



ELECTRICITY REGULATORY AUTHORITY

**Parliamentary Stakeholder Consultation and Update
Workshop By ERA.**

Report

Workshop Venue: Imperial Botanical Hotel -
Entebbe

Date: 31st August – 2nd September 2006.

Executive Summary:

Electricity Regulatory Authority recently hosted a two-day symposium for Members of Parliament on the Sessional Committee on Natural Resources from 31st August 2006 to 2nd September 2006 at Imperial Botanical Hotel, Entebbe.

The Symposium for MPs was part of our regular consultation process and information sharing with key stakeholders on pertinent issues in the power sector. This symposium also followed an earlier update and briefing meeting with the Committee held on 3rd August 2006 at Parliament, where the MPs' expressed a need for another meeting to have more in-depth exchange of views on the electricity sector. The Symposium was specific to only members of the Natural Resources Committee, most of whom are new on the Committee, giving them basic information on the Sector. Additionally it was aimed at further consultation, discussions and provision of updates in Uganda's Energy Sector. The two-day symposium was a success in terms of attendance (see attached attendance list) and discussions.

Attendance:

- The Symposium attendance was comprised of sixteen MPs out of twenty on the Committee, along with one Secretary, one Parliamentary Economist, and a Parliamentary Research Officer.
- The Minister of Energy and Minerals – Hon Daudi Migereko attended the whole day's business and handled the Government Policy issues to the satisfaction of the MPs'.
- All other resource persons both ERA and its consultants on the program (see Annex) were able to attend except the Aggreko Representative (had traveled outside the country), and successfully deliver their presentations. Additionally all Authority members attended.

Objectives of the Symposium:

- Electricity Regulatory Authority regularly conducts consultation, and discussions with MPs who have a political overseeing role on electricity sector. The objective of consulting them is to understand their concerns while sharing ERA's views on the sector.
- This time round some of the MPs were joining this particular Sessional Committee for the first time and it was important that issues of electricity regulation are articulated to them early enough to enable them carry out their political oversight role over ERA and the sector more effectively.
- The urgent need for increased generation of electricity in the country required that all the stakeholders understand equally the sector needs and explore possible

solutions to reverse the crisis.

- There is a need for all stakeholders (including Parliament) to support the Government policy on rural electrification in order to expedite its success.
- ERA's recognition that without the partnership with MPs on this Committee, ERA's work can be difficult since they approve Government Policy and make important decisions for the sector.
- Finally to brainstorm together and obtain input from MPs on the way forward with rising power tariffs due to scarcity of cheaper hydro electricity and its replacement with the more expensive thermal generation.

Presentations (see appendices attached):

The following presentations were made during the two-day symposium: -

- Current Government of Uganda Policy and strategies for the electricity sector.
- Rural electrification program, status to-date and milestones
- Present Power shortages vis-à-vis low lake levels and load shedding. The challenges of mitigating.
- The Licencing procedures and challenges to-date.
- Meeting the financial needs of the changing energy supply mix for Uganda.
- Tariffs setting and the economic impact of electricity shortages.
- Demand-side Management of electricity consumption
- Current demand and supply status, a sector outlook for the medium and long term implications.
- Umeme Ltd – improvements of electricity distribution and milestones of the company to-date.
- Summary findings of the ERA stakeholder satisfaction survey.
- Summary findings of the Impact of the electricity sector on the industrial sector.

Issues and concerns raised during the Symposium:

- Should we continue subsidizing the energy sector especially at the generation end with Aggreko? Where is their incentive to generate efficiently? If they fail to sell their units, then they should go out of business

Ans: If the true cost of the electricity as it today were to be passed through to consumers, the end user tariff would be much higher than it is. Consumers are already complaining about the tariff increments. Government has chosen to subsidize the tariff to give a relief to the consumers.

Aggreko is professionally monitored to check that it stays within the efficiency levels in the contract. If their efficiency falls below the agreed level, they do not get any benefit. If their efficiency improves, they take the benefit. As efficiency improves, the sector gets benchmarks to use for the next entrant which will be higher than the previous one. So, there is an incentive to improve efficiency.

- Is ERA doing what it is supposed to do, i.e. monitoring these operating companies to operate efficiently? Is it in touch with the Company? Or only the distributed power? Why has the country opted for light diesel fuel for thermal generation and not HFO?

Ans: ERA is in charge of monitoring the operating companies and is in touch with all of them. The companies provide regular reports on their operations, which are scrutinized by ERA, and ERA conducts statutory inspections of the facilities of the companies.

