20/8/2014

ANNUAL REPORT & FINANCIAL STATEMENTS 2011 - 2012

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Energy Regulatory Commission

paper laid
20/8/2014

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CORPORATE INFORMATION

Energy Regulatory Commission (ERC) is established under the Energy Act 2006, following the operationalization of the Act with effect from July 7, 2007. The Electricity Regulatory Board became ERC, a single sector regulatory agency, with responsibility for economic and technical regulation of electric power, renewable energy, and downstream petroleum sub-sectors. Its functions include tariff setting and review, licensing, enforcement, dispute settlement and approval of power purchase and network services contracts.

Vision Statement

To be a globally respected regulator enabling access to energy for socio-economic transformation.

Mission Statement

To facilitate access to efficient and sustainable energy through enabling regulation that will contribute to better quality of life in Kenya.

Core Values

The ERC upholds:

Professionalism

All members of the Commission and professional staff observe high standards of professionalism and are expected to adhere to their respective code of ethics.

Predictability

Follows clearly defined rules and regulations in the delivery of its services.

Integrity

Ensures the highest levels of integrity in its work.

Responsiveness

Endeavors to be sensitive and expeditious in dealing with stakeholders.

Teamwork

Embraces teamwork, mutual cooperation and appreciation of diverse perspectives, in the discharge of its functions.

Transparency

Conducts its work at all times in a transparent manner, consulting widely and making information readily accessible internally and externally to stakeholders.

Accountability

Ensures the highest levels of accountability in its work

Independence

Ensures the highest levels of independence in its work.

COMPOSITION OF THE COMMISSION

COMMISSIONERS

Eng. Emma Kiilu (Mrs)
Chairperson

Mrs. Kiilu was born in 1957. She holds a Bachelor of Science in Electrical Engineering from University of Nairobi and an MBA in Operations Management.

Mrs. Kiilu worked with the Ministry of Public Works from 1986 to 1988 in the Provincial office in Kisumu where she was in charge of Government projects in Nyanza Province. Between 1989 and 1994, she worked as the District Works Officer, in charge of projects in Coast Province, Mombasa. Mrs. Kiilu left Government service in 1995 and joined Therero Associates as a Consulting Engineer a position she currently holds. She also served as a Board Member with Rural Electrification Authority.

Mr. Patrick Nyoike
PS Ministry of Energy

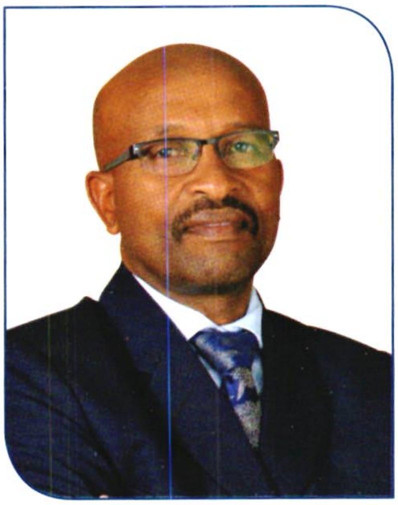
Mr. Patrick M. Nyoike was born on 30th September 1947. He holds a Bachelor' of Science degree in Mathematics and Physics from University of Ghana and a degree in Economics from University of Nairobi. Mr. Nyoike was appointed to the Civil Service as a statistician at the Central Bureau of Statistics, Ministry of Finance and Planning. Between 1974 and 1978, he was posted to the Ministry of Planning and Development as a planning officer at the National Council of Science and Technology.

In 1978, he was posted to the Ministry of Power and Communications as the Senior Economist in charge of Policy Analysis and Planning Division. In 1982, he became the Principal Economist and Head of Policy Analysis and Planning Division in the Ministry of Energy. Between 1987 and 1989 Mr. Nyoike was the Deputy Chief Economist and Head of Planning and Policy Analysis Division at the Ministry of Energy after which he moved to the Ministry of Finance, Department of Fiscal and Monetary Affairs as the Head of Economic Coordination Division.

Between 1991 and 1993 , Mr. Nyoike was posted back to the Ministry of Finance as the Chief Economist and Head of Economic Policy Unit after which he was seconded to the Ministry of Energy as the Chief Economist and coordinator of Energy Sector and Power Development Project co-financed by the World Bank and the European Investment Bank.

