Energy Regulatory Commission

PRESS STATEMENT

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 .

Director General
Energy Regulatory Commission
Eagle Africa House, Longonot Road, Upperhill
P O Box 42681-00100 GPO, NAIROBI – KENYA
Tel. +254-20-2847000/200 2717627/31/75
Cell Phone: +254 -0722 200947/ 0734 414333
Fax: +254 -20 2717603
Email: info@erc.go.ke, Website: www.erc.go.ke

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), who currently are, Iberafrica Power (EA), Tsavo Power Company Limited (TPC), Rabai Power Limited, OrPower4 Inc. (OrPower4), Mumias Sugar Company Limited and Imenti Tea Factory Small hydros. 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 1,672 MW, including the 120 MW of the emergency capacity. The current national interconnected system peak demand is 1,330MW (or 1334MW inclusive of Uganda) recorded in January 2013. Several committed power generation projects are currently under implementation. These will displace the 120 MW of emergency power, 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 entail an additional 1,248MW to meet growth in electricity demand which has averaged 5% annually in the last 4 years. KPLC estimates that in 2012/13 electricity demand growth rate will be 4% based on trends recorded upto December 2012 and the economic growth forecast for the current financial year riding on on-going economic recovery. 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 planned to be developed by IPPs and 397MW by KenGen, respectively. The plants are expected to be commissioned between 2013 and 2016.

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. Revenue Requirements for Transmission and Distribution Systems

3.1 Transmission and Distribution Investment Projects

KPLC plans to spend US$ 210 million on electricity expansion project (KEEP) being the second distribution upgrade project, US$ 529.5 million in other distribution projects and support equipment and US$ 199.5 million on refurbishing the existing KPLC owned transmission system. At the same period, Kenya Electricity Transmission Company (KETRACO) and Rural Electrification Authority (REA) will implement new transmission and Rural Distribution network with funding from the Government.

3.2 T&D Operations and Maintenance Costs

The operating and maintenance costs of providing transmission and distribution services to improve power reliability and general efficiency for the next tariff control period has been assumed as follows;

i.) Current T&D costs provided in KPLC audited accounts has been assumed as base cost for the next tariff control period.

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

iii.) Rural Electrification Scheme is assumed to operate on actual cost recovery basis.

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

3.3 Proposal for Low Voltage System Expansion

The current electricity connection policy came into operation in 2004 in an effort to facilitate accelerated connectivity country wide. The cumulative connections countrywide in the last 8 years (2004-2011) grew from 735,000 to 2,060,449 representing 280% growth. New additions have increased annually from 48,949 in 2004/05 to 307,101 in 2011/12.

The driving policy was a fixed customer cost of Kshs 34,980 and Kshs 49,080, for a single phase and a three phase connection, respectively, for those customers within 600 meters from 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 significantly increased progressively with key items' prices over the last 5 years rising as follows:-Diesel by 47%, Poles by 45%, Transformers by 100%, Copper and aluminium cables by 220%.

The aggregated impact of the above items' price change is the growing difference in actual cost and customer contributions has been met by Kenya Power as shown in **Table 2**. This cost to Kenya Power has risen from Kshs 1.05 Billion in 2007/08 to Kshs 7.5 Billion in 2011/12.

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 Connections		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 this deficit is partly raised through a charge to electricity consumers of Kshs 0.70 per KWh and upward adjustment of the connection fees.

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) in reference to financial years starting 2012/13 is Kshs 113,725 million, Kshs 128,908 million and 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 by December 2012. During the Review Period 2012/13 to 2015/16 KPLC plans to install to more than 1 million customers prepaid meters at an estimated project cost of ksh 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 in provision of services by KPLC. The existing base non-fuel retail tariffs are expected to be adjusted to the proposed retail tariffs as shown on **Table 3**. This results in overall base non-fuel tariff increases of 21%, 9%, 4%, and 11% proposed to be applicable in 1st March 2013, 1st July, 2013, 1st July, 2014 and 1st July 2015 respectively.

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

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 commencing 1st March 2013, 1st July 2013 , 1st July 2014 and 1st July 2015.