

LETTER OF TRANSMITTAL

Hon. Dr. Shukuru Kawambwa (MP)
Minister for Water,
P.O. Box 9153,
Dar es Salaam.



Honourable Minister,

In accordance with section 48 of the Energy and Water Utilities Regulatory Authority Act, Cap 414, I have the pleasure and privilege to submit to you the Annual Report and Audited Accounts of the Energy and Water Utilities Regulatory Authority (EWURA) for the period ended 30th June 2007.

The report outlines the major activities and accomplishments of the Authority during the period under review.

I submit.

A handwritten signature in black ink, appearing to read 'S. Sayore'.

Simon F. Sayore
Chairman, Board of Directors
24th December, 2007

Vision:

Quality, affordable and sustainable energy and water services for all.

Mission:

To champion the delivery of energy and water services through world-class regulation for enhancement of the welfare of the Tanzanian society.

The Authority's core values are the guiding principles that all EWURA members and employees commit themselves to follow in pursuit of the above-described shared and agreed Vision and Mission. EWURA's Core Values are:

- a) Transparency;
- b) Integrity;
- c) Responsiveness;
- d) Diligence;
- e) Accountability;
- f) Courtesy;
- g) Honesty;
- h) Excellence;
- i) Equity; and
- j) Professionalism.

EWURA believes that the Vision, Mission and Core Values will guide and drive every person within the Authority, both individually and as a team when performing assigned tasks.

TABLE OF CONTENTS	PAGE
Letter of Transmittal.....	i
Vision and Mission Statements.....	ii
Governance and Management.....	1
Board of Directors.....	2
Chairman’s Statement.....	3
Management.....	5
Director General’s Statement.....	6
Introduction.....	7
Overview of the Regulated Sectors.....	7
Review of EWURA Activities.....	20
Future Outlook.....	30
Conclusion.....	31
Financial Statements for the Period Ended 30th June 2007.....	32

GOVERNANCE AND MANAGEMENT

Board of Directors

EWURA is governed by a Board of Directors which is the highest decision-making organ for the Authority established under section 8 of the Energy and Water Utilities Regulatory Authority Act, Cap 414. It consists of a Non-Executive Chairman appointed by the President of the United Republic of Tanzania, five (5) non-executive members appointed by the Minister responsible for EWURA after consultation with the relevant sector Ministers and a Director General appointed under section 14 of Cap 414.

Director General

The Director General is appointed under section 14 of Cap 414 and is responsible for the day to day operations of the Authority, subject to the directions of the Board of Directors. He also serves as a member of the Board.

Divisional Directors

Day-to-day activities of the Authority are managed under the Director General, assisted by seven (7) divisional Directors namely, Director of Electricity, Director of Petroleum, Director of Natural Gas, Director of Water and Sewerage, Director of Regulatory Economics, Director of Legal Services and Director of Corporate Affairs. Internal Audit, Public Relations and Procurement are functions that are under the Director General's Office.

Office of the Authority

The principal office of the Authority is currently located in Dar es Salaam.

BOARD OF DIRECTORS



Mr. Simon F. Sayore
Chairman



Eng. Nerei Msimbira
Member



Ms Lucy H. Sondo
Deputy Chairperson



Eng. Robert M. Swere
Member



Mr. Haruna Masebu
Member



Eng. Vincent Tiyezge Gondwe
Member



Mr. George M.J. Nchwali
Member

CHAIRMAN'S STATEMENT

It gives me great pleasure to present the first Annual Report of The Energy and Water Utilities Regulatory Authority for the period ended 30th June 2007.

The Energy and Water Utilities Regulatory Authority (EWURA) is an autonomous multi-sectoral regulatory authority responsible for regulation of the electricity, petroleum, natural gas and water sectors. Its functions include, among others, licensing, tariff review, performance monitoring and enforcement of standards of regulated goods and services, taking into account service quality, safety, health and the environment. Since the beginning of operations in June 2006, EWURA has continuously focused on development of the regulatory system, particularly the development and issuance of regulatory instruments, the establishment of baseline information, recruitment and capacity building of staff and mobilization of financial and non-financial resources required to effectively conduct its regulatory activities.



Mr. Simon F. Sayore
Chairman

The guiding policy for carrying out EWURA's functions is to continuously enhance the welfare of the Tanzanian society in the delivery of energy and water services. This is achieved by:

- (a) Promoting effective competition and economic efficiency;
- (b) Promoting the availability of regulated services to all consumers, including low income, rural and disadvantaged groups;
- (c) Protecting the interest of consumers;
- (d) Protecting the financial viability of efficient suppliers by ensuring that all utility suppliers have adequate means to finance their activities;
- (e) Enhancing public knowledge, awareness and understanding of the regulated sectors; and
- (f) Taking into account the need to protect and preserve the environment.

During the first year of operation, EWURA has been at the forefront in setting the agenda for good governance in the regulated sectors. This has been evidenced by persistent observance of the principles of transparency, accountability, predictability of results and stakeholder involvement in its decision-making process. This first year has been a very challenging one with major tasks of establishing regulatory processes that are both universally acceptable and capable of implementation in our country environment; such processes included the establishment of rules, standards and guidelines.

It will be difficult for EWURA to fully and effectively carry out its mandate until various sector legislation is enacted. During the period ended 30th June 2007, EWURA noted deliberate efforts by the Government to finalize the Electricity Bill, Petroleum Supply Bill, Natural Gas Supply Bill and the Water Supply and Sewerage Bill. EWURA played a strong supporting role in the development of these laws and, upon enactment, looks forward to implementing those portions related to the regulation of the respective sectors.

Finally, it is imperative to mention that in this first year of operation, EWURA has enjoyed enormous support from all stakeholders that has helped the Authority to ensure that the interests of all stakeholder groups are effectively balanced. The key stakeholders include the Government, the Presidential Parastatal Sector Reform Commission (PSRC), development partners, regulated suppliers, investors, consumers and the general public. At this time I wish to thank the Government of the United Republic of Tanzania, the Minister for Water, the Minister for Energy and Minerals and all other stakeholders for their support during EWURA's critical formative period.

While we strive to achieve world class status in our regulatory functions, we look forward to a busy year ahead full of challenges in our quest to promote vibrant and thriving energy and water sectors in Tanzania. Also I would like to thank the EWURA Board, Management and staff for their dedication and hard work during this first challenging year.



Simon F. Sayore

Chairman

December, 2007

MANAGEMENT



Mr. Haruna Masebu
Director General



Eng. Anastas Mbawala
Director of Electricity



Ms. Muna Mahanyu
Director of Legal Services



Eng. Charles Omujuni
Director of Natural Gas



Mr. Felix Ngamlagosi
Director of Regulatory Economics



Eng. Mutaekulwa Mutegeki
Director of Water and Sewerage



Mr. Sirili Massay
Director of Petroleum



Mr. Machage Kisyeri
Director of Corporate Affairs



Internal Auditor

DIRECTOR GENERAL'S STATEMENT

This, the first annual report since EWURA became operational in June 2006, summarizes the activities, achievements and challenges at the close of its first financial year. It also examines the broader performance of the nation's energy and water sectors.



Mr. Haruna Masebu
Director General

The Principal targets for the first operational year included:

- (i) the acquisition and refurbishment of office space;
- (ii) recruitment of key staff; (iii) capacity building and staff training; (iv) procurement of office furniture and office equipment; (v) establishment of public register; and (vi) the conduct of regulatory functions. During the period, EWURA has made significant progress in achieving these goals. Likewise, EWURA has faced many challenges in the process and to date, some remain unresolved.

The Performance recorded during the period ended 30th June 2007 include acquisition of and refurbishment of office space as well as office equipment to meet current requirements, recruitment of 42 staff out of the envisioned 73 strength, timely and satisfactory discharge of regulatory obligations in a way that meets stakeholder expectations, development of regulatory instruments and the procedural rules governing their use. Licence templates were also developed for various activities in all four sectors and many others were in the process of being developed. Establishment of the Authority's website was also done in the same period under review.

Balanced against EWURA's achievements during the period ended 30th June 2007, the Authority also met numerous challenges, many of which directly resulted from the delays encountered in EWURA becoming operational. The principal challenges faced during the financial year included:

- (a) Delay in the enactment of sector legislations supporting recent economic reforms in energy and water sectors;
- (b) Inadequate availability of baseline information necessary to effectively regulate; and
- (c) Inadequate capacity and experience in handling regulatory matters.

In conclusion, EWURA has made significant progress during its formative first financial period ended 30th June 2007. The regulated sectors also registered encouraging progress related to sector reform and service provision. I wish to thank the Government, EWURA Board of Directors, Consumer Consultative Council, Government Consultative Council, Regulated suppliers, management and all staff members for their support and cooperation they offered in the course of performing EWURA's regulatory activities.

It is my sincere belief that achievements made and challenges encountered during the first year will enable EWURA to clearly develop a strong way forward to ensure the delivery of quality, affordable energy and water services to all Tanzanians.

A handwritten signature in black ink, appearing to read 'Haruna Masebu', written in a cursive style.

Haruna Masebu
Director General
December, 2007

1.0 INTRODUCTION

The Energy and Water Utilities Regulatory Authority (EWURA) was established under the Energy and Water Utilities Regulatory Authority Act, Cap 414 of the Laws of Tanzania. Although EWURA became functional in June 2006 following the appointment of the Chairman of the Board of Directors, EWURA is deemed to have come into existence in October 2005 pursuant to Government Notice No. 19 of 2006 published in the Government Gazette.

EWURA is an autonomous multi-sectoral regulatory authority responsible for the regulation of electricity, petroleum, natural gas and water sectors. Its functions include, among others, licensing, tariff review, performance monitoring and enforcement of standards of regulated goods and services, taking into account service quality, safety, health and the environment. EWURA has been established to carry out economic, safety and technical regulation in the energy and water sectors in a manner that will improve the welfare of the Tanzanian society in respect of the regulated sectors.

2.0 OVERVIEW OF REGULATED SECTORS

A principal theory of public utilities privatisation is that when the private sector is involved in investments and operations the result will be greater efficiency and a higher standard of service quality for all consumers. This view is not universally held. Others argue that involvement of the private sector inevitably will lead to higher prices and increasingly inaccessible services, particularly for poor and distant consumers. Often, governments employ an efficient and independent regulatory regime to balance the need to, on one side, unburden government from infrastructure investment by attracting private participation, and on the other, to ensure minimum service levels for all citizens.

In 1999, the Government of Tanzania (GoT) declared in its Economic Reform Policy that from that point forward its role in the ownership and management of public infrastructure would change. Rather than following its traditional role of owning and running public utilities, its new role would be to establish a more conducive environment for private sector investment, participation and operation of public utilities. It cautioned, however, that it did not intend merely to shift existing monopolies from the public to the private sector. It also stated that under the new regime, public utilities should be profit making and should compete on equal grounds with private operators.

2.1 ELECTRICITY SECTOR

The electricity sector in Tanzania comprises of a vertically integrated public utility Tanzania Electric Supply Company Limited (TANESCO), and a few Independent Power Producers (IPPs). TANESCO owns and operates some generation facilities, the transmission and distribution networks, imports power from Uganda and Zambia for its isolated centers, and sells bulk power to Zanzibar State Fuel and Power Corporation.

