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STRICTLY PRIVATE AND CONFIDENTIAL

Our ref: ERA/2017.10/218

31 October 2017

Chief Executive Officer
Electricity Regulatory Authority
Plot 15, Shimoni Road, Nakasero
Kampala
Uganda

RE: UMEME ANNUAL TARIFF APPLICATION FOR 2018

ECA/25/1

Pursuant to the provisions of section 3.3.2 of the License for Supply of Electricity, Umeme hereby submits its Tariff Application for the year 2018.

The submission provides details of the Company's Revenue Requirement, for consideration in the ERA's determination of the 2018 base tariffs.

The detailed Tariff Application is attached herewith.

Yours sincerely,

ERA ELECTRICITY REGULATORY AUTHORITY
02 NOV 2017
RECEIVED BY REGISTRY

Sam Zimbe
DEPUTY MANAGING DIRECTOR

****Attachments – 2018 Tariff Application

October
2017

Powering Uganda

2018 TARIFF APPLICATION

Contents

1. Executive Summary

Pursuant to the provisions of the Umeme License for Supply of Electricity (License No 48), Umeme hereby submits its tariff application for the year 2018. The tariff submission provides detailed computations and justifications of the Umeme's Revenue Requirement for 2018, proposed for consideration in the determination of the retail end-user tariffs by the Electricity Regulatory Authority (ERA).

Details of the Umeme Revenue Requirement for the year 2018, are summarized in the table below:

Component	**Amounts in Ug shs Millions**	**Reference**
Investment Costs	466,383	Section 5.1
Net operating costs	164,508	Section 5.2
Lease Payments	To be determined by ERA	Section 5.3
Reconciliations	278,208	Section 5.4
Total	**900,100**	

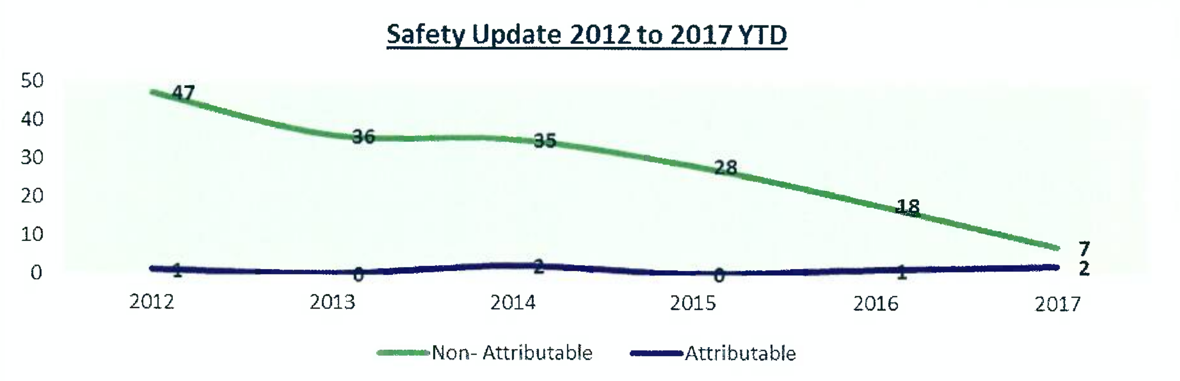
2. 2017 Performance Overview

2. 1 Safety

Umeme prioritizes safety to avoid incidences on the distribution network that may lead to public fatalities and loss of life or injuries to staff and contractors.

Overall, the Company has reduced fatalities significantly by implementing focused safety initiatives that have involved, implementation of safety capital projects, internal awareness campaigns, improvements in safety practices and setting up management systems to prevent and ably respond to fatalities. The safety performance is summarized below;

Figure 1: Safety Performance 2012 to September 2017



As shown in the graph, the key challenge remains with non-attributable incidents that are largely precipitated by energy theft practices by customers and illegal line construction.

Umeme has disseminated safety communication over key media platforms to create awareness of the danger posed by power theft and continues to educate consumers on prudent practices to avoid these safety incidents.

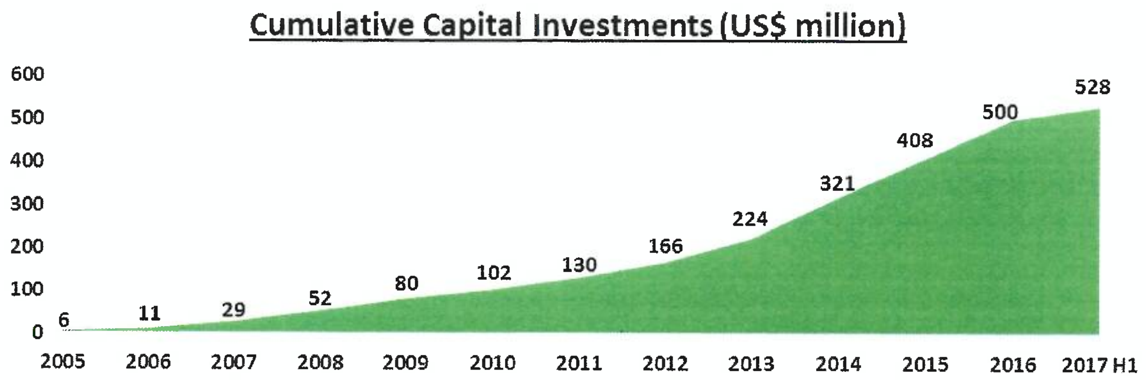
2. 2 Network

2.2.1 Capital Investments

Umeme continues to deliver its mandate pursuant to its Distribution License which obliges the Company to invest in the downstream end and deliver the objectives of evacuation, expansion, replacements, customer growth and efficiency gains.

