



Regulating the Electricity Industry for  
Efficient and Reliable Supply at  
Equitable Prices

**WEST NILE RURAL ELECTRIFICATION COMPANY LTD  
(WENRECo.)**

**2013 TARIFF REVIEW**

**PUBLIC HEARING**

**AT**

**ARUA PUBLIC PRIMARY SCHOOL**

April 25<sup>th</sup> 2013

## **1.1 EXECUTIVE SUMMARY.**

On 12<sup>th</sup> March 2003, the Authority issued a License to West Nile Rural Electrification Company Limited (WENRECO) to construct, own, operate generation facility and generate, distribute and sell electricity in the districts of Arua and Nebbi. The License is for a duration of twenty (20) years.

On 21<sup>st</sup> November 2012, WENRECO applied to the Authority for an increment in the end-user electricity tariff from the current UShs 367/kWh to UShs 605/kWh for domestic consumers and from UShs 420/kWh to UShs 695/kWh for commercial consumers.

## **1.2 WENRECO'S APPLICATION FOR PROPOSED TARIFF INCREMENT.**

WENRECO stated the following underlying factors necessitating the upwards revision of the end-user tariff:-

- (a) In accordance with Clause 6.3 of the License, the initial tariffs were applicable for a period of five (5) years and thereafter the company was expected to apply for revision of the tariffs;
- (b) On 24<sup>th</sup> August 2010, the company submitted an application for revision of the end-user tariff. During the consultation process, Government of Uganda (GoU), as a key stakeholder raised concern over the appropriateness of the tariff increment before commissioning of Nyagak. Accordingly, GoU signed a Channeling Agreement with KfW in sum of US\$ 1.3 million to provide tariff support in order to maintain the tariffs that were prevailing, until the commissioning of the 3.5MW Nyagak mini-hydro power station when cost reflective tariff would apply;
- (c) The grant was expected to sustain the company operations until 30<sup>th</sup> September 2011 by which Nyagak was expected to be commissioned. However, the commissioning of Nyagak was delayed until 14<sup>th</sup> September 2012 causing financial loss to the company;

- (d) In July 2010, GOU through the Ministry of Energy and Mineral Development suspended the adjustment of the tariff for changes in macro-economic factors as per the tariff methodology;
- (e) The extended base operations led to the breakdown of the HFO plant in November 2011 necessitating generation to be maintained using diesel. The situation was exacerbated by :-
- (i) unprecedented high fuel prices;
  - (ii) The relatively higher cost of material e.g. steel, cooper, poles, transformers, and meters used in the distribution system operation and maintenance due to remoteness of the location and the lack of economies of scale in procurement, and;
  - (iii) The need to safeguard the company's 15.2% IRR stipulated in subsection 6.6.1 (b) of the Channeling Agreement.

### **1.3. REVIEW OF APPLICATION.**

The Authority is enjoined pursuant to the provisions of Section 10(f) and (g) of the Electricity Act to establish and prescribe tariffs and rates of charges in respect of supply, distribution, transmission and generation of Electricity. In so performing its function, the Authority is further obliged to conduct its functions in such a manner that ensures transparency in relation to the activities in the sector and therefore ensure a fair balance of the interest of consumers, the Government and participants in the power sector.

Accordingly WENRECO's application for tariff increase was advertised in the press and the ERA website calling for comments, objections and representations from the public to be submitted to the Secretary of the Electricity Regulatory Authority or the LC.V. Chairpersons' offices of Arua, Nebbi and Zombo Districts before 22<sup>nd</sup> April 2013.

The comments received from the public were forwarded to WENRECO for reactions and responses.

## 2.0 PUBLIC HEARING.

Pursuant to the provisions of the Electricity (Applications for Permit, License and Tariff Review) Regulations, 2007 a notice of public hearing New Vision Wednesday 17<sup>th</sup> April 2013, and the ERA website and the local radio stations and accordingly the public hearing was held 25<sup>th</sup> April 2013, in Arua District at Arua Public Primary School.

