

In the matter of Application by the

TANZANIA ELECTRIC SUPPLY COMPANY LTD

For Tariff Review Application

Background

1. On 24th February 2016, the Energy and Water Utilities Regulatory Authority (EWURA) received a Tariff Review Application (No. TR-E-16-005) from Tanzania Electric Supply Company Limited (TANESCO), requesting EWURA to approve the following:

- (a) A decrease of electricity average tariff by 1.1% from TZS 274.9/kWh to TZS 272.00/kWh effective from April 1, 2016;
- (b) A further decrease of electricity average tariff by 7.9% from TZS 272.00/kWh to TZS 250.62/kWh with effect from January 1, 2017;
- (c) Include the Service Line Application Fee of TZS 5,000 in the revenue requirement rather than charging it separately;
- (d) Removal of Monthly Service Charge of TZS 5,520 to T1 customers;
- (e) The proposed tariff reductions in 2016 and 2017 be subjected to automatic adjustments for inflation, currency fluctuation and change in fuel prices as per Tariff Setting Rules and as modified by the Regulator from time to time.

2. On 16th March 2016 TANESCO submitted an amendment to the submission by correcting the reference for its proposed tariff.

3. In determining TANESCO's Application, the Authority is guided by the Energy Policy, Electricity Act, Cap. 131, EWURA Act, Cap. 414, and the EWURA Tariff Application Guidelines of 2009.

Tariff Review
Justification

4. According to TANESCO, the proposed tariff adjustments will enable it to finance its operational costs and capital investment program (CIP), and be able to comply with the Government's policy of ensuring that the population with access to electricity reaches 75% by 2025.

Stakeholders'
Consultation

5. Pursuant to section 19(2)(b) of the EWURA Act, EWURA conducted an inquiry into the reasonableness of the Multi-year tariffs. The inquiry process commenced on 26th February 2016 and a public hearing meeting was held on 11th March 2016 in Dar es Salaam. Public notices regarding the

inquiry process were posted in widely circulated newspapers and on the EWURA website to seek stakeholders' views and comments on the reasonableness of the Application.

6. During the consultation process, the Government Consultative Council ("GCC"), EWURA Consumers Consultative Council ("EWURA CCC"), and the general public submitted comments on the reasonableness of the two-year tariff adjustment application.

7. The GCC is of the opinion that the proposed tariff reduction will adversely affect the ability of TANESCO to carry out its functions. TANESCO need to have long term plans of ending the emergency power plants and reducing generation from its own liquid fuel power plant that cost TANESCO a lot of money. The GCC is also of the opinion that, TANESCO should not depend on subsidies from the Government to finance its operational activities. Instead the utility should improve performance for it to achieve its financial independency. Based on Audited report of 2013, the GCC is uncertain whether TANESCO's proposal was properly evaluated given the financial situation of the company. The GCC was of the opinion that if this proposal is accepted, TANESCO's financial situation may worsen and render it unable to provide services to its customers.

8. The EWURA CCC objected the idea of TANESCO to obtain a loan from the Bank of Tanzania for paying its outstanding debt of TZS 699.5 billion because at the end of the day the customers will be the ones to pay the costs associated with the loan. EWURA CCC's advice is for TANESCO to take loans for capital investments and not for operation and maintenance; and at the same time strive to collect revenue which is outstanding from the electricity customers amounting to TZS 374.92 billion. Furthermore, the EWURA CCC proposed a number of measures to cut down operational cost of TANESCO.

9. SONGAS does not support the tariff reduction as this action does not cure the sector financial difficulties. Moreover it is very unclear and unusual for TANESCO to apply for tariff reduction. Instead, SONGAS proposes a yearly increase of 19.28% and 9.99% in 2016 and 2017 respectively.

10. The general public is of the opinion that while a Tariff reduction is possible in the long term, it is not appropriate to implement it in the short term as proposed by TANESCO. The public views that, with the reduction of tariff by 1%, TANESCO will not be able to sustain its operational costs. The general public also recommends that EWURA should include arrears which TANESCO is owed by its creditors in the current tariff review.

11. TANESCO responded to comments raised by various stakeholders by giving out the following responses: (a) The tariff application has considered TANESCO's revenue requirement that will enable the company to operate for the relevant period (2016/2017); (b) The decision to remove service charges is aimed at increasing the customers' purchasing power as well as increase in electricity demand and revenue (c) TANESCO's high operational cost is a result of using liquid fuel for power generation and power purchases; (d) the proposed tariff application has considered good hydrology and availability of natural gas; and (e) TANESCO has started to phase out emergency power generation.

