OFFICE OF THE LEADER OF THE OPPOSITION

ALTERNATIVE POLICY STATEMENT FOR THE MINISTRY ENERGY AND MINERAL DEVELOPMENT FOR FY 2022/23

PRESENTED BY;

HON. NYAKATO ASINANSI/MP

SHADOW MINISTER OF ENERGY AND MINERALS

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EXECUTIVE SUMMARY

In compliance with Section 6E (4) of the Administration of Parliament (Amendment), Act, 2006 and Rules 14(2) and 147 of the Rules of Procedure, 2017, this Alternative Policy Statement for Energy and Minerals presents a policy package by the Opposition in Parliament.

Sector Overview

Uganda is an energy poor country with overreliance on biomass as the primary source of energy for majority of households and small businesses, constrained electricity transmission and distribution network and the associated constrained demand on account of unaffordable tariffs for consumers of all categories.

Biomass in form of both firewood and charcoal contribution in the energy mix is 88% of all the energy consumed in Uganda. On an annual basis, Uganda losses an average of 120,000 hectares of forest cover of which 60& or about 76,000 hectares are lost due to charcoal burning and firewood harvesting.

After almost 20 year of commercial oil discovery, a Final Investment Decision by joint venture partner was achieved without details of financing the projects. No financial closures have been announced yet.

Ugandan mines are largely artisanal with a ban on unprocessed minerals in place since 2011 has grossly affected output and exports by both volume and value excluding re-exported gold.

Emerging Issues

a) **Overpriced Fuel pump prices and lack of National Fuel Reserves.**

Uganda on account of delayed clearance of cargo trucks at the Kenyan border points of Malaba and Busia, run short of petroleum supplies at the end of December, 2021 through much of January, 2022. During that period gasoline pump prices rose from an average of Shs. 4,500/= to varying prices above Shs. 5,000/= per litre today.

b) **Delayed compensation of Crude Oil Pipeline Project Affected Persons.**

Even after Parliament passed the law that gives the East African Crude Oil Pipeline force of law in Uganda, the promoters of the project together with Government have failed to compensate project affected persons, more than 3 years since their land was practically encumbered by the project.

c) **Delayed Compensation for Project Affected Persons along the Hoima - Kaisotonya road.**

Construction of this road was undertaken 10 years ago but compensation of people whose land was affected by the project is still outstanding in total contravention of the Constitution of Uganda.

d) **Expected Environmental degradation on account of oil activities.**

Uganda is expected to begin development and production of crude oil pipeline for the first time in the history of our Republic. This will include transportation by feeder pipelines for long distances and the industry experience of crude spills some times.

e) **Lack of a Strategic Electricity Sector Governance Plan**

The Electricity Supply Industry in Uganda lacks a unit for planning. In other countries, the planning function is given by law to the Minister or the Regulator. In Uganda's case, the Minister doesn't provide analyzed medium to long term sector plans based on evidence such as technical studies conducted.

f) **Low and stagnant level of access to electricity network.**

The 41.3% of the population by 2020 were reported to have access to the electricity grid. During the same time, the Uganda National Household Survey conducted in 2019/20 established that the number of Households using grid electricity for lighting had reduced from 23% to 19% with the largest source of lighting (38%) being solar lighting.

g) **Constrained demand for electricity.**

Very slow peak demand growth for electricity. Peak demand including exports is approximately 736 MW of which 650 is domestic consumption. Annual average consumption per customer has declined from an average of 710 units in 2016 to about 520 units consumed in 2021.

d) **Dilapidated and low coverage Electricity Grid Network.**

Reliability of supply of electricity is so low, largely on account of incapacitated grid infrastructure. The electricity transmission and distribution networks are inadequate to efficiently and reliably supply power to the current 1.7 million customers.

h) Frequent power outages.

The Uganda Electricity Supply Industry is characterized by frequent power outages with an unreliable power supply across all service territories operated by 8 distribution companies. Unreliability of supply is attributed to a dilapidated distribution network as well a long distance covered by low voltage power lines without being boosted at substations.

i) Wrong tariff reduction targeting.