As indicated below, between 2005 and June 2017 Umeme had implemented investments in the distribution network amounting to USD 528 million

Figure 2.2.1 Cumulative Capital Investments in the Distribution Network

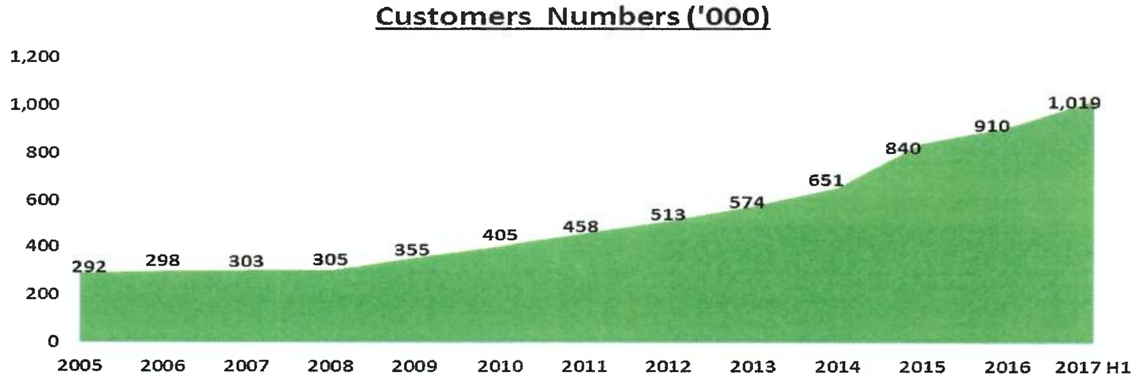


It should be noted that funding the infrastructure has attracted foreign direct investment in the form of both equity and debt financing to further support the growth of the economy via the employment of local contractors and suppliers and the payment of taxes.

2.2.2 Access

Growth in Umeme customer numbers has contributed significantly to national electrification rates in addition to containing the energy retail tariffs. Umeme has grown the number of customers **from 292,000 in 2005 to 1,019,000 by June 2017;**

Figure 2.2.2: Growth in Customer Numbers



The connection rate has been ramped up between 2015 and 2017 with the support of development partners (World Bank, REA, Ministry of Energy, and KFW) via projects like Output Based Aid (OBA) project, Peri-urban electrification Kawanda-Masaka project and others.

2.2.3 Customer Service and Technology

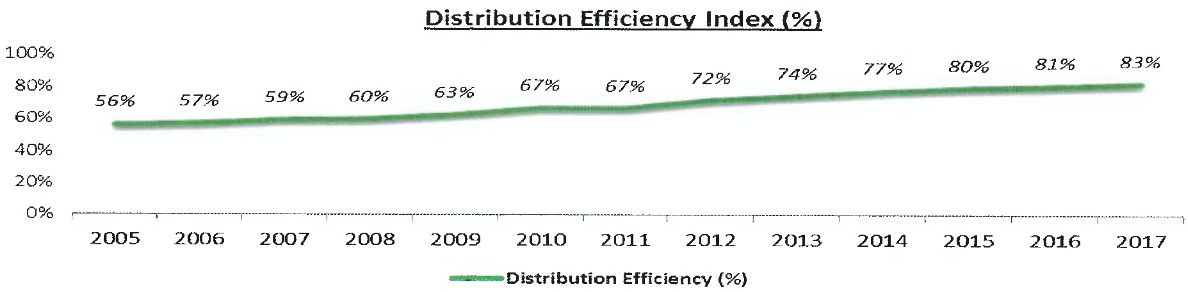
Umeme has deployed technology to support customer convenience through roll out of prepayment metering, currently at 80% coverage for single phase consumers as at 30 September 2017 and automated meter reading system for three phase customers as well as introducing cashless payment systems.

Umeme has also employed social media platforms (whatsapp, facebook, twitter) to improve customer reach, interaction and response times to safety and supply related complaints.

2.2.4 Efficiency

Umeme is subject to performance regulation aimed at managing the cost to serve as applied and enforced via the tariff targets. These targets form the distribution efficiency metric which takes account of the cost of inherent operational risks i.e. operational and maintenance costs, uncollected debt and energy losses. Below is the movement in the efficiency ratio since 2005;

Figure 2.2.4: Distribution Efficiency



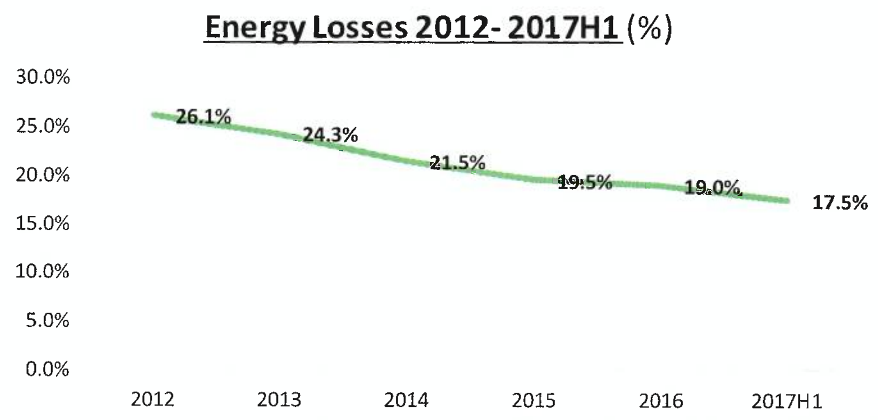
From 2005 to 2017, the distribution efficiency has moved from 56% to 83%, meaning that that more cash is created for every kWh generated and delivered onto the distribution system.

