

ANNEX C

RETAIL TARIFF METHODOLOGY

ATTACHED TO AND MADE A PART OF THE
TRANSMISSION AND DISTRIBUTION FRANCHISE AGREEMENT
by and between
THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA
acting through the
Ministry of Energy and Minerals and
UMOJA COMPANY LIMITED

TABLE OF CONTENTS

| | <u>PAGE NO.</u> |
|--|-----------------|
| 1 Definitions and References | 3 |
| 1.1 <i>Definitions</i> | 3 |
| 1.2 <i>References</i> | 11 |
| 2 Determination of Revenue Requirement..... | 12 |
| 3 Determination of T&D Revenue Requirement..... | 12 |
| 3.1 <i>Components of Revenue Requirement for Transmission and Distribution</i> | 12 |
| 3.2 <i>Debt Component</i> | 13 |
| 3.3 <i>Equity Component for the Base Project</i> | 14 |
| 3.4 <i>Equity Component for the Expansion Project</i> | 16 |
| 3.5 <i>Operation, Maintenance and Administrative Component</i> | 18 |
| 3.6 <i>Determination of Agreed Operation, Maintenance and Administrative Costs</i> | 19 |
| 4 Determination of Other Components of Revenue Requirement..... | 20 |
| 4.1 <i>Force Majeure Sales Lost</i> | 20 |
| 4.2 <i>Other Income</i> | 21 |
| 4.3 <i>Excess Sales</i> | 22 |
| 4.4 <i>Correction Factor</i> | 22 |
| 5 Determination of Final Costs, Debt and Equity | 23 |
| 5.1 <i>Audited Costs Report for the Base Project</i> | 23 |
| 5.2 <i>Feasibility and Implementation of Expansion Project</i> | 26 |
| 5.3 <i>Audited Costs Report for Expansion Project</i> | 27 |
| 6 Determination of Tariff and Subsidy | 29 |
| 6.1 <i>Conditions for Subsidy and Retail Tariffs</i> | 29 |

| | | |
|----------|---|-----------|
| 6.2 | <i>Determination of Subsidy Requirement and Surplus Revenue</i> | 30 |
| 6.3 | <i>Umoja's Annual Tariff and Subsidy Proposal</i> | 32 |
| 6.4 | <i>Annual Tariff and Subsidy Determination</i> | 32 |
| 6.5 | <i>Total Deferred Equity Amount</i> | 33 |
| 6.6 | <i>Payment and Treatment of Lease Rental</i> | 34 |
| 6.7 | <i>Use of Remaining Surplus Revenue</i> | 36 |
| 7 | Miscellaneous | 37 |
| 7.1 | <i>Adjustment for Exchange Rate Variation</i> | 37 |
| 7.2 | <i>Adjustment for Liquidated Damages for Delay</i> | 38 |
| 7.3 | <i>Adjustment for Delay in Financial Closing</i> | 38 |
| 7.4 | <i>Adjustment for Variable Interest Rates</i> | 39 |
| 7.5 | <i>Adjustment for T&D Restoration</i> | 40 |
| 7.6 | <i>Electronic Form of Calculations</i> | 40 |
| 7.7 | <i>Business Day for Interest Rate and Payments</i> | 41 |
| 8 | Annual Audited Statement | 41 |
| | Subannex 1: Target Losses and Collections | 43 |
| | Subannex 2: Annual Tariff and Subsidy Proposal and Determination | 44 |
| | Subannex 3: Guidelines for Estimating Revenue Requirement | 46 |
| | Subannex 4: Limits on Carrying Costs of Working Capital | 47 |
| | Subannex 5: O&M Budget | 49 |
| | Subannex 6: Rehabilitation and Expansion Plan | 50 |
| | Subannex 7: Calculation of Maximum Annual Rental | 55 |
| | Subannex 7A: Leased Assets | 57 |

1 Definitions and References

1.1 Definitions.

The following terms shall have the respective meanings given to them below:

“Accountants” – An independent firm of certified public accountants, recognized internationally and registered in Tanzania, appointed by Umoja.

“Actual Base Project Costs” – As defined in Subarticle 5.1(b).

"Actual Base Ratio" – The ratio of the Actual Base Project Costs to the Actual Total Base Project Costs.

“Actual Expansion Project Capital Costs” – As defined in Subarticle 5.3(a).

“Actual Operation, Maintenance and Administrative Costs” – In relation to a Franchise Year, the actual operation, maintenance and administration costs of the T&D Facilities including (i) administration costs incurred by Umoja, and (ii) administration costs incurred by Umoja’s affiliates including Artumas Group Inc. and Artumas Energy Tanzania Limited and allocated to Umoja on a reasonable and prudent basis (excluding any capital costs and depreciation, except as required by the accounting standards followed by Umoja, and any costs already included in the Actual Base Project Costs or Actual Expansion Project Capital Costs, or the depreciation related to such capital costs) during that Franchise Year, as evidenced by a statement of Umoja confirmed by the Accountants. The Actual Operation, Maintenance and Administrative Costs shall include carrying cost of the working capital reasonably required by Umoja up to the maximum limits calculated in accordance with **Subannex 4**.

“Actual Total Base Debt” – The actual indebtedness, or a part thereof, incurred by Umoja and its affiliates under the Financing Documents to finance prudently incurred costs of the Total Base Project until the Transfer Date, including any capitalized interest during construction.

“Actual Total Base Equity” – The actual equity, or a part thereof, contributed by the shareholders of Umoja and its affiliates to finance prudently incurred costs of the Total Base Project during the Development Period for the Base Project.

“Actual Total Base Project Costs” – As defined in Subarticle 5.1(a).

"Actual Units" – In relation to a Franchise Year, or any other period (for the purpose of Subarticle 4.1), the actual Purchased Units for the Franchise Year, or any other period (for the purpose of Subarticle 4.1) times the product of (a) one minus Target Transmission and Distribution Loss applicable to such Franchise Year, and (b) Target Collection Efficiency applicable to such Franchise Year, or any other period (for the purpose of Subarticle 4.1), as the case may be.

"Additional Lease Rental" – As defined in Subarticle 6.6(b).

"AG&P Gas" – AG&P Gas Limited, a company organised and existing under the laws of Tanzania, and its successors and permitted assignees.

"AG&P Power" – AG&P Power Limited, a company organised and existing under the laws of Tanzania, and its successors and permitted assignees.

"AFUDC" – The allowance on either Final Base Project Equity or the Final Expansion Project Equity, as the case may be, during construction calculated in accordance with Subarticles 3.3 and 3.4, respectively.

"AFUDC Cap for Development Costs" – The cap on AFUDC for the Base Project in relation to the Development Costs, determined pursuant to Subarticle 3.3, equalling USD 1.4 million multiplied by the ratio between (a) the Actual Base Project Equity as defined in Subarticle 5.1(d) and (b) the sum of Actual Base Project Equity as defined in Subarticle 5.1(d) and the "Actual Base Project Equity" as defined in Subarticle 6.1(d) of Power Tariff Methodology.

"Agreed Interest Rate" – The interest compounded on a quarterly basis, at the rate per annum equal to the three (3) month term London Interbank Offered Rate (LIBOR rate) for U.S. dollar deposits, as published in London by the Financial Times or, if not published, then by The Wall Street Journal, plus four (4) percentage points, applicable on the first Business Day prior to the due date of payment and thereafter on the first Business Day of each succeeding calendar year. If the aforesaid rate is contrary to any applicable usury law, the rate of interest to be charged shall be the maximum rate permitted by such applicable law.

"Agreed Operation, Maintenance and Administrative Costs" – In relation to a Franchise Year, the annual operation, maintenance and administration costs of the T&D Facilities including (i) administration costs incurred by Umoja, and (ii) administration costs incurred by Umoja's affiliates including Artumas Group Inc. and Artumas Energy Tanzania Limited and allocated to Umoja on a reasonable and prudent basis (excluding any capital costs and depreciation, except as required by the accounting standards followed by Umoja, and any costs already included in the Actual Base Project Costs or Actual Expansion Project Capital Costs, or the depreciation related to such capital costs) as submitted by Umoja to EWURA and approved by EWURA for the relevant Franchise Year pursuant to Subarticle 3.6. The Agreed Operation, Maintenance and Administrative Costs shall include carrying cost of the working capital reasonably required by Umoja up to the maximum limits calculated in accordance with **Subannex 4**.

"Annual Audited Statement" – The statement defined in Subarticle 8.

"Approval Date" – The date of approval of an Expansion Project by EWURA pursuant to Subarticle 5.2(a) or an earlier date determined by EWURA for the purposes of calculating AFUDC for the Expansion Project pursuant to Subarticle 3.4.

"Artumas" – Artumas Mtwara Jersey Limited, a company organised and existing under the laws of Jersey, and its successors and permitted assignees.

"Artumas Entity" – Any of Artumas, AG&P Power, AG&P Gas, and Umoja.

"Audited Costs Report" – In relation to the Base Project, the report defined in Subarticle 5.1 or in relation to the Expansion Project, the report defined in Subarticle 5.3.

"Base Project" – The development, design, engineering, procurement, financing, construction, completion, testing, commissioning, ownership, operation and maintenance by Umoja of the T&D Facilities in Phase I, including any T&D Facilities purchased from TANESCO.

"Business Day" – Any day of the week other than a Saturday or Sunday that is not a Tanzanian public holiday or a day on which banks are authorised by law or executive order to be closed in Tanzania.

"Completion Date" – In relation to an Expansion Project, the date of successful completion, testing and commissioning of T&D Facilities associated with such Expansion Project or a different date determined by EWURA for such Expansion Project (including but not limited to an Expansion Project approved by EWURA pursuant to Subarticle 5.2(f)).

"Correction Factor" – In relation to a Franchise Year, the amount representing an under or over-recovery of the Revenue Requirement by Umoja during the Franchise Year, along with an appropriate interest accrued, as calculated in accordance with Subarticle 4.4.

"Deferred Equity" – In relation to the Base Project or the Expansion Project, the proportion of the Final Base Project Equity or the Final Expansion Project Equity, as the case may be, whose recovery and the return on which shall be deferred for a certain period after the Transfer Date or the relevant Completion Date, subject to the provisions of Subarticles 6.1(f) and 6.4; provided, however, that, in any case, such proportion of the Final Base Project Equity or the Final Expansion Project Equity, as the case may be, shall not be less than that which was used to finance the relevant Development Costs; provided, further, however, that while this Retail Tariff Methodology does not prescribe any minimum period for deferral, it allows EWURA the necessary discretion to keep the Retail Tariffs at the lowest possible levels (yet still at or above the national average retail tariff for electricity service in Tanzania prevailing from time to time) and such deferral shall not constitute a breach or default on the GOT or create any other liability on the GOT or give rise to any right on the part of Umoja.

"Deferred Equity Recovered" – In relation to the Base Project or the Expansion Project, the proportion of the relevant Total Deferred Equity Amount, determined as of the start of the preceding Franchise Year, which should be recovered in the current Franchise Year.

"Development Costs" – The reasonable and necessary costs and expenses prudently incurred by Umoja in relation to the development of the Base Project or the Expansion Project, as the case may be, during the relevant Development Period including, but not limited to:

- (a) reasonable and necessary fees and expenses of its legal, technical and financial advisors and consultants, and out-of-pocket costs and expenses incurred in connection with the preparation, negotiation, execution and delivery of all project, corporate and financing documents, including the Power Purchase Agreement, the Financing Documents and the construction contracts;

- (b) reasonable and necessary costs and expenses of obtaining necessary permits;
- (c) reasonably necessary and properly allocated project management costs and expenses; and
- (d) reasonably necessary and properly allocated labour costs (including benefits) for each of the foregoing.

“Development Period” – In relation to the Base Project, the period commencing on the 23rd August 2003 to the Transfer Date or in relation to the Expansion Project, the period commencing from the Approval Date to the relevant Completion Date.

“Distribution Licence” – The licence issued by EWURA to Umoja for the distribution of electric energy within the Franchise Area, as such licence amended from time to time.

“Effective Date” – The date on which each of the Project Agreements becomes effective in its entirety.

“Equity Yield” – Nominal 20.50% per annum.

“Estimated Base Project Costs” – The amount equal to the Estimated Total Base Costs multiplied by the Actual Base Ratio.

“Estimated Total Base Costs” – The estimated total costs of the Base Project (including any amount paid by Umoja to TANESCO for the purchase of any T&D Facilities) to be submitted by Umoja to EWURA, as such costs have been approved by EWURA.

“EWURA” – Energy and Water Utilities Regulatory Authority responsible for, among other things, licensing, tariff regulation, quality of service, regulation of electricity, water, petroleum and natural gas within mainland Tanzania, and its successors.

“Excess Sales” – As determined in accordance with Subarticle 4.3.

“Expansion Project” – The development, design, engineering, procurement, financing, construction, completion, testing, commissioning and ownership by Umoja of any T&D Facilities (including Phase II) beyond Phase I, as proposed by Umoja and approved by EWURA pursuant to Subarticle 5.2. The Expansion Project may be carried out as a collection of individual projects or in phases or stages as described in Subarticle 5.2(f).

“Expected Units” – In relation to a Franchise Year, an estimate of the Purchased Units for the Franchise Year, as determined in accordance with Subarticles 6.3 and 6.4, times the product of (a) one minus Target Transmission and Distribution Loss applicable to such Franchise Year, and (b) Target Collection Efficiency applicable to such Franchise Year.

“Final Base Project Capital Costs” – The amount determined in accordance with Subarticle 5.1.

"Final Base Project Debt" – The amount as determined in accordance with Subarticle 5.1.

"Final Base Project Debt Repayment Schedule" – The schedule as determined in accordance with Subarticle 5.1.

"Final Base Project Equity" – The amount as determined in accordance with Subarticle 5.1.

"Final Base Project Equity Drawdown Schedule" – The schedule as determined in accordance with Subarticle 5.1.

"Final Expansion Project Costs" – The amount determined in accordance with Subarticle 5.2.