He is currently the Permanent Secretary, Ministry of Energy. Mr. Nyoike is a Director of the state corporations within the Ministry of Energy, namely Kenya Pipeline Company Limited, Kenya Electricity Generating Company Limited, National Oil Corporation of Kenya, Kenya Petroleum Refineries Limited, Ewaso Ngi'ro North Development Authority and Ewaso Ngi'ro South Development Authority.

COMMISSIONERS



Eng. Kaburu Mwirichia
Director General

Eng. Mwirichia was born in 1958. He joined the Energy Regulatory Commission (ERC) as Director General on 22nd August 2007, having previously served as a Board Member of the former Electricity Regulatory Board (ERB) from 2003. He holds a Bachelor of Science Degree in Mechanical Engineering from University of Nairobi and a Masters Degree in Business Administration from the United States International University (USIU).

Eng. Mwirichia worked with the Ministry of Water Development as Assistant Engineer in charge of plant maintenance at the Coast Province between 1982 and 1983 after which he joined General Motors East Africa (GMEA) as Production Engineer and remained with the company until July 2006. He rose through the ranks and eventually joined the Board of Directors of GMEA in the year 2000. When he left GM, he was the Director in charge of Engineering and Regional Integration.

He has also served as a Board Member of the Kenya Association of Manufacturers from 2001 to 2006. Eng. Mwirichia has attended numerous short courses both locally and abroad. He is a Registered Engineer (R. Eng.) and a member of the Institution of Engineers of Kenya (MIEK).

Mr. David Mutuku
Commissioner

Mr. David Mutinda Mutuku, born on 30th May 1960, holds a BSc. (Hons) Degree in Civil Engineering from the University of Nairobi. Mr. Mutuku has over 20 years experience in Design, Supervision of Road Construction under Equipment based, intensive Labor based and Roads 2000 strategies of Road Maintenance.

He has attended a Deloitte and Touché six months course on team building and training of trainers, a course at Kisii Training School on Labor based road maintenance, a training course in the Netherlands on road maintenance and site management. He has also attended a three months training program at the Eastern and Southern Africa Management Institute (ESAMI) covering the following modules: Team Building, Personnel Management, Financial Management Procurement and Maintenance Interventions.

Over a number of years he worked with the Ministry of Roads and Public Works before joining the private sector. Mr. Mutuku currently works with Sinoe Construction Limited as a Managing Director; a firm that he established.

COMMISSIONERS

Mr. Karanja Kabage
Commissioner

Mr. Karanja Kabage was born in 1949. He holds a Bachelor of Laws (LLB) and Master of Laws (LLM) degrees from the University of Nairobi; a Bachelor of Science (BSc) Degree and a Masters (MBA) Degree in Business Administration from the United States International University (USIU). He is a qualified Member of Chartered Institute of Arbitrators (MCIArb).

Between 1971 and 1982, Mr. Kabage worked for AIG as an Agency Manager. Immediately thereafter, he took up an appointment as Chairman and CEO of Pacific Insurance Brokers (EA) Ltd, where he worked from 1983 to 2004.

Mr. Kabage has served on boards of various organizations including First Ten Limited, First Reinsurance Brokers Limited, Pacific Insurance Brokers (EA) LTD, Communications Commission of Kenya, Federation of Kenya Employers (FKE) (2006- 2007), Kenya Private Sector Alliance (2007), Public Procurement Oversight Board (2006-2007), East African Business Council (2006- 2007), and the National Social Security Fund (2006- 2007). He is currently a member of the NEPAD National Steering Committee and a Partner with Ekuru Kabage Nyamwathwe & Co. Advocates.

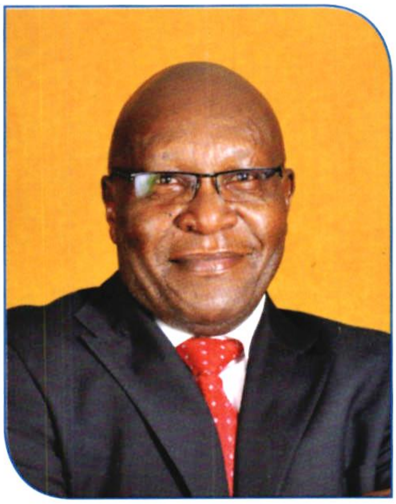
Mr. Kabage also holds several professional memberships; he is a member of the Law Society of Kenya, East African Law Society, International Bar Association (IBA), and Commonwealth Laws Association (CLA).

