DEEP earth

OCTOBER WRAPPER

OIL AND GAS

A pipeline puzzled with politics?

Making a decision over the route that Uganda's crude oil export pipeline will take has turned into a case of diplomatic brinkmanship as oil firms and government officials within the region tussle over an infrastructure that seeks to turn around the fortunes of all the players involved.

Total E&P's push to have Tanzania consider hosting the pipeline, and also have Uganda sign an agreement to explore the option of a Hoima-Tanga route, has changed the power-play in the region, as it shakes up a number of relationships.

While Tullow Oil has long pushed for a route that goes through Lokichar in northern Kenya, along the oil basin where the UK firm is exploring and has so far discovered just over 600 million barrels of oil, to the port of Lamu, Total E&P has always questioned the security threat the region faces from the Al-Shabaab insurgents. Instead, Total feels that a pipeline from Hoima to the Tanzanian port of Tanga is a better option. Total retains exploration interests in Tanzania.

Cnooc, which is preparing the Kingfisher well for production, has largely kept on the sidelines. The Chinese company is mainly interested in Uganda dealing with its delays, and it is likely to side with the company that can speed up the construction of the pipeline.

On the other side of the battle-lines are the government officials. Kenya's President Uhuru Kenyatta visited Uganda in August, where he had a gentleman's agreement with President Yoweri Museveni to have the pipeline take the route towards Lamu.

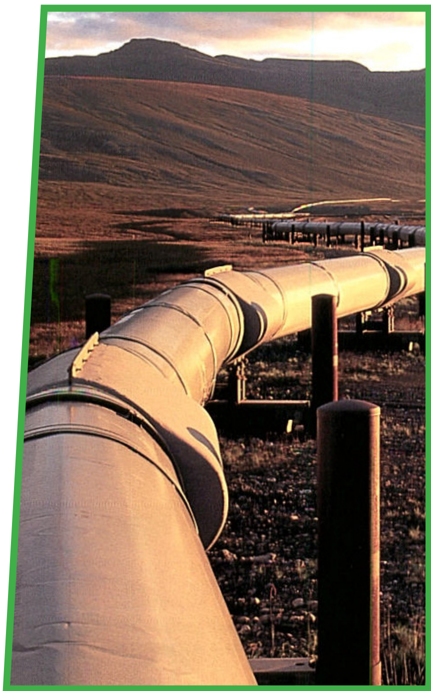
Uganda's crude oil export pipeline is crucial to Kenya's LAPSSET project – an initiative that seeks to improve the transport network in the northern part of the country. Kenyan officials say the LAPSSET project has the potential of adding two to three percentage points to their Gross Domestic Product.

Kenya is committed to having the pipeline pass through its territory that it has proposed to Uganda that it can meet part of the costs to build it.

South Sudan is another country that desires a pipeline that goes through northern Kenya. Troubled by all the sanctions it faces from its northern neighbour, Sudan, South Sudan opted to build a pipeline towards northern Kenya, meeting the one from Uganda, before it ends up at Lamu. This option would limit the amount of money it would have to pay for the pipeline as it would lead to cost-sharing.

Tanzania has welcomed the consideration of hosting the pipeline. Tanzanian officials say the pipeline could create jobs for their people.

Now, the companies and government officials are undertaking studies to see which of the two routes offers a cheaper financing option. The next tough bit will be about finding the money to build the pipeline, which is valued at more than $4 billion, and hoping the diplomatic tensions do not weaken the regional bloc.



Uganda sets deadline for bidding round

As Uganda moves closer to its second round of licensing for at least six oil blocks, the country has set a deadline of January 15, 2016 for companies to submit their bids. The country has already issued bidding guidelines to the 16 companies that made it to the final shortlist.

The bid document comprises of a Request for Proposal, a Model Production Sharing Agreement 2015 (MPSA), Model Confidentiality Agreement for sale of data, and some of the laws governing the sector.

The issuance of the bid document marks the start of the Request for Proposal stage, where companies will bid competitively for the blocks.

Most of the companies are from Nigeria, followed by South Africa. However, Tullow Uganda Operations Pty Limited, Ireland, an affiliate of Tullow Oil, is the most prominent.