Umeme's performance against the regulatory targets is indicated below;

2.2.5 Energy Loss Reduction

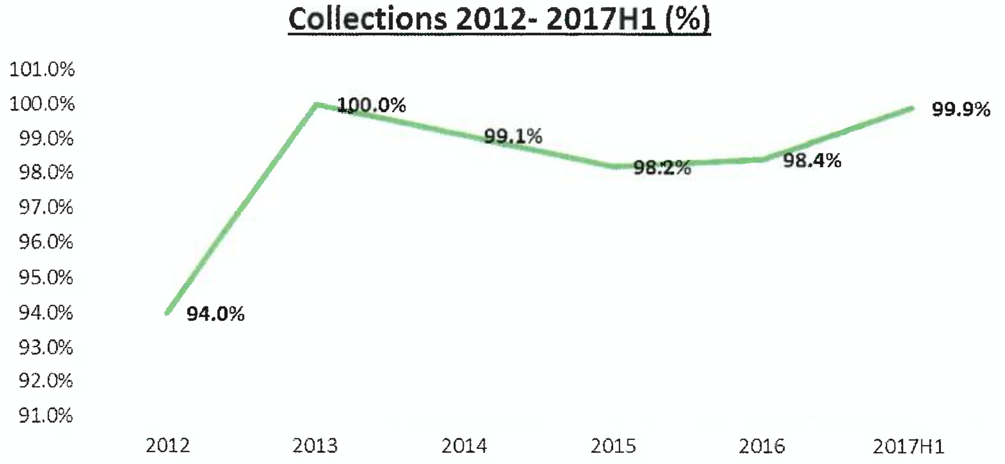
Umeme has implemented focused loss reduction initiatives and reduced distribution losses from 38% in 2005 to 17.5% by end of June 2017. Umeme's target, set by ERA and factored into the 2017 tariff, is to reduce distribution losses to 16.1% by end of December 2017. Umeme is on course to achieving this target. Umeme's performance on loss reduction against regulatory targets, is provided below:

Figure 2.2.5: Performance against Regulatory Targets



2.2.6 Revenue Collection

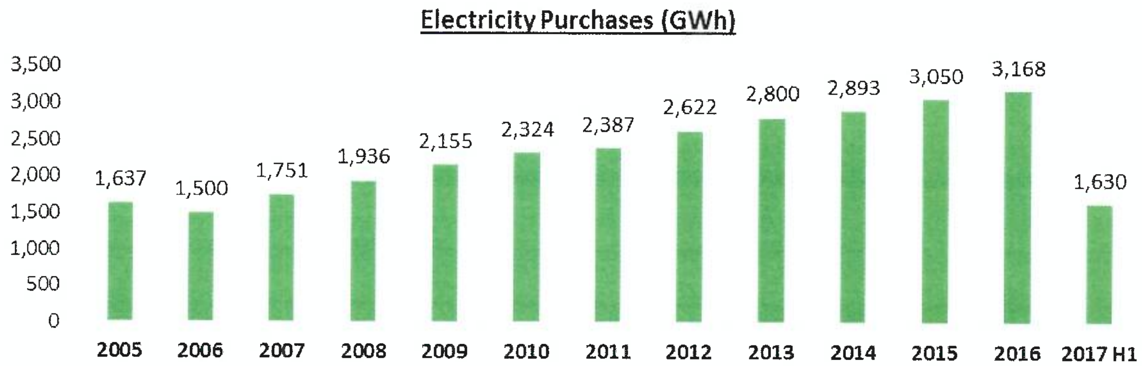
Umeme has implemented focused revenue collection initiatives and increased collection rates from 70% in 2005 to 99.9% by end of June 2017. It may be noted that Umeme's target, set by ERA and factored into the 2017 tariff, is to increase collections to 98.2% by end of December 2017. Umeme has already achieved this target as indicated in the graph below:



2.2.7 Growth

Since 2005 to date, Umeme electricity purchases have doubled from 1,600 GWh to 3,200 GWh. This increase in demand has been achieved via a combination of Umeme's network enhancements and an increase in generation supply.

