of Ghc 11.9735/USD, which was further adjusted to an effective rate of Ghc12.3715/USD to account for a claimed under-recovery from the previous quarter. This figure was the cornerstone of the tariff hike, as a significant portion of utility costs from fuel procurement to debt servicing was denominated in US dollars. However, the actual average exchange rate for the entire Q4 2025 period was Ghc 10.8733/USD. This discrepancy is not a minor forecasting error; it represents a dramatic overestimation of the cost pressure. The over-recovery per dollar was a substantial Ghc1.1002 (Ghc 11.9735 - Ghc 10.8733).



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The application of over-recovery to the quarter's total electricity consumption of about 6,459 Gigawatt-hours (GWh), and assuming a conservative estimate of 60% of generation cost is dollar-denominated makes the magnitude of the overcharge clear. The calculation revealed that consumers paid about **Ghc1.5 billion** in costs that utilities never incurred based on the real exchange rate. This is not a theoretical adjustment but a quantifiable overpayment extracted from the country's economy. Surprisingly, the over-recovery of about 30% from the 1<sup>st</sup> and 2<sup>nd</sup> Quarters were not pass through in the 3Q25.

Compounding this exchange rate over-recovery was a similar miscalculation of the inflation rate. The PURC applied an annual inflation rate projection of 12.43% to its Q4 model, a figure intended to preserve the “real value” of revenue for utilities. The actual average inflation recorded for the quarter was 6.6%, about half of the projected rate. This means that the tariff increase built a buffer against price erosion that almost doubled its previous value. Therefore, on two of the three major external cost drivers, the exchange rate and inflation in the Q4 2025 tariff were calibrated using assumptions that grossly overstated the economic reality. Consumers have, in effect, been subsidizing utility finances against a phantom cost scenario for the past three months.

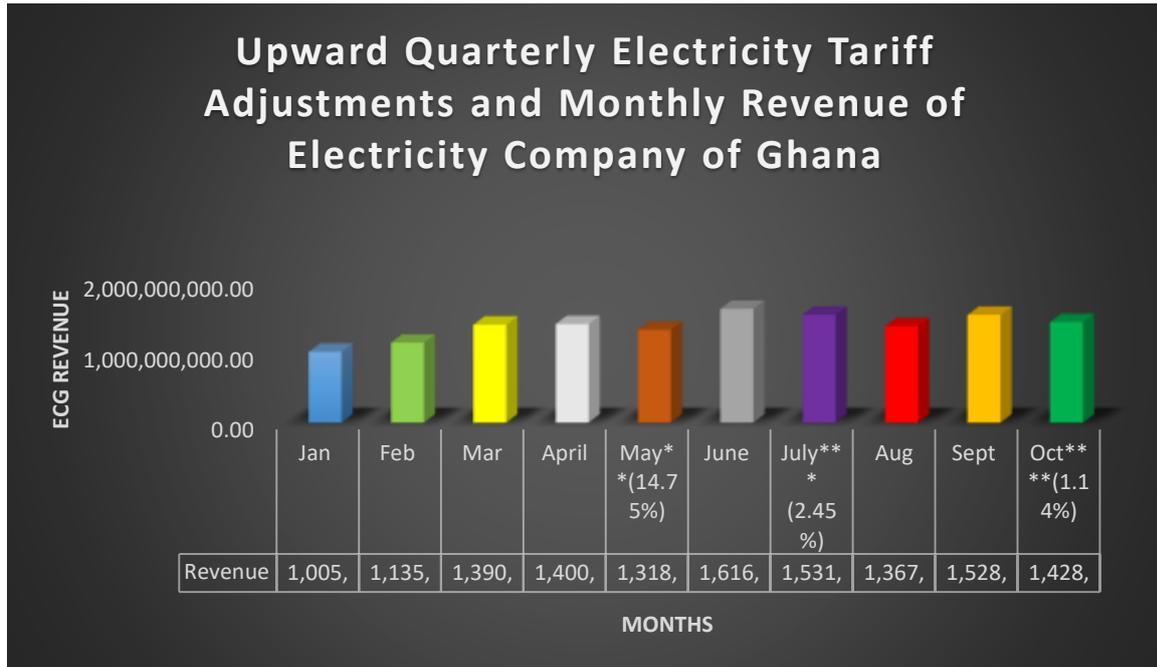
### **Increase in tariff not reflecting in ECG Revenue Mobilisation**