The President of Uganda has directed all industries in Industrial Parks pay an equivalent of US$ 5 cents for power that is generated at an average of US$ 6.5 cents and delivered at the various industrial parks at cost of US$7.5 cents. The actual subsidy per unit sold in industrial parks is approximately US$ 2.5 cents. The first shortcoming for this policy is the issue of equity and competitiveness.

j) Final Investment Decision by Uganda National Oil Company

UNOC currently has carried participation of 15% in the upstream joint venture but is yet to exercise her full rights of a 15% shareholding in the license because of failing to complete her equity contribution in the project.

k) Status of the Crude Oil Refinery.

Government of Uganda since 2011 has been planning to construct a 60,000 barrels of oil per day refinery. The Front End Engineering Designs which were completed and submitted by Albertine Graben Refinery Consortium (AGRC) to the Ugandan Authorities for approval was based on the 12 year old feasibility study by Foster Wheeler.

l) Preparations by Ugandan to maximize local content in oil projects.

Objective number 7 of the National Oil and Gas Policy of Uganda is to ensure optimum national participation in oil and gas activities. All the petroleum laws that were enacted after the policy provided for maximization of national content.

m) The ban on export of unprocessed minerals.

Government of Uganda without any formal notice, banned the export of unprocessed minerals in 2011. Since then, only gold has attracted significant mineral beneficiation facilities including 5 private gold refineries. After 11 years of a ban of exports, Uganda has only one non-artisanal mine in Busia operated by Wagagai Mining Company in Busia district.

n) Mysterious Mineral Deposit Potential.

Investing in Uganda's minerals sector is a big gamble. Scanty information exists on types and volumes of minerals in different parts of the country. An airborne geological survey of Karamoja region has been conducted in 2021. Other regions of the country are yet to be surveyed.

PROPOSED ALTERNATIVE POLICIES

i. The Permanent Secretary being the responsible officer, immediately transfers the top management of the department of petroleum supplies which has over stayed for more than 20 years siding with fuel dealers.
ii. The Ministry of Energy and Mineral Development immediately causes payments for both the Hoima-Kaso Road as well as the EACOP PAPs.
iii. The Petroleum Authority compels that EACOP to plant trees along the entire pipeline corridor from Kabaale in Hoima to the Tanzania border point. Similar tree planting arrangements be undertaken by joint venture partners TotalEnergies and CNOOC along all the feeder pipelines in connecting Tilenga and Kingfisher central processing units up to Kabaale industrial park.
iv. As part of Amendment of the Electricity (Amendment), Act, 2022, expressly compel the Minister responsible for electricity to establish a planning desk/unit in the Ministry to oversee planning for the industry. The Minister is compelled to report to Parliament periodically on parameters established in the planning process. The Minister should produce a strategic plan for the electricity supply industry
v. Liberalize the market for new electricity connections. To increase the electricity access rate, electricity regulator, ERA should open up the responsibility for new connections to as many private sector participants as possible. This would create competition in the market, leading to lowering of costs for new connections.
vi. Introduce solar mini-grids for SMEs in selected trading centers as part of Parish Development Model.
vii. Construct small solar net metering farms capable of powering machines of SMEs in selected trading centers. The price of Solar panels is declining steadily while capacity and efficiency per panel is rising at the same time.
viii. Source a long-term investor to rehabilitate the dilapidated grid network. The Ministry of Energy and Mineral Development by competitive bidding identifies a competent and highly concessional investor to rehabilitate, restore and expand the electricity distribution grid network.

ix. The electricity regulator should set reliability of service parameters for licensees especially in the distribution segment. Hours of outage should be penalized while uninterrupted service should be rewarded in the tariff formular as part of the provision for operations and maintenance.

x. Industrial subsidy should be set according to an individual industry's ability to consume rather than a blanket US$ per kilowatt hour.

xi. Notwithstanding the planned rollout of the subsidy, Industries of similar consumption level e.g large or extra-large should pay the same tariff per unit. This should be immaterial where they are situated including outside gazetted industrial parks.

xii. Amend the VAT Act to vary the rate paid by domestic electricity consumers from 18% to 10% in order to reduce the tariff and boost effective demand for electricity.

