

THE UNITED REPUBLIC OF TANZANIA

ENERGY AND WATER UTILITIES REGULATORY AUTHORITY
(EWURA)

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Ref. No. EWURA/1/2/4

11th September 2007

Dr Idris Rashidi
Managing Director
Tanzania Electric Supply Company Limited
P.O. BOX 9024
DAR ES SALAAM

Dear Sir

Re: TANESCO TARIFF REVIEW APPLICATION – TR-E-07-012

This refers to TANESCO's tariff application submitted vide letter Ref. SMSPP/MSP/EWURA/34 of 27th August 2007 on the captioned subject, and registered by EWURA as TRE-07-012.

It has been noted that the Application in its current form does not fully meet the criteria set out in EWURA's Guidelines for the Evaluation of Tariff Applications of 18 October 2006, the Order Number 07-001 of 10th January 2007 and has numerous inconsistencies.

In view of the foregoing, and in the spirit of expediting the process we hereby request the following additional information/clarification.

Compliance with EWURA Guidelines and Order

It is noted that the following provisions of the Guidelines and of the Order 07-001 have not been met:

1. A summary Top Sheet has not been submitted. EWURA hereby requests TANESCO to do so;
2. The obligation on TANESCO concerning submission of the cost of service study by not later than within 6 months of previous tariff's approval has not been fulfilled. Notwithstanding explanations given by TANESCO, EWURA has not been satisfied with this situation taking into account the fact that Power System

Master Plan development falls into responsibility of Ministry of Energy and Minerals and as such, it has no relationship with the responsibility on TANESCO to prepare and submit to EWURA a cost of service study.

3. Information concerning methodology in which a tariff schedule contained in Table 3, page 15 of the Application was calculated, and data required to make those calculations has not been submitted. EWURA hereby requests TANESCO to avail the information;
4. Independently audited financial information, including the Opinion of the Auditors, covering the year 2006 has not been submitted. EWURA hereby makes TANESCO aware of the fact that a negative Disclaimer of Opinion contained in 2005 Report of the Independent Auditors following their review of TANESCO's 2005 Financial Report; and resulting from that lack of verifiable financial data makes the financial information unreliable. TANESCO is therefore urged to submit the Audited Accounts as soon as possible.
5. Comprehensive operating information covering the past three years prior to the date of the Application has not been submitted (or partially submitted). Specifically, EWURA requests TANESCO to provide the following:
 - (a) Information concerning collection rate during last three years, with information concerning a period of the last 12 months preceding the application date, broken down into at least 3-monthly intervals, together with a projection for the following **five** years (similarly to the figures contained in page 39 of the Application, but also in tabular form);
 - (b) Information concerning employment (including numbers of employees and personnel cost) during last three years, together with a projection for the following five years. EWURA notes that the figures concerning employment contained in Table 4, page 23 of the Application are inconsistent with figures on page 35, and therefore requests TANESCO's explanations concerning the inconsistency;
 - (c) Information concerning growth of electricity consumption and peak power during last three years, together with a

projection for the following five years. To expedite the process EWURA requests that Table 4, page 23 is expanded so as to encompass years 2004, 2005 and 2006 as well as be enriched by information concerning MW of peak demand.

It is noted that TANESCO assumes a 13.9% annual growth rate in its sales from different categories of consumers for 2007. Following that, this growth rate is significantly reduced (to 7.6%).

EWURA hereby requests TANESCO to explain the basis for the forecast consumption growth, especially in view of consumption growth rates achieved in years preceding the Application. In particular, an explanation is sought concerning any statements confirming forecast growth of consumption by major customers (T3, as well as gold mines).

