Tanzanian draft national energy policy of 2015

Highlighted in this month’s energy briefing are the ongoing and upcoming industry developments and focus is on the transition of the energy sector since the introduction of the *Big Results Now!* campaign.

From a regulatory perspective, we consider the Draft National Energy Policy of 2015, published earlier this year.

**Industry Developments**

**Royal Dutch Shell to buy BG Group**

Recent reports indicate that Royal Dutch Shell plc (Shell), the Anglo-Dutch multinational oil and gas giant, will be buying BG Group plc (BG), in a USD 70 billion deal.

Both companies are listed on the London Stock Exchange and they form part of the companies on the Financial Times Stock Exchange 100 Index (FTSE 100). If the deal completes, Shell is poised to vastly increase its share of the global energy market.

**Oil terminal in Kigamboni**

The Tanzania Ports Authority (TPA) in February 2015 released a tender for interested parties to design, build and finance the development of an oil terminal in Kigamboni.

‘Kigamboni New City’ is proposed as an extension of the city of Dar es Salaam whose infrastructure is currently being redeveloped for industrial robustness. Projects such as the proposed jetty in Kigamboni New City are part of the Tanzanian Government’s long term plan for economic development.

It is intended that the proposed oil terminal will cater for the vast amounts of crude and refined oil currently being deposited at the Kurasini terminal by oil tankers. The new terminal will also offer support and improve delivery of fuel to the Kurasini facility and ultimately to the end user or purchaser.

**Mtwara – Dar es Salaam Gas Pipeline 99% complete**

Construction of the Mtwara – Dar es Salaam Gas Pipeline is now almost complete and according to the Tanzania Petroleum Development Corporation (TPDC) the commissioning of the project is expected to take place by August 2015.

TPDC is confident that the pipeline is capable of transporting an initial capacity of 350 million c.f. which will be sufficient to supply new power plants established in the future. Aside from the expected initial capacity, the infrastructure of the pipeline will ultimately allow transportation of bigger volumes of natural gas and contribute towards reliable electricity supply and industrial production in the country.
Renewable power projects take off

The National Development Corporation (NDC) has announced that 50 megawatts of electricity will be produced by early 2016 from a wind power project near Singida town. Other parties to the project include the Tanzania Electric Supply Company Limited (TANESCO) and Power Pool East Africa Limited. The Tanzanian Government has borrowed USD 132 million from Exim-Bank China to fund the project and once complete, it is expected to contribute USD 23 million to the country’s economy.

In other renewable energy developments, One Plant Africa Limited and WarnerCom (T) Limited have obtained 15,000 acres of land in Shinyanga to kick-start a solar power project. The companies aim to produce 150 megawatts of electricity from the project, which they estimate will employ 600 people.

Tanzania and Zambia strengthen energy ties

Tanzania and Zambia currently share one crude oil pipeline called the Tanzania Zambia Mafuta Pipeline (TAZAMA). This number may soon increase to two according to Zambia’s Minister for Mines, Energy and Water Development, Christopher Yaluma. Tanzania’s President, Jakaya Kikwete, also announced that Tanzania would be selling natural gas to Zambia once the requisite infrastructure is in place.

Big Results Now! Annual Report

In 2012, the Tanzanian Government adopted one of the country’s most ambitious initiatives: Big Results Now! (BRN). The BRN initiative is supposed to accelerate the implementation of critical development projects and improve the working environment of several industries. The energy industry is one of the industries chosen for accelerated development and according to the BRN annual report released recently:

- For 2013-2014, 24% of the Tanzanian population had access to electricity services. It is hoped that this figure will rise to 30% for 2015-2016 as the Rural Electrification Project (REP) continues to take shape. REP was organised into 25 lots during the initial procurement stage, of which 15 were secured by contractors. The remaining lots have since been divided into smaller lots and the Tanzanian Government is working towards having them all secured for the 2014-2015 year.
- Timelines for procedural processes under the BRN initiative have been considerably reduced. For example, during 2013-2014, it was estimated that signing a power purchase agreement would take up to 22 weeks. This timeframe has since been reduced to 10 weeks for the 2014-2015 year.
- Since the approval of the Electricity Supply Industry Strategy and Roadmap (ESI Strategy) in June 2014, the Tanzanian Government has begun to actively facilitate private party participation in the electricity supply sector.

