

Speech Delivered at the Workshop for the Presentation of the Findings of the Distribution Losses and Collection Rates Study

June 7th 2011, Imperial Royale Hotel

The Permanent Secretary;

Chief Executives of various institutions present;

My fellow Authority members;

Distinguished guests;

Ladies and Gentlemen,

1. It is my sincere pleasure to welcome all of you to this important Workshop. In 2010, we engaged a consultant to assess the current level of distribution losses and non-collection rates and provide a trajectory of these variables for the next seven years. The Consultant has produced a Draft Final report of the study and is now ready to share with us the findings.
2. The Government of Uganda initiated reforms in the electricity sector starting in the second half of 1990s. These reforms culminated into the enactment of the Electricity Act (1999) Cap.145. Some of the key objectives of these reforms were to reduce system losses, attract private investment, reduce the burden of subsidies on government, and improve the overall commercial performance of the sector.

3. A single buyer model was adopted where the transmission company “Uganda Electricity Transmission Company Ltd (UETCL)” is government owned, is the system operator, and the bulk buyer of the electric power produced by generators. The distribution assets owned by the Uganda Electricity Distribution Company Ltd (UEDCL) were leased to a private company (Umeme Ltd) under a 20-year concession effective March 2005.
4. The distribution and supply licenses issued by ERA to Umeme Ltd contain a tariff methodology which outlines the principles of retail tariff determination. Amongst the other variables, the retail tariff is driven by the levels of distribution losses and non-collection rates.
5. At the time of take-over in March 2005, the starting level of distribution losses allowable to Umeme for the first year of operation was tentatively set at 33% and was expected to be reducing by 0.83 percentage points per annum to reach 28% in the seventh year as per schedule A-4 to Annex A of the Distribution Supply License.
6. It should be noted that within the first two years of operation, Umeme was expected to propose changes to the schedule of losses based on experience. At the same time, the non-collection rates were set at 25% for the first year and were expected to reduce to 7.5% in the sixth year as contained in Annex A-5 to the distribution supply license. This was however overtaken by unforeseen circumstances arising from the power supply shortages that were experienced particularly in 2006 and the subsequent expensive mitigation

measures like diesel based generation thus culminating into the Special Provisions Period.

7. Whereas Umeme has made significant efforts towards improvement in collection rates, ERA and Government of Uganda in general is concerned that the level of distribution losses, which impact on tariffs, has remained relatively high compared to the levels of losses pertaining in other countries in Sub-Saharan Africa which have similar characteristics to the Ugandan economy.
8. In addition, Government of Uganda is concerned that if losses are not significantly reduced, the benefits from any additional generation may not be realized.
9. The high system losses have been identified as a major constraint in the development of an efficient electricity supply industry in the National Development Plan. Government has therefore set a target to reduce distribution losses to 16% in the National Development Plan for 2010/11-2014/15.
10. Against this background, Government of Uganda therefore engaged the services of a consultant, PB Power in association with Sunshine Projects, to undertake a study on the distribution losses and non-collection rates for the Umeme distribution concession. The Consultant started work in October 2010 and has now produced a final draft report. The study has been coordinated through a Steering Committee composed of senior officials from various

institutions. I would like to extend our sincere appreciation to the Consultant and the Steering Committee which have moved this study this far.

11. Ladies and Gentlemen, you now have an opportunity to provide useful inputs to this study. The comments received at this workshop will enable the consultant to produce a final report that takes into account views of all key stakeholders.

I therefore wish you all effective participation and I thank you once again for attending this workshop.

Richard S. Apire

AUTHORITY CHAIRMAN

7 June 2011