- (d) It is unclear whether gold mines constitute separate group(s) of customers to T3. The proposed schedule (Table 2, page 13) does not encompass gold mines while Table 4, page 23 separates them out from totals. Also, it is unclear from Table 2, page 13 what tariff is applicable for the gold mines such as Resolute and Kahama gold mines.
 - (e) Provide information concerning electricity losses during last three years, with information concerning a period of last 12 months preceding the application date broken down into at least 3-monthly intervals, together with a projection for the following five years, separately for:
 - (i) Transmission; and
 - (ii) Distribution technical as well as estimated commercial losses.
6. A justification of the applied subsidy policy and extent of financial impact on each customer category has not been submitted. EWURA hereby requests TANESCO to do so, and additionally present a detailed information concerning the following:

- (a) Status of subsidies for Zanzibar, especially in view of Zanzibar being supplied from a single, specific generation source (Ubungo). Studies performed in past suggested subsidisation of that group by other customer groups;
 - (b) Status of subsidies received from the Government of Tanzania, together with annual schedules of these subsidies in the last three years and forecast for the following five years.
7. As a general rule, Guidelines require a projection of operating information covering the following five years of tariff application. However, the Application forecasts cover only four years, at most - 2008, 2009, 2010 and 2011 (Table 5-7 on page 25-27), and information for 2012 is lacking. EWURA hereby requests TANESCO to rectify this situation;

Other Clarifications Pertinent to TANESCO Tariff Application

Following a preliminary review of the Application, EWURA also seeks clarification concerning the following issues:

1. TANESCO is hereby requested to submit electronic workable versions of excel sheets used in the application;
2. In relation to Figure 1 on page 2, comparison of numbers from the figure on that page – (TANESCO proposed tariff vs. current) suggests a 32,4% tariff increase. At the same time, the number on page 31 suggests a 40% average tariff increase. EWURA hereby asks for clarification explaining the difference.

Also, it is not clear for which period of tariff's validity TANESCO applies for (whether one or two years). EWURA hereby requests TANESCO to specify this period.

3. TANESCO is hereby requested to provide justification for a proposed 9.1% tariff rise in 2009 (Table 5, page 25), following a 40% proposed tariff increase from January 2008 through to December 2009 (2.1.3, page 4).
4. In terms of Generation Annual Revenue (2.3.1.2, page 10) EWURA requests TANESCO to deliver full list of contracts with Independent Power Producers (including Emergency Power Producers) together with payment schedules, pass-through

costs, capacities involved and MWh produced by each producer concerned during last three years, together with a projection for the following five years. It is suggested that Attachment 2 is expanded accordingly.

TANESCO is also requested to present precise data concerning quantities of fuels forecast to be used (and paid for by TANESCO) in the process of electricity generation, together with average forecast prices for each fuel type concerned;

5. EWURA hereby requests TANESCO to provide information concerning cost of transmission and distribution as per the format in attachment 3 of the application, covering also the period 2004, 2005 and 2006. Furthermore, TANESCO should explain how the calculation of the "cost per unit sold" has been made in the same attachment.
6. EWURA also requests TANESCO to submit information as per format of Table 5, Page 25 of the Application for years 2004, 2005 and 2006;
7. TANESCO has not submitted any information concerning the proposed operational efficiency improvement measures and their forecast financial impact on the tariffs. EWURA hereby requests TANESCO to do so;
8. TANESCO has not specified any timelines for achieving particular goals listed as forecast Customer benefits (page 16). EWURA hereby requests TANESCO to do so;
9. EWURA seeks a confirmation from TANESCO regarding whether quantities of electricity generated from thermal sources assumed for years 2007 onwards reflect the fact that 2006 constituted a year of particularly bad hydrology. TANESCO should present in tabular and graphical form hydrological trends for the scenarios for bad, average, normal and very good hydrology (high inflows) for the projected period as well as actual generation for 2004 to 2007 (projection also include October-December 2007); Mtera, Kidatu and Nyumba ya Mungu Dam Levels to be included;
10. EWURA hereby requests that graphical illustrations (pages 39 through to 45) encompass 2007 and projections for the following

five years and are also supported by information in tabular formats.

In order to facilitate EWURA's tariff application review and analysis, TANESCO is hereby requested to submit information and clarifications mentioned above within three weeks of the date of this letter, that is 2nd October 2007. Please note that detailed analysis and review of your application will start upon receipt by EWURA of the above information/clarification.

TANESCO is reminded that all information submitted to EWURA as part of this Application will become a matter of public record, scrutiny and inquiry.

Your cooperation in addressing the above issues is highly appreciated.

Yours sincerely

ENERGY AND WATER UTILITIES REGULATORY AUTHORITY



Anastas P. Mbawala

For: DIRECTOR GENERAL

cc: Permanent Secretary
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