RESPONSE BY THE MINISTER OF ENERGY AND MINERAL DEVELOPMENT ON THE RISING POWER TARIFFS AND THE $ 100 MILLION LOAN FROM THE AFRICAN DEVELOPMENT BANK

Rt. Hon. Speaker and Hon. Colleagues this response in respect of rule 46 of our rules of procedure.

Rt. Hon. Speaker during the sitting of this Parliament on Wednesday 11th July 2018, Hon. Patrick Nsamba Oshabe MP Kassanda County North wanted an explanation as to why there has been an increment in the power tariffs despite the fact that government had extended corporate income tax exemption to Bujagali Energy Limited and the reason was to bring down the cost of electricity in this country.

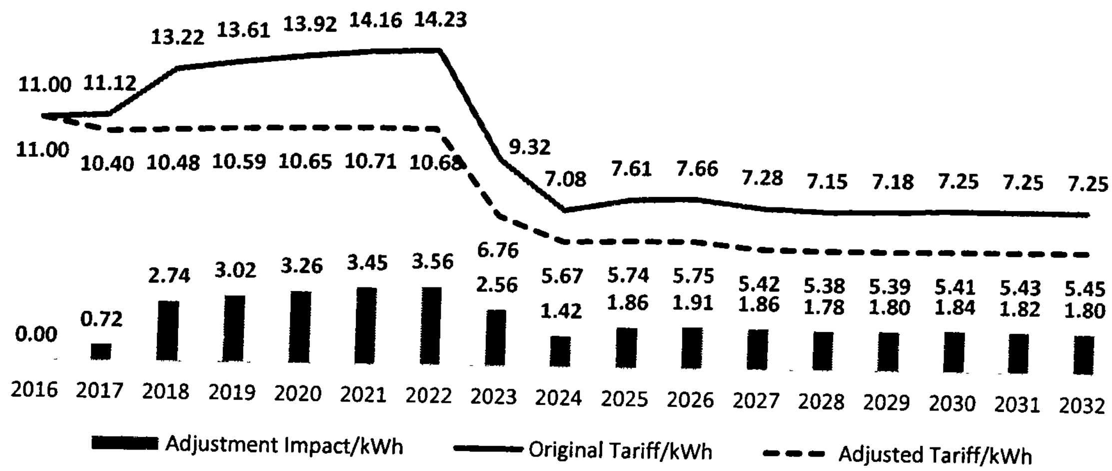
PART A: POWER TARIFF

BACKGROUND INFORMATION

1. In July 2017, Parliament approved the waiver of Corporate Income Tax for Bujagali Energy Limited for the period 2017/18—2022/23. The CIT waiver decreased the Bujagali Tariff from an average of US cents 13.83 per kWh to an average of US cents 10.62 per kWh.

2. The Impact of Waiving Corporate Income Taxes on Bujagali Generation Tariff for the period 2018 – 2032 is shown in figure 1 Below

Figure 1: Impact of Waiving Corporate Income Taxes on Bujagali Generation Tariff for the period 2018 – 2032



3. The CIT waiver benefits were applied across all the customer categories which helped to reduce the end user tariff by an average of 18.3%. Table 1 illustrates the comparison of the current end user tariff level with and without the CIT waiver for the Bujagali Plant.

Table 1: Quarter Three End User Tariffs With and Without the CIT Waiver for Bujagali.

	End-User Retail Electricity Tariffs (Ush/kWh)						
	Domestic	**Commercial**	**Medium Industrial**	**Large Industrial**	**Extra Large**	**Street-lights**	**Weighted average**
Tariff without CIT waiver	978.0	744.9	687.8	448.4	377.0	812.7	625.0
Current Tariff with CIT waiver	771.1	687.0	615.3	383.8	314.1	752.8	528.1
Percentage Change	26.8%	8.4%	11.8%	16.8%	20.0%	7.9%	18.3%

DEBT REFINANCING OF BUJAGALI HYDRO POWER PLANT PROJECT COSTS

4. In June 2018, Financial Close for the debt refinancing of Bujagali Hydro Power Project Costs was achieved. Following the refinancing, the Bujagali generation tariff reduced from an average of US cents 9.61/kWh to an average of US cents 7.91/kWh for the period 2018 to 2032.

