

THE CHIEF EXECUTIVE OFFICER,  
Electricity Regulatory Authority,  
Plot 15 Shimoni Road, Nakasero,  
Uganda, Kampala

Date:  
2<sup>nd</sup> November 2017



★ Enquiries  
★ Moses Kagoro Kahumuza  
Tel: +256 332 240405

Dear Madam,

**RE: EUL APPLICATION FOR 2018 TARIFF REVIEW.**

In accordance with our Generation license, we take the pleasure to submit our application for the 2018 tariff as US\$ **43,798.60** per MWh (See Appendix A) based on the following information:

- a. The investment assets added in 2017 amount to **USD 2,503,672.34** only and these were all financed from Eskom's internally generated funds as shown below:

INVESTMENTS COMPLETED	ACTUAL USD	APPROVED USD	VAR. USD	COMMENTS
ASR works	157,506.40	250,000.00	92,493.60	Negotiated Price
NPS/ KPS Crane Refurbishment	91,174.44	115,630.00	24,455.56	Negotiated Price
NPS Generator Fire Protection	831,786.50	915,850.00	84,063.50	Negotiated Price
Unit 3 Blade Servo Refurbishment	1,423,205.00	1,423,205.00	-	Within Budget
<b>Total</b>	<b>2,503,672.34</b>	<b>2,704,685.00</b>	<b>201,012.66</b>	

- b. All investment assets are depreciated over a twenty year period as approved by ERA and also in line with the Concession and Assignment Agreement; thus a weighted depreciation rate of 16,16% per annum is derived.
- c. The 2018 concession fees were assumed to increase by 10% basing on the 2017 4<sup>th</sup> quarter approved figure, and net of the 2017 over recovery due to the TA factor; while the regulatory fees and royalties were assumed to remain the same at **USD900,000** and **UGX292** per MWh respectively.

However; the actual amounts may vary in line with ERA's approval of the submissions for the year 2018 by the respective beneficiaries.

- d. The operating and maintenance costs (O & M) split is **62.32%** local and **37.68%** foreign (see appendix B attached) based on the following:-
- The cutoff date for the O&M UGX/USD split is 30<sup>th</sup> September 2017.

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- All expenses have been included except Concession Fees, Regulatory Fees, Royalties, promotional costs and finance costs which are not covered by GOMC.
- The rest of the costs have been split in accordance with the currency in which they were incurred.
- The depreciation charge has been modified by excluding investment assets' related depreciation in deriving its currency split.
- All other foreign currencies (such as Rand, Euro, etc.) have been considered as foreign under USD category.

Currently, the locally supplied goods and services are being contracted in UGX in a bid to scale down the foreign component as per detailed analysis in Appendix B. This initiative is still new but so far some expenditure lines such as audit fees, legal and consultancies from Ugandan service providers were successfully contracted in UGX. Despite the challenges, this campaign will be continued and a noticeable reduction is expected to be realized in the years to come.

e. The plant generation and performance outlook is as shown below

Parameters	Oct YTD 2017	2018 Forecast	comments
Hydrology (m <sup>3</sup> /s)	1,044.34	1,000	Assumes current water permit allocation shall be maintained
Energy generation (MW/hr)	178.4	176.9	Assumes water flow of 1000m <sup>3</sup> /s
Available capacity (MW/hr)	187.6	173.9	Assumes water flow of 1000m <sup>3</sup> /s
Tested capacity (MW)	309.2	309.2	Sustained for 3 hours using 5 and 8 units at KPS and NPS respectively
Water energy conversion factor (m <sup>3</sup> /kWh)	20.25	20.35	Lake level assumed to average at 12m
Auxiliary consumption (MW/hr)	0.21	0.25	To be maintained within 0.25MW/hr
Plant availability %	95.71	97.1	As per 2018 GOMC target. Some projects that require shut down beyond 15 consecutive days outages are to be executed under

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maintenance outages and this will be requested and approved by UETCL in line with the PPA provisions

- f. The Bank of Uganda (BOU) Interbank average exchange rate posted on 30<sup>th</sup> October 2017 and the Consumer Price Index (CPI) for the month of October 2017 from Uganda Bureau of Standards (UBOS) have been used in the derivation of the capacity price.
- g. It is projected that the 2018 investment spend will be **USD 20,221,066** in investment projects as detailed in the list below. However, it is important to note that some of the investments will be initiated in 2018 but completed in the subsequent year 2019.