"Final Expansion Project Debt" – The amount as determined in accordance with Subarticle 5.3.

"Final Expansion Project Debt Repayment Schedule" – The schedule as determined in accordance with Subarticle 5.3.

"Final Expansion Project Equity" – The amount as determined in accordance with Subarticle 5.3.

"Final Expansion Project Equity Drawdown Schedule" – The schedule as determined in accordance with Subarticle 5.3.

"Financial Closing" – The execution and delivery of the Financing Documents and the satisfaction (or waiver) of all conditions set forth in the Financing Documents for the initial draw down of funds thereunder (except any condition set forth in the Financing Documents requiring any agreement to be effective if the only condition precedent preventing the effectiveness of such agreement is the occurrence of Financial Closing itself).

"Financing Documents" – The loan agreements, notes, indentures, security agreements, guarantees and other documents entered or to be entered into relating to or that provide the funding for the construction and financing (including any refinancing) of the Total Base Project or Base Project or Expansion Project or any material part thereof (and if any of the proceeds of the loan agreements or other related documents constituting the "Financing Documents" are on-lent to an Artumas Entity in relation to such project, including any such documents entered into by the borrower and such Artumas Entity), and does not include any loan agreements, notes, indentures, security agreements, guarantees or other documents relating exclusively to the development of gas production and transmission facilities (including the generation, sale, supply, transmission and distribution of electricity in connection therewith for purposes other than the Total Base Project or Base Project or Expansion Project) by AG&P Gas.

"Force Majeure Event" – Any event or circumstance or combination of events or circumstances that

- (a) has a Material Adverse Effect (excluding Material Adverse Effects resulting in increases in cost), to the extent that such Material Adverse Effect could not have been prevented by the affected Party through the exercise of diligence and reasonable care; and
- (b) Umoja has used all reasonable efforts to mitigate the effects of such event or circumstances or combination of events or circumstances, including, where necessary and appropriate, the payment of reasonable sums of money in light of the likely efficacy of the mitigation measures; provided, however, that such party shall not be required to settle any labour dispute or litigation on terms which are contrary to its reasonable commercial interests;

provided, that Force Majeure Events shall expressly exclude the following conditions, except and to the extent that they result from a Force Majeure Event:

- (i) a delay in the performance of any contractor or supplier; and
- (ii) normal wear and tear or, random flaws in materials and equipment or breakdowns of equipment caused by the gross negligence or negligence of a Party or its contractors or suppliers or for whatever reason.

"Franchise Agreement" – The Transmission and Distribution Franchise Agreement by and between the GOT and Umoja in relation to the Mnazi Bay Gas-to-Electricity Project in the United Republic of Tanzania, to which this Retail Tariff Methodology is attached and is a part thereof.

"Franchise Area" – As defined in the Distribution Licence.

"Franchise Year" – Each period of twelve (12) consecutive months commencing on the Transfer Date and thereafter on the anniversary of the Transfer Date.

"GOT" – The Government of the United Republic of Tanzania.

"Guaranteed Load" – In relation to the fourth Franchise Year following the Transfer Date or any subsequent Franchise Year, the sum of (a) the Actual Units for the 12 months period immediately preceding 28 February 2007, (b) 20% of the difference between (1) the Actual Units for the 12 months period immediately preceding the Transfer Date and (2) the Actual Units for the 12 months period immediately preceding 28 February 2007, and (c) 35,040 MWh.

"Lease Agreement" – The Facilities Lease and Assignment Agreement entered into by and between TANESCO and Umoja for the lease of certain assets located within the Franchise Area, as such agreement may be amended by the parties thereto from time to time.

"Lease Rental" – As defined in Subarticle 6.6(a).

"Lease Rental Liability" – As defined in Subarticle 6.6.

"Material Adverse Effect" - A material and adverse effect on:

- (a) Umoja's ability to perform any of its obligations or exercise any of its rights in relation to this Retail Tariff Methodology or the Distribution Licence or the Lease Agreement; or
- (b) the design, construction, financing, ownership, operation, expansion, repair or maintenance of the T&D Facilities, or the repair or restoration of such facility.

"Maximum Annual Rental" – As described in **Subannex 7**.

"Non-Development Costs" – In relation to the Base Project or the Expansion Project, the reasonable and necessary costs and expenses prudently incurred by Umoja in relation to the development of the Base Project or the Expansion Project, as the case may be, during the relevant Development Period, other than the Development Costs.

"O&M Budget" – As defined in Subarticle 3.6(a).

"Other Income" – The amount as determined in accordance with Subarticle 4.2.

"Phase I" – The initial phase of the Rehabilitation and Expansion Plan.

"Phase II" – The second phase of the Rehabilitation and Expansion Plan.

"Power Purchase Agreement" – The Power Purchase Agreement by and between Umoja and AG&P Power, dated as of __ December 2008, for the sale of electric capacity and electric energy from AG&P Power to Umoja in accordance with the terms thereof, as such agreement may be amended by the parties thereto from time to time.

"Power Purchase Costs" – In relation to a Franchise Year, the sum of the amounts invoiced to and paid or due to be paid by Umoja under the Power Purchase Agreement, including any amounts paid to AGP as a Supplemental PPA Tariff (as defined in the Power Purchase Agreement) pursuant to Subarticle 17.5 of the Power Purchase Agreement and approved by EWURA, and under other power purchase agreements with third parties approved by EWURA in relation to electricity delivered to Umoja during such Franchise Year; provided, however, such amounts shall exclude any late payment charges and any amounts arising due to an event of default or non-performance of Umoja that was not the result of a GOT Event of Default under the Franchise Agreement.

"Power Tariff Methodology" – As defined in the Power Purchase Agreement.

"Purchased Units" – In relation to a Franchise Year, the quantity of electrical energy in kWh purchased by Umoja under the Power Purchase Agreement at the Interconnection Point (as defined in the Power Purchase Agreement) and other power purchase agreements with third parties entering T&D Facilities, multiplied by the ratio between (a) the Actual Units and (b) the sum of (i) the Actual Units and (ii) the quantity of electrical energy in kWh exiting T&D Facilities to the customers outside the Franchise Area.

"Rehabilitation and Expansion Plan" – The program (comprised of Phase I and Phase II) for the repair, rehabilitation and expansion of the T&D Facilities owned by TANESCO and to be acquired by Umoja from TANESCO under and pursuant to the

Lease Agreement, as such plan (including the implementation schedule) is more specifically described in **Subannex 6**.

"Required Tariff" – In relation to a Franchise Year or a part thereof (for Subarticle 7.1(a)), the Revenue Requirement estimated at or prior to the start of the relevant Franchise Year or the part thereof, divided by (a) the higher of the Expected Units and the Guaranteed Load, in case of the fourth Franchise Year following the Transfer Date or any subsequent Franchise Year, or (b) the Expected Units, in case of any other Franchise Year.

"Retail Customer" – As defined in the Franchise Agreement.

"Retail Tariff" – In relation to a Franchise Year and a class of Retail Customers, the tariff determined by EWURA to be applied during such Franchise Year for sale of electricity to such class of Retail Customers in the Franchise Area. The Retail Tariff may take any form, such as a commodity charge, a demand charge, or a combination thereof, as approved by EWURA.

"Revenue Requirement" – As determined in accordance with Subarticle 2.

"Rural Electrification Fund" – A fund to be established by GOT to promote and support the development of the electrification projects to supply and distribute electricity in the rural areas of Tanzania.

"Subsidy Requirement" – As determined in accordance with Subarticle 6.2.

"Subsidy Over-recovery" – The amount as determined in accordance with Subarticle 6.2.

"Surplus Revenue" – In relation to a Franchise Year when the Weighted Average Retail Tariff exceeds the Required Tariff, the total income of Umoja from all the Retail Tariffs for all Retail Customers during the Franchise Year in excess of the Revenue Requirement for the Franchise Year.

"TANESCO" – Tanzania Electric Supply Company Limited, a company organised and existing under the laws of Tanzania, and its successors and permitted assignees.

"T&D Facilities" – The assets and facilities, and any other equipment, machinery, materials and other property that are reasonably necessary to deliver and sell electric energy within and through the Franchise Area.

"TEF Account" – The account established and maintained in accordance with Tariff Equalisation Facility Agreement.

"Tariff Equalisation Facility Agreement" – The Tariff Equalisation Facility Agreement between GOT, Umoja and the TEF Bank pursuant to which the TEF Account shall be established and maintained, as such agreement may be amended from time to time by the parties thereto.

"Taxes" – All sales taxes, corporate income taxes, withholding taxes and similar revenue producing fees levied on Umoja by GOT or any other relevant taxing authority in Tanzania.

"Total Base Project" – The development, design, engineering, procurement, financing, construction, completion, testing, commissioning, ownership, operation and maintenance of the gas production and transmission facilities by AG&P Gas, the "Base Project" as defined in the Power Tariff Methodology by AG&P Power, and the Base Project by Umoja, collectively.

"Target Collection Efficiency" – As set forth in **Subannex 1**.

"Target Transmission and Distribution Loss" – For the first three (3) Franchise Years, as set forth in **Subannex 1**, and for each Franchise Year thereafter, the transmission and distribution losses determined in accordance with the engineering evaluation reports submitted to and approved by EWURA from time to time.

"Total Deferred Equity Amount" – As determined in accordance with Subarticle 6.5.

"Transfer Date" – The date on which the provision of electricity service by Umoja begins in the Franchise Area.

"Umoja" – Umoja Light Company Limited, a company organised and existing under the laws of Tanzania, and its successors and permitted assignees.

"Weighted Average Cost of Capital" – In relation to the Base Project or the Expansion Project, as the case may be, a weighted average cost of capital calculated using the following:

- (a) a debt to equity ratio of 60% to 40% for the period prior to the Financial Closing and thereafter the actual debt to equity ratio achieved by Umoja at the Financial Closing (subject to the prior written approval by EWURA) for the Base Project or the Expansion Project, as the case may be;
- (b) an interest rate on the debt equal to the LIBOR rate plus 4.5% per annum calculated on the Transfer Date, in the case of Base Project, or on the Completion Date, in the case of Expansion Project; and
- (c) a nominal return on equity of 17.0% per annum.

"Weighted Average Retail Tariff" – In relation to a Franchise Year, the weighted average of the Retail Tariffs for all the Retail Customer classes, weighted by the Actual Units or Expected Units for each Retail Customer class, taking into account any adjustment to the Retail Tariffs during the Franchise Year. In case a Retail Customer class has a Retail Tariff with a structure other than a simple per unit charge, such a Retail Tariff, for the purpose of calculating the Weighted Average Retail Tariff, shall be converted into a Retail Tariff expressed as a per unit charge based on reasonable forecasts or actual outturn values, as the case may be, of the consumption or load of the relevant Retail Customers required for such conversion.

1.2 References.

Unless otherwise specified, references to Subarticles and Subannexes refer to the subarticles and subannexes of this Retail Tariff Methodology.

2 Determination of Revenue Requirement

The Revenue Requirement for any Franchise Year 't' shall be determined in Shillings in accordance with the following formula:

$$RR_t = PPC_t + RRTD_t + FMSL_{t-1} + T_t + LR_t - OI_t - ES_{t-1} - K_{t-1}$$

where:

RR_t means the Revenue Requirement for the Franchise Year 't';

PPC_t means the Power Purchase Costs for the Franchise Year 't';

$RRTD_t$ means the Revenue Requirement for Transmission and Distribution for the Franchise Year 't' calculated in accordance with Subarticle 3;

$FMSL_{t-1}$ means the Force Majeure Sales Lost in the Franchise Year 't-1' calculated in accordance with Subarticle 4.1;

T_t means the Taxes for the Franchise Year 't';

OI_t means the full amount or a part of the Other Income for the Franchise Year 't' as approved by EWURA to be applied to reduce the Revenue Requirement for the Franchise Year 't';

ES_{t-1} means the Excess Sales in the Franchise Year 't-1'; provided, however, if EWURA determines that such Excess Sales be applied to reduce the Total Deferred Equity Amount and/or to pay the Lease Rental, then the term ES_{t-1} for the purposes of this Subarticle 2 shall have a value of zero;

LR_t means the Lease Rental determined pursuant to Subarticle 6.6(a)(iii), assuming ES_{t-1} as defined therein to be zero, for the Franchise Year 't' in case there is no Surplus Revenue estimated for that Franchise Year but certain Deferred Equity Recovered is being applied to reduce the Total Deferred Equity Amount; and

K_{t-1} means the Correction Factor for the Franchise Year 't-1'.

The Revenue Requirement shall be adjusted, if necessary, in accordance with Subarticles 3.6 and 7.

3 Determination of T&D Revenue Requirement

3.1 Components of Revenue Requirement for Transmission and Distribution

The Revenue Requirement for Transmission and Distribution for any Franchise Year 't' shall be determined in accordance with the following formula:

$$RRTD_t = DC_t + EC_t + OMC_t$$

where:

$RRTD_t$ means the Revenue Requirement for Transmission and Distribution for the Franchise Year 't';

DC_t means the sum of (a) the Debt Component for the Base Project; and (b) the Debt Component for the Expansion Project, each of which shall be calculated in accordance with Subarticle 3.2;

EC_t means the sum of (a) the Equity Component for the Base Project; and (b) the Equity Component for the Expansion Project, calculated in accordance with Subarticles 3.3 and 3.4, respectively; and

OMC_t means the Operation, Maintenance and Administrative Component for the Franchise Year 't' calculated in accordance with Subarticle 3.5.

