PRESS STATEMENT

Energy Regulatory Commission

The Kenya Power & Lighting Company Limited (KPLC) has submitted an Application to the Energy Regulatory Commission (ERC) for approval of the proposed Electricity Tariffs and Tariff Structures (the abridged version of the application is posted separately). This submission is an update of the Retail Tariff Review Application dated 4th February 2011 and submitted to the ERC, to enable the Commission process the retail tariff review for the tariff control period 2011/12 to 2013/14 (now to cover 2012/13 to 2015/16). The existing retail tariffs were approved by the Energy Regulatory Commission (ERC) in June 2008 and implemented from 1st July 2008.

Following the application, Kenya Power will host a public hearing meeting at Kenyatta International Conference Centre (KICC) Amphitheatre on Monday 25th February, 2013 starting at 9 am.

Consequently, interested stakeholders, parties and individuals who wish to participate in the hearing are required to express their interest by sending an email to ERC **(info@erc.go.ke)** with a copy to KPLC **(communications@kplc.co.ke)** by Friday 22nd February, 2013.

Stakeholders may also submit written memoranda to the Energy Regulatory Commision with copy to **Kenya Power** by 27th February, 2013.

A detailed copy of the proposed tariff application can be downloaded from Kenya Power and the ERC websites **www.kplc.co.ke / www.erc.go.ke.**

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THE KENYA POWER & LIGHTING COMPANY LIMITED
UPDATED RETAIL TARIFFS APPLICATION TO ENERGY REGULATORY COMMISSION
INITIAL SUBMISSION ON 4TH FEBRUARY 2011, UPDATED VERSION DATED 7TH FEBRUARY 2013

1. INTRODUCTION

KPLC purchases electric power capacity and/or energy from the Kenya Electricity Generating Company Limited (KenGen) and six Independent Power Producers (IPPs), which currently are: Iberafrica Power (EA), Tsavo Power Company Limited (TPC), Rabai Power Limited, OrPower4 Inc., Mumias Sugar Company Limited and Imenti Tea Factory. The Company also purchases energy from Tanzania Electricity Supply Company Limited (TANESCO), Uganda Electricity Transmission Company Limited (UETCL) and Ethiopian Electric Power Corporation (EEPCO). The purchase of generating capacity and/or energy from all of these generators is made under Power Purchase Agreements (PPAs) approved by ERC.

2. POWER SUPPLY SITUATION

The interconnected installed capacity currently stands at 1,672MW, including 120MW of emergency capacity. The current national interconnected system peak demand is 1,330MW (or 1334MW inclusive of Uganda), which was recorded in January 2013. Several committed power generation projects which are currently under implementation will displace the 120MW of emergency power, as well as improve security of supply, reduce cost impact to customers, and assist in meeting the forecast demand in the medium to long term.

2.1. Projected Demand/Medium–Term Committed Generation Projects

The overall generation expansion projects for the next five years will result in an additional 1,248MW to meet growth in electricity demand, which has averaged 5% annually during the last four years. KPLC estimates that in 2012/13 the electricity demand growth rate will be 4% based on trends recorded up to December 2012, as well as the economic growth forecast for the 2012/2013 financial year. In the years 2013/14, 2014/15 and 2015/16, the demand growth rate is assumed to be 6% per year.

As shown in **Table 1**, generation capacity of 851MW is anticipated to be developed by IPPs and 397MW by KenGen. The plants are expected to be commissioned between 2013 and 2016.

3. REVENUE REQUIREMENTS FOR TRANSMISSION AND DISTRIBUTION SYSTEMS

3.1. Transmission and Distribution (T&D) Investment Projects

KPLC plans to spend US$210 million on Kenya Electricity Expansion Project (KEEP), and US$529.5 million on other projects aimed at strengthening the distribution system. The Company will also spend US$199.5 million on refurbishing its transmission system. During the same period, Kenya Electricity Transmission Company (KETRACO) and Rural Electrification Authority (REA) will implement additional transmission and rural distribution network projects through funding from the Government.

