DEEP earth

NOVEMBER WRAPPER

OIL AND GAS

Museveni signs new law on oil revenues

Uganda's petroleum revenues will be invested in building the country's infrastructure, according to the recently-passed Public Finance Management Act, 2015.

The revenues will be kept in the Petroleum Fund at the central bank. President Yoweri Museveni assented to the bill on November 14, three days after Parliament had passed it.

"For avoidance of doubt, petroleum revenue shall be used for the financing of infrastructure and development projects of Government and not the recurrent expenditure of Government," the Act notes.

The Public Finance Management Act was created for government to prudently manage its financials, especially in overseeing an efficient execution of the national budget.

The ministry of finance recently announced that the Petroleum Fund had $36 million. This money is the first instalment from Tullow Oil after the UK firm agreed to pay the Uganda government $250 million in order to settle a capital gains tax dispute on its $2.9 billion farm-down to France's Total and China's Cnooc in 2012.

The law gives the minister of Finance powers to be responsible for the overall management of the petroleum fund and oversee the transfer into and the disbursements from the Petroleum Fund.

There will, however, be questions on how easily money from the petroleum fund will be accessed. Of particular interest is the link between the petroleum fund and the consolidated fund.

There will also be questions as to whether withdrawing money from the Petroleum Fund and taken into the Consolidated fund contradicts the spirit of the Constitution of Uganda, which is the supreme law of the land.

Article 153, clause one of the Constitution points out that "There shall be a Consolidated Fund into which shall be paid all revenues or other monies raised or received for the purpose of, or on behalf of, or in trust for the Government." However, clause two of that article also clarifies that "The revenues or other monies referred to in clause (1) of this article shall not include revenues or other monies— (a) that are payable by or under an Act of Parliament, into some other fund established for a specific purpose; or (b) that may, under an Act of Parliament, be retained by the department of Government that received them for the purposes of defraying the expenses of that department."

The Public Finance Management Act, nonetheless, allows money to be withdrawn from the petroleum fund and channelled into the consolidated fund. The law, also points out the state can withdrawal money from the Petroleum fund through the Appropriation Act.

One of the closely-watched events could be how much resistance the Appropriation Act will receive in Parliament.

While the law is clear on how monies from the petroleum fund will be spent, the cash from the consolidated fund could be used anywhere, even in non-economic sectors such as raising the salaries of civil servants.

Money from the consolidated fund can be used "for purposes of meeting the expenditure necessary to carry on the services of the Government…"

The law notes that "Money appropriated to the Consolidated Fund from the Petroleum Fund shall be withdrawn quarterly in accordance with the annual cash-flow plan of Government."

Government will draft a new Appropriation Bill for each financial year, which will be sent to Parliament for debate. But even if Parliament delays to pass it, there is a way out.

The new law states: "Where the President is satisfied that the Appropriation Act in respect of any financial year, will not or has not come into operation by the beginning of any financial year, the President may, in accordance with Article 154 of the Constitution, by warrant under his or her hand, addressed to the Minister, authorise the issue of money from the Consolidated Fund for purposes of meeting the expenditure necessary to carry on the services of the Government…"

President Yoweri Musiveni

Oil refinery talks drag on

Top officials from Russia's RT Global Resources, the consortium government is negotiating with to build a $4 billion refinery, were expected in Uganda in the last week of November to append their signatures on a draft agreement, according to reliable sources. The purpose of the visit was to have the officials initial their signatures on the agreement as the government looks to put an end to a process that should have been concluded more than three months ago. We could not verify whether the officials had signed the draft documents.

Irene Muloni, the minister of Energy, and Mineral Development, told us her wish was to sign the refinery agreement before the end of November.

Peter Lokeris, the minister of state in charge of minerals, said government would sign the agreement on the refinery soon.

Discussions over the negotiations on the refinery have been a closely-guarded affair. A source in the energy industry told us one of the main issues stalling the process surrounds finding a guarantor for the refinery. We have been told that government is reluctant to guarantee the project and, instead, wants the Russians to find one.

