

THE UNITED REPUBLIC OF TANZANIA

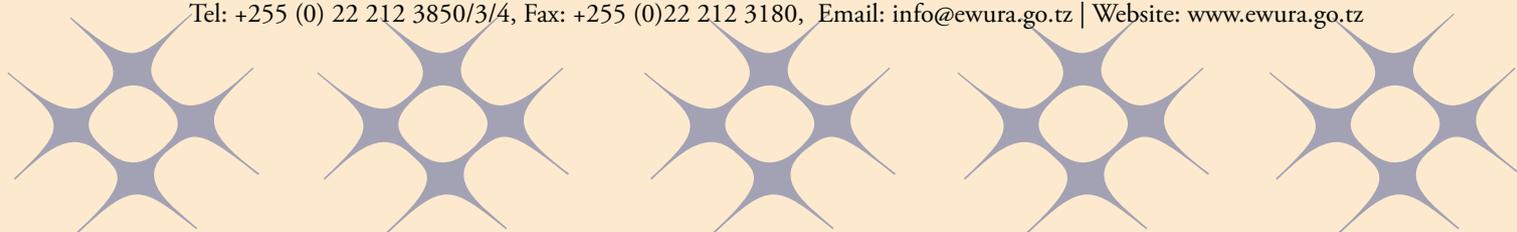


ANNUAL REPORT FOR THE YEAR ENDED 30TH JUNE, 2010

DECEMBER, 2010

Energy and Water Utilities Regulatory Authority

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LETTER OF TRANSMITTAL



Hon. Prof. Mark James Mwandosya (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 honour to submit to you the Annual Report and Audited Accounts of the Energy and Water Utilities Regulatory Authority (EWURA) for the financial year ended 30th June, 2010.

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

I submit.



Dr Geoffrey Mariki
Deputy Chairman, EWURA Board of Directors
31st December, 2010

VISION, MISSION AND CORE VALUES

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.

Core Values:

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

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

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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 (EWURA Act). EWURA is a multi-sector regulatory authority charged with the responsibility to regulate the electricity, petroleum, natural gas and water sectors. Its functions include, *inter alia*, tariff review, licensing, performance monitoring and enforcement of standards of regulated goods and services, taking into account service quality, safety, health and environmental conservation. This is the Authority's fourth year of operation since its establishment.

Objectives

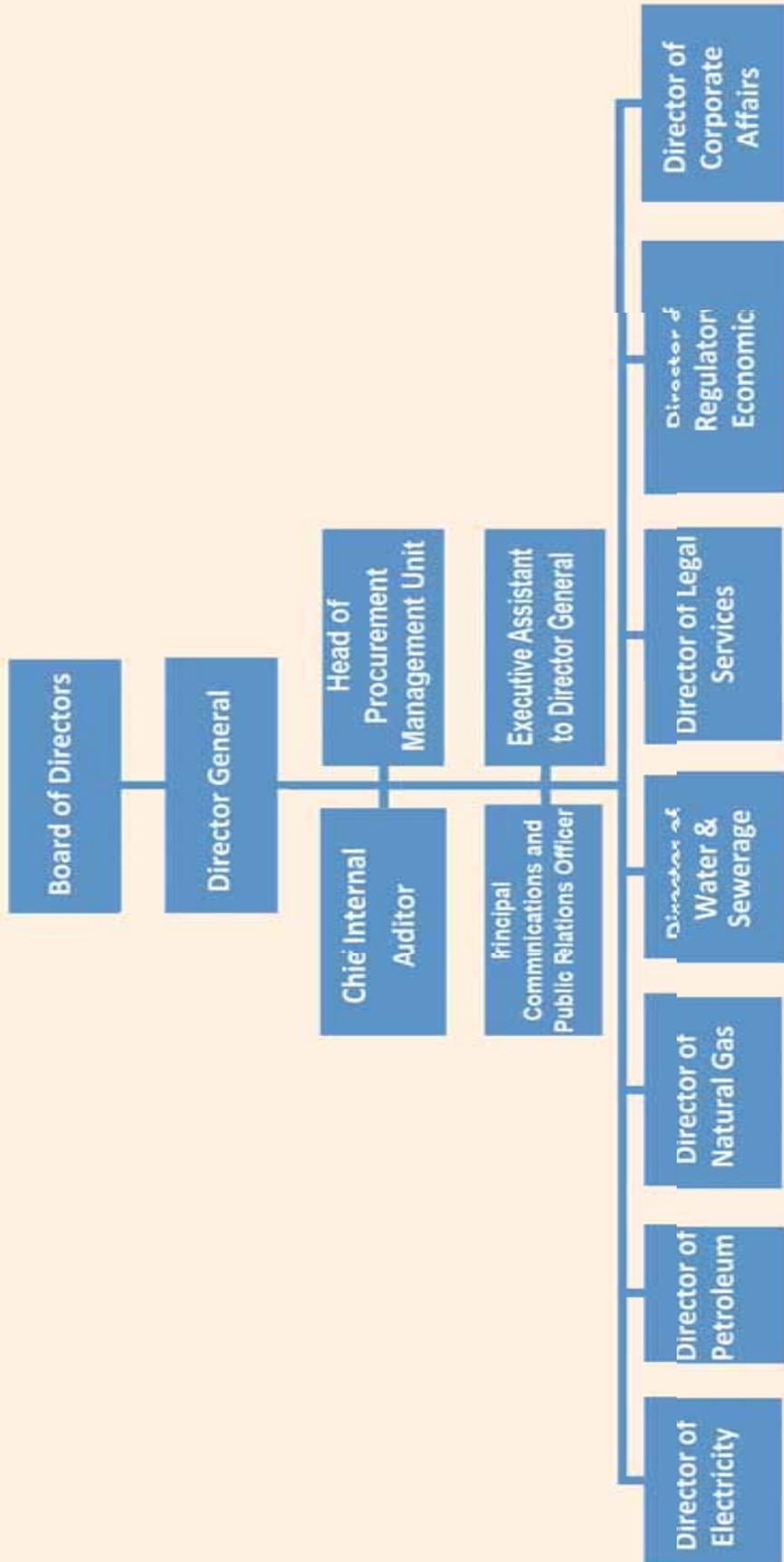
The Authority is determined to increase its contribution to national economic development and improve the welfare of the general public through quality delivery of regulatory functions. It is within this drive that the Authority has set out five objectives with a view to enabling it to address imminent and medium-term regulatory challenges in all sectors it regulates. These strategic objectives are to:

- a) have a well-managed organisation by June, 2010;
- b) have a well-developed Regulatory Information System by December, 2011;
- c) enhance public knowledge, awareness and understanding of the regulatory functions and regulated sectors by June, 2010;
- d) improve availability and quality of regulated services to customers by 2011; and
- e) have an effective intervention strategy against HIV / AIDS for enhanced productivity by June, 2010.

Organisation Structure

The Authority adopted a cost-effective organisation structure that facilitates efficient regulation of the four sectors (that is, electricity, petroleum, natural gas and water), corporate governance and cross-cutting services. The structure has the Board of Directors as the top decision-making body, Director General and seven divisional directors. There are also units which reports directly to the Director General, namely Chief Internal Audit, Head of Procurement Management Unit and Principal Communications and Public Relations Officer as shown in the structure overleaf.

ORGANISATION CHART



BOARD OF DIRECTORS



Mr. Simon F. Sayore
Chairman up to 31st May, 2010



Dr. Geoffrey Mariki
**Deputy Chairman and Member
from 1st August, 2009**



Eng. Robert M. Swere
Member to 31st December, 2009



Ms Lucy H. Sondo
Member



Eng. Nerei Msimbira
Member



Mr. Haruna Masebu
Member



Eng. Vincent T. Gondwe
Member



Mr Omar S. Bendera
Member from 1st March, 2010

CHAIRMAN'S STATEMENT



It is my pleasure to present the fourth Annual Report of the Energy and Water Utilities Regulatory Authority (EWURA) for the year ended 30th June, 2010.

EWURA is a multisectoral regulator responsible for the regulation of the electricity, petroleum, natural gas and water sectors in a manner intended to improve the welfare of the Tanzanian society.

During its fourth year of operations, EWURA continued to promote good governance in the regulated sectors by consistently observing the principles of transparency, accountability, predictability of results and stakeholder involvement in its decision-making processes.

During the period under review, EWURA continued to enjoy support from various stakeholders such as the Government and its institutions, development partners, regulated suppliers, investors, consumers and the general public, and this has helped the Authority to ensure that the interests of all stakeholder groups are effectively balanced.

Furthermore, various rules and regulations were promulgated during the period under review which contributed to ensuring a level playing field for all stakeholders in the energy and water sectors. Several challenges and successes were recorded during this fourth year. They have served to guide EWURA in the quest to attain world class status and further promote vibrant and thriving energy and water sectors in the country in the year ahead.

I wish to extend my sincere appreciation to the Minister for Water, the Minister for Energy and Minerals, the Minister for Finance and Economic Affairs and all other stakeholders for their close co-operation and continued support.

Finally, I would like to conclude by thanking members of the EWURA Board, Management and staff for their commitment, dedication and hard work during this fourth year of the Authority's operations.



Dr Geoffrey Mariki
Deputy Chairman, EWURA Board of Directors
31st December, 2010

BOARD AND MANAGEMENT STRUCTURE

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 EWURA Act. The Board consists of the 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 the Director General.

Director General

The Director General is appointed under section 14 of the EWURA Act and is responsible for the day-to-day operations of the Authority, subject to the directions of the Board of Directors.

Divisional Directors

The Director General is 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 under the Director General's Office.

Office of the Authority

The principal office of the Authority is currently located in Dar es Salaam at Harbour View Towers, Samora Avenue.

MANAGEMENT



Mr. Haruna Masebu
Director General



Ms. Miriam G. Mahanyu
Director of Legal Services



Eng. Mutaekulwa Mutegeki
Director of Water and Sewerage



Eng. Charles Omujuni
Director of Natural Gas



Eng. Anastas Mbawala
Director of Electricity



Mr. Felix Ngamlagosi
Director of Regulatory Economics



Mr. Sirili Massay
Director of Petroleum



Mr. Paskali Massawe
Director of Corporate Affairs



Mr. Fred Msemwa
Chief Internal Auditor



Mr. Titus Kaguo
Principal Communications & Public Relations Officer



Executive Assistant to Director General



Mr. Deogratus Kumalija
Head of Procurement Management Unit

DIRECTOR GENERAL'S STATEMENT



In its fourth year of operation, EWURA remained committed to good governance and our mission of championing the delivery of energy and water services through world class regulation. As part of this unrelenting commitment, the Authority consistently maintained sound management of public resources as illustrated in the financial statements attached hereto for the period covering 1st July, 2009, to 30th June, 2010.

During the period under review, EWURA continued to make significant strides in fulfilling its strategic objectives as set out by the EWURA Strategic Plan 2008-2011. The Authority continued to enhance public understanding in all the sectors that it regulates, and the regulated sectors continue to register good progress.

The Authority also continued to strengthen its administrative and governance systems. In this regard, additional staff were recruited to match the Authority's established operations level, and the financial management systems, information technology and procurement systems, were strengthened with a view to attaining efficiency in the management of resources. Despite the many challenges faced in the fourth and previous years of operation all of the objectives as described in the three-year strategic plan have been successfully implemented. As EWURA moves forward into the next financial year, we will continue to uphold our unwavering commitment to sector reform for the benefit of the Tanzanian society.

I sincerely wish to thank the Government of Tanzania, the Board of Directors, Government Consultative Council, Consumer Consultative Council and regulated suppliers for their continued support and co-operation with the Authority, and management and staff for their steady diligence in the course of performance of their duties.



Haruna Masebu
Director General
December, 2010

1.0 CORPORATE GOVERNANCE

1.1 Board of Directors

According to the EWURA Act, Cap. 414, the Board is responsible for all regulatory decisions and strategic direction of the Authority. The EWURA Board is comprised of six Board Members out of whom five are non-executive Directors and one member is also the Director General. The Board Chairman is appointed by the President of the United Republic of Tanzania whereas other Board Members are appointed by the Minister responsible for EWURA as provided under section 8 of the EWURA Act. The Board is responsible for all regulatory decisions, formulation of policies and Code of Conduct.

The four-year term of one Board Member and the Chairman expired on 31st December, 2009, and 31st May, 2010, respectively.

During the year under review, the Authority's Board of Directors conducted nine (9) Ordinary Meetings and twenty (20) Extra-Ordinary Meetings.

1.2 Board Committees

In line with the EWURA Multi-sector Regulatory Model, the Board has appointed sector-specific Board Committees. During the year under review, Audit, Legal, Electricity, Petroleum, Natural Gas and Water and Sewerage Committees were in place in line with the provisions of section 21 of the EWURA Act. The total of twenty-four (24) meetings were conducted by these Committees.

1.3 Director General

The Director General is responsible for the day-to-day running of the Authority and advises the Board on the staffing needs and other resources required in undertaking the Authority's functions. The four-year term of the current Director General, Mr Haruna Masebu expired on 31st December, 2009. He was re-appointed for another term of four years with effect from 1st January, 2010.

1.4 Internal Monitoring Systems

The Authority's internal monitoring system is undertaken in line with public sector legislation, regulations, rules and procedures. The internal administrative monitoring system is achieved through financial controls, the Code of Conduct and Internal Audit functions.

1.4.1 Finance and Budget Administration

EWURA is a public institution and, therefore, governed by the Public Finance Act, 2002. The Authority's annual operations originate from its Strategic Plan covering a three-year horizon. The Annual Plan and Budget is approved by the EWURA Board and submitted to the Minister in line with the provisions of section 49 of the EWURA Act. Resources used to implement annual plans are derived from regulatory levies collected from consumers of regulated services. The outcome of

the implementation of annual plans is presented to the Minister responsible for EWURA through an Annual Report and Accounts in line with the provisions of section 48 of the EWURA Act.

For the past four consecutive years (that is, since inception), EWURA received clean Audit Reports for its Financial Statements from the Controller and Auditor General.

1.4.2 Procurement Management

The Authority's procurement activities are governed by the Public Procurement Act (No.21) of 2004 and its Regulations. In compliance with the law, the Authority has a Tender Board and independent Procurement Management Unit (PMU). EWURA ranked the first among Government Agencies after scoring 98% in the compliance audit conducted by the Public Procurement Regulatory Authority (PPRA) in 2009.

1.4.3 Code of Conduct

All staff and members of the Board of Directors are bound by the EWURA Code of Conduct. To this effect, every member and employee signed the EWURA Code of Conduct which, among other things, promotes ethical behaviour by all employees and Board Members. In terms of fraud and corruption, the Code of Conduct underlines that the Authority has zero tolerance of fraud and corruption. During the year under review, there were no incidents of fraud or corruption that were reported.

1.4.4 Internal Audit Unit

The Internal Audit Unit is part and parcel of the Board's oversight roles of the activities of the Authority and its functions are independent of the management. The Unit is responsible for carrying out activities that will result into continuous improvement of the Authority's internal controls, risk management and good governance processes. The activities of the Unit are guided by the Board Audit Charter and the Authority's Internal Audit Policy.

2.0 GENERAL INSTITUTIONAL PERFORMANCE REVIEW

During the year under review, the Authority performed various activities as summarised below:

2.1 Staffing and Institutional Capacity Building

2.1.1 Recruitment

The Authority provides equal opportunity for all. It employs the most appropriate candidates selected in a transparent and competitive manner to ensure that the public receives quality service. Consequently, EWURA has attracted highly qualified and motivated professionals from both the public and private sectors, thus bringing in a wide variety of experiences.

During the year under review, the Authority recruited 17 staff bringing the total number of staff to 83 out of 85 required under the current establishment. Out of

the 83 staff recruited, two resigned from employment joining other Government Institutions. The staff gender structure is shown in Table 1:

Table 1: Staff as at 30th June, 2010

Item	Male	Female	Total
Staff Recruited	58	25	83
Percentage	70%	30%	100%

2.1.2 Capacity Building

It is the Authority's policy to equip its staff with relevant regulatory, managerial and operational competencies to enhance their service delivery to the public. During the period under review, the Authority continued to invest in human capital development particularly in the core functions of EWURA. Two Board Members and senior management attended general courses on public utility regulation and strategy, specialised courses in regulating electricity, water, International Petroleum Management Certificate, contract management and training in Regulatory Impact Assessment.

In addition, the Authority organised exposure programmes and field attachments on international regulatory best practices. Middle level and support staff attended regional and local training in general management courses, secretarial practices, advanced drivers and office attendants training courses in order to improve their performance.

2.1.3 Regional Co-operation and Collaboration

EWURA subscribed and participated mainly in the activities of three international associations, namely African Forum for Utility Regulators (AFUR), Energy Regulators Association of East Africa (ERAEA), Regional Electricity Regulators Association (RERA) and Association of Eastern and Southern Africa Water Utilities Regulators (AESAWUR). The main objective of our participation is to exchange regulatory experiences within the region, and allow EWURA to have access to information necessary for regulation and performance benchmarking.

2.2 Information and Communication Technology (ICT)

The Authority's IT System supports regulatory functions. It is the Authority's policy to ensure that the public is provided with the correct and accurate information. The Authority's website provides access to regulatory information, publishes all decisions made regarding regulatory services and provides details about tariffs and licences.

The Authority is also maintaining the Water Management Information System (MajIS) which monitors the performance of Urban Water Supply and Sewerage Authorities (UWSAs). In addition, the MajIS system serves to improve accessibility to data and information for monitoring, planning and decision-making. It has

also provided guidance to UWSAs on planning, development, operation and maintenance of water supply and sewerage services.

During the reporting period, the Authority commenced the procurement process of engaging a consultant to develop National Petroleum Information System.

Finance and accounting activities of the Authority are managed through accounting software which provides accurate data and timely reporting. This is achieved through a well maintained and reliable network which ensures reliable desk support services.

2.3 Financial Performance Review

During the year under review, the Authority collected a total of TZS 20.04 billion from regulatory levy, licence fees and grant. This indicates an increase of 71% compared to the previous year. The collections include a grant amounting to TZS 1.88 billion from the World Bank Privatisation and Private Sector Development Project (PPSDP). This project has been supporting the Authority since EWURA establishment and it came to an end on 30th September, 2009.

In the same period, the Authority spent a total of TZS 19.75 billion for both recurrent and capital expenditure. The overall expenditure indicates an increase of 65% compared to the previous year due to increase in the number of the Authority's staff and growth of regulatory activities. The resulting surplus (net of appropriation and capital expenditure commitment) at the year-end amounts to TZS 267.55 million. A summary of financial performance is shown in Table 2.

Table 2: Summary of Financial Performance

Item	Increase % from Previous Year	Amount for the Year Ended 30 th June, 2010	Amount for the Year Ended 30 th June, 2009	Amount for the Year Ended 30 th June, 2008
		TZS'000	TZS'000	TZS'000
Income from Levy and Licences	93%	17,042,092	8,808,491	6,964,965
Operating Grant - PPSDP	-25%	1,881,555	2,517,690	1,361,466
Other Income	172%	1,097,117	395,988	200,263
Total Income	71%	20,020,764	11,722,169	8,526,694

Re-current Expenditure	25%	12,509,312	10,033,346	7,411,034
Capital Expenditure	269%	7,243,899	1,965,149	538,857
Total Expenditure	65%	19,753,211	11,998,495	7,949,891

Other key financial performance highlights are depicted in the Figures 1 and 2:

Figure 1: Main Sources of Income and Expenditure Trend

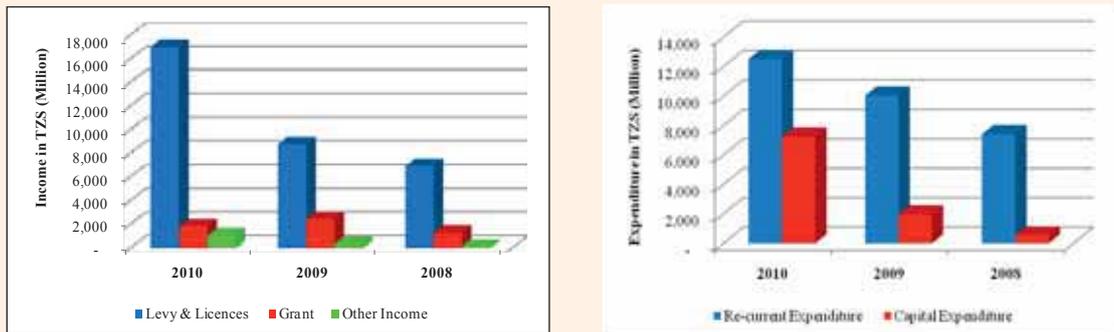
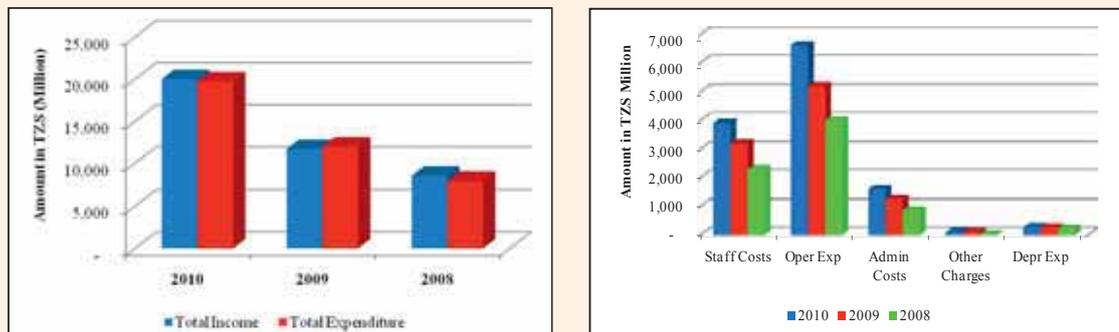


Figure 2: Total Income and Recurrent Expenditure Trend



2.4 Benchmarking with International Best Practices

The Authority was benchmarked amongst six regulators across the African continent by the Africa Electricity Regulator Peer Review and Learning Network. During the period under review, the peer reviews culminated a three-year project that was facilitated by the Management Programme in Infrastructure Reform and Regulation (MIR) at the University of Cape Town’s Graduate School of Business (GSB).

2.4.1 Regulatory Performance Indicators Assessed

The key regulatory processes that were assessed by the participating regulators were as follows:

- a) Regulatory governance;
- b) Regulatory substance; and
- c) Regulatory impact.

The participating regulators included the following: Public Utilities Regulatory Commission (PURC) of Ghana; Energy Regulatory Commission (ERC) of Kenya; Electricity Control Board (ECB) of Namibia; Energy and Water Utilities Regulatory Authority (EWURA) of Tanzania; Electricity Regulatory Authority (ERA) of Uganda and the Energy Regulation Board (ERB) of Zambia.

2.4.2 Key Findings

The network came up with the following key findings:

a) Achievements in Regulatory Governance

EWURA's governance systems were found to be excellent in that the legislation grants EWURA powers that are in line with the international best practices. EWURA's powers and functions are clearly stated; the Electricity Act is logically and clearly drafted. The legal framework entrenches regulatory independence while regulatory transparency is illustrated by effective stakeholder participation and the competitive appointment process of the Board. Financial and parliamentary accountability is good.

b) Challenges on Regulatory Substance and Impact

The network also made the following findings with regards to regulatory substance and impact:

- i) EWURA's regulatory practices had not incentivized or forced sufficient performance improvements by TANESCO.
- ii) EWURA's impact in terms of cost reflective pricing, reduced system losses and significant new investment had yet to be quantified.
- iii) Tanzania had a low access to electricity (currently 14%) and progress to increase this rate is slow.
- iv) Staffing levels at EWURA are modest, given the scope of responsibilities. Increases (or cost effective outsourcing) should be considered.

The network concluded that EWURA had much to do to achieve these regulatory outcomes. Forward planning would be essential so as to ultimately provide consumers with access to competitively priced and reliable electricity services.

3.0 ELECTRICITY

This section gives an overview of electricity sub-sector performance, regulatory activities performed by the Authority during the period under review and challenges facing both the sector and the Authority in regulating the electricity sub-sector.

3.1 Overview

3.1.1 Electricity Supply Industry

The electricity supply industry has remained vertically integrated with TANESCO's being a major player with its own electricity generation, transmission and distribution facilities operating in Mainland Tanzania, despite enactment of the new sector legislation Electricity Act Cap, 131 of 2008. TANESCO also sells bulk power to Zanzibar Electric Company (ZECO), the Zanzibar's electricity utility. A few Independent Power Producers (IPP), namely the Independent Power Tanzania Limited (IPTL) (100MW), Songas (190MW), TANWAT (2.5 MW) and TPC (20 MW) are selling power in bulk. Artumas Group & Partners (Power), a subsidiary of Artumas Inc. is another IPP that is operating a 12 MW gas fired electric power plant in Mtwara. This IPP is selling electricity in bulk to TANESCO, which in turn is distributing electricity in the Mtwara and Lindi regions in its off-grid network. TANESCO also imports power from Uganda (10 MW), Zambia (3MW) and Kenya (about 1 MW) for supplying electricity to the Kagera region, Rukwa region and Longido district in the Arusha region respectively, which otherwise are still isolated from the National Grid.

Hydro electric power generation still plays a major role in power generation. Its contribution to the National Grid has not changed significantly since 2007. In 2007, 2008, 2009, and the first half of 2010, hydro contributed 60%, 62%, 57% and 59% respectively, of the energy delivered into the Grid. The balance is from thermal generation, with the natural gas contribution increasing gradually in the place of HFO/diesel fuel. Natural gas contribution increased from 30% by June, 2009, to 34% in 2010, after commissioning of the 45 MW plant at Tegeta in Dar es Salaam. The interconnected system installed capacity by mid-2010, were Hydro 562 MW, Natural Gas 346 MW, Heavy Fuel Oil 107 MW, and biomass 22.5 MW. However, only 11 MW is exported to TANESCO under the Small Power Project arrangement, to make a total installed capacity of 1028 MW in the National Grid as shown in Table 3. The available capacity was on average of about 872.2 MW only against about 800 MW maximum demand. Owing to lack of sufficient margin, TANESCO had to negotiate with IPTL, which had a legal dispute, to have its power plant available on standby in order to supply electricity in case of power interruption or during peak demand.

Figure 3: Arusha Substation Yard



Figure 4: Morogoro Substation Yard



3.1.2 Import and Export

Tanzania continued to import about 10MW as shown in Table 3 from Uganda for the Kagera region, from Zambia for the Rukwa region and part of Mbeya and from Kenya for the Longido district in Arusha. Also, TANESCO exports power to Kenya across the Horohoro (Tanzania) / Lunga Lunga (Kenya) border.

3.1.3 New Capacity

Process is underway to procure on fast track a 100 MW gas fired and 60 MW diesel fired plant to be installed in Dar-es-Salaam and Mwanza respectively. This is a short term measure to address the growing demand and lack of sufficient capacity in the system. It is expected that other future expansion projects will be based on the Power Sector Master Plan of 2009.

