

# WHETHER OR NOT THE CONTRACT IS RENEWED, THE GOVERNMENT LOSSES

## What is in the Umeme contract?

The persons who signed the Umeme deal on behalf of the Government went against advice from a number of individuals that it was too costly and full of flaws, available information shows.

*Sunday Vision* has established that several advisories were made to the Government before, during and after the signing of Umeme's concession in 2004, but all of them were ignored. Some people have since gone to court, claiming the concession was fraudulent.

The Government in 2004 gave the concession to manage the country's power distribution to Umeme, then owned by Actis Capital, a subsidiary of the UK Commonwealth Development Corporation. The contract expires in 2025. Now President Yoweri Museveni says the contract should not be renewed because of several anomalies.

### WHO WERE THE SIGNATORIES?

During the 2004 agreement, former finance minister Gerald Sendaula signed on behalf of the Government; Irene Muloni, now energy minister, signed for UEDCL as the managing director, while former director David Grills signed on behalf of Umeme.

However, when it came to the amended contract where several clauses were completely scrapped and replaced with those favouring Umeme in 2006, former finance minister Ezra Suruma signed on behalf of the Government.

Muloni was still the signatory for UEDCL, while Paul Mare, the then managing director and Ian Williams, the then chief financial officer, signed on Umeme's behalf.

The energy minister then, Hilary Onek, had raised a red flag that the contract was costly and it had flaws, but his views were ignored. He was instead eventually replaced by Muloni.

The Umeme concession was intended to improve the quality of service, increase investment in the rehabilitation and expansion of the power distribution network, reduce losses, increase new connections and provide reliable and affordable electricity to consumers.

However, Umeme has not realised the objectives of the reforms in power distribution as there is high power distribution losses, billing and collection losses, power tariffs, poor quality services and low access levels, according to an earlier assessment report of the country's electricity distribution sector submitted to the energy minister (Muloni).

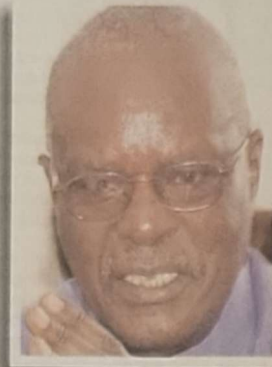
The report was written by energy experts.

### MUSEVENI CALLS FOR PROBE

While instructing the IGG to investigate Umeme over alleged inflated losses and end-user tariffs, Museveni said the Umeme contract should not be renewed.

In his March 12 letter, Museveni tasked Muloni with explaining the irregularities in power tariffs. He stated that "certain elements in the energy ministry" messed up the Umeme concession, causing the persistent end-user tariffs. Muloni was ironically part of the team that signed the flawed Umeme concession.

The President noted that; "the cheating started with fraud of inflating the technical and commercial losses. The Auditor General had



Gerald Sendaula, signed contract



Irene Muloni, signed contract



Ezra Suruma, signed contract

calculated the losses at 28% in 2005. Then, all of a sudden, a delegation of Ugandans went to the US and mysteriously, together with the investors, hiked the figure of losses to 58%."

Museveni noted that when Gen. Salim Saleh wrote his report in 2009 after an investigation, he found the losses at 28%, of which 15% were technical and 13% commercial. The losses had been caused by non-collection of debts by the defunct Uganda Electricity Board. But today, Museveni observed, technical losses have risen to 17.3%, yet Umeme claims to have invested \$500m in distribution infrastructure.

### EXPERTS SPEAK OUT

When *Sunday Vision* sought out energy experts to comment on the President's decision not to renew Umeme's contract and to institute a probe over alleged inflated losses and end-user tariffs, most of them agreed with him.

Former energy minister Richard Kaijuka wondered how anyone would sign such an unfair agreement. "Were they under duress?" he wondered.

Kaijuka said all the issues that the President raised were genuine concerns. He also wondered how Umeme got listed to sell shares to the extent that National Social Security Fund (NSSF) bought 23% shareholding. "They (Umeme) did not only have a skewed agreement, they also went ahead and insulated themselves by allowing the public to buy shares."

Kaijuka also questioned Umeme's claim that they have invested \$500m (about sh1.8 trillion) in the distribution network, saying if they had invested that much money, the technical losses would not be so high.