3.2 Debt Component

In relation to the Base Project or the Expansion Project, as the case may be, the Debt Component for any Franchise Year 't' shall be calculated in accordance with the following formula:

$$DC = DSR \times (1 + I)^{-1/2}$$

where:

DC means the Debt Component for the Franchise Year 't' for the Base Project or the Expansion Project, as the case may be;

DSR means the sum of the (a) the first amount shown in the Final Base Project Debt Repayment Schedule or the Final Expansion Project Debt Repayment Schedule, as the case may be, due during the Franchise Year 't', times the number of months from the first day of the Franchise Year 't' up to the due date of such amount, divided by 6, (b) the second amount shown in the Final Base Project Debt Repayment Schedule or the Final Expansion Project Debt Repayment Schedule, as the case may be, due during the Franchise Year 't', and (c) the first amount shown in the Final Base Project Debt Repayment Schedule or the Final Expansion Project Debt Repayment Schedule, as the case may be, due during the Franchise Year 't+1', times the difference between 6 and the number of months from the first day of the Franchise Year 't+1' up to the due date of such amount, divided by 6; and

I means the average Agreed Interest Rate on the first day, the middle and the last day of the Franchise Year 't'.

The Debt Component for the Base Project or the Expansion Project shall be zero for any Franchise Year 't' before the Transfer Date or the relevant Completion Date, as the case may be.

3.3 Equity Component for the Base Project

The Equity Component for any Franchise Year 't' after the Transfer Date shall be calculated as follows:

$$EC_t = ROE_t + RE_t$$

where:

EC_t means the Equity Component for the Franchise Year 't' for the Base Project;

ROE_t means the return on equity for the Franchise Year 't' for the Base Project calculated as follows:

$$ROE_t = \left(\frac{OE_t + CE_t}{2} \right) \times EY$$

RE_t means the return of equity for the Franchise Year 't' for the Base Project calculated as follows:

$$RE_t = \left(\frac{E + AFUDC}{20} \right) - \sum_{i=1}^{i=t} \left(\frac{DE_i}{21-i} \right) + \sum_{i=1}^{i=t} \left(\frac{DER_i}{21-i} \right)$$

OE_t means the opening equity value for the Franchise Year 't' for the Base Project calculated as follows:

$$OE_t = E + AFUDC - \sum_{i=1}^{i=t} DE_i + \sum_{i=1}^{i=t} DER_i - \sum_{i=1}^{i=t-1} RE_i$$

CE_t means the closing equity value for the Franchise Year 't' for the Base Project calculated as follows:

$$CE_t = OE_t - RE_t$$

EY means the Equity Yield;

E means the amount of Final Base Project Equity;

DE_i means the Deferred Equity for the Base Project for the Franchise Year 't' or any preceding Franchise Year 'i' determined in accordance with Subarticle 6.4;

DER_i means the Deferred Equity Recovered for the Base Project for the Franchise Year 't' or any preceding Franchise Year 'i' determined in accordance with Subarticle 6.4;

AFUDC means the allowance on Final Base Project Equity during construction calculated as follows:

$$AFUDC = AFUDC1 + AFUDC2$$

AFUDC1 means the allowance on Final Base Project Equity during construction in relation to the Development Costs calculated as follows:

$$AFUDC1 = \sum_{i=1}^{i=p} \left[ED_i \times \left[(1 + WACC)^{M_i/12} - 1 \right] \right]$$

where:

WACC means the Weighted Average Cost of Capital for the Base Project;

ED_i means the amount of the *i*th draw of the Final Base Project Equity as shown in the Final Base Project Equity Drawdown Schedule, only to the extent that such amount is used to finance the Development Costs for the Base Project;

M_i means the number of months between the date of the *i*th draw of the Final Base Project Equity, as shown in the Final Base Project Equity Drawdown Schedule and the Transfer Date; provided, however, that if the date of the *i*th draw of the Final Base Project Equity occurs after the Transfer Date, *M_i* shall be zero

provided, however, that AFUDC1 shall not exceed the AFUDC Cap for Development Costs; and

AFUDC2 means the allowance on Final Base Project Equity during construction in relation to the Non-Development Costs calculated as follows:

$$AFUDC2 = \sum_{i=1}^{i=p} \left[ED_i \times \left[(1 + R)^{M_i/12} - 1 \right] \right]$$

where:

R means nominal 17% per annum;

ED_i means the amount of the *i*th draw of the Final Base Project Equity as shown in the Final Base Project Equity Drawdown Schedule, only to the extent that such amount is used to finance the

Non-Development Costs for the Base Project;
and

M_i means the number of months between the date of the i th draw of the Final Base Project Equity, as shown in the Final Base Project Equity Drawdown Schedule and the Transfer Date; provided, however, that if the date of the i th draw of the Final Base Project Equity occurs after the Transfer Date, M_i shall be zero.

The Equity Component for the Base Project shall be zero for any Franchise Year 't' before the Transfer Date.

3.4 Equity Component for the Expansion Project

The Equity Component for any Franchise Year 't' after the Completion Date of the Expansion Project shall be calculated as follows:

$$EC_t = ROE_t + RE_t$$

where:

EC_t means the Equity Component for the Franchise Year 't' for the Expansion Project;

ROE_t means the return on equity for the Franchise Year 't' for the Expansion Project calculated as follows:

$$ROE_t = \left(\frac{OE_t + CE_t}{2} \right) \times EY$$

RE_t means the return of equity for the Franchise Year 't' for the Expansion Project calculated as follows:

$$RE_t = \left(\frac{E + AFUDC}{T} \right) - \sum_{i=1}^{i=t} \left(\frac{DE_i}{T+1-i} \right) + \sum_{i=1}^{i=t} \left(\frac{DER_i}{T+1-i} \right)$$

OE_t means the opening equity value for the Franchise Year 't' for the Expansion Project calculated as follows:

$$OE_t = E + AFUDC - \sum_{i=1}^{i=t} DE_i + \sum_{i=1}^{i=t} DER_i - \sum_{i=1}^{i=t-1} RE_i$$

CE_t means the closing equity value for the Franchise Year 't' for the Expansion Project calculated as follows:

$$CE_t = OE_t - RE_t$$

EY means the Equity Yield;

E means the amount of Final Expansion Project Equity;

DE_i means the Deferred Equity for the Expansion Project for the Franchise Year 't' or any preceding Franchise Year 'i' determined in accordance with Subarticle 6.4;

DER_i means the Deferred Equity Recovered for the Expansion Project for the Franchise Year 't' or any preceding Franchise Year 'i' determined in accordance with Subarticle 6.4;

T means the number of Franchise Years of the Term remaining after the Completion Date for the Final Expansion Project;

AFUDC means the allowance on Final Expansion Project Equity during construction calculated as follows:

$$AFUDC = AFUDC1 + AFUDC2$$

AFUDC1 means the allowance on Final Extension Project Equity during construction in relation to the Development Costs calculated as follows:

$$AFUDC1 = \sum_{i=1}^{i=p} [ED_i \times [(1 + WACC)^{M_i/12} - 1]]$$

where:

WACC means the Weighted Average Cost of Capital for the Expansion Project;

ED_i means the amount of the *i*th draw of the Final Expansion Project Equity during the Development Period for the Expansion Project as shown in the Final Expansion Project Equity Drawdown Schedule, only to the extent that such amount is used to finance the Development Costs for the Expansion Project;

M_i means the number of months between the date of the *i*th draw of the Final Expansion Project Equity, as shown in the Final Expansion Project Equity Drawdown Schedule, or the Approval Date, whichever is latter, and the Completion Date for the Expansion Project; provided, however, that if the date of the *i*th draw of the Final Expansion Project Equity occurs after the Completion Date for the Expansion Project, *M_i* shall be zero; and

AFUDC2 means the allowance on Final Extension Project Equity during construction in relation to the Non-Development Costs calculated as follows:

$$AFUDC2 = \sum_{i=1}^{i=p} \left[ED_i \times \left[(1 + R)^{M_i/12} - 1 \right] \right]$$

where:

R means nominal 17% per annum;

ED_i means the amount of the *i*th draw of the Final Expansion Project Equity during the Development Period for the Expansion Project as shown in the Final Expansion Project Equity Drawdown Schedule, only to the extent that such amount is used to finance the Non-Development Costs for the Expansion Project;

M_i means the number of months between the date of the *i*th draw of the Final Expansion Project Equity, as shown in the Final Expansion Project Equity Drawdown Schedule, or the Approval Date, whichever is latter, and the Completion Date for the Expansion Project; provided, however, that if the date of the *i*th draw of the Final Expansion Project Equity occurs after the Completion Date for the Expansion Project, *M_i* shall be zero.

The Equity Component for the Expansion Project shall be zero for any Franchise Year ‘t’ before the relevant Completion Date.

3.5 Operation, Maintenance and Administrative Component

The Operational, Maintenance and Administrative Component for any Franchise Year ‘t’ after the Transfer Date shall be calculated as follows:

- (a) If the Franchise Year ‘t’ is the first or the second or the third Franchise Years after the Transfer Date, then:

$$OMC = AgreedOM + 0.5 \times (ActualOM - AgreedOM)$$

or

- (b) otherwise:

$$OMC = AgreedOM$$

where:

- OMC* means the Operation, Maintenance and Administrative Component for the Franchise Year ‘t’;
- AgreedOM* means the Agreed Operation, Maintenance and Administrative Costs for the Franchise Year ‘t’; and
- ActualOM* means the Actual Operation, Maintenance and Administrative Costs for the Franchise Year ‘t’.

3.6 Determination of Agreed Operation, Maintenance and Administrative Costs

- (a) No later than nine (9) months prior to the start of a Franchise Year, Umoja shall submit a budget containing the estimated Actual Operation, Maintenance and Administrative Costs (the “**O&M Budget**”) for each of the next five (5) Franchise Years on a rolling basis starting with the immediately following Franchise Year. The O&M Budget for each Agreement Year shall include in reasonably sufficient detail the operations and maintenance work to be carried out by Umoja during the relevant Franchise Year, for which the O&M Budget is expected to provide adequate cost recovery.
- (b) EWURA may seek additional information from Umoja in relation the O&M Budget submitted by Umoja pursuant to Subarticle 3.6(a) and may approve the O&M Budget as submitted by Umoja pursuant to Subarticle 3.6(a) or modify such budget as it reasonably determines to be appropriate while giving reasons for such modification. The O&M Budget for the first of the five Franchise Years as determined by EWURA shall be considered Agreed Operation, Maintenance and Administrative Costs for the purposes of this Retail Tariff Methodology. For the other four of such Franchise Years, the O&M Budget can be revised at the time of submission by Umoja and of the determination by EWURA of the Agreed Operation, Maintenance and Administrative Costs for the immediately following Agreement Year.
- (c) The O&M Budget for the first five Franchise Years following the Transfer Date shall be as set forth in **Subannex 5**.
- (d) If, following the end of the relevant Franchise Year, EWURA determines that the work specified in the O&M Budget was not performed during the relevant Franchise Year (in whole or in part), EWURA may disallow recovery of that portion of the O&M Budget, and hence of the Agreed Operation, Maintenance and Administrative Costs, allocated to the work not performed and apply a downward adjustment for such disallowed amount, together with the accrued interest rate at the Agreed Interest Rate, against the Revenue Requirement for the Franchise Year immediately following such determination.

4 Determination of Other Components of Revenue Requirement

4.1 Force Majeure Sales Lost

The Force Majeure Sales Lost for any Franchise Year 't' shall be calculated using the following formula:

$$FMSL_t = WART_t \times \sum_{i=1}^N (FMEU_i - AU_i)$$

where:

$FMSL_t$ means the Force Majeure Sales Lost for the Franchise Year 't';

$WART_t$ means the Weighted Average Retail Tariff for the Franchise Year 't';

i refers to any period during the Franchise Year 't' which is affected by a Force Majeure Event;

AU_i means the Actual Units for the period 'i' in the Franchise Year 't'; and

$FMEU_i$ means the Force Majeure Expected Units for the period 'i' which is an estimate of the Actual Units which would have been sold during the period 'i' if the Force Majeure Event would not have occurred during such period and shall be calculated as follows:

$$FMEU_i = AU_{i(t-1)} \times \frac{AU_{j(t)}}{AU_{k(t-1)}}$$

where:

$AU_{i(t-1)}$ means the Actual Units for the period in the Franchise Year 't-1' corresponding to, and having a duration equal to, the period 'i' in the Franchise Year 't';

$AU_{j(t)}$ means the Actual Units for a period 'j', which period shall have a duration equal to the period 'i' and shall occur immediately prior to or after the period 'i' in the Franchise Year 't'; and

$AU_{k(t-1)}$ means the Actual Units for a period 'k', which period shall be the corresponding period to the period 'j' in the Franchise Year 't-1'.

4.2 Other Income

Other Income for any Franchise Year 't' shall be equal to the sum of the following items, each of which, unless specified otherwise, is measured on an accrual basis :

- (a) The income of Umoja from its customers in the Franchise Area, other than the income from Retail Tariffs, in relation to the Franchise Year 't', including but not limited to income from charges or penalties for connection, disconnection and reconnection; provided, however, that such income shall exclude any income from the fees or interest charges or charges of any name on late payment of bills by the Retail Customers if EWURA, upon submission and demonstration by Umoja, is satisfied that the income from the fees or interest charges or charges of any name on late payment of bills by the Retail Customers and the cost to Umoja of additional working capital required as a result of such late payments shall reasonably balance and cancel each other and EWURA approves such exclusion;
- (b) The subsidy from any external source (other than the TEF Account) in relation to the connections provided by Umoja in the Franchise Area during the Franchise Year 't';
- (c) 90% of claims from insurers of Umoja during the Franchise Year 't';
- (d) 90% of liquidated damages, penalties, claims, late payment charges, compensation in relation to events of default from the contractors of Umoja during the Franchise Year 't';
- (e) 90% of claims from the general public during the Franchise Year 't';
- (f) The proceeds from the sale or disposal of any asset under the care, custody and control of Umoja during the Franchise Year 't'; provided, however, that Umoja shall submit all relevant information to EWURA and obtain prior written consent or approval of EWURA for such sale or disposal;
- (g) The income of Umoja during the Franchise Year 't' from the transmission and distribution tariff approved by EWURA and charged for transportation and delivery of electric energy in or across the T&D Facilities for TANESCO or any electric generator or supplier or any Retail Customer;
- (h) The income of Umoja during the Franchise Year 't' from the tariff or fee approved by EWURA and charged for the use of the T&D Facilities to provide other products and services;
- (i) The income of Umoja during the Franchise Year 't' from the tariff or fee approved by EWURA and charged for the grant of right of use of the distribution poles and rights-of-way for purposes other than the distribution of electric energy; and

- (j) The income of Umoja during the Franchise Year 't' from the tariff or fee approved by EWURA and charged for the use of distribution poles, overhead structures or rights-of-way constituting a part of the T&D Facilities by the GOT, TANESCO or other parties for the purposes of stringing wires or otherwise;

less the Power Purchase Costs for the Franchise Year 't' multiplied by the ratio between (a) the quantity of electrical energy exiting Umoja's transmission and distribution system to the customers outside the Franchise Area during the Franchise Year 't' and (b) the sum of (i) the Actual Units for the Franchise Year 't' and (ii) the quantity of electrical energy exiting Umoja's transmission and distribution system to the customers outside the Franchise Area during the Franchise Year 't'.