5. The average monthly Capacity Payments to Bujagali Energy Limited also reduced from US$ 13.0 Million to US$ 10.5 Million.

6. The impact of the combination of Corporate Income Taxes waiver and debt refinancing of the Bujagali Hydro Power Plant tariffs is shown in Table 2 and Figure 2 respectively.

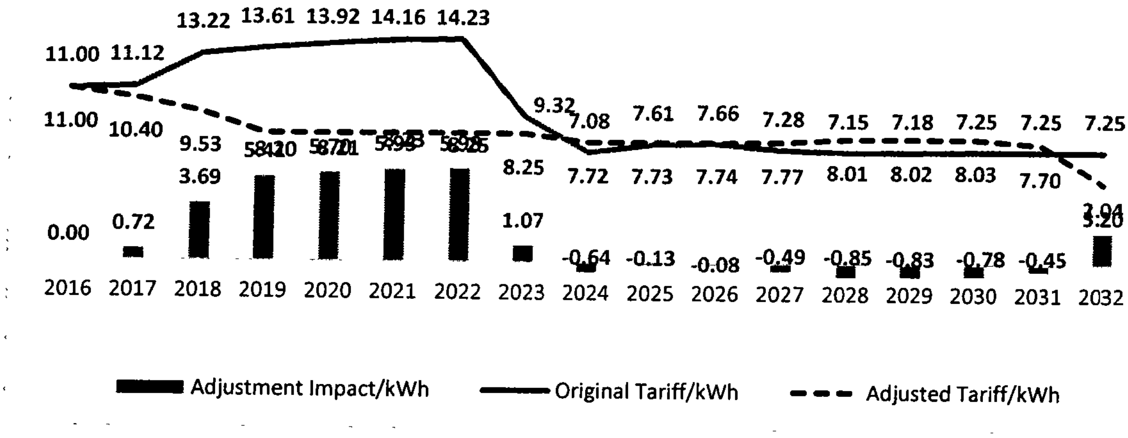
7.

Table 2: Impact of debt Refinancing + CIT Waiver on Bujagali Project Tariff

	1	2	3	4
	Period	Bujagali Tariff after CIT Waiver (US cents per kWh)	Bujagali Tariff after CIT Waiver + Debt Refinancing (US cents per kWh)	Change in Tariff (US cents per KWh)
	2018-2032	9.61	7.91	-1.70

8. Figure 2 below graphically illustrates the combined effect of the debt refinancing and the CIT Waiver on the Bujagali Project over the period 2018– 2032.

Figure 3: Impact of debt Refinancing + Waiver of CIT



IMPACT OF REFINANCING ON THE END-USER TARIFFS

9. In order for our industries to be more competitive, it is prudent to allocate all the benefits arising from the debt refinancing of Bujagali to the extra-large industrial customer category in line with H.E. the President's directive of ensuring that our manufacturers are competitive. Consequently, the tariff for the extra-large industrial customers has reduced by 15.0% with the off peak tariff reducing to US cents 5/kWh.

10. The Adjusted tariff for Extra –Large Industries is shown in Table 3

Table 3. Adjustment of the Extra-Large industrial Tariff

Time of Use Period	April - June Tariffs -US cents /kWh	July - September Tariffs - US cents /kWh
Average	10.1	8.3
Peak	13.4	11.6
Shoulder	10.3	8.5
Off peak	6.7	5.0

11. The benefit from Bujagali refinancing is allocated to the extra-large industrial customers for the following reasons;

i. The Extra-large industrial customers are large manufactures who are under threat of competition from the region for the export market;therefore a reduction in the tariff will enhance their competitiveness.

ii. Most of the manufactures under the extra-large industrial customers produce inputs to other sectors of the economy and therefore a reduced tariff will lower production cost and make inputs for other sectors cheaper;and

iii. The increased demand for electricity through the Extra-Large Industrial customers will result into additional sector revenue which will be used to reduce the tariffs of the other customer categories in a phased manner during subsequent Tariff reviews.

