Electricity Regulatory Authority

By Benon Ojiambo

In less than two decades, the Electricity Regulatory Authority (ERA) has made its mark not only in Uganda, but on the African continent. This has earned it a nod from the African Development Bank (AfDB).

"I am happy and proud that we made it ahead of South Africa, Kenya, Nigeria and other countries," said Eng. Ziria Tibalwa Waako, the chief executive officer of ERA.

The Electricity Regulatory Index report released recently by AfDB, ranked Uganda's ERA as the best electricity regulator on the continent.

Uganda was followed by Namibia and Tanzania as the first and second runners-up respectively, while Zimbabwe and the Gambia came last.

The report measures the level of development of regulatory frameworks and examines their impact on the performance of their respective electricity sectors.

It covered 15 selected African countries of Cameroon, Ivory Coast, the Gambia, Ghana, Kenya, Lesotho, Malawi, Namibia, Nigeria, Senegal, South Africa, Tanzania, Togo, Uganda and Zimbabwe.

ERA was established in 2000 by the 1999 Electricity Act that unbundled the former Uganda Electricity Board (UEB) and formed three successor companies as an independent body to act as the referee to the sector.

Waako (centre) is joined by staff and contractors at one of the construction sites. The authority emerged best in Africa

ERA boss Waako

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The successor companies are Uganda Electricity Generation Company Limited (UEGCL), Uganda Electricity Transmission Company Limited (UETCL) and Uganda Electricity Distribution Company Limited (UEDCL).

Waako told *New Vision* in an interview that several factors, such as financial independence, development of human capital and government support were responsible for ERA's great performance.

Regulatory independence

The report describes it as the formal independence from government, legislature, stakeholders and market players; independence of decision making and financial and budgetary independence.

This, according to the report, is aimed at ensuring that the relationship with regulated entities reduces the ability of stakeholders to influence the decisions of the regulator.

"A regulator's organisational independence is further enhanced if it has control of its input resources, such as through a stable and adequate source of funding, and if it has the authority and ability to appoint and provide adequate remuneration to its own staff," the report said.

Waako alluded to the report's statement, saying: "An organisation without liquidity to survive is vulnerable to influence."

She said ERA was financially independent because it is not funded through the national budget.

How the agency is funded

Waako explained that the agency is funded through different avenues that include licence fees, a 0.3% generation levy on the actual energy generated and sold to UETCL and any other funds that come in the process of operationalising the agency's mandate.

However, she said the generation levy was determined at a point when the agency was overseeing only the three successor companies of UEB, but the sector had grown to about 40 licensed companies.

"The 0.3% is not sustainable, so we are advocating for something between 0.7% and 1%. If the money is above our budget, the balance goes to the Rural Electricity Fund to support access to clean energy," Waako said.

She explained that the entity's budget was submitted to the line minister, in this case, the Minister of Energy and Mineral Development for approval in consultation with the finance minister.

"This leaves no room for influence peddling and presents a credible independent transparent mechanism," she said.

Waako attributed the agency's journey to the will of government, which she said drove the unbundling of UEB.

"The Government has given us independence to drive the sector professionally to a level that can be benchmarked by other regulators on the continent," Waako said.

However, she said the regulator's independence could only be lived through adequate stakeholder engagement and consultation.

Waako attributed the agency's journey to the top to investments made in human capital development, through training.

"We have a board, management and staff that are highly equipped and trained by some of the most prestigious institutions in the world, such as the Institute for Public-Private Partnerships (IP3) in Washington DC (US)," she said.

Financial performance

The index also assessed the financial performance of the agency and the industry at large, with the aim of determining the sector's financial sustainability.

"We are one of the countries that are almost charging a cost-recovery tariff," she said.

Notably, the developments in the transmission segment, such as construction of transmission lines, is paid for by the Government through loans and grants from development partners, as well as subsidisation for capacity payment to the thermal plants.

"Otherwise, the rest of the costs are paid by the consumers through the tariffs," Waako said.

She explained that the index noted that Uganda was ahead in ensuring financial sustainability of the sector and being fair to the private investors and consumers through a cost reflective tariff.

"If the costs reduce, we reduce the tariff and if they increase, we transparently engage the stakeholders and let them know of the increase in the tariff," Waako said.

Regulatory outcome

This looked at the impact the regulator made throughout its existence.