The ESI Strategy proposes the separation of electricity generation, transmission and distribution businesses so that an array of private party participants can get involved in the sector. It is also anticipated that the Electricity Act, 2008 will be amended so that it supports the goals set out in the ESI Strategy.

Tanzanian Draft Energy Policy of 2015

Objectives

In January 2015, the Government through the Ministry of Energy and Minerals issued the Draft National Energy Policy of 2015 (the Energy Policy) with the following objectives:

a. Improving the security of supply through effective use of energy resources
b. Promotion of energy efficiency and conservation in industries, transport, agricultural, residential and commercial building
c. Promotion of private sector participation in the development and supply of modern energy services
d. Promotion of rural electrification programmes to foster socio-economic transformations in rural areas
e. Ensuring the Government strategically participate in the up, mid and downstream in the petroleum sub-sector
f. Facilitating the adoption of renewable energy technologies to increase its contribution to electricity generation mix

g. Promotion of cross-border electricity trading and regional interconnectors; Improving energy sector planning through integrated plans
h. Ensuring that prices for energy services reflect costs of efficient operations in providing such services
i. Ensuring that prudent environmental, social, health and safety considerations are factored in energy sector developments
j. Promotion of energy research, development, training and local manufacture of energy plant, equipment, appliances and materials
k. Supporting efforts of combating HIV/AIDS and other infectious diseases

Salient Features

Restructuring of State owned utility company

The Energy Policy proposes for the State owned utility company to be unbundled into independent generation, transmission and distribution companies. This is expected to reduce system losses, establish a competitive wholesale and retail electricity market, increase public and private investment in the energy sector, diversify sources of energy for electricity generation and supply, increase connection and access levels to electricity, enhance private sector participation and enhance affordability of electricity in Tanzania.
Prioritization of the local market for oil and gas products

The Energy Policy recommends that the local market be prioritised over export markets for the purposes of promoting domestic utilisation of oil and gas products. Apart from major discoveries of gas, Tanzania is striving to undertake further exploration activities in search of oil. Once there is an oil discovery in Tanzania, the Government will develop a competitive domestic market for oil and gas products to meet domestic demand. Emphasis is also put on ensuring there is capacity building and Tanzanians participate in the oil and gas value chain, and that priority is given to locally produced goods and services and ensuring implementation of corporate social responsibility programmes.

Mobilization of financial resources

The Energy Policy points out the necessity of mobilisation of financial resources for implementation of energy programmes and projects. The government aims to establish a favourable investment climate to attract private investments in the energy sector, ensure fair and reasonable return on investments through cost-effective energy pricing and establish a consolidated energy fund to pool financial resources for financing energy projects.

Energy pricing

The Government aims to have efficient and effective energy pricing for the sustainability of the energy sector. The main challenges are the fluctuations of exchange rates, inflation and the ability to afford energy on the consumers side. In order to overcome these challenges, the Government will establish cost reflective energy charges, timely implementation of energy projects and competitive bidding for procurement of new energy projects, equipment, machineries and energy infrastructure. This has been implemented through the Public Private Partnerships (Amendment) Act of 2014 which requires all solicited and unsolicited bids to go through competitive bidding process.

Subsidy regime

There is emphasis on promotion of a sustainable subsidy regime for buying down capital costs and enhancing affordability of energy products and services. In order to achieve this, the government intends to keep prices low, facilitate grants or guarantee loans provided by commercial banks, reduce capital costs and grant tax exemptions.

Public Private Partnership

The Energy Policy advocates for cooperation between the private and public sector to bring rapid growth in the energy sector and ensure speedy structuring and financing of PPP projects in the energy sector. The Energy Policy recommends a proper mechanism for risk sharing in the energy sector to be put in place to ensure mutual benefits for both public and private sector.

Regulatory framework

In order to promote the energy sector in Tanzania, the Government will harmonize energy related legislation and remove/repeal the outdated and fragmented sectorial laws governing the energy sector, review and align the energy sector’s legal and regulatory framework to remove the overlap of roles and functions of the regulatory authorities and establish a clear mechanism for the enforcement of the legal framework including penalties.

Industry 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.