

In the matter of an Application for an Emergency Tariff Adjustment by the  
**TANZANIA ELECTRIC SUPPLY COMPANY LIMITED (“TANESCO”)**

THE ELECTRICITY ACT

(CAP. 131)

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THE ELECTRICITY  
(TANZANIA ELECTRIC  
SUPPLY COMPANY  
LIMITED)

(EMERGENCY TARIFF  
ADJUSTMENT),

ORDER, 2012

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*(Made under section 23)*

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**For an Emergency Tariff Adjustment**

Background            1. On 9<sup>th</sup> November 2011, EWURA received an Emergency Tariff Application (**TR-E-11-012**) from TANESCO, which was supported by a Certificate of Urgency from the Government through the Minister for Energy and Minerals. The submission is in accordance with paragraph 15 of the Tariff Application Guidelines, 2009. In the Application, TANESCO requested for a tariff increase averaging 155% across all customers’ categories.

Justification  
for the  
Proposed  
Increase            2. In the Application TANESCO shows that, the principal motive for the emergency tariff application is to enable TANESCO cover increased operating costs resulting from the use of Emergency Power Plants (EPPs) and extensive use of its own thermal generation plants to address acute power shortage in the country. Furthermore, TANESCO expresses that during year 2011, Tanzania experienced unprecedented poor rainfall in catchment areas of major reservoirs for hydropower generation plants that

led into a severe load shedding in the country. Thus, in order to minimise the socio-economical effects of the load shedding, TANESCO had to procure emergency power plants and use extensively its own thermal generation plants.

Stakeholders'  
Consultation

3. Pursuant to Section 19(2)(h) of the Energy and Water Utilities Regulatory Authority Act (“Cap.414”), EWURA conducted an inquiry to establish the reasonableness or otherwise of the proposed tariff increase. On 2<sup>nd</sup> December 2011, EWURA held a public hearing meeting in Dar es Salaam to collect views of stakeholders. Furthermore, public notices were published in newspapers and posted on EWURA’s website.

4. During the public hearing, TANESCO explained the rationale of the proposed tariff increase to stakeholders, and responded to stakeholders’ comments. Present in the meeting were the EWURA Consultative Council (CCC), the Government Consultative Council (GCC), interveners and the public.

5. EWURA Consultative Council (CCC) was concerned, among other things, about TANESCO’s decision to include other costs not related to emergency, absence of a cost reduction plan, continued use of preferential tariff rate to its staff; and poor recovery of debts. On the other hand, the Government Consultative Council (GCC) was concerned about high losses, laxity in collecting outstanding debts, high provision for doubtful debts, non-payment of electricity bills by the Zanzibar Electric Corporation (ZECO), and lack of clarity of actual costs caused by EPPs.

6. While accepting an increase equivalent to the inflation rate, the Confederation of Tanzania Industries (CTI) was concerned about lack of clarity on the duration of the emergency tariff period, and absence of assurance for improved services in the event that tariffs are increased. Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), was concerned about lack of a proper institutional set up to address the recurrence of load shedding in Tanzania, and lack of analysis on the effects of a 155% tariff increase to the economy. While giving its support for a reasonable tariff increase, the Tea Association of Tanzania (TAT) also recommends that, tariffs should be increased gradually over a period of 5 years.

7. Tanzania National Business Council (TNBC) was concerned about lack of initiatives by TANESCO to cut down operational costs, poor strategies to improve revenue collection, and lack of a clear exit strategy

from the emergency situation. ZECO was concerned about having a tariff increase without doing a Cost of Service Study and lack of consideration of losses in setting the appropriate tariff for ZECO that taps its power at 132 kV.

8. The Public was concerned about, among other things, poor customer care, outrageousness of the proposed tariff increase of 155%, signing of contracts without bothering the aftermath of the increase to the economy, poor debt collection and the poor quality of power supply. The public advised the Government to embark on short and long term strategies to alleviate the electricity supply problem in Tanzania.