The following persons presided over the proceedings of the public hearing:-

- 1) Mr. Richard Santo Apire -Authority Chairman/ Presiding Officer
- 2) Ms. Lydia Kiriire -Authority Member
- 3) Dr. Benon M. Mutambi -The Chief Executive Officer ERA
- 4) Mr. Steven Mwandha -Secretary

### 2.1 PROGRAM OF THE PUBLIC HEARING.

Time	Activity	Lead person
08:30 am	Registration	ERA
09:00 am	Chairman calls the meeting to order & makes opening remarks	ERA - Chairman
09:20 am	Rules of procedure for the Public Hearing	ERA -Secretary
09:30 am	Overview of the Electricity Sector	ERA- ERA
09:50 am	Overview on the submissions	ERA- Director Economic Regulation
10:20 am	WENRECO's Presentation	WENRECO
10:40 am	Representations by Registered Stakeholders	
11:00 am	Health Break	All
<b>11:20 am</b>	<b>❖ Discussion</b>	<b>Chairman</b>
13:00	Summary of proceedings	ERA -Secretary
13:30	Conclusion and close down	ERA - Chairman

## **2.2 Registration**

In accordance with the provisions of the Act Section 11 (g) of the Act, the government of Uganda, consumers and other stakeholders were represented at the meeting. As detailed in the Public hearing Record of Attendance.

## **2.3 Opening remarks by ERA's Principal Communications Officer.**

The public hearing was preceded by welcome remarks by the Principal Communications Officer (PCO) Mr. Julius Wandera followed by one stanza of the Uganda National Anthem and an introduction of the participants / attendees.

## **2.4 Opening remarks by the Authority Chairman**

The Presiding officer called the meeting to order at 10:32 am.

The Authority Chairman called public hearing to order at 10:32 am and welcomed the participants to the Public Hearing in respect of WENRECO's applications for a 2013-2019 tariff review, and thereafter made the following remarks:-

He informed the participants that the Authority was set up as an independent Regulator for the Electricity sector in Uganda, with an exclusive mandate to approve tariffs and other charges for all licensed electricity companies engaged in generating, transmitting and distributing electric power and no other body can pronounce itself on this matter.

He further informed the participants that setting of electricity tariffs and terms of supply was governed by section 75 of the Electricity Act 1999 Cap 145 (Laws of Uganda) and is one of the major functions of the Authority.

Under regulation 14(1) of the Electricity (Application for Permit, License and Tariff Review) Regulations, 2007) a licensee may, if permitted in the license to do so, apply for a tariff review where any of the costs prescribed have substantively changed since the issuance of the license or approval of the existing tariffs. It's therefore within the law for electricity companies to apply to ERA for a review of their tariffs.

He reported that the Authority had received an application from the West Nile Rural Electrification Company Ltd (WENRECO) for a review of their end user tariffs for 2013 to 2019, and that as a requirement of the regulation and the need for transparency, the application / proposals of WENRECO were advertised on 04<sup>th</sup> March 2013.

He emphasized that the purpose of the publication was to call for comments / objections on the application, and to enable the Authority determine the reasonableness and appropriateness of tariff application, further that published tariffs were the proposals of the WENRECO not the Authority's position.

He informed the participants that the Authority was required by law to perform its mandate in a manner that is open and objective, fair and reasonable, is non-discriminatory and promotes fair competition and that was why the public and electricity consumers/stakeholders had been invited to the public hearing.

He noted that the Government recognized the importance of affordable electricity to the development of the West Nile Region as a critical input in the production process of most small, medium and large scale industries.

He informed the public that the coming online of Nyagak 1, and the prospective Nyagak 3 being fast tracked by Uganda Electricity Generation Company Ltd would ensure stability of supply in this region.

He encouraged the participants to contribute freely and use the opportunity to provide useful comments on Wenreco's applications, and gave assurances that the comments would be considered by the Authority in arriving at a final decision on the tariff application.

He invited the Dr. Benon Mutambi the Chief Executive Officer of ERA to give an over view of the electricity sector.

### **3.0 OVERVIEW OF THE ELECTRICITY SECTOR.**

Dr. Benon Mutambi – The Chief Executive Officer of ERA

He reemphasized that the purpose of the publication was to call for comments / objections on Wenreco's application for a tariff review, and to enable the Authority determine the reasonableness and appropriateness of tariff application.

Further that, Authority was required by law to perform its mandate in a manner that is open and objective, fair and reasonable, is non-discriminatory and promotes fair competition, in order to promote a fair balance of the interests to stakeholders, who comprised of the consumer, the Licensee and the Government of Uganda (GoU).

He gave assurance that the Authority would consider all aspects of the application independently and objectively based on technical assessments in manner that ensures that the interests of the stakeholders are balance and growth of the sector.

He took the opportunity to introduce to the public ERA's Consumer Affairs Officers Mrs. Catherine Nabongo and Mr. Julius Wandera and the members of the regional Electricity Consumer Committees (ECC) members.

He informed the public that the Members of the ECCs were residents of the area and were helping the Authority to gather information on issues like power outages, low voltage, unreliable supply, dilapidated infrastructure etc in areas where the Authority had no presences.

