



ELECTRICITY REGULATORY AUTHORITY

Chairman's introductory briefs at the luncheon

Hosted at Kampala Serena Hotel - August 5th 2011

Ladies and Gentlemen;

Thank you for honoring our invitation and coming to be part of this luncheon.

We regard you as key partners in the development of this country and most particularly the electricity sector and for that reason we have invited you for this luncheon to chart away forward on the future of the sector; and will always call on you for future consultations.

A lot has been going on in the electricity sector since the country started experiencing load shedding about two months ago. The Country is currently facing power supply shortages estimated at 120MW at peak and serious financing constraints due to the significant portion of diesel/HFO generation in the energy mix amidst a depreciating shilling and increasing fuel prices on the global market.

Electricity Regulatory Authority has found it necessary to host this roundtable luncheon to discuss current developments in the electricity sector and the measures being considered to address the current power supply and financing situation.

Key issues

ERA

1. **Electricity demand –supply balance:**

Having stagnated in the range of 360MW to 380MW between 2006 and 2009, largely because of the increase in the tariff and demand side management measures such as energy efficiency actions government was promoting among consumers, growth in increased economic activities in the country has driven demand upwards between 2009 and 2011.

- Peak demand has increased to 443MW in May 2011 compared to 380MW in May 2009.
- Shoulder demand has increased to 351MW in May 2011 compared to 280MW in May 2009.
- Off-peak demand has increased to 302MW in May 2011 compared to 230MW in May 2009.

Electricity supply has however remained constrained due to hydrological constraints, delays in reaching commissioning by Bujagali and Mini-hydro plants, and reduced supply by Thermal generators.

2. **Changing Energy mix:**

In 2006, thermal generation accounted for 23%, currently thermal generation accounts for 46% of Uganda's energy mix. Thermal generation costs account for about 85% in 2011 compared to 73 % in 2006.

3. **Sector financing/revenue requirement:**

The total sector revenue requirement in 2006 amounted to Shs.420 billion and this increased to Shs.618 billion in 2010 and Shs.1, 076 Trillion in 2011. The major drivers of the increase in revenue requirement are thermal generation costs which increased from Shs.155 billion in 2006 to about Shs.670 billion in 2011 largely due to the depreciation of the Shilling, increasing fuel prices, and



increased dispatch. The exhaustion of IDA financing in October 2010 has exacerbated the subsidy financing requirement. Right now government needs about 50bn every quarter to finance the Mutundwe Plant.

4. Exchange rate:

Since November 2009, the Shilling has depreciated by over shs600/US\$ from Shs1874/US\$. Currently, the sector revenue requirement is estimated at US\$400 million, of which 80% is foreign currency based. As a result of this depreciation, the sector revenue requirement has increased by about Shs.192 billion over the past 18 months.

5. Increasing fuel prices:

The international oil prices have increased to reach the highs of US\$120/barrel against the earlier forecast of US\$60-70/barrel at the beginning of 2010. This increase has had a significant impact on sector costs.

6. Fixed tariffs and inflation :

Our tariff has not been adjusted upwards to absorb the effects of the exchange rate depreciation and high fuel costs. This is contrary to Kenya where there is an automatic adjustment of the tariff for inflation, exchange rate and fuel prices. As a result, our tariffs are now much lower than those of Kenya and the extra burden of financing has been pushed to government in form of increased subsidies.

I believe these and a number of other issues of concern will form a basis of our discussion today. I will now call upon the Acting Chief Executive Officer of ERA to lead this discussion.

Thank you.

Mr. Richard S. Apire



Chairman Electricity Regulatory Authority