9. At the closure of the inquiry process, TANESCO had reasonably responded to stakeholders' comments and EWURA had adequately gathered information to prudently determine the Application.

Government  
Intervention

10. Since the Government, through the Minister of Energy and Minerals had supported the Application by submitting a Certificate of Urgency for its determination, EWURA after completion of its analysis, notified the Government of possible tariff increase in the margin of 56.12%. Subsequently, in order to minimize the effect to the economy of a high tariff increase, the Government:

- (a) committed to continue supporting TANESCO regarding the payment of IPTL capacity charge amounting to TZS 18 billion per annum.
- (b) exempted taxes on imported fuel for power generation plants under emergency at rates TZS 415/litre for Gas Oil and TZS40/litre for Heavy Fuel Oil; and
- (c) converted a loan bridge finance of TZS 136 billion previously issued to TANESCO into a grant.

Decision

11. The Board of Directors of EWURA, during its 90<sup>th</sup> and 92<sup>nd</sup> Extra-Ordinary meetings held on 30<sup>th</sup> December 2011 and 12<sup>th</sup> January 2012, respectively, decided as follows:

- (a) approved the appropriate Revenue Requirement from electricity sales applicable for 2012 to be Tanzanian Shillings One Trillion Five Billion Two Hundred Twenty Seven Million Three Hundred Thirty One Thousand Eight Hundred Fourteen (TZS 1,005,227,331,814) against One Trillion Eight Hundred Six Billion Two Million Eight Hundred Thirty Thousand Eight Hundred Thirty Eight (TZS 1,806,002,830,838.00) requested by TANESCO. This translates into an average tariff increase of 40.29% with effect from 15<sup>th</sup> January, 2012. The recommended Revenue Requirement differs from what was requested by TANESCO for the following reasons:
  - (i) TANESCO had assumed a dry-hydrology in year 2012 to establish a generation plan as opposed to an average hydrology used by the Authority;
  - (ii) Own Generation Costs, Repair and Maintenance Costs, Staff Costs and Other Expenses approved for 2011 which were escalated at an annual average inflation rate of 9.9%;
  - (iii) Approved Purchased Electricity Cost of TZS 693.59 billion instead of TZS 1,162.19 billion by adjusting the Emergency Power Plants Costs and escalating the Purchased electricity Costs for 2011 at an average inflation rate of 9.9% instead of accepting the generally high provisions for the same as proposed by TANESCO;
  - (iv) The cost relating to Emergency Power Plants Cost has been reduced to TZS 451.22 billion from TZS 937.4 billion by adjusting the following:
    - (a) the new Ubungo Gas Plant fuel consumption from TZS 983.40/kWh for 74MW instead of TZS 36.40/kWh for 75MW generation estimated by TANESCO;
    - (b) allowing IPTL up to 50% of its capacity only since 50% of the capacity had earlier been included in the current tariff; and
    - (c) allowance of 5% of the EPP costs as Contingency for weather variations.
  - (v) Provision for Doubtful Debts was reduced from TZS 19.79 billion to TZS 13.37 billion by disallowing TZS 6.4billion set aside for ZECO for lack of relevant and objective evidence of

its non-collectability;

- (vi) The Revenue Requirement for 2012 was adjusted downward by TZS 3.8 billion being lost revenue due to TANESCO applying preferential rate to its staff of TZS 4.90/kWh instead of TZS157/kWh approved by EWURA through Order No.010-019;
  - (vii) the electricity sales forecast for 2012 was adjusted upward to 5,089 GWh from 5,024GWh projected by TANESCO for year 2012 by adjusting electricity station use to 1.1% from 3.87% comprised in their proposal;
  - (viii) adjusted upward the EPPs costs by 5% to take care of any unforeseen weather variation in catchment areas of TANESCO's hydro-electric dams.
- (b) directed that, when implementing this Order, TANESCO shall partly finance Own Generation Costs by TZS 79.38 billion as depreciation charge for year 2012;
  - (c) directed that, over collections resulting from implementing this Order be adjusted in subsequent Orders in line with the Electricity Act;
  - (d) approved that, in the absence of a Cost of Services Study that would have established the true cost of serving ZECO by TANESCO, the respective tariff for ZECO be discounted down by 10% compared to those applicable for T3 customers. This reduction takes care of the distribution losses. The Cost of Service Study is expected to define the actual costs by TANESCO in serving ZECO; and
  - (e) directed TANESCO's staff to pay the rates equivalent to those applicable to T1 customers.
  - (f) approved the electric supply tariff across customers categories as shown in Table 1:

