

Briefing

Tanzanian energy developments

In this month's energy briefing, we summarise the latest industry developments as well as the country's political developments with a special focus on the Ministry of Energy and Minerals (**MEM**).

Political developments

Several politicians within the energy sector may be liable to criminal penalties in connection with the Tegeta Escrow Account scandal – in which an estimated \$200 million was misappropriated.

In reaction to the scandal Tanzanian opposition parties have required a review of all arrangements involving government contracts including a demand that all production sharing agreements in the oil and gas sector be made publicly available. International investors are withholding up to \$490 million in economic support until the government addresses the matter.

On 24 January 2015 the Minister for Energy and Minerals, Professor Sospeter Muhongo, resigned from his position in light of allegations of his involvement in the scandal. Professor Muhongo is one of four high profile government officials that have stepped down due to the corruption scandal to date. Others include the former Attorney General, (retired) Judge Frederick Werema, the former Minister for Lands, Housing and Human Settlements Development, Professor Anna Tibaijuka, and the former Permanent Secretary of MEM, Mr. Eliakim Maswi who is currently suspended from his position.

Following Professor Muhongo's resignation, President Kikwete has promoted George Simbachawene as the new Minister for Energy and Minerals. Mr. Simbachawene was previously the deputy minister for Lands, Housing and Human Settlement. The President has made further cabinet changes by appointing Charles Mwijage as the new Deputy Minister for MEM and swapping the positions of the Minister for Transport, Dr. Harrison Mwakymembe, with the Minister for East African Cooperation, Samuel Sitta.

This is the second time the President has reshuffled his Cabinet during his final term in office; the first was in December 2013 following an equally sensitive political scandal referred to as "Operation Tokomeza". With only a few months left until the 2015 general elections, many Tanzanians fear that the new Cabinet will be unable to bring about the required change in time. This fear may resonate with stakeholders in the energy industry who are concerned that the President will not be able to fulfil the promises he made at the 2014 US-Africa Leaders' Summit (the **Summit**).

At the Summit, President Kikwete spoke of his commitment to developing Tanzania's energy sector. He said that the natural gas sector would benefit from new regulations by October 2015. This poses a significant challenge to the new Minister of MEM, especially given that political attention is currently pre-occupied with the Tegeta Escrow Account scandal.

Energy developments

Gas pipeline project finishing in February 2015

Since 2012, the Tanzanian government in conjunction with private parties, has been constructing a 500 kilometre gas pipeline from Mtwara to Dar es Salaam.

The gas pipeline will have the capacity to transport 785 million cubic feet of natural gas per day.

A recent report from the Tanzania Petroleum Development Corporation (**TPDC**) indicates that the gas pipeline will be completed by the end of February 2015. TPDC and MEM have predicted that the gas pipeline will save the country \$890 million per year in electricity expenses.

Global fall in oil prices

While global oil prices have fallen in recent months the Tanzanian Energy and Water Utilities Regulatory Authority (**EWURA**) has decided to keep prices at \$1.10 per litre. Oil prices are currently \$1.00 per litre in Kenya and \$0.95 per litre in South Africa. MEM has stated that since Tanzania imports all of its crude oil the price cannot be reduced any further.

Rural Tanzania lights up

The Rural Energy Agency (**REA**) has spent \$485 million during the second phase of its rural electrification project. In the last two years 3,700 villages have been connected to electricity. REA expects that this number will rise to 5,200 villages by June 2015.

During the first phase of the rural electrification project, electricity connection costs dropped from \$260 to \$97. Electricity connection costs remained steady throughout the second phase of the project. For the third phase of the project, REA plans to employ its energy units (named Umeme Tayari) to small dwellings. These units will be able to power every day electrical items and will cost \$20 per unit.

Tanzania, Zambia and Kenya sign power deal

In December 2014, the governments of Tanzania, Zambia and Kenya entered into a memorandum of understanding (**MOU**) for a power transmission project. The MOU was signed by the energy ministers of each country, namely Mr. Christopher Yaluma of Zambia, Mr. Davis Chirchir of Kenya and the former minister from Tanzania, Professor Muhongo.

The project involves constructing a 1,600 kilometre power transmission line between the three countries. The project will be completed across a number of phases and is scheduled to start in late 2015. During the signing ceremony, Professor Muhongo declared that the project would reduce Tanzania's reliance on emergency power producers as it enables the country to sell power at tariffs lower than \$0.10 per unit. Currently tariffs range from \$0.30 to \$0.50 per unit.

Tanzanian energy companies receive grants

Ruaha River Power Company Ltd, an affiliate of the international energy investment company Continental Energy Corporation, has been awarded a \$600,000 grant from the United States Trade Development Agency to support the development of two 10 Megawatt run-of-river hydropower facilities. These facilities are expected to supply power to the national grid and to villages in Tanzania around the Lukosi river basin.

Ruaha Power is also in the process of developing a 2MW mini-grid since receiving a \$95,000 award from REA's electricity development program. This grid will be built near the existing Malolo mini-grid and will include a combination of hydropower, sola-photovoltaic, and biomass gasifier technologies.

Energy events

Tanzanian Explorers Club

The Tanzanian Explorers Club (**TEC**) is for people working in, or affiliated with, Tanzania's energy industry, specifically the mineral exploration sector. TEC provides an informal environment to facilitate networking and information sharing between key participants of the industry. If you are interested in joining the next TEC meeting, please email Clyde & Co's energy team to find out further details.

Further information

If you would like further information on any issue raised in this update please contact:

Peter Kasanda

Partner, Dar es Salaam
E: peter.kasanda@clydeco.com
T: +255 767 850 056

Michaela Marandu

Associate, Dar es Salaam
E: michaela.marandu@clydeco.com
T: +255 767 850 094

Clyde & Co Tanzania
11th Floor, Golden Jubilee Towers
Ohio Street, PO Box 80512
Dar es Salaam, Tanzania

T: +255 768 983 000/022
F: +255 222 103 004

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