3.1.4 Power Supply to Zanzibar

TANESCO is supplying power to ZECO for the island of Pemba from Tanga through a submarine cable that was commissioned in May, 2010. The installation of the cable has not only increased power supply to the island of Pemba, but also improved the voltage in Tanga owing to its capacitive effect. TANESCO continued to supply about 45 MW power to the island of Zanzibar through the 132 kV submarine cable from Ras Kiromoni in Dar es Salaam. The cable is now old and has reached its useful operation capacity. However, a project is underway to lay a new submarine cable to Zanzibar from the mainland Tanzania financed by the Millennium Challenge Corporation; this will enable TANESCO to deliver more power to Zanzibar than the existing one.



a new submarine cable to Zanzibar from the mainland Tanzania financed by the Millennium Challenge Corporation; this will enable TANESCO to deliver more power to Zanzibar than the existing one.

Figure 5: Power Transmission for 33kV Tanga – Pemba Submarine Cable entrance at Mnyanjani, Tanga

Table 3: Summary of Installed and Available Capacity

S/n	Item	Capacity (MW)	
		Installed	Available
1	TANESCO Grid Generation	1,027.74	873.10
2	TANESCO Off-Grid Thermal Generation	39.47	29.14
3	Off-Grid IPP (Artumas)	12.00	12.00
4	Imports on Off-Grid TANESCO System		13.80
	Total Capacity	1,039.78	898.93

Detailed installed and available generation capacity is shown in Tables 4 to 7 below:

Table 4: TANESCO Grid Generation Capacity – May, 2010

Station	No. of Units	Installed Capacity	Available Capacity	Source	Ownership
		MW	MW		
Kidatu	4	204.00	200.00	Hydro	TANESCO
Kihansi	3	180.00	180.00	Hydro	TANESCO
Mtera	2	80.00	76.00	Hydro	TANESCO
N/P Falls	2	68.00	64.00	Hydro	TANESCO
Hale	2	21.00	9.00	Hydro	TANESCO
Nyumba ya Mungu	2	8.00	3.50	Hydro	TANESCO
Uwemba mini-hydro	3	0.84	0.60	Hydro	TANESCO
Ubungo Gas Plant	12	102.00	95.00	Gas	TANESCO
Tegeta Gas Plant	5	45.00	42.00	Gas	TANESCO
Zuzu	3	7.40	4.00	Diesel	TANESCO
Songas	6	189.00	178.00	Gas	IPP (Songas)
IPTL	10	100.00	10.00	Diesel	IPP (IPTL)
TANWAT	1	2.50	1.00	Biomass	SPP (TANWAT)
TPC	1	20.00	10.00	Biomass	SPP (TPC)
Sub-total		1028.00	82.20		

Table 5: Off-Grid TANESCO Thermal Generation – May, 2010

Station	Installed Capacity (kW)	Available Capacity (kW)
Biharamulo	952	830
Bukoba	2,560	1,920
Ikwiriri	848	848
Kigoma	12,498	8,350

Station	Installed Capacity (kW)	Available Capacity (kW)
Kilwa	2,042	420
Liwale	600	1,40
Ludewa	1,270	1,270
Mafia	848	8,48
Masaki	4,500	4,200
Mbinga	2,250	2,250
Mpanda	1,656	1,350
Ngara	952	850
Songea	6,428	4,771
Tunduru	2,068	1,090
Sub-total	39,472	29,137

Table 6: Off-Grid IPP

Station	Capacity (MW)
AG & P Power (Artumas)	12
Sub-total	12

Table 7: Imports on Off-Grid TANESCO System

Source	Capacity (MW)
Import from Uganda	10.00
Import from Zambia	3.00
Import from Kenya	0.80
Total Import	13.80

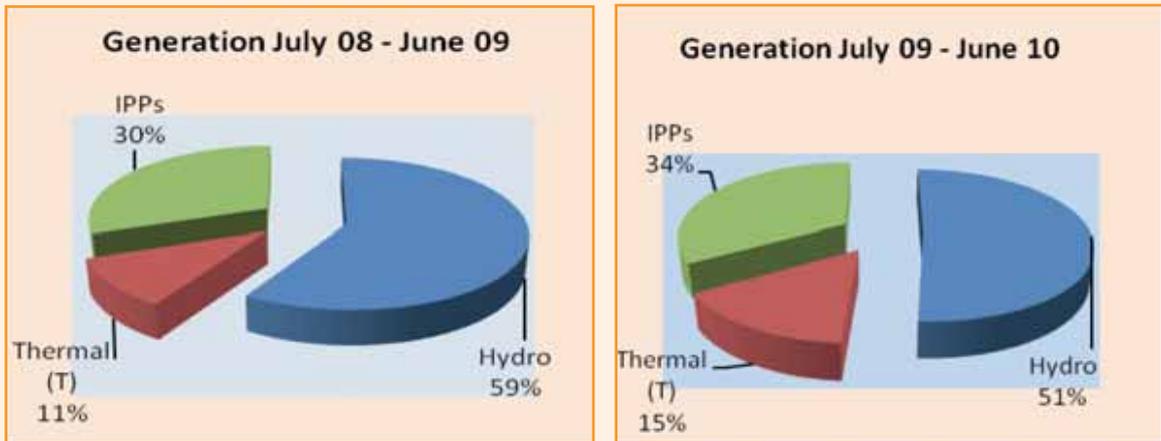
3.1.5 Generation

Grid generation increased by 13% in the period July, 2009 – June, 2010 compared to the same time the previous fiscal year as shown in Table 8 below. Hydro generation declined by 2% for the year 2009/10, compared to the year 2008/09, partly owing to below average hydrology conditions and damage to generating plant at Kidatu, Kihansi and Pangani during the period. Water inflows in the power generation dams were less than the previous reporting period, as can be seen from the graph in Figure 7 above for Mtera Dam where it can be seen the maximum level reached is almost 2 metres below the maximum level of the dam. During the period, there was an increase in thermal generation from IPPs and the newly commissioned TANESCO's 45 MW Tegeta, and the 102 MW Ubungo gas fired, power stations.

Table 8: Grid System Generation (GWh)

Source	July 2008 - June 2009	July 2009 - June 2010	% Change
Hydro (T)	2,628.93	2,573.59	-2%
Thermal (T)	479.32	780.15	63%
IPPs	1,367.08	1,690.29	24%
Total	4,475.33	5,044.03	13%
Peak Load (MW)	700.16	791.63	13%

Figure 6: Grid Production July, 2008 – June, 2010



3.1.6 Growth in Electrification Coverage

Efforts to increase electricity coverage are an ongoing exercise. TANESCO finance transmission networks and part of distribution networks through own funds and donor/government subventions, Rural Energy Agency (REA) has been financing most of rural electrification projects since it came into operation in 2007. There is slight expansion of the transmission lines as shown in Table 9 mainly after the commissioning of 220 kV Shinyanga – Buzwagi and 132 kV Musoma – Mugumu transmission lines. There are no major expansions in the 33 kV and 11 kV distribution network.

Table 9: Cumulative Line Lengths in 2008/09 and 2009/10

Voltage Level	Line Lengths in km	
	By June, 2009	By June, 2010
220 kV	3,221	3,571
132 kV	2,136	2,287
66 kV	647	647
33 kV	11,880	12,103
11 kV	4,998	5,169
0.4 kV	25,075	26,103

Source: TANESCO Reports

3.1.7 Customer Base

TANESCO projects to meet the Key Performance Indicator (KPI) target of 250 customers per employee by 2016. The ratio is in accordance with Electricity Utilities’ Best Practice. Already, TANESCO has a strategy to connect 100,000 customers per year from 2009 which, however, is yet to be achieved. In order to achieve the target KPI, it will require the total number of staff and customers to increase as indicated in Table 10 below. The accepted levels will have to be monitored closely by EWURA. TANESCO had 805,845 customers against about 5,590 staff in June, 2010, working out to a ratio of 144 customers per employee. It is unlikely that TANESCO will achieve the target KPI for 2010 based on the June, 2010, status.

Table 10: TANESCO Customer: Employee Ratio target by 2011

	2008	2009	2010	2011
Customers	718,853	783,873	883,873	983,873
Staff	5,527	5,550	5,638	5,710
Customer : Staff Ratio	130	141	157	172

Note: Data for 2009 are provisional, while for 2010 and 2011 are budgeted

3.1.8 Revenue Collection

TANESCO revenue increased by 11.4% in 2009 compared with that of 2008 which could be attributed to a number of factors including increased number of new connections. Furthermore, the disruption of power supply to Zanzibar towards the end of the year led to more power being sold at better rates on the Mainland. Overall revenue collection efficiency for 2009 was 96%.

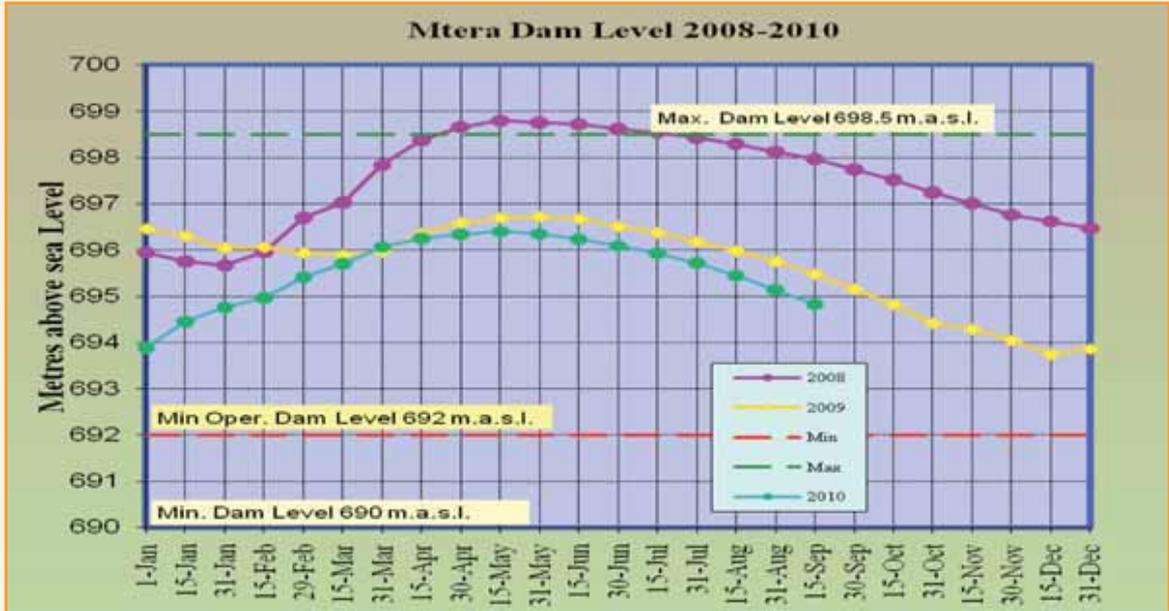
3.1.9 Mtera Dam level

Mtera dam plays a major role in hydrogeneration in the country. Owing to bad hydrology in 2009, the maximum dam level was never attained. Water levels are shown in Figures 7 and 8. As a result, more thermal generation was dispatched, including expensive generation such as IPTL in order to minimize the impact of load shedding in the grid system. Water management was strictly observed in the first half of 2010 and projections for the rest of the year show better hydrology conditions. It is, therefore, expected to achieve a favourable hydro and thermal generation mix for the rest of the year.

Figure 7: Mtera Dam Water Level – 2008 to 2010



Figure 8: Mtera Dam Water Level 2008-2010



3.1.10 Mtwara Energy Project

The Mtwara Energy Project is a gas-to-electricity project, involving electricity generation from gas supplied at Mtwara from the Mnazi Bay natural gas development project, and proposed distribution of electricity in a Franchise area in Mtwara and the Lindi Regions. The project is implemented by M/s Artumas who are the developers of the natural gas field together with TPDC. The Mtwara 12 MW gas fired generation station supplies power to parts of the Mtwara and Lindi administrative regions; Artumas sells electricity through an interim Power purchase Agreement.

In February, 2010, EWURA issued licence exemptions to Artumas affiliate companies, namely Artumas Group and Partners (Power) and Umoja Light for generation and distribution of electricity respectively. A tariff application received together with a licence application were reviewed and relevant Orders were issued by the end of May, 2010.

However, the Project encountered operational and financial problems which necessitated the Government to look into the fall back position to continue supplying power to the Mtwara- Lindi Off-grid franchise area. Under the proposed franchise arrangements, other districts in the Mtwara and Lindi regions will be connected to the Mtwara power station, thus power demand will increase, necessitating additional capacity to meet the demand. Artumas is currently undertaking installation of additional generating plants to reach 18 MW and has plans to increase the capacity to 30 MW during the 20 year contract agreement.

Apart from power interruptions resulting from the aged distribution system,

generation from the 12 MW power plant has been good, and Artumas managed to sell energy to TANESCO as shown in Table 11 and Figure 9.

Table 11: Artumas Generation Figure 9: Artumas Generation Performance



3.2 Performance Monitoring

3.2.1 Legislative Powers

Pursuant to the Electricity Act, Cap. 131, and the EWURA Act, Cap. 414, the Authority has been monitoring performance of the electricity sector. This included monitoring the level of investments into the sector, availability and quality of services required, level of demand and sales, tariff trend, and health, safety and environment issues. EWURA has been receiving and reviewing reports from the regulated entities mainly from TANESCO, Artumas and Songas.

3.2.2 Reporting System

EWURA has put in place a more comprehensive interim reporting format which takes into consideration the possibility of future power sector restructuring. Quarterly reports from TANESCO and Artumas are submitted on a regular basis. Songas has been directed to submit reports to the Authority apart from the reports submitted to TANESCO.

Nevertheless, arrangements are underway to develop a more robust, computer based monitoring system that will enable EWURA to obtain more regulatory information that will help to monitor performance of the regulated service providers as well as to provide reliable input to the tariff analysis. The system will also enable EWURA to produce and publish periodic reports. The proposed system is being developed with the assistance of Sida through the Sida Trust Fund that is managed by the World Bank. The outcome will result into a web-based comprehensive computerized monitoring system that can be shared among key stakeholders.

3.2.3 Monitoring Level of Investments

a) New Projects

During the period under review, the Authority continued to provide advice to new investors on investment opportunities in Tanzania, based on the Power Sector Master Plan. The Authority participated in various discussions and meetings that geared towards enhancing the level of investments. Important developments attended included development of the Stiegler's Gorge, Ruhudji Hydropower Projects, planned 100 MW gas-fired station in Dar-es-Salaam, and the 60 MW HFO plant in Mwanza, new investments by IPPs, cross-border projects such as the Rusumo hydro and Kikagati/Murongo mini-hydro, and reinforcement of the transmission system. Discussions were held with the Ministry of Energy and Minerals, TANESCO, RUBADA, potential investors and other stakeholders.

b) Small Power Project Programme

The Small Power Project programme was launched in 2008. It focuses on the development of small power plants that use renewable resources (such as mini-hydro, wind, Solar and biomass) with exportable capacities ranging from 100 kW to 10 MW. To date, five (5) developers have signed SPPAs totalling 24.4 MW and three (3) others are in communication with TANESCO to connect additional 10.8 MW. Over 40 projects are at various stages of appraisal before applying for the Letter of Intent (LOI) from TANESCO and licence from the Authority.

Draft rules and guidelines for SPP have been developed and are undergoing the approval process. Light handed regulation is being applied to reduce bureaucracy. EWURA is continuing to lead the Working Group on Small Power Development (WGSPD) in the computation of the Standardized Small Power Purchase Tariff (SPPT) of which process starts in September each year.

Table 12 shows the SPP development status as of June, 2010, which demonstrates the impact of launching the SPP programme between 2008 and June, 2010.

Table 12: Developmental Impact on the SPP Programme

S/n	SPP Developer	Installed Capacity (MW)	Maximum Capacity (MW) to Sell to TANESCO	SPPA Status	Expected Online Date
1	TANWAT (Biomass)	2.50	1.4	Signed 17/09/2009	15/06/2010
2	TPC Moshi (Co-generation - baggage)	17.49	9.0	Signed 06/10/2009	13/09/2010
3	Mwenga Hydro Ltd (Mini hydro)	4.00	3.0	Signed 19/01/2010	2012
4	Ngombeni Power Ltd (Mafia-Biomass)	1.40	1.0	Signed 19/01/2010	2012
5	SAO Hill Energy Ltd (Biomass)	15.75	10.0	Signed 26/02/2010	2012
6	Mapembasi Hydro Power Company (mini hydro at Ruhuji river).	12.00	9.0	LOI issued 25/06/2010	Not yet determined
7	ANDOYA Hydro Power Company (mini hydro at Ruhuhu river)	1.00	0.8	Process for LOI underway	Not yet determined
8	Kilombero Sugar Company (co-generation).	1.00	1.0	Process for LOI underway	Not yet determined

3.2.4 Monitoring Availability and Quality of Supply and Services

a) TANESCO Customer Service Charter

The Authority is closely monitoring the implementation of the first TANESCO Customer Service Charter, which was launched in February, 2010. The Charter outlines various service activities and the minimum standards for measuring the quality of service provided to customers by TANESCO. It has also established standards on quality of service for various activities that the Authority will be able to monitor. TANESCO have been urged to inform the public (consumers and potential customers) of the existence of the CSC. TANESCO has been submitting to EWURA quarterly performance reports which indicate the trend of the level of service rendered. In future, the Authority intends to carry out a survey on the level of customer satisfaction.

b) Establishment of Standards for Electricity Supply

The Authority, in collaboration with other stakeholders, including the Tanzania Bureau of Standards (TBS) and TANESCO, has concluded the first phase of formulating appropriate standards to benchmark quality of electricity supply and services. The draft Tanzania Standards on Power Quality has been submitted to stakeholders for comments. It was anticipated that the standards would be launched by December, 2010. After issuance of the Quality of Supply Standard, service providers will be required to meet the minimum standards and monitoring will be done and reported on agreed Key Performance Indicators (KPIs).

c) Monitoring Power Quality

The Authority has continued monitoring the performance of the power sector in terms of quality of the services rendered and compliance to set the standard of service and performance of the service providers. Efforts are being made to establish performance indicators that will eventually guide the regulated service providers to improve their performance. Meanwhile, measures are being taken by TANESCO to improve power quality by installation of capacitor banks to various substations in the grid system. TANESCO also is planning to upgrade its network by additional 132 kV transmission lines, and upgrading others to 220 kV and 400 kV. This approach will reduce transmission losses significantly.

EWURA received daily, bi-weekly, monthly, quarterly generation reports and the same were collated and maintained by the Authority for regulatory purposes.

Figure 10: Dodoma Substation - Capacitor Banks



3.2.5 Monitoring Access to Electricity

Tanzania has low access to electricity, with only 14% of the population having electricity. Most of those using electricity are from urban areas, and only 2% of rural population have access to electricity. TANESCO has managed to connect just about 60,000 customers in 2009, against a target of 100,000 new connections per annum from 2007 to 2012. Rural Energy Agency (REA) which came into operation in 2007 is playing a key role in expediting rural electrification together with TANESCO, using the Rural Energy Fund (REF). Several rural electrification projects have been implemented by TANESCO or by private contractors, with the focus to electrify all districts headquarters. REA is also facilitating development of small power projects through providing grants for consultancy services, and managing a fund from the World Bank financed Tanzania Energy Development and Access Project (TEDAP), to develop new SPP projects. The Authority has advised TANESCO to make use of the electrical contractors in construction of electricity networks particularly, service lines and distribution network extensions.

3.2.6 Cross-Border Electrification Projects

Under the EAC initiatives, member states have vowed to develop cross-border electrification projects along their borders. The Governments of Tanzania and Uganda are jointly supporting the development of the 16 MW hydro power project on the Kagera River at Murongo/Kikagati area. The project which will be shared by two countries is being implemented by a private developer. EWURA staff, as part of the Joint Technical Committee, provides regulatory advice to Tanzania's team pertaining to power trade. A Memorandum of Understanding between the two countries has been signed by the respective Ministers responsible for energy. Since the power house will be constructed on the Ugandan side, the developer has been granted a generation licence by the Ugandan regulator, the Electricity Regulatory Authority (ERA).

Tanzania, through the East African Community infrastructure projects, is expecting to jointly, under the auspices of the EAC, develop the 60 MW Rusumo Hydropower project, and share equally the resulting output of about 20 MW.

3.3 Third Party Access

The Tanzania power supply industry is vertically integrated, whereby TANESCO owns and operates the generation, transmission and distribution system. Currently, the electricity trading arrangement does not provide room for Third Party Access. However, through Small Power Producer arrangement, generators can access to the grid network through the Distribution Network Operator (DNO). It is anticipated that rules on Third Party Access to the grid system will be established after a new trading arrangement has been established. The plan for restructuring of the electricity market is yet to be issued by the responsible Minister.

3.4 Licensing

A total number of 17 licence applications were received during the period under review. Two short-term licences were issued to TANWAT Co. Ltd and TPC Co. Ltd in 2010. Provisional licences were issued to M/s SAO Hill Co. Ltd and Ngombeni Power Ltd in 2010. In addition, the Authority issued two licence exemptions to Artumas Group & Partners Co. Ltd and Umoja Lights Co. Ltd in December, 2009. 11 licence applications are still being processed.

In addition, a total of 66 licences were issued to successful applicants of contractors and wiremen licences in the electricity sector. No licences were issued to operators

of standby generators. However, 12 applicants who applied for standby generators licences were issued with temporary permits. The Authority is in the process of developing a license template for generators.

3.4.1 Site Inspections

During the period under review, the Authority carried out due diligence to satisfy itself on the eligibility and ability of the applicant to provide the services applied for. In addition, site inspections were undertaken to establish the status of the facilities used by the licensee to provide the services. The site inspection covered facilities owned by TANESCO including:

- a) transmission and distribution in Dar-es-Salaam, Tanga, Moshi, Arusha, Manyara, Singida, Dodoma and Morogoro regions;
- b) generation facilities at Hale, New Pangani Falls (NPF) and Nyumba ya Mungu; and
- c) substations in Majani Mapana - Tanga, Hale, Kiyungi, Arusha, Babati, Singida, Dodoma, Msamvu-Morogoro.

Inspection was also conducted regarding the infrastructure that supplies power to the Pemba Island from Tanga and to the distribution network in the border town of Namanga whereby power is supplied from Kenya. During the period under review, pre-licence inspection was conducted to:

- a) Singida Wind Power -- applied for a 50MW wind generation plant in Singida;
- b) Umoja Light Ltd – Distribution and Supply Licence in Mtwara and Lindi;
- c) AG&P Power – Generation Licence for 30MW at Mtwara;
- d) TPC Limited – Generation licence for 20 MW in Moshi; and
- e) Tanzania Sisal Board – 0.3 MW in Hale Tanga.

Figure 11: Sisal Energy (Biomass) Plant – Hale, Tanga



3.4.2 Licensing New Entities

Licences issued during the period under review are listed in Table 13.

Table 13: Licences/Exemptions Granted

No.	Licensee	Project Area	Project Specifics	Type of licence/ Duration
1	AG & G Power	Mtwara	30 MW- natural gas generation	Long-term exemption - 15 yrs
2	Umoja Light Ltd	Mtwara and Lindi	Distribution	Long-term exemption - 15 yrs
3	TANWAT Ltd.	Njombe	2.5 MW - Biomass generation	Short-term – 1yr ⁵
4	TPC Ltd	Moshi	20MW-Biomass generation	Short-term – 1yr ⁵
5	Ngombeni Power Ltd	Mafia	0.5MW-Biomass generation	Provisional Licence - 2 yrs
6	Sao Hills Energy Ltd	Mafinga	16 MW Biomass generation	Provisional Licence - 2 yrs

Note: 5- Permanent licence will be issued as soon as licence template is in place.

3.4.3 Licence Applications Under Process

Six licensees currently are operating under the licences issued by the Ministry of Energy and Minerals, namely TANESCO, IPTL, Songas, Geita Gold Mining, Chipole Mini-hydro and Mbingu Mini-hydro. Songas of which one of its six units is operating without a licence, has applied for a licence that will cover all the six units. The status of licences is as shown in Table 14.

Table 14- Licence Applications Under Process

S/n	Applicant	Project Area	Project Specifics	Status
1	Kilombero Sugar Company (KSC)	Kidatu, Morogoro	10.6 MW – Sugar biomass	Kilombero Sugar Company is generating electricity for own use. Owing to ongoing expansion plan, KSC has applied for generation licence in order to sell excess capacity to TANESCO under SPPA arrangement, however, the agreement is not yet signed and environmental audit is not yet in place.
2	ACRA, Tanzania	Ludewa, Iringa	0.3 MW – Hydro	ACRA has been operating since August, 2010, however, formal licence exemption is not yet granted by EWURA as Environmental Clearance is not yet in place.
3	Mwenga Hydro Ltd.	Mufindi, Iringa	3.36 MW - Hydro	Still in development phase. Anticipated to be online by early 2013.
4	Andoya Hydroelectric Power Ltd.	Mbinga, Ruvuma	1.0 MW - Hydro	Still in development phase. It is anticipated to be online by early 2013.
5	Kitonga Electric Power Company	Iringa	10 MW	Still in pre-feasibility study phase. Commissioning date depends on financial arrangements which are not yet in place.
6	Klad Tanzania Ltd.	Dar es Salaam and Mwanza	260 MW Natural gas and Heavy Oil	Commissioning date depends on signing of PPA with TANESCO and meeting financial closure.
7	TANCOAL Energy Ltd.	Mbinga, Ruvuma	400 MW - Coal	Still in feasibility study phase. Commissioning date is not clear.
8	Singida Wind Power Ltd.	Singida	210 MW - Wind	Financial arrangement is not yet in place. First phase (50 MW) anticipated to be online by 2014.
9	Pangea Minerals Ltd.	Tulawaka, Geita	13 MW - Diesel	Commissioned in 2005. Licence application review is in progress.
10.	North Mara Gold Mines Ltd.	Musoma, Mara	15 MW – Diesel	Commissioned since 2000. Licence application review is in progress.

3.4.4 Electrical Installation

During the period under review, 72 electrical contractor licences were issued class licences. One interview session was held in Dar-es-Salaam, and two contractors' seminars were organised in Mwanza and Arusha.

3.5 Determination of Rates and Charges

3.5.1 Tariff for Small Power Projects

The Authority reviewed the standardized tariff for Small Power Projects (SPPT) for 2009. The tariff was approved after consultations with stakeholders including the Working Group on Small Power Development (WGSPD) and the public.

3.5.2 Tariff Applications for the Mtwara Energy Project (MEP)

Application for tariff for Artumas Group & Partners (Power) and Umoja Light for power tariff retail tariff respectively were reviewed. The tariffs would be used for power distribution in the Mtwara and Lindi regions.

3.6 Legislative Matters

EWURA continued to participate in the preparation of the draft Electricity Regulations which are being prepared by the Minister for Energy and Minerals. EWURA has also prepared the following rules which are in the final stages of promulgation:

- (a) The Electricity (Development of Small Power Projects) Rules;
- (b) The Electricity (Generation Services) Rules;
- (c) The Electricity (Transmission Services) Rules;
- (d) The Electricity (Distribution Services) Rules; and
- (e) The Electricity (Supply Services) Rules.