xiii. Transfer the entire budget for the defunct Ministry of Science, Technology and Innovation to the equity requirements of UNOC. UNOC's requirement of an additional US$ 178 million would be significantly covered by this one-off decision for only FY 2022/23 after which the much more re-organized Ministry of Science would be reconstituted.

xiv. UNOC should float minority shares to Ugandans. *The capital/equity requirements for UNOC in the upstream developments, EACOP, Crude Oil Refinery and refined petroleum products market is too huge for the company on its own to raise such financing.*

xv. Update the Foster Wheeler Feasibility Study on Refinery by undertaking a Commercial Viability Assessment. It is now more than 10 years since commercial viability was established. Changes in technology, incomes, population dynamics and market structures imply that current efforts may be based on less-than-optimal solutions.

xvi. Support the private sector to establish specialized vocational training in oilfield operations. At least one technical institute be set up in each of the districts of Kikuube, Hoima and Buliisa.

xvii. Enforce compliance of Sec. 26 of the Petroleum Supplies Act (2003) to require all licensed fuel suppliers to maintain a minimum working stock of each product, capable of running the business for at least 10 days without replenishing new stocks. The Act demands that all storage depots must all times maintain the 10% statutory reserve to be enforced by the Commissioner Petroleum Supplies.

xviii. Parliament provides financing to National Planning Authority in the budget for FY 2022/23 to undertake a study that would generate a list of specific infrastructure projects to be financed by proceeds from the petroleum Fund within the meaning of Sec. 59(3) of the Public Finance Management Act.

xix. Lift the ban on unprocessed minerals with no viability for processing in country. The ban on some minerals who's processing would require large scale production is hurting the sector and the country in terms of income.

xx. To attract large scale mines, Government commits all revenue generated from Mineral Licensing to mineral data acquisition. The ban in export of unprocessed minerals revenue accruing to mineral operations has also declined to less than Shs. 5 billion for non-gold minerals.

CHAPTER 1: BACKGROUND TO THE ALTERNATIVE POLICY STATEMENT.

This Alternative Policy Statement on the state of the Energy and Minerals Sector is the official Opposition response to the Ministerial Policy Statement for the Financial Year 2022/2023 presented to Parliament by the Ministry of Energy and Mineral Development.

In line with section 6E (2) of the Administration of Parliament Act (2006), the Leader of Opposition in Parliament is mandated to consult with his or her party leadership to appoint a Shadow Cabinet from members of the Opposition in Parliament with portfolios and functions that correspond to those of Cabinet Ministers in the sectors of appointment. Within the same legal framework in Section 6E (4), the Shadow Minister is mandated to present an Alternative Policy Statement on the Floor of the House for consideration and possible implementation. In view of the above, in my capacity as Shadow Minister for Energy and Minerals, I am presenting this Alternative Policy Statement for the Energy and Minerals Sector.

Sector Overview.

Uganda is an energy poor country with overreliance on biomass as the primary source of energy for majority of households and small businesses, constrained

electricity transmission and distribution network and the associated constrained demand on account of unaffordable tariffs for consumers of all categories.
Biomass in form of both firewood and charcoal contribution in the energy mix is 88% of all the energy consumed in Uganda[1]. On an annual basis, Uganda losses an average of 120,000 hectares of forest cover of which 60& or about 76,000 hectares are lost due to charcoal burning and firewood harvesting.

An estimated 19% households use grid electricity as the primary source of lighting of their homes according to the Uganda National Household Survey 2019/20. The same Survey by Uganda Bureau of Statistics found that 14% of Ugandan households use tadoba (small kerosene lamp) as the primary source of lighting.

16 years after discovering commercial quantities of hydro carbons in form of crude oil and gas, decision making by Uganda authorities on taxes accruing to farm downs and farm outs of some licensees as well as negotiations renegotiation have tended to delay progress of upstream and mid-stream projects. On 1st February, 2022 Uganda witnessed the land mark attainment of the much-awaited Final Investment Decision although questions sounding the financial closure of projects like the East African Crude Oil Pipeline Project are still unanswered.