Furthermore, projects related to further ASR remediation works have not been estimated as assessment of the anchors are still being undertaken. Once completed, the recommendations of the outcome will be submitted separately after UEGCL's acceptance.

#### Proposed 2018/2019 Investment Projects to the undertaken

No.	Project description	Approved cost as per GOMC	Revised Cost	Status	Comments
1	Main dam refurbishment	2,000,000	3,350,000	Undergoing contract Negotiations	The cost of mobilisation of necessary equipment into the country scaled up the cost above earlier estimate. Detailed report to be shared with UEGCL & ERA for new approval before year end 2017
2	KPS excitation system upgrade	1,500,000	1,498,522	This is under Execution	Within the approved budget
3	Unit 3 & 5 Generator transformer	800,000	1,200,000	Undergoing internal approvals of scope & design.	Benchmarked on similar previously commissioned projects and cost escalation due to technology considerations.
4	KPS Station computer and switchyard computer upgrade	1,173,819	1,173,819	Execution to commence in Dec 2017	Within the approved budget
5	NPS Under water repairs	250,000	480,000	At procurement & contracting	Results from the open bidding process. Revised

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6	Civil Repairs for Downstream Columns for Units 5-10	0	480,000	Studies concluded and TOR being developed	approval required to proceed with execution. This is being undertaken earlier than planned in 2019 for purposes of dam stability.
7	KPS circuit breaker upgrade (Unit 11, 12 13)	1,600,000	1,300,000	At contracting stage	Negotiated price
8	NPS new Oil-water separator system	900,000	1,425,126	Under tendering	Results from the open bidding process. Revised approval required to proceed with execution
9	Battery charger replacement (110&50v NPS)	150,000	305,000	Under tendering	Results from the open bidding process. Revised approval required to proceed with execution
10	KPS AC 70 Upgrade	450,000	450,000	Internal approval of scope and design	Maintained at same budget rate on the assumption that having installed the switchyard computer, this will be reasonably lower.
11	Excitation upgrade (units 6&10)	600,000	750,000	Internal approval	Benchmarked against ongoing project at KPS which is twice this one.
12	KPS Electronic governor upgrade - units 14 & 15	650,000	800,000	Internal approval	Benchmarked cost from similar works at NPS though this has fewer design requirements
13	KPS advent control system upgrade from AC410	700,000	1,200,000	Internal approval	Benchmarked against the ongoing project and adjusted to same cost as it will be back to back with same OEM
14	Line and substation protection (Bus Zone) Phase 1	0	500,000	Under design stage	Execution to be done in phases and this is to replace the aged bus zone protection installed in the 1960s.
15	Replacement of 11kV Cables for NPS units	0	2,743,599	Under design stage	Execution to be done in 2018 earlier than original plan of 2019/2020 and this is to replace the aged cables installed in the 1954.
16	NPS hydraulic governors upgrade	960,000	1,420,000	Under contract negotiations	Results from the bidding process driven by enhanced technology. Revised approval required to proceed with execution.