He informed the public that the Authority performed its functions within a legal framework of the Electricity Act, 1999 (the Act) and the regulations made thereunder and that Section 75 of the Act provided for setting tariffs guided by the principle that only costs that were prudently and reasonably incurred by licensees would be recover through the end user tariff.

The CEO invited Steven Mwandha the Secretary of the Proceedings to read the rules of the Public hearing.

### 3.1 Rules of Public hearing.

Mr. Steven Mwandha -Secretary

The Secretary read the Rules of the Public Hearing to the participants and urged them to respect and observe the provisions detailed in the rules in order to encourage a formal and healthy debate.

### 3.2 Remarks from Hon. Bernard Atiku.

He welcomed members and referred to the consultative meeting of 15<sup>th</sup> March 2013 at Arua Public School on electricity matters and mentioned that following the resolutions from that meeting the Members of Parliament from West Nile region had meet with the Authority and presented their views.

He indicated that the application by Wenreco had taken the leadership and consumers unawares and requested that they be given an opportunity to be heard. He reiterated the following issues that had been raised at the consultative meeting of 15<sup>th</sup> March 2013 at Arua Public School:-

- (i) **Power tariffs have been very high** because WENRECO was involved in power generation, distribution and billing. Power fluctuations had been so prevalent. WENRECO was overcharging customers, had weak mechanisms to respond to customer complaints, slow responses to issues relating to internal policies etc.
- (ii) **Exemptions in prices for poles:** whereas poles in Kampala cost Ugx. 400,000 shillings in Arua a pole was costing Ugx. 1,500,000
- (iii) **Applying selective service delivery to people of similar problems!** The current government program of connecting some parts of West Nile to the national grid for instance there was a plan to connect Moyo and Adjumani on the national grid yet the same Government claims West Nile did not have capacity to be connected to the national grid.
- (iv) **Adjustment factor charges:** Whereas, in Kampala and the rest of the country there were no adjustment power charge, WENRECO was charging it without clear reasons, which made the bills very expensive.

- (v) **WENRECO is claiming to recover the losses** thus the current application to increase power tariffs. Members wondered why the consumer had to bear the cost of the losses to the company yet it was because of the company's inefficiency.
- (vi) **WENRECO's license needed to** be revisited or rescinded and certain clauses removed since many were not favorable and why the government did not consult the consumers in West Nile before entering such bad contracts. Members wondered how a private company with profit motive could spear head development.
- (vii) There was Lack of supervision of WENRECO by ERA. It was observed that WENRECO had been operating very independently without any close supervision by the regulating authority. This was manifested by lack of consumer awareness and ignorance.

He informed the public that as a way forward the following were proposed at the consultative meeting:-

### **3.3 CONCERNS RAISED IN RESPECT OF THE PROPOSED TARIFF REVIEW.**

- (i) Members raised concerns that the current tariffs were high and not affordable by the consumers therefore Government should ensure that the tariffs are not increased. furthermore that the services charges were higher than Umeme's
- (ii) Members expressed concern that the grid should be extended to other districts and towns like Koboko, Maracha, Pakwach, Zombo and also the outskirts of ARUA town like Pajulu, Onduparaka, Mvara, part of Ediofe etc so that consumers more connected to the grid which may bring down the tariffs are many not just hiking prices on the few consumers who are currently connected;
- (iii) It was reported that 58% of the West Nilers are poor people who could not raise 1\$ dollar a day for consumption, if power tariffs are increased it would adversely impact on the life of the common man/peasant and the environment;
- (iv) There was concern that the adjustment factor of 0.6% was been used to cheat customers since there was no thermal generation. it was appreciated that the factor was relevant at the time when WENRECO was using the heavy diesel plant that relied on fuel ;
- (v) Members proposed that If WENRECO has found business not viable they should consider closing shop and handing the concession back to the government Uganda;

- (vi) Members expressed concern, that the government should review the WENRECO concession so that different players can join the industry just like other parts of the country. Specifically generation, distribution and billing should be done by different entities to promote efficiency in service delivery.
- (vii) Members expressed concern that WENRECO's contract/ concession should not be extended by Government. Further that Government should compensating WENRECO so that the region is also served by companies like UMEME which have a national in character and provide affordable services.
- (viii) Members expressed concern that ERA should establish a regional monitoring and supervision office in West Nile. This is because ERA offices being far away in Kampala has made the people to suffer ignorantly without the support of ERA.