Currently, only 10% of the population of Tanzania has access to electricity. The GoT's Energy Policy, 2003 promotes private sector participation in the generation, transmission and distribution of electricity services in the country, but interest has only been seen in the generation aspect.

2.1.1 Generation

Up to 2006, power generation in Tanzania was dominated by hydropower. However, due to hydrological instability in recent years, deliberate efforts are being made to diversify the generation sources. Following the discovery and exploitation of indigenous natural gas, significant generation capacity has been installed and more is planned. Table 1 below presents the current generation sources and ownership.

Table 1: Generating Capacity and Ownership in 2006

National Grid			
Generation Source	Ownership	Installed Capacity (MW)	Production Output (GWh)
TANESCO Hydro	GoT	561	1,428
TANESCO Thermal	GoT	84	17
Songas	Private (IPP)	189	1,303
IPTL	Private (IPP)	100	640
Kiwira	Private (IPP)	6	6
Aggreko – Rental Power Plant	Private (IPP)	40	58
APR - Rental Power Plant	Private (IPP)	40	0
Sub -Total		1,020	3,452
Isolated Generation			
TANESCO Thermal	GoT	39	88.00
Artumas Group	Private (IPP)	12	0.17
TANWAT	Private (IPP)	2	4.70
Sub-Total		53	92.87
Grand- Total		1,073	3,545.00

Source: TANESCO - file "Energy - 2006.xls"

Due to hydro generation constraints for the three consecutive years 2004, 2005 and 2006, the Government of Tanzania had taken measures to increase thermal generation. Short and medium term measures taken to address diversifying hydro dependence include:-

- (a) Emergency rented generators totalling 180 MW from Aggreko Ltd (40MW-Gas), Dowans (100MW-Gas) and Alstom Power Rental (APR) (40MW-Diesel). Dowans is due for commissioning in late 2007.
- (b) TANESCO is due to commission a 100 MW capacity of gas fired plant at Ubungu, Dar Es Salaam in 2007, and 45MW gas fired plant at Tegeta in 2008.
- (c) Process is underway to convert the IPTL 100MW diesel power plant to fire on gas to relieve TANESCO of huge energy charges.

2.1.2 Transmission and Distribution System

The Transmission and distribution networks sizes are summarized in the table below. All administrative regions, except Mtwara, Lindi, Rukwa, Ruvuma, Kigoma and Kagera are covered by the national grid system. Kagera and Rukwa regions are supplied by power from Uganda and Zambia, respectively. The first electricity generation, distribution and transmission franchise agreement in Tanzania is under negotiation between the gas and power developer, Artumas Group & Partners (AG&P) and the Government, for the Lindi and Mtwara Regions. Currently, there is an interim arrangement where AG&P generate electricity and sell to TANESCO for distribution in the area.

Table 2: Transmission and Distribution Rating in 2006

Category	Rating (kV)	Length (km)
Transmission	220; 132; 66	4,552
Distribution	33; 11; 0.4	36,148

Source: TANESCO System Reports.

2.1.3 Electricity Access and Sales Information

As noted earlier, the access level is very low in Tanzania, estimated at about 10% of the population. Table 3 (next page) presents the 2006 status of the tariff structure, number of customers and corresponding consumption levels per tariff category.

Table 3: Customers and Sales Data

Tariff Category	2006	
	Number of Customers	Consumption GWh
T1 – Domestic Low and General Use	633,264	1,177.00
T2 – Industrial Low Voltage	1,497	398.00
T3 – Industrial High Voltage	228	830.00
T4 - Zanzibar Electricity Corporation (ZECO)	1	204.00
T5 – Public Lighting	320	0.09
T6 – Company Use (TANESCO)	1	23.00
T7 – Resolute Gold	1	48.00
T8 – Kahama Gold	1	112.00
TOTAL	635,313	2,792.09

Source: TANESCO Audited Accounts 2006.

2.1.4 Import / Export

Tanzania does not export power to other countries except for the cross border electrification. TANESCO imports power from Zambia and Uganda for the border regions of Rukwa and Kagera, respectively. Process is underway to interconnect Tanzania with grids of Kenya and Zambia.

2.1.5 Future Plans

Tanzania's power sector will be expanded on the basis of the GoT's Power Sector Master Plan (PSMP), a 25 year development programme. The medium to long term generation and transmission projects will be implemented in accordance with the PSMP which is under review.

2.1.6 Rural Electrification Initiatives

Though the majority of Tanzania's population lives in rural areas, only about 2% of rural population has access to electricity. To expedite rural electrification, the Rural Energy Act was enacted in 2005 for the purpose of establishing the Rural Energy Agency and the Rural Energy Fund (REF). The process of establishing the Rural Energy Agency (REA) is presently being undertaken by the Ministry of Energy and Minerals. EWURA, together with REA and other institutions will do their best to ensure that safe and affordable access to energy throughout the country is expedited.

2.1.7 Framework for Development of Small Power Projects

The Ministry of Energy and Minerals, in collaboration with EWURA and other Institutions is working to develop and promulgate a Standard Power Purchase Agreement and Tariff Methodologies which will facilitate Small Power Projects (up to 10 MW). Stakeholders are currently discussing the draft agreements and tariff methodologies that will address the requirements of grid- and off-grid connections.



TANESCO Transmission System



2.2 PETROLEUM

EWURA began technical and safety regulation of the downstream petroleum sector in September 2006 when the Ministry of Energy and Minerals officially transferred that obligation to the Authority. In July of 2007 the Government proposed and the Parliament enacted amendments to the Petroleum (Conservation) Act, Cap. 392 and the Energy and Water Utilities Regulatory Authority Act (EWURA) Act, Cap. 414. As a result of these amendments, EWURA became the economic regulator of the downstream petroleum (marketing and distribution) sub-sector. When economic regulation is added to EWURA's existing obligations to regulate technical and safety matters and matters related to anti-competitive practices, it can be said that the Authority's regulatory power over the sector is now plenary.



One of the Petroleum Infrastructure Facilities in the Country.

per TRA Imports Declaration 2006. More than 90% of the petroleum products imported into the country pass through the port of Dar es Salaam, and the balance is imported through Sirari, Tanga, Mwanza and Musoma. The Port of Dar es Salaam also handles approximately 300,000 MT per annum of refined petroleum products for land locked countries of Malawi, Rwanda, Zambia, Uganda, Burundi and Democratic Republic of Congo (DRC). Finally, the Dar es Salaam port also handles spiked crude oil for Zambia through TAZAMA Pipelines.

Major stakeholders in the Tanzania petroleum downstream industry include the country's oil marketing companies, petrol station dealers, transporters, various ministries, TRA, TPA, NEMC, TBS, OSHA, TAZAMA Pipelines and consumers.

The Ministry of Energy and Minerals, however, remains responsible for the development of the sub-sector policy. The Petroleum (Conservation) Act, Cap 392 as amended enforces implementation of the importation, trading, storage, transportation, distribution and use of petroleum products in the country. Tanzania imports all of its requirements of refined petroleum products (approximately 1.54 million metric tonnes (MT) per annum) as

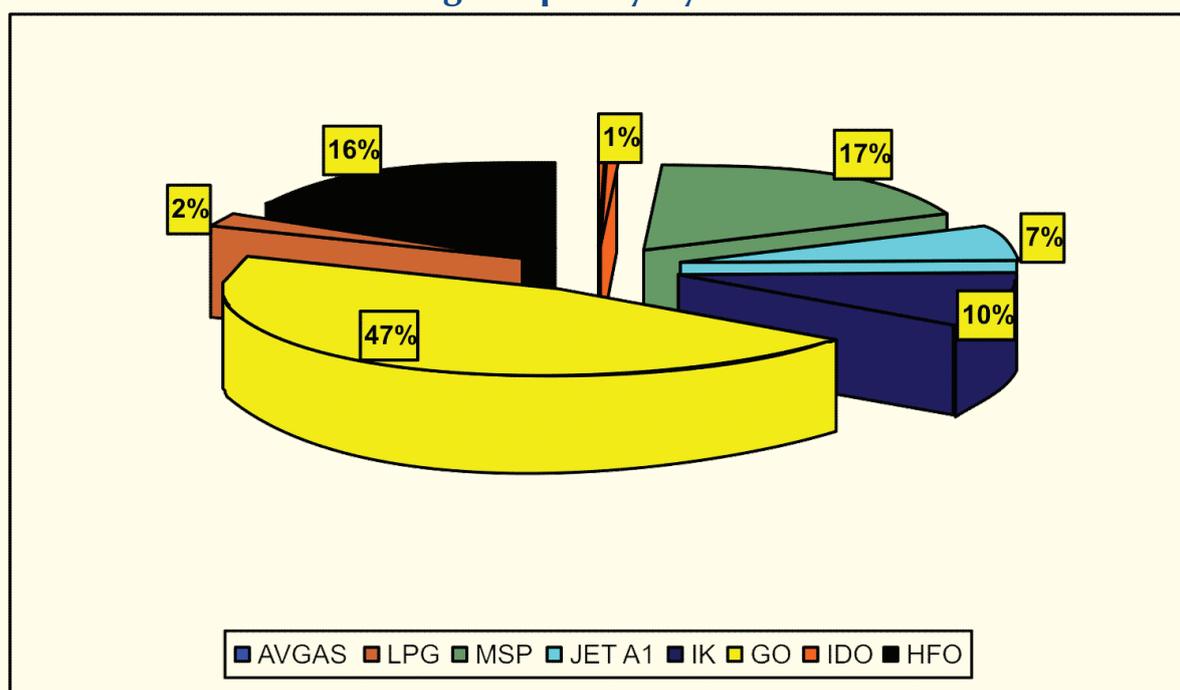
2.2.1 Petroleum Supply and Distribution Infrastructure

The country has a total of 50 petroleum storage depots comprising a total storage capacity of 373,800 MT. The facilities are owned and operated by 22 private companies located in different regions as shown in the table below. Also, there are two depots one in Dar es Salaam and Mbeya that belong to the Malawi Government. Most of the major petroleum depots are in Dar es Salaam.