CATEGORIES		COMPONENT	CURRENT	PROPOSED	APPROVED	
D1	Domestic Low Usage	Basic Charge	0	0	-	0.00%
		Energy Charge (0-50 kWh)	60	153	60	0.00%
		Energy Charge (above 50 kWh)	195	497	273	40.29%
T1	General Use	Basic Charge/Month	2,738	3,106	3,841	40.29%
		Energy Charge	157	400	221	40.29%
T2	Low Voltage Supply	Basic Charge/Month	10,146	25,875	14,233	40.29%
		Energy Charge	94	240	132	40.29%
		Demand (kVA)	12,078	30,802	16,944	40.29%
T3	High Voltage Supply	Basic Charge/Month	10,146	25,875	14,233	40.29%
		Energy Charge	84	212	118	40.29%
		Demand (kVA)	10,350	26,395	14,520	40.29%
T5	ZECO	Basic Charge/Month	10,146	25,875	14,233	40.29%
		Energy Charge	83	212	106	28.21%
		Demand (kVA)	8,610	21,957	12,079	40.29%

(g) issued the following conditions:

- (i) TANESCO shall strictly follow a least cost generation mix plan including the use of its own hydro and thermal power plants, and submit report thereof to the Authority on monthly basis;
- (ii) all new power plants shall be procured competitively and by aligning with the demand and capacity requirement including the necessary reserve margin;
- (iii) TANESCO shall, in 2012 meet the following Key Performance Indicators as contained in the Table 2:

**Table 2: Key Performance Indicators**

<b>Objective</b>	<b>KPI</b>	<b>2011</b>	<b>2012 Target</b>
Increase access to electricity	New customer connections	100,000	100,000
Increase reliability - SAIFI (220/132/66Kv)	Trips/Feeder/Month	< 2	< 2
Increase reliability - SAIFI (33/11kV)	Trips/Feeder/Month	< 2	< 2
Increase reliability - SAIDI (33/11kV)	Minutes/Feeder/Month	< 2	< 2
Increase reliability - CAIDI in DSM, Arusha, Kilimanjaro and Mwanza (220/132/66kV)	Minutes	< 1	< 1
Increase reliability - Voltage variation (220/132/66kV)	%	±10	±10
Increase reliability - Voltage variation in DSM, Arusha, Kilimanjaro and Mwanza (33/11kV)	%	±5	±5
Decrease Transmission losses	% of energy sent out lost	5.2%	5.5%
Decrease Distribution losses	% of energy sent into MV grid lost	18.5%	15%
Optimal Collection Rate	% of billed	96%	96%
Increase Staff Productivity	Customer per employee	172	172
Improve Financial Performance	Minimum DSCR	1.15	1.15

- (iv) three months after coming into effect of this Order, TANESCO shall submit the demand side management and energy efficiency options;
- (v) TANESCO shall, on a monthly basis submit to the Authority the generation plan for the next month matching the generation plan and the actual dispatch;
- (vi) TANESCO shall, within three months from coming into effect of this Order, review the energy forecast for year 2012 and submit to the Authority for information and approval; and
- (vii) TANESCO shall submit all Power Purchase Agreements for Authority's approval as per the requirements of the Electricity Act prior to commencement of generation of electricity by the Independent Power Producers.
- (h) revoked the Electricity (Tanzania Electric Supply Ltd Company

Tariff Adjustment) Order №. 010-019 of 2010.

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12 January 2012

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Haruna Masebu  
*Director General*