END-USER TARIFF ADJUSTMENT FOR Q3 (JULY – SEPTEMBER) 2018

12. For the third quarter of 2018, the Electricity Regulatory Authority approved a 1.7% weighted average increase in end-user electricity tariffs in accordance with the Quarterly Tariff Review Methodology. The tariff was determined in consideration of the following;

i. The Uganda Shilling has depreciated by 3.5% against the US Dollar, from Ush 3,634.92/US$ in November 2017 to Ush 3,763.00/US$ as at 31st May 2018;

ii. The annual Consumer Price Index increased from 164.15 in November 2017 to 165.07 for the month of May 2018, representing an increase of 0.56%.

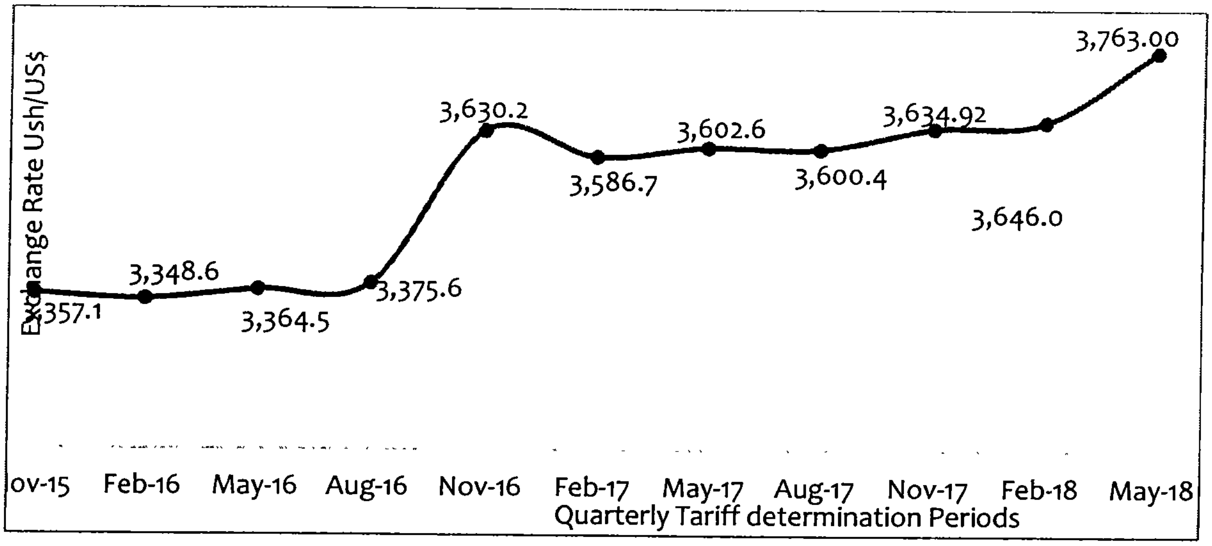
iii. The International fuel price for crude oil as at the end of May 2018 was US$ 74.11 per barrel compared to US$ 60.74 per barrel used in the determination of the 2018 Base Tariffs. This represents an increase in international fuel prices by 22% from the base period;

iv. The electricity export to Kenya has reduced from 48.69GWh in Q1 2018 to 24.72GWh in the second quarter of 2018, reducing export revenue by UETCL from Ush 39.18 billion in Q1 2018 to Ush 17.60 in Q2 2018;

v. It is worth noting that, the depreciation of the Uganda Shilling against the United States Dollar is one of the major challenges affecting the financial sustainability of the Electricity Supply Industry. Eighty five percent (85%) of the total electricity industry revenue requirement is denominated in United States Dollars. This is attributed to among others: The need to provide for debt Service obligations for the Independent Power Producers in USD and Provision for procurement of network equipment that is imported in USD.

vi. The movement of the exchange rate between 2016 and 2018 is indicated in Figure 4.