Mr. Acquilino Thilange
Commissioner

Mr. Thilange was born in 1970. He holds a Bachelor of Technology in Chemical and Process Engineering from Moi University and a Masters' Degree in Business Administration and Strategic Management from JKUAT University.

Between 1997 and 1998, Mr. Thilange worked with Cosmos Pharmaceutical Ltd as a production supervisor. Mr. Thilange has worked at various capacities at GlaxoSmithKline between the years 1998 to date. He worked as the Process and Products Development Technologist at SmithKline Beecham Healthcare from 1998 to 2001. In March 2001, he was promoted to Technical Services Manager where he worked until 2007 (By then SmithKline Beecham had already Merged with GlaxoWellcome to form GlaxoSmithKline). In 2007, he was appointed Head of Quality and Compliance at GlaxoSmithKline a position he holds currently. Mr. Thilange is also a member of Board of Trustee for GSK employees' pension scheme.

COMMISSIONERS

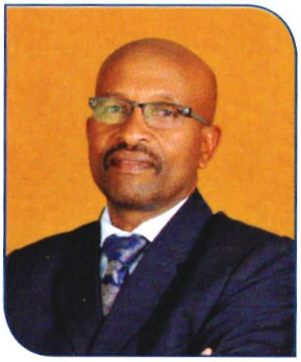


Mr. Mwangi Kariuki
Commissioner

Mr. Mwangi Kariuki, born on 1st January 1955, holds a Bachelor of Law Second class Honors (Upper Division from the University of Nairobi), which he obtained in 1978 and was admitted as an advocate of the High Court of Kenya in 1979. He further obtained a Council of Legal Education certificate from the Kenya School of Law in 1979.

Mr. Kariuki worked for Archer Wilcock Advocate and Awori & Company Advocates Law firms and also as a Legal Assistant, at the Public Trustee Department of the Attorney General's office from 1979 to 1980. Between 1980 and 1982, Mr. Kariuki worked as a Legal Officer at the Barclays Bank Trust Company Limited of Kenya. He later left and joined the Insurance Company of East Africa Limited as a Legal Officer from 1982 to 1987. Mr. Kariuki currently runs a private Legal practice, Mwangi Kariuki and Company Advocates.

Senior Management



Eng. Kaburu Mwirichia
Director General

Ms. Mueni Mutung'a
Commission Secretary

Dr. Frederick Nyang
Director, Economic Regulation

Eng. Linus Gitonga
Director, Petroleum Regulation

Eng. Joseph Nganga
Director, Electricity

Mr. Bernard Osawa
Director of Renewable Energy

Antoinette B. Kamau (Mrs.)
Snr. Manager, Comm. & Public Affairs

Mr. Felix Chelimo
Procurement Manager

Mr. James Kilonzo
Snr. Mgr, Finance and Strategic Planning

Ms. Elizabeth Njau
Snr. Manager, HR and Administration

ENERGY REGULATORY COMMISSION

INFORMATION

Established: Under the Energy Act, No. 12 of 2006

Commissioners:

The Commissioners who served during the year and to date of this report are:-

1.	Eng. Emma Kiilu (Mrs.)	-	Chairperson, Appointed chairperson on November 16th, 2011
2.	Mr. Hindpal Singh Jabbal	-	Chairman Retired on 22nd July 2011
3.	Eng. Kaburu Mwirichia	-	Director General
4.	Mr. Patrick M. Nyoike	-	Permanent Secretary, Ministry of Energy
5.	Eng. Raphael M. Khazenzi	-	Alternate to the PS,
6.	Mr. David M. Mutuku	-	Commissioner
7.	Mr. Mwangi Kariuki	-	Commissioner
8.	Mr. Acquilino Thilange	-	Commissioner, Retired April 2nd, 2012
9.	Mr. Karanja Kabage	-	Commissioner, Retired April 2nd, 2012
10.	Dr. Keren Kaberere	-	Commissioner, Appointed February, 1st, 2012
11.	Ms. Nassra Abdirahman Haji	-	Commissioner, Appointed April 20th, 2012
12.	Mr. Stanley Ngaine	-	Commissioner, Appointed April 20th, 2012