A senior energy expert, who did not want to be named because of his dealings with Umeme, also agreed with Museveni, adding that

## SUNDAY SPOTLIGHT CHRIS KIWAUULO REPORTS

### Trend of losses, tariffs

A July 2008-June 2009 electricity performance report by the Electricity Regulatory Authority (ERA) showed that power distribution losses in the first quarter of 2005, when Umeme started distributing power, were at 40%.

Thereafter, they went down to an average of 35%, although the operator had targeted reduction in distribution losses to 28% by the end of 2010. But they again went up to 38%.

Although the electricity generation capacity increased above the crisis levels experienced in 2005, the power tariffs have

remained at unsustainable levels and are the highest compared with other countries within the region, ERA noted.

The cumulative end-user tariffs have risen by 98% since 2004 and consumer tariffs have, as a result, been rising, ERA observed.

In 2005, domestic consumers paid sh212.5 per unit, which rose to sh385.6 in 2011. Today, Umeme charges domestic consumers sh718.9 per unit, which is one of the highest in the region. This is in addition to other challenges, including slow response to emergencies and unexplained power blackouts, among others.

the contract should have long been terminated.

The expert who owns an energy firm said he had an input in the parliamentary report that found irregularities in Umeme's operations and contract and, as a stakeholder, he recommended termination of the deal.

"I personally wrote to President Museveni advising him to terminate the contract about three years ago," he pointed out.

Another industry expert expressed concern about the future of the concession, saying Uganda was sitting on a time bomb with the deal.

"The earlier that contract is terminated, the better. Even if it means borrowing to get Umeme out, the Government should do so in order to avoid a bigger expense in future.

In 2011, Umeme claimed they had invested \$102m. Today, they say it is \$500m. Who knows how much they will claim to have invested by 2025?" he wondered.

### TERMINATION AND COST IMPLICATION

Should the Government choose to terminate the contract, the power distributor does not make any losses as it is well-cushioned by the contract. Instead, it is the Government to pay Umeme a buyout amount, as it will have defaulted on the contract.

The buyout amount is calculated against the cost of modifications/investment that is not depreciated and unrecovered by Umeme before the retransfer of the distribution system to the Uganda Electricity Distribution Company Limited.

In 2011, the buyout amount was

calculated at sh4.7 trillion... Umeme had invested \$102m... over sh10 trillion given the... investment.

The invested amount (\$500m as of today) is multiplied by 20% annually from the initial period of investment (2006) up to the end of the 13th anniversary (2017).

Thereafter, the money keeps on reducing every year as the percentage multiplied with the invested amount up to the end of the concession in 2025.

On the other hand, when Umeme defaults, the Government will have to compensate them over sh4.7 trillion. This compensation is 80% of the invested amount from 2006 to 2025.

Then, the money keeps on increasing every year as the percentage multiplied by the invested amount, until the end of the concession in 2025.

Such clauses mean that the Government is most likely to be left with the power distributor up to the end of the contract.

In the event of natural termination of the contract, the Government would have to pay 105% of the amount Umeme invested at the end of termination. Natural termination of the contract is when the concession expires and the contractor (Umeme) claims they have not recouped their total investments.

The agreement also reveals that due to termination of the contract, the control of both parties beyond Majeure, the Government pays 90% of the invested money. Such circumstances include war, riot, strike, crime, flooding or earthquake or volcanic eruptions.

In addition, the contract obliges the Government to pay an interest of 20% per annum of any outstanding portion of the buyout amount, should 91 days elapse after the termination date, until it clears the money in full.

This means that should Umeme's contract be terminated under any circumstances, it is the Ugandan taxpayer to lose money.

However, there have been ongoing talks between Umeme and the Government for the latter to renew the contract after 2025. When Museveni proposed that the contract should not be renewed, Umeme officials met him to argue their case.

### WHO OWNS UMEME?

In 2016, British-based firm Actis divested its remaining shareholding in Umeme and NSSF emerged as the largest shareholder in Umeme with 25% ownership. The sale had no effect on the operations and management of the company, according to Umeme's financial reports.

As at December 31, 2016, Umeme had a total of 4,424 shareholders, including some big players like; Kimberlite Frontier Africa Master Fund (6.6%), Allan Gray (5.5%), Investec Asset Management Africa (4.8%), Utilico Emerging Markets Limited (4.3%), the Africa Emerging Markets Fund (3.4%).

Others are International Finance Corporation had (2.8%), Duet Fund (2.8%), Coronation Global Opportunities Fund (2.6%), Kattagat Trust (2.0%). Individual shareholders held the remaining 42.0%.