Figure 2.2.7: Growth in Electricity Purchases



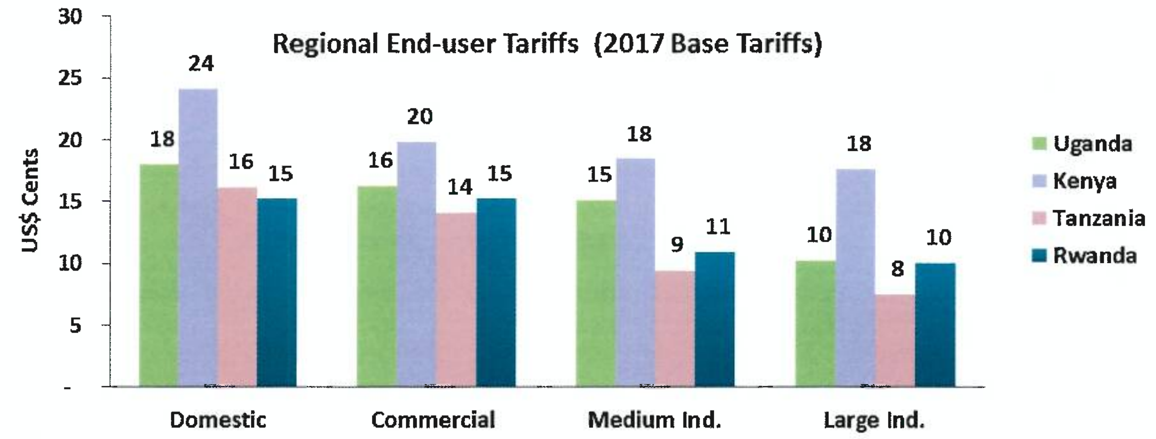
The steady growth in electricity purchases has contributed to the containment of the retail tariffs and translated into a steady stream of direct payments to UETCL e.g. up to shs 4 trillion between 2010 and 2016 alone, was remitted upstream in addition to the related tax revenues injected into the economy.

2.2.8 Competitive Tariffs

In 2017, the end user retail tariffs approved by ERA and charged by Umeme remained competitive within the region mainly driven by a fairly stable macroeconomics regime (foreign exchange rates and inflation) and favorable generation mix.

The table below shows the comparison of 2017 base tariffs across the region;

Figure 2.2.8: Regional Tariff Comparative 2017 Base



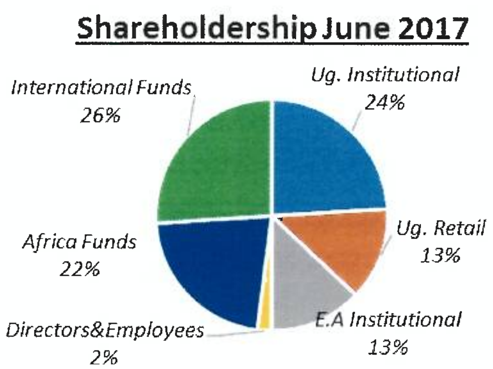
Source: Energy Regulation Commission for Kenya, Energy and Water Utilities Regulation Authority for Tanzania, Electricity Regulatory Authority for Uganda, Rwanda Utilities Regulatory Authority

2.2.9 Local Content

Umeme is listed on both the USE and the NSE since 2012 and 2013 respectively currently with 1,624 million shares in issue and a market cap of shs 740 billion as at October 2017.

It should be noted that at least 40% of the Company is owned by local Ugandans and notably the social security fund (NSSF) is the majority shareholder at 23%. The Umeme Share ownership, as at the end of June 2017, is summarized in the chart below:

Figure 2.2.9: Umeme Shareholders



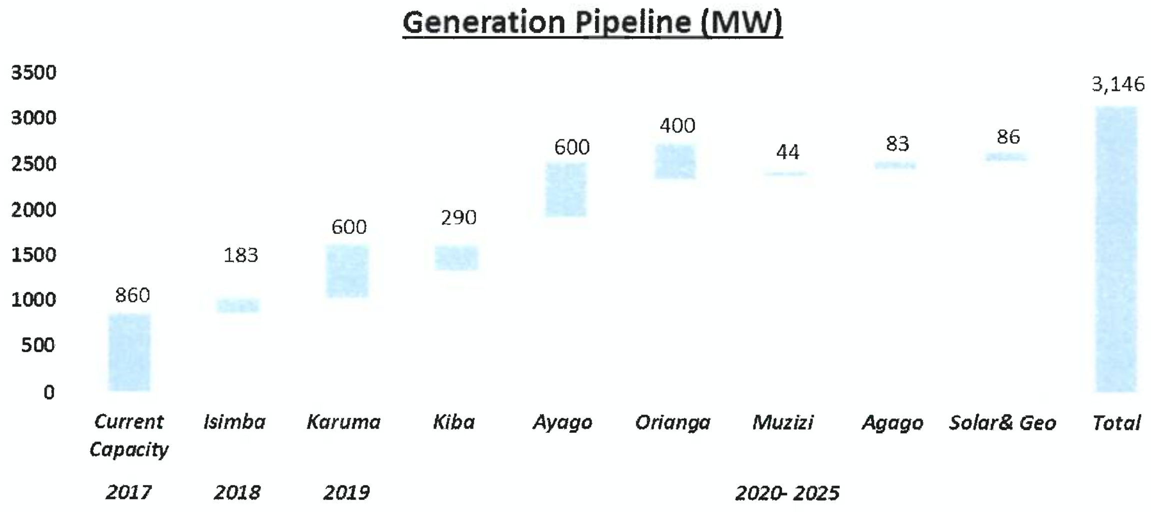
Furthermore, Umeme has contributed to the livelihood of local content through a number of contracts awarded to local companies to supply goods and services and direct employment for local personnel who currently make up 99.7% of the staffing complement.

3. Strategic outlook

3.1 Power Generation

The current generation capacity stands at approximately 860MW and there are several upstream projects expected to add an extra 1500MW on the system in the medium term (2018 - 2022) from large and mini hyro-power stations and solar sources. This capacity is expected to double in the long term to bring the total system capacity to over 3,000 MW by 2025 as shown below;

Figure 3.1: Generation Pipeline



With respect to the downstream, the current electricity access rate, in the country, is approximately 22%, planned to be increased to 40% by 2025. Umeme is a key participant in achieving this electricity access target. The company is working very closely with the Rural Electricity Agency (REA), ERA, and Development Partners in implementing programmes aimed at increasing electricity access.

