

Briefing

Tanzania: energy market developments

In this month's energy briefing we discuss the impact of the US-Africa leaders summit which was held in August in Washington DC, where leaders from various African states including Tanzania were in attendance. We also provide an overview of the power utility giant, Tanzania Electric Supply Company Limited (**TANESCO**) and its future in the Tanzanian energy market.

US-Africa leaders summit

President Jakaya Kikwete and other African leaders, including the Tanzanian Minister for Energy and Minerals, Professor Sospeter Muhongo, attended the US-Africa Leaders Summit in August. The summit was the most significant African-leaders conference to be held by the USA, where the USA and its African counterparts affirmed their commitment to African development; trade and investment. To a great extent the summit will strengthen American and African ties, particularly in sectors such as energy where there still remains substantive room for investment and growth.

During his four day visit to the USA, President Kikwete spoke openly about the future of Tanzania following the discoveries of gas; he affirmed that natural gas should build the Tanzanian economy. The President was speaking with members of staff of the Centre for Global Development in the USA.

President Kikwete spoke of his commitment to the establishment of institutions and regulations (for

governing natural gas) before he vacates office in October 2015. He mentioned that he would like to be the last president who manages poverty and for his successors to manage prosperity (in the natural gas sector), as natural gas has the potential to facilitate prosperity for Tanzania.

President Kikwete reiterated that Tanzania's 15-year-development-plan that ends in 2025 compliments the estimated natural gas revenue expected to be generated from 2020. In his view, the discovery of natural gas has come at an opportune time since it provides Tanzania with an opportunity to align and put in place proper institutional, legal and policy frameworks before natural gas revenue is realised. He therefore invited Americans to come and invest in the growing sector. President Kikwete observed that in order for the proposed institutions and policies to work, good leadership and decision-making is necessary and must be timely in order to experience the benefits of natural gas production and development in Tanzania.

The future of TANESCO

Tanzania is on its way to introducing significant energy changes through its power utility TANESCO. It is estimated that the plan to reform the power sector will take up 11 years to achieve and will involve the Government of Tanzania (GoT) investing USD 11.4 billion.

Among other things, the proposed restructuring of TANESCO envisages the expiry of its contracts with emergency power producers without renewal; decentralizing its decision-making process to zonal offices; and unbundling/separating its transmission and distribution segments to other government establishments (ie the creation of a state owned generation company and distribution company).

The proposed Electricity Supply Industry Reform Strategy and Road Map 2014 – 2025 (the **Reform Strategy**) envisages a change in the

financing structure of power projects by the GoT to private sector. Under the Reform Strategy, a state-owned electricity generating company and distribution company will be established by 2017 and will be listed on the Dar es Salaam Stock Exchange where the GoT will retain 51% of the shares in each entity. The Reform Strategy further states that a number of corporate and regulatory bodies will be created once all of TANESCO's segments are unbundled/separated i.e. generation; distribution; transmission and retail.

Currently the GoT is the sole shareholder of TANESCO, the Reform Strategy will allow TANESCO to pay off its immediate debts that are estimated to be USD 412 million; and USD 635 million will be used to pay off capacity charges owed to independent power producers. Ultimately the plan to reform the power sector will require private sector investment.

Further information

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