Figure4: Movement in USh/US$ Exchange Rate to May 2018



13. The resultant end-user tariff for the period July – September 2018 is indicated in Table 4.

Table 4. Resultant End-user Tariff for July – September 2018

	End-User Retail Electricity Tariffs (Ush/kWh)						
	Domestic	Commercial	Medium Industrial	Large Industrial	Extra Large	Street-lights	Weighted average
2018 Base Tariffs	718.9	648.3	592.5	375.5	371.1	701.9	520.3
Q2 2018 Tariffs	718.5	647.6	591.5	374.4	369.5	701.5	519.3
	Tariff Adjustment Factors (Ush/kWh) for Q3 2018						
Total Tariff Adjustment	52.2	38.7	22.8	8.3	(57.0)	50.9	7.7
Q3 2018 Tariff	771.1	687.0	615.3	383.8	314.1	752.8	528.1
Percentage Change from Q2 2018	7.3%	6.1%	4.0%	2.5%	-15.0%	7.3%	1.7%
Approved Q3 2018 end-user Tariff in US cents /kWh							
Average	20.5	18.3	16.4	10.2	8.3	20.0	
Peak		23.3	21.0	13.4	11.6		
Shoulder		18.2	16.3	10.4	8.5		
Off peak		11.7	10.3	6.8	5.0		

Exchange Rate and Source: Ush 3763.0 /USD as the midrate published by BOU on 31st of May 2018

CONCLUSION

14. Honorable members I wish to conclude by stating that:-

i. The benefits of refinancing Bujagali Hydropower has resulted in reduction of the generation tariff for Bujagali from an average of US cents 9.61/kWh to an average of US cents 7.91/kWh for the period 2018 to 2032.

ii. The impact of the implementation of the Bujagali Hydropower refinancing has resulted in reduction of the electricity tariffs for extra-large industrial manufacturers by 15% from an average tariff of US cents 10.1/kWh to an average of US cents 8.3/kWh and US cents 5.0 during the off peak period.

iii. The 3rd Quarter tariffs increased by about 1.7% weighted average due to the depreciation of the Ugandan Shilling against the dollar by 3.5%, the reduction of exports of electricity to Kenya by UETCL by over 50% and an increase in the international petroleum prices by 22%.

PART B: THE $ 100 MILLION LOAN FROM THE AFRICAN DEVELOPMENT BANK

Rt. Hon. Speaker and Colleagues during the sitting of Parliament on Wednesday 11th July 2018 Hon. Kenneth Lubogo MP Bulamogi County was concerned about the way $100 Million Loan from the African Development Bank had been handled leading to its mismanagement and wanted to know the status of this loan, and the response is as follows;

Background

1. On 4th November 2015, Government signed a loan agreement of USD 100 million with African Development Bank. The loan became effective on the 26th January 2016 and the closing date for the grant is 31st December 2020.

2. The project will benefit the following districts; Nakasongola, Luwero, Alebtong, Amuria, Soroti, Mbale, Manafwa, Serere, Ngora, Bukedea, Kaliro, Luuka, Iganga, Buyende, Gulu and Nwoya with a network coverage of about 1,305km Medium Voltage and 1,112km Low Voltage.

MAJOR CAUSES FOR THE DELAY IN IMPLEMENTING THE PROJECT

3. The African Development Bank did not approve the tender documents submitted to them by REA in October 2015 as had earlier been agreed during loan negotiations. They instead wanted the documents to be reviewed by a consultant which was not yet on board by then. It took one year to procure a consultant

4. The consultant, M & E Associates then proceededwith review of engineering designs and preparation of the tender documents for Works. The tender documents had to be reviewed by REA and AfDB.

5. The Bank approved the Tender documents on 4th October, 2017 and tendering process commenced on 5th October, 2017.The Evaluation of bids was completed on 23rd January, 2018.

6. The evaluation report was sent to AFDB on 23rdFebruary 2018 for approval. So far Lot-1 has been cleared and the other five lots are still under consideration. It is hoped that this will be finalized before end of July 2018.

Rt. Hon. Speaker and Colleagues I wish to appreciate the support of this House steering meaningful development that our Country yearns for.
I thank you.

Hon. Eng. Simon D'Ujanga
Minister of Energy and Mineral Development