12. Subsequently, on 23rd March 2016, EWURA held an Exit Meeting on the Draft Order which was circulated to the key stakeholders (the Ministry of Energy and Minerals, Ministry of Finance, the Rural Energy Agency, the Fair Competition Commission, the Tanzania Chamber of Commerce Industry and Agriculture, the EWURA CCC, the GCC, TANESCO, TPDC, Songas, Independent Power Tanzania Limited, and the Zanzibar Electricity Corporation.

13. At the closure of the Inquiry process on 11th March 2016, EWURA had gathered adequate information to prudently determine the application.

14. As a result of the Inquiry and Evaluation process, EWURA concluded that TANESCO's proposed tariff for 2016 was reasonable except for some key elements discussed in Paragraphs 15 to 17 below which were adjusted to reach at a reasonable and fair decision. In addition, the proposed tariff for 2017 was considered to have unfeasible assumptions as stated in Paragraph 19.

15. EWURA used a traditional approach in the computation of revenue requirement to determine the approved tariff. Similarly, EWURA adjusted generation plan submitted by TANESCO in line with projected wet hydrology and unit sales projections.

16. For own generation, fuel cost was estimated based on specific heat rate of power plants submitted by TANESCO and compared to actual performance in the year 2014 and 2015, while purchased electricity cost was estimated based on the rates stated in respective Power Purchase Agreements.

17. EWURA considered that the Capital Investment Programme (CIP) of TANESCO will be funded using a sum of TZS 351.4 billion from allowed depreciation and return on regulatory asset base computed using 11% as a weighted average cost of capital.

18. Based on the adjustments, the total revenue requirement for 2016 is **TZS 1,517,179 million** as detailed in the table below.

Analysis and
Adjustment

Table 1: Approved Revenue Requirement

| Cost Item | 2016 TZS million |
|--|-----------------------------|
| Own Generation | 353,194 |
| <i>Fuel cost</i> | <i>296,534</i> |
| <i>Repair and Maintenance</i> | <i>56,660</i> |
| Purchased Electricity | 471,290 |
| <i>Capacity Charge</i> | <i>261,248</i> |
| <i>Fuel Cost and Energy Charge</i> | <i>210,043</i> |
| Repair & Maintenance – Transmission & Distribution | 68,297 |
| Staff Cost | 256,456 |
| Other expenses | 108,468 |
| Financing Cost | 97,103 |
| | 1,354,808 |
| Depreciation | 123,971 |
| Return on Investment | 227,438 |
| | 1,706,217 |
| Less: Other Income | 189,038 |
| TOTAL REVENUE REQUIREMENT | 1,517,179 |

19. In determining the tariff for 2017, EWURA noted that assumptions used to determine generation cost were not plausible. In addition, the TPDC processing and transportation tariffs used is currently an interim tariff awaiting determination of actual costs of the gas processing plants and the gas pipeline. It is expected that the final actual costs will be determined in the second half of 2016. For these two reasons, a decision on 2017 tariffs has been deferred. TANESCO is required to resubmit its 2017 tariff application by 31st August 2016.

Decision

20. The Board of Directors of EWURA having met on 29th March 2016 to consider this matter decided as per the Order below:

THE ELECTRICITY ACT

(CAP. 131)

ORDER No. 2016-010

(Made under section 23(2) and 24(2))

**THE TANZANIA ELECTRIC SUPPLY COMPANY LIMITED ("TANESCO")
TARIFF ADJUSTMENT ORDER, 2016**

- | | |
|---|---|
| Citation | 1. This Order shall be cited as the Tanzania Electric Supply Company Limited ("TANESCO") Tariff Adjustment Order, 2016. |
| Commencement Date | 2. This Order shall come into force on 1 st April 2016. |
| Tariffs and Charges | 3. TANESCO tariff and charges to be effective from 1 st April 2016 are hereby as specified in the First Schedule and Second Schedule to this Order. The approved tariffs imply decreasing tariffs by a range of 1.5% to 2.4% in 2016 compared to the current tariff. 4. TANESCO's Tariff Review Application for 2017 is hereby deferred and shall be resubmitted by 31 st August 2016. |
| Service Line Application Fee | 5. Service Line Application Fee of TZS 5,000 is hereby removed. |
| Monthly Service Charge to T1 customers | 6. Monthly Service Charge of TZS 5,520 to T1 (General Use) customer category is hereby removed. |
| Fuel Cost, Inflation and Exchange Rate Adjustment | 7. The Authority shall, pursuant to Sections 23(2)(d) and 23(3) of the Electricity Act, adjust tariff to reflect changes in the cost of fuel, inflation and currency fluctuation. The adjustments shall be done as prescribed in Rule 7 of the Electricity (Tariff Setting) Rules, 2016. |
| Disconnection and Reconnection Charges | 8. Disconnection and reconnection charges are TZS 7,000/=. |
| Penalty for Tampered Meters GN No. 63/2011 | 9. Penalty for tampering with TANESCO Metering System for D1, T1, T2 and T3 customers shall be as stipulated in the Electricity (General) Regulations. |
| Conditions | 10. The Order is issued under the following conditions; that TANESCO shall: |