There is opportunity to absorb the additional generation by readying the distribution network and execution of the last mile connections to achieve access rate targets contained in the REA Strategy, the National Development Plan and Vision 2040.

3.2 Umeme's Investment Plan for 2015- 2025

As part of the Inter-institutional Planning Committee chaired by the Ministry of Energy, Umeme shared its Asset Master Plan for the period 2015- 2025 with ERA, Government of Uganda, UETCL, UEGCL, and UEDCL. The Investment Plan for the period 2015 - 2025, amounts to USD 1.2 billion.

The Asset Master Plan is designed to ensure that the distribution network is enhanced to evacuate the expected increase in generation supply, execution of last mile new connections and as well as cater for improved reliability and quality of supply.

3.3 Umeme's Investment Plan for 2018

Umeme has already submitted to ERA, it's detailed 2018 Investment Plan amounting to USD 155 million. The investment program is firmly focused on delivering growth by targeting 200,000 new customers, refurbishing and installing new substations and other projects aimed at improving reliability and quality of supply. The 2018 Investment Plan is summarized in the table below.

Figure 3.2: Summary of the 2018 Capex Program

Capex Projects 2018	USD Million
Work in Progress	49
Growth Assets	54
Reliability	33
Restorations	5
Non- Network Assets	14
Total	**155**

3.3 Performance Targets 2019- 2025

As indicated in sections above, Umeme is subject to performance regulation and delivering efficiency targets remains a priority for the Company.

Pursuant to the Umeme Licences, ERA sets 7 year performance targets for Umeme, covering: Loss Reduction, Collections, Direct Operations and Maintenance Costs (DOMC). The current 7 year performance targets (for the period 2012- 2018) draws to an end next year. Umeme has already engaged with ERA to agree performance targets for the next period 2019- 2025.

4. 2018 Tariff Assumptions

4.1 Methodology

The determination of the revenue requirement and distribution price contained in this application is based on the guidelines prescribed in the Annex A of the Tariff Methodology included in the Supply License, the macroeconomic indexation prescribed by the Automatic Tariff Adjustment Methodology and the performance targets agreed with ERA for the period 2012 to 2018.

4.2 Macroeconomic Indicators

Uganda's economy has shown signs of recovery in 2017 evidenced by steady inflation regime averaging a growth rate of 5% largely supported by the agricultural sector. Similarly, the US dollar foreign exchange rate has remained stable throughout the year.

For purposes of the 2018 tariff application, the revenue requirement has been indexed against the prevailing macroeconomic variables referenced to the date of 30 Sept 2017 as indicated below;

Figure 4.2: Indicative Macroeconomic Indices

Period	Q4 2017 Tariffs	Base Tariffs 2018
Reference Dates	31-Aug-17	30-Sep-17
US Producer Price Index	198.5	198.8
UG Core Price Index	163.4	163.6
US Foreign Exchange Rate	3,600	3,603

4.3 Performance Targets (2012 – 2018)

The performance targets that were agreed upon with ERA, for the period 2012 to 2018 as shown below;

Description	Symbol	Units	Tariff Year						
			2012	2013	2014	2015	2016	2017	2018
Net Operating Costs	DOMC	USD x 10^6	42.5	44.1	44.6	46.2	47.7	49.3	51.1
Days Lag	DY	Days	0	0	0	0	0	0	0
Target Uncollected Debt Factors	TUCF	%	2.90%	2.70%	2.50%	2.30%	2.10%	1.80%	1.50%
High Voltages Technical Loss Factor	HVTLF	%	8.00%	8.00%	7.50%	7.50%	6.00%	5.70%	5.20%
Overall Distribution Losses	LF	%	25.50%	23.00%	20.00%	18.30%	16.90%	15.70%	14.70%

The agreed targets for 2018 tariff purposes are summarized below;

Figure 4.3: Performance targets

Parameter	Unit	Target
Overall Loss factor (LF)	%	14.9%
High Voltage Technical Loss Factor (HVTLF)	%	5.3%
Uncollected Debt factor (TUCF)	%	1.5%
Direct Operating and Maintenance Costs (DOMC)	USD m	51

4.4 Cost Allocation Factors

In 2017 tariff, ERA introduced cost allocations by customer class. Umeme has maintained the same assumptions for purposes of the 2018 tariff application as shown in the table below;

Figure 4.4 Cost Allocation Factors

Split	Domestic	Commercial	Medium	Large	Extra Large	Street	Total
HV network	13%	7%	8%	8%	9%	0%	45%
LV network	24%	13%	19%	0%	0%	0%	55%

4.5 Demand Forecast and Time of Use Weighting

As prescribed by the Tariff Methodology, the demand forecast for 2018 tariff purposes is the electricity purchases for the period October 2016 to September 2017. The profile of purchases by time of use over a 3 year period is shown in the table below;

Figure 4.5: Electricity Purchases (GWh)

GWh	2015		2016		2017	
Peak	871	29%	879	28%	906	28%
Shoulder	1,510	50%	1,598	51%	1,675	51%
Off peak	638	21%	659	21%	709	22%
Total	3,019	100%	3,136	100%	3,290	100%

Note that the time of use weighting of 130% as applied in 2017 has been maintained in the 2018 tariff application to encourage consumption at off peak and shoulder periods.