3.2. T&D Operations and Maintenance Costs

The operations and maintenance costs of providing transmission and distribution services to improve power reliability and general efficiency for the next tariff control period are based on the following premises:

i. The T&D costs contained in the 2011/2012 audited accounts have been taken as the base cost for the next tariff control period.

ii. Additional operating and maintenance cost for transmission and distribution networks is assumed at 2.5% and 3.5%, respectively, of the increase in gross investment plant in service value.

iii. It is assumed that the Rural Electrification Programme will operate on actual cost recovery basis.

iv. Additional operating and maintenance cost for new KETRACO transmission lines is assumed at 2.5% of the capital cost on the next year following the commissioning of a transmission project.

TABLE 1: COMMITTED GENERATION PROJECTS

	PROJECT	TYPE	CAPACITY (MW)	EST. COMMISSIONING DATE
KENGEN				
	Wellhead Units	Geothermal	10	Jun-2013
	Wellhead Units	Geothermal	15	Dec-2013
	Wellhead Units	Geothermal	40	Dec-2014
	Ngong phase II	Wind	13.6	Jul-2014
	Ngong 1 phase II	Wind	6.8	Jul-2014
	Kindaruma 3rd unit	Hydro	32	June 2012-June 2013
	Olkaria IV	Geothermal	140	Sep-2014
	Olkaria 1 – Life Extension	Geothermal	140	Jun-2014
Sub-Total			**397**	
IPPs				
	Athi River 1	Diesel	80	Jan-2014
	Athi River 2	Diesel	83	Feb-2014
	Thika 1	Diesel	87	Jun-2013
	Lake Turkana	Wind	300	Jul-2015
	Aeolus wind	Wind	60	Jan-2015
	Orpower4	Geothermal	36	Mar-2013
	Orpower4	Geothermal	16	Mar-2014
	Kipeto	Wind	100	Jul-2015
	Prunus	Wind	50	Jul-2015
	Kwale Sugar Co. Ltd	Biomass	18	Dec-2014
	Small Hydros (Genpro, Gura and Hydel)	hydro	21	Jul-2015
Sub-Total			**851**	
Total			**1,248**	

3.3. Proposal for Low Voltage System Expansion

The current electricity connection policy came into operation in 2004 and was aimed at facilitating accelerated connectivity countrywide. The cumulative connections countrywide between 2004 and 2012 increased from 735,000 to 2,060,449, representing a 280% growth. Annual connections increased from 48,949 in 2004/05 to 307,101 in 2011/12.

Under the policy, there was a uniform charge of KShs.34,980 and KShs.49,080, for a single phase and a three phase connection, respectively, for customers within 600 meters of existing transformers. At the inception of the policy, these charges were adequate to expand the LV network and connect customers within the 600 meters transformer coverage radius. Since then, the costs of materials, labour and transport have increased significantly. In this regard, over the last five years the price of diesel has risen by 47%, poles by 45%, transformers by 100%, and copper and aluminium cables by 220%. There is therefore a difference between the price that customers are paying for the new connections, and the costs incurred by KPLC to connect them. This cost to KPLC has risen from KShs.1.05 billion in 2007/08 to KShs.7.5 billion in 2011/12 as shown in **Table 2**.

TABLE 2: CUSTOMER POWER CONNECTION COSTS VERSUS CAPITAL CONTRIBUTION 2007/08 TO 2011/12

Year		2007/08	2008/09	2009/10	2010/11	2011/12
No of service lines		38,484	69,757	82,519	111,727	123,495
Actual connection costs	KShs. m'	2,392	4,870	6,233	9,846	11,856
Capital contribution	KShs. m'	1,339	2,581	3,179	3,889	4,327
Net costs/ required funding	KShs. m'	1,052	2,289	3,054	5,957	7,528

Kenya Power proposes that the deficit is partly raised through a charge to electricity consumers of KShs.0.70 per KWh, and upward adjustment of the connection fee.

