



**ELECTRICITY REGULATORY AUTHORITY**

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**REGULATORY DECISION OF THE 227<sup>th</sup> AUTHORITY MEETING.**

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The Authority, at its 227<sup>th</sup> Meeting held on Wednesday 26<sup>th</sup> February 2014, in the ERA Boardroom at ERA House, Plot 15 Shimoni Road, upon consideration and taking into account the information availed to it in respect of the following matters, **RESOLVED** inter alia as follows:-

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**APPLICATION BY THE UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED FOR A MULTI-YEAR TARIFF.**

Hitherto, the Uganda Electricity Transmission Company Limited (UETCL) had been applying annually to the Authority for the approval of its annual budget. It was realized that the exercise was time-consuming, did not give UETCL the ability to plan beyond a one year horizon and also caused regulatory fatigue. As a result, the Authority prescribed a Multi-Year Tariff (MYT) regime covering the years 2014 to 2016.

**The shift from an annual tariff determination to a MYT regime would have the following benefits:-**

- (i) Reduction in regulatory effort by the Authority, UETCL and other stakeholders.
- (ii) Reduction in regulatory uncertainty, given the long-term nature of its revenue requirement and setting of the operational targets and ;

- (iii) Provision of a transparent and stable system of incentives and disincentives that enhance the efficiency of the operator.

In August 2013, UETCL submitted an application for the MYT 2014-2016, of UShs 64,964 million in 2014, UShs 76,262 million in 2015 and UShs 99,956 million in 2016, on account of operation and maintenance costs.

The application was published in the media and in the Uganda Gazette on 8<sup>th</sup> November 2013, calling on the public to submit comments and/or objections with respect to the application to ERA. No comments/objections were received.

On 23<sup>rd</sup> December 2013, a public hearing on the application was held at Imperial Royale Hotel and UETCL presented and justified the content of the application.

Emmerton Associates was engaged as an independent expert to analyze specifically the adequacy of the application, in regard to the transmission losses and the components of operation and maintenance costs, which are within the reasonable control of the company and the Consultant's analysis and recommendations were taken into consideration, in arriving at the MYT for 2014 to 2016.

After a comprehensive review of the application, the Authority approved the following costs and targets:-

- (i) The total cost of UShs 44,141 million in 2014, UShs 46,327 million in 2015 and UShs 50,370 million in 2016 as shown below.

**Approved Costs (real) in UShs million for the period 2014-2016**

Year	2014	2015	2016
Staff Costs	20,793	21,846	23,556
Other Staff Costs	2,860	3,047	3,578
Transport Costs	1,975	2,417	2,318
Administration Costs	6,671	6,544	7,467
Repair and Maintenance	6,000	6,000	6,000
Insurance	974	1,330	2,058
Spares	3,386	3,386	3,386

Total O&M	<b>42,659</b>	<b>44,570</b>	<b>48,363</b>
Less Other Revenue	-8,185	-7,919	-7,679
Net O&M Costs	<b>34,474</b>	<b>36,651</b>	<b>40,684</b>
<b>Other Costs</b>			
Bank Guarantees	981	986	991
License Fees	780	784	788
Communication Levy	98	98	99
Depreciation	3,204	3,204	3,204
Total Other Costs	<b>5,063</b>	<b>5,072</b>	<b>5,082</b>
Return on Equity at 8%	4,604	4,604	4,604
Total Costs	<b>44,141</b>	<b>46,327</b>	<b>50,370</b>

(ii) The funds provided under Repairs and Maintenance, Depreciation and Return on Equity were subject to UETCL accounting for the funds and the Authority undertaking an annual physical verification of the investments arising from the use of the funds and;

(iii) Transmission loss trajectory of 3.8%, 3.6% and 3.3% in 2014, 2015 and 2016 respectively.

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## **APPLICATION FOR PERMIT EXTENSION BY KABAAL ENERGY LIMITED FOR A 30 MW OF PEAT GENERATION PLANT IN KABAAL DISTRICT**

Kabaale Energy Ltd was issued with Permit No. 2007/008, for a period of twelve (12) months, effective 1<sup>st</sup> October 2007, to carry out the necessary studies and activities in connection with a 30 MW Peat plant in Kabaale District.