Table 4: Country Petroleum Products Storage Capacities (MT)

LOCATION	AVGAS	LPG	MSP	JET A1	IK	GO	IDO	HFO	TOTAL
DAR ES SALAAM	1,005	1,352	34,228	18,708	21,152	88,342	1,625	30,500	196,911
TIPER – DSM	-	960	12,100	4,400	4,400	42,100	3,360	24,500	91,820
MTWARA	-	-	1,255	-	1,270	2,346	1,832	-	6,704
TANGA	-	-	3,684	-	4,992	12,708	-	658	22,042
MOSHI	24	50	961	504	229	1,252	39	236	3,296
ARUSHA	-	-	1,078	-	973	2,539	79	533	5,201
MWANZA	-	50	887	393	670	9,140	1,899	4,154	17,329
BUKOBA	-	-	129	-	208	45	-	-	382
DODOMA	-	-	62	-	215	280	-	-	557
MBEYA	-	-	1,714	-	743	3,600	-	-	6,057
TABORA	-	-	125	-	252	578	-	-	955
MARA	-	-	450	-	320	1,020	-	-	1,855
SHY & ISAKA	-	-	674	-	241	3,518	-	-	4,434
MAKAMBAKO	-	-	317	-	200	815	-	-	1,332
VISIGA - Coast	-	-	74	-	79	83	-	-	236
KIGOMA	-	-	5,286	1,022	2,864	4,961	266	491	14,889
COUNTRY TOTAL	1,029	2,412	63,023	25,027	38,810	173,328	9,100	61,072	373,800

Storage Capacity by Product

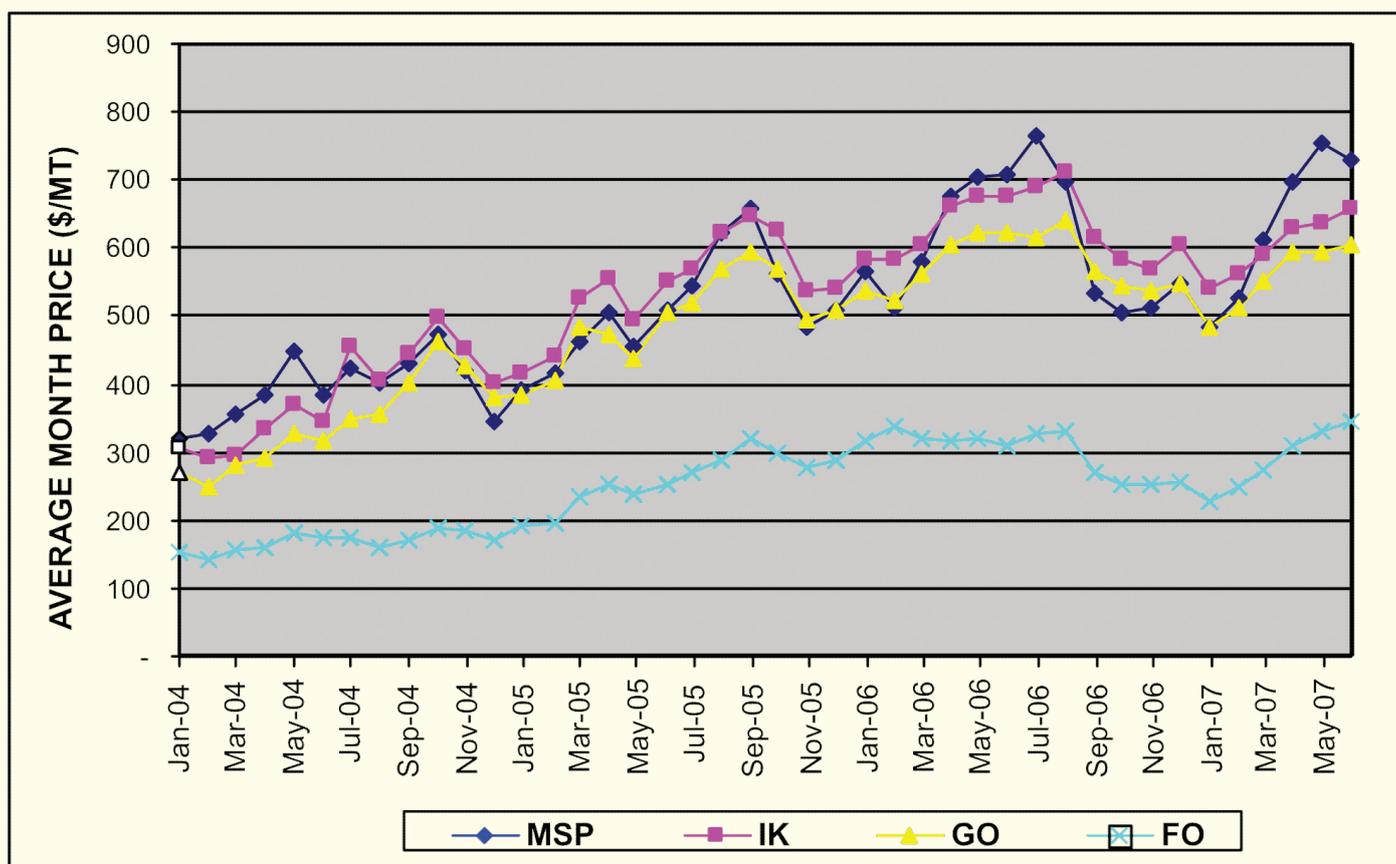


The Kurasini Oil Jetty (KOJ) is the major receiving point for refined petroleum products in the country. The KOJ can handle vessels of up to 42,000 MT dead weight. The other petroleum receiving points are Tanga, Musoma and Mwanza. In addition, there is also a Single Buoy Mooring (SBM) point for offloading crude oil and refined products that can handle bigger vessels of maximum dead weight of 150,000 MT. However, the SBM is currently dilapidated and needs major rehabilitation.

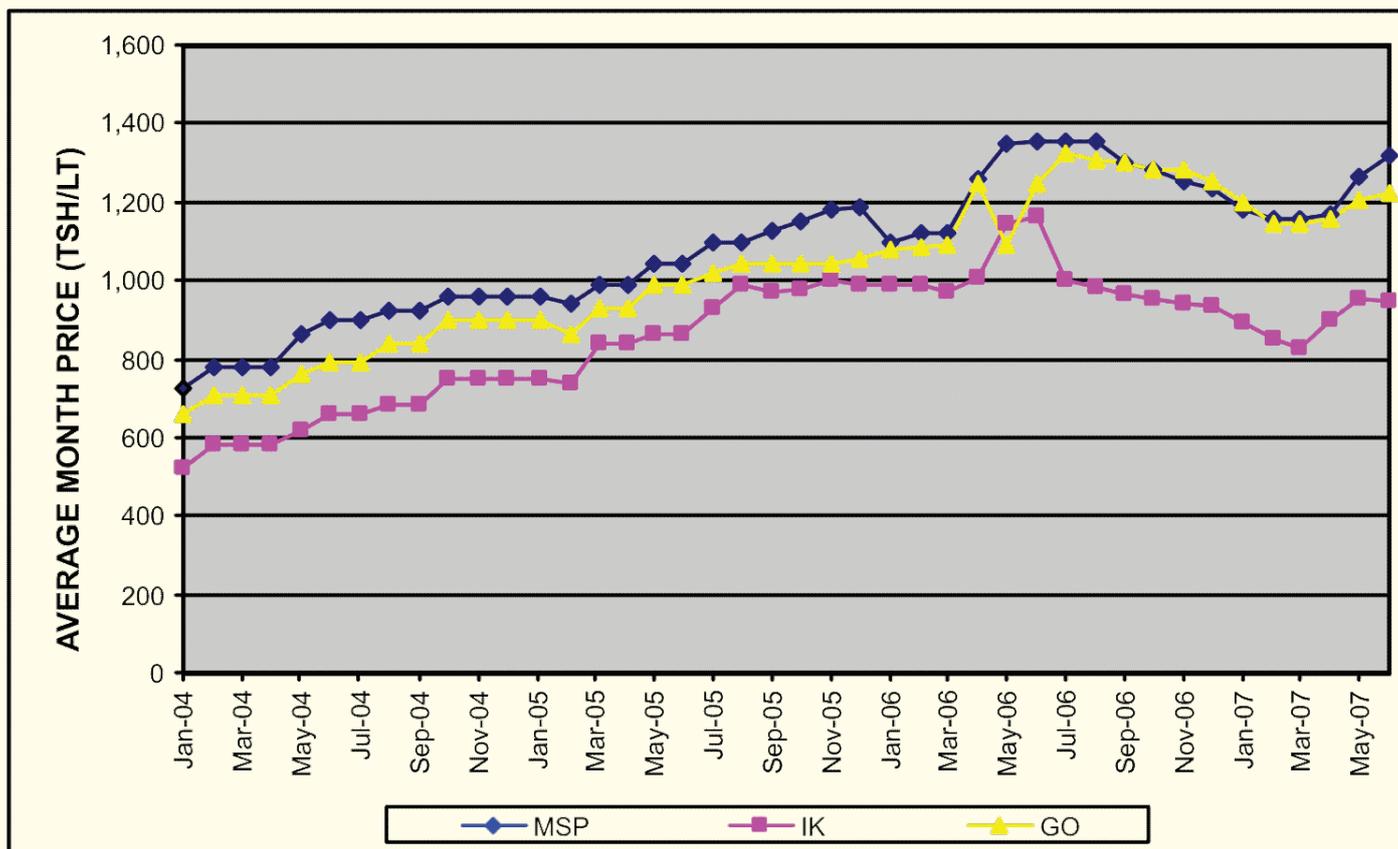
2.2.2 Movement of Petroleum Products Prices

During the past 10 years prices for petroleum products have fluctuated between \$114.33/MT (Feb 1999) and \$797.75/MT (July 2006) and diesel \$83.86/MT (Feb 1999) and \$637.25/MT (July 2006) according to Mediterranean Basis. They have continued to increase since January 2004. The local market (i.e. Dar Es Salaam pump prices) followed the same trend as shown in the following graphs: -

Monthly Average Petroleum Prices in the World Market (MED-Basis) Jan 2004 - Jun 2007.



Monthly Average Dar es Salaam Petroleum Pump Prices (Jan 2004 - Jun 2007)



2.3 NATURAL GAS

The GoT's National Energy Policy, 2003 encourages exploration and development of indigenous energy resources. The Petroleum (Exploration and Production) Act, Cap 328 governs all activities at all stages of exploration, gas field development, production, transportation and sales of natural gas. EWURA's regulatory responsibility for the sector begins at the well-head and covers only activities related to transportation and sales of natural gas.

Active operators in the sector are Songas, PanAfrican Tanzania (PAT) and Tanzania Petroleum Development Corporation (TPDC), in the case of Songo Songo Project; while Artumas Group & Partners (AG&P) Gas Limited and TPDC are sole operators in respect of the Mnazi Bay gas to electricity project. Only Songas and AG&P (Gas) own and operate the existing natural gas infrastructures. There is no competition in the natural gas supply chain.

2.3.1 Natural Gas Reserves

Natural gas reserves were discovered in the vicinities of Songo Songo Island in 1974, Mnazi Bay in 1982, and Mkuranga in 2007. Of the three, Songo Songo and Mnazi Bay have been producing since July 2004 and December 2006, respectively. Certified proven reserves range from 680

Bcf for Songo Songo reservoir to 380 Bcf in the case of Mnazi Bay reservoir. Songo Songo gas field has been producing from three offshore wells and two onshore wells at an average rate of 56 Million standard cubic feet per day (MMscfd). The production started in July 2004 with 2005 as a normal hydrological year reaching about 14.4 Bcf. The production level increased to a peak of 18 Bcf in 2006 due to severe drought in the country, while the production level for 2007 is likely to fall to normal levels.

The Mnazi Bay gas to electricity project, begun in December 2006 and commenced commercial operations in February 2007. However, the demand growth was very much limited by the power infrastructure in place. Presently three gas wells exist, each having an average flow rate of 10.6 MMscfd. Historical production data by 31st December 2006 was 3.5 Mcf, increased to 38.2 Mcf during the quarter ended 31st March 2007, and 60.8 Mcf during the quarter ended 30th June 2007.