Principal Officers

13.	Eng. Kaburu Mwirichia	-	Director General
14.	Ms. Mueni Mutung'a	-	Commission Secretary
15.	Eng. Linus Gitonga	-	Director Petroleum
16.	Eng. Joseph Nganga	-	Director Electricity
17.	Mr. Pavel Oimeke	-	Director Renewable Energy
18.	Dr. Frederick Nyang	-	Director Economic Regulation
19.	Ms. Elizabeth Njau	-	Senior Manager, Human Resource & Administration
20.	Mr. James Kilonzo	-	Senior Manager, Finance and Strategic Planning
21.	Mrs. Antoinette Kamau	-	Senior Manager, Comm. & Public Affairs
22.	Mr. Felix Chelimo	-	Procurement Manager
23.	Rosalind Murithi	-	Internal Auditor

By order of the Commission

Mueni Mutung'a
Commission Secretary

Principal Place of Business

Eagle Africa Centre,
Longonot Road,
Upperhill,
P.O. Box 42681-00100
NAIROBI

Bankers

Kenya Commercial Bank Ltd.
Moi Avenue Branch
P.O Box 48400 – 00100
NAIROBI

National Bank of Kenya Ltd.
Harambee Avenue Branch
P. O. Box 41862 - 00100
NAIROBI

Legal Advisors

Humphrey and Company Advocates
Lonrho House
12th Floor, Standard Street
P.O. Box 21398 – 00100 GPO
NAIROBI

Auditors

Auditor-General
Kenya National Audit Office
Anniversary Towers, University Way
P.O Box 30084 – 00100
NAIROBI

CORPORATE GOVERNANCE STATEMENT

Introduction

Corporate governance is the process by which companies are directed and controlled. The concept of corporate governance has gained prominence and enshrined in codes of best practice developed by Organization for Economic Co-operation and Development (OECD), Commonwealth Association of Corporate Governance (CACG) and the Centre for Corporate Governance in Kenya.

The Commissioners recognize the need to conduct the business and operations of the ERC with integrity and in accordance with generally accepted corporate governance practice and endorse internationally developed principles of corporate governance. The Commissioners will continue to focus their attention on maintaining the highest standards of corporate governance and business ethics in the ERC's operations.

Commissioners

The Commission is chaired by a Non-Executive Chairperson (Eng. Emma Kiilu – appointed chairperson on November 16, 2011) by the President of the Republic of Kenya. All Commissioners have extensive business and administrative experience in private and/or public sectors that is applied in the management of the ERC. Commissioners' allowances, honoraria and related transactions are disclosed in note 4 to these financial statements. Commission meetings are held regularly to review the ERC's performance against set targets and business plans as well as to formulate and implement strategy. Various committees whose chair-persons report to the Commission supplement the functions of the Commission.

Commission Finance and Administration Committee

The Commission Finance and Administration Committee are chaired by a Non Executive Commissioner and meets at least on quarterly basis. The members are Mr. Mwangi Kariuki, Mr. Stanley Ngaine, and Eng. Kaburu Mwirichia. The Committee's responsibilities are ensuring overall sound financial reporting, internal system of controls, business plans and budgets, procurement, and ICT, Public Relations, administration and staff affairs.

Commission Audit Committee

The Audit Committee is chaired by a non executive Commissioner and the members who are non-executive Commissioners. The members are M/s Nassra Haji, Mr. Kenneth Akide, and Dr. Keren Kaberere. The responsibilities of the committee are to review the financial information of the Commission, monitoring the effectiveness of management information and internal control systems, deliberate on significant findings arising from both internal and external audits, and review the overall risks facing the Commission.

Commission Technical Committee

The Technical Committee is chaired by a Non Executive Commissioner and meets at least on quarterly basis. The members are, Dr. Keren Kaberere, Mr. Martin Heya, Mr. Kenneth Akide, Ms Nassra Haji and Eng. Kaburu Mwirichia. The committee's responsibilities are to provide technical strategic direction of ERC and approve technical plans, activities, reports and budgets.

Delegation of Responsibilities

The preparation of ERC's financial statements is a role that has been delegated to management. These financial statements have been prepared in accordance with internationally accepted accounting practice based on appropriate accounting policies which have been consistently applied and supported by reasonable judgment and estimates.

Management ensures that adequate internal financial control systems are developed to provide reasonable certainty in respect of:

- The completeness and accuracy of accounting records
- The integrity and reliability of the ERC's annual financial statements and
- The safeguarding of the ERC's assets

The responsibility for the integrity, reliability and objectivity of the ERC's financial statement lies with the Commissioners.

The external auditors are responsible for independently examining and expressing an opinion on the reasonableness of the financial statements based on their audit.