A tariff of US\$ 0.0881 / kWh was approved at the 198<sup>th</sup> Authority meeting.

The last Permit extension expired on 1<sup>st</sup> October 2013 and the following activities were outstanding:-

- (i) Conclusion of the environmental impact assessment and resettlement action plan studies.
- (ii) Acquisition of land for the peat plant and to extract the resource.

- (iii) Obtaining the water abstraction permit from the Directorate of Water Resources Management and;
- (iv) A detailed design of the plant and identification of the equipment supplier.

The Company indicated that the delay was attributed to the following reasons:-

- (i) The delay in the conclusion of the feasibility study for the Mirama – Kabaale line and conclusion of the exact location of the planned 132/33KV Kabaale substation, which would form the actual location of the plant and;
- (ii) There were over 600 land owners with whom to negotiate with land acquisition which required a significant amount of time.

Having demonstrated reasonable cause for the delay, the Authority approved the issuance of a twelve (12) months permit extension to Kabaale Energy Limited subject to:-

- (i) Posting a performance bond amounting to US\$ 33,000, valid for a period of 15 months and;
- (ii) Submission of a revised implementation time plan, clearly setting milestones for all outstanding activities.

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## **POWER PURCHASE AGREEMENT BETWEEN UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED (UETCL) AND KASESE COBALT COMPANY LIMITED (KCCL).**

Kasese Cobalt Company Limited (KCCL) holds License No. 099, for generation and sale of Electricity from a 9.9 MW Mini Hydro Power Plant on River Mobuku (Mobuku 3) in Kasese District.

At the 220<sup>th</sup> Meeting held on July 31<sup>st</sup> 2013, the Authority approved a 20-year levelised tariff of US\$ 0.0538/kWh for KCCL, to take effect from 1<sup>st</sup> September 2013 and the new tariffs formed the basis for KCCL negotiation and finalization of a Power Purchase Agreement (PPA) with the Uganda Electricity Transmission Company (UETCL).

The PPA was finalized, initialed and subsequently submitted by UETCL to the Authority for approval.

The following observations were made:-

- (i) The PPA was in tandem with the 20-year weighted Average tariff of 0.0538/kWh that was approved by the Authority and;
- (ii) The Energy Charges and the Annual inflation Adjustment of 4% per annum on the Operation and Maintenance Component of the Tariff of US\$ 48 per kW were as approved by the Authority.

Accordingly, the Authority approved execution of the Power Purchase Agreement between Kasese Cobalt Company Limited and the Uganda Electricity Transmission Company, subject to addressing typographical errors.

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## **POWER PURCHASE AGREEMENT BETWEEN UGANDA ELECTRICITY TRANSMISSION COMPANY LIMITED (UETCL) AND KILEMBE MINES LIMITED (KML)**

Kilembe Mines Limited (KML) holds License No. 076, to own and operate a 5 MW Mini Hydro Power generation facility on River Mobuku in Kasese District, to sell electricity to the National grid.

The Uganda Electricity Transmission Company Limited (UETCL), concluded negotiations with KML and initialed a Power Purchase Agreement (PPA), in respect with the purchase of power from the 5 MW mini HPP. In July 2013, UETCL submitted the PPA to ERA for Authority approval, without including applicable tariffs.

At its 225<sup>th</sup> Meeting of January 2014, the Authority approved tariffs applicable to KML, at US\$ 87.8/kWh for the period 1<sup>st</sup> January 2014 to 31<sup>st</sup> December 2014 and following which the PPA was reviewed.

**The following observations were made:-**

- (i) That the Government of Uganda had decided to concession KML's assets to a Chinese firm, Tibet and the transfer would take effect on 1<sup>st</sup> April 2014. The

concessionaire was expected to submit an application for the transfer of License No. 076.

- (ii) KML's license had not been renewed as a result of the expiry of the Power Purchase Agreement (PPA) and;
- (iii) A review of the PPA revealed that the issues that would affect the generator and the bulk purchaser had been adequately addressed.

Accordingly, the Authority approved the execution of the Power Purchase Agreement between UETCL and KML, subject to changing the word in the first paragraph of Section 2.3 to read **“without”** instead of **“with or”** inclusion of the approved tariffs in Schedule B of the PPA.