Uganda is generally believed to be endowed with a robust mineral wealth capable of transforming the country into a modern society if exploited their real potential. Unfortunately, due to limited data on the volumes of the different minerals available, attracting private capital has been limited as most mining operations begin as green fields. The ban on unprocessed minerals instituted in 2011 has grossly affected output and exports by both volume and value excluding re-exported gold.

CHAPTER 2: SITUATIONAL ANALYSIS OF THE MINERAL POLICY STATEMENT

2.1 Budget Allocation

The Office of the Leader of the Opposition and Shadow Cabinet Secretariat informally accessed the detailed Ministerial Policy Statement for the Energy and Mineral Development Sector for FY 2022/23 on Tuesday 22nd March 2022. This is because the Ministerial Policy Statement laid on the table of Parliament to meet the Statutory deadline of 15th March 2022 lacked the details including the proposed budget allocations. The Office of the Leader of the opposition relied on the Medium-

[1] National Development Plan 3, 2020/21 – 2024/25.

Term Expenditure Framework (MTEF) numbers attached to the Consolidated Ministerial Policy Statements for purposes of analyzing the sector budgets.

Table 1: Proposed Budget allocation for FY 2022/2023

Sector Overview of allocations			Annual Changes	
Item	**FY 2021/22 Approved Budget**	**FY 2022/23 Budget Estimates**	**Absolute (Shs. Bn)**	**Percentage**
a) Vote 017 Ministry of Energy and Mineral Devvelopment				
Wage	22.17	22.17	-	0.0%
Non-wage Reccurrent	41.67	18.00	(23.67)	-56.8%
Domestic Development	383.39	332.19	(51.20)	-13.4%
External Financing	754.42	1,038.30	283.88	37.6%
Total Excluding External	447.23	372.36	(74.87)	-16.7%
Sub-Total	**1,201.65**	**1,410.65**	**209.01**	**17.4%**
			0	
b) Vote 139 Petroleum Authority of Uganda			-	
Wage	23.83	23.83	-	0.0%
Non-wage Reccurrent	18.26	13.55	(4.71)	-25.8%
Domestic Development	10.93	6.34	(4.59)	-42.0%
External Financing	-	-	-	
Total Excluding External	53.02	43.72	(9.30)	-17.5%
Sub-Total	**53.02**	**43.72**	**(9.30)**	**-17.5%**
			-	
SECTOR TOTAL	**1,254.67**	**1,454.37**	**199.71**	**15.9%**

As demonstrated in table1 above, the overall budget allocation for the sector is projected to increase by Shs. 199.71 billion, representing an increment of 15.9% when compared to the approved budget for FY 2021/22. The increment is mainly attributed to an expected increase in donor support for Rural electrification Program. External Financing for the Ministry of Energy is expected to grow from Shs. 754.42 billion approved for FY 2021/22 to 1.03 trillion. Due to the timing of access to the Ministerial Policy Statement and the new program-based budgeting format, we were not able to ascertain the detailed breakdown of the programmed 37.6% increase in donor disbursement for the Ministry of Energy and Minerals.

The non-wage recurrent of the Ministry has been cut by whole 56.8%T when compared to the approved budget of FY 2021/22. Cutting the recurrent budget of a Ministry Responsible for Rural Electrification means that Donor Equipment will be delivered but funds to facilitate Ugandan workers to move and conduct field support and monitor contracts is now not available. The negative effects of mainstreaming the Rural electrification Agency into the mainstream public service are beginning to show up.

The funding allocation for the Petroleum Authority of Uganda has been reduced by 17.5% down to Shs. 43.72 billion from Shs. 53.02 billion approved for FY 2021/22. This reduction is coming in a year when an expanded work load for the Authority including monitoring of field activities on multiple fronts including the East African Crude Oil Pipeline, Central Processing Facilities at King Fisher and Tilenga as well as Refinery and new exploration licensing rounds.

2.2 FY 2021/22 Budget Performance.

The new reporting format in the MPS does not include past performance and projected outturn for the year in which the Policy Statement has been prepared. The MPS for FY 2022/23 does not give any details about expenditures of FY 2020/21 and the projected outturn spending for FY 2021/22. No information on releases so far made in order for a fair assessment to be made about absorption and funding shortfalls for critical activities and programs.