The recent increases in electricity tariffs have not led to significant improvements in revenue collection for the Electricity Company of Ghana (ECG). According to the Cash Waterfall Validation Report, ECG's revenue in April 2025, prior to the implementation of the first and second quarter upward tariff adjustments of 14.75 percent, stood at approximately Ghc1.4 billion. Following the tariff adjustment on May 3, 2025, revenue recorded for May 2025 declined to about Ghc1.3 billion, representing a decline of roughly 7% compared to the previous month. Although revenue increased to about Ghc1.6 billion in June an improvement of approximately 14.29 percent over April, it declined again in August to Ghc1.3 billion, similar to the levels observed in May.



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In July 2025, another upward tariff adjustment of about 2.45 percent was implemented as part of the quarterly revision for the third quarter. Despite these successive increases, the average revenue inflows following the adjustments have remained largely unchanged from the period before the tariff hikes.



*Source: PURC, Ghana*

The findings from the Cash Waterfall Mechanism indicate that ECG’s revenue performance has deteriorated following the multiple tariff adjustments, pointing to a growing challenge in revenue collection and a possible rise in uncollected revenue.

#### **Justifications for tariff reduction in first quarter of 2026 (1Q26)**

The context for the First Quarter of 2026 makes the case for correction even more compelling. The current exchange rate stands at approximately Ghc 10.99/USD, which is 6.35% lower than the Ghc 11.735 rate used to justify the Q4 increase. Meanwhile, the projected average inflation for Q1 2026 is a mere 3.4%, a stark drop from both the previous quarter’s actual inflation and the inflated projection used in the last monetary policy review. The trajectories of the key uncontrollable variables were consistently downward. To simply apply a zero percent increase for Q1 2026, as was done with water tariffs in Q4 2025, would constitute regulatory failure.



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It would ignore the fact that the baseline from which we are starting the Q4 tariff is itself artificially and significantly inflated due to an earlier over-recovery.

Therefore, a fair and credible regulatory framework must mandate a two-step adjustment in Q1 2026. First, the substantial over-recovery from Q4 2025 must be formally recognized and quantified in monetary terms. This sum, effectively a consumer credit, must be applied to offset the cost buildup for the new quarter.

Second, the Q1 2026 tariff must be calculated using the actual, lower starting exchange rate of Ghc 10.99 per USD and a modest 3.4% inflation projection. The combination of these steps, reversing the past overcharge and applying current, lower-cost parameters, will inevitably result in a double-digit percentage decrease in electricity tariffs of about **11%**. This is not a request for a subsidy or a populist measure; it is the mechanical and righteous outcome of applying PURC's cost pass-through formula accurately and honestly.

### **Conclusion**

Failure to enact a meaningful tariff reduction fundamentally corrupts the social contract underpinning the quarterly review system. This would signal that the mechanism is a one-way valve, adept at swiftly passing on hypothetical costs to consumers but paralyzed when it comes to returning overpayments. Such an outcome would erode public trust, undermine the PURC's legitimacy, and place an unnecessary drag on economic recovery by leaving businesses and families with less disposable income. The data are clear, the arithmetic is indisputable, and the principles of fairness are unambiguous. The PURC must now demonstrate the courage of its convictions by announcing a significant electricity tariff reduction for the First Quarter of 2026, thereby affirming that its primary duty is to balance evidence-based regulation, not merely to collect revenue for the utilities it oversees.

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