4.3 Excess Sales

The Excess Sales for any Franchise Year 't' shall be calculated using the following formula:

$$ES_t = \{[WART_t \times (AU_t - EU_t)] - AC_t\} \times (1 + I_t)$$

where:

ES_t means the Excess Sales for the Franchise Year 't';

$WART_t$ means the Weighted Average Retail Tariff for the Franchise Year 't'; and

AU_t means the Actual Units for the Franchise Year 't';

EU_t means the Expected Units for the Franchise Year 't';

AC_t means the additional costs incurred by Umoja to supply the Actual Units in excess of the Expected Units for the Franchise Year 't', as approved by EWURA; and

I_t means the Agreed Interest Rate as of the first day of the Franchise Year 't';

provided, however, that if AU_t is less than EU_t , ES_t shall equal zero.

4.4 Correction Factor

The Correction Factor for any Franchise Year 't-1' shall be calculated using the following formula:

$$K_{t-1} = \left[(ActRev_{t-1} - ES_{t-1} - ActRR_{t-1}) + (ActSRev_{t-1} - EstSRev_{t-1}) \right] \times (1 + I_t)$$

where:

K_{t-1} means the Correction Factor for the Franchise Year 't-1';

- ActRR_{t-1}* means the actual Revenue Requirement for the Franchise Year ‘t-1’, as confirmed by the Annual Audit Statement pursuant to Subarticle 8;
- ActRev_{t-1}* means, for the Franchise Year ‘t-1’, the sum of (a) the actual Weighted Average Retail Tariff times the lower of the Actual Units and the Expected Units, and (b) the actual Subsidy Requirement, as confirmed by the Annual Audit Statement pursuant to Subarticle 8, less (c) *EstSRev_{t-1}*; provided, however, if the Guaranteed Load is relevant to the above calculations and the product of (1) the Weighted Average Retail Tariff and (2) the difference between the Guaranteed Load and the Actual Units in the Franchise Year ‘t-1’ is greater than “EC_{t-1}” as defined in Subarticle 3.1, then the Guaranteed Load shall be adjusted downward appropriately, but not below the Expected Units for the Franchise Year ‘t-1’, to ensure that such product becomes equal to “EC_{t-1}”;
- ES_{t-1}* means the Excess Sales for the Franchise Year ‘t-1’;
- ActSRev_{t-1}* means the actual Surplus Revenue for the Franchise Year ‘t-1’, calculated pursuant to Subarticle 6.2 and confirmed by the Annual Audit Statement pursuant to Subarticle 8;
- EstSRev_{t-1}* means the Surplus Revenue for the Franchise Year ‘t-1’ estimated at the start of that Franchise Year pursuant to Subarticles 6.2, 6.4, 6.6 and 6.7; and
- I_t* means the Agreed Interest Rate as of the first day of the Franchise Year ‘t’;

provided, however, that K_{t-1} shall equal zero if the Franchise Year ‘t’ is the first Franchise Year after the Transfer Date.

5 Determination of Final Costs, Debt and Equity

5.1 Audited Costs Report for the Base Project

No later than three months prior to the anticipated Transfer Date, Umoja shall appoint the Accountants. Within six months following the Transfer Date, Umoja shall deliver to EWURA a report (the “**Audited Costs Report**”) containing the following information in relation to the Base Project, which report shall be accompanied by an opinion of the Accountants stating that (i) in their opinion such statement fairly and accurately represents each of the following items in accordance with the requirements of this Retail Tariff Methodology, and (ii) that the amounts shown in respect of each of these items have been determined in accordance with the accounting records of Umoja, AG&P Power, AG&P Gas and their affiliates which have been maintained in accordance with international accounting standards and the Laws of Tanzania:

- (a) The amount of actual costs, including any capitalized interest during construction, prudently incurred on the Total Base Project during the Development Period for the Base Project (the "**Actual Total Base Costs**"), determined by (i) assigning all prudently incurred costs to the Total Base Project which are directly attributable to the Total Base Project, and (ii) allocating prudently incurred costs common between the Total Base Project and any business, activity or project not necessary for the implementation of the Total Base Project on a reasonable basis; provided, however, that (A) the Actual Total Base Costs shall not include any such cost which has been recovered prior to the Transfer Date; (B) to the extent the Actual Total Base Costs include costs that have been previously submitted to and approved by EWURA, such costs shall not require further audit nor further approval by EWURA; and (C) fees, costs and expenses of advisors of the GOT related to the Total Base Project that have been approved for payment by the GOT and paid by Umoja (or any Artumas Entity) shall constitute Actual Total Base Costs, and shall be recoverable hereunder from and after the Transfer Date and shall not, for the avoidance of doubt, be included in Deferred Equity. The Audited Costs Report shall contain details of all costs referred to in clauses (i) and (ii) above and explain the basis of allocation of common costs.
- (b) The amount of actual costs, including any capitalized interest during construction, prudently incurred on the Base Project during the relevant Development Period (the "**Actual Base Project Costs**"), determined by (i) assigning all prudently incurred costs to the Base Project which are directly attributable to the Base Project, and (ii) allocating prudently incurred costs common between the Base Project and any business, activity or project not necessary for the implementation of the Base Project on a reasonable basis; provided, however, that (A) the Actual Base Project Costs shall not include any such cost which has been recovered prior to the Transfer Date; and (B) to the extent the Actual Base Costs include costs that have been previously submitted to and approved by EWURA, such costs shall not require further audit nor further approval by EWURA. The Audited Costs Report shall contain details of all costs referred to in clauses (i) and (ii) above and explain the basis of allocation of common costs.
- (c) As of the Transfer Date, (i) the amount of Actual Total Base Debt, and (ii) the amount of Actual Total Base Debt allocated to the Base Project (the "**Actual Base Project Debt**") determined by multiplying the Actual Total Base Debt by the Actual Base Ratio, or if the Financial Closing has not occurred prior to the Transfer Date, by multiplying the Actual Base Project Costs by the debt proportion as agreed pursuant to Subarticle 7.3(b).
- (d) As of the Transfer Date, (i) the amount of Actual Total Base Equity, along with the drawdown schedule showing both the amounts and dates of draws of all Actual Total Base Equity during the Development Period for the Base Project, (ii) the amount of Actual Total Base

Equity allocated to the Base Project (the “**Actual Base Project Equity**”) determined by multiplying the Actual Total Base Equity by the Actual Base Ratio, or if the Financial Closing has not occurred prior to the Transfer Date, by multiplying the Actual Base Project Costs by the equity proportion as agreed pursuant to Subarticle 7.3(b), and (iii) the amounts in drawdown schedule of Actual Total Base Equity allocated to the Base Project (the “**Actual Project Equity Drawdown Schedule**”) determined by multiplying each such amount by the Actual Base Ratio.

- (e) (i) A schedule showing the amounts required to pay the principal of, and interest on, the Actual Total Debt at the end of each semi-annual period following the Transfer Date, and (ii) a schedule showing proportion of amounts in clause (i) above allocated to the Base Project (the “**Actual Base Project Debt Repayment Schedule**”) determined by multiplying each such amount by the Actual Base Ratio, or if the Financial Closing has not occurred prior to the Transfer Date, a schedule as agreed pursuant to Subarticle 7.3(b).
- (f) The amount of Final Base Project Costs determined as follows:
 - (i) If the Actual Base Project Costs is greater than the Estimated Base Project Costs, determine how much of the difference between the Actual Base Project Costs and the Estimated Base Project Costs is due to the adjustment of items pursuant to the construction contracts executed by Umoja for the Base Project, which items cannot reasonably be procured on a fixed cost basis.
 - (ii) If the difference determined in clause (i) above is equal to or less than 10% of the Estimated Base Project Costs, the Final Base Project Costs shall be equal to the Actual Base Project Costs.
 - (iii) If the difference determined in clause (i) above is greater than 10% of the Estimated Base Project Costs, the Final Base Project Costs shall be equal to 110% of the Estimated Base Project Costs; provided, however, that Umoja shall always be entitled to justify as prudent and seek approval from EWURA for recovery of the total difference in clause (i) above.
- (g) The Final Base Project Debt calculated by multiplying the Actual Base Project Debt by the ratio of the Final Base Project Costs to the Actual Base Project Cost (the “**Final Base Ratio**”).
- (h) The Final Base Project Equity and the Final Base Project Equity Drawdown Schedule determined by multiplying the Actual Base Project Equity and the amounts in the Actual Base Project Equity Drawdown Schedule, respectively, by the Final Base Ratio.

- (i) The Final Base Project Debt Repayment Schedule determined by multiplying the amounts in the Actual Base Project Debt Repayment Schedule by the Final Base Ratio.

5.2 Feasibility and Implementation of Expansion Project

- (a) Umoja shall carry out the Expansion Project upon demonstration to and agreement by EWURA that the Expansion Project is justified by the increased electricity demand or by the considerations of system safety or reliability within the Franchise Area or by the necessity of such project for the performance of Umoja's obligations under the Franchise Agreement.
- (b) Umoja shall submit its proposal on the Expansion Project to EWURA containing justification, estimated completion time, estimated capital costs and the terms for financing such capital costs including, but not limited to, the debt to equity ratio, the proposed Equity Yield for Expansion Project, and the tenor and interest rate on debt financing for the Expansion Project. If EWURA agrees that Each Project is required, EWURA shall approve Umoja's proposal on, or determine otherwise, the estimated capital costs (the "**Estimated Expansion Project Capital Costs**") and terms of financing such capital costs.
- (c) Notwithstanding (b) above, if EWURA agrees that the Expansion Project is required, Umoja may undertake the Expansion Project; provided, however, that Umoja shall use its best efforts to obtain the most favourable debt to equity ratio, but in no event less than 60% debt.
- (d) If the Expansion Project is undertaken pursuant to (b) above, EWURA shall determine the Final Expansion Project Capital Costs as follows, upon receipt of a statement, confirmed by an opinion of the Accountants, containing all details of the Actual Expansion Project Capital Costs necessary for such determination:
 - (i) If the Actual Expansion Project Capital Costs is greater than the Estimated Expansion Project Capital Costs, determine how much of the difference between the Actual Expansion Project Capital Costs and the Estimated Expansion Project Capital Costs is due to the adjustment of items pursuant to the construction contracts executed by Umoja for the Expansion Project, which items cannot reasonably be procured on a fixed cost basis.
 - (ii) If the difference determined in clause (i) above is equal to or less than 10% of the Estimated Expansion Project Capital Costs, the Final Expansion Project Capital Costs shall be equal to the Actual Expansion Project Capital Costs.
 - (iii) If the difference determined in clause (i) above is greater than 10% of the Estimated Expansion Project Capital Costs, the Final

Expansion Project Capital Costs shall be equal to 110% of the Estimated Expansion Project Capital Costs.

- (e) If the Expansion Project is undertaken pursuant to (c) above, within three months of the Completion Date for the Expansion Project, Umoja shall submit to EWURA a statement, confirmed by an opinion of the Accountants, containing all details of the Actual Expansion Project Capital Costs and financing of such costs. Within three months of the receipt of such a statement along with the Accountants' opinion from Umoja, EWURA shall assess the statement and the details contained therein and determine the "Final Expansion Project Capital Costs" which shall be equal to or lower than the Actual Expansion Project Capital Costs. Prior to or after such determination, EWURA shall have the right to require any further information relating to the Expansion Project, which information shall be furnished by Umoja within 10 days or more if agreed to by EWURA. Prior to the appointment of the Accountants for the purposes of this Subarticle 5.2(e), Umoja shall submit the proposed scope of work and deliverables of the Accountants to EWURA for review and shall incorporate the reasonable changes proposed by EWURA while finalising the scope of work and deliverables of the Accountants.
- (f) If the Expansion Project is undertaken in phases or stages, with the prior approval of EWURA, then each phase or stage may be considered a separate Expansion Project for the purposes of this Retail Tariff Methodology, all calculations hereunder shall be carried out separately for each Expansion Project and all provisions and terms applicable to the Expansion Project shall apply to each Expansion Project. Umoja may submit to EWURA an Expansion plan which can include a number of proposed projects to be undertaken over a number of Franchise Years. EWURA may approve such an Expansion plan or determine a revised Expansion plan to be considered a single Expansion Project for the purposes of this Retail Tariff Methodology.

5.3 Audited Costs Report for Expansion Project

No later than three months prior to the anticipated Completion Date for the Expansion Project, Umoja shall appoint the Accountants. Within six months following the Completion Date for the Expansion Project, Umoja shall deliver to EWURA a report (the "**Audited Costs Report**") containing the following information in relation to the Expansion Project, which report shall be accompanied by an opinion of the Accountants stating that (i) in their opinion such statement fairly and accurately represents each of the following items in accordance with the requirements of this Retail Tariff Methodology, and (ii) that the amounts shown in respect of each of these items have been determined in accordance with the accounting records of Umoja, the Seller, AG&P Gas and their affiliates which have been maintained in accordance with international accounting standards and the Laws of Tanzania:

- (a) The amount of actual costs prudently incurred on the Expansion Project during the relevant Development Period (the "**Actual**

Expansion Project Capital Costs"), determined by (i) assigning all prudently incurred costs to the Expansion Project which are directly attributable to the Expansion Project, and (ii) allocating prudently incurred costs common between the Expansion Project and any business, activity or project not necessary for the implementation of the Expansion Project on a reasonable basis. The Audited Costs Report shall contain details of all costs referred to in clauses (i) and (ii) above and explain the basis of allocation of common costs.

