



September 6, 2019

Eng. Ziria Tibalwa Waako,
The Chief Executive Officer,
Electricity Regulatory Authority (ERA),
P.O. Box 10332,
Kampala (U).

Dear Madame,

OBJECTION LETTER TO ERA AGAINST PLANS TO RENEW LICENCE OF JACOBSEN UGANDA'S THERMAL POWER PLANT

Reference is made to the *Notice of intended renewal of licence number 061A for generation and sale of electricity issued to Jacobsen* that was published in the *New Vision* newspaper on August 26, 2019. In the notice, ERA called on interested stakeholders and the public at large to inspect and submit comments on the application for renewal of Jacobsen's licence.

Africa Institute for Energy Governance (AFIEGO) thanks you and ERA for efforts to regulate the electricity sector for the benefit of Ugandans. AFIEGO is a registered public policy research and advocacy organisation dedicated to influencing energy policies to benefit poor and vulnerable communities in Uganda and the Great Lakes region.

Among others, we appreciate that ERA has continued to involve the public in the affairs of electricity sector regulation through convening public hearings regarding a number of electricity sector matters such as modification of UMEME's licence, tariff applications by power utility companies and others. This is commendable even when the quality of the hearings and other public engagements remain a big concern and need to be improved.

As an organisation that works to promote electricity policies that benefit citizens, AFIEGO would like to take this opportunity to inform you that we object to the renewal of Jacobsen's licence at a time when Uganda has surplus hydro-electricity that is not benefiting Ugandans. Moreover, at \$25.8 cents per unit, the power supplied by thermal power companies, which Ugandans do not need because the country has excess power, is too expensive!

Further, we object to the renewal because in 2005, Uganda's government entered into a Power Purchase Agreement (PPA) with Jacobsen Uganda Power Plant Limited when the country suffered a power deficit due poor planning by government. This poor planning included the mistake of building Kiira dam parallel to Owen Falls dam. This over drained Lake Victoria which resulted in lower water levels that could not support generation of adequate electricity.

Under the PPA with the Uganda government, Jacobsen was to hand over its power plant after six years from the time it was launched in September 2008. That six-year period ended in September 2014. The agreement provides government with options of paying the entire loan debt, purchasing the plant and acquiring all the shares in the company.

In his 2018 report on the financial status of the Ministry of Energy, the Auditor General (AG) observed that Uganda Electricity Transmission Co. Ltd (UETCL) indicated its preference of taking over Jacobsen's power plant as provided for in the PPA.

The AG noted that the capacity charges/thermal subsidies being paid to Jacobsen would be avoided if government took over the operations of the thermal power plant. The capacity charges stood at over UGX 47.7 billion in 2018.

The AG advised Ministry of Energy and other concerned parties to engage Ministry of Finance to highlight the potential savings government would make as result of takeover of Jacobsen's thermal power plant as provided for in the PPA.

Instead of implementing the AG's advice, today, ERA is discussing renewing Jacobsen's licence. This is wrong and is a sign of corruption that will see the continued cheating of Ugandan tax payers. We object in the strongest terms to the renewal of the Jacobsen Power Plant's licence.

Below, we further show why Jacobsen's licence should not be renewed.

a). Surplus power: Uganda has surplus hydro-electricity. Of the 1,2000MW installed capacity in Uganda, citizens consume approximately 700mw. Government told Ugandans that thermal power was needed during the 2005 crisis when the country failed to generate enough hydropower for citizens. However, since the commissioning of the 250mw Bujagali and 183mw Isimba hydropower plants in addition to the 10mw Soroti, 10MW Tororo, 10mw Mayuge and 20mw Gomba solar power plants, Uganda has since got enough electricity. Moreover, government will soon commission the 600mw-Karuma hydropower plant. Ugandans are already paying high power tariffs because of the excess power that is being produced and is not consumed. Citizens should not be further exploited by making them pay for thermal power which is not required. We can use the solar plants to act as capacity charge if that is the reason that ERA is giving for the continued existence of thermal power plants.

b). Thermal power remains expensive: In addition, at \$25.8 cents per unit, the power supplied by thermal power plants such as Jacobsen is too expensive! The power is over two times more expensive than that from Bujagali dam. If government considered Bujagali power, which costs \$12 cents per unit, so expensive that the dam had to be refinanced, why would the same government not consider thermal power plants too expensive and therefore find it necessary to avoid renewing licences of thermal power companies?