2.3.2 Processing and Transmission

Songas owns the 70 MMscfd natural gas processing plant at Songo Songo Island and has engaged PAT to operate the plant on its behalf. There is a mismatch between the existing capacity of natural gas processing plant and the power demand driven by accelerated thermal power expansion programme, which calls for an increased capacity beyond 70 MMscfd by December 2007. Songas also owns and operates the 25 km, 12"Ø marine portion of high pressurised transmission pipeline, and additional 207 km, 16"Ø land portion of high pressurised transmission pipeline running from Songo Songo Island to Dar es Salaam.



Songo Songo Gas Processing Plant

AG&P (Gas) owns and operates the 28 km, 8"Ø high pressurised transmission pipeline running from Msimbati to Mtwara. The current processing capacity stands at 10 MMscfd. The transmission pipeline was oversized to address the needs of up to 105 MMscfd without applying intermediary compression.

2.3.3 Distribution and Marketing

PAT owns and operates 28 km, 3"Ø HDP Dar es Salaam ring main supplying the average of 4.0 MMscfd with peak at 5.7 MMscfd to the total of 17 industries in Dar es Salaam. The industries supplied natural gas to run boilers include: Karibu Textile Ltd.; Tanzania Breweries Ltd; Kioo Limited; Aluminium Africa Ltd.; Tanzania-China Friendship Textile Ltd.; Bora Industries Ltd.; Tanzania Cigarette Company; Mukwano textile Ltd.; Lakhani Textile Ltd.; East Coast Oils & Fats Ltd.; Nampak Tanzania Ltd.; Yuasa Batteries Ltd, Nida Industries, Serengeti Breweries, Murzah Oil Mills-I; Murzah Oil Mills-II; and Murzah Oil Mills-III.

AG&P (Gas) has a single customer, AG&P (Power) and single delivery point at the plant gate. Since natural gas operations commenced in 2004, there have been no near miss incidents or accidents reported.

2.4 WATER AND SEWERAGE

The GoT revised Tanzania's National Water Policy in 2002. The Policy sets out the direction for the water sector in achieving sustainable development and management of the water resources and water supply and sanitation services. In line with the policy in 2006, the Water Works Act (Cap. 272) was amended to transfer regulatory powers to EWURA for water supply and sewerage service provision. To date EWURA regulates 85 autonomous Urban Water Supply and Sewerage Authorities (UWSAs) which include 19 regional centers; 65 district centres and small towns; and the Dar es Salaam Water and Sewerage Authority.

2.4.1 UWSAs Institutional Arrangement

The UWSAs are categorized in 3 groups, on the basis of their ability to finance their operational costs. Each of the UWSA is autonomous under the leadership of the Board of Directors which is appointed by the Minister responsible for water. The categories are as summarised below:

Category A - cover all of their direct and indirect operation and maintenance (O&M) costs and part of investment. They include Arusha, Dodoma, Mbeya, Morogoro, Moshi, Mwanza, Mtwara, Tabora, Tanga, Iringa, and Shinyanga, which are all regional headquarters.

Category B – cover all of their direct and indirect costs of O&M and part of investment costs except part of electricity bills and include Bukoba, Kigoma, Songea, Musoma, Singida and Sumbawanga, which are all regional headquarters.

Category C - cover all of their direct and indirect costs of O&M except a portion of personnel emoluments for permanent staff and electricity bills and include Babati and Lindi which are

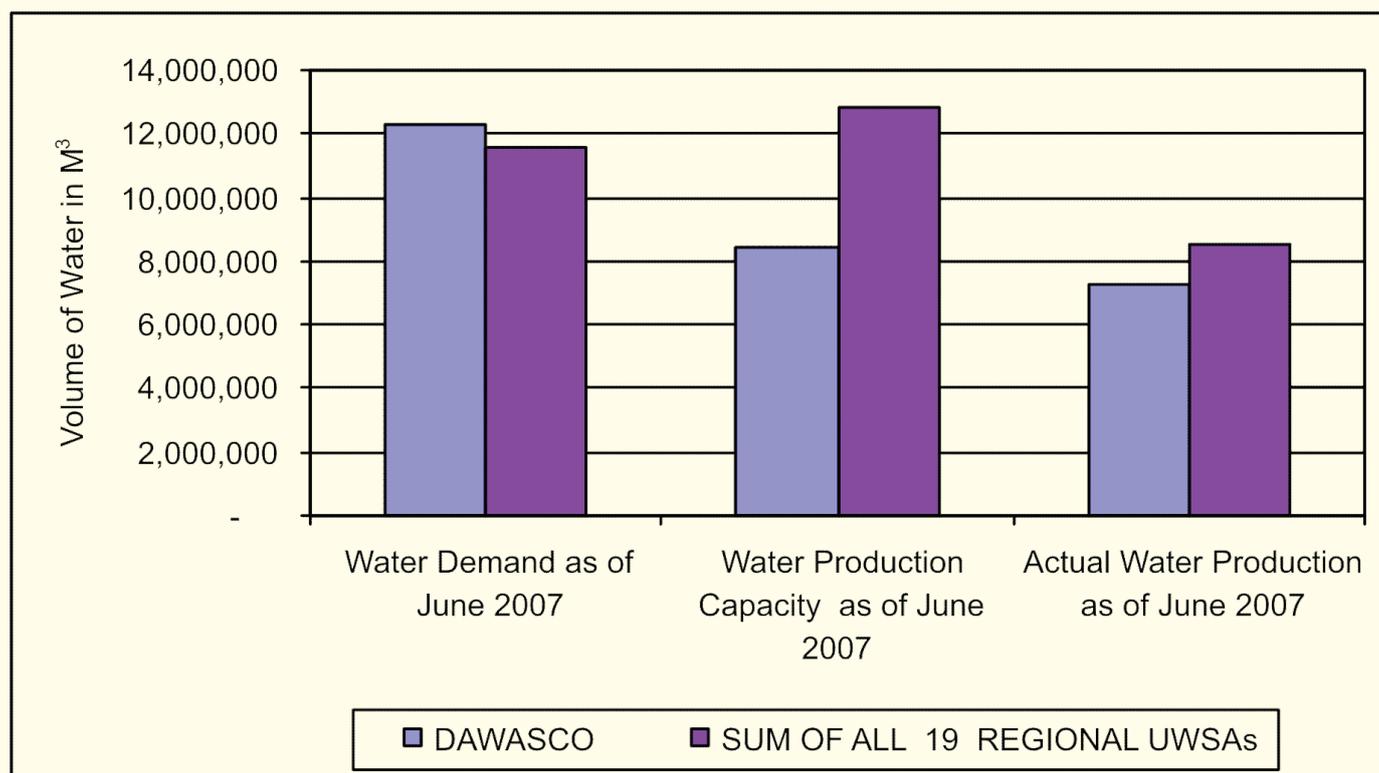
regional headquarters, and 65 district towns and small towns.

There is substantial information on technical and economic performances of UWSAs in category A & B operating at regional headquarters level but there is scarce, unreliable information and data from most of the UWSAs at District level and small towns. Category A and B UWSAs have been regularly reporting to EWURA through the Water Utility Information System (Majls). EWURA is in the initial plan to establish such information system of reporting from the UWSAs at district level.

2.4.2 Water Supply and Demand for 2006/2007

The total water production for year 2006/2007 could only cover 73% and 59% of the total water demand for 19 UWSAs and DAWASCO, respectively, while water production capacity is sufficient to cover 111% and 68% of the water demand for 19 UWSAs and DAWASCO, respectively.

Installed capacity, Water Demand and Production for Year 2007

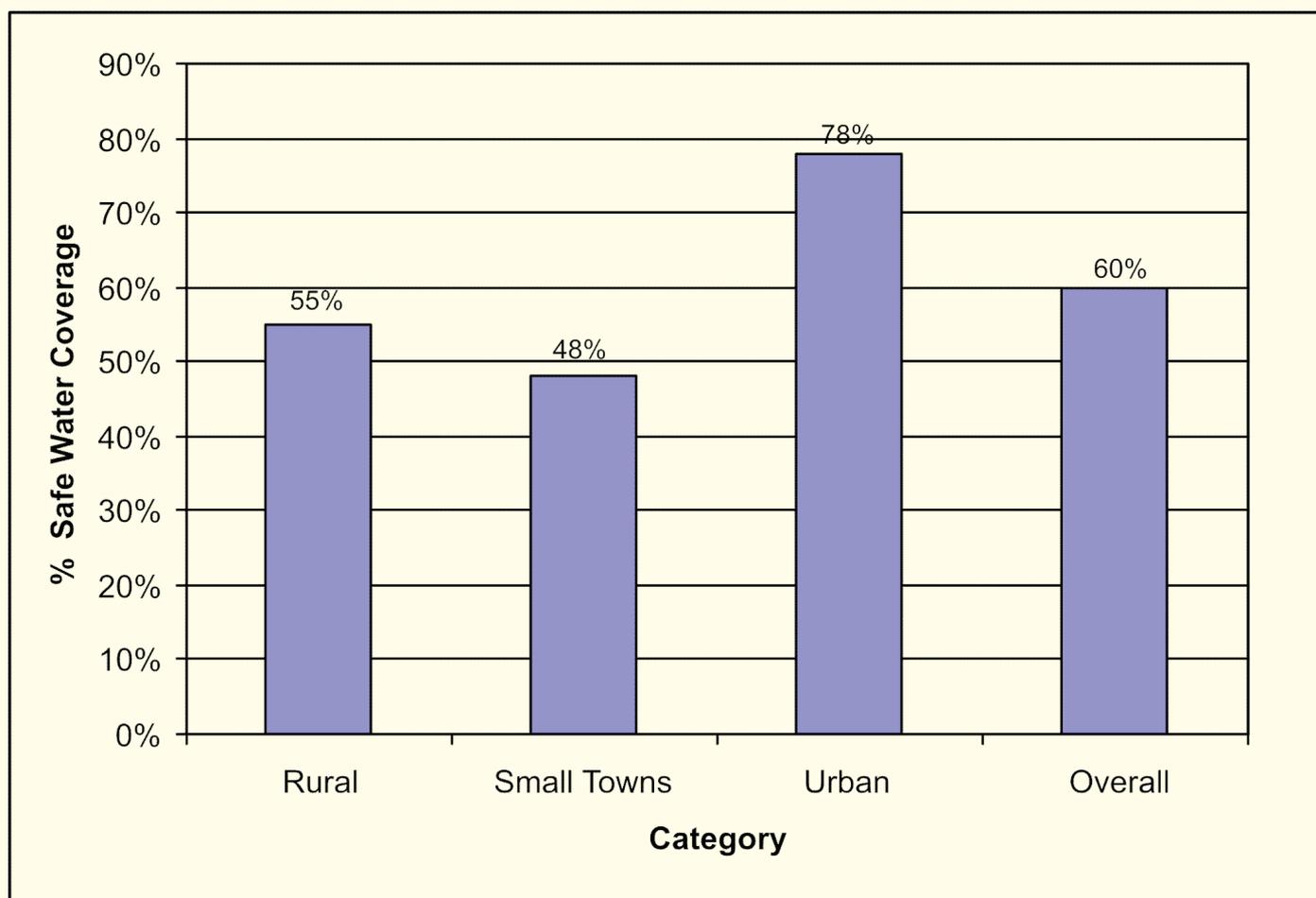


Source: Majls monthly report for June 2007

2.4.3 Service Levels

Water supply service coverage reached 78% in urban centers by the year 2006 while the sewerage service coverage reached 17% during the same period. Rural and small town's service coverage is as indicated in the figure below. The main challenges facing the provision of water supply and sewerage services in urban centers are the deteriorating of service schemes caused by inadequate management and the inadequate investment for development of water and sewerage schemes due to high capital requirement.