2.3 Alignment to the National Development Plan

In compliance with the requirement for Ministries, Departments and Agencies to fully integrate to Program Based. Accordingly, the MPS by design has adopted the program-based budgeting mode of the NDP. However, the critical commitments in the NDP have not been catered for in the Policy Statement. Some of the key commitments in the NDP where progress and the plan to implement them is silent include;

i. Increasing primary energy consumption from 15.2 million tonnes of oil equivalent to 21.74 million tones 25. This was intentioned to increase effective demand for energy.

ii. Increasing the proportion of the population with access to electricity from 24% in FY 2018/19 to 60% by 2025.
iii. Reduce the share of biomass for cooking from 88% in FY 2018/19 to 50%.
iv. Reduce the value and volume of imported fertilizer.

Table 2 below includes a list of costed interventions in the National Development Plan that were programmed for execution in FY 2022/23 but are not expressly reflected in the Ministerial Policy Statement.

Table 2 : Some NDPIII Costed interventions programmed for FY 2022/23

017 Ministry of Energy and Mineral Development		NDPIII Budget (Shs. Billions)
East African Crude Oil Pipeline	EACOP Project construction completed	45.5
Geoscience laboratory	Petroleum Geoscience Laboratory established	45.9
Oil refinery	Refinery construction complete	158.0
Expand mineral processing and marketing	Mineral exploration, developme	14.5
Explore and quantify priority mineral and geothermal resources across the country	Mineral exploration, development and value addition	361.3
Geological and minerals information system developed (geothermal, geological surveys)		68.2
Mineral reserves established		218.9
Increase access and utilization of electricity	Transmission and Distribution	2848.3
Consumers connected to the grid		261.0
Expanded distribution network		1014.0
Off-grid and mini-grids constructed		85.0
Rehabilitated transmission network		401.7
Transmission lines to DRC Congo, Northern Tanzania and Southern Sudan		307.9
Mineral Development		75.7
Appropriate technologies being used in mining		14.5
Artisanal miners Groups formalized		13.8
Increased utilization of appropriate technology		32.7
Skilled artisanal miners		14.7
Increase adoption and use of clean energy	Renewable Energy Developmer	173.6
Net metering framework developed		15.0
Off-grid min-grids based on renewable energies constructed		67.6
Increase electricity generation capacity		527.0
Approvals for construction of a nuclear power plant finalized		17.5
Increase investment in mining and value addition		452.7
Adequate and reliable infrastructure extended to mining and minerals processing zones;		168.9
Research and development infrastructure in place		238.3
Promote utilization of energy efficient practices and technologies	Energy Efficiency	143.1
Increased uptake of LPG		56.0
Increased utilization of alternative and efficient cooking technologies		73.5
Strengthen the legal and regulatory framework as well as the human and institution		229.8
Administration of minerals sub-sector streamlined		18.9
Institutions equipped (tools and human resource)		164.0
Measures to avoid destruction of life and property due to geo hazards put in place		10.5

2.4 Gender and Equity Compliance

The Certificate of Gender and Equity compliance was not attached to the MPS and therefore we were not able to make assessment based on the score issued by the relevant authorities.

CHAPTER 3: EMERGING SECTORAL ISSUES AND ALTERNATIVE POLICIES

Sustainable Energy Development Programme:

3.1 Lack of a Strategic Energy Sector Governance Plan

The Electricity Supply Industry in Uganda lacks a unit for planning. In other countries, the planning function is given by law to the Minister or the Regulator. In Uganda's case, the Minister doesn't provide analyzed medium to long term sector plans based on evidence such as technical studies conducted by the Ministry of Energy and Mineral Development.

Electricity Regulatory Authority concentrates on regulating the market but not long-term planning. National Planning Authority provides a strategic framework but a gap exits at sectoral level where no one is responsible for the big decisions.

Examples of big decisions made in cabinet and sometimes probably by the President himself is the US$ 5 cents tariff subsidy to industrialists. With a good planning unit, Cabinet would never be embarrassed by a decision to give a flat tariff to all industries in industrial packs. A good decision based on evidence would have arrived at conclusion that industries have sizes and that they are all not located in industrial parks. A subsidy that targets consumption levels modelled by a planning unit would have been a good policy.