### **3.4 CONCERNS RAISED IN RESPECT OF WENRECO'S LICENSE**

- (i) The performance of WENRECO as an organization supplying power in West Nile is bad so the license should be revoked or revisited because the 20 years suggested are too many
- (ii) The powers to generate, distribute and bill be revisited. WENRECO has not been doing well on the ground. Other companies can be listed for other services
- (iii) Government has capacity to redeem the people of West Nile since it's a signatory to the agreement and it's her duty to provide power so WENRECO's agreement should be cancelled.
- (iv) Members expressed concern, which the cost of electricity poles should be sold at Ugx 400,000 as charged by Umeme in Kampala and instead of Ugx. 1,500,000 charged by WENRECO to Westnilers. Further that the Government should consider subsidizing the poles to enable many consumers to get connections.

In conclusion the meeting ended successfully but members urged the Government to honor its obligations to West Nile and to resolve the impasse between the consumers and WENRECO, improve standards of living of people of Westnilers and give them good services.

### **3.5 Remarks from Hon. Abia Christine (MP Arua District).**

She welcomed members and noted that this was an important meeting as there had been a lot of complaints about power and now that Nyagak Dam had been commissioned and running, the consumers were wondering why the power was not stable and why there was application to increase power tariffs when people are preparing themselves to invest and develop themselves using the recently commissioned power plant.

She also noted that as a consumer of power she was not happy with the idea of the same company undertaking generation, distribution, supply and billing

She noted that, West Nile needed power to spur development in the region and that although the agreement between WENRECO and government was done badly, it did not mean that certain adjustments could not be made especially when their impact is so negative to the general population.

She urged ERA to prevail on WENRECO to serve the general population efficiently and that the tariffs should not be increased because they were expensive as they were.

#### **4.0 Overview of Submission.**

By Mr. Mbagi Tuzinde Ag. Director of Economic Regulation

He informed the public that WENRECO had applied for a tariff revision in November 2012 and that the Authority had analyzed the information to aid the public appreciate and understand the application.

Major parameters in the analysis included Losses, Customer numbers, and Operation and Maintenance Costs and these among other assumptions would influence the final end-user tariff.

WENRECo had stated that losses are high because of the distance of transmitting power from Nyagak to the consumers, however that the Company would be required to demonstrate how it had arrived at the figures.

He informed the public that after the public hearing, the company would be invited for meetings at ERA to analyze the application further and the Public and the political leaders would be invited to sit in as observers

#### **4.0 WENRECo'S TARIFF APPLICATION**

WENRECo submitted that following the publication of its tariff application for comments and representations many comments had been received by the Authority and forwarded to it for response and that the issues raised could be generally summarized in 20 broad questions. WENRECo responded as follows:- *reproduced verbatim*

##### **Q1. What is WENRECo about?**

WENRECo was established after the Company emerged the only and successful bidder (under international competitive bidding) for the West Nile Rural Electrification concession. The bidding process was carried out by the Electricity Regulatory Authority (ERA). Perhaps it is worth noting two points regarding WENRECo's sole bid (i) it was probably as a result of the challenges associated with rural electrification; and (ii) it was evidence of WENRECo shareholders' commitment to the noble objectives of rural electrification – the challenges notwithstanding.

Subsequently, in April 2003 WENRECo was issued with a 20-year license to build, own and operate electricity generation, distribution and sales facilities in the West Nile region. The original scope covered the larger Arua and Nebbi districts, but the areas have since been expanded to include Koboko, Maracha, Zombo and Yumbe districts. Under the arrangement the then existing ex-UEB assets were transferred to WENRECo under an Assets Transfer Agreement.

WENRECo's licence requires the Company to invest in, and construct, (a) a 1.5MW thermal plant; (b) a 3.5MW mini-hydropower plant on Nyagak River; and (c) distribution facilities to meet the customer connections established under its License. The thermal and Nyagak mini-hydro plants have been completed while investment in the distribution network is an on-going activity.

In April 2003 WENRECo had just over 1,200 customers while on 3 March 2013, 3,900 customers were on supply.

**Q2. Who owns WENRECo?**

WENRECo is 100% owned by the Industrial Promotion Services (K) Ltd. (IPS). IPS is in turn the industrial and infrastructure arm of the Aga Khan Fund for Economic Development (AKFED). Other IPS shareholders include the IFC (World Bank's private arm), Germany's DEG and Jubilee Insurance Company.

**Q3. What is the term of WENRECo's license?**

WENRECo's license has a term of 20 years.