4.6 Energy Loss assumptions

The energy loss allocations, by customer class, used in the 2018 tariff application are derived by taking account of assumptions of commercial loss factors and high voltage losses and the resultant energy balance as shown in the table below;

Figure 4.6: Energy Loss Allocation 2018

Energy Losses Split	Domestic	Commercial	Medium	Large	Extra Large	Street
Commercial Loss Factor	16%	7%	7%	9%	4%	6%
Overall Loss Factor	23%	15%	14%	14%	9%	14%

4.7 Sales Weights and Load Factors

The sales covering the period Oct 2016 to Sept 2017 and corresponding load factor assumptions applied in the tariff application are indicated in the tables below;

Figure 4.7 (a): Sales by Time of Use (Oct 2016 to Sept 2017)

Non ToU	Domestic	Commercial	Medium	Large	Extra Large	Street	Total
Prepaid	413	33					447
Postpaid	209	40				1	250
ToU							
Peak		67	100	195	98	0	460
Shoulder		145	252	444	260	0	1,101
Off peak		51	74	193	134	0	453
Total	622	337	427	832	492	2	2,711
Sales Weights	23%	12%	16%	31%	18%	0%	100%

Figure 4.7 (b): Load Factors for 2018

Load Factors	Domestic	Commercial	Medium	Large	Extra Large	Street	Total
Peak	36%	20%	23%	23%	20%	60%	25%
Shoulder	44%	65%	59%	53%	53%	0%	53%
Off peak	20%	15%	17%	23%	27%	40%	21%

4.8 KVA Demand units and Customer Numbers

The number of customers and kVA demand units assumed for 2018 tariff application is shown below;

Figure 4.8 (a) kVA Demand Units (Oct 2016 to Sept 2017)

Category	Usage Band	Demand Units (kVA)
Medium	Charge 1	1,910,675
Large	Charge 1 (0-2000 units)	1,891,228
	Charge 2 (Above 2000 units)	735,841
Extra Large	Charge 1 (0-2000 units)	228,120
	Charge 2 (Above 2000 units)	1,164,886

Figure 4.8 (b): Customer Numbers

Category	Actual	Actual
	31-Dec-16	30-Sep-17
Domestic	867,671	973,623
Commercial	79,746	87,960
Medium	2,564	2,495
Large	527	469

Category	Actual	Actual
	31-Dec-16	30-Sep-17
Extra Large	-	38
Street	306	252
Total	**950,814**	**1,064,837**

5. Detailed Revenue Requirement

5.1 Investment Related Costs

The investment related costs for 2018 amount to Shs 466,383 million (USD 129 million) which include: return on investments, capital recovery and capital tax allowance, as summarized below

Investment Costs	**Shs million**	**USD million**
Return on Investment	218,099	61
Capital Recovery	154,813	43
Income Tax Allowance	93,471	26
Total	**466,383**	**129**

5.1.1 Gross Asset Base – Investment additions in 2017

The projected capex additions for 2017, to be considered in the regulatory base, amount to USD 65.31 million. The projected capex additions are summarized in the table below. A detailed schedule of the 2017 asset additions is being submitted separately.

Table: 2017 Asset Additions

Item	**USD million**
2016 Carry overs	21.8
2017 Additions	
Load Growth	34.91
Loss Reduction	6.13
Replacements	2.47
Total for 2017	**65.31**

5.1.2 Weighted Average Depreciation Rate

For purposes of the tariff computation, Umeme has applied a weighted average depreciation rate of 9.5% in line with rate applied in the previous tariff determination. Umeme notes that in 2017, the weighted average tariff applied was 10.23% to cater for impairment charges.

The impairment costs for 2016 to 2017 September amounting to USD 3,805,512 have been included under the reconciliations computation.

5.1.3 Previously Unrecognized Capex

During the discussions with ERA to review the previously disallowed Capex additions, Umeme was informed that ERA engaged a Technical Expert to carry out a review of the DOMC and Capex recovered in the tariff to determine the adequacy of the same.

Umeme carried out a review of the disallowed Capex additions from 2008- 2015 and recommends that at least USD 39 million is financed via additional DOMC and USD 15.3 million is considered for additional Capex in the 2018 tariff computation. The amounts have been factored into the tariff computation.

The detailed proposal for Capex and additional DOMC is shown below;

Un-recognized Capex Additions	CAPEX	Additional DOMC
Borrowing Costs	10.2	
LV Network works		28.3
Non network Assets		2.1
Commercial loss and safety projects	1.3	7.3
WIP	3.8	
Total	15.3	39.0

5.2 Net Operating Costs

The net operating costs include the DOMC allowance and regulatory fees adjusted for other regulated revenues.

The DOMC target is preapproved as per the regulatory targets. The assumption applied for foreign content is 33%.

The regulatory fees assumed in the computation are based on the statutory instrument of 2014. The amount allowed in the revenue requirement is provisional and the final amount will be determined by ERA.

The other regulatory revenues are based on the 2016 financial records and exclude revenues earned pursuant to the Output Based Aid Implementation Agreement of 2013.

The resultant net operating costs are summarized below;

Net Operating Costs	Shs million	USD million
DOMC	169,085	47
Other Revenues	(8,133)	(2)
Regulatory fees	3,557	1
Total	**164,509**	**46**

5.3 Lease Payments

Umeme's Lease and Assignment Agreement specified a pass through payment as prescribed in the payment schedules to meet UEDCL's rent and administration costs as well as replenish the Escrow Account.

Up to the 2011 tariff determinations, pursuant to the licence provisions, the Regulator allowed in the tariff, amounts relating (a) debt servicing obligations and (b) Administration costs for UEDCL.

