

Briefing

The re-organisation of Tanzania's electricity sector

Ever since the enactment of the Electricity Act 2008 (the **Electricity Act**), the Ministry of Energy and Minerals (**Energy Ministry**) has taken a series of measures to improve the performance of the electricity sector, including the adoption of the Electricity Supply Industry Reform Strategy and Roadmap 2014 – 2025 (**ESIR**), the National Energy Policy 2015 (the **Energy Policy**) and the Electricity (Market Re-organisation and Promotion of Competition) Regulations 2016 (the **Electricity Sector Re-organisation Regulations**).

In this month's energy briefing, we look at the key parts of these energy policies and laws to highlight the manner in which Tanzania's electricity sector will be transformed (at least, in theory).

Electricity Act

The Electricity Act regulates electricity generation, transmission, distribution and supply activities in Tanzania. Part VIII of the Electricity Act is called the "Reorganisation of the Electricity Market" and it provides that the Minister for Energy and Minerals (the **Energy Minister**) may, in consultation with the Minister for Finance and Planning, restructure the electricity supply industry in order to:

- (a) foster competition for increased efficiency;
- (b) enhance development of private capital investment; and
- (c) promote regional electricity trading.

The Energy Minister was obliged under Part VIII of the Electricity Act to publish an electricity sector re-organisation policy within one year from the Act's commencement (1 April 2009). Despite this obligation, the ESIR was published in 2014.

Part VIII of the Electricity Act further provides that the Energy and Water Utilities Regulatory Authority (**EWURA**) shall give effect to the policy published by the Energy Minister by:

- (a) preparing or amending market rules, grid codes, distribution codes and all other rules promulgated by it;
- (b) defining the types of persons that are eligible to enter into electricity supply agreements; and
- (c) de-regulating tariffs in the relevant sections of the electricity market.

ESIR

ESIR outlines the steps that the Government will take to achieve the re-organisation of the electricity sector. It acknowledges that the ultimate objective in re-organising the sector is to ensure that Tanzania will become a middle-income country by 2025, pursuant to the Tanzania Development Vision 2025.

At the time the ESIR was published, Tanzania had an installed power capacity of 1,583 megawatts (**MW**), which was comprised of hydro power (561 MW), natural gas power (527 MW) and liquid fuel power (495 MW).

By 2025, ESIR envisions that the installed power capacity will have increased to over 10,000 MW and will be comprised as follows:

Energy source	Capacity in 2014 (MW)	Capacity by 2025 (MW)
Hydro	561	2,090
Natural gas	527	4,469
Liquid fuel	495	438
Coal	---	2,900
Wind	---	200
Solar	---	100
Geothermal	---	200
Interconnector	---	400
Total	1,583	10,797

The Government-owned Tanzania Electric Supply Company Limited (**TANESCO**) has dominated all streams of service in the electricity sector since 1975. Over the years, and as chronicled in the ESIR, various proposals have been put forward to improve the performance of the state enterprise. The main proposal which emerged was that TANESCO should be vertically unbundled into generation, transmission and distribution companies so as to eliminate its monopoly in the sector and enhance private sector participation. This unbundling concept is enshrined in the ESIR.

Energy Policy

The Energy Policy covers all aspects of Tanzania's legal, regulatory and institutional framework on the electricity sector, renewable energies, petroleum and local content. In addition to the ESIR, the Energy Ministry will be looking to secure the proper implementation of the Energy Policy.

Compared to the ESIR, the Energy Policy does not have detailed proposals on the ways in which the electricity sector will be transformed. Instead, it simply refers to the ESIR and re-affirms the Government's commitment to transforming the electricity sector.

Electricity Sector Re-organisation Regulations

In late 2016, the Electricity Sector Re-organisation Regulations were published by the Energy Minister. The Energy Minister is responsible for ensuring that the re-organisation of the electricity sector is done in accordance with the provisions of the regulations as well as the ESIR.

According to Part II of the Electricity Sector Re-organisation Regulations, the electricity sector will be re-organised in accordance with the timelines prescribed in the Schedule. The Schedule to these regulations provides the following timelines:

Further information

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Activity	Responsible institution	Timelines
Unbundling of generation activities from transmission and distribution activities	<ul style="list-style-type: none">EWURAExisting electricity operators (i.e. TANESCO)Treasury Registrar	December 2017
Designation of a system operator	<ul style="list-style-type: none">EWURA	June 2018
Establishment of a mechanism of determining wheeling charges	<ul style="list-style-type: none">EWURA	June 2018
Unbundling of distribution activities from transmission activities	<ul style="list-style-type: none">EWURAExisting electricity transmission and distribution operators	June 2018
Designation of a market operator	<ul style="list-style-type: none">EWURA	June 2018
Establishment of a mechanism of determining retail tariffs	<ul style="list-style-type: none">EWURA	June 2021
Unbundling of distribution activities into several zonal distribution companies	<ul style="list-style-type: none">EWURAExisting distribution companies	June 2025
Listing of generation companies and distribution companies to stock markets	<ul style="list-style-type: none">Capital Markets and Securities AuthorityEWURAExisting generation and distribution companiesTanzanian stock markets (e.g. the Dar es Salaam Stock Exchange)Treasury Registrar	June 2025

Part II of the Electricity Sector Re-organisation Regulations further provides that:

- there shall be competitive electricity generation activities;
- any existing electricity operator with a vertically integrated structure (i.e. TANESCO) shall unbundle its electricity generation, transmission and distribution activities;
- operators undertaking electricity transmission or distribution activities shall operate in a “monopoly state”; and
- electricity retail activities shall be conducted in a competitive manner.

As can be seen above, TANESCO must unbundle its electricity generation activities from transmission and distribution activities by December 2017. Will this timeline be adhered to considering the fact that TANESCO still has special rights under the Electricity Act, namely, a right to first refusal in respect of the supply of electricity to all intensive electrical energy consumers? We will know when the deadline of December 2017 has passed. In the meantime, we will be tracking the developments that are taking place within the Tanzanian electricity sector.