c). Illegality in awarding of contract: Further, the process that led to the decision of awarding of the Jacobsen licence was characterised by fundamental illegalities and irregularities. Reports show that at 50.4 million Euros, Jacobsen's bid was higher than that of ElectroMaxx, another thermal power company, of 34 million Euros. Further, the calculations that Jacobsen used for its energy costs that were submitted in the bid were reported to be inconsistent with those set by ERA. In addition, the officials who signed the PPA with Jacobsen were questioned for entering Uganda into a deal in which the country had to repay Jacobsen's loan. The loan was used to set up the power plant and the thermal power companies were expected to arrange their own financing. The deal also stipulated that the Ugandan government had to pay capacity charges. Following investigations, the IGG recommended in 2006 that the appointing authority takes appropriate disciplinary action against government officials implicated for wrongdoing in the Jacobsen deal.

d). Dirty energy: In addition to the above, Uganda is signatory to international conservation agreements and conventions including the Paris Climate Change Agreement that emphasizes exploitation of clean energy as a means of helping the world attain the climate change goal of reducing global temperature rises to 1.5 degrees Celsius. The exploitation of thermal power, which is a dirty energy that contributes to climate change, is against the goals of the Paris Climate Change Agreement. Renewal of the Jacobsen license will make Uganda look like a country that has no respect for the Paris Climate Change Agreement.

e). Alternative energy: ERA has previously defended Uganda's production of thermal power by saying that the country needs a diversified energy mix to ensure security of power supply. ERA has argued that reliance on one energy source especially during this era of climate change catastrophes is inadvisable. However, Uganda has an abundance of clean energy options such as solar and wind that could be invested in to diversify the energy mix. The aforementioned AG's 2018 report showed that government paid over UGX 47.7 billion to Jacobsen in capacity charges in 2018. If that money was used to buy stand-alone solar home systems at UGX 1.2 million each, government would be able to give over 39,750 households solar systems. This represents 13.3% of the 300,000 connections that government is seeking to realise per year under the 'Free' Energy Connections Policy of 2018 to 2027.

What should be done?

- i. **ERA should not approve the application to renew Jacobsen's licence.** Ugandans are already being forced to pay for excess power that is not consumed. Renewing Jacobsen's

license will continue to make electricity in Uganda unaffordable and therefore affect both households and businesses.

- ii. **Instead of renewing the licence and paying capacity charges, government should take over the Jacobsen Power Plant and retire it.** This should also address the issue of mafias in government that reportedly wanted government to take over the plant in 2014 so that the mafia could give it to themselves. The plant should not be used to benefit anyone but should be retired as the electricity it produces is too expensive and is of no use to citizens.
- iii. **In addition, the money that government has been spending on paying thermal power companies such as Jacobsen should be used to purchase stand-alone solar home systems for distribution to rural households.** As earlier shown, over 39,750 households, representing 13.3% of the ECP target, can get solar systems if the UGX 47.7 billion paid to Jacobsen per year is used to purchase solar home systems at UGX 1.2 million each.
- iv. **Further, Uganda is richly endowed with alternative energy resources such as solar and wind.** However, these resources remain largely unexploited mainly because Uganda is concentrating on hydropower and thermal power. In line with aspirations under the Sustainable Development Goals (SDGs) and the Sustainable Energy for All (SEA4ALL) initiative as well as the Energy Compact signed in 2016 between Uganda and the UK government, Uganda should invest more in other energy sources especially off grid solar and avoid over reliance on grid-based hydropower and thermal power. Investment in renewable clean and off-grid energy sources will increase power access and affordability.
- v. **Finally, amendment of the Electricity Act of 1999 should urgently be completed to create liabilities such as imprisonment and or confiscation of assets from government officials who cause financial loss to government through entering into or renewing unfair contracts on behalf of government.**

We look forward to your co-operation on this matter.

Thank you,



Dickens Kamugisha,
CEO, AFIEGO

CC:

- The President, Republic of Uganda
- The Speaker, Parliament of Uganda
- The Minister of Energy and Mineral Development
- The Chairperson, Natural Resources Committee of Parliament
- The Managing Director, UETCL