**Q4. Why does WENRECo want to make quick profit through the tariff increase?**

WENRECo has no intention of making a quick profit. On the contrary, the Company seeks an equity Internal Rate of Return (IRR –a measure of profit), which is a low 15.2%, as agreed with the Government of Uganda (GoU).

As ERA would attest, WENRECo's IRR is probably the lowest of any privately financed infrastructure project (including power) in the entire East Africa where the returns normally sought by investors are the order of 20%.

**Q5. Why didn't WENRECo consult stakeholders before applying for tariffs?**

WENRECo's application was in accordance with its licence and the Electricity Act. The Electricity Act provides for stakeholder consultation following publication of an application for review of electricity tariffs by the regulator. ERA published a notice inviting stakeholder/public comments on 4<sup>th</sup> March 2013. The Public Hearing of 25<sup>th</sup> April 2013 is also part of the public/stakeholder consultation process.

**Q6. Why is WENRECo asking for a tariff at a time when it is using water (from River Nyagak) for generation? Hydro is supposed to be cheaper.**

In long-term infrastructure projects the tariff yield is established by considering investments, operating costs and profits/losses, amongst other costs, over the entire

concession or license period. In the case of WENRECo, this should be April 2003 to March 2023 which covers the period for both thermal and hydro generation.

**Q7. Why didn't WENRECo apply for tariff increase when it was using the thermal plant in Arua?**

Citing increased fuel costs and very high commodity (steel, copper, aluminum, etc.) prices, amongst other factors, WENRECo first sought to apply for a tariff increase on 21 April 2008. Subsequently, and following the lapse of the approved tariffs in October 2009, WENRECo formally expressed intention to apply for increase in tariffs on 24 August 2010, as provided by its license.

In both instances however, it was considered inopportune to increase tariffs and the general consensus then was that tariff increase could only be considered after completion of Nyagak. Indeed after the October 2010 notice of intention to apply for tariffs increase, GoU approved a US\$1.3m grant for tariff support (of which US\$970,000 was to procure fuel) from Germany's KfW in place of a tariff increase. This clearly evidences acknowledgement, by these two important stakeholders – GoU and KfW, of the justification for a tariff increase.

The period 2008 to date therefore represents a period of lost revenue by the Company, which revenue it now needs to recoup in future in order to ensure operational sustainability and safeguards the IRR contracted with GoU whilst meeting its investment and connection obligations under the license as well as guaranteeing high quality of supply that the people of West Nile deserve.

Indeed it is instructive that during the period 2008-2012, the revenue from electricity sales could not even meet the cost of fuel<sup>1</sup>, with operations and maintenance costs as well as staff costs being underwritten by WENRECo's shareholder - IPS.

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<sup>1</sup> This is not unique to WENRECo as this is also true for Kalangala and UEDCL isolated stations in Moroto, Moyo, Adjumani.

**Q8. What are the components of a WENRECo Electricity Bill and how are these established?**

Like in any other utility, e.g. Umeme, ALL components of a WENRECo electricity bill are approved by the industry regulator, in this case the Electricity Regulatory Authority (ERA).

The components of a WENRECo bill and the rationale thereof, are as follows:-

- (i) Energy Charge – This is directly related to the amount of energy consumed and is meant to recover the costs of prudent investment and efficient operation – generation, transmission, distribution, supply, etc. associated with supplying electricity to a consumer.
- (ii) Adjustment Factor. This is established to capture positive or negative changes in fuel costs, foreign exchange and inflation, which components are beyond the control of a utility – in this case WENRECo.
- (iii) Standard Service Charge – This relates to customer charges for providing electricity service and will normally include costs related to meter reading, billing costs, customer service, etc. It is a fixed amount per month.
- (iv) kVA demand charge. This applies to large/industrial users. This reflects cost for having the right to have energy capacity available to them.
- (v) VAT. This is a statutory tax whose rate is established by the Government.

**Q9. Why does WENRECo still apply tariff adjustment factor(s) despite commencement of generation from Nyagak in October 2012?**

As indicated in response to Q7, WENRECo only charges electricity rates that have been duly approved by ERA. Any changes from the current electricity tariffs, and related adjustments, will therefore only apply once ERA pronounces new rates.

Additionally, it should be noted that although fuel cost adjustment may no longer be applicable, inflation and foreign exchange components of the adjustment factor are still relevant.

