BILLING MODEL CASTS DOUBT OVER ISIMBA'S HYDRO POWER VIABILITY

By Benon Ojiambo

With less than two years into operation, the billing model used at Isimba power plant is starting to cast doubt over its financial viability, necessitating intervention of the central government.

Financial records show that Uganda Electricity Generation Company Limited (UEGCL), Isimba's operators, bills Uganda Electricity Transmission Company Limited (UETCL) that buy the electricity generated from the plant for what is supplied.

It had initially been agreed that UEGCL would bill for the plant's total installed capacity of 183.2 megawatts.

This was confirmed by the 2019 Auditor General's report on UEGCL that indicated that Isimba's loan agreement signed in 2015 dictated that the power would be sold on a take or pay basis as these were the terms acceptable to the lender (China Exim Bank).

UEGCL's financial statement for the year 2019/20 shows that Isimba was the company's major source of income during the year.

The company made sh126.67b during the year, which was an increase from sh49.43b it earned the previous year.

However, this was far below sh223.41b that the company had anticipated to earn out of selling electricity generated from the plant and this variance was attributed to the billing model used.

This prompted the Government to intervene and guarantee to cover the shortfalls that arose from the disagreements.

"Following consultations, the Government, through the finance ministry, has guaranteed to meet any shortfalls in the loan repayment arising from reduction in revenue due to billing of energy," the Auditor General's report on the company states.

UEGCL chief executive Eng. Harrison Mutikanga in the annual report cites the billing model as one of the challenges the company faced during the year under review.

"The current billing for Isimba on basis of the energy metred reduced the revenue generated to meet the loan repayment obligation under the on-lending agreement between UEGCL and the Government for the plant's development," he said.

However, Mutikanga downplayed the shortfalls, saying it does not affect plant's financial viability and that it will take increased consumption to improve the plant's utilisation.

"That is a question of the demand risk and I am sure it will be resolved as the Government continues to attract foreign investments and gets more manufacturers establishing factories that will consume more electricity. That will help us improve on the plant utilisation capacity," he said.

FINANCIALS

During the year under review, the company's net profit fell drastically to about sh2.8b from about sh24.8b the previous year.

The company's revenue increased to sh157b from sh6.16 the previous year, while its total assets slightly rose from sh6.7 trillion to sh7.1 trillion.

Isimba hydo power dam. The project was developed using a $567.7m (about sh2 trillion). Eighty-five percent of this was a loan sourced from the EXIM Bank of China

LOAN REPAYMENT

Isimba was developed using a $567.7m (about sh2 trillion). Eighty-five percent of this ($482.5m) was a loan sourced from the EXIM Bank of China, while the Government provided 15% (about $85.2m) as counterpart funding.

The $482.5m loan was to be repaid by electricity consumers through the end-user tariff over a 40-year period ending 2055.

Taking the energy charge is likely to distort UEGCL's cashflows and its ability to repay the loans since the finances were advanced on the assumption that it will be charging for capacity.

"When they (EXIM Bank of China) were giving us the loan, it was assumed that we would be selling 183MW every day," an official told *New Vision*.