Directive on Structural Cost Reduction and Enhanced Transparency in the Energy Sector

WHEREAS, the Federal Democratic Republic of Ethiopia is implementing the second phase of its Homegrown Economic Reform Agenda (HGER 2.0), which aims at ensuring macroeconomic stability, create a conducive environment for trade and investment, boost the productivity of key sectors, and enhance the delivery capability of civil services;

WHEREAS, the Government is committed to advancing macroeconomic stability and structural transformation;

WHEREAS, one of the pillars of the broader second-phase Homegrown Economic Reform Agenda is energy sector reform;

WHEREAS, these reforms are laying the groundwork for enhanced investment, increased productivity, and progress toward key national development priorities, including expanding modern and sustainable energy systems;

WHEREAS, the Government seeks to expand access to reliable and sustainable energy, improve sector governance, and attract private investment in the energy sector;

WHEREAS, achieving reductions in costs and enhancing transparency are paramount of importance to ensure the long-term affordability and accountability of energy services, and are critical components of the energy sector reform under HGER 2.0;

WHEREAS, a well-defined and publicly accessible Integrated Least-Cost Power Sector Development Plan is essential for guiding strategic investments and ensuring optimal resource allocation across power generation, transmission, and distribution infrastructure;

WHEREAS, adherence to this plan is crucial for preventing uneconomical projects and promoting a cost-effective expansion of the energy sector, especially given Ethiopia's current fiscal and monetary constraints, which have limited the government's ability to finance critically needed energy infrastructure;

WHEREAS, the Government of the Federal Democratic Republic of Ethiopia aims to take necessary measures for the reorientation of State-owned enterprises towards operational and commercial efficiency;

WHEREAS, it is acknowledged that improving the regulatory framework under which private or state-owned enterprises operate would help to unlock their potential in contributing to socio-economic development, and national wealth;

WHEREAS, the Government is committed to the development of a National Sustainable Energy Development Strategy (N-SEDS)) and National Electrification Strategy (NES) to guide the sustainable growth of the energy sector;

WHEREAS, the Government has launched a Ten-Year Development Plan (2021-2030) to achieve its national development vision and strategic pillars;

NOW, THEREFORE, the Ministry of Water and Energy (MoWE), under the authority of Proclamation No. 1263/2021, article 32 directs the following:

Article 1 Short Title

This directive may be cited as "Directive on Structural Cost Reduction and Enhanced Transparency in the Power Sector No.___/2025

Article 2 : Establishment of a Transparent Mechanism for the Integrated Least-Cost Energy Sector Development Plan

The Ministry of Water and Energy (hereinafter referred to as "MOWE") shall establish and maintain a transparent mechanism for the preparation, periodic update and public dissemination of the Integrated Least-Cost Power Sector Development Plan (hereinafter referred to as the "Plan"). This Plan shall encompass all aspects of the power sector, including power generation, transmission, and distribution infrastructure.

a) MOWE shall identify and involve stake holders in the preparation and periodic update of the least cost plan, accordingly MOWE shall conduct public consultations during the development and updating of the Plan to solicit input from relevant stakeholders, including industry experts, civil society organizations, and the general public.

b) MOWE shall ensure that the Plan is updated every two (2) years to reflect evolving technological advancements, demand forecasts, resource availability, population settlement structure, urbanization and other economic social considerations.

c) The updated Plan, along with its underlying assumptions and methodologies, shall be made readily accessible to the public through the official website of the MOWE.

Article 3: Strict Adherence to the Integrated Least-Cost Energy Sector Development Plan for New Capacity Additions and Supply Expansions

a) Under exceptional circumstances if any capacity addition or supply expansion representing a deviation from the published Integrated Least-Cost Power Sector Development Plan is proposed, it will undergo review and validation by the petroleum and Energy Authority.

b) Subsequent to the validation by the PEA, formal approval from both the Ministry of Finance and the Ministry of Water and Energy shall be required for any such deviation.

c) A detailed and substantiated rationale, clearly demonstrating the compelling reasons for the proposed departure from the Plan, must accompany any request for deviation.

d) The rationale for any approved deviation, together with the validation report from the designated authority and the joint approval from the Ministry of Finance and the Ministry of Water and Energy, shall be publicly accessible via the official website of the Ministry of Water and Energy within forty-five (45) days of the approval date.

Article 4: Delegation of Responsibilities for Plan Updates

a) **Ethiopian Electric Power (EEP):** shall provide technical input, data, and analysis to MOWE for the periodic updates of the Plan.

b) **Ethiopian Electric Utility (EEU):**. shall provide technical input, data, and analysis to MOWE for the periodic updates of the Plan.

Article 5: Governance and Accountability of Implementing Entities

To ensure operational and commercial efficiency in the implementation of this directive, entities involved, particularly those that are State-owned, shall:

a) Operate in fair competition with private enterprises wherever possible.

b) Align their corporate governance with international best practices by establishing autonomy of their management while being held accountable and enhancing transparency.

c) Improve their financial performance and minimize fiscal risk and the burden to public finances.

Article 6: Electricity Tariff Setting Methodology

In setting electricity tariffs, the Petroleum and Energy Authority (PEA) shall adhere to the principles and methodologies outlined in the "Directive for Electricity Tariff Setting Methodology & Guideline" to ensure tariffs are just, reasonable, and non-discriminatory, while also enabling the financial viability of the power sector.

Article 7: Alignment with National Development Plans

The implementation of this directive shall be aligned with the goals and objectives of the National Sustainable Energy Development Strategy (N-SEDS) , National Electrification Strategy (NES) of Ethiopia and the Ten-Year Development Plan (2021-2030), ensuring a coherent approach to the development of the energy sector within the broader national development context.

Article 8: Role of Development Partners

Recognizing the challenges posed by fiscal and monetary constraints on financing critical energy infrastructure, particularly for rural and urban electrification, this directive acknowledges the vital role of international development partners. Their support through blended finance, technical assistance, and concessional funding mechanisms is crucial for de-risking investment and accelerating the implementation of the power sector reform agenda, ultimately unlocking the sector's full potential as a driver of equitable and sustainable development.

Article 9: Enforcement and Compliance

MOWE shall be responsible for overseeing the implementation of this Directive and ensuring compliance by all relevant entities within the energy sector.

Article 10: Effective Date

This Directive shall enter into force on 1st May 2025.

Issued 25 April, 2025 in Addis Ababa, Ethiopia.

Dr.-Ing Habtamu Itefa Geleta
Minister

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA MINISTRY OF WATER AND ENERGY