**Q10. What is the justification for the proposed increase in tariffs by WENRECo?**

Increase in electricity tariffs is required to meet (a) historical (thermal, Nyagak and distribution network) and future (mainly network related) investments; (b) costs for efficient operation and maintenance of the power system; (c) loan obligations; (d) tax payments; (e) profit margin – 15.2% IRR on equity (WENRECo has to-date invested over US\$3.05m) over the life of the concession/license, (f) staff costs, and (g) cost of customer service, amongst others. These investments/costs are necessary for sustainable operation of the Company.

This is consistent with the principle of establishing cost reflective tariffs. The relevant supporting documentation has been provided to ERA for due review and consideration.

**Q11. Why is WENRECo more expensive than Umeme?**

The table below compared the WENRECo tariffs against Umeme’s electricity tariffs and the applied tariffs at the time.

Comparison of WENRECo, Umeme and WENRECo Applied Tariffs

Category	WENRECo <sup>2</sup>	Umeme <sup>3</sup>		WENRECo Applied Tariffs
		Current	Applied <sup>4</sup>	
Domestic	366.8	524.5	593.9	605
Commercial	420.4	487.6	540.4	695

Umeme’s current electricity rates were 43% and 16% higher than the WENRECo domestic and commercial tariffs respectively. This is despite WENRECo being disadvantaged by a higher per-unit cost base on account of diminished economies of scale due to the smaller purchases by WENRECo), transportation distance, relatively higher connection costs (per customer) due to lower population density, and therefore, longer distances between customers, etc.

<sup>2</sup> Includes adjustment factor

<sup>3</sup> Average tariffs, with peak rate being Ugx.550/kWh

<sup>4</sup> Based on tariff application under consideration by ERA

This is contrary to the expected, and fundamental, outcome of the West Nile Rural Electrification Project's business case which was that WENRECo would yield tariffs that are not too dissimilar from those obtaining in the interconnected grid.

In the meantime, it is important to note that the tariffs that WENRECo has applied for is a function of projected demand and customer base starting from a low base. Should the demand and customer increase, and WENRECo is making concerted efforts to achieve this (as explained below) it is feasible that reduction in tariffs could result in due course. The regulator would ensure this after establishing the adequacy of WENRECo's future revenue requirements to meet cost of efficient operation and customer service as well as the 15.2% IRR requirement.

The table below provides tariffs of Fersult, Kilembe and Kalangala.

Category	Fersult	Kilembe	Kalangala <sup>5</sup>
Domestic	512.2	509.1	426.1
Commercial	497.8	400.8	464.9

**Q12. Why can't WENRECo introduce pre-paid meters to help customers manage their consumption better?**

The project for switch to pre-paid metering throughout in West Nile region is well advanced, with the support of the German government and the Government of Uganda. Already necessary designs have been completed, a contractor competitively selected and manufacture of meters commenced. Indeed factory testing of the meters was carried out in the week of 15<sup>th</sup> April, 2013. It is expected that all customers will be on pre-paid meters by September 2013.

This will enable customers to manage/control their electricity consumption, and therefore electricity bills, better.

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<sup>5</sup> It is worth noting that Kalangala's generation cost is Ugx.1,477/kWh. Accordingly, this means that to sell electricity at the rates indicated Kalangala benefits from GoU/REA subsidy of at least Ugx.1,000/kWh.

**Q13. Why does WENRECo estimate customer bills?**

WENRECo endeavours to read all meters and charge for actual consumption every month. However this is not always possible as there are instances when premises are locked making meter reading impossible. At the moment there are also instances where we are constrained to estimate consumption, namely where meters have been confirmed to be faulty and a few directly connected customers. This is purely to ensure continuity of supply and avail supply until meters are installed. Then consumption will be regularized based on average consumption.

**Q14. Why is WENRECo charging more for new connections than Umeme?**

As ERA can confirm, the true cost of Umeme's connection is way above the Ugx.362,000 it (Umeme) charges. Indeed, it can be easily verified that the cost of a single treated pole, excluding transportation costs and other expenses related to establishing a pole service connection (conductors, stay wire, dressing, etc.), Ugx.400,000!

It can therefore be concluded that Umeme subsidizes the connection charge, but probably recovers this in the tariff.

**Q15. Can't pole service be subsidized to reduce the cost of connection?.**

Pole service can be subsidized as follows:-

- (i) Through cross subsidization within the context of WENRECo's revenue requirements for efficient operation and as approved/established by the regulator. In this case a higher energy charge would apply but the cost of pole service would be lower.
- (ii) By government directly or indirectly through donors. Indeed mechanism for this is already in progress through a Rural Electrification Agency scheme in which customer groups are required to raise 30% of the Low Voltage (LV) connection costs (including service connections) whilst REA meets the balance of 70% LV costs as well as 100% of the transformer and High Voltage (HV) related costs, as long as the scheme is within 2km of the HV line.