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17	KPS waterways repair (unit 15)	700,000	700,000	Under scope of work formulation	This has been swapped with Unit 14 that is fairer than 15 in terms of deterioration.
	<b>Sub total</b>		<b>20,221,066</b>		
17	NPS Synchronising system Upgrade	400,000	600,000	Contract to be issued in 2018	To be phased in 2018 & 2019
18	NPS Blade servo unit refurbishment-Unit 10	850,000	1,600,000	Machine opening to be done in 2018 and commissioned in 2019	Benchmarked cost on 6 & 3 similar works undertaken
19	KPS waterways repair (unit 14)	700,000	700,000	Contract to be issued in 2018	This has been swapped with Unit 14 that is fairer than 15 in terms of deterioration.
20	NPS 1 Auxilliary & 3 unit transformer replacement	200,000	200,000	Contract to be issued in 2018	To be completed in 2019
21	NPS Blade servo unit refurbishment-Unit 1	850,000	1,600,000	Machine opening to be done in 2019 after commissioning Unit 10	Benchmarked cost on unit 6 & 3; execution phased for 2019 & 2020
22	New NPS instrumentation	1,000,000	1,000,000	Contract to be issued in 2018	Execution phased for 2018 & 2019
23	NPS Gen transformer cooler nests	200,000	200,000	Contract to be issued in 2018	Execution phased for 2018 & 2019
24	KPS protection system upgrade (Units 13, 14 & 15)	600,000	1,800,000	Contract to be issued in 2018	Benchmarked cost from previous similar works; execution phased into 2019
25	Pumps (KPS drainage pumps)	420,000	420,000		To be installed in 2019
26	Vibration monitoring system Upgrade (units 11-15)	400,000	400,000	Contract to be issued in 2018	Execution phased for 2018 & 2019
27	Line and substation protection (Bus Zone) Phase 2	0	500,000	Contract to be issued in 2018	Execution to be completed in 2019
28	Line and substation protection (Bus Zone) Phase 3	0	500,000	Contract to be issued in 2018	Execution to be completed in 2019
	<b>Grand Total</b>	<b>14,680,000</b>	<b>29,441,066</b>		

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Looking forward to your usual support and cooperation.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Thozama Gangi', enclosed in a circular scribble.

Thozama Gangi

**Managing Director**

#### **Attachments**

- 1) Appendix A: Capacity Price Components
- 2) Appendix B: O & M split

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Appendix A

CAPACITY PRICE (CP) COMPONENTS

Tariff Parameters	
	US\$ 000
Gross Investment	23,454.7
Cumulative Capital Recovery	10,913.2
Net Investments	12,541
GOMC	9,211.0
Concession Fee	2,142.9
Return on Investment	12.0%
Capital Recovery	16.16%
Tax Rate	30%
Local Currency Content	0.6232
Base CPI	144.3
Current CPI	164.0
Base FX	2,866.8
Current FX	3,649.92

Revenue Requirement	
	Ushs 000'000
Capital Recovery /Dep	13,834.2
ROI	5,493.1
Taxes	2,354.2
GOMC Local	18,697.0
GOMC FX	12,667.8
Concession Fee	7,821.6
Licensee Fees	3,284.9
Royalties	444.8
Skills Development Program	122.0
<b>Total Revenue Requirement</b>	<b>64,719.6</b>

TC	173.9
TA	97.0%
<b>Capacity Price 2018</b>	<b>43,798.60</b>

AP

## Appendix B

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2018 CP - O &amp; M SPLIT AS AT 30TH SEPTEMBER 2017