Water Supply Coverage by 2005



Source: WSDP 2006, MoW

2.4.4 Water Sector Development Programme (WSDP)

The GoT has established the Water Sector Development Programme which consists of sub-sector investment plans, namely Water Resources Management, Rural Water Supply and Sanitation, and Urban Water Supply and Sewerage (UWSS).

The objective of the urban component of WSDP is to improve and sustain the quality and quantity of drinking water and sewerage services. Specifically, it aims at increasing access to clean and safe water from 78% in 2005 to 90%; 95%; and 100% by 2010, 2015 and 2025, respectively. Sewerage service coverage will be raised from 17% in 2005 to 30% by 2010 and to 100% by 2025. In all, the UWSS component will provide services to an additional 4.6 million people by 2010 and 15.0 million people by 2025.

3.0 REVIEW OF EWURA'S ACTIVITIES

The Authority's activities during the period under review are summarized below:

3.1 MAKING EWURA OPERATIONAL

In June, 2006, immediately after the appointment of the Chairman of the Board, the Board of Directors established the following priorities for EWURA:

- (a) Adoption of organisation structure and revision of the three year Project Implementation Plan (PIP);
- (b) Approval of EWURA budget for the period ending 30 June 2007;
- (c) Approval of EWURA's three year Strategic Plan;
- (d) Approval of EWURA's budget for the year 2007/08;
- (e) Approval of procedures, the results and appointment of senior (divisional directors and managers) and other staff for the Authority;
- (f) Approval of human resource establishment to provide sufficient skilled human resources;
- (g) Adoption of the Training Programme for the Board members, staff, and members of the Consumer Consultative Council and Government Consultative Council;
- (h) Adoption of EWURA's Code of Conduct, the document that prescribes standards of behaviour to be observed by the members of the Board and EWURA employees in the performance of their duties; and
- (i) Development and promulgation of rules and procedures that are in accordance with applicable law and pursuant to which EWURA will conduct its regulatory activities.

In addition, the Board and senior management conducted familiarization tours to major investments in each of all four sectors under the Authority's regulation. They also attended a number of training courses and meetings of the Regional Electricity Regulators Association (RERA) for SADC countries, the African Forum for Utility Regulators (AFUR), and other international conferences. Members of the Board attended all public hearings and stakeholders' meetings.

3.2 LEGAL FRAMEWORK

The EWURA Act governs the activities of the Authority. Currently EWURA regulates the sectors pursuant to EWURA Act and sector legislation some of which are out of date. Thus, it is imperative that sector laws be brought up to date and harmonized with the existing EWURA Act to enable the Authority to effectively execute its legal obligations. During the period under review, the Authority prepared and delivered to the relevant Ministries comments on draft legislation in all regulated sectors for the following legislation:

- (a) The Electricity Bill;
- (b) The Water Supply and Sanitation Bill;
- (c) The Gas Supply Bill; and
- (d) The Petroleum Supply Bill.

3.3 LICENCES

During the period under review, EWURA prepared a number of model licences applicable to regulated suppliers in electricity, water and sewerage, and petroleum, including:

- (a) Electricity Generation Licences; and
- (b) Water and Sewerage Supply Licences.

Prior to adopting model licences, the Authority conducted inquiries and received valuable comments from stakeholders. Notice was issued to regulated suppliers in the Petroleum Sector to apply for formal licences not later than 31st December 2007. Long-term licences in the electricity and natural gas sectors are respected, except where amendments are inevitable; EWURA will consult the Minister responsible for energy and the public prior to issuing new licences for the remaining term. Urban Water and Sewerage Authorities used to operate on Memorandum of Understanding with the Ministry of Water. Notice was issued by EWURA to all of them, urging each regulated supplier to apply for interim licence.

A total of 134 licence applications were received by 30th June 2007 as shown in the table below.

Table 5: Status of Licence Application for the period ended 30th June 2007

Regulated Sector	Applications Received	Licence	
		Issued	Renewed
Electricity	5	3	2
Petroleum	88	0	0
Water & Sewerage	41	3	0
TOTAL	134	6	2

As at 30th June 2007, the Authority had not issued licences for petroleum products and for most water utilities due to process involved in the development of appropriate licence templates, inspection of facilities, consideration of environmental issues and submission of required information.



Dodoma Urban Water Authority Chairman receiving EWURA Licence. This was the First Licence issued by the Authority in the Water Sector.

3.4 RULES

In order for any regulatory act to be legitimate, the regulatory process must occur under the bright light of public access and scrutiny. All regulated entities must know what the Authority will do, and how it will do the same. Because EWURA is a new institution, a great portion of its start up time has been dedicated to developing transparent rules of procedure to govern all of its activities in all four sectors. Only in that way can regulation become a transparent process.

The process requires the collection and publication of all proposed rules and all relevant supporting documentation. It also requires the collection of comments from interested parties and holding hearings and workshops.

During the period under review, the Authority finalized and promulgated the following rules governing the activities of the Authority:

- (a) Rules on Rulemaking; and
- (b) Rules of Procedure.

The following rules were at advanced stage of finalisation at the end of the period under review:

- (a) Rules on Licensing;
- (b) Consumer Complaint Handling Procedures;
- (c) Sampling and Testing of Petroleum Products ; and
- (d) Collection of Fees and Levies.

The process of development of rules is governed by principles of good governance which requires the collection of comments from interested parties and holding hearings and workshops. The process of developing rules and procedures is an ongoing one. In addition, EWURA's Code of Conduct was finalised during this period. It governs the behaviour of the members of the Board and the Authority's employees, both in respect of their professional interactions, and also with third parties and the general public.

3.5 STANDARDS AND CODES

Codes and standards are the technical and procedural rules governing a service provider's delivery of a particular regulated activity. Although codes and standards are found within each of the Authority's regulated sectors, common examples of codes and standards are found in the form of transmission and distribution codes and the market rules in the electricity sector, and customer service standards in all sectors. According to EWURA's model licences, codes and standards are developed by a licensee and submitted to the Authority for approval. In order to be successful, the process of developing codes and standards consumes a great deal of time and requires negotiation between service providers and the regulatory authority.

During the period under review, the Authority began the process of developing new codes and standards by taking into consideration the existing local and international standards applicable to regulated sectors. This process will continue during the financial year 2007/08, and will involve Tanzania Bureau of Standards (TBS), service providers, academic institutions, and other stakeholders.

The quality of electricity supplied by the electricity supply company and sewerage disposed off by the water bodies is generally low. Browning, frequent blackouts, voltage fluctuation, long unscheduled outages, spills of leaking water, and polluting discharges have been frequently observed. On average, the quality of potable water supplied in pipes is acceptable and the quality of natural gas supplied is good. The petroleum products traded in Tanzania have been sampled and tested to establish the ultimate quality of petroleum products (diesel, motor spirit, petrol and illuminating kerosene). Sample data analysed by EWURA indicate the adulteration of petroleum products throughout the country.

3.6 RATES AND CHARGES

During the period under review, EWURA dedicated a great portion of its resources to the development of procedures that would allow it to process tariff applications. EWURA received 19 tariff applications, out of which 2 applications were rejected for non-compliance to the tariff application guidelines, 5 applications were withdrawn by applicants, 6 applications were determined and 6 applications were under review as at 30th June 2007. See table below:

Table 6(a): Tariff Review Determinations

Regulated Sector	Applications Received	Status			
		Withdrawn	Rejected	Determined	Under Review
Electricity	3	2	0	1	0
Natural Gas	3	1	1	1	0
Water & Sewerage	13	2	1	4	6
TOTAL	19	5	2	6	6

During the course of this period the Authority received and determined the rates and charges of 6 service providers and approved a tariff adjustment mechanism of regulating natural gas processing and transportation charges applicable to Songas. In all cases, the legal requirement of taking the views of both consumers and service providers into account were respected when determining the new rates.

Table 6(b): Tariff Review Determinations

S/N	Regulated Utility	Date of Application	Date of Approval	Proposed Tariff Increase	Approved Tariff Increase %
1	DAWASA	May 4, 2006	July 13, 2006	0% to 35.9% As per lease agreement	0% to 35.9% As per lease agreement
2	AUWSA (Arusha)	November 13, 2006	December 28, 2006	10.4% for water supply and sewerage	9.85% for water supply and sewerage
3	TANESCO	November 10, 2006	January 10, 2007	6.0% to cover inflation	6.0% to cover inflation
4	Songas	December 18, 2006	January 12, 2007	i) Internal Rate of Return (IRR) of 17% ii) Redemption period of 15 years mortgage style; and iii) Tariff adjustment mechanism of $17.5\% + X_t$ (where X_t is the annual adjustment to be granted annually by EWURA). No revision for 15 years	iv) Internal Rate of Return (IRR) of 16% v) Redemption period of 17 years mortgage style; and vi) Tariff adjustment mechanism of $17.5\% + X_t$ (where X_t is the annual adjustment to be granted annually by EWURA). No revision for 3 years
5	Tanga UWASA	January 31, 2007	April 12, 2007	20.6% for water supply and 10% for sewerage services	12% for water supply tariffs and 0% for sewerage charges
6	SUWASA (Singida)	February 8, 2007	May 4, 2007	Average up to 50%	On average 22.4%

The above tariff adjustments and mechanism were approved with conditions which the Authority considered necessary to improve efficiency of the regulated suppliers.

3.7 SECTOR MONITORING

In order to improve consumer welfare, EWURA strives to ensure that the operations of regulated entities are economically efficient. It does so through the reporting requirements found in each licence. Those requirements provide to each licence holder a catalogue of information and data that the Authority requires and a timetable for their delivery. Failure to comply with the reporting requirements set out in a licence, are grounds for the Authority either to penalize or to terminate a service providers right to conduct its business.

During the financial period ended 30th June 2007, EWURA began the process of monitoring the performance of regulated service providers in all of the regulated sectors, both at the time that the licensee applies for a tariff revision and at regular intervals. This process will be expanded as more licence templates are developed and more entities are required to seek licensure from the Authority.

In addition, the Authority's divisions were also involved in the preparation of the regulatory tools such as application forms, wholesale and retail licences templates and sampling rules. Also the Authority made consultation with other regulatory authorities such as Tanzania Bureau of Standards (TBS), National Environmental Management Council (NEMC) and Local Government Authorities.

3.7.1 Electricity Sector

TANESCO, being the sole buyer of net electric energy generated, dominates the electricity industry. During the period ended 30th June 2007, EWURA, by way of TANESCO's monthly reports, regularly monitored all TANESCO's energy sources, including dam levels and system performance. In addition, several inspections were conducted during determination of licence applications by AG&P (Power), Aggreko International, Dowans Limited, and APR Limited.

3.7.2 Natural Gas Sector

EWURA receives operations reports from Songas and the consumption of gas at Songas Power Plant. On quarterly basis, EWURA receives monthly operations reports from PanAfrican Energy and AG&P (Gas). Several inspections were conducted during determination of licences applications by AG&P (Power), Aggreko International, and Dowans.