QUALITY POLICY

The Energy Regulatory Commission is committed to providing high quality regulatory services that comply with international standards, statutory requirements, the needs and expectations of its stakeholders as well as the Quality Management Systems as set out in ISO 9001:2008.

Customer Focus

We are a customer driven organization that views every customer contact as an opportunity to add value and enhance our relationship.

We listen to our customers, learn and understand their needs thereby enabling us to anticipate and pro-actively offer attractive solutions.

We continuously strive to offer the best services for our customers.

Communication

We offer open, honest and constructive communication throughout the organization by supporting healthy debate and personal participation on issues affecting our business.

We communicate with our customers in a fresh and informative way.

Service

We optimize the use of relevant technology to deliver attractive customer solutions, increase efficiency and minimize cost base.

We offer reliable service delivery channels that provide a comfortable, secure and user-friendly environment for both customers and employees alike. We constantly seek ways to improve the delivery of service to our customers.

Chairperson's Report

On behalf of the Commissioners, I am pleased to present to you the Commission's annual report for the year ended 30th June 2012. This past financial year the country has experienced an unmatched surge in the cost of energy. There was a rise in the price of crude oil as a result of the immense political instability and insurgencies experienced in most parts of the Middle East together with other domestic factors have resulted in the increase in prices. Therefore there has been tumbling effects of the rising energy costs which has had an impact on all sectors of the economy including: agriculture, transport, the cost of production, industries and increased inflation.

The Commission is also looking into having better plans for the future that will encompass the attainment of Vision 2030. This will be embodied in the 2012-2017 strategic plan which will acknowledge the provisions of Kenya's new constitution. In the near future, the policy and legislative framework for the energy sector will be reviewed in order to ensure conformity with the new constitution.

There is also a need for alternative sources of energy, and more efficient use of available energy. As the sole energy regulator, the Commission is redoubling its effort to fulfill its mandate. ERC is coming up with plans and actions geared towards controlling the rise in energy prices and continue to restore public confidence.

To this end we have in place a thoroughly crafted Strategic Plan and more focused Communication Strategies. The Strategic Plan is a product of broad-based consultations with both internal and external stakeholders within the energy sector.

The Commission continues to engage its various stakeholders, in a bid to discharge its function as it is in line with our core value, of transparency.

Finally, I would like to extend my earnest gratitude to the Government of Kenya, our stakeholders and the general public for the unwavering support we have enjoyed in the past year. I also wish to recognize the dedicated service and commitment of my Commission colleagues and the Commission staff.

Eng. Emma Kiilu
Chairperson

Director General's Report

During the year under review, the Energy sector continued to contribute significantly to Kenya's national development. We have remained firmly focused on our strategies and mandate to regulate the energy sector within the scope of the legal framework. Indeed the energy sector is robust with the new regulations and we hope to safeguard the interests of various stakeholders while maintaining integrity in our work.

In the year under review, the Commission collected Ksh.123million from the Petroleum Levy compared to Ksh.134 million of the previous year, a decrease of 8%. On the other hand, the Electricity Levy increased by 6% from Ksh.173 million in 2010/11 to Ksh.183 million in 2011/12.

The Government transfers increased by 1,267% from Ksh.3million in 2010/11 to Ksh.38 million in 2011/12. In total, revenue went up by 11% from Ksh.320million in 2010/11 to Ksh.355 Million in 2011/12. The total recurrent expenditure increased by 29% from Ksh.319 million in 2010/11 to Ksh.413 million.

The Commission's total asset base reduced by 21% from Ksh.405 million in the previous period to Ksh.318 million in 2011/12. The Non-current assets went down by 3% to Ksh.159 million down from Ksh.164 million due to normal depreciation. Current assets went down by 44% to Ksh.103 million from Ksh.185 million due realization of a deficit in the current financial year.

The current liabilities decreased by 20% to Ksh.124 million down from Ksh.155 million in the 2010/11 mainly due to settlement of contracted capital projects of KES 80M transfer to Treasury and a 76% increase in trade payables. Further, accumulated reserves decreased by 30% to Ksh.131 million down from KES 188 million in the previous year due to a deficit of Ksh.57 million realized in 2011/12.

In order to realize the aspirations of the Vision 2030, the Commission is currently implementing the strategic plan to regulate better and enhance efficiency in the energy sector. The Commission will continue to be alert to emerging issues and where appropriate, revise the strategic priorities in line with the evolving conditions.