The negotiations between RT Global Resources and government were expected to have been concluded by July, and thereafter a special-purpose vehicle formed in August to manage the refinery.

The drop in oil prices to less than $50 a barrel, from the near $100 in June 2014, and its impact on the Russian ruble had earlier raised questions on RT Global Resource's interest in spending money on Uganda's refinery. The consortium holds a 60 per cent shareholding in the refinery, with government retaining the other 40 per cent.

Campaign for more disclosure within the oil sector kicks off

Civil society organisations have kicked off a campaign that will see citizens sign up a petition asking President Yoweri Museveni to take the necessary steps for Uganda to sign up to the Extractive Industries Transparency Initiative (EITI).

Global Rights Alert, ActionAid Uganda, and Transparency International Uganda, are leading the campaign to collect 100,000 signatures for the petition.

Under the social media campaign, End Oil Secrecy, Get Uganda To Join EITI, the group wishes to break the cloud of confidentiality hovering over many of the transactions within the oil industry.

Briefly, the EITI, which promotes transparent management of natural resources, compels governments to publish reports that show project-to-project payments from companies operating in the extractive industries.

While different government officials have made statements over the country's willingness to sign up to EITI, there has been little commitment from the state to come good on its word.

ELECTRICITY

Umeme, ERA disagree over investments spent

Umeme Limited, the power-distributing firm, remains troubled by the Electricity Regulatory Authority's decision to contest some of the investments it has made. Umeme recently wrote to ERA saying it is being unfairly treated in the way the authority disallows part of the investments it makes.

ERA has declined to recognise investments of up to $27 million, which Umeme made in 2012 and 2013. Umeme also noted that investments it made while upgrading low voltage lines between 2009 and 2011 have been contested.

The company says this hurts its bottom-line as anything that ERA declines to recognise is not allowed to be recovered through the tariff.

According to the letter, which forms part of the documents Umeme submitted to ERA for a tariff application for 2016, "Umeme reiterates that the above behaviour is inconsistent with the fact that the investments have been completed and benefits have accrued to the respective customers and that this undermines the company's investment programme and ability to raise internally-generated funds to improve the reliability and meet the growth requirements of the distribution network."

Umeme Managing Director Selestino Babungi

In its defence, ERA says that much of the disagreement comes in the interpretation of a particular investment. ERA top officials say that usually the bone of contention is whether the investment made is classified as a capital investment or an operation and maintenance cost.

Uganda gets $50 million for renewable energy

Uganda's investment plan to boost its renewable energy was recently given a thumbs-up with the Climate Investment Funds (CIF) offering $50 million to promote different forms of clean power generation.

The CIF announced recently that through its Scaling Up Renewable Energy in Low Income Countries Program, it would support the growth of geothermal exploration, solar PV off-grid rural electrification and grid net metering, and wind measurement for development of pilot wind power in Uganda.

Some of the expected results from the projects under Uganda's investment plan include: a minimum direct contribution of 151 MW of installed capacity of renewable technologies (non-hydro) in the country's energy mix; an increase in the annual energy output of 125.4 GWh per year; a total investment of at least $455 million in the power sector associated with SREP; development of two nascent generation technologies in the country, geothermal and wind, with high transformational impact, among others.

Only 16 per cent of Uganda's 35 million people have access to power, with the figure dropping to below 10 per cent in the rural areas.

The Scaling Up Renewable Energy in Low Income Countries Program is a $796 million fund helping to deploy renewable energy solutions for increased energy access and economic growth in the world's poorest countries.

The African Development Bank is the implementing agency of the CIF.

In another development, the French Development Agency also announced that it had reserved $13 million for concessional funding through its Sustainable Use of Natural Resources and Energy Finance initiative (SUNREF) programme, which will be directed to companies and organisations that wish to help Uganda save energy. Any organisation can get up to $6.5 million if they came up with an energy-saving measure.