**Q16. Why do customers contribute to capital costs associated with supply (poles, conductors, meters, transformers, etc.) only for the assets to be transferred to WENRECo upon installation?**

This is a world-wide standard practice premised on the fact that from the time of its installation a utility will operate and maintain it (at its cost) and replace it if damaged or if it requires to be upgraded.

This principle is not unique to electricity supply, but applies to other to other network/utility industries such as water and fixed telephony.

**Q17. Why apply for tariff increase while the quality of service is still poor?**

Admittedly the quality of supply could be improved. The problem is however not generation as Nyagak has an installed capacity of 3.5MW against a maximum demand of about 2MW. The challenge is the Paidha-Nebbi-Arua transmission line. Despite the line having been constructed only just over ten (10) years ago (before WENRECo commenced operations), regrettably many poles on this line are rotten and prone to frequent breakdown during rains. Consequently, and as this is the only transmission route, whenever the line is down, almost the entire system also experiences an outage.

This is one of the reasons that additional funding from the increased tariffs is required - to rehabilitate the transmission line (including replacing all rotten poles) and increase reliability through improved maintenance and installation of protection systems that minimize the extent of outages.

Redundancy created by a second feeder – creating a ring – through Paidha-Warr-Zeu-Vura-Arua, whose construction is imminent under GoU/KfW funding will also significantly improve reliability – and reduce the lengths as well as frequency of outages.

**Q18. Why should the public bear for the losses incurred by the Company?**

This is because the losses were incurred in the process of the Company fulfilling its mandate (in accordance to its License) of providing electricity supply in the West Nile region.

In this regard it is important to note that although the losses were incurred over a shorter period, WENRECo is proposing that these be recovered over at least 10 years in order to minimize the impact on tariffs.

**Q19. How does WENRECo plan to expand electricity supply, and to what regions?**

WENRECo's licence allows it to expand electricity supply throughout the West Nile districts of Arua, Nebbi, Koboko, Maracha, Zombo and Yumbe. The Company's target is therefore to connect all customers who apply, and are willing to pay, for electricity in these districts.

In this regard WENRECo appreciates efforts by GoU and KfW in extending the primary grid to new areas such as Koboko, Yumbe, Pakwach, Nyapea, Parumbo, Angal, Zombo, Zeu, Warr, amongst others. From here the company will distribute electricity in the respective town centres and outlying villages.

Additionally, WENRECo is working with GoU, through the Rural Electrification Agency (REA), to implement the following schemes aimed at lowering the barrier to connection for needy citizens:-

- (i) Group schemes. In this case the groups are required to raise 30% of the Low Voltage (LV) connection costs (including service connections) whilst REA meets the balance of 70% LV costs as well as 100% of the transformer and High Voltage (HV) related costs, as long as the scheme is within 2km of the HV line. Currently 1,300 potential customers are earmarked for connection under group schemes.
- (ii) Output Based Aid (OBA). Under this scheme WENRECo would pre-finance customer connections and seek refund for the related costs from REA after due verification. 2,000 customers are expected to be connected through this approach.

Admittedly, as demand increases additional generation capacity will be required. WENRECo is considering various sources of generation, including the 4.5MW Nyagak III and the approx.1.0MW Olewa mini-hydropower plant, in order to guarantee electricity supply in the West Nile region.

Finally, by end June 2013 WENRECo expects to switch its metering and billing system to pre-payment thereby enabling customers to manage their electricity consumption better.

**Q20. Why hasn't WENRECo carried out sensitization on costs and electricity usage in the West Nile region? – Use of the Electricity Consumer Committee.**

Following establishment of adequate generation capacity, and therefore significant improvement in reliability of supply, WENRECo has commenced sensitization on customer costs and electricity usage.

In this regard WENRECo has also embarked on a productive use of electricity initiative that will result in the conversion of maize/grain millers, metal fabricators and timber mill enterprises using burning diesel engines into electric/motor driven, thereby significantly reducing the cost of their production. An initial workshop with millers was held on 23<sup>rd</sup> March 2013 in Arua, with subsequent meetings planned for Nebbi and Paidha.

This effort will be enhanced and expanded to include other customer categories, with the involvement of the Electricity Consumer Committee in the West Nile region.

