

Umeme urged to reduce profit target

By Faridah Kulabako and Vivian Agaba

As the high electricity tariffs continues to be a thorny issue across the country, former distributor -Uganda Electricity Distribution Company Ltd (UEDCL) has asked its successor to cut its return on investment threshold to lower the tariff.

The UEDCL managing director Joseph Katera said Umeme, which is running a 25-year electricity distribution concession should reduce on its Return on Investment (ROI) -profits from investment- from 20% to at most 10%.

Among the terms in the Umeme 25 year concession that took effect March 1, 2005, the distributor was guaranteed a fixed 20% ROI rate, premised on the high risk profile of the country and sector, characterised by dilapidated infrastructure, low generation and low electricity connectivity. Katera, however, said the situation has since changed with more power being generated and so must the ROI. "Uganda is less risky; you

cannot remain rigid even when conditions change. Agreements are negotiated and can be renegotiated," Katera said on the sidelines of the stakeholder symposium for Members of Parliament (MPs) on the Natural Resources committee last week.

In a letter to energy minister Irene Muloni late last month, President Yoweri Museveni also expressed concern over the high return on investment.

Reliable sources indicate that during a follow up meeting with the president following the letter, he asked them to lower it from 20 to 12%. Sources, however, indicate that Umeme is pushing to keep it at least 15%.

ERA at fault

Katera also faulted the Electricity Regulatory Authority - the sector regulator, for banning UEDCL from collecting lease fees from Umeme for using its assets, which he said has constrained the agency's operations.

"The agreement says Umeme shall pay lease fees to UEDCL based on depreciation and

returns because we gave them assets. But the regulator stopped Umeme from paying saying that we are a government agency and that we should be financed through the Treasury.

But this has affected our operations. We now rely on Umeme's investments at a return of 20% yet we could be reinvesting the money in our own infrastructure at 1 or 2% and Umeme just uses it," Katera said.

The ERA manager communication Julius Wandera, however, said allowing lease fees would further increase end-user tariffs. "When you get money from the tariff for administration and recovery of government investment, it certainly increases the tariff.

Government agreed that the treasury will meet all the loan obligations that relate to all UEDCL assets that Umeme took over and relieved it of the obligation to collect that money," he said.

Katera, however, said collecting leasing fees would have minimal impact since UEDCL would invest the money at a lower ROI. "We



Umeme boss Selestino Babungi

would expand electricity access and the more customers you connect; the more power you sell and that suppresses the tariff. We want the regulator to allow lease fees in the tariff so that we can reinvest that money at very minimal return" he said. UEDCL ceded power distribution to Umeme in 2005, just four years after its creation following the disbandment of the Uganda Electricity Board into Generation, Transmission and Distribution companies.

MPs

The MPs urged the Government

to consider equipping UEDCL, in preparation to take over power distribution or make it a major Umeme competitor to improve service delivery.

According to Katera, UEDCL is technically, operationally and administratively prepared but only lacks funding.

UEDCL currently maintains a small number of assets and distributes about 1.5% of the country's electricity in a few territories, mostly rural areas scattered across 40 districts.

Tighter targets for Umeme

As efforts to reduce power tariffs, Wandera said the regulator is set to set tighter targets for the next seven years. The current targets are set to expire this year.

Wandera indicated that ERA has contracted Tata Consultancy Services to carry out a study that will inform the new set of targets.

"The loss levels targets have been about 14% but we want to push it down to about 10%," he said.

Power losses for 2017 stood at 17.4%. A percentage loss in electricity amounts to about

\$4m. This therefore means that the 17.4% losses resulted in about \$69.6m (sh255.4b) revenue loss, which we had to pay through the tariff.

The Umeme managing director, Selestino Babungi, however, noted that achieving tighter targets requires availability of corresponding resources.

"We will balance our resource requirements with the targets and see how far we can go," he said.

Although Umeme has been shouldering the lashes over high power tariffs, Babungi said the tariff set by ERA is a function of the generation, transmission and distribution costs, with the first two accounting for about 75% of the cost.

He however, added that there is need for collaboration among all stakeholders to lower energy losses, especially those emanating from power theft.

Additionally, he said continued investments in the network, technology, public awareness and meter audits, which are being implemented, will help drive losses further down.

FOREX Rates

CURRENCY	BUY	SELL
US Dollar	3685	3705
Euro	4540	4700
British Pound	5760	5900

ews