- (b) As of the Completion Date for the Expansion Project, the amount of actual indebtedness, or a part thereof, incurred by Umoja and its affiliates under the Financing Documents to finance prudently incurred costs of the Expansion Project until the Completion Date for the Expansion Project, including any capitalised interest during construction (the "**Actual Expansion Project Debt**"), or if the Financial Closing has not occurred prior to the Completion Date for the Expansion Project, by multiplying the Actual Expansion Project Capital Costs by the debt proportion as agreed pursuant to Subarticle 7.3(b) consistent with Subarticle 5.2.
- (c) As of the Completion Date for the Expansion Project, (i) the amount of actual equity, or a part thereof, contributed by the shareholders of Umoja and its affiliates to finance prudently incurred costs of the Expansion Project during the Development Period for the Expansion Project (the "**Actual Expansion Project Equity**"); provided, however, that if the Financial Closing has not occurred prior to the Completion Date for the Expansion Project, the Actual Expansion Project Equity shall be determined by multiplying the Actual Expansion Project Capital Costs by the equity proportion as agreed pursuant to Subarticle 7.3(b) consistent with Subarticle 5.2, and (ii) the drawdown schedule showing both the amounts and dates of draws of all Actual Expansion Project Equity during the Development Period for the Expansion Project (the "**Actual Project Equity Drawdown Schedule**").
- (d) A schedule showing the amounts required to pay the principal of, and interest on, the Actual Expansion Project Debt at the end of each semi-annual period following the Completion Date for the Expansion Project (the "**Actual Expansion Project Debt Repayment Schedule**"); provided, however, that if the Financial Closing has not occurred prior to the Completion Date for the Expansion Project, the Actual Expansion Project Equity shall be determined by multiplying the Actual Expansion Project Capital Costs by the debt proportion as agreed pursuant to Subarticle 7.3(b) consistent with Subarticle 5.2.
- (e) The amount of Final Expansion Project Capital Costs determined in accordance with Subarticle 5.2(d) or Subarticle 5.2(e), as the case may be.
- (f) The Final Expansion Project Debt calculated by multiplying the Actual Expansion Project Debt by the ratio of the Final Expansion Project

Capital Costs to the Actual Expansion Project Cost (the "**Final Expansion Ratio**").

- (g) The Final Expansion Project Equity and the Final Expansion Project Equity Drawdown Schedule determined by multiplying the Actual Expansion Project Equity and the amounts in the Actual Expansion Project Equity Drawdown Schedule, respectively, by the Final Expansion Ratio.
- (h) The Final Expansion Project Debt Repayment Schedule determined by multiplying the amounts in the Actual Expansion Project Debt Repayment Schedule by the Final Expansion Ratio.

6 Determination of Tariff and Subsidy

6.1 Conditions for Subsidy and Retail Tariffs

- (a) Prior to the start of each Franchise Year or as required by EWURA from time to time, Umoja shall inform EWURA in writing along with necessary evidence signed by TEF Agent the then-balance in the TEF Account and the then-prevailing limits according to the Tariff Equalisation Facility Agreement on the disbursements or withdrawals from the TEF Account for the purposes of Subsidy Requirement.
- (b) Umoja shall withdraw the amounts from the TEF Account in accordance with the Tariff Equalisation Facility Agreement to meet the Subsidy Requirement as determined in accordance with Subarticle 6.4. Withdrawals from the TEF Account shall not be used, directly or indirectly, to finance pay Lease Rental or to reduce the Total Deferred Equity Amount.
- (c) On the Transfer Date, the Retail Tariff for each class of Retail Customers shall equal the then-prevailing national average retail tariff (taking account of any demand charges) for electricity service for the respective class of customers in Tanzania charged by TANESCO or its successor entities. Thereafter and throughout the Term, the Retail Tariff for each class of Retail Customers shall not be less than the lesser of (i) the then-applicable Required Tariff and (ii) the then-prevailing national average retail tariff for electricity service for the respective class of customers in Tanzania charged by TANESCO or its successor entities. For this purpose, a class of customers or Retail Customers refers to the customers or Retail Customers having consumption or use of electricity in the same slab or range.
- (d) To the extent practicable and subject to the customers' affordability of Retail Tariffs, EWURA shall have the objective to set cost-reflective Retail Tariffs and to allow Umoja, as soon as possible, to recover its prudently incurred costs, including the Deferred Equity and the return thereon in accordance with this Retail Tariff Methodology. The Retail Tariffs shall be considered cost-reflective if the Weighted Average

Retail Tariff equals the Required Tariff for the relevant Franchise Year.

- (e) For the Franchise Years occurring after the balance in the TEF Account is reduced to zero, no additional Deferred Equity shall be deferred over and above the then-outstanding Total Deferred Equity Amount and efforts shall be made to allow Deferred Equity Recovered as much as possible to be recovered through the Revenue Requirement in order to reduce the Total Deferred Equity Amount to zero as soon as possible. In any case, the Total Deferred Equity Amount must be reduced to zero prior to the expiry of the Term. After the balance in the TEF Account is reduced to zero, either EWURA shall set the cost-reflective Retail Tariffs or the GOT shall deposit additional amounts in the TEF Account to provide the Subsidy Requirement as required to support the Weighted Average Retail Tariff below the applicable Required Tariff.
- (f) After the Required Tariff falls below the Weighted Average Retail Tariff, the GOT shall be entitled to withdraw any or all remaining amounts from the TEF Account on a continuing basis or from time to time on its sole discretion.

6.2 Determination of Subsidy Requirement and Surplus Revenue

- (a) If, in any Franchise Year ‘t’, the Required Tariff is equal to or greater than the Weighted Average Retail Tariff, then the Subsidy Requirement for the Franchise Year ‘t’ shall be determined as follows:

$$SR_t = [(RT_t - WART_t) \times U_t] - SO_{t-1}$$

where:

SR_t means the Subsidy Requirement for the Franchise Year ‘t’;

RT_t means the Required Tariff for the Franchise Year ‘t’;

$WART_t$ means the Weighted Average Retail Tariff for the Franchise Year ‘t’;

U_t means the lesser of the Actual Units and the Expected Units for the Franchise Year ‘t’;

SO_{t-1} means the “Subsidy Over-recovery” for the Franchise Year ‘t-1’, calculated using the following formula:

$$SO_{t-1} = (ActS_{t-1} - SR_{t-1}) \times (1 + I_t)$$

where:

$ActS_{t-1}$ means the amount of actual income of Umoja from the TEF Account in relation the Subsidy Requirement during the Franchise Year 't-1';

SR_{t-1} means the amount of actual Subsidy Requirement for the Franchise Year 't-1'; and

I_t means the Agreed Interest Rate as determined as of the first day of the Franchise Year 't';

provided, however, that the Subsidy Over-recovery for the first Franchise Year following the Transfer Date shall be zero.

- (b) If the Subsidy Over-recovery for a Franchise Year is negative, then this will indicate an under-recovery of the Subsidy Requirement during that Franchise Year and shall automatically increase the Subsidy Requirement for the following Franchise Year through the operation of the above formula for the calculation of the Subsidy Requirement.
- (c) If, in any Franchise Year, the Required Tariff is less than the Weighted Average Retail Tariff, then the Subsidy Requirement for that Franchise Year shall be considered zero for any calculation under this Retail Tariff Methodology. For such a Franchise Year, the “Surplus Revenue” shall be calculated as follows:

$$SRev_t = [(WART_t - RT_t) \times U_t] + SO_{t-1}$$

where:

$SRev_t$ means the Surplus Revenue for the Franchise Year 't'; and

RT_t , $WART_t$, U_t and SO_{t-1} are as defined in Subarticle 6.2(a).

- (d) The Surplus Revenue shall be apportioned appropriately to pay Lease Rental pursuant to Subarticle 6.6, to reduce Total Deferred Equity Amount pursuant to Subarticles 6.4 and 6.7, to make payment by Umoja to the GOT or deposited into the Rural Electrification Fund in accordance with Subarticle 6.7 and/or to calculate the Correction Factor pursuant to Subarticle 4.4. There shall be no Surplus Revenue estimated for any Franchise Year when the TEF Account has a balance greater than zero.
- (e) The Subsidy Requirement and hence the Surplus Revenue shall be estimated by EWURA in its determination pursuant to Subarticle 6.4 at the start of a Franchise Year. The actual Subsidy Requirement and hence the actual Surplus Revenue for the Franchise Year shall be

determined at the end of that Franchise Year by the Accountants in the Annual Audited Statement pursuant to Subarticle 8 and shall be used in the calculation of the Subsidy Over-recovery and the Correction Factor for that Franchise Year pursuant to Subarticles 6.2(a) and 4.4, respectively.

6.3 Umoja's Annual Tariff and Subsidy Proposal

Not later than 60 days prior to the start of each Franchise Year 't', Umoja shall deliver a proposal (the “**Annual Tariff and Subsidy Proposal**”) to EWURA containing its calculations and estimates of the Retail Tariffs and the items listed in **Subannex 2** for the Franchise Year 't', conforming to the conditions set forth in Subarticle 6.1.

Unless otherwise advised by EWURA, Umoja shall follow the guidelines set forth in **Subannex 3** for estimating the Revenue Requirement. In the Annual Tariff and Subsidy Proposal, Umoja shall also propose whether the Excess Sales for the Franchise Year 't' should be applied to reduce the Total Deferred Equity Amount or the Subsidy Requirement for the Franchise Year 't'. The Annual Tariff and Subsidy Proposals shall also describe Umoja's methodology, reasons and evidence for the proposals, calculations and estimates contained therein in reasonable detail with specific references to this Retail Tariff Methodology and the Franchise Agreement, where applicable.

6.4 Annual Tariff and Subsidy Determination

Within fifteen (15) days of the receipt of the Annual Tariff and Subsidy Proposal for the Franchise Year 't' pursuant to Subarticle 6.3, EWURA may instruct Umoja to revise its proposal for the Deferred Equity, Deferred Equity Recovered, Excess Sales and Retail Tariffs as EWURA deems fit and to revise other aspects of the proposal accordingly. Umoja shall submit the Annual Tariff and Subsidy Proposal as revised in accordance with the requirements of EWURA to EWURA within fifteen (15) days of the instruction of EWURA.

EWURA, prior to the start of the Franchise Year 't', shall agree to Umoja's proposals or revised proposals if applicable on, or determine otherwise, the Retail Tariffs and the items listed in **Subannex 2**, conforming to the conditions set forth in Subarticle 6.1. Such a decision of EWURA to agree or determine otherwise the Retail Tariffs and other items (the "**Annual Tariff and Subsidy Determination**") shall be in writing and give reasons for such a decision. The Annual Tariff and Subsidy Determination shall also state (a) whether the Excess Sales for the Franchise Year 't' should be applied to reduce the Total Deferred Equity Amount or the Subsidy Requirement for the Franchise Year 't', and (b) the respective amounts of the Other Income for the Franchise Year 't' to be applied to reduce the Revenue Requirement for the Franchise Year 't' pursuant to Subarticle 2 and to reduce the Total Deferred Equity Amount as of the start of the Franchise Year 't+1' for the Base Project or the Expansion Project pursuant to Subarticle 6.5.

The Revenue Requirement, the Subsidy Requirement and other items (except for the Retail Tariffs, the Deferred Equity, the Deferred Equity Recovered and

the Expected Units) determined by EWURA pursuant to this Subarticle 6.4 for any Franchise Year shall be estimated values. The actual values shall be determined after the end of that Franchise Year in the Annual Audited Statement pursuant to Subarticle 8. However, the Retail Tariffs determined pursuant to this Subarticle 6.4 shall be final, unless revised in accordance with Subarticle 7.1.

6.5 Total Deferred Equity Amount

The purpose of the Total Deferred Equity Amount is to keep an account of the amounts of the Deferred Equity whose recovery and return on which have been deferred previously and the amounts of the Deferred Equity Recovered whose recovery and return on which have occurred previously.

In relation to the Base Project or the Expansion Project, the Total Deferred Equity Amount as of the start of any Franchise Year 't' shall be determined as follows:

$$TDEA_t = [TDEA_{t-1} \times (1 + R)] + DE_t - DER_t - (0.6 \times ES_{t-1}) - DERS Rev_t - OI_{t-1} \times (1 + I_t)$$

where:

$TDEA_t$ means the Total Deferred Equity Amount for the Franchise Year 't' for the Base Project or the Expansion Project, as the case may be;

R means nominal 17% per annum;

N means the number of Franchise Years from the Transfer Date or the Expansion Project, as the case may be, to the start of the Franchise Year 't', not exceeding the number of Franchise Years determined to by EWURA pursuant to Subarticle 6.4;

$TDEA_{t-1}$ means the Total Deferred Equity Amount for the Franchise Year 't-1' for the Base Project or the Expansion Project, as the case may be;

DE_t means the Deferred Equity for the Base Project or the Expansion Project for the Franchise Year 't' determined in accordance with Subarticle 6.4;

DER_t means the Deferred Equity Recovered for the Franchise Year 't' for the Base Project or the Expansion Project, as the case may be, determined in accordance with Subarticle 6.4;

ES_{t-1} means the Excess Sales for the Franchise Year 't-1'; provided, however, that if EWURA determines pursuant to Subarticle 6.4 that the Excess Sales for the Franchise Year 't-1' shall be applied to reduce the Revenue Requirement, the value of ES_{t-1} for the purposes of this Subarticle 6.5 shall be zero;

$DEERSRev_t$ means the Deferred Equity Recovered through the Surplus Revenue for the Franchise Year ‘t’ for the Base Project or the Expansion Project, as the case may be, as determined pursuant to Subarticle 6.7(a);

I_t as defined in Subarticle 4.3; and

OI_{t-1} means the full amount or a part of the Other Income for the Franchise Year ‘t-1’ as approved by EWURA to be applied to reduce the Total Deferred Equity Amount as of the start of the Franchise Year ‘t’ for the Base Project or the Expansion Project, as the case may be; provided, however, that such amount of the Other Income for the Franchise Year ‘t-1’ shall then not be available to reduce the Revenue Requirement for the Franchise Year ‘t-1’ pursuant to Subarticle 2.