- (a) strictly follow the least cost merit order dispatch and submit to the Authority, on a monthly basis, reports showing the actual generation and generation plan as proposed by this Order;
- (b) By 30th June 2016, TANESCO shall submit a revised Capital Investment Program in line with the allowed sum of depreciation and return on its regulatory asset base equivalent to TZS 351.4 billion, and any change to the plan should get the approval of the Authority;
- (c) resubmit its 2017 tariff application by 31st August 2016;
- (d) submit on quarterly basis to the Authority the supply and reliability data of 11kV, 33kV, 66kV, 132kV, and 220kV by Region for verification. This includes total duration of customer interruptions in hours per feeder, planned outages, unplanned outages, total number of outage per feeder, total number of customers served per feeder, total number of customers affected per feeder, total unserved energy in kWh;
- (e) within six months, submit to EWURA implementation plan for metering system improvement in the distribution network to enable accurate measurement of energy and determination of system losses;
- (f) within six months, design strategies for fighting illegal connections and eliminate delays in service provision pursuant to the Customer Service Charter;
- (g) enhance dissemination of the Customer Service Charter to customers and further ensure timely resolution of customer complaints as required by the Customer Service Charter;

- (h) connect to D1 tariff category all new single phase domestic customers in rural areas;
- (i) transfer a D1 customer to the T1 customer category in the event that such a D1 customer purchases more than an average of 75kWh in a period of three consecutive months;
- (j) submit to the Authority quarterly reports on efforts made to collect revenues from outstanding debtors and payments made to outstanding creditors;
- (k) submit to the Authority, an application for periodic adjustments of tariffs taking into account changes in fuel costs, inflation and currency fluctuations pursuant to the Electricity (Tariff Setting) Rules, 2016;
- (l) submit to the Authority for periodic adjustments, reports on grants and subsidies received from the Government and / or Development Partners;
- (m) on quarterly basis, continue to provide the Authority with information about its financial and operating condition in accordance with the requirements of the Authority; and
- (n) on or before 31st May 2016, submit to the Authority the implementation plan of each Condition of this Order.

Revocation

11. The Tanzania Electric Supply Company Limited (“TANESCO”) Multi-Year Tariff Adjustment Order, 2013 (Order No. 13-007) and its subsequent Tariff amendments are hereby revoked.

FIRST SCHEDULE:

APPROVED TARIFFS

| Customer Category | Component | Unit | Current Tariff | Proposed Tariff 2016 | Approved Tariff 2016 | % Change |
|-------------------|----------------------------|---------------|----------------|----------------------|----------------------|----------|
| D1 | Service Charge | TZS/Month | | | - | |
| | Energy Charge (0 - 75 kWh) | TZS/kWh | 100 | 100 | 100 | 0.0% |
| | Above 75 kWh | TZS/kWh | 350 | 350 | 350 | 0.0% |
| T1 | Service Charge | TZS/Month | 5,520 | - | - | -100.0% |
| | Energy Charge | TZS/kWh | 298 | 295 | 292 | -2.0% |
| | Maximum Demand Charge | TZS/kVA/Month | - | - | - | |
| T2 | Service Charge | TZS/Month | 14,233 | 14,233 | 14,233 | |
| | Energy Charge | TZS/kWh | 200 | 198 | 195 | -2.3% |
| | Maximum Demand Charge | TZS/kVA/Month | 15,004 | 15,004 | 15,004 | |
| T3 - MV | Service Charge | TZS/Month | 16,769 | 16,769 | 16,769 | |
| | Energy Charge | TZS/kWh | 159 | 157 | 157 | -1.5% |
| | Maximum Demand Charge | TZS/kVA/Month | 13,200 | 13,200 | 13,200 | |
| T3 - HV | Service Charge | TZS/Month | | | - | |
| | Energy Charge | TZS/kWh | 156 | 154 | 152 | -2.4% |
| | Maximum Demand Charge | TZS/kVA/Month | 16,550 | 16,550 | 16,550 | |

Key

D1: Low Usage Tariff for Domestic customers who on average consume less than 75 kWh per month. Any unit exceeding 75 kWh is charged a higher rate of TZS 350 per kWh. Under this category, power is supplied at a low voltage, single phase (230V).

T1: General Usage Tariff for customers including residential, small commercial and light industrial use, public lighting and billboards. Power is supplied at low voltage single phase (230V) as well as three phase (400V).