GL Code	Expenditure Line	Total Expenditure	UGX	USD	RND	GBP	EURO	DISALLOWED COSTS
211110	Material	1,052,623,088.74	857,978,514.35	194,644,574.39	-	-	-	-
211120	Spares	325,424,901.07	66,941,551.41	258,483,349.66	-	-	-	-
211140	Meals,	-	-	-	-	-	-	-
211160	SAP- Non Stock Default	81,337.39	81,337.39	-	-	-	-	-
211180	Tools - Maintanace	93,679,438.84	63,625,611.69	30,053,827.15	-	-	-	-
211190	Other Outage Costs	1,389,116,267.21	152,344,298.56	1,236,771,968.65	-	-	-	-
212110	Leases / Concession Fees	7,986,473,999.85	-	-	-	-	-	7,986,473,999.85
212930	Purchase Price Variance	-	-	-	-	-	-	-
212960	Inventory Adjustments	60,505,266.27	60,505,266.27	-	-	-	-	-
221111	Salaries - Local	3,876,727,146.78	3,876,727,146.78	-	-	-	-	-
221112	Salaries - Expatriate	111,622,753.88	8,395,112.39	103,227,641.49	-	-	-	-
221115	Overtime	475,418,021.80	475,418,021.80	-	-	-	-	-
221119	Medical Aid	1,127,954.00	1,127,954.00	-	-	-	-	-
221122	Acting Allowance	10,044,451.00	10,044,451.00	-	-	-	-	-
221124	Energy Allowance	24,552,000.00	24,552,000.00	-	-	-	-	-
221125	Standby Allownaces	12,248,996.76	12,248,996.76	-	-	-	-	-
221126	Risk Allowance	1,350,000.00	1,350,000.00	-	-	-	-	-
221127	Shift Allowances	60,019,146.30	60,019,146.30	-	-	-	-	-
221128	Fire Fighting Allowance	15,419,845.00	15,419,845.00	-	-	-	-	-
221129	Leave Pay	7,371,000.00	7,371,000.00	-	-	-	-	-
221132	Weekend Travel Allowance	163,620,000.00	163,620,000.00	-	-	-	-	-
221135	Transport	61,916,143.22	61,916,143.22	-	-	-	-	-
221137	NSSF	542,908,616.57	542,908,616.57	-	-	-	-	-
221139	Bonus Pay	653,232,820.59	653,232,820.59	-	-	-	-	-
221142	Provident Fund Co. Contrbttn	181,497,466.70	181,497,466.70	-	-	-	-	-
221145	Bonus Other	69,300,000.00	69,300,000.00	-	-	-	-	-
221200	Other man power	103,854,235.92	49,601,166.00	54,253,069.92	-	-	-	-
221201	Casuals	114,913,050.09	114,913,050.09	-	-	-	-	-
221205	Contracted/Consultancy	81,166,749.64	18,415,528.34	62,751,221.30	-	-	-	-
221210	Directors Fees	237,366,301.00	237,366,301.00	-	-	-	-	-
221212	Directors Other Costs	15,730,154.10	15,730,154.10	-	-	-	-	-
221215	Training	430,259,255.61	69,788,551.45	360,470,704.16	-	-	-	-
221310	Management fees - InterCompany	828,133,661.75	-	-	828,133,661.75	-	-	-
221405	Audit Fee for Audit	117,235,361.97	117,235,361.97	-	-	-	-	-
221406	Audit Fee for Other Services	615,500.00	615,500.00	-	-	-	-	-
221410	Consultancy	-	-	-	-	-	-	-
221415	Legal fees	33,219,460.00	29,610,000.00	3,609,460.00	-	-	-	-
221420	Secretarial Fees	24,750,000.00	24,750,000.00	-	-	-	-	-
221499	Others Professional fees	55,615,097.96	55,615,097.96	-	-	-	-	-
222110	Cleaning	85,500,000.00	85,500,000.00	-	-	-	-	-
222120	Meals	170,286,566.10	170,286,566.10	-	-	-	-	-
222125	Health & safety	178,530,678.13	178,530,678.13	-	-	-	-	-
222135	Food & Beverages	40,762,353.59	40,762,353.59	-	-	-	-	-
222140	Rent	299,249,812.31	-	299,249,812.31	-	-	-	-
222145	Telephone	50,639,019.12	50,639,019.12	-	-	-	-	-
222151	Insurance Assets	1,958,520,542.56	-	1,958,520,542.56	-	-	-	-
222152	Insurance Medical	151,951,500.03	151,951,500.03	-	-	-	-	-
222153	Other Insurance	11,318,541.49	-	11,318,541.49	-	-	-	-
222160	Maint & Repair- Non Prod Asset	102,639,247.00	102,639,247.00	-	-	-	-	-
222165	Maint & Repair - Buildings	30,252,126.88	30,252,126.88	-	-	-	-	-
222205	Bank charges	56,289,877.09	30,113,519.00	26,176,358.09	-	-	-	-
222215	Horticulture	177,776,100.00	177,776,100.00	-	-	-	-	-
222220	IT services	276,427,419.25	66,532,851.83	209,894,567.42	-	-	-	-
222225	Books & Periodicals	3,000.00	3,000.00	-	-	-	-	-