6.6 Payment and Treatment of Lease Rental

(a) For each Franchise Year ‘t’ following the Transfer Date, Umoja shall pay to TANESCO an amount of “**Lease Rental**” determined as follows or accrue a liability pursuant to Subarticle 6.6(c) for such amount:

(i) If the Total Deferred Equity Amount has not been reduced to zero, then:

$$LR_t = 0.4 \times ES_{t-1}$$

(ii) If the Total Deferred Equity Amount has been reduced to zero, then:

$$LR_t = ES_{t-1}$$

(iii) If a certain Deferred Equity Recovered is being applied to reduce Total Deferred Equity Amount, then:

$$LR_t = (0.6667 \times \sum DER_t)_+ (0.4 \times ES_{t-1})$$

where:

LR_t means the amount of Lease Rental payable by Umoja to TANESCO for the Franchise Year ‘t’;

ES_{t-1} means the Excess Sales for the Franchise Year ‘t-1’; provided, however, that if EWURA determines pursuant to Subarticle 6.4 that the Excess Sales for the Franchise Year ‘t-1’ shall be applied to reduce the Revenue Requirement, the value of ES_{t-1} for the purposes of this Subarticle 6.5 shall be zero; and

$\sum DER_t$ means the sum of (1) the Deferred Equity Recovered for the Franchise Year ‘t’ in relation to the Base Project and

(2) the Deferred Equity Recovered for the Franchise Year ‘t’ in relation to all the Expansion Projects;

provided; however, that the sum of the Lease Rental and the Additional Lease Rental paid by Umoja for a Franchise Year shall not exceed the sum of (i) the Maximum Annual Rental and (ii) the “**Lease Rental Liability**” determined as of the last day of the preceding Franchise Year pursuant to Subarticle 6.6(d); provided, further, however, that if sum of the Lease Rental and the Additional Lease Rental for a Franchise Year exceeds the sum of (i) the Maximum Annual Rental and (ii) the Lease Rental Liability determined as of the last day of the preceding Franchise Year pursuant to Subarticle 6.6(d), then the excess shall be applied first to reduce the Total Deferred Equity Amount in Subarticle 6.5 ; second, if there is no Total Deferred Equity Amount, any remaining excess shall be applied to reduce the Lease Rental Liability; and, third, if there is no Total Deferred Equity Amount and the Lease Rental Liability is or has been reduced to zero, the Additional Lease Rental shall be reduced by any such remaining excess.

(b) For each Franchise Year ‘t’ following the Transfer Date when there is a Surplus Revenue estimated for that Franchise Year, Umoja shall pay to TANESCO an additional amount (each such amount, an “**Additional Lease Rental**”) determined as follows or accrue a liability pursuant to Subarticle 6.6(c) for such amount:

(i) If the Total Deferred Equity Amount has not been reduced to zero, then:

$$ALR_t = 0.4 \times EstS Rev_t$$

(ii) If the Total Deferred Equity Amount has been reduced to zero, then:

$$ALR_t = EstS Rev_t$$

where:

ALR_t means the amount of Additional Lease Rental payable by Umoja to TANESCO for the Franchise Year ‘t’; and

$EstSRev_t$ means the Surplus Revenue estimated for the Franchise Year ‘t’ pursuant to Subarticles 6.2(d) and 6.4 at the start of that Franchise Year.

(c) As of the last day of each Franchise Year ‘t’ following the Transfer Date, the Lease Rental Liability shall be determined as follows:

$$LRL_t = (LRL_{t-1} + MaxLR_t - LR_t - ALR_t) \times (1 + LPR_t)$$

where:

LRL_t means the Lease Rental Liability as of the last day of the Franchise Year ‘t’;

$MaxLR_t$ means the Maximum Annual Rental payable for the Franchise Year ‘t’;

LR_t means the Lease Rental determined to be paid by Umoja pursuant to Subarticle 6.6(a) for the Franchise Year ‘t’;

ALR_t means the Additional Lease Rental determined to be paid by Umoja pursuant to Subarticle 6.6(b) for the Franchise Year ‘t’; and

LPR_t means 12.6825% per annum .

- (d) For each Franchise Year in respect of which a Lease Rental or the Additional Lease Rental or both are payable by Umoja in accordance with this Subarticle 6.6, Umoja shall either pay to TANESCO (i) the Lease Rental or the Additional Lease Rental or both, as the case may be, determined for that Franchise Year as a lump sum amount on a date that falls on the last day of the sixth month following the start of that Franchise Year, or (ii) one-twelfth of the Lease Rental or the Additional Lease Rental or both, as the case may be, determined for that Franchise Year on the last day of each month of that Franchise Year.

6.7 Use of Remaining Surplus Revenue

- (a) For each Franchise Year ‘t’ prior to and including the Franchise Year when the Total Deferred Equity Amount is reduced to zero, the remaining amount (after deduction of the Additional Lease Rental) of the Surplus Revenue estimated at the start of that Franchise Year pursuant to Subarticles 6.2(d) and 6.4 shall be used to reduce the Total Deferred Equity Amount. For this purpose, the amount of the “**Deferred Equity Recovered through the Surplus Revenue**” during that Franchise Year shall be determined using the following formula and shall be used to reduce the Total Deferred Equity Amount pursuant to Subarticle 6.5 for the Base Project and, if the Total Deferred Equity Amount for the Base Project is reduced to zero and the Deferred Equity Recovered determined pursuant to this Subarticle 6.7(a) is not exhausted, then the remaining balance of such Deferred Equity Recovered shall be used to reduce the Total Deferred Equity Amount for one or more Expansion Projects:

$$DERS Rev_t = EstS Rev_t - ALR_t$$

where:

$DERSRev_t$ means the Deferred Equity Recovered through the Surplus Revenue for the Franchise Year ‘t’;

EstSRev_t means the Surplus Revenue estimated for the Franchise Year ‘t’ pursuant to Subarticles 6.2(d) and 6.4 at the start of that Franchise Year; and

ALR_t means the amount of Additional Lease Rental determined to be paid by Umoja to TANESCO for the Franchise Year ‘t’ pursuant to Subarticle 6.6.

- (b) For each Franchise Year ‘t’ following the Franchise Year when the Total Deferred Equity Amount is reduced to zero, the remaining amount (after deduction of the Additional Lease Rental) of the Surplus Revenue estimated at the start of that Franchise Year pursuant to Subarticles 6.2(d) and 6.4 shall be paid by Umoja to the GOT or be deposited by Umoja into the Rural Electrification Fund, as directed in writing by the GOT to Umoja. Such a payment or deposit calculated using the following formula shall be made either (i) as a lump sum amount on a date that falls on the last day of the sixth month following the start of that Franchise Year, or (ii) in twelve equal instalments on the last day of each month of that Franchise Year:

$$GOTShareSRev_t = EstSRev_t - ALR_t$$

where:

GOTShareSRev_t means the amount to be paid by Umoja to the GOT or be deposited by Umoja into the Rural Electrification Fund for the Franchise Year ‘t’;

EstSRev_t means the Surplus Revenue estimated for the Franchise Year ‘t’ pursuant to Subarticles 6.2(d) and 6.4 at the start of that Franchise Year; and

ALR_t means the amount of Additional Lease Rental determined to be paid by Umoja to TANESCO for the Franchise Year ‘t’ pursuant to Subarticle 6.6.

7 Miscellaneous

7.1 Adjustment for Exchange Rate Variation

- (a) Within 15 days after the end of each quarter in each Franchise Year, Umoja shall submit a request to EWURA for the necessary adjustment to the Revenue Requirement and the Retail Tariffs for the remaining part of that Franchise Year from a date not earlier than the date which is thirty (30) days following the date of the submitted request for any change in the value of Shilling against the Dollar from the date of last determination of the Revenue Requirement and the Retail Tariffs for that Franchise Year. Such a request shall contain all reasonable details and calculations of the revised Revenue Requirement and the revised Retail Tariffs.

- (b) Within fifteen (15) days of the receipt of the request from Umoja pursuant to Subarticle 7.1(a), EWURA shall determine the revised Revenue Requirement for the Franchise Year 't' and the revised Retail Tariffs to be effective from a specified date not earlier than fifteen (15) days after the date of such determination, such that the sum of expected revenue of Umoja from the Retail Tariffs and the Subsidy Requirement for the Franchise Year 't' shall, as practically as possible, equal the revised Revenue Requirement for the Franchise Year 't'.
- (c) The above adjustments to the Revenue Requirement and the Retail Tariffs shall take into account the impact of the change in the value of Shilling against the Dollar on the components of Revenue Requirement incurred in currencies other than Shilling, other than the Equity Component, from the date of the last determination of the Revenue Requirement for the relevant Franchise Year up to a date as closer as practicably possible to the date of effectiveness of such adjustments.
- (d) If the revised Weighted Average Retail Tariff as determined by EWURA in accordance with this Subarticle 7.1 is less than the Required Tariff and if the maximum draw from the TEF Account allowed under the Tariff Equalisation Facility Agreement for the relevant Franchise Year is not sufficient to meet the Subsidy Requirement for that Franchise Year arising from the determination of revised Retail Tariffs pursuant to this Subarticle 7.1, such shortfall in the draws from the TEF Account to meet the Subsidy Requirement for the relevant Franchise Year shall be carried forward to the following Franchise Year through a negative Subsidy Over-recovery, thereby increasing the Subsidy Requirement for the following Franchise Year, in accordance with Subarticle 6.2.

7.2 Adjustment for Liquidated Damages for Delay

The Revenue Requirement for each of the first two Franchise Years following the Transfer Date, calculated in accordance with Subarticle 2, shall be adjusted by subtracting from it the aggregate liquidated damages payable, but not paid, by Umoja for delay in the Transfer Date in accordance with Subarticle 5.1 of the Lease Agreement divided by 2. Such deduction shall satisfy Umoja's relevant obligation under Subarticle 5.1 of the Lease Agreement to pay such liquidated damages.

7.3 Adjustment for Delay in Financial Closing

- (a) If the Financial Closing for the Base Project or the Expansion Project occurs prior to the Transfer Date or the relevant Completion Date, as the case may be, the Revenue Requirement shall be calculated in accordance with this Retail Tariff Methodology without any further adjustment pursuant to Subarticles 7.3(b) and 7.3(c).
- (b) If the Financial Closing for the Base Project or the Expansion Project does not occur prior to the Transfer Date of the relevant Completion Date, as the case may be, Umoja shall agree with EWURA not later

than the Transfer Date or the relevant Completion Date (i) appropriate debt and equity proportions (which shall not be less than 60% and greater than 40%, respectively), consistent with Subarticle 5.2 in the case of Expansion Project, which proportions shall be applied to the Actual Base Project Costs or the Actual Expansion Project Capital Costs, as the case may be, to determine the Actual Base Project Equity or the Actual Expansion Project Equity, as the case may be, and the Actual Base Project Debt or the Actual Expansion Project Debt, as the case may be, for the purposes of various calculations or determinations pursuant to Subarticle 5 (ii) appropriate debt financing terms such as repayment period (which shall not be less than 10 years but shall end not later than the expiry of the Term) and interest rate (which shall not be greater than Agreed Interest Rate plus 1%), consistent with Subarticle 5.2 in the case of Expansion Project, for the purposes of the calculation of the Actual Base Project Debt Repayment Schedule or the Actual Expansion Project Debt Repayment Schedule, as the case may; provided, however, that AFUDC shall be calculated in accordance with Subarticle 3.3 or Subarticle 3.4, as the case may be, based on the Actual Base Project Equity Drawdown Schedule or the Actual Expansion Project Equity Drawdown Schedule as determined in accordance with Subarticle 5.1(d) or Subarticle 5.3(c), as the case may be, without taking into consideration the determination of the Actual Base Project Equity or the Actual Expansion Project Equity, as the case may be, pursuant to (i) above.

- (c) If the Financial Closing occurs after the Transfer Date or the Completion Date for the Base Project or the Expansion Project, as the case may be, Umoja shall agree with EWURA as soon as practically possible, for the purposes of future Revenue Requirements, the revised inputs for calculation of the Final Base Project Equity and Final Base Project Debt Repayment Schedule, or the Final Expansion Project Equity and Final Expansion Project Debt Repayment Schedule, as the case may be, consistent with the provisions of this Retail Tariff Methodology and, to the extent possible, consistent with the provisions of the Financing Documents; provided, however, that such revisions shall take account of the reduction in such inputs or the above items due to Total Payments made till the time of such revisions.

7.4 Adjustment for Variable Interest Rates

If the interest rates underlying the Final Base Project Debt Repayment Schedule or the Final Expansion Project Repayment Schedule are based on one or more variable reference interest rates, such schedule shall be updated at the time of determining the Revenue Requirement pursuant to Subarticle 6 and at the time of determining the Subsidy Over-recovery pursuant to Subarticle 8 using the actual values of such variable reference interest rates prevailing at the time of determining the Revenue Requirement or using the actual values of such variable reference interest rates which are used for payment of interest on relevant debts to the lenders, as the case may be.