The country opted for light diesel thermal plant due to the emergency at that time. It takes a shorter timeframe to construct a light diesel thermal plant compared to the HFO plant or even a hydropower plant. The cost of waiting for the cheaper option is also higher for the economy.

- As a Committee they are torn between two i.e. Directorate of Water Development needs and generation of power at Jinja. The Committee wants clarity on who is responsible for what, and where problems exist, and the way forward.

Ans: DWD has a separate role from Eskom. Eskom generates electricity inline with DWD directives. The major cause of reduced generation at Jinja is not due to historical releases, but rather that the water is not sufficient due to the prolonged drought that the region has suffered. Similar occurrences have been reported in Kenya and Tanzania hydropower plants and yet these are not in the same catchments as Lake Victoria.

- Why is the IGG's office sometimes so stringent even where the Law is flexible? What has been the Government Policy on the recent award of the Jacobsen AS Electro Project and the way forward? How have the highlighted problems been solved?

Ans: The IGG has her mandate and ERA has theirs. As noted the Jacobsen AS Electra project has been given green light to go ahead by Government following thorough consultation and discussions with the Attorney General and other key Government Agencies. The main issue that was outstanding but has now been resolved was the interpretation of the Law by the Attorney General.

- How do the concessionaire agreements inhibit / or progress the rural electrification program

Ans: The concessionaire agreements are not in any way affecting progress of the rural electrification program. Actually they bring the much-needed funds to the sector, which directly enhances and speeds up rural electrification.

- Umeme Ltd: are they winding up? Are they performing? How is their performance related to their investment?

Ans: Umeme will speak for themselves. But evidence available does not show that they are winding up. They have made improvements to the sector, which are commendable. At the same forum, Umeme Ltd Managing Director appealed to MPs not to believe mis-represented press reports, and confirmed that Umeme Ltd was in Uganda to stay and do business in the country.

- What is the status of the rural electrification program in the North?

Ans: The following are the planned networks to be established in the Northern region: -

- ✓ **The Karamoja – Lira – Moroto – Soroti loop by the Ministry of Energy and Minerals.**
- ✓ **Strengthening the Karuma – Lira - Murchinson– Lake Albert Peninsula line.**
- ✓ **The Gulu – Kitgum line planned by UETCL.**

- Why is it that NWSC is still not yet unbundled up like UEB, and yet perform well?

Ans: The objectives of unbundling are;

- ✓ **To facilitate fair competition for generation services. In other words, unbundling transmission and distribution services should not favor one-generation service or provider over another.**
- ✓ **To aid the effort to make the electric system more efficient and reliable.**
- ✓ **To recover the properly apportioned costs of these regulated services, and no more. Regulated services should not subsidize competitive ones.**
- ✓ **To facilitate competition and efficient markets.**

Unbundling is a continuous process. The initial attempts to price unbundled services will need refinement as better estimates of costs become available and as service functions and offerings are modified.

Unbundling of UEB has already brought several benefits to the electricity sector in the areas of private sector involvement, and more efficient allocation of resources by utilities. The problem with the sector is that for along time there was too little investment, which has led to the rather low level of service. Unfortunately, Governments cannot raise alone the amount of investments needed given all other challenges. The water and electricity sectors are different and therefore pose different challenges. Where investments in service provision in the water sector are smaller, in the electricity sector it is much higher.

The renewed private sector interest created by unbundling is expected in the long run to yield the necessary investments.

- How will the energy saving bulbs be distributed? Why doesn't Government inject more money in a solar project instead of free energy savers?

Ans: This is a MEMD initiative. The point is noted and MEMD will be asked to explain.

- Why doesn't the private sector procure the energy savers instead of distributing free ones? Alternatively Government should institute a new Law to stop the importation of high-energy bulbs, and utilize the funds meant to import free energy savers to increase generation. Why don't people pay for their bulbs?

Ans: The points raised and concerns expressed above by MPs have been noted.

- The population requires a thorough explanation of the implication of the present day subsidies being enjoyed by electricity consumers. What implications do these have on future generations? How sustainable are they?

Ans: Subsidies are not sustainable. As the energy mix is increasingly having more thermal power, there is a point where the government will not afford the subsidy anymore. This possibility of government non-payment is a risk to investors who would rather invest where they are sure that the market can raise the necessary funds.

- Mps thanked ERA, MEMD for the strategies in place to handle the power shortage crisis. Wanted to know more about Government plans and electricity generation through solar. Is Government thinking of a solar panel assembling Plant? Plans on rural electrification with electricity from Biomass?