President Yoweri Museveni

Museveni commissions oil boards

President Yoweri Museveni has commissioned the board of the Petroleum Authority, a crucial institution needed for Uganda's licensing round, with Dr. Jane Mulemwa as its head, and the board of the National Oil Company.

According to Section 10 of the Upstream Act, the Authority is mandated to "advise the minister in the negotiation of petroleum agreements and in the granting and revocation of licences."

While the board has been inaugurated, there are still concerns that the country's delay to operationalize it could create doubts over how Uganda intends to handle its next round of licensing of the six oil blocks.

The other members on the Petroleum Authority include: Reuben Kashambuzi, Dr. Immaculate Semanda Nakimera, Peter Lominit, Mrs Doreen Kabasindi Wandera, Eng. Patrick Nakoko and Kiryowa Kiwanuka.

The members on the National Oil Company, which will take care of the country's commercial interests, include: Mr. Emmanuel Katongole, as its chairman, Francis Nagimesi, Irene Batebe, Francis Twinamatsiko, Grace Tubwita, Godfrey Andama and Stella Marie Biwaga.

OIL AND GAS

EU ambassadors tour oil fields

Kristian Schmidt, the head of delegation of the European Union in Uganda, led a team of ambassadors to the oil-rich Lake Albert basin in late October, where they praised Uganda for its strong legislation but raised concerns over the manner in which the local population in the area had been displaced to pave way for investments in the industry.

Together with ambassadors from Ireland, Italy, Germany, Denmark, Norway and Austria, Schmidt also advised Uganda to deal with the numerous delays within the industry because a lot of money had already been committed in the industry. Oil companies say they have spent more than $3bn in Uganda's oil industry.

The ambassadors also questioned the manner in which the rich and powerful have displaced the people in the oil areas to pave way for investments. He said this would create a terrible precedent for the industry.

Refinery negotiations concluded

The government has completed negotiations with Russia's RT Global Resources on the construction of the refinery, according to sources within the Ministry of Energy.

One source within the ministry says government is slated to make the announcement anytime soon. However, representatives of RT Global Resources could not confirm to us whether this development was true.

The end of negotiations over the refinery agreement is expected to set the stage for the formulation of a special purpose vehicle, in which government will hold a 40 per cent stake while RT Global Resources will take up the remaining 60 per cent. The construction of the refinery is expected to cost at least $4 billion.

The construction of a central storage facility is part of the refinery project.

MINING

Kilembe kicks off copper production

Chinese conglomerate Tibet Hima is expected to produce 1,500 tonnes per day of mainly copper concentrates at Kilembe. While this concentrate will have some cobalt, copper accounts for the biggest percentage.

Tibet Hima started producing the first volumes in the last week of October as it prepared to ramp that up in November. The company intends to have all the machines it needs for a fully-fledged production unit in place by December this year.

Reports indicate that Kilembe has reserves totalling 4.5 million tonnes of ore.

The mine, however, faces the problem of flooding. In 2013, floods pounded Kasese district, where Kilembe is located, damaging some of the critical infrastructure in the area.

Government has predicted heavy rains towards the end of the year. The ministry of works and transport together with the ministry of water and environment are undertaking a number of strategies to stop flooding of Kilembe mines.

The machines are roaring again at Kilembe

ALSF tips Ugandan officials on agreements

Uganda's Prime Minister, Ruhakana Rugunda, applauded the African Legal Support Facility for conducting a training programme for government officials to understand how to negotiate mining agreements.

Some of the topics covered included understanding mineral rights, land access and mine development; environmental and social issues; regulatory impact assessments; the anatomy of mining agreements; and the negotiation of mining agreements.

Zweli Mkhize, Treasurer General of the African National Conference, told the participants that one of the challenges African governments faced was how to better manage natural resources. African nations such as DR Congo are rich in gold, iron ore in Guinea, copper in Zambia, just to mention a few

Rugunda promises more talks

Prime minister Dr Ruhakana Rugunda has promised to promote deeper engagement between government and private companies in order to reduce some of the challenges the mining industry faces.

While closing the fourth minerals Wealth Conference, organised by the Uganda Chamber of Mines and Petroleum, Rugunda said access to land and the activities of illegal miners were some of the issues government was looking for ways to resolve.