T2: Applicable to general use customers where power is metered at 400V and average consumption is more than 7,500 kWh per meter reading period and demand does not exceed 500kVA per meter reading period.

T3-MV: Applicable customers connected to medium voltage.

T3 - HV: Applicable to customers connected to High Voltage including ZECO, Bulyanhulu and Twiga Cement.

SECOND SCHEDULE:

APPROVED CHARGES

Table 1: Single Phase Charges

| Service Line | Requested Connection Charges (TZS) | | Approved Connection Charges (TZS) | |
|----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Urban Rate TZS (VAT exclusive) | Rural Rate TZS (VAT exclusive) | Urban Rate TZS (VAT exclusive) | Rural Rate TZS (VAT exclusive) |
| Within 30 Meters | 272,000 | 150,000 | 272,000 | 150,000 |
| Within 70 Meters (one pole) | 436,964 | 286,220 | 436,964 | 286,220 |
| Within 120 Meters (two poles) | 590,398 | 385,300 | 590,398 | 385,300 |

Tables 2: Three Phase Charges for Urban and Rural Areas

| Service Line | Meter Type | Requested Connection Charges (TZS) | | Approved Connection Charges (TZS) | |
|--|---------------|--|----------------------------------|--------------------------------------|----------------------------------|
| | | Urban Rate TZS (VAT excl.) | Rural Rate TZS (VAT excl.) | Urban Rate TZS (VAT excl.) | Rural Rate TZS (VAT excl.) |
| Within 30 Meters (cable 16mm ²) | LUKU | 772,893 | 772,893 | 772,893 | 772,893 |
| Within 30 Meters (cable 16mm ²) | AMR | | | | |
| Within 30 Meters (cable 35mm ²) | LUKU | | | | |
| Within 30 Meters (cable 35mm ²) | AMR | | | | |
| Within 70 Meters (one pole) | LUKU | 1,058,801 | 1,058,801 | 1,058,801 | 1,058,801 |
| Within 70 Meters (one pole) | AMR | | | | |
| Within 120 Meters (two poles) | LUKU | 1,389,115 | 1,389,115 | 1,389,115 | 1,389,115 |
| Within 120 Meters (two poles) | AMR | | | | |

Table 3: Service Line Application Fee

| Tariff Category | Current Fee TZS | Proposed Fee TZS | Approved Fee TZS |
|--------------------|--------------------|---------------------|---------------------|
| All Customers | 5,000 | -- | -- |

Table 4: Charges for Installation of a Meter in case of Damage due to Meter Tampering/Broken

| Customer Category | Description | Requested Charges TZS (VAT exclusive) | Approved Charges TZS (VAT exclusive) |
|-------------------|-----------------------|---------------------------------------|--------------------------------------|
| D1& T1 | LUKU (Single Phase) | 60,000 | 60,000 |
| | LUKU (Three Phase) | 200,000 | 200,000 |
| | AMR (Three Phase) | 300,000 | 300,000 |
| T2 | CT – Operated Meters | 1,200,000 | 1,200,000 |
| T3 | CT/VT Operated Meters | 1,200,000 | 1,200,000 |

Table 5: Testing and Inspection of Installation Charges

| Customer Category | Requested Charges in TZS (VAT exclusive) | Approved Charges in TZS (VAT exclusive) |
|-------------------|--|---|
| D1 | 20,000 | 20,000 |
| T1 | 20,000 | 20,000 |
| T2 | 30,000 | 30,000 |
| T3 | 50,000 | 50,000 |

Table 6: Temporary Power Supply Charges

| Customer Category | Description | Requested Charges TZS (VAT exclusive) | Approved Charges TZS (VAT exclusive) |
|-------------------|----------------|---------------------------------------|--------------------------------------|
| T2 | Connection Fee | Full Cost plus 10% | Full Cost plus 10% |
| T3 | | Full Cost plus 10% | Full Cost plus 10% |
| T2 | Meter Deposit | 200,000 | 200,000 |
| T3 | | 500,000 | 500,000 |

Table 7: Energy Deposit for Post-paid Meters

| Customer Category | Description | Requested Charges TZS (VAT exclusive) | Approved Charges TZS (VAT exclusive) |
|-------------------|--------------|---------------------------------------|--------------------------------------|
| D1 | Single Phase | 30,000 | 30,000 |
| T1 | Single Phase | 30,000 | 30,000 |
| T1 | Three Phase | 150,000 | 150,000 |
| T2 | Three Phase | 200,000 | 200,000 |
| T3 | Three Phase | 500,000 | 500,000 |

Dar es Salaam

..... March 2016

Felix Ngamlagosi

Director General