Ans: Government is addressing the affordability of solar panels. A plant is desired but the problem is the costs of having it vis-à-vis the size of the market. What is important is to create a market first and then manufacturing will be justified. However, there are already a number of firms that are assembling solar panels and possibly as the market enlarges, these could start full manufacturing. Additionally subsidies will be given to companies taking solar to upcountry destinations.

Solar system is not affordable. There was a project on solar funded by the World Bank which ended. A new project to provide long-term financing to companies to provide solar equipment at a cheap price is being formulated.

It may be possible to provide funding to companies to manufacture but the funding agencies i.e. World Bank would need to be sure that the products will be used in Uganda.

- Concerned about how the country looks at electricity. Is it a public good or a private good?

Ans: Electricity is not a public good. A public good is one, which, once provided to one user, must be provided, in the same amount to all users due to its non-rival and non-excludable nature. A good is non-excludable if it is not possible to prevent anyone from consuming the good once it has been

made available to the public. A good is non-rival if one person's consumption of that good does not reduce the quantity available for consumption by someone else. Electricity clearly does not fall in this category.

On the other hand a private good is a good that is both excludable and rival. A good is excludable if it is possible to prevent someone from consuming that good once it has been made available to the public. A good is rival if one person's consumption of that good reduces the quantity available for consumption by someone else. Electricity falls in this category.

There can easily be market failure with public goods because the private sector producers will not supply public goods to people because they cannot be sure of making an economic profit. Consumers can take a free ride without having to pay for the public good or service. Public goods are provided collectively by the government, and then financed through taxation of individual households and businesses.

The Energy Policy 2002 recognizes the need to have cost-reflective tariffs this further confirms that electricity is a commercial good.

- Boundaries of rural versus urban electrification should be seen and made obvious. Does the program have a provision for low-cost power vis-a-vi high cost depending on existence?

Ans: Demarcation of rural versus urban jurisdictions of electricity flow is not possible since once electricity flows through the grid system it flows all over the country.

- For projects implemented with public finances, what are their statuses? Where are such projects in the East? What are the criteria for grid extension?

Ans: The following are on-going projects in the east or projects planned but not funded in 2006/07 budget also in the East of Uganda: -

- ✓ Bugiri – Wakawaka Fish landing site project – on-going.
- ✓ Soroti – Katakwi/Soroti – Kaberamaido Lines (planned but not funded).
- ✓ Kagadi – Muzizi/Kagadi – Mbale lines 9 Planned but not funded).

The main criteria used in grid extension are as follows: -

- ✓ Economically active areas / enterprises.
- ✓ Administrative headquarters (e.g. Districts)
- ✓ Social service amenities (health, education, water supply).

However it should be noted that the resource envelope doesn't allow all areas to be covered at the same time and that is the reason behind phasing of different projects in each year.

- Why is Mt. Elgon out of the REA Projects?

Ans: The Mt. Elgon Electricity Company Project is still on course.

- Can Kapchorwa benefit from Power generated in Arua?

Ans: if the grid is interconnected to all parts of Uganda this is possible.

- Concerned about the imbalance in ERA Authority members. Reminded that 1/3 should be women which translate to two female positions on the board.

Ans: This is a welcomed recommendation that will be pursued under our action points proposed and pursued by the Ministry of Energy and Minerals.

- Why does construction of larger hydro in Uganda delay so much after MPs visited China and saw technology and bureaucracies which work / don't take too long.

Ans: China manufactures hydro generating machinery / equipment while Uganda does not. More so China manufactures in bulk and hence each unit cost per machinery is relatively very low.

Additionally China and Uganda have different political structures. Whereas the China system is central command, Uganda has a democratic system of governance and allows for debate of projects before decisions are made. Sometimes debates have led to delays in implementation of projects.

- How are consumers protected from exploitation especially with private ownership of power concessionaires? What are the standards in place?

Ans: This is the one of the Regulatory roles of ERA. The Electricity Regulator is an independent Agency of Government established to over see the sector. We professionally perform our tasks through tariff approvals, public consultation, receiving complaints that Utilities have failed to handle and monitoring and enforcing compliance.

- Clarification needs to be provided by ERA what efforts are being undertaken to reach those regions without power at all. A policy on this is necessary.

Ans: The policy to reach non-electrified areas exists. The challenge to-date is to increase the generation capacity because the network cannot be expanded when the generation is insufficient.

REA is developing a master Plan for Rural electrification (IREMP) for the whole country. The Act provides for funds for rural electrification. There are donor funds also to this activity. These may not be sufficient to cover the whole country at once but the government will follow this plan, which has criteria for selection of different projects and arrangements for O&M.