3.7.3 Petroleum Sector

During the period ended 30th June 2007, EWURA carried out the following activities;

- a) Inspection of petroleum infrastructure and facilities across the country to assess state of facilities and operations;

- b) Collection of statistics as regards to number of storage facilities, service stations, and regulated suppliers;
- c) Monitoring local pump prices and International prices;
- d) Monitoring the quality of petroleum products; and
- e) Studying the defects in the supply chain.

3.7.4 Water and Sewerage Sector

In order to continuously capture the financial, technical and safety information of each service provider, EWURA finalized the establishment of a computerised reporting system, (The Water Utility Information System - MAjls). On a monthly basis, operations data are posted by the service providers, received, analysed and archived by EWURA. The information is also received by the Ministry of Water through the same system. As of 30th June 2007, a total of 20 out of 85 service providers were operating on MAjls.

3.8 PUBLIC AWARENESS

Unrealized stakeholder expectations can seriously undermine confidence in the regulatory process. Many times problems can be traced to a lack of consumer understanding, particularly on matters related to customer rights or the role of the regulator in the consumer protection process. The first step in any strategy to engage consumers is to ensure they understand their legal rights and obligations and the role of the Authority and the proper way to interact with it. Inadequate understanding of such basic issues will invariably lead to problems in effectively bringing consumers into the regulatory balancing process. If consumers do not understand how regulatory decisions are reached, including the role of cost covering tariffs in ensuring services are improved and sustained, regulatory decisions may attract unjustified criticism or opposition. Inadequate information can also



One of the stakeholders meeting conducted by EWURA.

lead consumers to feel disadvantaged if there are no effective mechanisms for voicing concerns or grievances. Uninformed consumers will not be in a position to help regulators by making inputs to regulatory decisions.

No single communication medium will be ideal for all consumers on all issues. In assessing options, there is a basic distinction between one-way mechanisms (such as publications, advertisements, radio, TV and web-sites) and mechanisms that allow a two-way exchange of information (eg. public meetings and seminars, information kiosks, and one-on-one meetings).

While two-way mechanisms more effectively ensure a high level of understanding, cost and other considerations will usually require a strategy comprising both approaches.

During the financial year 2006/2007, EWURA conducted four stakeholder meetings to address various aspects of the Authority's regulatory activities: two in Dar es Salaam, one in Bagamoyo, and one in Arusha. In addition, the Authority conducted public hearings in Dar es Salaam, Tanga, Arusha, Singida, and Shinyanga. In the stakeholder meetings, all key topics were addressed in Kiswahili. The media have consistently covered EWURA's public activities whenever and wherever they have been held.

EWURA has established its website www.ewura.com and posted information about the Authority, its duties, functions and procedures, routine activities such as licensing and economic review activities and procedures, some Board decisions, and the guide to filing and pursuing of consumer complaints.

3.9 COMPLAINTS AND DISPUTES

Consumer confidence in the regulatory system will depend largely upon how effectively regulators deal with complaints from consumers regarding the performance of service providers. From a legal standpoint, the validity of any such complaint and the consequences that flow from a licensee's proven non-performance will depend on the rights and obligations of consumers and regulated suppliers under the legal framework. From a broader standpoint, however, even complaints that may not be found to have a solid legal or factual basis present opportunity for regulators to demonstrate their responsiveness to educate consumers, and to learn about consumer priorities and concerns.

The number and quality of complaints received and resolved is a measure of public awareness, performance of regulated service providers, and effectiveness of the regulator. EWURA attends any complaint against a supplier of regulated goods or services in relation to any matter connected with the supply, possible supply or proposed supply of goods or services. As of 30th June 2007, EWURA received 8 complaints, out of which 4 were resolved and closed, 4 were under consideration by the service providers. During the period ended 30th June 2007, there were no disputes filed for resolution by the Authority.

3.10 CONSULTATIONS AND NETWORKING

During the period ended 30th June 2007, EWURA conducted a number of consultative meetings with Tanzania Revenue Authority (TRA), Tanzania Ports Authority (TPA), Tanzania Bureau of Standards (TBS), the National Environment Management Council (NEMC), the Surface and Marine Transport Regulatory Authority (SUMATRA) and the Fair Competition Commission (FCC) to discuss

issues of mutual concern. The Authority has also held a number of meetings with Government Ministries to discuss policy and operational issues in the regulated sectors.

In addition, during the period ended 30th June 2007, EWURA identified a number of Government ministries to be consulted, and established the Government Consultative Council (GCC). Members of GCC were appointed from: Ministry of Finance (Chair); Ministry of Water; Ministry of Energy and Minerals; Ministry of Industry, Trade and Marketing; Ministry of Economic Planning and Empowerment; and Attorney General’s Chambers. Representatives of GCC attended all public hearings and had a chance to examine and comment on all applications and proposals calling for Board decision.

Likewise, during the period under review, the Authority has acted as secretariat of the Consumer Consultative Council (CCC), availed all applications for licences and tariff revision, draft rules and information of importance to representatives of consumers for review and comment, and caused the representatives of CCC to attend all public hearings, stakeholders’ meetings and a study tour to Zambia. Since July 2005, the CCC budget has been part of EWURA Budget.

During this period, EWURA was admitted as a full member to the Regional Electricity Regulators Association (RERA) for SADC countries; and the African Forum for Utility Regulators (AFUR). RERA and AFUR offer the best platforms at regional and continental levels for facilitating regulatory cooperation, sharing of experience and knowledge, harmonization of standards, harnessing economies of scale and creating conducive climate for investment.

3.11 DECLARATION OF CONFLICT OF INTERESTS

During the period under review, incidences of declaration of conflict of interest were as summarised in following table:-

Table 7: Declarations of Conflict of Interest

Name	Title	Issue	Determination
Eng. M. Mutegeki	Director of Water and Sewerage	Ex – Official of the tariff review applicant. Before joining EWURA Eng. Mutegeki was the Managing Director of Tanga UWSA	NOTED and COMMENDED the Director of Water and Sewerage for declaration of conflict of interest on the application.

4.0 FUTURE OUTLOOK

EWURA has developed six (6) strategic objectives which shall guide the Authority for the next three years to 2010. After every year these objectives will be reviewed to reflect changes and new requirements. The strategic objectives are indicated below:

(a) To have a well managed and effective organization by June 2010.

EWURA, as a new regulator, has a limited expertise and knowledge to enhance service delivery. In order for staff to execute their duties effectively and efficiently, there is a need for capacity building and staff training in technical, managerial as well as regulatory skills in performing technical and economic regulation, conduct assessment in utilities and dispute resolution. Apart from non-human resources, it takes a motivated team of qualified staff working in a conducive environment and sufficiently provided with working tools, to achieve organizational goals.

(b) To have a well developed regulatory monitoring system by December 2009.

For EWURA to discharge its functions effectively as a regulator there is a need for timely availability of sufficient and accurate information. This requires EWURA to be in constant interaction with regulated service suppliers, other regulators and regulatory associations as well as the general public. Hence, it is important for EWURA to have a robust computerized Information Management System to facilitate this requirement.

(c) To enhance public awareness in regulatory functions by June 2010.

EWURA as a newly established institution has an obligation to inform the public of its regulatory functions in the regulated sectors.

(d) To achieve a high standard of financial and procurement management by June 2008.

As a regulator, EWURA needs to execute high standards of financial management for its effective performance and gain trust from stakeholders. As a strategy EWURA will revise the financial management system; establish internal audit unit and strengthen the Procurement Management Unit (PMU).

(e) To have regulatory tools developed and operational by June 2010.

EWURA is a new regulatory authority which may not become effective until such time all licencees are identified, terms and conditions of licence are revised to reflect regulatory principles, and rules, procedures and guidelines applied in transacting business are developed and known to the stakeholders as well as the general public.

(f) To have an effective intervention strategy against HIV/AIDS for enhanced productivity by June 2009.

HIV/AIDS is a significant killer of staff across different levels of expertise and responsibilities. Studies show that all people are equally vulnerable to HIV infection. Therefore, EWURA aims at promoting HIV/AIDS control and protection measures amongst its staff, while also establishing a mechanism for managing stigma and discrimination. EWURA will therefore establish HIV/AIDS intervention strategies by 2009.

5.0 CONCLUSION

During the first year of operation, the Authority has focused on development of the regulatory system, particularly the development and issuance of regulatory instruments, the establishment of baseline information, recruitment and capacity building of staff and mobilization of financial and non-financial resources required to effectively conduct its regulatory activities. EWURA has also played a strong supporting role in the development of sector legislation which are tools for effective sector regulation and to facilitate good governance in the regulated sectors.

Our strategic objectives will guide the Authority to achieve its vision and champion good governance in the regulated sectors in order to facilitate the attainment of vibrant and thriving energy and water sectors in Tanzania.

December, 2007.

**FINANCIAL
STATEMENTS FOR
THE PERIOD
ENDED 30TH
JUNE 2007**

REPORT OF THE DIRECTORS FOR THE 17 MONTH PERIOD ENDED 30TH JUNE 2007

1.0 INTRODUCTION

The Directors submit their report together with the audited financial statements for the 17 month period ended 30 June 2007 which disclose the state of affairs of the Energy and Water Utilities Regulatory Authority.

2.0 ESTABLISHMENT

The Energy and Water Utilities Regulatory Authority (EWURA) is an autonomous statutory body established under the Energy and Water Utilities Regulatory Authority Act Cap 414 (EWURA Act) of the Laws of Tanzania. Although EWURA was established in November 2005 through Government Notice No. 19 of February 2006, it became operational in June 2006 when the Board of Directors was fully established.

3.0 PRINCIPAL ACTIVITIES

EWURA is a world class regulatory authority responsible for the technical and economic regulation of the electricity, petroleum, natural gas and water sectors in Tanzania. The functions of the Authority include, among others, licensing, tariff review, monitoring performance and standards with regard to quality, safety, health and environment of the regulated suppliers.

4.0 BOARD MEMBERS

The Board members who served the Authority during the period are as follows:

Name	Status	Date of Appointment	Nationality
Mr. Simon F. Sayore	Chairman	Appointed 1 June 2006	Tanzanian
Ms. Lucy H. Sondo	Deputy Chairperson	Appointed 1 June 2006	Tanzanian
Eng. Nerei Msimbira	Member	Appointed 1 January 2006	Tanzanian
Eng. Robert M. A. Swere	Member	Appointed 1 January 2006	Tanzanian
Eng. Vincent T. Gondwe	Member	Appointed 1 January 2006	Tanzanian
Mr. George M. J. Nchwali	Member	Appointed 1 January 2006	Tanzanian
Mr. Haruna Masebu	Director General	Appointed 1 January 2006	Tanzanian

5.0 STATEMENT OF DIRECTORS' RESPONSIBILITIES

These financial statements have been prepared by the management of the Energy and Water Utilities Regulatory Authority in accordance with the provision of section 46 of the EWURA Act and section 25(4) of the Public Finance Act (No. 6) of 2001. The Directors of EWURA are responsible for establishing and maintain-

ing a system of effective internal control designed to give reasonable assurance that the transactions recorded in the accounts are within the statutory requirement and that they contain the receipts and use of all public resources by the Authority.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgement and estimates have been made in the preparation of the financial statements for the 17-months period ended 30 June 2007. The Directors also confirm that International Financial Reporting Standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors of EWURA are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority, and which enable them to ensure that the financial statements comply with the EWURA Act. They are also responsible for safeguarding the assets of EWURA and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

To the best of our knowledge, the internal control system has operated adequately throughout the reporting period and the accounting and underlying records provide a reasonable basis for the preparation of the financial statements for the 17-month period ended 30 June 2007.