However, from the tariff year 2012, the Regulator did not provide for debt servicing obligations on grounds that the relevant loans were converted to equity earning a zero rate of return. The Regulator has only provided in the tariff amounts relating to UEDCL administration costs. *This is contrary to the provisions of the Lease and Assignment Agreement signed between Umeme Limited and UEDCL*. The Agreements and the tariff methodology require that both the debt servicing component (meant to replenish the Escrow account) and the UEDCL administration costs be allowed in the tariff as pass through costs.

The cumulative amount relating to debt servicing, as stipulated in section 2.1 of the Lease and Assignment Agreement, omitted from the tariffs (2012 – 2017) by the Regulator amount to USD 79.2 million. The debt servicing component for 2018 is USD 13.2 million. Umeme would to restate that these amount were required to be provided for the tariff. Omission of these amounts from the tariff has resulted in the Escrow account not being replenished as required by the Lease and Assignment Agreement

The UEDCL administration costs component for 2018, expected to be allowed in the 2018 tariff determination, is estimated USD 1.7 million.

5.4 Reconciliations

5.4.1 Power Supply Price Reconciliation

Umeme submitted its claim for the power supply price reconciliation in August 2017 amounting to shs 87,736 million to ERA covering a period of January 2010 to June 2017, together with a model that returns zero reconciliation when parameters used in the tariff determination are applied in the reconciliation formula.

Umeme's claim is based on the formula prescribed by the Supply License signed between Umeme and ERA and data inputs verified by technical Expert.

For purposes of the 2018 tariff application the Company has applied to recover the full amounts relating to the power supply price reconciliation of shs 85,793 million covering a period of January 2010 to September 2017.

5.4.2 Growth Factor Over recovery

In September 2017, Umeme submitted its computation of the HVE growth factor revenues prepared by a Technical Expert, covering a period of January 2012 to September 2015. The computation shows that ERA over recovered an amount of shs 25 billion based on an erroneous computation.

ERA has not responded to the above submission. Nonetheless, for purposes of the 2018 tariff application, Umeme has included a figure of shs 25 billion as part of the reconciliations.

A detailed Report was submitted to ERA

5.4.3 Non network Assets

In September 2017, Umeme submitted its Capex program to ERA for review and approval. The Capex program included an amount of $14 million to cover the non-network assets and the respective justifications.

Following ERA's review of Umeme's submission of Non Network assets for 2018, the company requests that ERA allows in the 2018 tariff determination a component of non Network Assets (USD 14 million) as additional DOMC.

5.4.4 OBA Costs

In 2017 tariff determination, ERA deducted from Umeme's DOMC allowance, an amount of shs 4.163 billion relating to revenues received from participating Donor Agencies on the OBA programme.

The amount above refers to revenues reimbursed to Umeme to cover OBA implementation costs pursuant to the Output Based Aid Implementation Agreement with the Rural Electrification Agency dated 2013 and subsequent amendments.

The OBA project is capital in nature and the related costs recovered by the Company should not be recovered against the DOMC allowance.

ERA requested for additional information which was submitted on 28 September 2017 to aid review and decision.

For purposes of 2018 tariff computation, Umeme has included the full amount to be recovered as part of its revenue requirement.

5.4.5 Impairment Charges

As indicated in section 5.1, an amount of shs 3,804,512 has been included under the reconciliation amounts to take account of the impairment charges covering the period 2016 and 2017.

The detailed schedule of impairments has been submitted to ERA to justify inclusion of these costs.

5.4.6 Appeal Costs

Appeal costs relate to costs incurred by ERA and Umeme in connection with the Electricity Distribution Tribunal Appeals 3 and 9 of 2012 that were paid for by the Company as required by as required by terms of the Consent Judgment

During the tribunal process for Amendment no 2 & 4, and conclusion of Amendment No 5, both ERA and Umeme incurred legal costs amounting to shs 10,732 million. These costs amounting to Shs 10.732 billion (of which shs 6.7 billion relate to ERA lawyers) were discussed with ERA before concluding Licence Amendment No 5. ERA reviewed the Appeal costs relating to its lawyers and approved these as reasonable costs and the costs were filed with the Electricity Disputes Tribunal (EDT).

The appeal costs as outlined above have been fully included in the revenue requirement for 2018.

5.4.7 Reconciliations - Summary

The resultant schedule of reconciliations to be considered is shown below;

Reconciliations	shs million	USD million
Power Supply Price Reconciliation 2010 to Q3 2017	85,793	23.8
Over-recovery of growth revenues through end Q3 2015	25,901	7.2
Additional DOMC	140,517	39.0
Impairment costs	11,102	3.1
Appeal Costs	10,732	3.0
OBA	4,163	1.2
Total	**278,208**	**77**

6 2018 Indicative Distribution Price

Based on the Umeme Revenue Requirement, as summarized in section 1, the Average indicative Distribution Price, proposed to be included in the 2018 end user tariffs (to be determined by ERA) is computed at Shs 288 per kwh . The relevant model with computations has been be availed to ERA.

Further, Umeme states that the Company is not privy to the upstream costs and assumptions therefore. Umeme is therefore unable to compute indicative end user tariffs for 2018.