**5) DISCUSSION.**

The following are extracts of the emerging issues raised by the consumers and the local leadership within the WENRECO concession area at the public hearing:-

- (i) Poor Quality of service related to billing, metering, service interruptions, customer care;
- (ii) WENRECO had not made sufficient investment in the refurbishment of the transmission and distribution network, many of the poles seen were those inherited from Uganda Electricity Board and many of the transformers had been privately financed by consumers;
- (iii) Reliability of supply –many poles on this line are rotten and prone to frequent breakdown during rains. Since this is the only transmission route, whenever the line is down, almost the entire system also experiences an outage. This is further

triggered by lack of adequate protection system on the entire network such as lightning protection and auto reclosers;

- (iv) Poor customer service. Consumers lamented about deplorable customer care which WENRECO Management admitted to and undertook to address;
- (v) The rationale and justification of the consumers compensating WENRECO for losses previously incurred by the company;
- (vi) Power lines allegedly constructed along the Uganda Congo DRC border. The consumers were concerned that there were power lines visible along the Uganda – Congo DRC boarder, which gave the impression that electricity was being exported from Nyagak to Congo-DRC and yet some parts of the concession area were not being supplied with electricity. WENRECO feigned ignorance about this and did not give any logical explanation ;
- (vii) Adjustment Factor. This is established to capture positive or negative changes in fuel costs, foreign exchange and inflation, which components are beyond the control of a utility, however consumers were being charged fuel costs yet power supply was from a River Nyagak which should not have attracted a fuel cost after the commissioning of Nyagak HPP in September 2012;
- (viii) Failure to supply electricity to some parts of the concession area (factories have been built but have not been energized ) and demanding for large sums of money from consumers for grid extension;
- (ix) There were concerns that ERA was not supervising the WENRECO concession area effectively and closely. Consumers called for more vigilance by ERA and Government of Uganda on the operations of WENRECO;
- (x) The electricity Consumer Committees (ECCs) were not visible and effective enough, Consumers called for a more strengthened role of the ECCs;
- (xi) Consumers also complained on the integrity of the metering system in the concession. It was alleged that WENRECO did not test its meters before and during operations.

## **6) SUMMARY OF PROCEEDINGS.**

At the conclusion of the hearing, the Secretary presented a summary of the applications, written submissions, presentations, written comments, objections and discussions of the public hearing.

The following are salient issues that emerged from the statutory inspection and the public hearing:-

- (i) Poor Quality of service related to billing, metering, service interruptions and customer care;
- (ii) WENRECO had not made sufficient investment in the refurbishment of the transmission and distribution network, many of the poles seen were those inherited from Uganda Electricity Board and many of the transformers had been privately financed by consumers;
- (iii) Reliability of supply –many poles on the transmission and distribution lines were found to be rotten and prone to frequent outages during the rainy season.
- (iv) There was a lack of adequate protection system on the entire network such as lightening protection and auto reclosers;
- (v) Poor customer service. Consumers lamented about deplorable customer care which WENRECO Management admitted to and undertook to address;
- (vi) The rationale and justification of the consumers compensating WENRECO for losses previously incurred by the company;
- (vii) Power lines allegedly constructed along the Uganda Congo DRC border. The consumers were concerned that there were power lines visible along the Uganda – Congo DRC boarder, which gave the impression that electricity was being exported from Nyagak to Congo-DRC and yet some parts of the concession area were not being supplied with electricity. WENRECO feigned ignorance about this and did not give any logical explanation;
- (viii) Adjustment Factor. This was established to capture positive or negative changes in fuel costs, foreign exchange and inflation, which components are beyond the control of a utility. However consumers were still being charged fuel costs adjustment yet power supply was from a River Nyagak which should not have attracted a fuel cost after the commissioning of Nyagak HPP in September 2012;
- (ix) Failure to supply electricity to some parts of the concession area (factories have been built but have not been energized ) and demanding for large sums of money from consumers for grid extension;
- (x) There were concerns that ERA was not supervising the WENRECO concession area effectively and closely. Consumers called for more vigilance by ERA and Government of Uganda on the operations of WENRECO;

- (xi) The Electricity Consumer Committees (ECCs) were not visible and effective enough. Consumers called for a more strengthened role of the ECCs
- (xii) Consumers also complained on the integrity of the metering system in the concession. It was alleged that WENRECO did not test its meters before and during operations.

It was observed that ERA had not closely monitored the WENRECO concession area in the past, which called for closer supervision, monitoring and enforcement of compliance moving forward.

## **7) CONCLUSION.**

The Presiding officer made closing remarks, by thanking the licensees and public for attending in big numbers and gave them assurances that all the submissions and concerns raised at the public hearing would be taken into account by the Authority in arriving at the final decision.