All these activities would not have been realized without the commitment of ERC Board of Commissioners and enthusiasm of the entire staff. I therefore wish to express my solemn thanks to the whole team that worked industriously to achieve the accomplishments emphasized in this report. We look forward to a more fruitful financial year.

Eng. Kaburu Mwirichia
Director General

CHAPTER 1

STATUS OF THE INDUSTRY

1.1 Economy

Kenya experienced an improved economic growth rate of 4.6 % in the year 2012 compared to the 4.4% growth in the previous year. This was so, despite a number of economic challenges that saw the currency weakened at the beginning of the year and the euro zone crisis which had an impact on the global economy. The improved performance was attributed to a stable macroeconomic environment with an increase in domestic demand. This was a result of the growth in credit agriculture and the construction sector. The agricultural sector grew by 3.8% in 2012 compared to 1.5% in 2011 while the construction sector grew by 4.8% in 2012 compared to 4.3% in 2011. Similarly, other sectors experiencing increased growth albeit slowed were wholesale and retail trade at 6.4%, transport and communication at 4.0%, manufacturing at 3.1% and financial intermediation at 4.8%.

Conversely, the energy sector, which comprises of electricity, petroleum and renewable energy experienced a decline in its per capita consumption by 5.7% from 112.9 kgoe in 2011 to 106.5 kgoe in 2012. This was attributed to a decline in the consumption of energy from wood fuel which is extensively used in rural parts of Kenya and a decline in the consumption of commercial energy sources.

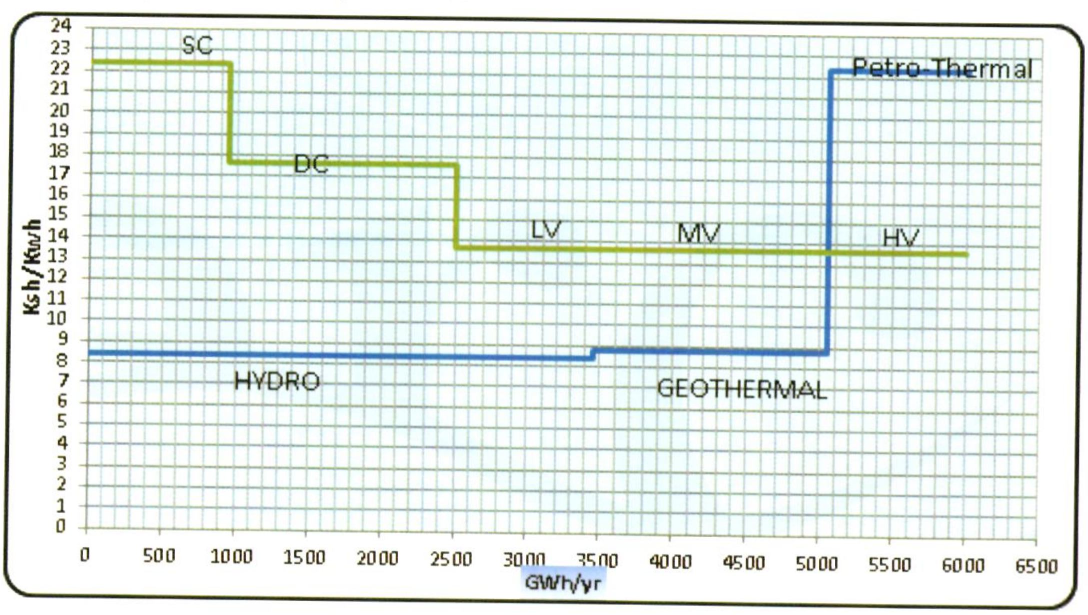
1.2 Market

1.2.1 The Electricity Subsector

The demand for electric power continued to rise significantly over the last five years driven by a combination of normal growth, increased connections in urban and rural areas as well as the country's envisaged transformation into a newly industrialized country as articulated in Vision 2030. However, the power market remained unbalanced with this demand not fully met by supply. This is mostly due to system constraints and weather challenges. The peak demand rose from 1,194MW in 2010/11 to 1,231MW 2011/12. The supply of electricity had a 5% increase from

7,303GWh in 2010/11 to 7,670GWh in 2011/12. The recorded total consumption also demonstrated a significant increase, recording a total of 5,991GWh compared to 5,785GWh in 2010/2011. The total domestic demand for electricity registered a growth of 2.2% from 6,273.6 million kWh in 2011 to 6,414.4 million kWh in 2012.