Rugunda commended the idea of the East African Community working together to develop the extractive sector saying the colonial boundaries make no sense.

"There is no need why we should be faithful adherents to colonial boundaries which may hinder economic gains," noted Rugunda.

PM Ruhakana Rugunda

ELECTRICITY

Mota-Engil seeks better terms on Oriang power

It is one year since Mota-Engil Africa applied to the Electricity Regulatory Authority for a licence for the generation and sale of electricity from the Oriang hydropower plant. The proposal is to build the plant across River Nile in Kiryandongo and Nwoya districts. The project is expected to produce 400MW of power.

According to government officials, the developer is "progressing well." And that the project seems to be on track. The country has six more months before its deadline of completing studies on the plant.

However, Mota-Engil is currently said to be looking at negotiating the power purchase agreement with the Uganda Electricity Transmission Company Limited.

China's Gezhouba signs Ayago hydropower contract

China's Gezhouba group will build one of Uganda's largest power plants after signing an MOU with government for the Ayago power plant. The Chinese firm has already completed the feasibility study for the project, which will have a capacity of 600MW.

Already, a supervising consultant to assist in the review of the feasibility study and supervise the construction of the plant has been procured.

Construction of this power plant is expected to start in 2016 and will take six years to be completed. The Ayago power plant will be developed in two simultaneous phases, known as Ayago North, which will have a higher capacity than Ayago South.

Moses Otim, the Project Manager and Environmental Specialist at the Uganda Electricity Generation Company, supervises the project on behalf of the government.

Power tariffs shoot up

The Electricity Regulatory Authority increased power tariffs for the fourth quarter of the calendar year, with domestic consumers shouldering the biggest increment of 19 per cent.

Domestic consumers will now pay a tariff of Shs 667.4 per kWh, a 19.5 per cent increase, commercial premises will incur a tariff of Shs 604.7 per kWh, an increment of 18.9 per cent, medium industrial firms will be charged Shs 567.3 per kWh, a 17.4 per cent jump, while large industrial companies will pay Shs 381.1 per kWh, accounting for a 15.9 per cent increase.

The authority based its adjustment mainly on the fluctuation in the foreign exchange market, where the shilling has depreciated by more than 30 per cent over the last 12 months.

The authority said that 75 per cent of the costs incurred by the energy firms are denominated in dollars. A substantial amount of these costs are recovered through the tariff, which is priced in shillings.

The authority is now looking at ways of setting power tariffs on a monthly basis, away from the quarterly schedule, in order to have better pricing and less pressure on consumers. This plan could meet some resistance from large commercial entities, who in the past complained that monthly adjustments could distort their financial plans.

Austria's ILF reviewing Muzizi's studies

Austria's ILF Consulting Engineers is reviewing the feasibility studies of the Muzizi power plant after the company was awarded the contract to carry out the design and consultancy services for the 44MW project.

Germany's Kreditanstalt für Wiederaufbau (KfW) and French Agency for Development will finance the project.

ILF will also act as an implementation engineer and also supervise the construction works. This development is likely to see further progress of the project after hitting a number of setbacks in the past.

The Muzizi power project has faced a number of delays as different companies fought over it.

In early 2011, Hilary Onek, then the minister of Energy and Mineral Development, awarded the contract to build Muzizi to Egypt's United Engineering and Trading Company. The award was contested and cancelled.

In early 2014, the Uganda Electricity Generation Company Limited received a licence to build the Muzizi power plant. The project will be developed on a public private partnership model.

Licence galore at ERA

The Electricity Regulatory Authority received four different licences from companies that wish to generate and sell power on the national grid as the appetite for small power plants grows.

Palaro Power Company Limited wants to produce 18MW of power along River Achwa in Pader district in northern Uganda. Elgon Hydro Siti Power Limited wishes to build a 12MW power plant in Bulambuli district. Emerging Power Uganda Limited intends to construct 15MW of solar power in Mayuge district. Ndugutu Power Company Uganda Limited has asked for a license to put up a 4.8MW hydro power plant in Bundibugyo district.