7.5 Adjustment for T&D Restoration

- (a) If there occurs a Force Majeure Event that requires a a material modification or a material capital addition to restore the capability of the T&D Facilities (operating in accordance with the applicable Laws of Tanzania) to the level existing immediately prior to the Force Majeure Event (the “**T&D Restoration**”), Umoja shall, subject to approval by EWURA of the plan for carrying out and completing the T&D Restoration, proceed (subject to the approval of EWURA of the recovery of the costs of the T&D Restoration through the Revenue Requirement) with such T&D Restoration.
- (b) Beginning on the date that the T&D Restoration is completed, Umoja shall be entitled to recover through the Revenue Requirement over the remainder of the Term (unless a shorter period for recovery of such costs is approved by EWURA) the costs incurred in effecting the T&D Restoration, including, without limitation, principal and interest on any debt incurred to finance the cost of the T&D Restoration and the return of equity and a return on unrecovered equity equal to the Equity Yield.
- (c) The costs to be recovered by Umoja pursuant to this Subarticle 7.5 shall be the costs that are actually incurred by Umoja to effect the T&D Restoration, to the extent those costs exceed any insurance proceeds; provided, however, that each such item of cost shall have been reasonable and appropriate for Umoja to effect such T&D Restoration consistent with the standards for the original construction or rehabilitation of the T&D Facilities, consistent with the requirements of the applicable Laws of Tanzania, prudent utility practices, and the use of efficient and, to the extent consistent with prudent utility practices, low cost T&D Restoration methods, as the case may be.
- (d) Umoja shall deliver a schedule of such costs to EWURA, together with copies of the invoices, for review by EWURA.
- (e) Any T&D Restoration approved pursuant to this Subarticle 7.5 shall be treated as an Expansion Project under this Retail Tariff Methodology. The costs of such a T&D Restoration as approved by EWURA pursuant to this Subarticle 7.5, to the extent such costs exceed any insurance proceeds, and are consistent with the requirements set forth therein, shall be recovered through additional Debt Component and Equity Component of the Revenue Requirement for Transmission and Distribution calculated in accordance with Subarticles 3.2 and 3.4 in relation to such T&D Restoration considered as an Expansion Project and in accordance with the terms set forth in this Subarticle 7.5.

7.6 Electronic Form of Calculations

Each report or proposal or statement required by this Retail Tariff Methodology to be submitted by Umoja to EWURA shall include, in electronic form, an Excel spreadsheet (or any other equivalent computer

software used widely in Tanzania at the time) that contains all calculations used by Umoja in computing various amounts and items contained in such report or proposal.

7.7 Business Day for Interest Rate and Payments

If, pursuant to this Retail Tariff Methodology, an interest rate is required to be determined as of a specific day or a payment is required to be made on a specific day, and if such day is not a Business Day, then the interest rate shall be determined or the payment shall be made on the last Business Day preceding such specific day.

8 Annual Audited Statement

No later than three months after the end of each Franchise Year, Umoja shall deliver to EWURA a statement (the "**Annual Audited Statement**") containing the following information along with details of all necessary calculations, which statement shall be accompanied by an opinion of the Accountants stating that (i) in their opinion such statement fairly and accurately represents each of the following items in accordance with the requirements of this Retail Tariff Methodology, and (ii) that the amounts shown in respect of each of these items have been determined in accordance with the accounting records of Umoja which have been maintained in accordance with international accounting standards and the Laws of Tanzania:

- (a) The amount of actual Revenue Requirement and each of its components set forth in Subarticle 2 for the preceding Franchise Year;
- (b) The amount of actual Revenue Requirement for Transmission and Distribution and each of its components set forth in Subarticle 3 for the preceding Franchise Year;
- (c) The amount of actual revenue of Umoja from the Retail Tariffs during the preceding Franchise Year;
- (d) The amount of actual income of Umoja from the TEF Account in relation to the Subsidy Requirement during the preceding Franchise Year;
- (e) The Retail Tariffs and the Weighted Average Retail Tariff for the preceding Franchise Year;
- (f) The actual Purchased Units and the Actual Units for the preceding Franchise Year;
- (g) The Excess Sales for the preceding Franchise Year;
- (h) The amount of actual Subsidy Requirement, if any, for the preceding Franchise Year;
- (i) The balance amount in the TEF Account as of the last day of the preceding Franchise Year and the prevailing limits as per the Tariff Equalisation Facility Agreement on the disbursements or withdrawals from the TEF Account for the Subsidy Requirement;

- (j) The Subsidy Over-recovery for the preceding Franchise Year, calculated using the formula set forth in Subarticle 6.2;
- (k) The Total Deferred Equity Amount for the preceding Franchise Year;
- (l) The amount of actual Surplus Revenue, if any, for the preceding Franchise Year calculated using the formula pursuant to Subarticle 6.6;
- (m) The amounts of (i) actual Lease Rental paid by Umoja to TANESCO, if any; (i) actual Additional Lease Rental paid by Umoja to TANESCO, if any; and (ii) actual Lease Rental Liability, if any, for the preceding Franchise Year calculated pursuant to Subarticle 6.6;
- (n) The amount payment by Umoja to the GOT or to be deposited by Umoja into the Rural Electrification Fund for the preceding Franchise Year pursuant to Subarticle 6.7;
- (o) The actual amounts of bills issued by Umoja to the Retail Customers in the Franchise Area, bill collections from such customers, aging profile of bills receivables from such customers and any other information reasonably required by EWURA for the preceding Franchise Year (such other information requirement to be specified in writing by EWURA to Umoja not later than end of the relevant Franchise Year); and
- (p) Any other item specified by EWURA in writing to Umoja prior to the end of the preceding Franchise Year.

Subannex 1: Target Losses and Collections

| Franchise Year | Target Transmission and Distribution Loss (%) | Target Collection Efficiency (%) |
|-----------------------|--|---|
| 1 | 20% | 80% |
| 2 | 17% | 85% |
| 3 | 13% | 90% |
| 4 | -- | 95% |
| 5 | -- | 95% |
| 6 | -- | 95% |
| 7 | -- | 95% |
| 8 | -- | 95% |
| 9 | -- | 95% |
| 10 | -- | 95% |
| 11 | -- | 95% |
| 12 | -- | 95% |
| 13 | -- | 95% |
| 14 | -- | 95% |
| 15 | -- | 95% |
| 16 | -- | 95% |
| 17 | -- | 95% |
| 18 | -- | 95% |
| 19 | -- | 95% |
| 20 | -- | 95% |

Subannex 2: Annual Tariff and Subsidy Proposal and Determination

Umoja's Annual Tariff and Subsidy Proposal under Subarticle 6.3 and Annual Tariff and Subsidy Determination by EWURA under Subarticle 6.4 for any Franchise Year 't' shall contain the estimates or determination, as the case may be, and calculations of the following items:

- (a) The Power Purchase Costs for the Franchise Year 't';
- (b) If the Transfer Date or the Completion Date for the Expansion Project has occurred in the Franchise Year 't-1', the relevant Deferred Equity;
- (c) To the extent that the Total Deferred Equity Amount for the Base Project or the Expansion Project is not zero, the relevant Deferred Equity Recovered for the Franchise Year 't';
- (d) If the Required Tariff for the Franchise Year 't' is less than the Weighted Average Retail Tariff, the Surplus Revenue, the Lease Rental, the Deferred Equity Recovered, and the amount to be paid by Umoja to the GOT or to be deposited by Umoja into the Rural Electrification Fund;
- (e) The Revenue Requirement for Transmission and Distribution and each of its component as set forth in Subarticle 3 for the Franchise Year 't';
- (f) The Excess Sales for the Franchise Year 't-1';
- (g) The Revenue Requirement and each of its component as set forth in Subarticle 2 for the Franchise Year 't';
- (h) The expected Purchased Units for the for the Franchise Year 't', which shall be equal to the actual Purchased Units for the Franchise Year 't-1', with an appropriate adjustment for reasonably anticipated growth in the actual Purchased Units for the Franchise Year 't'; provided, however, that if such growth is different from the actual growth in the Franchise Year 't-1', then Umoja or EWURA, as the case may be, shall provide justification for such a difference; provided, further, however, that if the actual Purchased Units for the Franchise Year 't-1' is zero, then the expected Purchased Units for the Franchise Year 't' shall be set equal to the actual Purchased Units for the latest of the Franchise Years preceding the Franchise Year 't-1' in which the actual Purchased Units were greater than zero;
- (i) Based on the expected Purchased Units from (h) above, the Expected Units for the Franchise Year 't-1'
- (j) The Required Tariff for the Franchise Year 't';
- (k) The Retail Tariffs and the resulting Weighted Average Retail Tariff for the Franchise Year 't'; and
- (l) The Subsidy Requirement for the Franchise Year 't'.

For the purposes of calculations pursuant to Subarticle 6.3 and 6.4 for the Franchise Year 't', the Actual Units for that Franchise Year shall equal the Expected Units for that Franchise Year.

Subannex 3: Guidelines for Estimating Revenue Requirement

For the purposes of its Annual Tariff and Subsidy Proposal for any Franchise Year 't' under Subarticle 6.3, Umoja shall estimate the Revenue Requirement as follows:

If the Franchise Year 't' is the first Franchise Year following the Transfer Date, the estimate of the Revenue Requirement for the Franchise Year 't' shall be based on the following estimates;

- (a) The Power Purchase Costs for the Franchise Year 't' estimated as the sum of (A) the interim Capacity Payment (as defined in the Power Purchase Agreement) estimated prior to the Commercial Operations Date of the Base Project (as defined in the Power Purchase Agreement) in accordance with the Power Purchase Agreement, and (B) the Energy Payment (as defined in the Power Purchase Agreement) based on the expected Purchased Units for the Franchise Year 't' as estimated in the Annual Tariff and Subsidy Proposal;
- (b) The estimated Revenue Requirement for Transmission and Distribution based on the Agreed Operation, Maintenance and Administrative Costs, the Estimated Base Project Costs, the Target Transmission and Distribution Losses and Target Collection Efficiency;
- (c) The Force Majeure Sales Lost, Excess Sales and Subsidy Over-recovery for the Franchise Year 't-1' estimated as zero; and
- (d) A reasonable estimate of the Taxes and Other Income for the Franchise Year 't';

However, if the Franchise Year 't' occurs after the first Franchise Year, the estimate of the Revenue Requirement for the Franchise Year 't' shall be based on the actual Power Purchase Costs, Lease Rental, Force Majeure Sales Lost, Taxes, Other Income and Excess Sales for the Franchise Year 't-1' and the Revenue Requirement for Transmission and Distribution as estimated on the basis of estimates of its components contained in the Annual Tariff and Subsidy Proposal for the Franchise Year 't'.

Subannex 4: Limits on Carrying Costs of Working Capital

The Actual Operation, Maintenance and Administrative Costs and the Agreed Operation, Maintenance and Administrative Costs shall include carrying cost of the working capital reasonably required for Umoja up to the maximum limits determined as follows:

- (a) The amount of working capital for the first 2 months following the Transfer Date shall not exceed 90 days equivalent of the revenue from the Retail Customers.
- (b) The amount of working capital for the months from the third month following the Transfer Date up to the eighteenth month following the Transfer Date shall not exceed 75 days equivalent of the revenue from the Retail Customers.
- (c) The amount of working capital for the months after the eighteenth month following the Transfer Date through the end of the Term shall not exceed 45 days equivalent of the revenue from the Retail Customers.
- (d) The carrying cost of the working capital shall be calculated by applying the “**Borrowing Rate**” (as defined below) to the amount of working capital, subject to the limits described above.
- (e) The “**Borrowing Rate**” shall be equal to the last 91 day Tanzanian Treasury bill rate announced prior to the end of the previous month plus 3.85% per annum, which rate shall be established on the first day of the relevant month and shall continue to be applicable for such month.
- (f) For the purposes of limits on the working capital described above:
 - (i) In the case of Actual Operation, Maintenance and Administrative Costs, the actual revenue of Umoja from the Retail Customers during the relevant Franchise Year averaged over all the days of that Franchise Year shall be used; and
 - (ii) In the case of Agreed Operation, Maintenance and Administrative Costs, the estimated revenue of Umoja from the Retail Customers based on the Retail Tariffs and the Expected Units for the Relevant Franchise Year averaged over all the days of that Franchise Year shall be used.
- (g) The maximum limits on the carrying costs of working capital for Umoja during any Franchise Year ‘t’ (“ $CCWC_{max}$ ”) described above can be represented mathematically as follows:

- (i) For the first Franchise Year following the Transfer Date:

$$CCWC_{max} = (BR \times ADR \times 90 \times \frac{2}{12}) + (BR \times ADR \times 75 \times \frac{10}{12})$$

- (ii) For the second Franchise Year following the Transfer Date:

$$CCWC_{\max} = (BR \times ADR \times 75 \times \frac{6}{12}) + (BR \times ADR \times 45 \times \frac{6}{12})$$

- (iii) For the any Franchise Year after the second Franchise Year following the Transfer Date:

$$CCWC_{\max} = BR \times ADR \times 45$$

where:

BR means the Borrowing Rate determined as of the first day of the relevant Franchise Year; and

ADR means the average daily revenue calculated as follows:

- (iv) in the case of Actual Operation, Maintenance and Administrative Costs, the actual revenue from Retail Customers in the relevant Franchise Year averaged over all the days of that Franchise Year; or
- (v) in the case of Agreed Operation, Maintenance and Administrative Costs, the estimated revenue from Retail Customers based on the Retail Tariffs and the Expected Units for the relevant Franchise Year averaged over all the days of that Franchise Year.
- (vi) relevant Franchise Year averaged over all the days of that Franchise Year.

Subannex 5: O&M Budget

| Franchise Year | O&M Budget (USD) |
|-----------------------|-----------------------------|
| 1 | 4,470,261 |
| 2 | 4,838,784 |
| 3 | 4,928,767 |
| 4 | 5,187,878 |
| 5 | 5,535,461 |

Subannex 6: Rehabilitation and Expansion Plan

The Rehabilitation and Expansion Plan consists of expanding the network supplied by the Generation Facility by linking the neighbouring networks of Lindi and Masasi to the Mtwara grid. Interconnection of the three isolated networks to the Generation Facility will require construction of two 33 kV interconnector circuits totalling in excess of 120kms and augmentation of the transmission system by installing 78kms of 132kV line. Also, parts of the 33kV network will require significant upgrading and reinforcement with shunt capacitor and regulator additions to ensure its reliable operation during the operational period.

