

By Paul Busharizi

Last week, the Uganda Electricity Generation Company Ltd (UEGCL) had its annual general meeting during which it was reported the company was firmly in the black for the third year in a row, a healthier situation from five years ago when they relied on government handouts to stay afloat.

UEGCL, which owns all of governments power generation plants, saw their fortunes turn around when revenues from power sold at Isimba dam started gushing through. We can expect too that when Karuma finally comes on line, they will be on a irreversible trend to financial sustainability, or not.

A cursory look over the company's financials show that it made a profit of sh92b in the year to June this year compared to sh2.8b the previous year. The quantum leap in profit – 3,100%, was due to foreign exchange gains – sh71b on their foreign denominated debt. While this was a happy situation, it was an unusual one as they often make exchange losses, with the last profit was registered in 2019. Nevertheless, the profit from operations was a healthy sh21b still almost a tenfold increase from the previous year.

UEGCL's major revenue source was Isimba, which accounted for sh139b or 82% of the total revenues of sh170b. Also, while total assets slipped to sh7 trillion from sh7.1 trillion, shareholder equity was up to sh833b from sh741b, helped in no small part by continued reduction of accumulated losses on the company's books. UEGCL has been profitable since 2019, three years in the 20 years of its existence.

But the management will be forgiven for not fully breaking

UEGCL ON A PROFITABLE TRAJECTORY, BUT...



Isimba and Karuma hydro dams. UEGCL saw their fortunes turn around when revenues from power sold at Isimba dam started gushing through

out the champagne.

MANDATE CURTAILED

The company's mandate does not stop at running government's power generation assets, but extends to building and acquiring new assets. It goes without saying this means the company needs money to do this.

As it is now UEGCL cannot fulfil its full mandate because, while it is provided for in their books, the Government does not allow the depreciation and a Return on Equity (ROE). If they kept the depreciation on their plant and machinery, they would be better able to replace the existing infrastructure. As it is now to replace dams, like Kiira and Nalubale, UEGCL

would have to run to the Government for funding, which means UEGCL cannot stand on its own feet.

By allowing them some ROE, the generator can then develop new assets either on their own or in partnership with other players.

WHY SELF-SUFFICIENCY?

The financial self-sufficiency of UEGCL is important because to begin with they are already behind schedule in meeting the country's power generation needs. The second National Development Plan (NDPII) envisaged that we would have power generation capacity of 2500MW by this year. There is a current installed capacity of 1,252MW. While this is more



than enough for now – peak demand is about 750MW, going by current growth in demand and if we maintain the status quo, we will be back to load shedding by 2027. While this may seem a while away, Uganda's recent experience shows that it takes seven to 10 years to develop a power generation project. So, the time to start planning for new capacity was yesterday.

The Government, too, can help improve UEGCL's financial position by carrying

the exchange risk on the foreign loans it contracts. While this year was good for UEGCL with some exchange gain registered more often than not in recent memory, there have been more exchange losses than gains. This is important because UEGCL bills in shillings, if they were charging us in dollars for power this would not be an issue.

If they did just these things – allow UEGCL keep the depreciation, allow too for ROE and shield them from the exchange risk of repaying the loans, the company's financials will improve markedly and allow them to go to market on their own to finance developments.

It is not unusual. Across

the border UEGCL's Kenyan counterpart, Kengen, are not only wildly profitable – \$148m (about sh533b), but have developed generation assets worth \$2.2b (about sh8 trillion) over the last 10 years.

The Government is borrowing on behalf of the sector, because they can get cheaper money as the industry companies have wanting balance sheets, UEGCL, which can then collect the money from tariffs and send to government which then pays the creditors. The mere friction of passing through many hands rather from operator straight to creditor presupposes inefficiency, which we pay for in the tariff.

Maybe, one last thing would be to convert the debt we have incurred on projects, such as Isimba and Karuma into equity, essentially the Government takes them over as a way to further boost the company's balance sheet.

For a long time we had challenges with developing our generation capacity, hence our prolonged load shedding a decade or so ago. Drastic action by the Government has brought us to the happy place we are now, with surplus generation capacity. While transmission and distribution companies need help as well, UEGCL anchors the sector, now power generated with no power to transmit or distribute.

To prevent future pain let the Government take the needed action to make sure UEGCL is sustainable well into the future.

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