Mota-Engil makes progress on Oriang power studies

Francisco Franca

Mota-Engil, the company undertaking studies to develop the 398MW Oriang hydropower plant after it received a permit from the Electricity Regulatory Authority, says it has made substantial progress on the feasibility studies needed to apply for a license to construct the dam.

Francisco Franca, the country manager of Mota-Engil in Uganda, told *Deep Earth* that many of the reports – such as the preliminary designs – are ready. The designs, which *Deep Earth* has looked at, show that the latest design solution for the dam will have two tail-race tunnels running 11km long, with 15mts diameters each. The dam will also have a powerhouse built 60 meters into the ground and a wall of 25 mts, although Franca said this will depend on the geotechnical investigations that are about to start. The water will then be released at the point where the Ayago Dam is to be built by China's Gezhouba group.

Franca says they are developing a study that will bring value for money with the objective to have the most efficient infrastructure for a lower tariff, with the maximum output of 398MW.

Uganda Wildlife Authority boss, Dr Andrew Seguya, told us that they are also waiting for the feasibility study in order to inform their opinion of whether the Oriang power plant is viable. UWA is the custodian of the land in the Murchison Falls national park, the proposed site for the project.

UWA has in the past approved projects such as the 600MW Karuma hydropower dam, with Seguya noting that they "understand the need for the country to generate more power."

If given the licence to construct the dam, Mota-Engil will finance the entire project.

KENYA

Kenya to build new oil terminal

The geotechnical investigations for the construction of a new oil terminal at Mombasa are expected to be completed by 2016, Gichiri Ndua, the managing director of Kenya Ports Authority, has said.

After the submission of the investigations, which will determine the nature of the construction, the Kenyan government will tender out the works for the project.

The new terminal will support the handling and storage of petroleum products in Kenya. It is not clear how events of oil discoveries in northern Kenyan, and a possible crude oil export pipeline from Uganda to Kenya, will influence the decision, and possibly the capacity, of the new terminal.

The new terminal, whose cost is estimated at $120 million, will replace the old Kipevu oil terminal.

Tullow Oil to farm-down 25% to Delonex

Tullow Oil has agreed to sell at least 25 per cent of its 65 per cent shareholding in Block 12A to Delonex Energy Limited for a carry. The transaction is subject to Kenyan government approval.

Should the government of Kenya approve the deal, it will expand Delonex's footprint in the region, two years after the company was created. The company was founded in 2013 with investment of up to $600m led by Warburg Pincus, a private equity firm, and the World Bank's International Finance Corporation.

There are three shareholders in Kenya's block 12A – Tullow (65 per cent), Africa Oil (20 per cent), and Marathon Oil (15 per cent).

Tullow announced that the Marriot 46 drilling rig is soon expected to work on Block 12A and will test a basin in the undrilled Kerio Valley, which is said to have a similar structural setting to the successful Ngamia and Amosing discoveries.

Delonex is already operating in Ethiopia after it was granted a licence to explore for oil in the Abred-Ferfer area last year.

Tullow hits dry well in new territory

Tullow Oil announced that it had drilled the Emesek-1 exploration well in Block 13T in the North Lokichar basin, Northern Kenya, to a total depth of 3,000 metres but did not find any commercial hydrocarbons.

The UK firm said it had plugged and abandoned the wildcat well. Company officials, however, said they will draw lessons from its experience of venturing into the pristine North Lokichar basin.

Angus McCoss, Exploration Director, Tullow Oil plc, said: "The Emesek-1 well was the first well to be drilled in the North Lokichar basin. While this wildcat well did not find commercial hydrocarbons, it provides valuable data as we assess the wider prospectivity of this basin."

Africa Oil in $350 million deal with Denmark's Maersk

Africa Oil has agreed to sell half of its shareholding in a number of oil blocks in Kenya and Ethiopia to Denmark's Maersk Oil &Gas A/S for a deal worth $350 million.

According to the transaction, Africa Oil will sell 50 per cent of its interest in blocks 10BB, 13T in and 10BA in Kenya and the Rift basin and South Omo blocks in Ethiopia. The two, together with Tullow Oil, are already partners in the three oil blocks. Africa Oil and Maersk control 25 per cent shareholding each, while Tullow has the remaining 50 per cent.