The general plan is as follows:

- Establishing two radial, 33 kV distribution feeders at Mtwara.
- Establishing three radial, 33 kV distribution feeders at Mingoyo.
- Construction of a 132 kV transmission line from Mtwara to Mingoyo initially, and at a later stage when the load is proven to extend the line to Masasi.
- Construction of a new 11/132 kV (18/24/30 MVA transformer) and 11/33 kV (initially, one 9/12/15 MVA transformer, and one spare 9/12/15 MVA transformer capable of operating at 33 or 132kV) station at Mtwara.
- Construction of a new 132/33 kV station (initially one 18/24/30 MVA transformer) at Mingoyo.

The Rehabilitation and Expansion Plan will be divided into two phases:

- Phase I
- Phase II

Article 1. Phase I

Phase I comprises all works necessary to connect the isolated load centres of Lindi and Masasi to the Generation Facility and ensure the supply of stable and reliable electric power to the existing sixteen thousand customers on the Mtwara, Masasi, and Lindi grids.

The isolated networks of Mtwara, Lindi and Masasi must be interlinked; and a transmission network with sufficient capacity to serve the load demand from all communities in the Franchise Area, must be in place.

The Engineering Plan for Phase I proposes the construction of an 11/33 kV station at Mtwara, and 33 kV linkages between the load centres of Mtwara, Lindi, and Masasi.

The Mtwara station would contain the following equipment:

- one 11/33 kV (grounded-wye - grounded-wye with a delta tertiary winding) 9/12/15 MVA transformer to supply the Lindi and Mtwara distribution loads.
- 33 kV and 11 kV protection.

In addition to establishing a new distribution station at Mtwara, additional improvements are necessary at the 33/11 kV stations at Lindi, Masasi, Nachingwea, and Newala. These are:

Lindi Town

A 2500 kVA 33/11.5 kV transformer (delta secondary) has been installed by TANESCO staff at Lindi to supply the town load now that the 33 kV link between Mtwara and Lindi has been completed. Discussions with operating and engineering staff have determined the new step down transformer does not have 11 kV protection at the station and 11 kV relaying is provided on the networked feeders at the old powerhouse approximately 3 km away. Grounding transformers at the powerhouse also provide the ground source for the Lindi 11 kV network.

It is recommended to convert the town load to 33 kV rather than expanding the existing station to install a grounding transformer, establishing a jack bus, installing a spare 33/11 kV transformer, maintaining spare parts inventory at the stations, employing and training staff to maintain the equipment, and installing 11 kV reclosers for feeder protection. Conversion of the town 11 kV transformers to 33 kV will involve the replacement of approximately 17 - 11 kV distribution transformers and the re-insulation or replacement of the towns 11 kV infrastructure to 33 kV standards.

Masasi Town

A 5000 kVA, 11/34.5 kV transformer at the diesel generating station currently supplies 33 kV loads Masasi area. Although the transformer and 33 kV breakers are located outside of the generating station powerhouse, the 33 kV relaying controls, the 11 kV switchgear, and the 11 kV relaying controls exist inside the powerhouse.

It is recommended to convert the town load to 33 kV rather than expanding the existing station to install new 33 kV relaying, 11 kV relaying, 11 kV switchgear, establishing a jack bus, and installing a spare 33/11 kV transformer. Conversion of the town 11 kV transformers to 33 kV will involve the replacement of approximately 18 - 11 kV distribution transformers and the re-insulation or replacement of the towns 11 kV infrastructure to 33 kV standards

In addition to the above substations, construction of 33 kV feeder sections to close gaps between Nyangao and Ndanda (approx. 36 km) and between Mtwara to Tandahimba (approx. 96 km) are required to link the isolated grids of Masasi to Mtwara prior to commercialization. Also required is rehabilitation of the 55 km of line between Mingoyo and Nyangao. Regulator and shunt capacitor installations are also necessary at various stages of the build out to ensure adequate customer voltages. In addition, sectionalizing reclosers are required to improve reliability and ensure adequate protective reach.

Details of the works associated with Phase I are as follows:

- Terminate Mtwara 11kV town feeders to available breakers at the Generation Facility bus.
- Develop 11/33 kV station at Mtwara with one - 9/12/15 MVA, 11/33 kV transformer.

- Establishment of feeder ties between feeders MA33-01 and MA33-04 outside of Mtwara Station.
- Extend the line 36 km from Nyangao to Ndanda (Section K) with 33 kV, 150 mm² ACSR phase conductors.
- Extend existing 33 kV line, 96 km from Mtwara to Tandahimba (Sections B and J) with 33 kV, 150 mm² ACSR phase conductors.
- Convert Masasi town load to 33 kV.
- Convert Lindi town load to 33 kV.
- Rehabilitate 55 km of 33 kV line between Mingoyo and Nyangao.
- Install one 1350 kVAR (2 stages), 33 kV shunt capacitor 72.5 km north of Mtwara.
- Install one 1350 kVAR (2 stages), 33 kV shunt capacitor at Lindi.
- Install one 900 kVAR, 33 kV shunt capacitor (3 stages) at Nachingwea
- Install one 900 kVAR, 33 kV shunt capacitor (3 stages) at Newala
- Install one 1350 kVAR, 33 kV shunt capacitor (2 stages) at Namunda 71 km west of Mtwara
- Install one 200 A, 33 kV regulator north of Masasi (exact location TBD)
- Install one 200 A, 33 kV regulator 71 km north of Mtwara
- Add one 33 kV electronic recloser at Mingoyo to protect to Nyangao.
- Add one 33 kV electronic recloser at Mingoyo to protect north to Lindi.
- Add one 33 kV electronic recloser at Masasi to protect north to Nachingwea.
- Add one 33 kV electronic recloser at Newala to protect tap north to Kitangari.
- Add one 33 kV electronic recloser at Newala to protect west to Masasi.
- Add one 33 kV electronic recloser at Nachingwea to protect North to Ruangwa.
- Install one 1350 kVAR (2 stages), 33 kV shunt capacitor 72.5 km north of Mtwara.
- Replace 180 transformer fuses

The anticipated schedule for completion of Phase I is as follows:

| | Description | Start Date | Finish Date |
|----|---|-------------------|--------------------|
| 1 | Develop plans and specifications for initial materials and construction contracts | WEEK 1 | WEEK 10 |
| 2 | Prepare, issue and receive tender documents for initial material and construction contracts | WEEK 1 | WEEK 16 |
| 3 | Delivery of material for initial construction contracts | WEEK 16 | WEEK 22 |
| 4 | Effective Date of Project Agreements occurs | WEEK 21 | WEEK 21 |
| 5 | Refurbish 33 kV line between Mingoyo and Nyangao | WEEK 22 | WEEK 30 |
| 6 | Refurbish and Tree Trim 33 kV line between Mtwara and Mbuo | WEEK 22 | WEEK 34 |
| 7 | Extend the line 36 km from Nyangao to Ndanda (Section K) with 33 kV, 150 mm ² ACSR phase conductors | WEEK 24 | WEEK 40 |
| 8 | Construction of a new 11/132 kV 18/24/30 MVA transformer and 11/33 kV (initially, one 9/12/15 MVA transformer, and one spare 9/12/15 MVA transformer capable of operating at 33 or 132kV) station at Mtwara | WEEK 25 | WEEK 75 |
| 9 | Add and terminate 2x11 kV feeders @ Generation Facility | WEEK 27 | WEEK 29 |
| 10 | Convert Masasi town load to 33 kV | WEEK 29 | WEEK 39 |
| 11 | Install one 1350 kVAR (2 stages), 33 kV shunt capacitor 72.5 km north of Mtwara | WEEK 33 | WEEK 40 |
| 12 | Install one 200 A, 33 kV regulator 71 km north of Mtwara | WEEK 33 | WEEK 40 |
| 13 | Install one 1350 kVAR (2 stages), 33 kV shunt capacitor at Lindi | WEEK 33 | WEEK 40 |
| 14 | Add 33 kV electronic recloser at Mingoyo to protect to Nyangao | WEEK 33 | WEEK 40 |
| 15 | Add 33 kV electronic recloser at Mingoyo to protect north to Lindi | WEEK 33 | WEEK 40 |
| 16 | Commission and energize north feeder (temporary only – need Mtwara Station in place) | WEEK 40 | WEEK 41 |
| 17 | Install one 900 kVAR, 33 kV shunt capacitor (3 stages) at Nachingwea | WEEK 42 | WEEK 50 |
| 18 | Add 33 kV electronic recloser at Masasi to protect north to Nachingwea | WEEK 42 | WEEK 50 |
| 19 | Add 33 kV electronic recloser at Nachingwea to protect north to Ruangwa | WEEK 42 | WEEK 50 |
| 20 | Install one 200 A, 33 kV regulator north of Masasi (exact location TBD) | WEEK 42 | WEEK 50 |
| 21 | Construct 94 km of 33 kV, 150 mm ² ACSR line between Mtwara and Tandahimba | WEEK 43 | WEEK 62 |
| 22 | Install one 900 kVAR, 33 kV shunt capacitor (3 stages) at Newala | WEEK 50 | WEEK 60 |
| 23 | Install one 1350 kVAR, 33 kV shunt capacitor (2 | WEEK 50 | WEEK 60 |

| | | | |
|----|---|---------|---------|
| | stages) at Namunda 71 km west of Mtwara | | |
| 24 | Add 33 kV electronic recloser at Newala to protect tap north to Kitangari | WEEK 50 | WEEK 60 |
| 25 | Add 33 kV electronic recloser at Newala to protect west to Masasi | WEEK 50 | WEEK 60 |
| 26 | Commission and energize south feeder | WEEK 75 | WEEK 76 |
| 27 | Energize north feeder | WEEK 76 | WEEK 76 |
| 28 | System energized | WEEK 76 | WEEK 76 |

Article 2. Phase II

Phase II will entail the construction of works that will be necessary to facilitate stable power to an increased number of customers as a result of the Rapid Customer Connection Programme and the burgeoning industrial load as the economy of the region develops.

Phase II is related to the additional T&D Facilities required to satisfy the load growth that is anticipated.

Subsequent to Transfer Date, completion of the 132kV section of the Mtwara substation, the addition of a 132 kV transmission line from Mtwara to Mingoyo and the construction of a 132/33kV Station at Mingoyo is anticipated. Furthermore, in the eighth year after Transfer Date a 132kV line from Mingoyo to Masasi is anticipated to be installed together with a 132/33kV step-down transformer station at Masasi.

Subannex 7: Calculation of Maximum Annual Rental

Article I. Calculation of Maximum Annual Rental

The amount of Maximum Annual Rental payable during any Franchise Year “Y” by Umoja to TANESCO shall be calculated as follows:

$$\text{MaximumAnnualRental} = [\text{AgreedAssetValue} \times \text{IndexAdjustmentFactor}] \times \text{AgreedRate}$$

Where,

MaximumAnnualRental = The amount of MaximumAnnualRent, in Dollars, payable in a given Franchise Year ‘Y’; and

AgreedAssetValue_Y = The total value, in Dollars, of the assets leased to Umoja by TANESCO as listed in **Subannex 7A** to this **Subannex 7** (the “*Leased Assets*”) in the Franchise Year, Y, which shall be calculated as the sum of the value in year Y of each individual Leased Asset “a” listed in **Subannex 7A**, where the value in Franchise Year “Y” of a given Leased Asset “a” listed in **Subannex 7A** shall be calculated as follows:

$$\text{IndividualAssetValue} \times \text{DepreciationFactor}$$

where,

IndividualAssetValue = the total value, in Dollars, of Leased Asset “a” at the Transfer Date, as set out in **Subannex 7A**; and

DepreciationFactor = the applicable factor agreed to reflect the decreasing value of Leased Asset “a”, which shall in each year be equal to the undepreciated value (as a %) of Leased Asset “a” computed on a straight-line depreciation basis using the agreed lifespan of Leased Asset “a”, as set out in **Subannex 7A**; provided, however, if Leased Asset “a” is specified not to depreciate (as specified in **Subannex 7A**), then DepreciationFactor shall be set equal to 1;

IndexAdjustmentFactor_Y = The Index Adjustment Factor for Franchise Year “Y”, which shall be calculated as described in Article II; and

AgreedRate = 12.6825% per annum.

Article II. Calculation of Index Adjustment Factor

- (a) The “Index Adjustment Factor” used for a given Franchise Year, “Y”, shall be calculated as follows:

$$\text{IAFY} = \text{G7PPI}_{Y-1} / \text{G7PPI}_{\text{Ref}}$$

Where:

IAFY = the Index Adjustment Factor applicable for the Franchise Year Y;

G7PPI_{Y-1} = the annual G7 PPI for the year immediately preceding the Franchise Year “Y”; provided, however, that if the value of the G7 PPI for such year is not available, the value that is available for the most recent preceding year shall be used; and

G7PPI_{Ref} = the annual G7 PPI for the year immediately preceding the year during which the Transfer Date occurs.

- (b) If the G7 PPI ceases to be published by the Organisation for Economic Co-operation and Development or more than two countries are replaced in the G7 PPI, Umoja and TANESCO shall mutually agree on an alternative index with the objective of replacing the G7 PPI with the index most similar to the G7 PPI.
- (c) Calculation of the Index Adjustment Factor pursuant to this Article II shall take into account any resetting, reweighting, or other adjustment of the G7 PPI.

Subannex 7A: Leased Assets

[TO COME]

[To include list of fixed assets that are Leased Assets. To include all assets on the registry reviewed by the Independent Auditor [except the Liwale assets and the buildings/houses] [whether Umoja will take the Liwale assets and buildings/houses remains open] -- totals about \$9M. To include depreciation of each asset (agreed to be TANESCO's standard depreciation, except that poles will depreciate over 20 years.)]

[To include list of fixed assets in optional franchise areas such as administrative districts of Tunduru and Liwale or to be amended to include such assets, if and when such optional areas are included in the Franchise Area.]