We accept responsibility for the integrity of the Financial Statements, the information they contain and their compliance with International Financial Reporting Standards.

6.0 PERFORMANCE

During the period under review, the Authority has witnessed significant achievements in its operational establishment, legal framework, licencing, development of rules, standards and codes, tariff review for public utilities, sector monitoring and public awareness.

6.1 Making EWURA Operational

In June, 2006, immediately after the appointment of the Chairman of the Board, the Board of Directors established the following priorities for EWURA:

- (i) Adoption of organisation structure and revision of the three year Project Implementation Plan (PIP);
- (ii) Approval of EWURA budget for the period ending 30 June 2007;
- (iii) Approval of EWURA's three year Strategic Plan;
- (iv) Approval of EWURA's budget for the year 2007/08;
- (v) Approval of procedures, the results and appointment of senior (divisional directors and managers) and other staff for the Authority;
- (vi) Approval of human resource establishment to provide sufficient skilled human resources;
- (vii) Adoption of the Training Programme for the Board members, staff, Consumer

- Consultative Council, and Government Consultative Council;
- (viii) Adoption of EWURA's Code of Conduct, the document that prescribes standards of behaviour to be observed by the members of the Board and EWURA employees in the performance of their duties; and
 - (ix) Developing and promulgating rules and procedures that are in accordance with applicable law and pursuant to which EWURA will conduct its regulatory activities.

In addition, the Board and senior management conducted a familiarization tours to visit major investments in each of all four sectors under the Authority's regulation. They also attended a number of training courses and meetings of the Regional Electricity Regulators Association (RERA) for SADC countries; the African Forum for Utility Regulators (AFUR), and other international conferences. Members of the Board attended all public hearing and stakeholders' meetings.

6.2 Legal Framework

EWURA Act governs the activities of the Authority. Currently EWURA regulates the sectors pursuant to EWURA Act and sector legislation some of which are out of date. Thus, it is imperative that sector laws be brought up to date and harmonized with the existing EWURA Act to enable the Authority to effectively execute its legal obligations. During the period under review, the Authority prepared and delivered to the relevant Ministries comments on draft legislation in all regulated sectors for the following legislations:

- (a) The Electricity Bill;
- (b) The Water Supply and Sanitation Bill;
- (c) The Gas Supply Bill; and
- (d) The Petroleum Supply Bill

6.3 Licences

During the period under review, EWURA prepared a number of model licences applicable to regulated suppliers in electricity, water and sewerage, and petroleum, including:

- (a) Electricity Generation Licences; and
- (b) Water Supply and Sewerage Licences.

Prior to adopting model licences, the Authority conducted inquiries and received valuable comments from stakeholders. Notice was issued to regulated suppliers in the Petroleum Sector to apply for formal licences not later than 31st December 2007. Long-term licences in the electricity and natural gas sectors are respected, except where amendments are inevitable; EWURA will consult the Minister responsible for energy and the public prior to issuing new licences for the remaining

term. Urban Water and Sewerage Authorities used to operate on Memorandum of Understanding with the Ministry of Water. Notice was issued by EWURA to all of them, urging each regulated supplier to apply for interim licence.

A total of 134 licence applications were received by 30th June 2007 as shown in the table below:

Regulated Sector	Applications Received	Licence	
		Issued	Renewed
Electricity	5	3	2
Petroleum	88	0	0
Water & Sewerage	41	3	0
TOTAL	134	6	2

As at 30th June 2007, the Authority had not issued licences for petroleum products and water utilities due to process involved in the development of appropriate licence templates, inspection of facilities, consideration of environmental issues and submission of required information.

6.4 Establishment of Rules

During the period under review, the Authority finalized and promulgated rules governing the activities of the Authority on the following matters:

- (i) Rulemaking;
- (ii) Tariff Setting;
- (iii) Licensing;
- (iv) Consumer Complaint Handling Procedures;
- (v) The Sampling and Testing of Petroleum Products; and
- (vi) Rule on the Collection of Fees and Levies.

The process of development of rules is governed by principles of good governance which requires the collection of comments from interested parties and holding hearings and workshops. The process of developing rules and procedures is an ongoing one. In addition, EWURA's Code of Conduct was finalised during this period. It governs the behaviour of the members of the Board and Authority employees, both in respect of their professional interactions, and also with third parties and the general public.

6.5 Standards and Codes

During the period under review, the Authority began the process of developing new codes and standards by taking into consideration the existing local and international standards applicable to regulat-

ed sectors. This process will continue during the financial year 2007/08, and will involving Tanzania Bureau of Standards (TBS), service providers, academic institutions, and other stakeholders.

6.6 Tariff Review

During the period under review, EWURA management dedicated a great portion of its resources to the development of procedures that would allow it to process tariff applications. During the course of the reporting period the Authority received and determined the rates and charges of 6 service providers and approved one method of regulating natural gas processing and transportation charges applicable to Songas as shown in the table below:

Regulated Sector	Applications Received	Status			
		Withdrawn	Rejected	Determined	Under Review
Electricity	3	2	0	1	0
Natural Gas	3	1	1	1	0
Water & Sewerage	13	2	1	4	6
TOTAL	19	5	2	6	6

EWURA received 19 tariff applications, out of which 2 applications were rejected for non-compliance to the tariff application guidelines, 5 applications were withdrawn by applicants, 6 applications were determined and 6 applications under review as at 30th June 2007.

In all cases, the legal requirement of taking the views of both consumers and service providers into account were respected when determining the new rates.

6.7 Sector Monitoring

During the period, the Authority began the process of monitoring the performance of regulated service providers in all of the regulated sectors, both at the time that the licensee applies for a tariff revision and at regular intervals. This process will be expanded as more licences templates are developed and more entities are required to seek licensing from the Authority.

6.8 Public Awareness

The Authority conducted four stakeholder meetings to address various aspects of the Authority's regulatory activities: two in Dar es Salaam, one in Bagamoyo, and one in Arusha. In addition, the Authority conducted public hearings in Dar es Salaam, Tanga, Arusha, Singida, and Shinyanga in relation to tariff matters. In the stakeholder meetings, all key topics were addressed in Kiswahili. The media have consistently covered EWURA's public activities whenever and wherever they have been held.

6.9 Complaints and Disputes

The number and quality of complaints received and resolved is a measure of public awareness, performance of regulated service providers, and effectiveness of the regulator. EWURA attends to complaint against a supplier of regulated goods or services in relation to any matter connected with the supply, possible supply or proposed supply of goods or services. As at 30th June 2007, EWURA received 8 complaints, out of which 4 were resolved and closed and 4 were under consideration by the service providers. During the period under review, there were no disputes filed for resolution by the Authority.

7.0 RECRUITMENT

The Authority's recruitment policy is to provide equal opportunity for all. The Authority employs the most appropriate candidate available in a transparent manner to ensure that the public receives quality service.

During the period under review, the Authority had recruited 42 staff of whom 28 are men, while 14 are women. When fully fledged, EWURA will have about 75 highly qualified and motivated professionals coming from both the public and private sectors, thus bringing wide variety of experiences. For all positions filled, public job advertisement with a formal competitive selection procedures were followed.

8.0 STAFF WELFARE

8.1 Staff Relations

Good relationship between employees and management of the Authority was observed during the period under review.

8.2 Capacity Building

EWURA, as a new regulator, identified in the first year of operation that there is a need for capacity building and staff training in technical, managerial as well as regulatory skills. This will develop expertise and knowledge to enhance service delivery. During the period under review Board Members and senior management attended general courses on public utility regulation. In addition, EWURA subscribed and participated mainly in the activities of mainly two international associations namely, Regional Electricity Regulators Association (RERA) and African Forum for Utility Regulators (AFUR). The main objective is to exchange regulatory experiences within the region, and allow EWURA to have access to information necessary for regulation and performance benchmarking. Some other staff attended short courses relevant to their duties in order to improve performance.

8.3 Medical Services

The Authority provides free medical care to all staff, spouses and up to four children not exceeding 18 years of age. The Authority commits fund sufficient to cater for evacuation of staff and overseas treatment, where necessary.

9.0 PERSONS WITH DISABILITIES

The Authority gives equal opportunities to persons with disabilities.

10.0 CORPORATE SOCIAL RESPONSIBILITY

The Authority did not make any charitable donations during the period under review since it is still in its establishment stage. However, in recognition of this noble obligation, the Authority will develop and adopt a policy which will commit some funds for community development activities.

11.0 SOLVENCY

Since establishment, the Authority has never sought financing through leverage or sources other than those specified under the EWURA Act. The Directors consider the Authority to be solvent on the basis of its working capital of TZS 694.51 million as at 30th June 2007 and net surplus of TZS 525.77 million from the operation of the period under review.

12.0 AUDITORS

The Controller and Auditor General is the statutory auditor of the Energy and Water Utilities Regulatory Authority by virtue of Article 143 of the Constitution of the United Republic of Tanzania, amplified by section 30(1) c of the Public Finance Act (No. 6) of 2001 (revised 2004). However, in accordance with section 37(5) of the Public Finance Act M/S MEKONSULT were authorised by the Controller and Auditor General to carry out the audit of EWURA on his behalf.

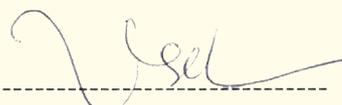
BY ORDER OF THE BOARD



Chairman

24 DEC 2007

Date



Director General

24 DEC 2007

Date

INDEPENDENT AUDITORS' REPORT

MEKONSULT
Certified Public Accountants

8th Floor, Harbour View Towers, Samora Avenue
P.O. Box 14950
Dar es Salaam, Tanzania

Telephone: +255-22-2124383
Fax: +255-22-2124383
Email: info@mekonsult.co.tz

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF ENERGY AND WATER UTILITIES REGULATORY AUTHORITY

We have audited the accompanying financial statements of Energy and Water Utilities Regulatory Authority which comprise the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the 17-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Directors Responsibility for the Financial Statements

EWURA Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Basis of Opinion

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Energy and Water Utilities Regulatory Authority as at 30 June 2007 and of its financial performance and cash flows for the 17-month period then ended in accordance with the International Financial Reporting Standards.

We further report that, the procedures applied for the procurement of office equipment, computers, office stationery, motor vehicles, furniture and fittings and consulting services which were tested as part of our audit work were generally found to have been done in accordance with the requirements of the Public Procurement Act (No. 21) of 2004 and its related Regulations which were tested as part of our audit work were generally found to have been done in accordance with the requirements of the Public Procurement Act (No. 21) of 2004 and its related Regulations.