## 2018 CP - O &amp; M SPLIT AS AT 30TH SEPTEMBER 2017

GL Code	Expenditure Line	Total Expenditure	UGX	USD	RND	GBP	EURO	DISALLOWED COSTS
222240	Water Charges	28,940,186.49	28,940,186.49	-	-	-	-	-
222241	Electricity	15,141,929.62	15,141,929.62	-	-	-	-	-
222245	Security Services	254,539,864.17	254,539,864.17	-	-	-	-	-
222260	Stationery	8,640,698.79	8,640,698.79	-	-	-	-	-
222261	Stat & Print Photo.Paper	3,326,185.64	3,326,185.64	-	-	-	-	-
222262	Stat & Print Catridges	-	-	-	-	-	-	-
222263	Stat & Print Office Materials	330,305.64	330,305.64	-	-	-	-	-
222264	Stat & Print Tonner	870,000.00	870,000.00	-	-	-	-	-
222296	Subscriptions	26,106,855.52	26,106,855.52	-	-	-	-	-
222297	Courier charges	2,913,471.18	2,538,762.71	374,708.47	-	-	-	-
222299	Other Admin	36,525,532.54	36,525,532.54	-	-	-	-	-
222315	Licence fees / ERA	2,439,227,250.00	-	-	-	-	-	2,439,227,250.00
222316	Licence fees / Water (DWD)	15,037,499.97	15,037,499.97	-	-	-	-	-
222317	Licence Fees Communication	3,375,000.00	3,375,000.00	-	-	-	-	-
222320	Royalties	360,852,034.00	-	-	-	-	-	360,852,034.00
222335	Water Hyanchith Control	111,032,100.00	111,032,100.00	-	-	-	-	-
222355	Finance Costs	35,724,667.00	35,724,667.00	-	-	-	-	-
222399	Other Statutory	-	-	-	-	-	-	-
223110	Motor Vehicles Fuel	98,837,733.98	98,837,733.98	-	-	-	-	-
223115	Motor Vehicles Repairs & Servi	58,624,809.86	58,624,809.86	-	-	-	-	-
223121	Motor Vehicle Diesel Oils	-	-	-	-	-	-	-
223130	Motor Vehicles Other	883,000.00	883,000.00	-	-	-	-	-
223135	Travel and Accom Local	72,595,630.65	15,471,201.20	57,124,429.45	-	-	-	-
223140	Travel and Accom Airfares	38,405,221.47	-	38,405,221.47	-	-	-	-
223145	Travel and Accom Hotel acc	31,660,649.73	-	31,660,649.73	-	-	-	-
223150	Travel and Accom other	184,000.00	184,000.00	-	-	-	-	-
223305	Advertising	27,213,728.83	27,213,728.83	-	-	-	-	-
223310	Promotions	401,548,592.29	-	-	-	-	-	401,548,592.29
223320	Culture Committee Activities	29,533,123.50	29,533,123.50	-	-	-	-	-
223325	Corporate & Social responsibiy	-	-	-	-	-	-	-
231100	Depreciation Owned Assets	3,558,306,204.00	644,073,588.20	644,073,588.20	-	-	-	2,270,159,027.61
231190	Depreciation Premium	-	-	-	-	-	-	-
231300	Depreciation Transferred in	-	-	-	-	-	-	-
232105	Exchange Revaluation Gain/Loss	4,150,059.12	-	-	-	-	-	4,150,059.12
232115	Realised Xchange Gain/Loss	27,153,617.20	-	-	-	-	-	27,153,617.20
240310	Loss/Gain on Sale of Assets	-	-	-	-	-	-	-
240400	Interest Paid	336,158,655.99	-	-	-	-	-	336,158,655.99
	<b>Total</b>	<b>30,828,824,762.50</b>	<b>10,602,203,747.03</b>	<b>5,581,064,235.91</b>	<b>828,133,661.75</b>	-	-	<b>13,817,423,117.82</b>
	<b>Percentage Split</b>		<b>62.32%</b>	<b>32.81%</b>	<b>4.87%</b>	<b>0.00%</b>	<b>0.00%</b>	