Tullow Oil pointed out that in the third quarter of 2015, Twiga-3 exploratory appraisal well (Block 13T) "was drilled and encountered sands within the Lokone Shale sequence that are interpreted as good-quality-oil-bearing reservoir…" and will be assessed in the future. The company also retains optimism for more oil finds in the South Lokichar basin, where these blocks are found.

Africa Oil said the money it will receive from Maersk is "a reimbursement of a portion of Africa Oil's past costs and a future carry on certain exploration and development costs."

That's not all. Africa Oil said Maersk will also reimburse it for its acquired working interest share of costs incurred between the effective date and the closing date.

"Commencing on the effective date, Maersk will also carry up to $75 million of the company's share of development expenditures upon confirmation of resources and $15 million of the company's share of exploration expenditures," Africa Oil noted.

It added: "… upon Final Investment Decision, Maersk will also carry up to $405 million of Africa Oil's working interest share of development expenditures for the Lokichar Development Project. The total carry amount will depend on the Lokichar Development Project meeting certain thresholds of resource growth, and the timing of first oil."

The Africa Oil-Maersk deal will only be completed after the Kenyan and Ethiopian governments have given their approval. If the deal is given the green light, Maersk will be Tullow Oil's largest partner in the three oil blocks.

Kenya has so far discovered 600 million barrels of oil.

J.P. Morgan Securities LLC is acting as exclusive financial advisor to Africa Oil Corp on this transaction.

Ruvuma's new oil trinity

British oil company Solo Oil has agreed to sell at least 12.5 per cent of its stake in the Ruvuma Petroleum Sharing Agreement to its partner in the basin, Aminex, which is listed on the London Stock Exchange, for $3.6 million.

Part of this deal will also see Bowleven join the Ruvuma PSA with a 50 per cent net working interest. The deal will see Aminex's shareholding in the basin increase to 37.5 per cent.

Under the structure of the deal, Solo Oil will receive a cash bonus of $125,000 after completing the preparation of the Ntorya-1 well for production. It will also get a bonus of $1 million after commercial production is achieved in the Ruvuma PSA.

Currently, appraisal is going on at the Ntorya-1 gas discovery.

According to an independent report conducted by Senergy, a consultant, about six months ago, the Ntorya-1 discovery has up to 153 billion cubic feet of gas in place.

This is not the first time that Solo Oil and Aminex have tried to strike a deal together in the Ruvuma basin, where Tullow Oil has also previously had interest. More than two years ago in 2013, the two companies decided to sell 50 per cent of their interest in the Ruvuma basin but failed, even after announcing that they had received a couple of bids. Instead, the two companies decided to acquire more data on the basin, with their focus on the Ntorya-1.

The value of the basin rose in 2014 after a Chinese-financed gas pipeline was built from Mtwara to Dar es Salaam, which is close to Ruvuma.

On completion of the transaction, which is expected to be sealed in January 2016 pending Tanzanian authorities approving the deal, Solo will retain a 12.5 per cent non-operated interest in the Ruvuma PSA. Aminex will retain an operated 37.5 per cent interest, while Bowleven will hold the remaining 50 per cent interest.

The deal has also been widened to include the Kiliwani North Development Licence (KNDL), another gas discovery. With the KNDL agreement, Aminex intends to sell 25 per cent of its shareholding to Bowleven for a combined sum of $28 million, spread throughout cash considerations and bonuses. When the transaction is completed, Aminex will still hold 30.5 per cent, with the company noting that it would continue "to act as operator through its wholly-owned subsidiary, Ndovu Resources Limited." Solo Oil has a 6.5 per cent interest in the KNDL. The other shareholders in the KNDL include Rak Gas of the United Arab Emirates, and Bounty Oil & Gas.

The Kiliwani North Development Licence is expected to produce 20 million cubic feet of gas per day – an equivalent of more than 3,000 barrels of oil per day.