MEKONSULT
Certified Public Accountants


Elinisaidie Msuri
Partner

Date: 24/12/2007.
Dar es salaam

**INCOME STATEMENT
FOR 17 MONTH PERIOD ENDED 30 JUNE 2007**

	NOTES	30 June 2007 TZS'000
Income		
Operating Revenue	2	4,679,187
Other Income	3	<u>1,575</u>
Total Income		<u>4,680,762</u>
 Expenditure		
Staff Costs	4	1,248,973
Operating Expenditure	5	1,868,276
Administration Costs	6	866,524
Financial and Other Charges		2,480
Depreciation	8	<u>168,739</u>
Total Expenditure		<u>4,154,992</u>
 Surplus for the Period	 7	 <u><u>525,770</u></u>

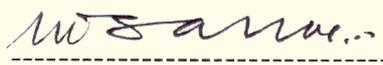
The Notes on pages 45 to 50 form an integral part of these financial statements.

Report of the Auditors – Page 40.

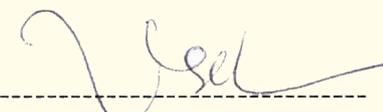
BALANCE SHEET AS AT 30 JUNE 2007

	NOTES	30 June 2007 TZS'000
ASSETS		
Non-Current Assets		
Property and Equipment	8	<u>724,829</u>
Total Non-Current Assets		<u>724,829</u>
Current Assets		
Stocks and Consumables		7,940
Debtors and Prepayments	9	84,140
Cash and Bank Balances		<u>1,107,719</u>
Total Current Assets		<u>1,199,799</u>
TOTAL ASSETS		<u>1,924,628</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Retained Surplus		525,770
Government Fund from PPSDP Credit		<u>893,568</u>
Total Capital and Reserves		<u>1,419,338</u>
Current Liabilities		
Trade Creditors	10	65,198
Other Creditors and Accruals		<u>440,092</u>
Total Current Liabilities		<u>505,290</u>
TOTAL EQUITY AND LIABILITIES		<u>1,924,628</u>

The Notes on pages 45 to 50 form an integral part of these financial statements.



Chairman



Director General

24 DEC 2007

Date

24 DEC 2007

Date

Report of the Auditors – Page 40.

**STATEMENT OF CHANGES IN EQUITY
FOR THE 17-MONTH PERIOD ENDED 30 JUNE 2007**

	Capital Fund	Surplus	Total
	TZS'000	TZS'000	TZS'000
Balance at 1 February 2006	-	-	-
GOT Fund from PPSDP Credit	893,568	-	893,568
Surplus for the Period	<u>-</u>	<u>525,770</u>	<u>525,770</u>
Balance at 30 June 2007	<u>893,568</u>	<u>525,770</u>	<u>1,419,338</u>

The Notes on pages 45 to 50 form an integral part of these financial statements.

Report of the Auditors – Page 40.

CASH FLOW STATEMENT FOR 17-MONTH ENDED 30 JUNE 2007

	30 June 2007
	TZS'000
Cash flow From Operating Activities:	
Operating Surplus for the Period	525,770
Adjustments for:	
Depreciation	<u>168,739</u>
Operating Surplus Before Working Capital Changes	694,509
Changes in Working Capital Items:	
Increase in Stocks and Consumables	(7,940)
Increase in Debtors and Prepayments	(84,140)
Increase in Creditors	<u>505,290</u>
Cash Flows From Operating Activities	1,107,719
Cash Flows From Investing Activities	
Leasehold Improvement and Acquisition of Equipment	<u>(893,568)</u>
Net Cash Flows from Investing Activities	<u>(893,568)</u>
Cash flows from Financing Activities	
PPSDP Credit	<u>893,568</u>
Net Cash Flows from Financing Activities	<u>893,568</u>
Net Increase in Cash and Cash Equivalents	1,107,719
Cash and Cash Equivalents at 1 February 2006	<u>-</u>
Cash and Cash Equivalents at 30 June 2007	<u>1,107,719</u>

The Notes on pages 45 to 50 form an integral part of these financial statements.

Report of the Auditors – Page 40.

NOTES ON THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of Preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Tanzanian shillings TZS), rounded to the nearest thousand, and are prepared under the historical cost convention. No adjustments have been made for inflationary factors affecting the accounts.

b) Revenue Recognition

The Annual Levy Policy

Revenue from the annual levy is recognised when received. This is in accordance with the requirement of International Accounting Standard (IAS) 18, since the amount of annual levy due from each regulated supplier cannot be assessed or measured reliably.

Donor and Government Funds

Funds from the World Bank and Government are reported as Operating Grant and recognized as income in the year received in order to comply with the disclosure requirements of International Accounting Standard (IAS) 20.

Other Income

Other sources of revenue are recognised and accounted for as income to the Authority on receipt basis.

c) Property and Equipment

Items of property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line method to write off the cost of assets over their estimated useful lives. The annual rates applied are:

Category of Assets	Rate per Annum (%)
Leasehold Improvement	20.0
Technical Equipment	12.5
Motor Vehicles	20.0
Furniture and Fittings	12.5
Office Equipment	12.5
Computers	20.0

Depreciation for the period ended 30 June 2007 has been calculated for twelve months from 1 July 2006, as this date marks the beginning of the use of assets.

d) Financial Assets and Liabilities

The Authority classifies its financial assets in accordance with the disclosure requirements of IFRS 7.

The following categories were held by the Authority at the year end:

(i) Staff Advances

Advances to staff are non-derivative financial assets with the fixed or determined payment. They arise when the Authority provides temporary loans directly to staff.

(ii) Creditors

Creditors are non-derivative financial liabilities with fixed or determined payment terms. They arise when the Authority receives services on credit directly from the service providers.

e) Foreign Currency Translation

(i) Functional and Presentation Currency

The financial statements are presented in Tanzanian Shillings, which is the Authority's functional and presentation currency.

(ii) Transactions and Balances

Foreign currencies are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of the monetary assets and liabilities denominated in foreign currencies are recognized in the income and expenditure accounts for the period in which they arise.

f) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and cash at bank.

g) Retirement Benefits

The Authority contributes to statutory defined pension contribution plans for its employees at the rate of 10% of basic salary to either Parastatal Pension Fund (PPF) or National Social Security Fund (NSSF). In addition, the Authority sets aside 15% of employee's basic salary per month as gratuity payable at the end of the contract.

h) Comparatives

No comparative figures have been shown as these are the first financial statements covering 17 months since EWURA's establishment.

2: OPERATING REVENUE

	30 June 2007
	TZS'000
Regulatory Levy	
Electricity	868,637
Petroleum	207,897
Natural Gas	73,168
Water and Sewerage	<u>80,856</u>
Total Regulatory Levy Income	1,230,558
Licence Fees	
Electricity	51,200
Natural Gas	<u>45,200</u>
Total Licence Fees Income	96,400
Application Fees	
Electricity	600
Petroleum	<u>5,100</u>
Total Application Fees Income	5,700
Operating Grant	
Operating Grant - IDA PPSDP	<u>3,346,529</u>
Total Operating Grant	<u>3,346,529</u>
Total Operating Revenue	<u>4,679,187</u>

3: OTHER INCOME

Sale of Tender Documents	1,400
Interveners Fees	<u>175</u>
Total Other Income	<u>1,575</u>

4: STAFF COSTS

Salaries	927,444
Gratuity Expenses	137,872
Pension Employer's Contribution	92,034
Skills and Development Levy	45,988
Medical Expenses	19,876
Other Staff Costs	<u>25,758</u>
TOTAL	<u>1,248,973</u>

5: OPERATING EXPENSES

	30 June 2007 TZS'000
Training PPSDP	608,684
Conference Expenses	109,651
Field and Inspection Expenses	47,829
Public Inquiries	64,391
Government Consultative Council Expenses	35,984
Consumer Consultative Council Expenses	114,253
Public Awareness Program	71,072
Directors Fees	21,500
Motor Vehicle Fuel Expenses	114,601
Repairs and Maintenance	43,413
Consultancy Expenses	28,787
Membership Contribution, Books and Periodicals	32,920
Advertisement Expenses	119,987
Local Travel Expenses	35,251
Overseas Travel Expenses	197,766
Board Expenses	<u>222,187</u>
TOTAL	<u>1,868,276</u>

6: ADMINISTRATIVE COSTS

Office Rent	723,384
Telephone, Fax and Internet	46,453
Printing and Stationery	31,104
Office General Expenses	37,046
Audit Fees	16,740
Tender Board Expenses	<u>11,797</u>
TOTAL	<u>866,524</u>

7: SURPLUS FUNDS

The surplus funds of the Authority reported as at 30th June 2007 shall be deposited to a Special Account as per requirement of Section 44 (1) of EWURA Act. In accordance with the Act, funds in the Special Account shall be used only for one or more of the following purposes: consumer education or information projects, special non-recurring projects, budgeted capital expenditure, or major rate regulating inquiries.

8: PROPERTY AND EQUIPMENT

	Leasehold Improvement	Technical Equipment	Motor Vehicles	Furniture and Fittings	Office Equipment	Computers	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost							
At 1 February 2006	-	-	-	-	-	-	-
Purchases for the Period	<u>262,480</u>	<u>850</u>	<u>307,053</u>	<u>55,501</u>	<u>76,644</u>	<u>191,040</u>	<u>893,568</u>
At 30 June 2007	<u>262,480</u>	<u>850</u>	<u>307,053</u>	<u>55,501</u>	<u>76,644</u>	<u>191,040</u>	<u>893,568</u>
Depreciation							
At 1 February 2006	-	-	-	-	-	-	-
Charge for the Period	<u>52,496</u>	<u>106</u>	<u>61,410</u>	<u>6,938</u>	<u>9,581</u>	<u>38,208</u>	<u>168,739</u>
At 30 June 2007	<u>52,496</u>	<u>106</u>	<u>61,410</u>	<u>6,938</u>	<u>9,581</u>	<u>38,208</u>	<u>168,739</u>
Net Book Value As at 30 June 2007	<u>209,984</u>	<u>744</u>	<u>245,643</u>	<u>48,563</u>	<u>67,063</u>	<u>152,832</u>	<u>724,829</u>

9: DEBTORS AND PREPAYMENTS

Staff Loans and Advances	46,420
Imprest	<u>37,720</u>
TOTAL	<u>84,140</u>

Staff Loan and Advances

This comprises of staff salary advances and un-deducted pension granted as loan to affected staff. This loan is being recovered monthly. Summary position of staff loan/advances as at 30 June 2007 is shown below

Salary Advances	21,620
Staff Loan for Recovery of Un-deducted Pension	<u>24,800</u>
TOTAL	<u>46,420</u>

10: CREDITORS AND ACCRUALS

	30 June 2007
	TZS'000
Pension Payable	184,068
Skills and Development Levy	45,988
Gratuity Payable	137,873
Audit Fees Accrual	16,740
Office Rent	33,923
Directors Fees	<u>21,500</u>
Total	<u>440,092</u>

The Authority contributes to the approved pension contribution plans for its employees at 10% of basic salary to either Parastatal Pension Fund (PPF) or National Social Security Fund (NSSF). As at 30 June 2007, the Authority's employees had not identified their respective pension fund and therefore TZS 184,068,484 was outstanding. Contributions to these funds are recognised as an expense in the period the employees render services to the Authority.

The Authority also charges gratuity expense of 15% of employee's basic salary per month on income statement and maintains gratuity payable account for future payment to staff. As at 30 June 2007, a total TZS 137,872,496 was set aside.

11: CONTINGENT LIABILITIES

As at 30 June 2007 the Authority had no contingent liabilities.

Report of the Auditors – Page 40.