3.4. Base Revenue Requirement

The revenue requirements comprise the return and taxes on regulated asset base, the cost of purchases of generation capacity and energy and KPLC operation and maintenance costs as key components. The revenue requirement (in real September 2012 prices) is therefore KShs.113,725 million, KShs.128,908 million, KShs.109,079 million and KShs.111,432 million for financial years 2012/13, 2013/14, 2014/15 and 2015/16, respectively.

3.5. Pre-paid Metering

KPLC has installed approximately 175,000 pre-paid meters, and between 2012/13 and 2015/16, the Company plans to install more than one million additional prepaid meters at an estimated cost of KShs.12,000 per installation.

3.6. Proposed Retail Tariff Rates

The proposed electricity tariff adjustment for the review period is intended to be cost-reflective, efficient and sustainable. The existing base non-fuel retail tariffs are proposed to be adjusted as shown on **Table 3**. This would result in overall base non-fuel tariff increases of 21%, 9%, 4%, and 11% proposed to be applicable on 1st March 2013, 1st July 2013, 1st July, 2014 and 1st July 2015, respectively.

3.7. Effective Date

Pursuant to Section 45 of the Energy Act, 2006, that provides for a variation of the effective rates and tariffs charged to consumers for the supply and consumption of electricity, KPLC assumes the approval of a multi-year retail tariffs application that would become effective on 1st March 2013, 1st July 2013 , 1st July 2014 and 1st July 2015.

TABLE 3: PROPOSED RETAIL TARIFF RATES

Customer Category					PROPOSED RATES			
Code	Customer Type	Charge Method	Unit cost	Existing Rate	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016
DC	Domestic	Fixed	KShs./ month	120	200	250	250	300
		Energy	KShs./ kWh	2.00	5.10	5.10	5.75	5.75
	"	Energy	KShs./ kWh	8.10	11.40	11.90	12.30	13.64
	"	Energy	KShs./ kWh	18.57	19.30	23.36	23.86	24.80
SC	Small Commercial	Fixed	KShs./ month	120	200	250	250	300
		Energy	KShs./ kWh	8.96	13.66	14.55	15.00	16.62
CI1	Comm./ industrial	Fixed	KShs./ month	800	2,000	2,200	2,200	2,500
		Energy	KShs./ kWh	5.75	9.75	10.80	11.60	13.00
		Demand	KShs./ kVA	6,00	800	800	800	800
CI2	Comm./ industrial	Fixed	KShs./ month	2,500	4,000	4,500	4,500	5,000
		Energy	KShs./ kWh	4.73	7.95	8.90	9.15	10.30
		Demand	KShs./ kVA	400	520	520	520	520
CI3	Comm./ industrial	Fixed	KShs./ month	2,900	4,500	5,000	5,000	6,000
		Energy	KShs./ kWh	4.49	7.35	8.15	8.35	9.35
		Demand	KShs./ kVA	200	270	270	270	270
CI4	Comm./ industrial	Fixed	KShs./ month	4,200	6000	6500	6,500	7,000
		Energy	KShs./ kWh	4.25	7.05	7.80	8.00	9.05
		Demand	KShs./ kVA	170	220	220	220	220
CI5	Comm./ industrial	Fixed	KShs./ month	11,000	16,000	17,000	17,000	18,000
		Energy	KShs./ kWh	4.10	6.90	7.70	7.90	8.90
		Demand	KShs./ kVA	170	220	220	220	220
IT	Interruptible	Fixed	KShs./ month	120	200	250	250	300
		Energy	KShs./ kWh	4.85	13.50	14.50	15.30	16.60
DC IT	"	Fixed	KShs./ month	240	400	500	500	600
SC IT	"	Fixed	KShs./ month	240	400	500	500	600
SL	Street Lighting	Fixed	KShs./ month	120	200	250	250	300
		Energy	KShs./ kWh	7.50	11.20	12.30	12.80	14.00