The public has been called upon to make comments on these requests before the regulator flags off the companies to undertake studies on them.

While the government has moved ahead with attracting a number of small companies to put up power plants, many of them face the challenges of finding the funds to put up these projects, leading to delays. About 16 per cent of Ugandans have access to power.

Oil, Gas, Minerals and Energy News and Analysis

EAST AFRICA SCOPE

Jacobsen delivers Tanzania 150MW gas plant

In one of his last assignments within Tanzania's energy sector, outgoing President Jakaya Kikwete inaugurated the Kinyerezi I 150MW power plant. Jacobsen Elektro, the Norwegian company that built the plant, delivered the turnkey project to the country's utility firm, Tanesco. According to Jacobsen, Tanesco "will now take the plant into commercial operation."

The plant is powered by a dual fuel gas turbine generator. The company says the plant can operate on both natural gas and jet fuel. Tanzania has one of the biggest gas reserves in the world.

Kenya's capped fuel prices

Kenya set new fuel pump prices as the industry regulator stamps out any tendencies within the market that might lead to exploiting consumers.

The Energy Regulatory Commission noted that the new prices will be in force up to November 14th.

According to the new prices, super petrol reduced by Kshs 9.36 per litre, diesel increased by Kshs 2.44 per litre while paraffin went up by Kshs 3.49 per litre.

The commission pointed out that "The purpose of the fuel pricing regulations is to cap the pump prices of the products which are already in the country, so that the importation and other prudentlyincurred costs are recovered, while ensuring reasonable prices to consumers." It added: "Oil marketing companies are encouraged to compete below the set maximum prices."

Tanzania approves India's Tata-Swala oil deal

The Tanzanian government has approved India's Tata Petrodyne Limited's acquisition of stakes from Swala Oil and Gas in the Pangani and Kilosa-Kilombero oil blocks for $5.7 million.

The deal will see each company hold a 25 per cent stake in each of the two oil blocks. Otto Energy Pty holds the other 50 per cent of the stakes.

David Mestres Ridge, the chief executive officer of Swala, welcomed the deal.

"We are grateful to the authorities and regulators for their assistance and prompt handling of the approval process for our farm-in application, which allows TPL to join us on these two licences. Knowing that reimbursement of the past costs incurred by the company is being made and having an international exploration company such as TPL as a participant in an exciting location in the East Africa Rift system allows us to now focus on preparations for the 2016 drilling campaign," he said.

PEOPLE TO WATCH

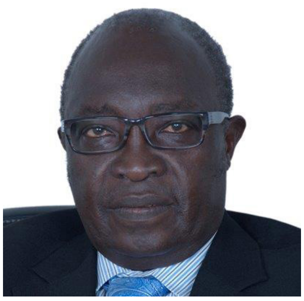
Adewale Fayemi,

the new general manager of Total E&P Uganda, joins the company at a critical time when Uganda is considering which of the two routes – through the Kenyan port of Lamu or Tanzania's Tanga port – should host the oil pipeline. Fayemi will have the task of convincing Ugandan officials that the route through Tanga is the best option.

Richard Santo Apire

was recently reappointed to lead Uganda's Electricity Regulatory Authority as its board chairman for the next five years. Apire was joined by two new members on the board - Joan Rwabyomere and Dr. Wasagali Sarah Kanaabi.

Apire will be in charge of regulating the sector as the country looks to launch at least more than 300MW of power over the next five years.



THE FINISH LINE

We remain cautious over the level of investments the oil, mining, and electricity industries, can attract at this time of the year largely because of the heated election season.

The sporadic violence that defined the primaries in the ruling National Resistance Movement could be interpreted as a precursor of what could happen in the February 2016 general elections, and probably leave investors cautious over making further investments.

However, we are also positive that the government has shown commitment to move the industry forward. Developments in the oil industry, where bidding requirements have been issued and the boards of the Petroleum Authority and the National Oil Company commissioned, are a strong sign that government is ready to start making final decisions for the sector to move forward.

We are now keeping tabs on the negotiations surrounding the crude export pipeline, especially with all the different interests at play.

For now, with the Central Bank raising its rate, and the depreciation of the shilling, investments are likely to further slow down until the financial industry experiences some stability.

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