In the 17 years of our existence, we have overseen a reduction in energy losses, increase in customer numbers

scoops continental accolade

and improvement in income collection rates by distribution companies.

"These are all indicators that it is not only regulators, the law or the consumer, but the efficiency of the sector is continuously improving," Waako said.

She said this was achieved by stringently setting and monitoring targets for different players that incentivise them to work hard towards the targets' realisation.

"If you fail to achieve the targets, you lose out on the benefits that come with them, such as financial compensation. This puts the management of the utility companies on their toes to work hard because they will not be in business if they lose revenue," she added.

Regulation

"The implication of this result is that the impact of the regulator's actions and decisions for Uganda, Namibia and Tanzania, as viewed from the utilities (licensed power generation, transmission and distribution companies) perspective, seemed to have had a more positive impact on the performance of the utilities (licensed companies)," the report stated.

With this at play, one may think that the regulator only protects the interests of the licensee as one Bodaboda rider in Kamwokya complained after getting news that the end-user tariff for the third quarter had been hiked.

"In all this, it is Umeme (the power distributor) that is gaining at the expense of the ordinary citizen," he said.

However, Waako disputed this, saying the regulator takes care of the interests of all stakeholders.

"I would like to re-assure the public that the regulator exists to protect their interests. While electricity is a basic need for socio-economic transformation, we need to appreciate that it is now a commercial good," she said.

Waako added that the industry had private investors who have invested heavily to deliver the electrons the public enjoys.

She explained that the sector had evolved from the time where there were only three sector players to 40 licensed companies.

"Only three (UEGCL, UETCL and UEDCL) are public companies and the other 37 are private. The regulator's role is to balance the interests of all stakeholders," she said.

She said their strategies were aimed at growing partnerships with industrial consumers and increase demand in a fast-tracked way because they have capacity to consume more.

"As we speak, consumption only exploits 53% of the installed generation capacity in the country. We want to tap into the other 47% that does not require additional capital investment yet it is not being utilised.

If our price is relatively low for industrial consumers, they are able to produce more competitively for both domestic use and export.

In this way, Waako believes that the utility demand and sector revenue shall increase, and in turn use the increased revenue to lower the tariffs of other categories in phases until they all enjoy a fairly priced service.

Projects in offing

ERA is putting in place the legal framework for the establishment and management of off-grid, mini-grid and solar home systems.

"The population settlement in the country is not financially viable to solely depend on grid extension because people pride themselves in having houses sitting on hectares of land.

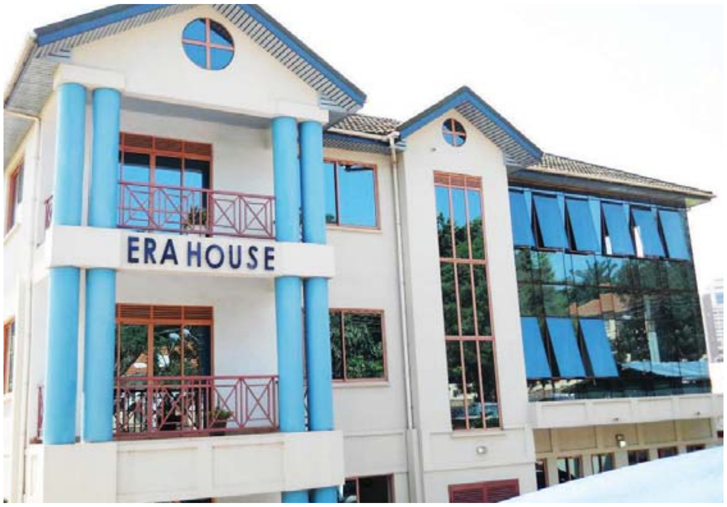
"With such a settlement system, you will find two houses in-between, for example, three hectares of land, which makes it financially not viable to extend the grid to such consumers," Waako explained.

This has made them embrace options like off-grid and mini-grid projects, where projects are built in the settlement areas to distribute power and grow demand.

When power arrives in an area, there are positive impacts like the sprouting of small machinery such as mills and commercial consumers that grow demand, thus warranting the extension of the national grid.

A total of about 35 off-grid plants nationally — 25 in Lamwo and 10 in the central eastern part of the country — are being packaged.

"The decisions of the regulator are made transparently in the interests of all parties, more so the consumers," Waako said.



ERA offices. The authority credits financial independence for its great performance