3.7 Complaints and Dispute Resolutions

Status of complaints that reached hearing stage during the reporting period is shown in Table 15.

Table 15: Status of Complaints for 2009/10

S/n	Complainant	Respondent	Nature	Status
1	Michael Thomas, Kawe	TANESCO, Kinondoni	Compensation due to fire Accident	Hearing in Progress
2	Regency Hospital	TANESCO, Ilala	Billing	Hearing in Progress
3	Nyaronyo Kicheere	TANESCO- Kiondoni	Billing	Hearing in Progress
4	Nova Associates	TANESCO- Ilala	Billing	Hearing in Progress
5	Clement Mwakasungula	TANESCO-Dodoma	Billing	Awaiting Award
6	Open University	TANESCO	Billing	Hearing in Progress
7	Julius Mahenge	TANESCO	Billing	Hearing in Progress
8	RAVJI	TANESCO	Billing	Hearing in Progress

3.8 Litigation

There was no litigation filed by or against EWURA in this sector during the period under review.

3.9 Health, Safety and Environmental Matters

Regular Inspections were conducted in the regulated entities by the Authority and in some cases in, collaboration with other institutions such as OSHA and NEMC for the new licence applicants to verify compliance with safety and environmental issues before a licence is issued. The Authority also has been collaborating with TANESCO on safety issues before a permit is issued to the standby generator which operates in parallel with TANESCO system.

3.10 Challenges and Way Forward

3.10.1 Challenges

Despite the existence of new sector legislation, the following challenges are being faced:

- a) the plan for restructuring the electricity market has not been issued by the Minister responsible, hence making it difficult to prepare the necessary regulatory tools that are envisaged in the legislation;
- b) inadequate investments, thus leading to mismatch between supply and demand, as a result the system is operating without sufficient reserve margins;
- c) low level of access- only 14 % of the total population has access to electricity, hence deliberate efforts need to be considered to connect more customers; and
- d) there is a need for defined strategies for implementation of the Power Sector Master Plan.

3.10.2 Way forward

- a) Rules on electricity power market including access to the grid network will be prepared as soon as the Minister responsible announces power market structure.
- b) There is a need to establish Power Sector Development Strategies that will focus on implementation of the Power Sector Master Plan.
- c) Deliberate efforts should be taken by the Government to prioritise electricity projects and increase the source of financing electrification access projects.
- d) EWURA is in the process of developing IPP guidelines. The guidelines will establish standard arrangements for IPP's participation in the country.
- e) EWURA, in collaboration with other stakeholders is in the process of developing national grid codes and national standards on power quality.
- f) The process to establish benchmarking includ KPIs for the Electricity Supply Industry (ESI) is in progress.

4.0 PETROLEUM

During the period under review, there were several issues that were prioritized by the Authority in regulating the petroleum sector. These include licensing of operators, random inspections of petroleum products quality and price monitoring, preparation of standards, preparation of Rules, implementation of petroleum products marking programme and establishment of a fully fledged laboratory. In addition, priority was also given to the preparation for establishment of the National Petroleum Information System (NPIS).

4.1 Overview

EWURA has been closely monitoring the availability of petroleum products by compiling data on imported product volumes and giving early warning signals to the industry in case of limited stocks of any product. There was no serious shortage observed during the period under review.

During the period under review, EWURA continued with efforts to protect the consumers by curbing illegal practices that are rampant in the industry such as: adulteration or possession of adulterated finished products, illegal trading in petroleum products (that is, without a licence), overpricing, and under-delivery (such as under filling of gas cylinders and use of un-calibrated pump meters).

Operators in the petroleum products supply chain, including oil marketing companies, distributors, dealers, retailers, re-fillers of gas (LPG) and haulers, as the case may be, are held responsible for the quantity and quality of the products delivered to the public. If any of them is found in violation of the law, he is punished accordingly.

4.2 Performance Monitoring

4.2.1 Petroleum Products Supply and Stock Monitoring

EWURA compiles petroleum products stocks twice per week to ensure security of supply. In case of low stocks, stakeholders, including the Ministry of Energy and Minerals, OMCs and Tanzania Ports Authority, are alerted and necessary measures taken to alleviate product shortage.

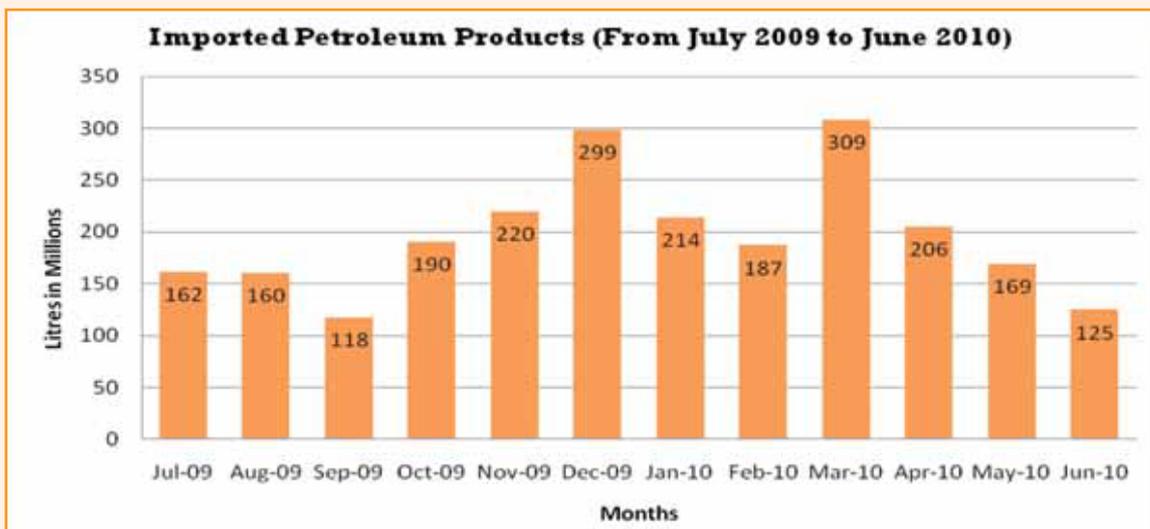
Product import data is gathered on behalf of EWURA by a marine surveyor, SGS Superintendence Tanzania Limited, on arrival of vessels. From July, 2009 – June, 2010, the total of 1,557,898,439 litres of petroleum products were imported for the local market, and 797,914,676 litres were imported for transit to neighbouring countries. The breakdown of the imported volumes for each entry point is shown in Table 16.

Table 16: Imported Quantities per Entry Points

Entry Point	Imported Quantity (Litres)			%
	Local Quantity	Transit Quantity	Total Quantity	
Dar-Es-Salaam (KOJ)	1,484,914,013	793,879,204	2,278,793,217	96.73
Tanga	3,985,772	3,985,772	7,971,544	0.34
Mwanza	12,103,852	0	12,103,852	0.51
Musoma	6,870,200	0	6,870,200	0.29
Sirari	50,024,602	49,700	50,074,302	2.13
Total	1,557,898,439	797,914,676	2,355,813,115	100

There are monthly variations with respect to the requirements of different product grades, as can be seen in the histogram, Figure 12.

Figure 12: Imported Petroleum Products in Monthly Volumes from July, 2009, to June, 2010



The imported quantity changes are due to requirements in diesel for agricultural machines during the farming season. Petrol and kerosene consumptions have remained almost constant throughout the year.

4.2.2 Bulk Procurement of Petroleum Products

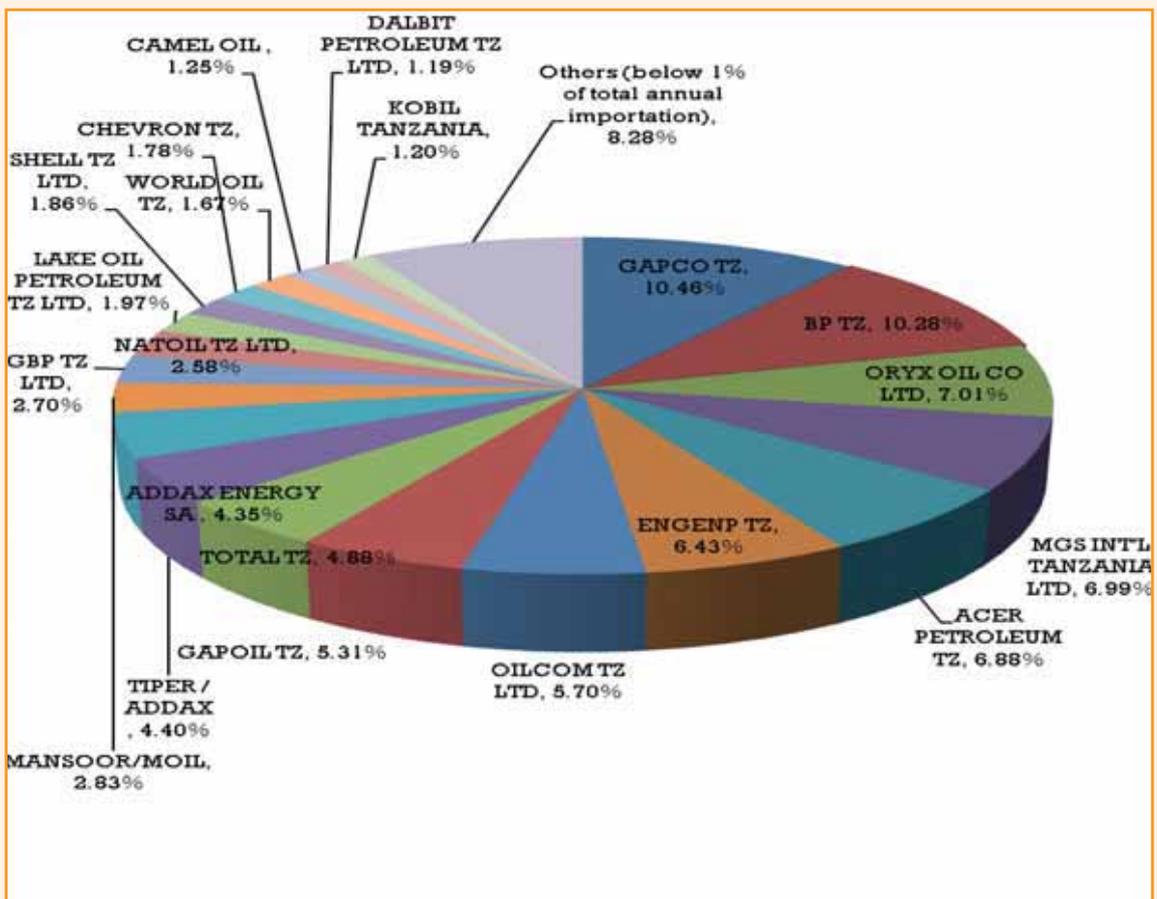
The Final Report on Bulk Procurement of Petroleum Products was received from the Consultant, Petroleum Development Consultants Ltd (PDC) of UK. The report was circulated to stakeholders. Draft Bulk Procurement Rules and System Implementation Manual were prepared. The Rules and Operating manual have already been approved by the Board. EWURA conducted an exit meeting during which the Oil Marketing Companies, who are the major stakeholders in the implementation of the BPS, seconded the two documents and affirmed their co-operation for the implementation of the same. The commencement of the system now awaits the Minister for Energy and Minerals to issue the appropriate Regulations.

4.2.3 Petroleum Products Sales

During the period under review, it is estimated that consumption of petroleum products in the Tanzania local market was 1,493,100 cubic metres (CM). The market was dominated by eight companies (with market shares of more than 5%), these include: Gapco, BP, Oryx, MGS, Acer Petroleum, Engen, Oilcom and Gapoil. Most of these companies have petrol stations located in all regions in the country. This is shown by the breakdown of the imported volumes into product grades declared for domestic consumption.

Market shares for all the companies are summarized in Figure 13. The market share of local sales has been constructed using sales data supplied by wholesalers. This shows that the market is not concentrated and fairly balanced among many players.

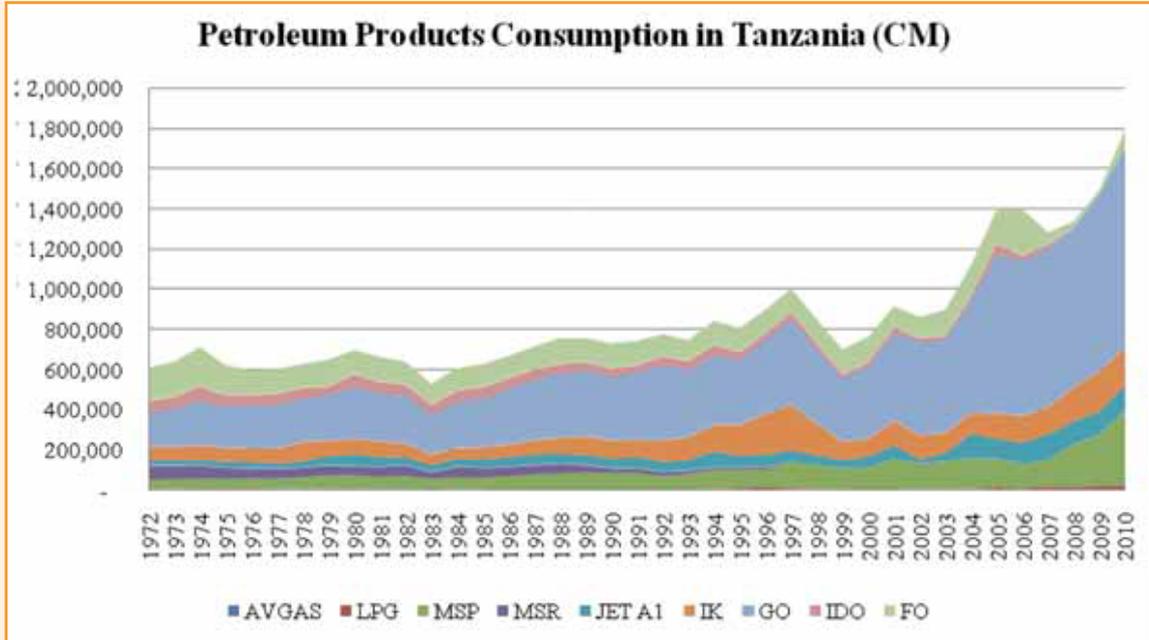
Figure 13: Market Shares (From July, 2009, to June, 2010)



4.2.4 Petroleum Products Consumption Trend

Petroleum products consumption growth over the years is as shown in Figure 14. The figure shows that there has been a steady growth of consumption of petroleum products.

Figure 14: Light Fuel Consumption Trend (1972 – 2010)



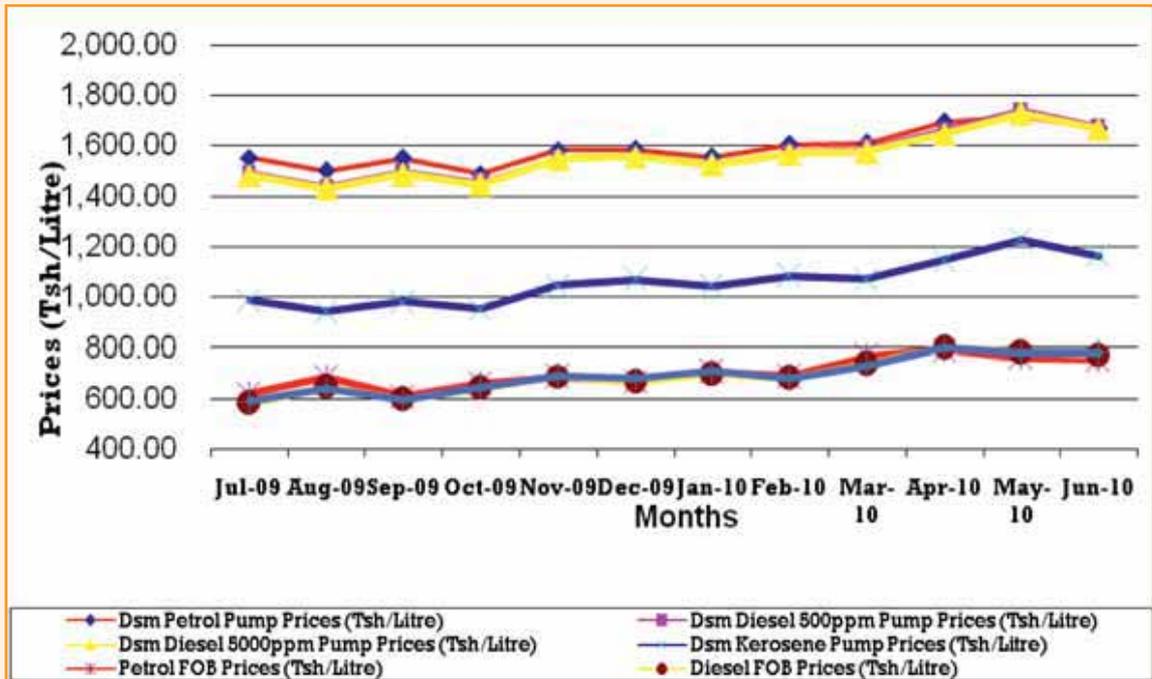
This growth in consumption is generally in line with the economic performance of the country over the past seven years, as reflected in real growth in Gross Domestic Product (GDP) which averages about 7% during the period under review.

4.2.5 Petroleum Products Price Monitoring

The Authority continued with petroleum products price setting and monitoring activities. The Price Setting Formula inputs starts with the data on FOB world product prices which is provided by Platts Services on a daily basis. Premium, freight and insurance are the other inputs which are costs that are external and cannot be influenced by any internal factors. Indicative and cap products prices are reviewed and published on a fortnightly basis.

World market prices that are applicable are the Mediterranean Market for petrol and Arabian Gulf for the rest of the products, and as published by the Platts oilgram. During the period under review, the average prices in the world market were: Brent Crude (\$75.20/bbl), Petrol (\$690.89/MT), Diesel 5000ppm (\$602.13/MT), Diesel 500ppm (\$610.40/MT) and Kerosene (\$639.61/MT), as shown in Figure 15. Similarly, the average Dar-Es-Salaam pump prices were as follows: Petrol (Tsh.1,591.82/Litre), Diesel 500ppm (Tsh. 1,567.04/Litre), Diesel 5000ppm (Tsh. 1,555.10/Litre) and Kerosene (Tsh. 1,058.64/Litre).

Figure 15: Petroleum Prices for Local & World Market (July, 2009 – June, 2010)



The direct relationship of international prices and the set cap prices can be seen by the unison movements of the curves.

The Authority has compiled data on the local market pump sales, and the plot of maximum local prices and minimum prices show that there is room for competition below cap prices due to the differences in operating costs and marketing strategies among many different operators. The freight and premium element that was a constant of US\$ 83.5 was reviewed and replaced with a variable element as provided by Platts Clean Tankerwire Publications. This made a change to an average freight and premium cost of US\$ 29.92, for all products and lowering the final price to consumers significantly.

The inspection carried out by EWURA and the high level of awareness of prices by consumers show that most operators in the country observed EWURA price changes. However, a total of 29 petrol stations in various regions were found selling products above published cap prices and these were penalized according to the law.

Table 17: Dar-Es-Salaam Petrol Pump Prices from July, 2009, to June, 2010

Month	Petrol Minimum Pump Price TZS/Litre)	Petrol Maximum Pump Price (TZS/Litre)	Petrol Cap Price (TZS/Litre)
Jul-09	1,300.00	1,500.00	1,577.00
Aug-09	1,420.00	1,466.00	1,466.00
Sep-09	1,295.00	1,595.00	1,597.00
Oct-09	1,430.00	1,507.00	1,489.00
Nov-09	1,410.00	1,569.00	1,569.00
Dec-09	1,420.00	1,585.00	1,585.00
Jan-10	1,440.00	1,533.00	1,533.00
Feb-10	1,520.00	1,619.00	1,619.00
Mar-10	1,520.00	1,572.00	1,572.00
Apr-10	1,520.00	1,659.00	1,680.00
May-10	1,540.00	1,705.00	1,710.00
Jun-10	1,560.00	1,681.00	1,681.00

Figure 16: Comparison of Petrol Pump Prices in Dar-Es-Salaam (July, 2009 – June, 2010)

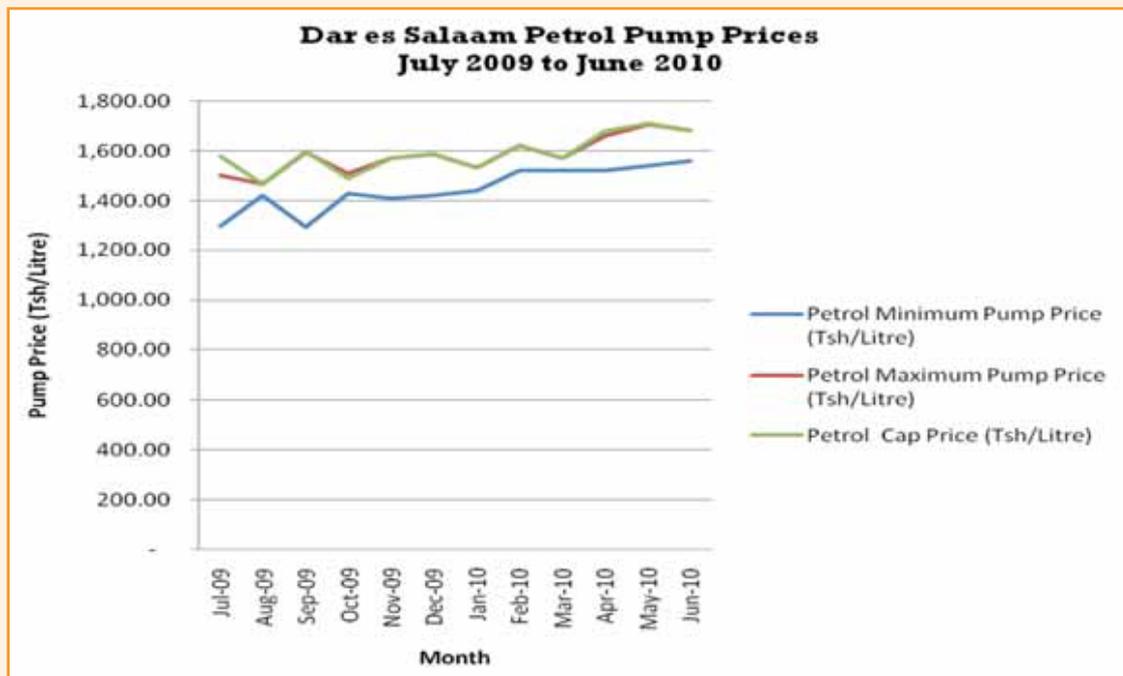
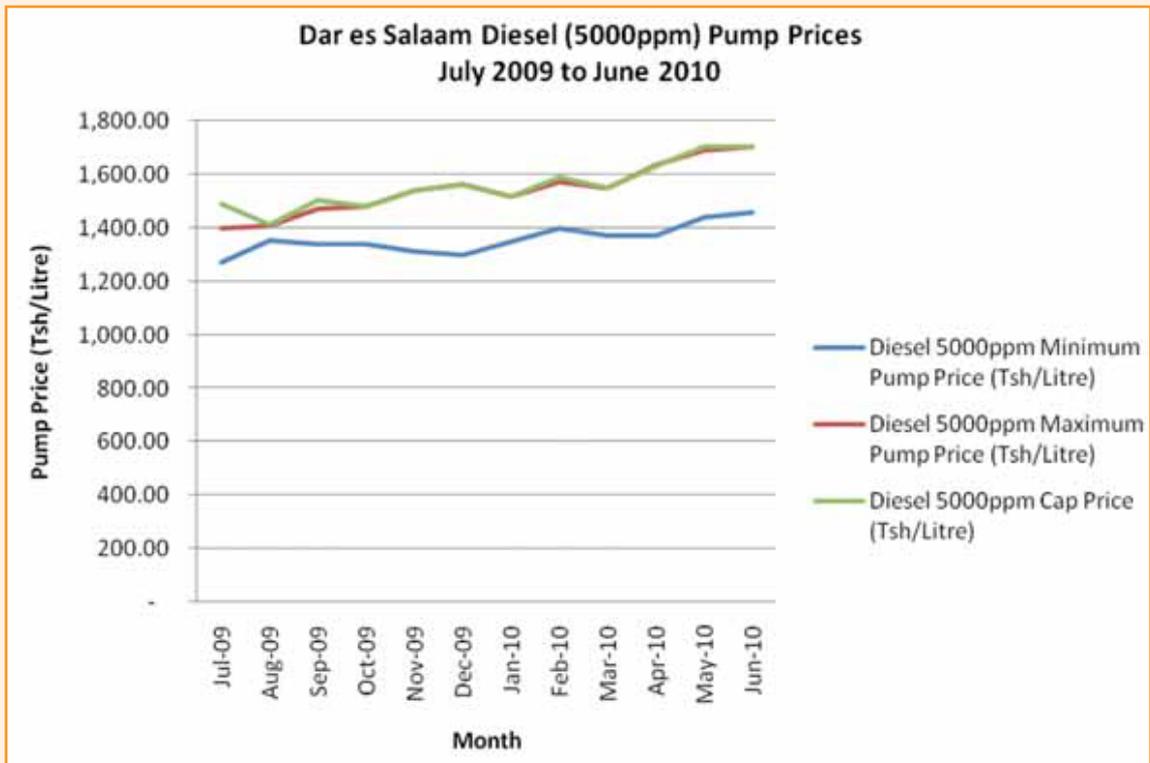


Table 18: Dar-Es-Salaam Diesel (5000ppm) Pump Prices from July, 2009, to June, 2010

Month	Diesel 5000ppm Minimum Pump Price (TZS/Litre)	Diesel 5000ppm Maximum Pump Price (TZS/Litre)	Diesel 5000ppm Cap Price (TZS/Litre)
Jul-09	1,270.00	1,400.00	1,491.00
Aug-09	1,355.00	1,411.00	1,411.00
Sep-09	1,340.00	1,472.00	1,504.00
Oct-09	1,340.00	1,481.00	1,481.00
Nov-09	1,310.00	1,539.00	1,539.00
Dec-09	1,300.00	1,562.00	1,562.00
Jan-10	1,350.00	1,516.00	1,516.00
Feb-10	1,400.00	1,570.00	1,591.00
Mar-10	1,370.00	1,549.00	1,549.00
Apr-10	1,370.00	1,633.00	1,633.00
May-10	1,440.00	1,691.00	1,704.00
Jun-10	1,460.00	1,703.00	1,703.00

Figure 17: Comparison of Diesel (5000ppm) Pump Prices in Dar-Es-Salaam (July, 2009 – June, 2010)

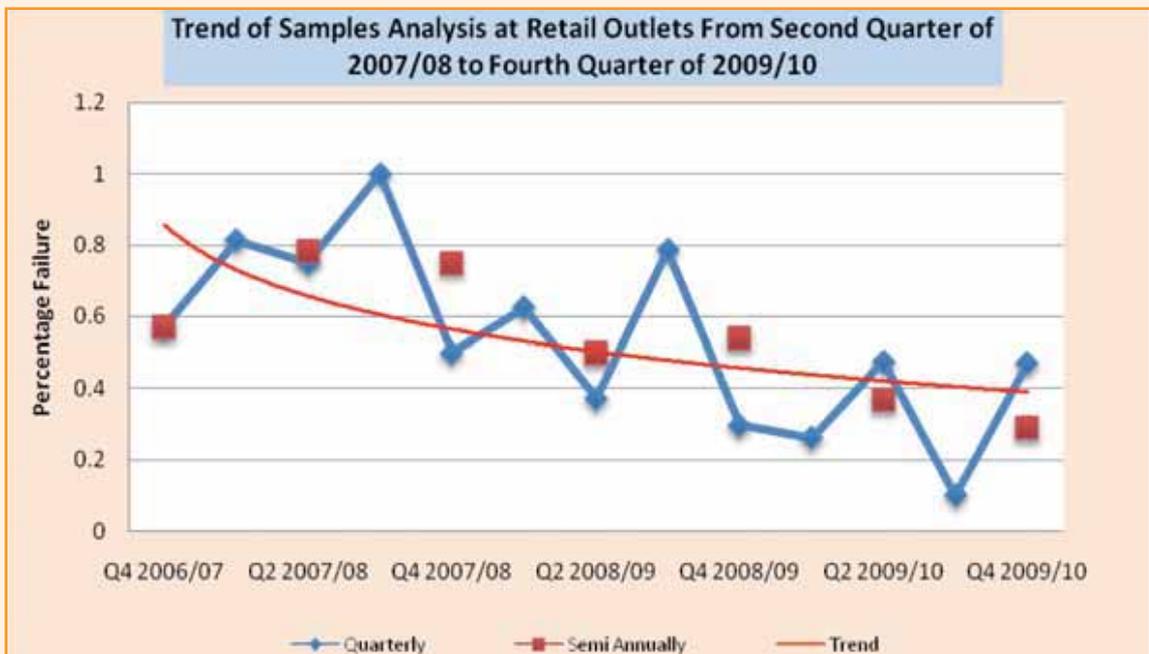


4.2.6 Petroleum Products Quality Monitoring

The Authority carries out frequent and random sampling in order to ensure that the consumer gets the right quality of petroleum products as per set standards. From May, 2007, to June, 2010, a total of 432 retail outlets in Tanzania Mainland regions have been sampled. Among these, 210 outlets (equivalent to 48.6% of all the sampled retail outlets) were found to be selling or found in possession of products for sales which were out of TBS quality specifications. During the period under review, 233 petrol stations, 24 depots and 40 fuel tankers across the country were randomly sampled. Among these, 36% of retail outlets, 29% of depots and 55% of tankers were found to have products that were out of TBS specifications. However, it should be noted that the high percentage of failure in the samples collected from tankers was a result of off-specification transit products returned from Rwanda and Burundi.