- Concerned that committee has a number of in-put on rural electrification and Government Policy. Agreed to document all the points down and responded to later at an appropriate time.

- Concerned about Umeme's conduct, their operations and customer care. Concerned that some of their staff connive with customers' to defraud the system.

Ans: Noted. To be brought to Umeme's attention but difficult to implement if consumers do not report these occurrences as stipulated

- ❑ Concerned that the initial connectivity cost for power in Uganda is prohibitive. Even for a no pole service.

Ans: Noted. Probably requires attention by Umeme or Policy Makers. Note that the connection cost is already subsidized.

- ❑ Want to know the program to promote solar in schools – status?

Ans: Solar program for schools handled by MEMD.

- ❑ What is the true status of the thermal project meant for Mutundwe that was moved to Namanve? Why?

Ans: Negotiations in progress for Namanve project. The project was moved to Namanve since it is a more permanent project and would have meant more environmental concerns due to emissions given that Mutundwe is a residential area. The project now designated for Mutundwe will be an emergency one and of temporary nature.

- ❑ The President has been heard several times swearing that Karuma Project will be built. But the Minister said earlier that this too had problems. What is the truth about this project? Is it true that power from it will be costly due to transferring it on the grid all the way to Kampala? Why does that have to be done?

Ans: The Karuma project will be built with government participation. However the development phase has only started in earnest only recently. The Bujagali project is still ahead in development. Additionally the cost of transmission may increase the cost of power especially if the load centers to consume most of the power are located far away.

- ❑ What is the necessity of advertising a project in the newspapers when one can lose it to competitors just like Karuma has lost out?

Ans. To get the comments of affected stakeholders and concerned public agencies.

- ❑ Do tariffs have a chance to go down again i.e. decrease when costs inputs reduce?

Ans: Yes!

- ❑ Noted that Members were grateful that they have been consulted early enough on the likely increase in the tariffs.

Ans: ERA appreciates the members' enthusiasm and promises a further dialogue to discuss more widely.

- On the note of ERA satisfaction survey, the costs for the consultancy should have come from Government to maintain independency.

Ans: Noted that the consultant's opinion was professional. A report would be provided to the committee so that they can appreciate the methodology used.

- What is the basis of payment to Eskom? Is it-installed capacity or generated capacity?

Ans: Installed capacity. The actual payment is fixed in the contract and was bided by ESKOM. However, relative to energy this would mean that a reduction in energy would imply an increase in per unit energy cost. Also, the Operation & Maintenance costs do not vary much with respect to changes in energy production. Eskom couldn't take on hydrologic risk for a plant they did not design.

- In the case of tabulating depreciation costs, who benefits? Is it Eskom alone? Or even Government?

Ans: Eskom only takes depreciation on the investment it makes. With respect to Government, the depreciation earned is being used to offset loans for now.

- If Umeme Ltd is given a provision for bad debts, and systems losses. Where is the incentive for them to perform?

Ans: The allowance for bad debts and losses is reduced every year in the tariff calculations regardless of whether these are actually achieved. If they are not achieved, Umeme takes the loss. Additionally Government through ERA is closely monitoring the performance of this Company against pre- agreed benchmarks.

- What is the disadvantage of using solar power in the long run if any?

Ans: None other than the disposal of the used up batteries in the long-run (10 years). It should be noted that Solar Power applications currently available on the market are good for lighting and small applications. They cannot be used for cooking. There is an application from at least one interested developer that was received by the ERA. This developer wants to develop bigger systems up to 50MW for grid sales. The cost of such systems is however still high and the experience in the world is limited.

- And why does Government import more expensive power from Kenya?

Ans: Uganda imports electricity from Kenya because there is a serious shortage crisis and we would not like to stop our economy from growing. Once we have our own, we shall stop importing Kenya's power.

- How has dealing with the bad publicity and image during the investigation by the IGG affected ERA's performance?

Ans: The investigation over the Jacobsen Project brought further delays in the project implementation timeframe and hence Ugandans will have to wait longer for more power. ERA took time off to handle investigations, which further delayed their work. However ERA did not find it prudent to fight another government Agency in the newspapers.

Discussions:

- Discussions during the Symposium were informative and educative.
- Unanswered questions have been noted and will be taken up as action points for the Regulator.

ACTION POINTS:

- Workshop Report will be circulated to participants following compilation - CEO.
- Response to unanswered questions / issues raised will also be responded to in the same report.
- The issue of having a gender-balanced Authority is being handled as an action point with the Ministry of Energy and Minerals.