However, the investors in the KNDL continue to face delays in concluding the Gas Sales Agreement with the government, although they are optimistic that a signing could happen soon.

Kibo hires company for final Mbeya study

Kibo Mining Plc has hired Tractebel Engineering to carry out a definitive feasibility study for the Mbeya Coal to Power Project, a venture that will see coal being mined and a 250-300MW plant being established.

The feasibility study is expected to inform the commercial viability of a project that forms part of Tanzania's National Energy Strategy.

Kibo Mining continues to scout for investors for the project that will be modelled around a Public-Private Partnership arrangement.

A pre-feasibility study noted that Mbeya could achieve annual revenues of $48 million, with a profit margin of $24 million to $27 million a year.

Kibo also recently took out a credit facility of £500,000 with Sanderson Capital Partners Limited. There was no indication as to how this money would be used.

Tanzania currently has less than 1,000MW of power in operation , and yet the country needs atleast 2,000MW.

Swala gets new drilling company

Swala Oil and Gas has contracted AWT International, a company headquartered in Singapore, to act as its drilling management team in the country, as the company intensifies work on the Kilosa-Kilombero and Pangani licences.

Swala noted that AWT will be in charge of "designing the wells, implementing the planning required ahead of the wells..."

Swala is confident that Kilosa-Kilombero could have hydrocarbons since it is within the East African rift system, where Uganda has discovered 6.5 billion barrels of oil.

In October, India's Tata Petrodyne Limited bought into Swala's stake in the Kilosa-Kilombero and Pangani licences after paying $5.7 million. The deal requires Tata to carry all of Swala Tanzania's drilling-related costs up to a maximum of $2.5 million, which is equivalent to a gross well cost of $10 million.

Swala Oil is one of the companies that qualified to bid for oil blocks in Uganda's upcoming licensing round.

PEOPLE TO WATCH

Janice Kotut-Sang

Janice Kotut-Sang has been appointed as the regional director for GuarantCo in East and Southern Africa. GuarantCo has just launched its services in the region, with an office in Nairobi.

GuarantCo is a facility of the Private Infrastructure Development Group, which provides local currency and dollar-denominated guarantees to banks and bond investors to support infrastructure projects. GuarantCo has already offered support to Kalangala Infrastructure Services, which recently launched a small power plant in Kalangala.

Richard Kaijuka

Richard Kaijuka is the new chairman of Uganda's private sector that is looking to have its interests considered in the Northern Corridor integration projects. Some of the projects in the Northern Corridor initiative include the refinery and oil pipelines.

The presidents of Uganda, Rwanda and Kenya are pushing for the construction of regional infrastructure through this initiative.

FINISH LINE®

Some international institutions announced that Uganda's economy faced a number of weaknesses, with the International Monetary Fund revising downwards the growth outlook, while Moody's downgraded the economy from stable to negative.

The IMF pointed to the widening external current account deficit as export receipts stagnate and infrastructure-related imports shoot through the roof as some of the reasons it had cut the country's growth figures from 5.8 per cent to 5 per cent this financial year.

The shilling started firming against the dollar in the last two weeks of November, and there are suggestions the currency could have peaked in the days it threatened to breach the Shs 3,700 levels.

The election season officially kicked off with the presiential nominations, and so did the game of numbers. If numbers are anything to go by in an election, then Uganda could be headed for one of its stiffest contest for the topmost job.

We continue to monitor investor perception towards the political and economic trends in the country. We are still cautious over the kind of investments the economy can attract at this time.

SNEAK PEAKS

- Total E&P is said to have submitted preliminary studies to government of Uganda over the viability of a crude oil export pipeline from the fields in Hoima to the Tanzanian port of Tanga.

- Lafarge Holcim, the owners of Hima Cement, will start drilling in Karamoja this December as it explores for limestone in that mineral-rich region.

- Financing for Uganda's 600MW Karuma power project continues to delay as, according to our sources, government remains uncomfortable with some of the terms from the Exim bank of China.

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