Trend analysis of random sampling done in a quarterly period from May, 2007 to date has shown that there has been improvement in the quality of fuel sold as the adulteration level has decreased by about 38%, that is, from 78% in May, 2007, to 40% by June, 2010. This can be seen in Figure 18.

Figure 18: Trend of Samples Analysis from Quarter 2 of 2007 to Quarter 2 of 2010



Punitive measures were taken against operators of the facilities that were found with off-specification products.

The inefficiency and other shortcomings of the current method of detecting adulteration led EWURA to initiate study and come up with the solution to improve detection and efficiency. The solution proposed is on-the-spot, an XRF detection methodology of pre-marked petroleum products. During the reporting

period, EWURA contracted M/S Global Fluids International (T) Ltd to provide petroleum products marking services. The implementation process is underway it is expected to kick-start during the first quarter of the Financial Year 2010/11.

EWURA is also establishing a fully fledged analytical laboratory to perform full analysis of all petroleum products including lubricants. During the period under review, EWURA contracted M/S NORMALAB FRANCE S.A.S of France to supply laboratory equipment for analysis of petroleum products.

4.2.7 Standards of Petroleum Products and Facilities

During the year under review, the Authority, in collaboration with the Tanzania Bureau of Standards and other stakeholders, prepared standards for petroleum infrastructure facilities. Those prepared and approved by the Tanzania Bureau of Standards include:

- a) TZS 1115:2009 – The Petroleum Products Retail Outlets;
- b) TZS 1113:2009 – Depots for the storage of petroleum products;
- c) TZS 1076:2009 – Selection, specification, installation, operation and maintenance of automatic liquid level and temperature measuring instruments on petroleum storage tanks; and
- d) TZS 1079:2009 – Installation of underground storage tanks, pumps/ dispensers and pipe-work at service stations and consumer installations.

Other standards that were prepared but are still pending for approval by the Tanzania Bureau of Standards include:

- a) CDC 17 (2064) P1/ISO 4925. 2005 Road vehicles – Specifications of non-petroleum based brake fluids for hydraulic systems;
- b) CDC15 (2026) P1- Denatured fuel ethanol for blending with gasoline for use as automotive spark- ignition engine fuel;
- c) CDC15 (2026) P1- Automotive Bio-diesel fuel specifications;
- d) CDC15 (2026) P1- Fuel oil specification (Rev. of TZS 673: 2001); and
- e) Revision of Automotive Gas Oil Specification (AGO), with emphasis on sulphur content reduction from 5,000ppm (0.5%) to 500ppm (0.05%).

4.2.8 Responses to Fire Incidents

During the period under review, three fire incidences at different locations were reported. One was at the Oilcom Tungi Nane Nane Petrol Station in Morogoro and claimed the lives of two people from severe burns. Another one was at the NSK Oil depot in Arusha whereby one person (driver) died after an explosion of a petrol tanker which was being welded. The other one occurred at the Kigamboni LPG outlet with no loss of life. The Authority carried out investigation in all the incidences and established the causes of the incidences, and issued directives to the operators on safe operations to avoid similar incidences from happening in future.

The public were also informed through media on safety precautions necessary to be taken in handling petroleum products.

4.3 Third Party Access

In Mainland Tanzania, all the depots are fully owned by the Oil Marketing Companies (OMCs) with the exception of the TIPER Dar-Es-Salaam storage facilities. TIPER is jointly owned by the Government of Tanzania through the Tanzania Petroleum Development Corporation and Addax/Oryx.

OMCs without operational depots are required to have hospitality agreements with OMCs having operational depots. This is one of the mandatory requirements for issuance of a Petroleum Products Wholesale Licence.

4.4 Licensing

Each licence application in the downstream petroleum sector undergoes several screening processes. One of these is the pre-licensing inspection to ensure that the applicants meet the minimum conditions necessary for licence granting. At the end of June, 2010, all existing and new retail outlets had been inspected. During the fiscal year 2009/10, a total of 214 applicants were inspected, out of which 183 applicants were for retail licences and 31 wholesale licence applicants.

After evaluation, it was noted that more than 50% of the applicants for the retail licence had submitted the Title Deeds which were not for the development of petrol stations and which did not have any approval of the change of land use in that regard. It was, therefore, decided to issue one-year conditional licences to unsuccessful applicants in order to avoid disruption of petroleum products supply in the country. The Petroleum Act, 2008, provided a grace period of one year since its gazetting for the pre-existing operators to acquire EWURA licences. This implied that those petrol stations that had not been granted on EWURA licence should close down after the 31st March, 2010, deadline.

During the period under review, the Authority processed and granted 11 petroleum wholesale licences and 363 petroleum retail licences. Out of those granted, 184 are conditional licences valid for one year. Licensing status is summarised in Table 19.

Table 19: The Licensing Status as of June, 2010

Licence Type	Number of Applicants	Awarded Licences	Licences Being Processed	Rejected Applications
Wholesalers	132	60	72	-
Retailers	1068	775	271	22

4.5 Legislative Matters

During the period under review, the Authority, in collaboration with other stakeholders, prepared the following Rules:

- a) The Petroleum (Marking and Quality) Rules, 2010: The Rules came into force on 11th June, 2010. The Rules require all diesel, petrol and kerosene that are taxed and distributed for local consumption to be marked;
- b) The Petroleum (Sampling and Testing) Rules, 2010: There had been an outcry from the public and Members of Parliament that the penalties/ fines for non-conforming petroleum products were low. The Rules have been published and are in force. Among other things, the Rules take care of petroleum sampling procedures, petroleum testing and re-testing procedures, and penalties for non-conforming products;
- c) Petroleum (Consumer Installation Activities) Rules, 2010: They have been reviewed by the respective committees, Board and sent to stakeholders. They await final Board approval;
- d) Petroleum (Road Transportation) Rules, 2010: Approved by the Board and have been sent to CPD for publication;
- e) EWURA (Liquefied Petroleum Gas) Rules, 2009: Approved by the Board but publication of the same was suspended after coming into force of the Petroleum Act, Cap. 392. They await to be re-submitted to the Board under the new law; and
- f) Petroleum (Bulk Procurement) Rules, 2010: Approved by the Board, await *gazetting* subject to publication of Petroleum Regulations, 2010, by the Minister for Energy and Minerals.

4.6 Complaints and Conflict Resolution

The status of complaints that reached hearing stage in the petroleum sector during the reporting period is shown in Table 20.

Table 20: Status of Complaints and Conflicts Resolution, 2009 – 2010.

S/N	COMPLAINANT	RESPONDENT	NATURE	STATUS
1	Kilimanjaro Truck Co Ltd	MGS	Adulteration	Settled
2	Terracota	MGS	Adulteration	Settled
3	Express Trading	NATOIL Mbezi Mwisho	Adulteration	Mediation in Progress

4.7 Litigation

During the period under review, EWURA has been subjected to a number of litigations filed by or against it in the Petroleum sector. The summary of cases is shown in Table 21:

Table 21: Summary of Litigations

S/N	Parties	Court or Tribunal	Nature of Proceedings	Status
1	Mohamed Twalib vs. EWURA	FCT	An appeal against EWURA for closure of petrol stations in Morogoro Municipality	Appeal marked withdrawn in May, 2010
2	Abdulatif Nahd vs. EWURA	FCT	An appeal against EWURA for closure of petrol stations in Morogoro Municipality	Appeal marked withdrawn in May, 2010
3	EWURA vs. Mohamed Twalib	High Court	Contempt Proceedings	Defendant was convicted
4	EWURA vs. Abdulatif Nahd	High Court	Contempt Proceedings	Defendant was convicted
6	African Motors vs. EWURA	FCT	An appeal against EWURA for closure of a petrol station in Dodoma Municipality	Appeal marked withdrawn in May, 2010
7	EWURA vs. Ahmed Jamal t/a Msufini Petrol Station aka Kongowe Petrol Station	High Court	Contempt Proceedings	Pending
8	BP (T) Ltd vs. EWURA	FCT	An appeal against EWURA for closure of a depot in Moshi	Appeal allowed with costs and EWURA's decision reversed
9	Oryx Oil (T) Ltd vs. EWURA	FCT	An appeal against EWURA for closure of a depot in Moshi	Appeal allowed with costs and EWURA's decision reversed
10	Big Bon Ltd vs. EWURA	FCT	An appeal against EWURA for denial of licence and order to close its petrol station in Kigogo, Dar es Salaam.	Pending
11	Njake Enterprises Ltd vs. EWURA	Commercial Court	A suit against EWURA for closure of petrol stations in Arusha	Pending

4.8 Health, Safety and Environmental Matters

EWURA continued to make inspections for the purpose of ensuring that HSE requirements are observed by all operators. During the period under review, 34 retail outlets were issued with closing orders because they were posing threats to public safety and the surrounding environment owing to the fact that they were improperly built. EWURA continued its collaboration with the National

Environmental Management Council (NEMC) in reviewing the Environmental Impact Assessment (EIA) studies for construction of petroleum storage facilities (depots) and retail outlets, as required by the Environmental Management Act, 2004. The Authority reviewed two (2) EIA study reports, out of which one (1) was for the construction of a retail outlet at Mkuranga, Coast region, and the other for the construction of a storage depot in Kahama, Shinyanga region.

In March, 2009, EWURA conducted inspection exercises regarding all petrol stations with backyards along the DSM – Morogoro Highway (Kibaha to Mdaula). The aim of the inspection exercise was to ascertain those petrol stations with backyard walls and conducting unethical petroleum practices. Initially, EWURA ordered 9 retail outlets to either demolish the whole backyard or demolish the front and construct it in a manner that it was possible for all activities carried therein to be seen straight from the main road. The Authority also ordered removal of all the underground and above ground storage tanks in the backyard plus the delivery hoses, drums, pipes and related equipment. But, after several consultations with and advice to the Coast Regional authority, on 24th May, 2010, the Kibaha District Council served one month notice on all petrol stations within the district ordering them to demolish backyards built at petrol stations contrary to the land planning regulations.

4.9 Challenges and Way Forward

The downstream petroleum sector is a competitive sector. However, there are areas that need regulatory intervention to further improve competition in the sector. EWURA has made an impact on this front although much needs to be done:

- a) standards: The Authority in collaboration with other stakeholders in the petroleum downstream sector, continued with the preparation of different standards for petroleum products and facilities;
- b) capacity building: There is a need for professional/industry training of existing staff to improve work skills in the areas of safety, health and environmental issues related to petroleum operations and in competition monitoring and procurement; and
- c) substandard lubricants quality: It is important that EWURA be able to respond to consumers' needs by being close to them. This is especially so in the safety and quality of fuel issues. Also, some products such as lubricants and waste oil, need to be closely regulated. The Authority is preparing to increase regulatory oversight.

Notwithstanding the challenges faced, the Authority has embarked on the following as a way forward:

- a) operationalization of the petroleum products marking program to start in the first quarter of the fiscal year 2010/2011;
- b) establishment of a fully fledged laboratory to ensure compliance with petroleum products standards;

- c) preparation of Rules and standards as additional regulatory tools to increase regulatory oversight; and
- d) establishment of the National Petroleum Information System. The Authority is working in close co-operation with the contractor to ensure that it becomes a success.

Overall, the sector is effectively competitive and vibrant.

5.0 NATURAL GAS

This part of the report covers highlights of the regulatory activities carried out, achievements made and challenges faced by EWURA in discharging its regulatory roles and functions during the financial year 2009/10 in the natural gas sub-sector. EWURA collects, analyses, and disseminates operations information as one of the regulatory tools. The key objectives of this report are:

- a) to inform the public on the activities carried out by the service providers and EWURA during the period under review; and
- b) to analyse the performance of the natural gas sub-sector, and operations data analysed by EWURA during the FY2009/10.

5.1 Overview

EWURA is responsible for regulating downstream natural gas activities, involving the processing, transportation, storage and distribution of natural gas in Mainland Tanzania. The infrastructures involved (mainly the transmission and distribution pipelines and storage facilities) support natural monopoly behaviour (anti-competition), and are not cost-effective to duplicate. Likewise, during the early stages of gas industry development, where the producers of natural gas participate seamlessly in processing, transmission and distribution activities, if a gas processing plant has capacity to serve various gas producers, and hence qualifies as a strategic common facility, it is regulated as well. Marketing and sales of natural gas are non-regulated activities. The upstream hydrocarbons activities, involving exploration, field development and production continue to be regulated by the Ministry of Energy and Minerals applying the Petroleum (Exploration and Production) Act, 1980.

There is a big correlation between the impact of downstream activities regulation and the intensity of upstream hydrocarbons exploration activities. During the period under review, more than sixteen international oil companies (including the giants Petrobras, Statoil Hydro, and Shell International) were at various preparatory stages in the east coast of Tanzania. So far, Tanzania has made four discoveries of natural gas fields as follows:

- a) in the vicinities of Songo Songo Island (about 250 km South of Dar es Salaam, in 1974);
- b) Mnazi Bay and Msimbati field (about 450 km South of Dar es Salaam, in 1982);

- c) Mkuranga (about 60 km South of Dar es Salaam, in December, 2007); and
- d) Kiliwani North (about 2.5 km South East of Songo Songo Island in April, 2008).

Only two gas fields, Songo Songo and Mnazi Bay, are producing. According to the McDaniel & Associates Report dated 31st December, 2008, proven and probable reserves in the Songo Songo gasfield (the main and north structures) are estimated at 828.8 billion standard cubic feet (BCF), while proven, the probable and possible reserves stand at 1.562 trillion standard cubic feet (TCF). According to Rose & Associates Report dated 2008, the proved and probable gas reserves are estimated at 2.015 TCF, while the proved, the probable and possible gas reserves in the Mnazi Bay vicinities are estimated at 4.055 TCF.

Based on the figures mentioned above, it is clear that there is enough gas to run a significant additional capacity of electric power plants, industrial and household uses, as fuel to run urban fleets, and a reasonable sized capacity of petrochemical industry, particularly, fertilizer production. Attracting investment in natural gas processing, transportation, storage and distribution infrastructures remains a major challenge. Globeleq, Orca Exploration Group, Wentworth Resources Limited, Rak Gas, and the East African Community are studying the solutions to the infrastructural challenge.

Major players in the sector include the Tanzania Petroleum Development Corporation (TPDC), Songas Limited (Songas), PanAfrican Energy Tanzania Limited (PAT) a subsidiary of Orca Exploration Group, Maurel et Prom (M&P) the lead company that took over the operatorship of the Mnazi Bay Production Sharing Agreement from Wentworth Resources Limited (formerly known as Artumas Group & Partners) effectively from 1st December, 2009. Between and among the parties to the Production Sharing Agreements and other project agreements, the rights and obligations are allocated, and parties are regulated by contracts. During the period under review, EWURA enjoyed good working relationship with the stakeholders.

5.2 Performance Monitoring

Monitoring the performance standards of the regulated activities in the natural gas sub-sector pursuant to Section 7(1)(c) of the EWURA Act, (Cap 414), focuses on the assessment of:

- (a) the availability, quality and standard of services;
- (b) the levels of investment in natural gas infrastructure development;
- (c) the efficiency of production and distribution of services;
- (d) the cost of services; and
- (e) other matters relevant to the Authority.

Some of the parameters listed above need a longer timeframe (at least three years or more), while others can accurately be assessed on a quarterly or semi-annual basis. Occasionally and, in some cases, routinely, EWURA receives a number of reports from the regulated service providers, which, in addition to field inspections, form part of the basis of monitoring.

5.2.1 Availability of Natural Gas Services

During the year ended on 30th June, 2010, the natural gas production from the Songo Songo gasfield met 75 percent of Dar es Salaam market, which is estimated at 120 million standard cubic feet per day (MMSCFD). On average, the critical gas processing facility was 109.5% available at 76.65 MMSCFD after the capacity of the common processing facility for Songas and PanAfrican Energy on Songo Songo Island was re-rated by Lloyds Register from the operating capacity of 70 MMSCFD to the maximum of 90 MMSCFD. The peak gas demand of 90.07 MMSCFD was recorded on 24th June, 2010.

Throughout the entire period, EWURA, through discussions, encouraged Songas and PanAfrican Energy to expand the processing facility. In addition, EWURA monitored the performance of the regulated service providers in the natural gas sub-sector using reports received from the service providers.

Figure 19: Monthly Natural Gas Production from Songo Songo Reservoir



Source: PAT

Figure 19 above indicates the monthly production from the Songo Songo gasfield, while Figure 20 below indicates the monthly production from Mnazi Bay gasfield for the financial year 2009/10, in comparison to the two preceding years (2007/08 and 2008/09). It is worth noting that trends of natural gas production as shown in Figure 19 above from the Songo Songo gas-field during the financial year 2009/10 remained high even during the wet months of March through May, 2010. This is evidence that TANESCO maximized the thermal generation in order to preserve

more water in the Mtera Dam, the backbone of the hydropower generation system in Tanzania.

Figure 20: Trend of Monthly Natural Gas Production from Mnazi Bay Reservoir

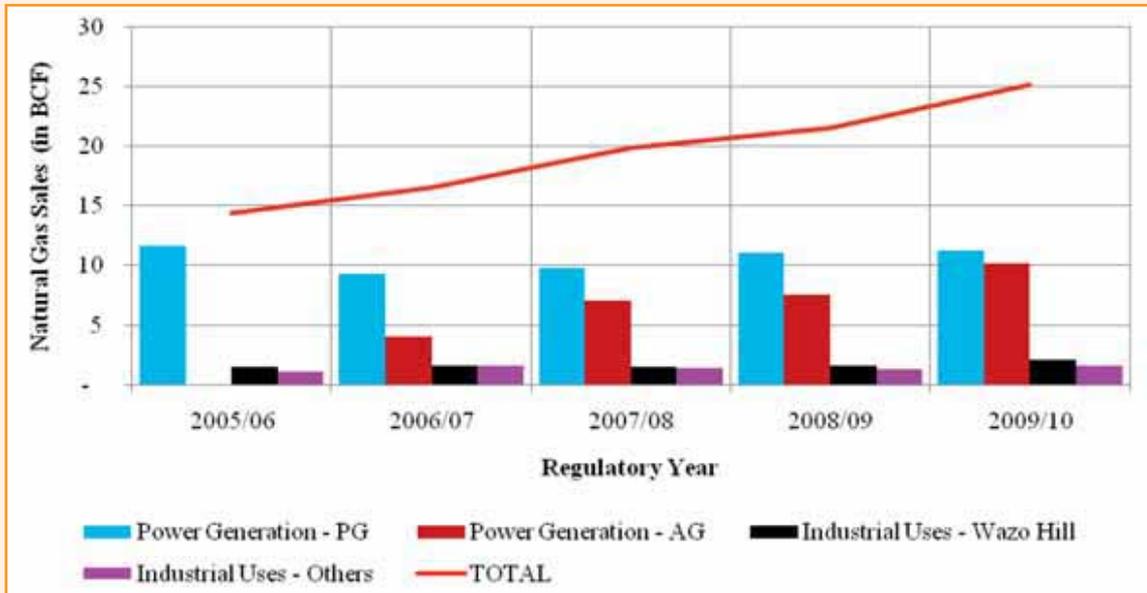


Source: Maurel & Prom

During the year under review, the total production from the Songo Songo gasfield kept increasing from 20.091 BCF during the financial year 2008/09 to 26.025 BCF. From the Mnazi Bay gas-field a total volume of natural gas produced kept on increasing from 280 MMSCF during the financial year 2008/09 to 351.37 MMSCF after the isolated mini-grid system of Masasi, Newala and Nachingwea was connected to the eastern Mtwara-Lindi mini-grid system in February, 2010.

Figure 21 below depicts that natural gas utilisation kept increasing year after year. Protected Gas (dedicated to the initial 110 MW capacity owned and operated by Songas, the first two kilns of Twiga Cement Factory in Dar es Salaam, and 6MW of Somanga Fungu power plant) kept stable at around 11 BCF per annum. Additional Gas sales to electric power generation plants, on the other hand, increased year after year. In total, the natural gas sales to electric power generation plants increased by 14.98% from 18.899 BCF during the financial year 2008/09 to 21.730 BCF during the financial year 2009/10. Natural gas sales to industrial customers increased by 26.30% from 2.990 BCF during the financial year 2008/09 to 3.776 BCF during the financial year 2009/10. Commissioning of the third and fourth kilns at the Twiga Cement Factory increased its consumption by 31.66%. The natural gas sales to other industries increased by 20.82% during the financial year 2009/10. Overall, the gas sales to industries have almost been kept flat. Depending on the electricity demand growth in the power subsector, the increase in natural gas utilisation grew linearly and substantially at about 16.52% per annum during the financial year 2009/10.

Figure 21: Annual Natural Gas Sales Trends from Financial Year 2005/06 to 2009/10



Source: PAT, Maurel & Prom

5.2.2 Quality and Standard of Services

The type of natural gas produced from the Songo Songo and Mnazi Bay reservoirs is sweet and dry (meaning there is no existence of hydrogen sulphide nor significant volumes of carbon dioxide or substantial volumes of condensate). The methane content is above 97% (by volume) and carbon dioxide (by volume) is insignificant, less than 0.5%. The High Heat Value (HHV) is above 1,020 British Thermal Units per standard cubic feet (BTU/SCF), while the Gross Calorific Value is stable around 38.20 Mega-Joule per standard cubic metre (MJ/sm³). During the period under review, the maximum and minimum HHV were recorded at 1,025 BTU/SCF and 1,023 BTU/SCF. The average working pressure, temperature and water dew point were 83.82 bars, 25.63°C and -64.13°C respectively. These parameters are within the best pipeline practices.

EWURA is aware that the standards of services between the service providers and their customers were set in a number of project agreements. Because they were customers, with upper hand power to negotiate, no regulatory intervention was required, unless disputes arose. EWURA analysis shows that there was no significant change in gas composition from the commissioning of both projects (Songo Songo and Mnazi Bay) to date. The service providers in the natural gas value chain (production, processing, transportation and distribution) adhered to the terms and conditions of the governing agreements. However, the presence of a small amount of black powder in the natural gas pipelines was first reported to EWURA during the financial year 2007/08. Black powder is a very fine powder or solid contamination (varying from less than one micron up to 50 microns in diameter) in natural gas facilities mainly in transmission pipelines. EWURA advised Songas to use any cost-effective method available to remove the black powder, while the users were relying on filters.

The presence of black powder in piped natural gas causes a range of problems, including gas contamination, erosion wear in compressors, instruments and filter clogging, erosion and scaling problems in valves and flow reduction. Black powder may be mechanically mixed or chemically combined with a number of contaminants such as water, liquid hydrocarbons, salts, chlorides, sands and debris. Chemical analyses of the material have revealed that black powder consists of mainly a mixture of iron carbonate, iron oxides, asphalts and scales. The most common and historical means of dealing with black powder is to filter the gas just before it enters into compressors, valves, gas engines or gas turbines. Once a gas pipeline is affected by black powder contamination, its removal from the pipeline inner wall becomes extremely hard and difficult. EWURA will explore an appropriate solution to the black powder challenge.

5.2.3 Levels of Investment in Gas Infrastructure Development

a) Sector Legislation

Sector specific legislation is an important tool to attract investors in the gas infrastructure development. In the absence of gas sub-sector specific legislation, and because of the effect of world financial meltdown during the financial year 2008/09, no significant investments were attracted. Investors are scared by the risks involved in long-term infrastructure development, particularly, the regulatory and political risks. Ideally, the sub-sector specific legislation (the Act, Regulations and Rules) must be in place before foreign investors can seriously participate in long-term investments. Notwithstanding the aforesaid, the low pressure distribution network was extended from 42 km of hard polyethylene pipelines to 50 km reported last financial year. Only US\$ 0.492 million was invested by PAT in gas pipeline and associated infrastructure.

b) Expansion of Gas Processing Plant

With regard to the expansion of the Songo Songo gas processing plant, compression of the transmission pipeline, and the possibility of looping some weak point in an endeavour to increase the pipeline throughput, EWURA encourages Songas and PAT to invest in the expansion project. Issues related to the change in law provisions of the relevant agreements with other stakeholders were discussed with Songas and PAT, and approved by the EWURA Order of 28th May, 2010. Subsequent to the EWURA Order, it will take Songas up to two-and-half years, ending on 31st December, 2012, to commission the natural gas facility expansion project at the Songo Songo Island, and hence increase the main pipeline throughput from 90 MMSCFD to the maximum of 200 MMSCFD.

c) International Experience on the Use of Compressed Natural Gas

Compressed Natural Gas (CNG) is a well proven technology worldwide, jointly introduced in Tanzania by PAT and TPDC during the financial year 2007/08. CNG increases the energy density 250 times per unit volume of piped natural gas at 21 degrees centigrade. It is a fossil fuel substitute for petrol, diesel, or Liquefied Petroleum Gas. Worldwide, there were 11.2 million natural gas vehicles by 2009, led by Pakistan with 2.4 million, Argentina (1.8 million), Iran (1.7 million), Brazil

(1.6 million), and India (725 thousand) with the Asia-Pacific region leading with 5.7 million NGVs, followed by Latin America with almost 4 million vehicles.