Other examples include the pending expiry of the concessions of Umeme Ltd., Eskom Ltd. And WENERICo in West Nile. No study has been produced by the Minister to support evidence decision making about the future of the concessions.

Alternative

3.1.2 As part of Amendment of the Electricity (Amendment), Act, 2022, expressly compel the Minister responsible for electricity to establish a planning desk/unit in the Ministry to oversee planning for the industry. The Minister is compelled to report to Parliament periodically on parameters established in the planning process.

3.1.3 Draw strategic plan for the electricity sub-sector.

The Minister of Energy and Mineral Development draws an electricity sector strategic plan taking into account the projected population growth in Uganda and the East African Region. Peace meal interventions like the Electricity connections Policy that was launched in 2018 and suspended in 2020, the mainstreaming of the Rural Electrification Program as well the planned re-bundling of Uganda Electricity Board successor companies are not good enough for the long term development of the industry.

Lack of a strategic plan has read to a lot of electricity generation capacity that can't be optimally evacuated to the last mile where consumption takes place. The taxpayer will continue to be over burdened with a growing provision for deemed power even when unit consumption per customer is declining. The plan would enable the sub-sector to balance generated power with transmission and planned uptake over the years.

More importantly is the fast-changing landscape that is making non-traditional renewable energy technologies more affordable compared to hydroelectricity. This calls for long term planning that accommodates renewables as a dominant source of electricity in the energy mix.

2.3 Low and stagnant level of access to electricity network.

The 41.3% of the population by 2020 were reported to have access to the electricity grid[2]. During the same time, the Uganda National Household Survey conducted in 2019/20 established that the number of Households using grid electricity for lighting had reduced from 23% to 19% with the largest source of lighting (38%) being solar lighting.

The Electricity connections Policy of Government which had started free connections to the grid, targeting 300,000 new connections annually, was suspended in August 2020 as government runout of revenues to sustain the program. Many Rural Electrification Projects that elected low voltage powerlines across the country did not connect new customers after failing to complete those projects. Thousands of power lines are not energized leading to a backlog of hundreds of thousands of applicants pending connection onto the grid.

Alternative

[2] World Bank Country Data, Uganda. https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=UG. Last accessed 28th January, 2022.

3.2.1 Liberalize the market for new electricity connections.

To increase the electricity access rate, electricity regulator, ERA should open up the responsibility for new connections to as many private sector participants as possible. This would create competition in the market, leading to lowering of costs for new connections. This policy would enable many Ugandans to get connected onto the grid. Any further delay in adopting this policy would imply that few Ugandans able to pay inflated costs will be connected on the distribution network.

3.2.1 Introduce solar mini-grids for SMEs in selected trading centers as part of Parish Development Model.

Construct small solar net metering farms capable of powering machines of SMEs in selected trading centers. The price of Solar panels is declining steadily while capacity and efficiency per panel is rising at the same time. Government using part of the rural electrification program financing to centrally procure panels and inverters to generate low voltage electricity capable of supporting carpentry, welders, agro-processors and other small businesses who identify one shed/operating area.

The power generated by solar during the day when machines are being operated is consumed and only supplemented by the expensive Umeme when local demand in that trading center exceeds solar supply. This would enable value addition at an affordable cost since government would install the small grids which require small operations and maintenance costs.

3.3 Constrained demand for electricity.

Peak demand for electricity including exports is approximately 736 MW of which 650 is domestic consumption[3]. On the other hand, available power or dependable capacity that can be dispatched by the different generation plants is approximately 900 megawatts although the installed capacity is higher. Due to technical and environmental factors, some electricity generation plants are not able to deliver all the installed capacity. The total Installed Generation Capacity as of 1st December 2021 is at **1,325.9 MW** of which **1,236.3MW** supplies the main grid, **13.9MW** is off the

[3] Electricity Regulatory Authority Transmission Statistics, https://www.era.go.ug/index.php/stats/transmission-stats/maximum-demand