

GOVERNMENT GUARANTEE OF A LOAN TO THE KENYA POWER COMPANY
FROM THE COMMONWEALTH DEVELOPMENT CORPORATION FOR FINANCING
THE DEVELOPMENT OF THE POTENTIAL OF THE GEOTHERMAL FIELD
AT OLKARIA LOCATED SOUTH OF LAKE NAIVASHA

1. In accordance with the provisions of Section 5(1) of the Guarantee (Loans) Act, (Chapter 461) Laws of Kenya, the information set out in the paragraphs following is laid before the National Assembly for the Assembly's consideration and approval.
2. The Government of Kenya proposes to guarantee a loan of an amount of Pounds Sterling nine million, two hundred and fifty thousand (£Stg.9,250,000) which is equivalent to Kenya Pounds Seven million, Eight hundred and sixteen thousand (K£7,816,000) at current exchange rates to be made to the Kenya Power Company a wholly owned Government Company by the Commonwealth Development Corporation.
3. This loan follows closely the loan of Forty million dollars (U.S.\$40,000,000) advanced by the World Bank to the said Kenya Power Company Limited and also guaranteed by the Government under Sessional Paper No. 1 of 1980.
4. The loan bears interest of 8.5% per annum and will be repaid over a period of 12 years including 3 years grace period or moratorium. In addition the borrowers shall pay to the Commonwealth Development Corporation a commitment charge of three fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the loan not withdrawn from time to time. The interest and other charges are payable annually on 30th September in each year.
5. The Government attaches great importance to the development of alternative sources of cheap energy. The development of geothermal resources at Olkaria is the first step towards this direction. The Government has therefore agreed that the Kenya Power Company Limited should obtain the said loan of £Stg.9,250,000 subject to a Government guarantee of the repayment thereof, and the successful completion of the project.

(a) The loan will be applied towards financing the cost of the project which will be executed in two phases.

Phase I Part (A) will consist of:-

- (1) Drilling of production wells for geothermal steam and installation of the necessary well-head equipment for controlling steam from such wells;
- (2) Construction of a power station, residential buildings, access roads and ancillary works;
- (3) Installation of a steam gathering system from the well-heads to the power station.
- (4) Installation of one 15 MW turbine generator with a capability of producing 95 GWH annually, complete with all auxiliaries and ancillary electrical and mechanical equipment including control equipment and switching station.
- (5) Installation of about 22 kilometres of 132-KV transmission line to interconnect the Olkaria generating station with the Naivasha substation.

Planning for this part of the project is already so advanced, that the works will be completed by July 1, 1981.

(b) Phase I Part B, consists of an important element of the project, the training of the personnel of the East African Power and Lighting Company (E.A.P.&L) in the operation and maintenance of existing and proposed facilities on both construction technical matters, and management without which no project of this size and complexity would succeed. The East African Power and Lighting, a company in which the Government holds majority shareholding is the executing arm of this project. There will also be two studies under this phase, one to evaluate further geothermal development at Olkaria, and two, a feasibility study for the proposed Kiambere hydroelectric power project in Eastern Province.

7. Phase II of the project will consist of (1) Drilling of production wells for the supply of geothermal steam (2) Installation of a second 15MW turbine generator with a capability of producing about 95 GWH annually, complete with all auxiliaries and ancillary electrical and mechanical equipment, and construction of related minor civil works.

8. The Government therefore requests the National Assembly to approve that the Government may guarantee the repayment of the loan referred to in paragraph 2 of this paper.

9. The current total contingent liability of the Government in respect of guarantees given under Section 3(3) of the Guarantee (Loans) Act (excluding liability under collateral and those specified in the schedule to the Act) amount to K£275,512,094 with the proposed guarantee of £St.9,250,000 equivalent to K£7,316,000 the aggregate will be increased to K£283,328,094 of which K£12,585,583 will fall within paragraph (a) and K£270,742,511 will fall within paragraph (b) of Section 3(3) of the Act.

MUNYUA WAIYAKI
MINISTER FOR ENERGY

MARCH 1980