Pakistan also has the highest number of CNG refuelling stations in the world numbering more than 2,600. The majority of private vehicles in Pakistan have converted to CNG because of the cheaper price as compared to petrol. Only luxury cars and official vehicles now run on petrol. CNG is retailed at a 40% to 60% discount of petrol prices to encourage vehicle owners to convert their vehicles and run their vehicles on clean fuel.

d) The Use of CNG in Tanzania

In July, 2009, PAT inaugurated the CNG mother station at Ubungo Maziwa, followed by two CNG daughter stations, one at TPDC's Real Estate in the Mikocheni area, another at MovenPick Hotel in the Dar es Salaam business district. The Mikocheni CNG daughter station feeds a low pressure pipeline leading to the Mikocheni steel mills and a few residential houses on a pilot basis. In addition, TPDC appointed BICO (at the University of Dar es Salaam) and Triangle at the Dar es Salaam Institute of Technology (DIT) to convert petrol cars to run on natural gas.

During the year under review, a total of 17 vehicles were successfully converted to run on the dual fuel system (petrol and natural gas) out of 300 car owners who had shown interest. CNG market is expected to grow gradually. It is anticipated that, once the market is established, in the medium term (five to ten years), the local petrol retailers will retail the CNG.

e) CNG Infrastructure Investment

Costs involved in the investment of CNG infrastructure, particularly conversion costs are high and hence a major challenge. Currently, the fuel system conversion cost of about TZS 1, 600,000 for a single cylinder and TZS 1,900,000 for double cylinders per vehicle. Based on per capita GDP statistics, the initial cost in Tanzania is on the high side for the risks an individual has to take. These and other unknowns retard the growth of the car fuel system conversion rate and hinder the necessary investments in filling stations, and importation of standard storage cylinders and conversion kits.

In the absence of the sub-sector specific regulation, EWURA has not actively participated in regulating the CNG business. It is clear that such new technology should not be left to penetrate the market without proper control. Although CNG-powered vehicles are considered to be safer than gasoline-powered vehicles, vendors of CNG cylinders and retrofit kits, conversion workshops, car system plumbers, and the construction of CNG refuelling station have to be regulated.

f) Gas Pipeline Extension

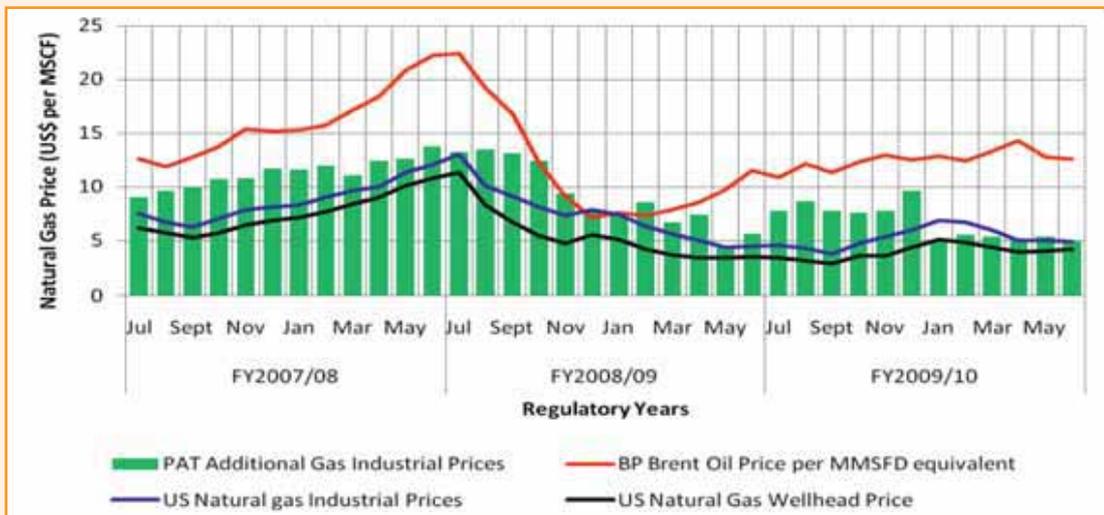
On extension of high pressure pipelines, promisingly, M/s RakGas conducted and finalised a pre-feasibility study on the Mtwara-to-Mombasa gas pipeline. By the 30th June, 2010, RakGas was seriously working on a feasibility study. In parallel,

the East African Community (EAC) was carrying out a study on natural gas pipeline extension from Dar es Salaam to Mombasa. None of the two initiatives has been concluded so far. These studies indicate that the potential for cross-boarder business is high and, in the process of exporting natural gas to Mombasa, the extension of services to Tanga, Morogoro, Moshi and Arusha could be viable. PanAfrican Energy plans to extend the CNG supply services to Morogoro.

5.2.4 Trends of Cost of Service

The cost of service in oil and gas industry is pegged to the world oil prices or determined by the net –back calculations. Based on the energy equivalent, a barrel (bbl) of Brent Crude Oil is equivalent to 5.8 MMSCF of natural gas. Natural gas prices are generally set without reference to the costs of individual producers but by reference, in principle, to prices of imported petroleum products. Worldwide, prices of natural gas for export, domestic use for electric power generation, commercial enterprises, petrochemicals, transport sector, household sector, and industrial sector differ significantly. In Tanzania, prices for industrial customers are discounted at 20% to 25% of the landed cost of Heavy Fuel Oil. Figure 22 below depicts price movements with the Brent Oil prices setting as a price cap.

Figure 22: Natural Gas Industrial Pricing Trends for Industrial Consumers

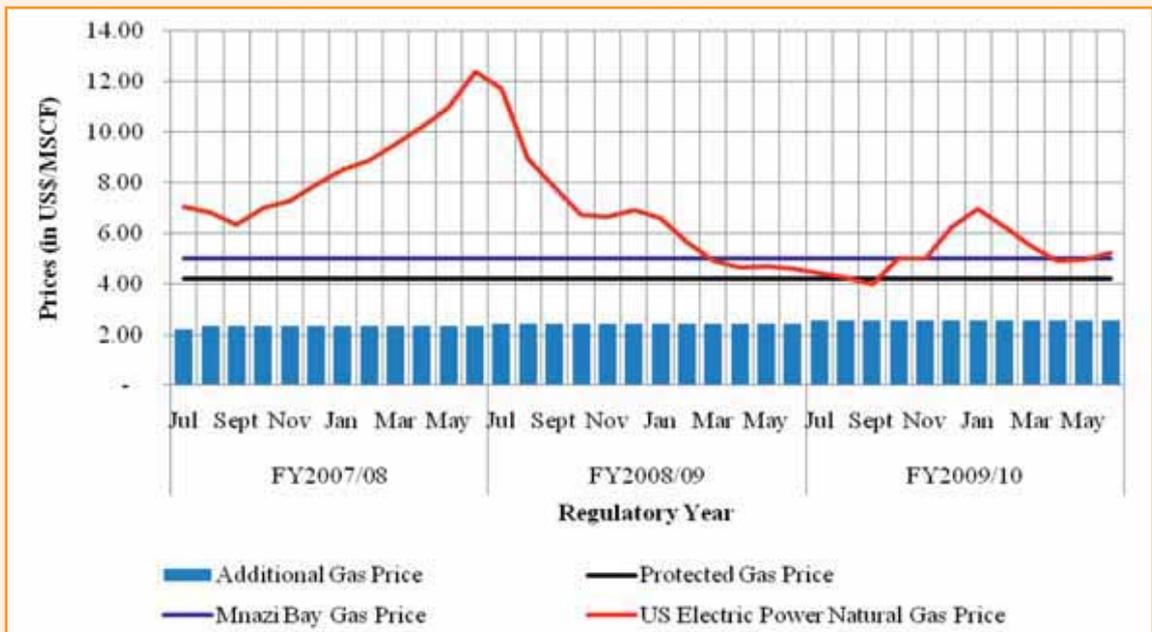


Source: PAT, BP, US, EIA.

Two more trends used to benchmark the prices set by PAT in Tanzania (assuming that the US market is both mature and highly competitive) include the US natural gas wellhead prices set as price floor, and comparing both the US Natural Gas Industrial Prices from the PAT Additional Gas Industrial Prices. For the past three years, the prices set by PAT were higher than the US Natural Gas Industrial Prices. Likewise, the PAT's wellhead prices were far higher than the US wellhead prices. Of all industries, the Tanzania Portland Cement Company in Dar es Salaam negotiated the best deal at US\$3.20/MSCF compared to other industrial customers.

Conversely, the PAT Additional Gas prices for electric power generation were kept significantly low to compensate TANESCO for its commitment to pay for the initial investments in the gas infrastructures through monthly capacity charges. The Protected Gas price payable by TANESCO through energy charges set at US\$ 0.56/MSCF, and several millions for monthly capacity charges, when strictly combined, both make US\$4.20/MSCF, which is reasonable. The Additional Gas contract price payable by the power generation customers (as pre-negotiated by TANESCO) was increased from US\$2.42/MSCF during the financial year 2008/09 to US\$2.53/MSCF during the financial year 2009/10. In the case of Artumas Group & Partner (Power) Limited, the gas price of US\$5.00/MSCF was negotiated by the buyers and sellers of natural gas in December, 2008, and fixed for the next three years. Figure 23 below depicts the comparison of electric power generation with natural gas prices movements in both the US and Tanzania.

Figure 23: Natural Gas Pricing Trend for Thermal Power Generation Plants



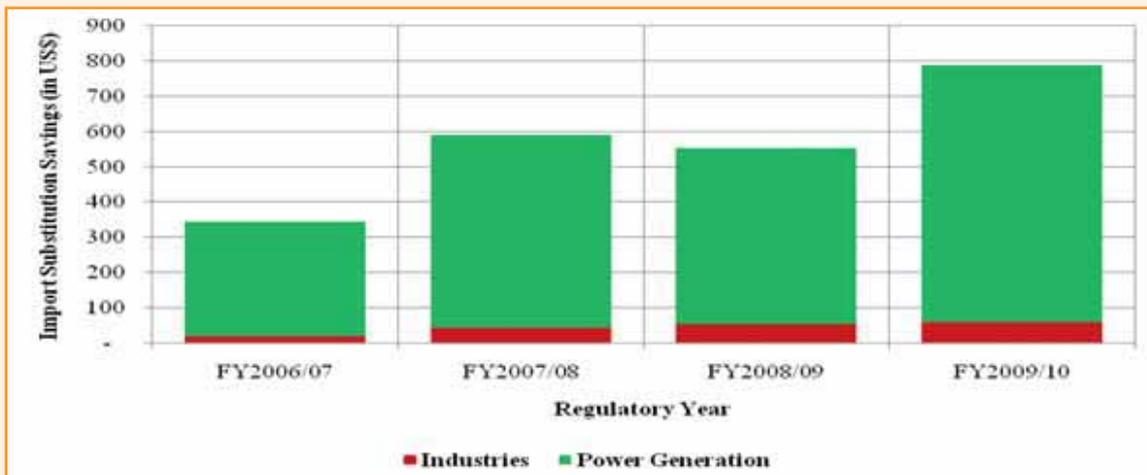
Source: PAT, US EIA, Maurel & Prom

Once more producers of natural gas start supplying natural gas to the same market, prices may go down. At the moment, discounted gas prices compete with market prices of alternative fuels, mainly Heavy Fuel Oil and coal. In the absence of natural gas pricing policy and natural gas sub-sector specific legislation makes natural gas pricing uncertain to investors in the electricity sub-sector and CNG industry.

5.2.5 The Impact of Natural Gas Import Substitution on the Economy

Through notional foreign currency savings realised from import substitution, income tax contributions by the service providers, and the high quota of gas-based electric power generation (about 40%), every Tanzanian is indirectly benefitting from natural gas in one way or another. The trend is depicted in Figure 24.

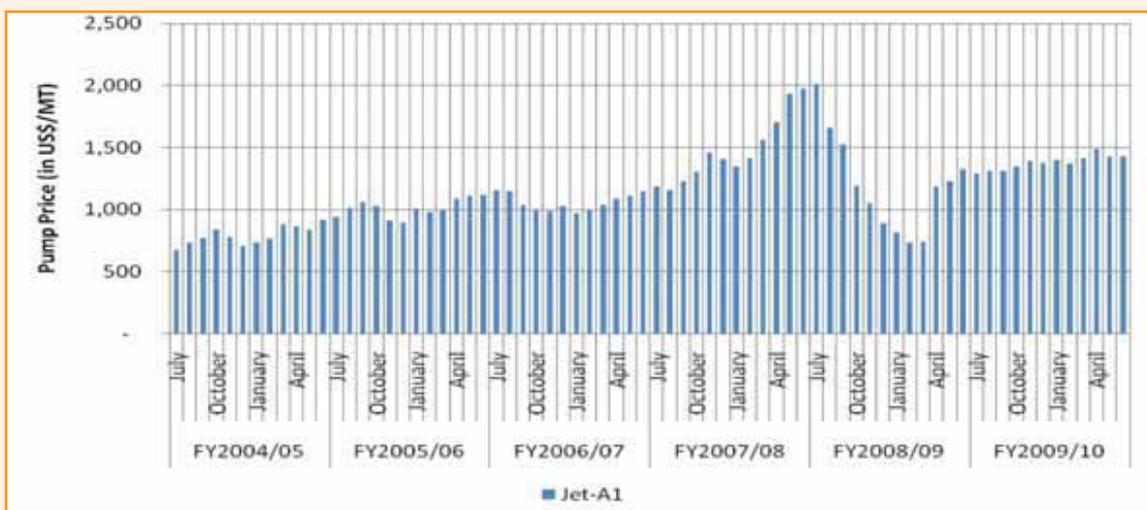
Figure 24: Foreign Currency Savings Trends from Import Substitution



Source: Platts, PAT

During the year under review, 21.73 BCF of natural gas were consumed by the gas-based thermal power generation plants. That is equivalent to 705.53 million litres of oil equivalent, mainly Jet-A1. Another 3.78 BCF of natural gas were consumed by industries, which is equivalent to 92.07 million litres of oil equivalent, mainly HFO. Figure 24 above depicts the increase in annual savings from US\$552.70 million during the financial year 2008/09 to US\$789.07 million during the financial year 2009/10. The decrease of savings from FY2007/08 to FY2008/09 of power generation plant was due to the fall in Jet-A1 prices compared to Jet-A1 prices during the financial year 2007/08 as depicted in Figure 25.

Figure 25: Jet-A1 Prices Movement during FY2004/05 to FY2009/10



Source:Platts

National savings were driven by the thermal power generation (currently standing at 88% of the total gas consumption), price differential between Jet-A1 and Heavy Fuel Oil (HFO), the movement of petroleum products prices, and stability of local currency. At high prices of petroleum products, realised national foreign currency

savings are high, and vice versa. During the drought season, when the gas-based plants are operated to their full capacities, the national savings are high and vice-versa.

5.3 Licensing

In the absence of natural gas sub-sector legislation, no licence was applied for, issued or renewed during the year under review.

5.4 Determination of Rates and Charges

During the year under review, no applications for rates and charges were received or determined by EWURA. The processing and transportation tariff payable to Songas remained stable at US\$0.59/MSCF, while the distribution tariff payable to PAT remained fixed at US\$0.57/MSCF.

5.5 Third Party Access

EWURA continued to observe the levels of efficiencies with regard to natural gas production and distribution services. The full capacity of the Songo Song gas processing facility and the transportation infrastructure were utilised. Although the Gas Processing and Transportation Agreement and the Gas Agreement provide for third party access terms, Songas did not adhere to the principles of third party access. M/s Ndovu Resources operating the Kiliwani and Nyuni reserves were denied access to the common gas facilities when it was re-rated by Lloyds Register from 70 MMSCFD to 90 MMSCFD.

If allowed to have access to the common gas processing facility, Ndovu Resources may create effective competition in the Dar es Salaam market. On the Mnazi Bay gas infrastructure, the installed capacity is underutilised owing to low natural gas demand in the Mtwara market.

5.6 Legislative Matters

During the period under review, no legislation was made. The draft Gas Bill was discussed by all stakeholders in August, 2009, but is yet to be tabled to Parliament.

5.7 Disputes and Complaints

There were no disputes or complaints seriously brought to the attention of EWURA during the year under review. In the near future, and as mentioned hereinabove, potential disputes will be on natural pricing matters, the quality of natural gas (the existence of black powder) and lack of third party access.

5.8 Litigation

During the period under review, there was no litigation involving EWURA, the service providers or other stakeholders.

5.9 Health, Safety and Environmental Matters

On a quarterly basis, EWURA continued to carry out the technical, safety and environmental monitoring of downstream activities in the gas subsector. The inspection covered monitoring of the environmental condition of the pipeline way-leave (also known as right-of-way). Progressive monitoring was conducted, involving visual inspection and establishment of environmental impacts on the natural gas infrastructures. Also, EWURA verified the information contained in the daily operations reports submitted by the service providers. The inspection covered:

- a) the integrity of the gas pipeline and way leave between the landfall area at Somanga Fungu in Lindi and the Wazo Hill in Dar es Salaam;
- b) the physical appearance of the Songo Songo gas processing plant and gas wells;
- c) the integrity of the gas pipeline and the way leave between the landfall at Msimbati and the gate valve at the Artumas Group & Partners (Power) plant in Mtwara; and
- d) the status of the Dar es Salaam Ring Main serving about 35 industries) and the way-leave operated by PAT, as a sole natural gas distribution network.

The main objective of field inspection by EWURA has been to ensure that the pipeline is secured in order:

- a) to render the necessary security of supply to the existing and future markets;
- b) to prevent unnecessary incidences that may adversely affect the lives and properties of the people working or living closer to the gas infrastructure; and
- c) to prevent massive costs repair and maintenance for dilapidated infrastructure, natural disaster or vandalism that could have been avoided.

Participatory rather than interrogative approach was employed all along, discussing with the service providers about the observations made by EWURA and charting out the way forward. During the period under review, all regulated entities operated the gas infrastructure within good industrial practices, achieved, "No Lost Time Injuries (LTI)" since August, 2007, and zero accidents. However, during the same period, a total of 18 near miss incidents were reported. To correct the situation, different types of on the job training in safety and health courses were conducted including fire drills, material handling techniques, and emergency preparedness, to the satisfaction of EWURA.

With regard to the Ubungo to Wazo Hill spur line, the pipeline operators constructed drainage channels and wall buffers to mitigate soil erosion on pipeline cover (top soil) ranging from 90 to 150 cm. It was also observed that, during the rainy seasons, the water runoff created deep gullies along the way-leave and at some locations the gullies cross the pipeline way-leave. The pipeline operators were advised accordingly. Songas promised to work on problem areas, and, recently, EWURA has confirmed that it has taken appropriate measures to safeguard both the gas

spur line and optical fibre cable infrastructures.

With regard to the main pipeline (from Somanga Fungu landfall to Ubungo), soil erosion was observed at the Mwanambaya Road Crossing about 55 kilometres south of Dar es Salaam. During the rain seasons, the run-off water flows from the upper side to the area where the pipeline crosses the valley to create deep gullies along the way-leave. At some locations, the gullies cross the pipeline way-leave and have destroyed a concrete tunnel constructed to diverge the run-off from washing out the soil cover. Songas was advised accordingly and it promised to take immediate measures to control soil erosion during the financial year 2010/11.

5.10 Challenges and Way Forward

The following are key challenges encountered so far, and the way forward being pursued by EWURA and other stakeholders:

- a) stakeholders are eager to see the sound gas regulatory environment established and key principles enshrined in the legislation to attract private investments. EWURA and other stakeholders await the facilitation of the Ministry of Energy and Minerals during the Gas Bill enactment process;
- b) the natural gas infrastructures to link discovered sources to available markets call for long-term investments in the gas processing, transportation, storage and distribution. Studies are being conducted by the East African Community, PanAfrican Energy and RakGas to establish the feasibility of various options to serve the existing and future market;
- c) acquisition of way-leave from Dar es Salaam city gate to major social and commercial centres, as well as households located in the business district to substitute kerosene, liquefied petroleum gas and wood fuel is a nightmare. The land use planning is too complicated. A mechanism has to be put in place by the gas developers to fast track the process;
- d) lack of natural gas storage infrastructure to support 450 MW (or more) of gas-based electric power generation (that is more than 50% of the peak demand) in case a single pipeline system is interrupted for whatever reasons for more than twelve (12) hours or longer, threatens the security of supply. There is a need for EWURA and the Ministry of Energy and Minerals to attract investment in such strategic facilities; and
- e) conversion of the urban fleet to run on dual-fuel systems (petrol/CNG or diesel/CNG or petrol/LPG) call for capacity building, institutional framework development, and incentivised schemes. TPDC and PAT have started conversion of vehicles using BICO (of the University of Dar es Salaam) and the Dar es Salaam Institute of Technology. Enactment of the Gas Bill will facilitate proper regulation of these initiatives by EWURA.

6.0 WATER AND SEWERAGE REGULATION

6.1 Overview of the Water Sector

EWURA regulates 129 autonomous Water Supply and Sanitation Authorities (WSSAs) which include Regional, District and Small Towns Water Supply and Sewerage Authorities (DWSSAs) located in regional, district and small towns capitals respectively. A summary of these Authorities is shown in Table 22.

Table 22: Summary of Regulated Utilities in the Water Sector

S/n	Type of Utilities	No. of Utilities
1	Dar es Salaam Water and Sewerage Corporation	1
2	Regional Urban Water Supply and Sanitation Authorities	19
3	District Water Supply and Sanitation Authorities	76
4	National Projects Water Authorities	7
5	Small Town Water Supply and Sanitation Authorities	26
	Total	129

6.2 Performance Monitoring

6.2.1 Performance Data Reporting

Water Supply and Sanitation Authorities (WSSAs) report to EWURA in two (2) ways: by using the Water Utilities Information System (MajIs) and by submission of written reports in the agreed format in hard copies. WSSAs are supposed to submit monthly reports through MajIs latest by 14th day of the following month. During the FY 2009/2010, only two (2) utilities (Musoma and Shinyanga) out of 20 Regional water utilities did not manage to submit their MajIs data. District, Small Town WSSAs and National Projects have not yet started submitting the monthly reports.

As part of the performance monitoring, site inspections were conducted at 15 WSSAs and DAWASCO. During the site inspections, EWURA verified the submitted reports in terms of water production figures and the status of bulk water meters, the status of water and sewerage infrastructures, water quality by conducting spot water quality tests, the process and records of complaints handling, the implementation of EWURA orders and the price of water charged at water kiosks. The Regional WSSA's inspected include Kigoma, Bukoba, Mwanza, Musoma, Iringa, Mbeya, Sumbawanga, Tanga, Moshi, Arusha, Babati, Singida, Dodoma, Tabora and Shinyanga. Six District and Small WSSAs were inspected which include Dakawa-Mvomero, Mikumi, Mahenge, Ifakara, Kilosa and the Gairo WSSAs. During the site inspection, it was generally observed that most WSSA's did not properly keep their operation and maintenance data as well as complaints handling reports. In addition, most WSSAs do not make routine calibration of water bulk meters.

On the other hand, specific observations from the District WSSAs include: lack of water quality monitoring plans as well as water treatment facilities as observed in Dakawa, Mikumi Mahenge, Ifakara and Gairo WSSAs. Poor keeping of key operation data in water supply as well as lack of sufficient water storage facilities was also observed.

Development and Implementation of Data Monitoring System

In order to effectively make use of the Water Utilities Management Information System (MajIs), the following activities were implemented:

- a) ICT staff made visits to 13 WSSAs including Dodoma, Tabora, Shinyanga, Kigoma, Kagera, Musoma, Arusha, Moshi, Sumbawanga, Songea, Lindi and Mtwara WSSAs which were having problems of sending data after failing to resolve their problems from Dar es Salaam. The cause of most problems was identified to have been:
 - i) poor management of the computers; the computer with MajIs system was used for other activities;
 - ii) non-installation of antivirus in computers thereby making them vulnerable to virus attacks;
 - iii) lack of IT expertise capable of maintaining the computers as required;
 - iv) poor knowledge of the Majis system; and
 - v) specific problems in Majis itself, which were caused by either lower version of Majis system or improper installation of the system.
- b) Monthly submitted data by WSSAs through MajIs was constantly evaluated and feedback sent to the respective WSSAs regarding the quality of data submitted.

6.2.2 Performance Agreements

In order to enhance performance monitoring and evaluation, EWURA signed Performance Agreements with the 19 Regional WSSAs for the period of three years starting from 2008/9 to 2010/2011. The Performance Agreements consist of Quality of Service Standards and Performance Targets to be achieved by WSSAs. Performance targets in the Performance Agreement also form the basis for a comparative performance evaluation of WSSAs.

The assessment of the achievement of the set targets for water supply in 2009/2010 is 44%. The performance indicators with most of the targets being achieved by utilities are Percentage in payment of electricity bills, Percentage compliance in water quality (E-coli and Turbidity) and Working Ratio. Most of the utilities failed to achieve Performance targets in Non-Revenue Water and Staff per 1,000 connections.

The assessment of the achievement of the set targets in sewerage services shows that most of the 10 regional utilities with a sewerage system could not achieve the target on sewer blockage per km of sewer pipeline.