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### **APPLICATION FOR PERMIT EXTENSION BY NSONGEZI POWER COMPANY LIMITED FOR A 38 MW HYDRO POWER PROJECT IN ISINGIRO DISTRICT.**

Nsongezi Power Company Ltd was issued with Permit No. 2011/036, for a period of twelve (12) months, effective 15<sup>th</sup> September 2011, to carry out the necessary studies and activities in connection with a 38 MW Hydropower Plant along River Kagera in Isingiro District.

The last Permit extension was for a further period of six (6) months, effective 7<sup>th</sup> October 2013. During the period of Permit extension, the Company concluded the feasibility study and Environmental Impact Assessment of the proposed project and the detailed evaluation of the company's Environmental Impact Assessment report was considered at the 224<sup>th</sup> Authority meeting held on 3<sup>rd</sup> December 2013.

#### **The following activities were outstanding:-**

- (i) Acquisition of approval Certificates for Environmental and Social Impact Assessment (ESIA) from the National Environmental Management Council of Tanzania and National Environmental Management Authority (NEMA).
- (ii) Acquisition of Water permits from the Directorate of Water Resource Management (DWRM).
- (iii) Acquisition of NEMA approval for the ESIA and Resettlement Action Plan (RAP).

- (iv) Initialing of a Power Purchase Agreement with UETCL and TANESCO.
- (v) Finalizing the Salvaging studies for the artifacts at the Kansyore Island.

**The applicant indicated that, limited progress was attributed to the following reasons:-**

- (i) The feasibility study revealed that several households were likely to be affected by the proposed plant. The exact number of households would depend on the plant capacity which was also dependent on the dam height. The applicant indicated that it needed NEMA's approval on the design (dam height) before it could undertake the Resettlement Action Plan, which would inform determination of the cost for compensation.
- (ii) The applicant also indicated that it was difficult to conclude PPA negotiations with UETCL before concluding the cost estimation of the project, which was affected by delayed approval from NEMA and DWRM and;
- (iii) Tanzanian Government also demanded that the Company should enter into separate PPAs for Uganda and Tanzania, increasing administration costs for developer.

It was observed that whereas the Company had completed the feasibility study and Environmental Impact Assessment and submitted reports to ERA and NEMA for approval, the outstanding activities (initialing of PPA, NEMA and NEMC approvals for the EIA, RAP and water permits) were dependent on approval of the Environmental Impact Assessments by both NEMA and NEMC of Tanzania.

Accordingly, the Authority resolved to discharge the performance bond in the sum of US\$ 38,000, previously posted by the Company to secure completion of the feasibility studies and return the instrument, since the outstanding feasibility study activities were beyond the company's control. The Authority approved the issuance of a twelve (12) months permit extension to Nsongezi Power Company Limited, subject to submission of the revised implementation time plan.

## **APPLICATION FOR PERMIT EXTENSION BY MT. ELGON HYDROPOWER LTD FOR THE 3.1 MW HYDRO POWER PROJECT ALONG RIVER MUYEMBE AND RIVER SIRIMITIYO.**

Mt. Elgon Hydropower Company Ltd was issued with Permit No. 2010/025, for a period of twelve (12) months, effective 15<sup>th</sup> November 2010, to carry out the necessary studies and activities in connection with the development of a 3.1 MW Hydropower Plant along River Muyembe and River Sirimitiyo in Mbale District.

The project is supported by the Ministry of Energy and Mineral Development, through the Energy for Rural Transformation project.

The last Permit extension was granted for a period of twelve (12) months, effective 1<sup>st</sup> December 2012.

The consultant Posch and Partners consulting engineers engaged by the Ministry of Energy and Mineral Development started conducting the feasibility study activities and the hydrology and Environmental Impact Assessment studies were in final stages.

A delay in completion of the feasibility studies was attributed to damage to the access road to the project site, which were caused by washouts from heavy rains.

Accordingly, the Authority approved a six (6) months extension of Permit No. 2010/025, to enable proper completion of the feasibility studies, subject to the following:-

- (i) Posting of a performance bond of US\$ 7750, valid for nine (9) months, to secure completion of the feasibility study activities within the permit extension period and;
- (ii) Submission of a revised implementation time plan reflecting the effective date of the permit extension.

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Benon M. Mutambi, Ph.D.  
**CHIEF EXECUTIVE OFFICER**