In determining the 2018 end user tariffs, it is expected that ERA will aggregate revenue requirements of all sector entities (including Umeme's revenue requirement) and take account of all assumptions underlying upstream costs and distribution costs

7 Life Line Tariff and Standing Charges

Umeme proposes that the lifeline rate which has stayed the same at shs 150 per kWh since 2014 is adjusted to shs 200 per kWh for the first 15 units purchased by domestic consumers to decrease the shortfall against the actual cost of supply.

Similarly, Umeme proposes that the standing charges and kVA rates which have stayed the same since 2012 are reviewed and adjusted to take account of escalation of inflation and corresponding increases in the fixed costs to serve.

8 Others

8.1 License Amendment no. 5

ERA issued a formal Notice of Modification of Licence for Supply of Electricity No: 048 (Modification Number Five) which became effective on 12 May 2017. The amendment requires that the Growth factor (Hvey) revenues for year-on-year total energy purchases be deployed towards investments into the

Distribution Network as approved by ERA and also to be used to leverage grant or other counterpart financing that will be applied to investments in the Distribution Network. Therefore, there will be no more claw backs. The Company is not entitled to a Return on Investment on the specific projects implemented using the reconciliation amounts in line with similar terms for projects funded using concessionary financing, but will earn a one-off management fee.

Growth factor revenues previously clawed back.

The Company has commercial mechanisms and remedies to recover the growth factor (Hvey) revenues previously clawed back

Pursuant to the Consent Judgment provisions, Umeme is currently engaging ERA and other sector stakeholders to agree a recovery mechanism for these previously clawed back Hvey revenues.

8.2 Management Fees

Umeme previously submitted to ERA a justification for a 19% management fee rate to be applied in the implementation of Assets to be funded utilizing the growth revenue reconciliation amounts pursuant to Amendment no. 5. The justification was based on a benchmarking exercise against comparable utilities, as performed by an Umeme Technical Expert.

ERA subsequently included in Amendment No 5, a Management fee rate of 4%, and indicated that the rated may be adjusted by the Regulator

Umeme requests that the management fee be reviewed and adjusted from 4% to 10% to take account of the full implementation costs and risks relating to investments to be funded by growth factor revenues.

8.3 Extra Large Category

In the 2017 tariff determination, ERA introduced extra- large customer category to provide incentives for customers involved in manufacturing and above rating of 1500 kVA per month. This was successfully implemented by Umeme.

Over the course of 2017, Umeme has received applications from various customers requesting for admission into the above customer category. These requests have been duly redirected to ERA to provide guidance on the matter.

8.4 Proposal for Single Tariff for Domestic Category

Despite the Company's effort to sensitize domestic customers' via media, Umeme continues to receive numerous complaints from domestic customers on prepayment metering regarding the accuracy of the bills notwithstanding the fact that tariff rates as approved by ERA are correctly applied in the Company's billing systems.

The complaints emanate from the service fee and lifeline tariff rate charged once a month thereby creating varying units purchased for any two or more consecutive transactions completed within the same month.

To address the above variability, Umeme proposes;

i- Adoption of step tariff whereby a unified rate encompassing service fees and energy charges is applied for progressive usage bands or

ii-Removal of the lifeline rate and service fees by applying a single average rate for all units purchased by the domestic customer.

Umeme requests ERA to explore the above options and any other ways to address the issue of customer complaints.

8.5 Proposal for Removal of Reactive Energy Tariff

Customers in the medium, large and extra- large categories are incentivized to ensure efficient power consumption via a reactive energy tariff which penalizes customers with low power factor and rewards customers with high power factor.

Well as the above framework is intended to promote efficiency, Umeme notes that the regime has not been effective as findings show that more customers are penalized than rewarded.

Furthermore, the above framework strains the Company's cash flow because customers who are penalized do not meet their payment obligations within the billing cycle and yet the Company rewards efficient customers within the billing cycle.

Therefore, it is the Company's wish that the above charge is removed from the tariff schedules for purposes of billing.

8.6 UNBS Meter Testing Fees

The Uganda National Bureau of Standards has indicated that it will be carrying out meter testing for current installed meters at customer premises and new meters prior to installation to ensure that the calibration meets the required standards of measurement and level of performance.

Umeme has written to ERA to consider the corresponding costs to execute the meter testing within the tariff computation as operational costs for installed meters and capital costs for new meters.

8.7 Cost of ERP System

Umeme intends to roll out an ERP system (Enterprise Resource Planner) aimed at aligning and improving efficiency in transaction execution and reporting, eliminating waste within its processes and reducing the cost to serve.

The Company has engaged and identified a potential supplier to provide the ERP system and requests ERA to advise whether the costs shall be treated as operational or capital in nature. Umeme shall submit a separate detailed justification for the costs.

8.8 Skills Development

In the 2017 tariff, an amount of shs 392 million was allowed in the revenue requirement to cater for the recruitment of 32 graduate trainees. Umeme communicated to ERA that this amount was not adequate to cover the total staff costs. Umeme has not received a response to date.

Umeme requests that an additional amount of shs 1.4 billion be provided in the 2018 tariff determination. Umeme will submitting an updated analysis and justification of the full costs relating to staff to be hired and the number of trainees expected to be hired

9 Confidential and Proprietary to Umeme Limited

Pursuant to section 2.4.5 of the License Conditions for the Supply License, Umeme would request that the Authority treats sections above as being private and confidential and therefore not considered to be public information.

As such Umeme requests that the information provided in the sections above be held by the Authority on a strictly confidential basis and not disclosed to any third party. Any breach by the Authority of this condition in the License will result in irreparable commercial harm to Umeme, not justified by any public disclosure purpose.