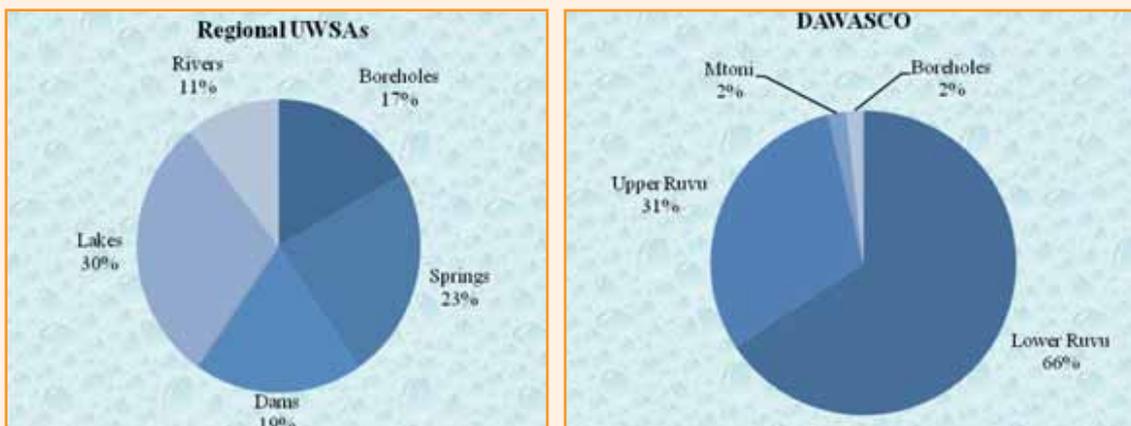
6.2.3 Performance of Regional UWSAs and DAWASCO

This section provides the overall key performance information of the regional WSSAs and DAWASCO. Regional WSSAs include Arusha, Dodoma, Iringa, Mbeya, Morogoro, Moshi, Mtwara, Musoma, Mwanza, Shinyanga, Songea, Tabora, Tanga, Babati, Bukoba, Kigoma, Lindi, Singida and Sumbawanga WSSAs. The performance information has been compiled from reports submitted by the respective entities and EWURA sought for clarifications or made site verifications for the data that was inconsistent. Reference was also made to the performance data and indicators published by the Ministry of Water and Irrigation in the 2007/08 report.

a) Water Sources

Water utilities abstract water from surface and ground water sources. The water sources for the 19 regional WSSAs are boreholes, springs, dams, lakes and rivers. Depending on the type of water source, the water supply schemes that exist within the 19 WSSAs are either gravity or pumping. Most of the WSSAs have both gravity and pumping schemes. Most water was abstracted from lakes which increased from 24% in 2008/09 to 30% in 2009/10, followed by abstraction from springs and dams as shown in Figure 26.

Figure 26: Water Sources



The main water sources for Dar es Salaam are Ruvu and Mtoni rivers as well as 31 boreholes located at various locations in the DAWASCO operational area. At the Ruvu river, water is abstracted at two intakes, namely Upper Ruvu and Lower Ruvu. About 66% of water is abstracted from Lower Ruvu as shown in Figure 26.

b) Water Production and Demand

In 2009/10, water production showed a slight decrease for both Regional WSSAs and DAWASCO. The Regional water utilities produced a total of 110.02 million cubic meters equivalent to an average of 9.17 million cubic meters / month which is lower than an average of 9.24 million cubic meters / month produced in 2008/09. Also, DAWASCO produced a total of 92.66 million cubic meters equivalent to an average of 7.72 million cubic meters / month which is lower than the average of 7.93 million cubic meters / month produced in 2008/09. While the installed capacity for Regional WSSAs has been increasing for the past three years that of DAWASCO has been almost constant and less than the water demand. The water demand, installed capacity and actual water production are shown in Table 23.

Table 23: Water Production and Demand from 2007/08 to 2009/10

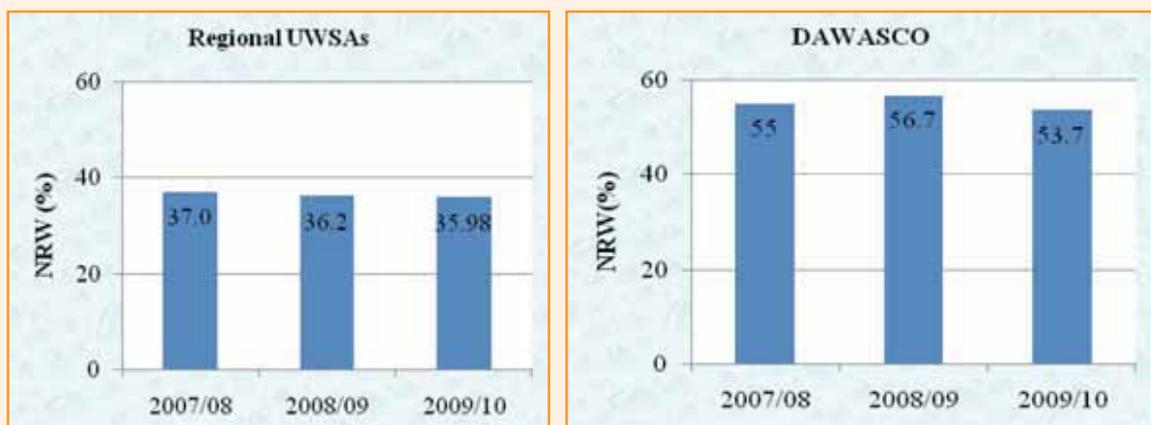
Item	Regional Water Utilities			DAWASCO		
	2007/08	2008/09	2009/10	2007/08	2008/09	2009/10
Water Demand(m ³ /day)	396,822	423,425	448,591	450,000	450,000	450,000
Installed capacity (m ³ /day)	404,459	462,795	538,011	281,370	280,548	280,548
Actual Water Production(m ³ /day)	285,068	303,918	313,650	253,836	260,877	261,178

c) Non- Revenue Water

Non-Revenue Water (NRW) is a percentage of the volume of water delivered into a supply system and the volume of water that was measured or estimated as legitimate consumption. Figure 27 shows that, for the Regional WSSAs, the overall trend of non-revenue water has slightly improved from 36.2% in 2008/09 to 35.98% in 2009/10. NRW for DAWASCO is still very high and has decreased slightly from 56.7% in 2008/09 to 53.7% in 2009/10.

Each of the Regional WSSAs and DAWASCO is required to reduce NRW to less than 20%. This will translate into an increase in water sales without necessarily increasing water production or tariffs.

Figure 27: Non-Revenue Water (NRW) from 2007/08 to 2009/10

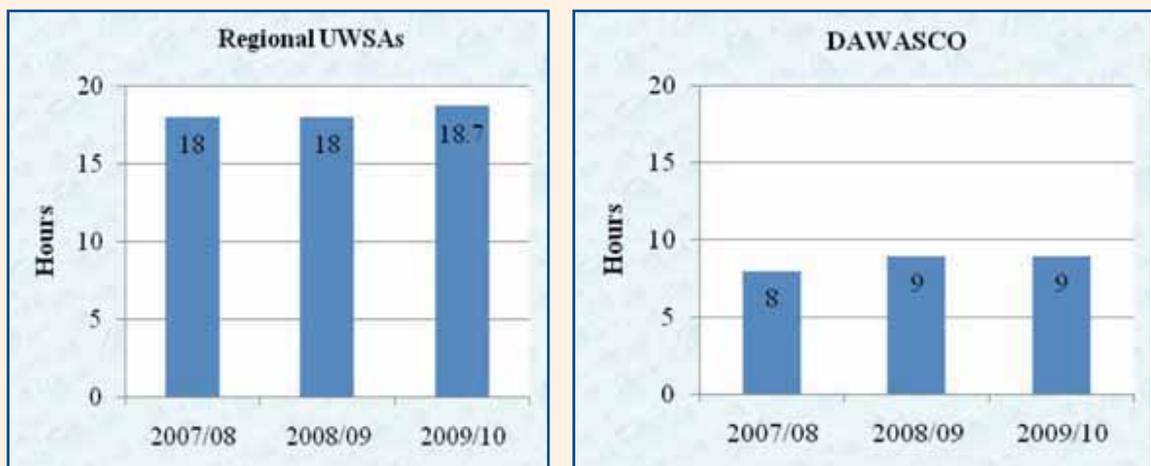


d) Service Hours

The average hours of supply were 18 hours and 9 hours for the year 2009/10 as compared to 18 hours and 8 hours for 2008/09 for both Regional WSSAs and DAWASCO respectively.

All authorities are striving for 24 hours water supply services. Service hours for Regional WSSAs have remained constant at an average of 18 hours a day since 2006/07. However, there has been an improvement from 8 hours in 2008/09 to 9 hours in 2009/10 in the DAWASCO operational area due to improved water production. The comparison is as shown in Figure 28.

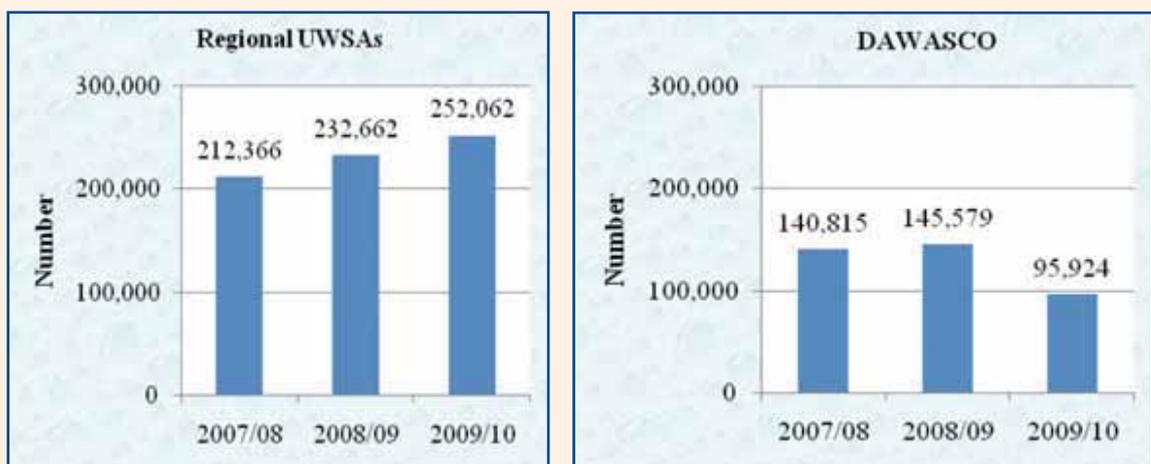
Figure 28: Service Hours from 2007/08 to 2009/10



e) Water Connections

Water connections for Regional WSSAs increased from 232,662 in 2008/09 to 252,040 by 30th June, 2010, which is an increase of 8% and active water connections for DAWASCO increased from 73,798 in 2008/09 to 95,924 by 30th June, 2010, which was an increase of 30%. Comparison is shown in Figure 29.

Figure 29: Water Connections from 2007/08 to 2009/10



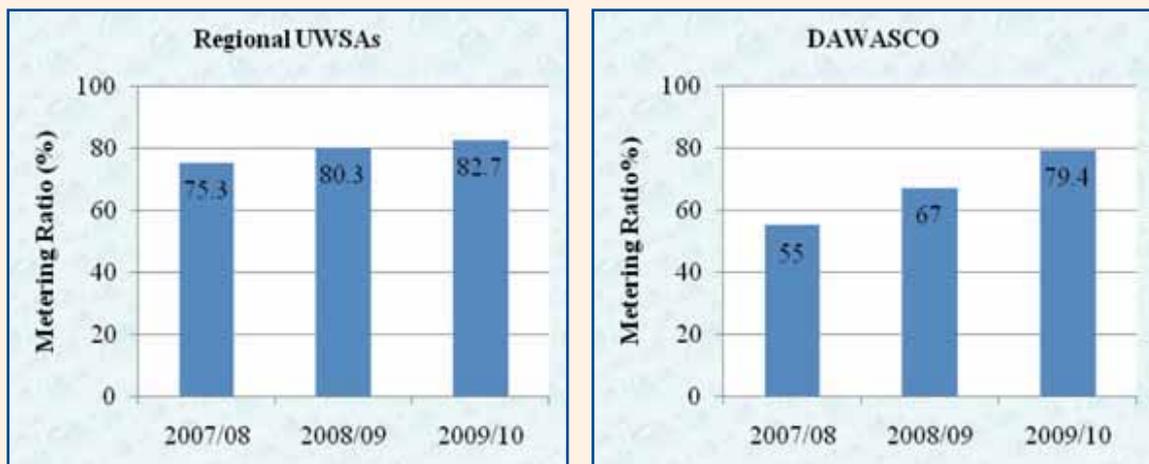
Note: Since DAWASCO has almost the same number of active and non-active water connections, only active water connections have been taken into consideration as compared to Regional WSSAs where most of the connections are active.

f) Metering

Metering enables customers to monitor and control their water use and pay their water bills according to the actual water use. Metering also enables water utilities to account for the quantity of water produced. Regional UWSAs reached an average metering ratio of 80.3% by June, 2009, and it increased to 83.1% in 2009/2010. DAWASCO achieved a significant increase in metering whereby the metering ratio improved from 67% as of June, 2009, to 79.4% in 2009/2010.

Metering ratio has been increasing steadily for the last three years for both Regional UWSA's and DAWASCO as shown in Figure 30.

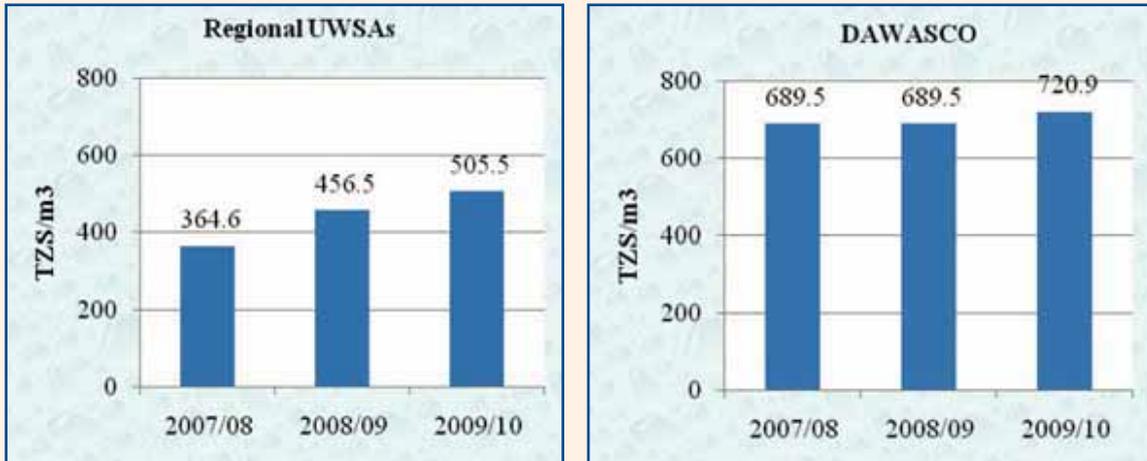
Figure 30: Water Metering from 2007/08 to 2009/10



g) Average Tariff

An average tariff for a utility is the ratio of the utility's total annual billed revenue to the total annual water consumption. The average water tariff in the Regional UWSAs has increased by 39% over the past three years while, for DAWASCO, it has increased by 5% in the same comparison period. Tariff reviews are aimed at taking care of the inflation and at enabling utilities to recover all of their prudently incurred costs and improve quality of service. Comparison on average tariff increase is shown in Figure 31.

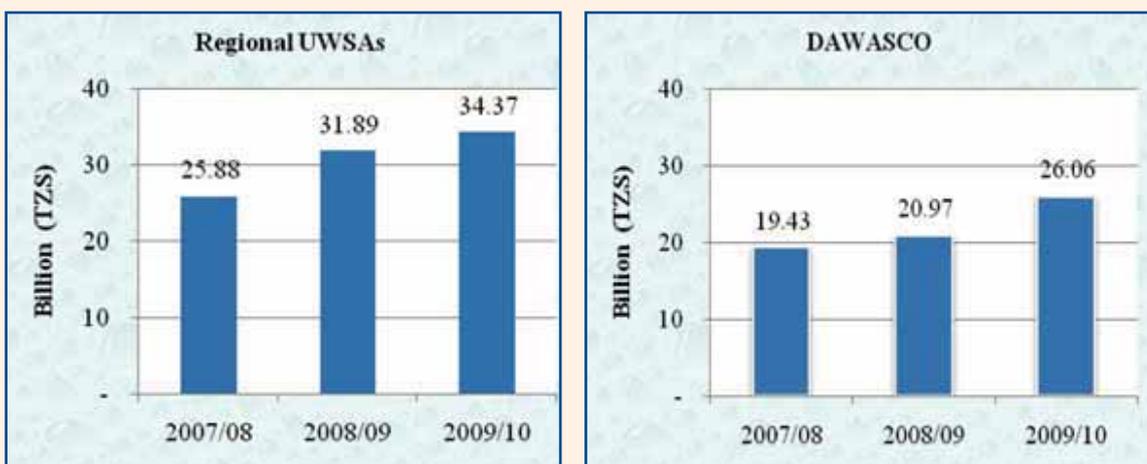
Figure 31: Average Tariff from 2007/08 to 2009/10



h) Revenue Collection

Revenue collection from water and sewerage sales recorded in 2009/10 for the regional UWSAs amounted to TZS 34.37 billion which is an increase of 33% over three years. This increase is lower than an increase in average tariff over the past three years. For DAWASCO, water and sewerage sales collections amounted to TZS 26.06 billion which increased by 34% over the past three years mainly due to an improvement in collection efficiency. It is noted that collections from DAWASCO are about 76% of the total collections from all Regional UWSAs. Comparison is shown in Figure 32.

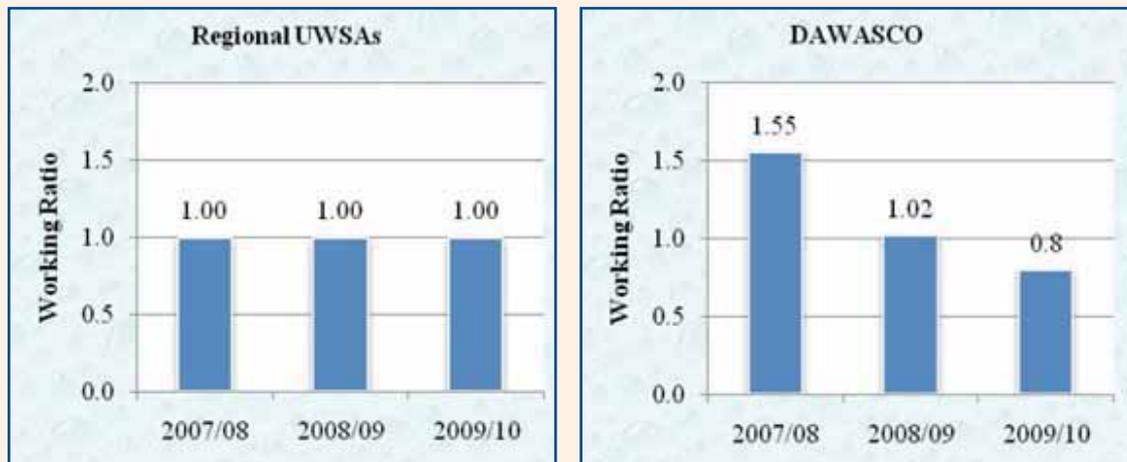
Figure 32: Revenue Collection from 2007/08 to 2009/2010



i) Working Ratio

Working ratio is the ratio of operating expenses to operating revenue and does not include depreciation, interest and debt service. Sound financial management requires that this ratio should be well below 1. Working ratio for the Regional UWSAs has remained constant for the past three years. This shows that, on average, they cover operation and maintenance costs. Improvement in DAWASCO is also noted whereby working ratio has improved from 1.55 in 2007/08 to 0.8 in 2009/10 as shown in Figure 33.

Figure 33: Working Ratio



j) Sewerage System (Proportion of population connected to sewerage service)

Only 10 regional WSSAs have sewerage systems which include Dar es Salaam, Arusha, Moshi, Tanga, Morogoro, Dodoma, Iringa, Mbeya, Songea and Tabora. The overall average of sewerage coverage for the 10 WSSAs over the past two years has remained constant at 13.9% indicating unsatisfactory performance in sewerage services.

6.2.4 Performance of District, Small Towns and National Projects Water Authorities

There are 109 Districts, Small Town WSSAs and the National Water Projects which are regulated by EWURA. Out of 109 utilities, only 89 are fully established with water boards and management while the remaining 20 have neither board nor management. Out of 89 utilities, 79 submitted their annual reports as compared to 67 during the year 2008/09.

Since the accuracy of most of the reported data could not be ascertained, few indicators have been selected which give a general view of the performance of District, Small Town WSSAs and the National Water Projects. The selected indicators include average daily per capita water production and demand, hours of service, metering ratio and staff per 1000 connections.

a) Water Production and Demand

The average daily per capita water demand and the average daily per capita water production for Districts, Small Town WSSAs and the National Water Projects shown on Table 24 below indicates that, on the average, water production can only satisfy about 55% of water demand.

Table 24: WSSAs Water Production and Demand (litres/capita/day)

Item	District	Small Towns	National Projects
Water Demand (litres/capita/day)	95	64	67
Water Production (litres/capita/day)	49	30	49

b) Average Hours of Service

The average hours of service for Districts, Small Towns and the National Water Projects WSSAs were 10, 6 and 16 hours respectively.

c) Metering Ratio

The average metering ratio for Districts, Small Towns and the National Water Projects WSSAs was 44%, 32% and 62% respectively.

d) Staff per 1,000 Connections

The number of staff per 1,000 connections for Districts, Small Towns and National Water Projects WSSAs was 43, 20 and 44, respectively. This figure is high due to the fact that most utilities have a very low customer base.

6.2.5 Capacity Building for UWSAs

EWURA conducted a regulatory training for the Northern, Central and Southern zones water utilities comprising utilities from Arusha, Babati, Moshi, Tanga, Morogoro, Dar es Salaam, Dodoma, Singida, Mbeya, Sumbawanga, Mtwara, Songea and Lindi. The training was funded by the Ministry of Water and Irrigation through the Water Sector Development Programme (WSDP). The main objective of the training was to impart to the participants general knowledge on the duties and functions of EWURA, and obligations of water utilities to EWURA. Participants were divided into two groups. One was conducted in Morogoro and the other one in Mbeya. At each station, Regional WSSAs were trained for two days and District, Small Town WSSAs and National Projects were trained for three days.

A total of 54 participants from Regional WSSAs and 155 participants from Districts / Small Towns and National Projects participated in both trainings. Similar training was conducted for utilities from the Lake Zone in 2008/09.

As an outcome of the training, a total of 88 annual reports for 2008/09 from Districts, Small towns and National Projects were received as compared to 19 for the year 2007/08.

6.3 Licensing

There was no major licensing activity during the period under review. This is due to the change in legislation from the Waterworks Act to the Water Supply and Sanitation Act, Cap. 272. This Act came into force on the 1st August, 2009, and necessitated EWURA to start working on a licensing regime which corresponds to the new Act. All Regional WSSAs continued to operate using their provisional licences issued by EWURA and 8 out of 19 regional WSSAs have already qualified for a permanent licence. Eighty-eight (88) Districts, Small Towns and the National Water Projects WSSAs have applied for a licence. Licences will be issued after finalising the Water Supply and Sanitation Rules plus licence template.

During the period under review Management worked on the Water Supply and Sanitation Rules, 2010, which, among other things, shall provide for the licensing regime for the Water Supply and Sanitation Authorities which conforms to the new Water Supply and Sanitation Act. The finalization of the Water Supply and Sanitation Rules, 2010, plus the licence templates is due to be completed in the year 2010/11.

6.4 Determination of Rates and Charges

During the year under review, the Authority has received fifteen tariff applications for consideration. As shown in Table 25, all tariff applications were determined by the Board after consultation with all stakeholders through public inquiry.

Table 25: Tariff Review Determinations

S/n	Applicant's Name	Date Received	Date of Public Hearing	Date of Disposition	Disposition	Order No.	Effective Date
1	Dar es Salaam (DAWASA)	26-May-10	1-Jun-10	8-Jun-10	Decided	10-017	15-Jun-10
2	Iringa (IRUWASA)	5-Feb-10	16-Mar-10	20-May-10	Decided	10-005	1-Jun-10
3	Dodoma (DUWASA)	27-Jan-10	25-Mar-10	20-May-10	Decided	10-007	1-Jun-10
4	Vwawa (VUWSA)	30-Dec-09	16-Mar-10	20-May-10	Decided	10-011	1-Jun-10
5	Kilolo (KIUWASA)	10-Dec-09	11-Mar-10	20-May-10	Decided	10-008	1-Jun-10
6	Kasumulu (KUWSA)	3-Dec-09	11-Mar-10	20-May-10	Decided	10-010	1-Jun-10
7	Babati (BAWASA)	24-Nov-09	11-Feb-10	20-May-10	Decided	10-009	1-Jun-10
8	Muleba (MLUWASA)	23-Nov-09	11-Feb-10	20-May-10	Decided	10-004	1-Jun-10
9	Nzega UWSA	30-Sep-09	1-Dec-09	20-May-10	Decided	10-006	1-Jun-10
10	Bunda UWSA	27-Sep-09	19-Nov-09	25-Jan-10	Decided	10-002	1-Feb-10
11	Biharamulo (BMUWSA)	29-Sep-09	19-Nov-09	25-Jan-10	Decided	10-003	1-Feb-10
12	Musoma (MUWASA)	1-Sep-09	29-Oct-09	25-Jan-10	Decided	10-001	1-Feb-10
13	Tunduma (TDMUWSA)	4-Aug-09	15-Oct-09	13-Nov-09	Decided	09-013	1-Dec-09
14	Mbalizi (MBUWSA)	30-Jun-09	26-Aug-09	8-Oct-09	Decided	09-012	1-Nov-09
15	Dar es Salaam (DAWASA)	11-Mar-09	27 & 28, May, 2009	10-Jul-09	Decided	09-009	1-Aug-09

WSSAs are mainly dependent on grants from the Government and Development partners to finance the development of their infrastructures. This is not sustainable, since grants are not always available in desired amounts. Moreover, WSSAs can not readily access financial institutions due to its ownership structure. In that regard, EWURA, together with the Ministry of Water and Irrigation, is preparing guidelines which will be acceptable to Treasury and which will guide WSSAs to access financial institutions for loans.

6.4.1 Compliance with Tariff Conditions

Tariff approvals were accompanied by conditions which were supposed to be fulfilled by the applicant. A total of 148 conditions were issued to utilities attached to tariff approvals, out of which 84 were supposed to be implemented during 2009/10. Out of 84 conditions, 56% were fully implemented and the remaining 44% are in progress. Most conditions which were not implemented required significant investment from the Water Sector Development Programme, whose funds were not available as planned. Data on the status of compliance with tariff conditions is shown in Table 26.

Table 26: Compliance with Tariff Conditions

Utilities	Number of Authorities	Conditions Issued	Conditions due for Implementation in 2009/10	Conditions Implemented in 2009/10	Conditions partially implemented (in progress)
Regional Water WSSA's	15	69	45	25	20
District and small towns WSSA's	13	79	39	22	17
Total	28	148	84	47	37

6.5 Legislative Matters

During the period under review, EWURA participated as a key stakeholder in the preparation of the Water Supply and Sanitation Regulations, 2010. EWURA has also prepared the draft Water Supply and Sanitation Rules, 2010, which are expected to be finalized in 2010/11.

6.6 Complaints Handling and Dispute Resolution

A total of 81 complaints were received during the reported period out of which 53 complaints were settled. This includes 49 which were settled amicably and 4 which reached a hearing stage. Table 27 shows complaints which reached a hearing stage.

Table 27: Complaints Which Reached a Hearing Stage

S/n	Complainant	Respondent	Nature	Status
1	Crown Trust	DAWASCO	Billing	Parties Reached a Settlement
2	Daniel	DAWASCO	Billing	Parties Reached a Settlement
3	Michael Kisombe	DAWASCO	Billing	Parties Reached a Settlement
4	Magai	DAWASCO	Illegal Connection	Hearing in Progress

6.7 Litigation

There was no litigation filed by or against EWURA in this sector during the period under review.

6.8 Health, Safety and Environmental Matters

All regulated utilities are supposed to ensure health, safety and environmental sustainability in their operations. Water Utilities should ensure that water supplied and sewage disposal conform to the TBS standards. In addition, utilities are obliged to perform Environmental Impact Assessment for new projects and Environmental Audits for completed projects and get certification from the National Environmental Management Council (NEMC). All water utilities have prepared drafts of these reports and are yet to be certified by NEMC.

WSSAs report results of water and wastewater quality testing at their water sources and in the distribution system, and of their wastewater effluent. EWURA has continued to carry out a compilation of the key bacteriological, physical and chemical water quality results, Biological Oxidation Demand (BOD₅) and Chemical Oxidation Demand (COD) for wastewater effluent from all WSSAs and DAWASCO.

6.8.1 Water Quality

Reported Water Quality data have shown that more than 94% and 100% of the tested samples had no E-Coli while more than 96% and 95% of the tested samples had recommended residual chlorine of about 0.2mg/l in their distribution systems for regional WSSAs and DAWASCO respectively.

6.8.2 Wastewater Quality

Wastewater Quality data for regional UWSAs with sewerage systems have shown that more than 73.6 % and 73% of the tested samples complied with the BOD₅ and COD standards respectively. For DAWASCO, the quality of the effluents from the ponds was not in compliance with the BOD₅ and COD requirements as none of the samples met set standards. It has been reported that the main cause for non-compliance was inadequate digestion by the biomass, due to the ongoing rehabilitation works and poor quality of industrial influents, which contain heavy loading for biological treatment.

6.8.3 Quality Monitoring and Inspection

EWURA carried out on the spot drinking water and effluent quality tests in 2009 / 10 in DAWASCO and in 15 regional WSSAs of Kigoma, Bukoba, Mwanza, Musoma, Iringa, Mbeya, Sumbawanga, Tanga, Moshi, Arusha, Babati, Singida, Dodoma, Tabora and Shinyanga. Water quality parameters that were tested include: pH, turbidity (NTU), Total Dissolved Solids (mg/l), Electrical Conductivity ($\mu\text{S}/\text{cm}$), residual chlorine (mg/l), fluorides (mg/l), Iron (mg/l), Nitrates (mg/l), manganese, faecal coliforms (nos/100ml), total coliforms (nos/100 ml) and conductivity.

Water Quality data for regional WSSAs and DAWASCO have shown that 90% of the tested samples had no E-Coli, the ratio which almost coincides with the reported figure of 94% but only 55% of the tested samples had a recommended residual chlorine of about 0.2 mg/l in their distribution systems which is far below the reported average of about 95% (refer 6.8.1). Among the ten parameters tested, there was the highest compliance of 97% for the conductivity parameter.

a) Water Quality Results

Results showed that most of the utilities failed to maintain sufficient residual chlorine in their distribution system so as to safeguard their water supply from being contaminated by faecal coliforms. As a result, contamination by faecal coliforms was noted in Mbeya and Sumbawanga. Other parameters which did not comply with the Tanzanian Bureau of Standards (TBS) include Iron, fluoride, pH, manganese, nitrates, conductivity, faecal coliforms and total coliforms.

Individual utilities and their respective water quality parameters (in brackets) that were observed not to comply with TBS standards are: Kigoma (Iron, Fluoride and residual chlorine), Bukoba (pH, Iron, Manganese and Fluoride), Mwanza (Total Dissolved Solids, Iron, Fluoride and Residual Chlorine), Musoma (Total Dissolved Solids, Turbidity, Iron, Fluoride and Residual Chlorine), Singida (Residual Chlorine, PH, Nitrates and Manganese), Tabora (Residual Chlorine), Shinyanga (Conductivity and Nitrates), Sumbawanga (Residual Chlorine and Faecal Coliforms), Mbeya (Residual Chlorine and Faecal Coliforms), Iringa (Residual Chlorine), Dodoma (Residual Chlorine), Babati (Manganese), Arusha (Manganese and Fluorides), Moshi (Residual Chlorine), Tanga (Manganese and Total Coliforms) and DAWASCO (Residual Chlorine). Results of the water quality tests were shared with the respective utilities. Wastewater Quality Results are shown in Table 29 indicating effects of the parameters which were not complied with.

Table 29: Range of Non-Compliance and Effects

Parameter	TBS Standard	Range of Non-Compliance	Effect
Residual Chlorine	0.2 – 2mg/l (recommended)	0.01 – 0.1, >2	Very low concentration may allow bacterial contamination of water supply.
Iron	Upper limit: 1mg/l	1.05	High concentration of iron (above 3mg/l) affects the taste of water. No adverse health effects
Fluoride	Upper limit: 4mg/l	5.5 – 7.0	Concentration above 1.5mg/l may cause dental fluorosis in children up to 8 years, Higher concentration (above 4mg/l) may cause skeletal fluorosis
pH	6.5 – 9.2	<6.5	When pH is below 6.5 or above 11, the water may corrode plumbing fittings and pipes. Chlorine disinfection efficiency is impaired above pH 8.0. Extreme values of pH result in irritation of the eyes, skin and mucous membranes
Manganese	Upper limit: 0.5mg/l	0.6	At concentrations exceeding 0.1 mg/L, manganese imparts an undesirable taste to water and stains plumbing fixtures and laundry. Can also cause turbidity problems in distribution systems
Nitrates	10 – 75mg/l	102 – 180 mg/l	May cause methaglobinaemia (Oxidation of normal haemoglobin to methaemoglobin, which is unable to transport oxygen to the tissues). The limit of 50 mg-NO ₃ /L (as nitrate) has been set to protect bottle-fed infants under 3 months of age. Up to 100 mg-NO ₃ /L can be safely consumed by adults and children over 3 months of age.
Electrical conductivity	1000 μ S/cm	1702 μ S/cm	No health effects have been associated specifically with high Electrical Conductivity
Feecal Coliforms	0 counts/100ml	11 – 20 counts/100ml	Indicate feecal contamination. May result in E-coli diarrhoea in infants, children and adults

6.9 Challenges and Way Forward

The main challenges facing the Authority in regulating the water sector as well as the way forward are described below:

- There is relatively high cost for regulating district and small water utilities. The Authority is working closely with the Ministry of Water in order to establish clustered water utilities which will eventually reduce the cost of regulation.
- Investment funds earmarked under the Water Sector Development Programme for capacity building were not released in time. This affected planned capacity building activities. However, the Authority used its budget to support the capacity building of district and small water utilities.
- Utilities have difficulties in accessing commercial loans which make them dependent on tariff to finance their investments. The Authority will publish Business Planning Guidelines which will guide utilities planning towards attaining cost recovery.

- d) District and small water utilities lack the required skilled manpower. The Authority shall introduce guidelines for approving tariffs for district and small water utilities based on tariff indexation.

7.0 PUBLIC AWARENESS AND OUTREACH PROGRAMME

During the period under review, the Authority continued with its obligation to implement public awareness and outreach programmes. The public awareness campaign was aimed at informing the public on various activities conducted by EWURA on consumers' rights and obligations. The programme was also geared at enhancing public knowledge, awareness and understanding of the regulated sectors. Public awareness and outreach touched electricity, petroleum and water sectors.

Two Electricity contractors workshops were held in the North zone (Moshi, Arusha and Tanga) and Lake zone (Mwanza, Bukoba and Musoma).

Training in the petroleum licensing road map was conducted for Regional and District Officials who included Regional Commissioners and Regional Administrative Secretaries, Regional Police Commanders, District Commissioners, District Administrative Secretaries, Regional Crime Officers, Security Officers and all Regional and District Trade Officers.

The Authority conducted third regulatory training for staff from regional and district/small town urban water supply and sanitation authorities as well as national water projects from the regions of Mbeya, Iringa, Ruvuma, Rukwa, Dodoma, Singida, Coast and Dar es Salaam (DAWASA).

The training was conducted from 14th – 18th September, 2009, at the Forest Hill Hotel in Mbeya City in two groups. The first group comprised participants from Regional water utilities and the second group of participants was from Districts/Small Towns water utilities and National Water Projects. The first regulatory training was conducted in the Mwanza City on 8th – 12th June, 2009, involving staff from the Lake Zone Water Utilities while the second was conducted from 20th – 24th July, 2009, at B-Z Hotel in the Morogoro Municipality.

In addition, several press conferences were held and the media consistently covered EWURA's public activities whenever and wherever they were held. Also, the authority organised two Editorial Forums that consisted of prominent editors.

These campaigns were successful with increased awareness of EWURA activities. This is evidenced by an increase in complaints received compared to the previous year. Complaints received from the water sector increased from 19 to 100, from the petroleum sub-sector increased from 30 to 74 while in the electricity sector increased from 26 to 87.

8.0 STAKEHOLDER CONSULTATIONS

Stakeholders' consultation forms part of the Authority's regulatory decision-making process. The Authority's stakeholders include the Consumer Consultative Council

(CCC), the Government Consultative Council (GCC), regulated entities, the media, and the general public. During the year under review, the Authority undertook several stakeholders' consultations where it received feedback from GCC, CCC and the general public on the various regulatory decisions that were made. GCC held a total of nine (9) meetings and CCC conducted twelve (12) meetings. The comments received from these meetings formed part of the inputs that were taken into account in arriving at all the Authority's regulatory decisions.

Activities in which stakeholders' consultation were sought include public inquiry on tariff adjustments, processing of licence applications and development of rules and regulations.

9.0 DECLARATION OF CONFLICT OF INTEREST

During the year under review, there was no incident of conflict of interest for the Board Members and staff.

10.0 CONCLUSION AND FUTURE OUTLOOK

The Authority looks at the future with determination to increase its contribution to national economic development and improvement in the welfare of the general public through quality delivery of regulatory services. It is within this drive that the Authority will tackle the prevailing challenges so as to deliver the expected results. Measures that will be taken to achieve the necessary impact include:

- a) continuing speeding up the process of developing regulatory tools including making rules and standards (in collaboration with TBS) that all players in the regulated sectors must adhere to;
- b) ensuring that all regulated suppliers in the country are licensed and operate in observance of the required standards, rules and regulations governing their respective industry in the country;
- c) developing regulatory monitoring systems for all regulated sectors to ensure timely availability of sufficient and accurate information;
- d) conducting capacity building activities for the Authority's human resources in technical, managerial as well as regulatory skills, in order to execute regulatory duties effectively and efficiently;
- e) continuing to play a strong supporting role in the development of the gas sector legislation which is a tool for effective sector regulation;
- f) continuing to implement public awareness programmes in order to enhance public knowledge in the understanding of rights and obligations of consumers and regulated suppliers;
- g) construct office building for the Authority to address current office accommodation challenges which include increase in rent and insufficient space; and
- h) play a key role in attracting investments in the regulated sectors by creating enabling environment for investors.

11.0 FINANCIAL STATEMENT FOR THE YEAR ENDED 30TH JUNE, 2010

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON FINANCIAL STATEMENTS OF ENERGY AND WATER
UTILITIES AUTHORITY FOR THE YEAR
ENDED 30TH JUNE, 2010**

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DAR ES SALAAM

March, 2011

EWURA/2010

**Office of the Controller and Auditor General
National Audit Office
The United Republic of Tanzania**

(Established under Article 143 of the Constitution of the URT)

The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the Constitution of the URT of 1977 (revised 2005) and further elaborated under Sect. 10 (1) of the Public Audit Act No 11 of 2008.

Vision

To be a centre of excellence in public sector auditing.

Mission

To provide efficient audit services to enhance accountability and value for money in the collection and use of public resources.

In providing quality services NAO is guided by the following Core Values:

- ✓ **Objectivity:** We are an impartial organization, offering services to our clients in an objective and unbiased manner;
- ✓ **Excellence:** We are professionals providing high quality audit services based on best practices;
- ✓ **Integrity:** We observe and maintain high standards of ethical behaviour and the rule of law;
- ✓ **People focus:** We focus on stakeholders needs by building a culture of good customer care and having competent and motivated work force;
- ✓ **Innovation:** We are creative organization that constantly promotes a culture of developing and accepting new ideas from inside and outside the organisation; and
- ✓ **Best resource utilization:** We are an organisation that values and uses public resources entrusted to it in efficient, economic and effective manner.

We do this by:-

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with adequate working tools and facilities that promote independence.

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REPORT OF THE DIRECTORS FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2010

1.0 INTRODUCTION

The Directors submit their report together with the audited financial statements for the year ended 30th June, 2010, 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 of the Laws of Tanzania (EWURA Act). 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, and 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
Mr. Simon F. Sayore *	Chairman	Appointed 1 June, 2006
Eng. Robert M. A. Swere **	Deputy Chairman	Appointed 1 January, 2006
Eng. Nerei Msimbira	Member	Appointed 1 January, 2006
Ms. Lucy H. Sondo ***	Member	Appointed 1 June, 2006
Eng. Vincent T. Gondwe	Member	Appointed 1 January, 2006
Dr. Geoffrey Mariki	Member	Appointed 1 August, 2009
Mr. Omar S. Bendera	Member	Appointed 1 March, 2010
Mr. Haruna Masebu ****	Director General	Appointed 1 January, 2006

Key: * His term expired on 31st May, 2010 *** Re-appointed 1st June, 2010
 ** His term expired on 31st December, 2009 **** Re-appointed 1st January, 2010

5.0 OPERATIONAL AND FINANCIAL PERFORMANCE

During the year under review, the Authority witnessed significant achievements in the mobilisation of financial and non-financial resources, preparation of legal framework, licensing, development of rules, standards and codes, tariff review for regulated services,

monitoring regulated services, public awareness, and institutional development in terms of working facilities and equipment, recruitment and capacity building of staff.

5.1 Financing

The Authority's operations are financed mainly through collection of levies from regulated service providers in the electricity, petroleum, natural gas and water sectors. Other sources of financing include Government Grant from the Privatisation and Private Sector Development Project (PPSDP) of the World Bank and Water Sector Development Programme under the Ministry of Water and Irrigation. During the year under review total revenue amounted to TZS 20.0 billion indicating an increase of 68% when compared to the previous year as shown in the table below.

Description	Increase/ (Decrease)	Amount for the Period Ended 30 th June, 2010	Amount for the Period Ended 30 th June, 2009
	%	TZS'000	TZS'000
Income from Regulatory Levy and Licences	93	17,042,092	8,808,491
Operating Grant	(25)	1,881,555	2,517,690
Other Income	90	1,082,498	569,224
Total Revenue	68	20,006,145	11,895,405

5.2 Strategic Objectives

During the year, EWURA focused on the implementation of its Strategic Objectives which guide the Authority to achieve its vision, champion good governance and facilitate the attainment of vibrant and thriving energy and water sectors in Tanzania. The Strategic Objectives are as follows:

- To have a well managed and effective organisation by June, 2010.
- To have a well developed regulatory information systems by June, 2011.
- To have enhanced public knowledge, awareness and understanding of the regulatory functions and the regulated sectors by June, 2011.
- To have improved availability and quality of regulated service to customers.
- To have an effective intervention strategy against HIV/AIDS for enhanced productivity by June, 2010.

5.3 Legal Framework

The EWURA Act governs the activities of the Authority. Currently, EWURA regulates the relevant sectors pursuant to the EWURA Act and sector legislation. During the year under review, the Authority played a strong supporting role in the development and enactment of the Water Supply and Sanitation Act, 2009, drafting of the Gas Bill, Petroleum Regulations, and Electricity Regulations.

The Authority shall continue to play a key role in supporting the Government in drafting the Water Supply and Sanitation Regulations and finalization of Petroleum Regulations and Electricity Regulations. In addition, efforts shall continue to support the development and enactment of the remaining Gas Supply Bill. It is imperative that the sector legislation be enacted to enable the Authority to effectively execute its legal regulatory obligations in the gas sector.

5.4 Licensing

The Authority's long-term objective is to licence all regulated activities under its jurisdiction. During the year under review, the Authority has prepared and issued licences to some regulated suppliers operating in the regulated sectors. The table below summaries the status of licensing in EWURA regulated sectors as at 30th June, 2010.

Sector	Entities	Licences			
		Applied	Granted	Referred Back	Pending
Electricity	12	7	4	0	3
Petroleum	1,250+	1,174	836	22	316
Water	85	20	20	0	0

Note:

- More than 60 petroleum products retail outlets have not applied for licences. Process is underway to close their business;
- licences under the natural gas sector are still issued by the Ministry for Energy and Minerals.

5.5 Establishment of Rules

The Authority continued with the task of finalising the preparation and issuing the rules initiated during the previous year and developing new ones. During the period under review the preparation of the following rules were completed:

- The EWURA (Collection of Fees and Levies) Rules, 2010;
- The EWURA (Petroleum Marking and Quality control) Rules, 2010; and
- The EWURA (Petroleum Sampling and Testing) Rules, 2010.

The process of developing rules is governed by principles of good governance which require 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 that was finalised in 2007 governs the conduct of the staff and members of the Board, both in the course of performing their duties and with interaction with the general public.

5.6 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 regulated sectors. This process involves Tanzania Bureau of Standards (TBS), service providers, academic institutions, and other stakeholders.

5.7 Tariff Review

The Authority carried out public inquiries and public hearings to determine several tariff review matters filed by regulated suppliers. A summary of public inquiries and tariff reviews conducted during the year is shown below:

Regulated Sector	Applications Received			Status			
	Before July 2009	After July 2009	Subjected to Board's Decision	Withdrawn	Referred Back	Under Review	Total Reviewed
Electricity	3	3	4	0	0	2	6
Natural Gas	1	0	0	0	1	0	1
Petroleum	1	0	1	0	0	0	1
Water & Sewerage	2	22	15	0	2	7	24
TOTAL	7	25	20	0	3	9	32

In all cases, the legal requirement of taking the views of both consumers and service providers into account was respected when determining the new rates. In this regard, the Authority conducted public hearings as summarised below.

Sector	No. of Public Inquiry Meetings	No. of Matters	Concluded
Electricity	3	2	2
Petroleum	0	0	0
Natural Gas	1	1	1
Water & Sewerage	15	15	15
Total	19	18	18

5.8 Sector Monitoring

During the year, the Authority conducted performance monitoring in the activities 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. Key objectives for sector monitoring include the following:

- to promote effective competition and economic efficiency;
- to protect the interest of the consumers and financial viability of efficient service providers;
- to promote the availability of regulated services to all consumers including low income, rural and disadvantaged consumers; and
- to protect and preserve the environment.

Petroleum Products Quality and Price Monitoring

In order to curb petroleum products adulteration, the Authority continued to take petroleum samples from stakeholders' installations for the purpose of ascertaining quality. The objective is to ensure that service providers trade the right quality products. During the period under review, the number of samples that were taken and the test results are shown below:

Type	Number of Samples Taken	Number of Samples Failed Test	% Failure
Retail Outlets	392	82	20.9%
Depots	30	3	10.0%

Global oil price fluctuations continued to bring challenges to the Authority in mitigating the impact of oil price on the Tanzanian economy. With effect from January, 2009, the Authority instituted economic regulation in the downstream petroleum sub-sector following the public inquiry that was held in December, 2008. Consequently, during the period under review, the Authority continued publishing petroleum products price caps in addition to indicative oil pump prices across the country after every two weeks.

5.9 Public Awareness

Public awareness activities conducted during the year included educating Regional and District Officials mainly on petroleum licensing roadmap. The officials included Regional Commissioners and Regional Administrative Secretaries, Regional Police Commanders, District Commissioners, District Administrative Secretaries, Regional Crime Officers, Security Officers and all Regional and District Trade Officers.

Awareness campaign is also conducted during public hearings on tariff matters. In addition, the media consistently covered EWURA's public activities whenever and wherever they were held. Media activities include advertisement, documentary, press conferences, TV programmes and Editors Forum.

5.10 Complaints and Disputes

The Authority attends to complaints 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, 2010, EWURA received a total of 184 complaints, out of which 124 were resolved amicably. 60 Complaints were at different stages of resolution. The summary of complaints received, resolved and in progress is shown below.

Complaints	Petroleum	Electricity	Water & Sewerage	Total
Received	42	61	81	184
Resolved	42	29	53	124
In Progress	0	32	28	60

6.0 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 recruited 17 staff bringing the total number of staff to 83 out of 85 required under the year under review. Out of the 83 staff, two of them resigned from employment joining other Government Institutions. Staff gender structure is as indicated below:

Item	Male	Female	Total
Staff Recruited	58	25	83
Percentage	70%	30%	100%

The Authority has 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 advertisements with formal competitive selection procedures were followed.

7.0 STAFF WELFARE

7.1 Staff Relations

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

7.2 Capacity Building

It is the Authority's policy to equip its staff with relevant regulatory, managerial and operational competencies in order to enhance their service delivery to the public. During the period under review Board Members and senior management attended general courses on Public Utility Regulation and Strategy, specialised courses in regulating electricity, water, International Petroleum Management Certificate, contract management and training in Regulatory Impact Assessment. In addition, the Authority organised study tours and field attachments on the regulatory best practices which included learning key issues, challenges and options of multi-sectoral utility regulation of water and energy sectors.

Middle level and support staff attended regional and local training in general management courses, secretarial practices and advanced drivers and office attendants training courses in order to improve their performance.

In addition, EWURA subscribed to and participated mainly in the activities of three International Associations, namely, Regional Electricity Regulators Association (RERA), African Forum for Utility Regulators (AFUR) and Energy Regulators Association of East Africa (ERAEA). 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.

7.3 Medical Services

The Authority provides free medical care for all staff, spouses and up to four children not exceeding 18 years of age. The Authority commits funds sufficient to cater for evacuation of staff and overseas treatment, where necessary. During the year under review, there were no cases for overseas treatment and, therefore, the Authority incurred medical costs for local treatment only.

7.4 HIV/AIDS Intervention

During the period under review, the Authority conducted a seminar for all staff on HIV/AIDS. This involved awareness of HIV/AIDS related issues, training in causes and prevention measures and testing.

8.0 PERSONS WITH DISABILITIES

The Authority gives equal opportunities to persons with disabilities.

9.0 CORPORATE SOCIAL RESPONSIBILITY

In recognition of its corporate social responsibility, the Authority contributed TZS 27.06 million to support trust funds facilitating environment protection, and support field attachments for students from various higher learning institutions. The involvement of the Authority in corporate social responsibilities, enhances its value and improves its public image.

10.0 SOLVENCY

Since its establishment, the Authority has never sought being financed 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 12.06 billion as at 30th June, 2010 and net cumulative surplus of TZS 1.76 billion as at the end of the year under review.

11.0 AUDITORS

The Controller and Auditor General is the statutory auditor of the Energy and Water Utilities Regulatory Authority (EWURA) by virtue of Article 143 of the Constitution of the United Republic of Tanzania, amplified in the Public Audit Act No. 11 of 2008. However, in accordance with section 33 of Public Audit Act PKF Tanzania were authorised to carry out the audit of EWURA on behalf of the Controller and Auditor General.

BY ORDER OF THE BOARD



CHAIRMAN

22 MAR 2011

Date



DIRECTOR GENERAL

22 MAR 2011

Date

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

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.

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 year ended 30th June, 2010. 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.

To the best of the Directors 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 year ended 30th June, 2010.

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

Nothing has come to the attention of the Directors to indicate that EWURA will not remain a going concern for at least the next twelve months from the date of the statements.

Approved by the Board of Directors on 22nd March, 2011, and signed on its behalf by:



CHAIRMAN

22 MAR 2011

Date



DIRECTOR GENERAL

22 MAR 2011

Date

AUDIT REPORT ON FINANCIAL STATEMENTS

To: **CHAIRMAN OF THE BOARD**
ENERGY AND WATER UTILITIES REGULATORY AUTHORITY
P.O.BOX 72175
DAR ES SALAAM.

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF EWURA FOR THE YEAR ENDED 30TH JUNE, 2010.

I have audited the accompanying Financial Statements of the Energy and Water Utilities Regulatory Authority (EWURA) which comprise the Statement of Financial position as at 30th June, 2010, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out from pages 85 to 105 of this report.

Directors' Responsibility for the Financial Statements

The Board of Directors of the Energy and Water Utilities Regulatory Authority (EWURA) is 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.

Responsibilities of the Controller and Auditor General

My responsibility as an auditor is to express an independent opinion on the Financial Statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing (ISA), International Standards of Supreme Audit Institutions (ISSAIs) and such other audit procedures I considered necessary in the circumstances. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

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 judgment, 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 EWURA'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 Energy and Water Utilities Regulatory Authority (EWURA) 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.

In addition, Sect. 10 (2) of the PAA No. 11 of 2008 requires me to satisfy myself that the accounts have been prepared in accordance with the appropriate accounting standards and that: reasonable precautions have been taken to safeguard the collection of revenue, receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed and expenditures of public monies have been properly authorized.

Further, Sect 44(2) of the Public Procurement Act No.21 of 2004 and Reg No. 31 of the Public Procurement (Goods, Works, Non-consultant services and Disposal of Public Assets by Tender) Regulations of 2005 requires me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and its Regulations.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Unqualified Opinion

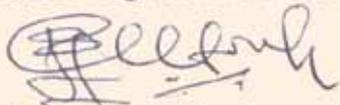
In my opinion, the Financial Statements present fairly, in all material respects, (or give a true and fair view of) the financial position of The Energy and Water Utilities Regulatory Authority (EWURA) as at 30th June, 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Energy and Water Utilities Regulatory Authority Act, Cap 414 of the Laws of Tanzania.

Report on Other Legal and Regulatory Requirements

Compliance with Public Procurement Act

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions and processes I reviewed as part of this audit, I state that The Energy and Water Utilities Regulatory Authority (EWURA) has generally complied with the Public Procurement Act, 2004 and its

related Regulations of 2005.



Ludovick S. L. Utouh

CONTROLLER AND AUDITOR GENERAL
National Audit Office,
Dar es Salaam, Tanzania

30th March, 2011

Controller and



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE, 2010**

	NOTES	2009/10 TZS'000	2008/09 TZS'000
Revenue			
Operating Revenue	3	17,042,092	8,808,491
Operating Grant		1,881,555	2,517,690
Other Income	4	521,240	344,550
Finance Income/(Costs)	5	<u>575,877</u>	<u>51,438</u>
Total Revenue		<u>20,020,764</u>	<u>11,722,169</u>
Expenditure			
Staff Costs	6	3,914,469	3,213,766
Operating Expenditure	7	6,619,540	5,200,763
Administration Costs	8	1,603,200	1,268,471
Other Charges	9	98,124	91,366
Depreciation and Amortisation	11	<u>273,979</u>	<u>258,980</u>
Total Expenditure		<u>12,509,312</u>	<u>10,033,346</u>
Total Comprehensive Income for the Year		<u>7,511,452</u>	<u>1,862,059</u>
Add: Total Comprehensive Brought Forward		<u>1,495,545</u>	<u>1,598,635</u>
Total Comprehensive Income		9,006,997	3,460,694
Appropriation:			
Building Fund		4,650,000	1,000,000
Capital Expenditure Commitments	15	<u>2,593,899</u>	<u>965,149</u>
Retained Surplus	10	<u>1,763,098</u>	<u>1,495,545</u>

The Notes on pages 92 to 105 form an integral part of these Financial Statements.



 CHAIRMAN
 22 MAR 2011

Date



 DIRECTOR GENERAL
 22 MAR 2011

Date

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE, 2010

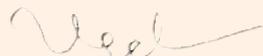
	NOTES	30 June, 2010 TZS'000	30 June, 2009 TZS'000
ASSETS			
Non-Current Assets			
Property and Equipment	11	607,753	495,360
Intangible Assets	11	<u>21,181</u>	<u>15,586</u>
Total Non-Current Assets		<u>628,934</u>	<u>510,946</u>
Current Assets			
Stocks and Consumables		31,793	40,075
Staff Loans and Advances	13b	554,965	558,235
Prepayments	14	1,252,911	587,323
Interest Receivable		83,041	-
Debtors		-	24,318
Cash and Bank Balances	12	<u>10,657,203</u>	<u>4,607,391</u>
Total Current Assets		<u>12,579,913</u>	<u>5,817,342</u>
TOTAL ASSETS		<u>13,208,847</u>	<u>6,328,288</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Retained Surplus		1,763,098	1,495,545
Building Fund		6,050,000	1,400,000
Capital Expenditure Commitments	15	3,559,048	965,149
Government Grant from PPSDP Credit	16	<u>215,823</u>	<u>313,773</u>
Total Capital and Reserves		<u>11,587,968</u>	<u>4,174,467</u>
Non-Current Liabilities			
Gratuity Payable	17	<u>1,101,659</u>	<u>737,192</u>
Total Non-Current Liabilities		<u>1,101,659</u>	<u>737,192</u>
Current Liabilities			
Trade Creditors		423,084	536,601
Other Creditors and Accruals	18	<u>96,136</u>	<u>880,028</u>
Total Current Liabilities		<u>519,220</u>	<u>1,416,628</u>
Total Liabilities		<u>1,620,879</u>	<u>2,153,821</u>
TOTAL EQUITY AND LIABILITIES		<u>13,208,847</u>	<u>6,328,288</u>

The Notes on pages 92 to 105 form an integral part of these Financial Statements.



 CHAIRMAN
 22 MAR 2011

 Date



 DIRECTOR GENERAL
 22 MAR 2011

 Date

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE, 2010

	NOTES	30 June 2010 TZS'000	RESTATED 30 June 2009 TZS'000
ASSETS			
Non-Current Assets			
Property and Equipment	11	607,753	495,360
Intangible Assets	11	<u>21,181</u>	<u>15,586</u>
Total Non-Current Assets		<u>628,934</u>	<u>510,946</u>
Current Assets			
Stocks and Consumables		31,793	40,075
Staff Loans and Advances	13b	554,965	558,235
Prepayments	15	1,252,911	587,323
Other Receivables		83,041	24,318
Financial Assets	13	4,240,433	2,620,000
Cash and cash equivalents	12	<u>6,416,770</u>	<u>1,987,391</u>
Total Current Assets		<u>12,579,913</u>	<u>5,817,342</u>
TOTAL ASSETS		<u>13,208,847</u>	<u>6,328,288</u>
 EQUITY AND LIABILITIES			
Capital and Reserves			
Retained Surplus		1,763,098	1,495,545
Building Fund		6,050,000	1,400,000
Capital Expenditure Commitments	16	3,559,048	965,149
Government Grant from PPSDP Credit	17	<u>215,823</u>	<u>313,773</u>
Total Capital and Reserves		<u>11,587,968</u>	<u>4,174,467</u>
Non-Current Liabilities			
Gratuity Payable	18	<u>1,101,659</u>	<u>737,192</u>
Total Non-Current Liabilities		<u>1,101,659</u>	<u>737,192</u>
Current Liabilities			
Trade Creditors		423,084	536,601
Other Creditors and Accruals	19	<u>96,136</u>	<u>880,028</u>
Total Current Liabilities		<u>519,220</u>	<u>1,416,628</u>
Total Liabilities		<u>1,620,879</u>	<u>2,153,821</u>
 TOTAL EQUITY AND LIABILITIES		 <u>13,208,847</u>	 <u>6,328,288</u>

The Notes on pages 92 to 105 form an integral part of these Financial Statements.

CHAIRMAN

22 MAR 2011

Date

DIRECTOR GENERAL

22 MAR 2011

Date

STATEMENT OF FINANCIAL POSITION AS AT 1ST JULY, 2008

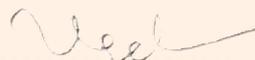
	RESTATED
	1st July, 2008
	TZS'000
ASSETS	
Non-Current Assets	
Property and Equipment	570,858
Intangible Assets	<u>31,173</u>
Total Non-Current Assets	<u>602,031</u>
Current Assets	
Stocks and Consumables	16,291
Staff Loans and Advances	550,232
Prepaid Office Rent	465,114
Cash and Bank Balances	<u>1,418,205</u>
Total Current Assets	<u>2,449,842</u>
TOTAL ASSETS	<u>3,051,873</u>
EQUITY AND LIABILITIES	
Capital and Reserves	
Retained Surplus	1,598,635
Building Fund	400,000
Government Grant from PPSDP Credit	<u>500,820</u>
Total Capital and Reserves	<u>2,499,455</u>
Current Liabilities	
Trade Creditors	132,877
Other Creditors and Accruals	<u>419,542</u>
Total Current Liabilities	<u>552,418</u>
TOTAL EQUITY AND LIABILITIES	<u>3,051,873</u>

The Notes on pages 92 to 105 form an integral part of these Financial Statements.



 CHAIRMAN
 22 MAR 2011

 Date



 DIRECTOR GENERAL
 22 MAR 2011

 Date

**STATEMENT OF CHANGES IN CAPITAL FUND AND RESERVES FOR THE YEAR
ENDED 30TH JUNE, 2010**

	Capital Fund	Building Fund	Surplus	Reserve	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance at 1 st July, 2009	313,773	1,400,000	1,494,545	965,149	4,174,467
PPSDP Grant - Pickup	41,790	-	-	-	41,790
Surplus for the Period	-	-	7,972,704	-	7,511,452
Transfer to Building Fund	-	-	(4,650,000)	-	(4,650,000)
Transfer to Capital Expenditure Commitments	-	-	(2,593,899)	-	(2,593,899)
Building Fund Capital Expenditure Commitments Grant	-	4,650,000	-	-	4,650,000
Amortisation	(139,740)	-	-	-	(139,740)
Balance at 30th June, 2010	<u>215,823</u>	<u>6,050,000</u>	<u>1,763,098</u>	<u>3,559,048</u>	<u>11,587,968</u>

Note:

The Authority established a special fund which will be used for construction of office building for its own use. For the year ended 30th June, 2010, an amount of TZS 4,650,000,000 was appropriated to the Building Fund.

The Notes on pages 92 to 105 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN CAPITAL FUND AND RESERVES FOR THE YEAR ENDED 30TH JUNE, 2010 (CONTINUED)

Year Ended 30th June, 2009

	Capital Fund	Building Fund	Surplus	Reserve	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance at 1 st July, 2008	500,820	400,000	1,598,634	-	2,499,454
PPSDP Grant - Pickup	-	-	-	-	-
Surplus for the Period	-	-	1,675,013	-	1,675,013
Transfer to Building Fund	-	-	(1,000,000)	-	(1,000,000)
Transfer to Capital Expenditure Commitments	-	-	(965,149)	-	(965,149)
Building Fund Capital Expenditure Commitments	-	1,000,000	-	-	1,000,000
Grant Amortisation	(187,047)	-	187,047	-	-
Balance at 30 June, 2009	<u>313,773</u>	<u>1,400,000</u>	<u>1,495,545</u>	<u>965,149</u>	<u>4,174,467</u>

The Notes on pages 92 to 105 form an integral part of these Financial Statements.



CHAIRMAN

22 MAR 2011

Date



DIRECTOR GENERAL

22 MAR 2011

Date

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE, 2010

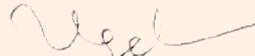
	NOTES	30 June 2010	30 June 2009
		TZS'000	TZS'000
Cash Flow From Operating Activities:			
Operating Surplus for the Period		7,511,452	1,675,013
Adjustments for:			
Depreciation		<u>273,979</u>	<u>258,980</u>
Operating Surplus Before Working Capital Changes		7,785,431	1,933,993
Changes in Working Capital Items:			
Increase in Stocks and Consumables		8,282	(23,784)
Increase in Debtors and Prepayments		(721,041)	(154,529)
Increase in Creditors		<u>(532,942)</u>	<u>1,601,395</u>
Cash Flows From Operating Activities		<u>6,539,730</u>	<u>3,357,075</u>
Cash Flows From Investing Activities			
Financial Assets		(1,620,433)	(2,620,000)
Acquisition of Equipment		<u>(391,967)</u>	<u>(167,889)</u>
Net Cash Flows from Investing Activities		<u>(2,012,400)</u>	<u>(2,787,889)</u>
Cash Flows from Financing Activities			
PPSDP Credit		<u>(97,950)</u>	-
Net Cash Flows from Financing Activities		<u>(97,950)</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents		4,429,379	569,186
Cash and Cash Equivalents at 1 st July, 2009		<u>1,987,391</u>	<u>1,418,205</u>
Cash and Cash Equivalents at 30th June, 2010	12	<u>6,416,770</u>	<u>1,987,391</u>

The Notes on pages 92 to 105 form an integral part of these Financial Statements.



 CHAIRMAN
 22 MAR 2011

 Date



 DIRECTOR GENERAL
 22 MAR 2011

 Date

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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 (EWURA Act). 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. The address of its registered office is:

Harbour View Towers,
Samora Avenue /Mission Street,
P O Box 72175,
Dar es Salaam, Tanzania.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

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 the International Public Sector Accounting Standard (IPSA) 23, 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 Funds are reported as Government Grants and recognised when there is reasonable assurance that the Authority will comply with the conditions attached to them and the grants will be received in order to comply with the disclosure requirements of the International Accounting Standard (IAS) 20. Accounting for Government Grants and Disclosure of Government Assistance.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i) Operating Grant

This is normally in the form of cash and is recognized as income in the year it is received.

ii) Grant Related to Assets

Government grants related to assets, including non-monetary grants (such as land or other resources), are recorded at fair value. The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on systematic basis.

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. Full year depreciation is charged to the asset irrespective of the date of acquisition, while no depreciation is charged during the year of disposal. The annual rates applied are:

Category of Assets	Rate per Annum (%)
Leasehold Improvement	20
Technical Equipment	12 ½
Motor Vehicles	20
Furniture and Fittings	12 ½
Office Equipment	12 ½
Computers	33 ⅓

d) Intangible Assets

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to the use the specific software. These costs are amortised on the basis of the expected useful lives, using the straight line method. The amortised costs are charged to statement of comprehensive income through depreciation and amortisation expenses.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

e) 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 terms. 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.

f) 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

Transactions that are denominated in foreign currencies during the year are converted into Tanzanian Shillings using the exchange rates prevailing at the dates of transactions. Assets and Liabilities at the Statement of Financial Position date, which are expressed in foreign currencies, are translated into Tanzania Shillings at the rates ruling at that date. The resulting differences from conversion and translation are dealt with in the Statement of Comprehensive Income in the year in which they arise.

g) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks and investments in money market instruments.

h) Retirement Benefits

(i) Approved Pension Scheme

The Authority contributes to statutory defined pension contribution plans for its employees at the rate of 15% of basic salary to either the Parastatal Pension Fund (PPF) or the National Social Security Fund (NSSF).

(ii) Gratuity

In addition to pension scheme, the Authority sets aside 15% of the employee's last basic salary as gratuity payable at the end of the contract. A provision is made for the estimated gratuity liability as a result of service rendered by the employees up to the statement of financial position date.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i) Capital Expenditure Commitments

At the end of each financial year, the Authority appropriate sufficient funds and transfer the same to special reserve to cater for capital expenditure commitments arising from:

- i) contracts signed but goods/services have not be delivered/ rendered; or
- ii) procurement process of budgeted expenditure for supply of goods/services has not been completed by the year-end.

j) Financial Assets

EWURA's financial assets which include fixed deposits fall into the held-to-maturity category. These financial assets have a fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Such assets are carried at amortised cost using the effective interest rate method. Charges in the carrying amount are recognized in the income statement.

k) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation, in the current year.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING REVENUE

	30 June 2010 TZS'000	30 June 2009 TZS'000
Regulatory Levy		
Electricity	4,175,269	2,632,725
Petroleum	11,525,686	5,177,327
Natural Gas	678,522	621,688
Water and Sewerage	<u>559,324</u>	<u>313,858</u>
Total Regulatory Levy Income	<u>16,938,801</u>	<u>8,745,598</u>
Licence Fees		
Electricity	10	728
Electricity Contractors and Wiremen	21,569	13,812
Petroleum	62,220	25,500
Water and Sewerage	-	-
Total Licence Fees Income	<u>83,799</u>	<u>40,040</u>
Application Fees		
Electricity	892	1,454
Petroleum	18,500	21,100
Natural Gas	100	200
Water and Sewerage	-	100
Total Application Fees Income	<u>19,492</u>	<u>22,754</u>
Total Operating Revenue	<u>17,042,092</u>	<u>8,808,391</u>

4. OTHER INCOME

Sale of Tender Documents	7,500	9,550
Grant Amortisation	139,740	187,047
Penalties from Petroleum Adulteration	<u>374,000</u>	<u>335,000</u>
Total Other Income	<u>521,240</u>	<u>531,597</u>

5. FINANCE INCOME /(COSTS)

Interest Income on FDRs	566,300	-
Foreign Exchange Gain	10,940	55,016
Foreign Exchange Loss	<u>(1,364)</u>	<u>(3,578)</u>
Total Finance Income/(Cost)	<u>575,876</u>	<u>51,438</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. STAFF COSTS

	30 June 2010	30 June 2009
	TZS'000	TZS'000
Salaries	2,417,459	1,959,935
Gratuity Expenses	421,257	493,285
Pension Employer's Contribution	353,126	203,997
Skills and Development Levy	163,066	118,698
Medical Expenses	71,853	38,407
Other Staff Costs	<u>487,708</u>	<u>399,443</u>
TOTAL	<u>3,914,469</u>	<u>3,213,766</u>

7. OPERATING EXPENSES

Capacity Building	1,935,216	1,280,399
Technical Review Meetings Expenses	285,034	86,122
Field and Inspection Expenses	433,379	815,626
Public Inquiries	410,501	309,240
Government Consultative Council Expenses	91,276	167,669
Consumer Consultative Council Expenses	621,339	641,989
FCT Contribution	302,497	-
Review Panel Expenses	3,228	-
Public Awareness Program	693,625	408,936
Advertisement Expenses	220,537	106,855
Consultancy Expenses	192,613	409,669
Membership Contribution, Books and Periodicals	43,729	28,569
International Conference Expenses	396,169	205,185
RERA Annual Conference Expenses	-	62,573
Regional Co-operation Meetings	343,062	167,161
Government Delegation Participation Costs	42,020	-
Local Travel Expenses	141,674	118,036
Stakeholder Consultative Meetings	5,975	-
Motor Vehicle Fuel Expenses	26,103	35,641
Motor Vehicle Repairs and Maintenance	58,543	37,763
Car Hiring Expenses	18,011	5,897
Maintenance of Computer Hardware	7,832	14,755
Maintenance of Computer Software	35,606	10,598
Maintenance of Other Office Equipment	9,058	7,476
Wiremen Licensing Activities	5,143	16,444
Nomination Committee Expenses	5,850	-
Directors' Fees	20,000	21,500
Board Expenses	<u>271,520</u>	<u>242,719</u>
TOTAL	<u>6,619,540</u>	<u>5,200,763</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. ADMINISTRATIVE COSTS

	30 June 2010	30 June 2009
	TZS'000	TZS'000
Office Rent	928,809	766,119
Telephone, Fax and Internet	147,446	130,981
Stamps and Postages	3,941	2,369
Printing and Stationery	260,695	117,877
Maintenance of Leasehold Property	7,372	24,770
Office General Expenses	57,190	45,111
Entertainment Expenses	10,703	18,231
Corporate Social Responsibilities	27,058	4,000
Audit Fees	37,500	32,460
Tender Board Expenses	103,820	120,693
Editorial Board Expenses	<u>18,666</u>	<u>5,860</u>
TOTAL	<u>1,603,200</u>	<u>1,268,471</u>

9. OTHER CHARGES

Insurance Charges	4,870	2,922
Legal Fees	<u>78,635</u>	<u>88,444</u>
Bank Charges	<u>14,619</u>	<u>13,810</u>
TOTAL	<u>98,124</u>	<u>105,177</u>

10. SURPLUS FUNDS

The surplus funds of the Authority reported as at 30th June, 2010, shall be deposited into a Special Account as per the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. PROPERTY AND EQUIPMENT

Year Ended 30th June, 2010

	Property and Equipment						Intangible Assets
	Leasehold Improvement	Technical Equipment	Motor Vehicles	Furniture and Fittings	Office Equipment	Computers	
Cost	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
At 1 st July, 2009	336,955	6,190	307,053	88,276	143,221	254,623	1,136,318
Purchases for the Year	<u>103,795</u>	<u>-</u>	<u>41,790</u>	<u>94,469</u>	<u>100,288</u>	<u>19,853</u>	<u>360,195</u>
At 30 th June, 2010	440,750	6,190	348,843	182,745	243,509	274,476	1,496,513
Depreciation							
At 1 st July, 2009	172,383	1,654	184,232	26,467	40,874	215,349	640,959
Charge for the Year	<u>88,150</u>	<u>774</u>	<u>69,769</u>	<u>22,843</u>	<u>30,439</u>	<u>35,828</u>	<u>247,803</u>
At 30 th June, 2010	260,533	2,428	254,001	49,310	71,313	251,177	888,762
Net Book Value As at 30 th June, 2010	<u>180,217</u>	<u>3,762</u>	<u>94,842</u>	<u>133,435</u>	<u>172,196</u>	<u>23,299</u>	<u>607,751</u>
							21,181

In the opinion of the Directors, there is no impairment in the value of property and equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. PROPERTY AND EQUIPMENT (Continued)

Year Ended 30th June, 2009

	Property and Equipment							Intangible Assets
	Leasehold Improvment	Technical Equipment	Motor Vehicles	Furniture and Fittings	Office Equipment	Computers	Total	
Cost	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	Computer Software TZS'000
At 1 st July, 2008	262,480	6,190	307,053	67,957	100,318	224,431	968,429	46,760
Purchases for the Year	<u>74,475</u>	-	-	<u>20,319</u>	<u>42,903</u>	<u>30,192</u>	<u>167,889</u>	-
At 30 th June, 2009	336,955	6,190	307,053	88,276	143,221	254,623	1,136,318	46,760
Depreciation								
At 1 st July, 2008	104,992	880	122,821	15,432	22,972	130,475	397,572	15,587
Charge for the Year	<u>67,391</u>	<u>774</u>	<u>61,411</u>	<u>11,035</u>	<u>17,903</u>	<u>84,874</u>	<u>243,388</u>	<u>15,587</u>
At 30 th June, 2009	172,383	1,654	184,232	26,467	40,875	215,349	640,960	31,174
Net Book Value								
As at 30 th June, 2009	<u>164,572</u>	<u>4,536</u>	<u>122,821</u>	<u>61,809</u>	<u>102,346</u>	<u>39,274</u>	<u>495,358</u>	<u>15,586</u>

In the opinion of the Directors, there is no impairment in the value of property and equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. CASH AND CASH EQUIVALENTS

	30 June 2010	30 June 2009
	TZS'000	TZS'000
Cash at Bank and on Hand	<u>6,416,770</u>	<u>1,987,391</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including cash on hand and cash balances with banks.

13. FINANCIAL ASSETS

Financial assets comprise the following:

Fixed deposits

At start of the year	2,620,000	-
Additions	<u>1,620,433</u>	<u>2,620,000</u>
At end of the year	<u>4,240,433</u>	<u>2,620,000</u>

Held to maturity is analysed as follows:

Fixed deposits	<u>4,240,433</u>	<u>2,620,000</u>
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14. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

Key Management Compensation

a) Directors' Fees	20,000	21,500
b) Loans and Advances to Staff	554,965	558,235
c) Employees' Post-employment Benefits:		
Pension - Employer's Contribution	353,125	203,997
Gratuity	106,111	22,092
d) Key Management Remuneration	<u>750,582</u>	<u>692,567</u>
Total	<u>1,784,783</u>	<u>1,498,390</u>

a) Directors Fees

Directors' Fees are paid to the Members of the Board of Directors as approved by the Minister, that is, Chairman TZS 3,500,000 and other six (6) Members, TZS 3,000,000 each per annum. For the year ended 30th June, 2010, TZS 20,000,000 were spent for this purpose.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Staff Loans and Advances

This comprises of staff revolving loans, salary advances and imprest. Summary position of staff loan/advances as at 30th June, 2010, is shown below:

Staff Revolving Loans	509,851	524,907
Salary Advances	43,117	24,750
Imprest	<u>1,997</u>	<u>8,578</u>
TOTAL	<u>554,965</u>	<u>558,235</u>

The Authority set up Staff Revolving Loans fund for the purpose of extending loans to staff for the purchase of motor vehicles and other amenities. These loans are interest free, repaid within a period of three years and are taxed in accordance with the requirements of the Income Tax Act of 2004. For the year ended 30th June, 2010, loans amounting TZS 509,850,850 were outstanding.

c) Employees' Post-employment Benefits

The Authority contributes to the approved pension contribution plans for its employees at 15% of basic salary to either the Parastatal Pension Fund (PPF), the National Social Security Fund (NSSF) or Public Service Pension Fund (PSPF). The Authority's contribution during the year ended 30th June, 2010, amounted to TZS 353,126,064.

The Authority also charges gratuity expense of 15% of employee's last basic salary per month on income statement and maintains gratuity payable account for future payment to staff. For the year ended 30th June, 2010, TZS 106,111,393 were released to staff whose contract came to an end.

Contributions to these funds are recognised as an expense in the period the employees render services to the Authority.

15. PREPAYMENTS

This comprises advance payment in respect of office rent, insurance expenses and acquisition of ICT equipment. Summary position of prepayments as at 30th June, 2010, is shown below:

Prepaid Office Rent	541,233	536,887
Other Expenditure	<u>711,678</u>	<u>50,436</u>
TOTAL	<u>1,252,911</u>	<u>587,323</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure commitments at the statement of financial position date amounted to TZS 3,559,047,823. Summary position as at 30th June, 2010, is shown below:

Opening Balance	965,149	-
Additional Commitments	3,229,103	965,149
Utilised Commitments	<u>(635,205)</u>	<u>-</u>
At the end of the year	<u>3,559,047</u>	<u>965,149</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Commitment relates to the contracts entered into but goods or services had not been delivered. In some other cases, contracts have not been entered into but respective tenders were in progress in accordance with the requirement of the Public Procurement Act No. 21 of 2004.

17. GOVERNMENT GRANT

The reported Government Grant amounting to TZS 215,822,531 represents the balance of grant in the form of assets received from Privatisation and Private Sector Development Project (PPSDP), IDA Credit. At the statement of financial position date, total assets received amounted to TZS 918,122,068.51 out of which TZS 702,299,537.18 have been amortised retrospectively to comply with the requirement of IAS 20 and IAS 8 (42). Prior period adjustments have been made as shown below:

Item	Period Ended	Amount Amortised TZS'000
Earliest Comparative Period	30 th June, 2008	375,512
Comparative Period	30 th June, 2009	187,047
Current Period	30 th June, 2010	<u>139,741</u>
Total		<u>702,300</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. NON-CURRENT LIABILITIES

Non-current liabilities at the statement of financial position date amounted to TZS 1,101,658,481. This is part of gratuity provision amounting to TZS 1,140,294,552. The details are shown in the statement of changes shown below:

	30 June 2010 TZS'000	30 June 2009 TZS'000
At Start of the Year	825,149	353,955
Charge for the Year	421,257	490,214
CCC Charge for the Year	-	3,071
Released During the Year	<u>(106,111)</u>	<u>(22,092)</u>
At the End of Year	<u>1,140,295</u>	<u>825,149</u>
Categorised As:		
Current Liabilities	38,636	737,192
Non-Current Liabilities	<u>1,101,658</u>	<u>87,957</u>
Total	<u>1,140,295</u>	<u>825,149</u>

19. CREDITORS AND ACCRUALS

Gratuity Payable	38,636	825,149
Audit Fees	37,500	32,460
Directors' Fees	20,000	-
Pension Contribution Payable	-	1,803
Deferred Income	<u>-</u>	<u>757,808</u>
Total	<u>96,136</u>	<u>1,617,220</u>

20. FINANCIAL RISK MANAGEMENT

a) Interest Rate Risk

The Authority's interest income and operating cash flows are affected by changes in market interest rates. The Authority mitigates the risks by investing in the less risky investments mainly risk-free fixed deposits maturing within a period of one year.

b) Credit Risk

The Authority's regulatory levy which is the main source of its income is not tied to a single regulated supplier. This mitigates credit risk associated with its operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

c) Liquidity Risk

The Authority ensures sufficient liquidity is maintained to meet short-term maturing obligations and it also ensures that all excess cash is invested in less risky investments.

d) Foreign Exchange Risk

The Authority minimises foreign exchange risk by maintaining a foreign currency account. The Authority does not engage in foreign currency swaps or speculations.

21. CONTINGENT LIABILITIES

As at 30th June, 2010, there were two pending appeal cases at the Fair Competition Tribunal in which the Authority was a Respondent. The two cases are Total Rafiki Petrol Station vs. EWURA and Big Bon Petrol Station at Kigogo vs. EWURA. The appeals are against EWURA's decision to suspend their retail licence for twelve (12) months as a result of being found selling adulterated petroleum products for the second time.

In the opinion of the Management, the Authority has a higher chance of winning the appeals; therefore no provisions have been made.

22. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

Changes in the accounting policy - IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

EWURA has assessed its accounting policy with regard to the recognition of grants as income, as received from PPSDP.

EWURA previously did not recognize the grant as income over the period necessary to match them with the related costs, for which they are intended to compensate.

As a consequence, EWURA's statement of comprehensive income did not reflect a significant part of the grant income.

During 2010, EWURA determined that it would change its accounting policy to recognize grants received from PPSDP as income on a systematic basis, as it believes this policy to be more consistent with the requirements of IAS 20.

Changes have been applied retrospectively in accordance with IAS 8, Accounting Policies, changes in Accounting Estimates and Errors, resulting in the restatement of prior year financial information.

As a result of the accounting policy change, the balances of retained surpluses and Government fund from PPSDP credit were adjusted as indicated in NOTE 17.

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