Figure 1: *Electricity Supply and Demand in Kenya in 2011/12*



Source: Energy Regulatory Commission

The number of customers connected to the national grid increased by 19.8% from 1,463,639 in 2010 to 1,655,994 in 2011. This marks the highest percentage increase in customer connection since 2005 and reflects the accelerated efforts in electricity consumption during the period. The increase in consumption is accounted for largely by domestic customers. See Table 1 below.

The sales of the industrial/commercial customer category increased marginally, from 3,401GWh in the year 2010/2011 to 3,153GWh in the year 2009/2010 representing 3.17% increase. In terms of customers in this category, there was a 4.2% marginal increase in connections from 2,728 customers in 2009/10 to 2,844 customers in 2010/11. The number of customers connected under the Rural Electrification Programme rose by 23.7 % from 309,287 customers in 2010/11 to 382,631 customers in 2011/12. Table 2, depicts Kenya Power and Lighting Company (KPLC) sales by customer type which have been dominated by industrial/commercial and domestic consumers who consumed 3,419GWh and 1,520GWh respectively in 2011/12. The total sales increased by 3.6% compared to 8.8% in the previous year. The consumption sales of other categories which comprises of Small Consumers (SC), Interruptible Supply (IT) and Street Lighting (SL) remained almost constant.

Table 1: *KPLC Sales in GWh by Customer Category*

Tariff	Customer	2008/09	2009/10	2010/11	2011/12
DC	Domestic	1,254	1,290	1,424	1,520
SC	Small Commercial	823	823	904	993
CI	Commercial and Industrial	3,020	3,153	3,401	3,419
IT	Off-Peak	43	36	38	43
SL	Street Lighting	15	16	18	16
	Total	**5,155**	**5,318**	**5,785**	**5,991**
	% Increase p.a.	**2.4%**	**3.2%**	**8.8%**	**3.6%**

Source: KPLC, 2012

The largest power generator in the country is Kenya Electricity Generating Company (KenGen) which accounted for 72% of the industry's effective generation capacity by 2011/12. The Independent Power Producers (IPPs) accounted for 21% while Emergency Power Producers accounted for 7% in the same period. Isolated grid generation accounted for less than 0.6% under the Rural Electrification Programme (REP). This generation mix comprises of 48% hydro, 36% fossil fuels, 14% geothermal, 2% bagasse (cogeneration) and 0.3% wind. However, generation from hydro sources decreased as a result of poor hydrology hence the increased dependence on expensive fossil fuel generation. Kenya's current effective installed (grid connected) electricity capacity is 1,628 MW as depicted in table 2 below.

Table 2: *Installed Capacity of Nominal and Effective Power Generation*

Ownership	Source	Installed capacity as at 30.06.2012		Installed capacity as at 30.06.2011	
		Nominal (MW)	Effective (MW)	Nominal (MW)	Effective (MW)
KenGen	Hydro	788.0	770.0	763.0	735.0
	Petrol-Thermal-EPPs	120.0	120.0	60.0	60.0
	Petro-thermal	259.0	236.0	259.0	182.0
	Geothermal	157.0	150.0	150.0	143.0
	Wind	5.3	5.1	5.3	5.1
IPPs	Petrol-thermal	272.5	272.5	272.5	272.5
	Geothermal	52.0	48.0	48.0	48.0
	Bagasse Cogeneration	26.0	26.0	26.0	26.0
	Small hydro	0.3	0.3	0.3	0.3
Imports	UETCL	-	-	-	-
	TANESCO	-	-	-	-
Rural Electrification Programme	Petro-thermal	10.1	8.5	9.1	7.8
	Totals	**1,691**	**1,636**	**1,593.3**	**1,479.7**

Source: Energy Regulatory Commission

1.2.2 The Electricity Subsector Infrastructure

As at 2011/12 Kenya had an installed electricity generation capacity of 1,697 MW comprising of hydro (808MW), thermal (531.4MW), geothermal (205.8MW), wind (5.1MW), cogeneration (26MW) and emergency power (120MW). The country's electric power supply sub-sector structure constitutes that of the single buyer model with all generators selling power in bulk to Kenya Power and Lighting Company (KPLC) for dispatch and onward transmission and distribution to consumers. Currently, the transmission network is shared between the Kenya Power and Lighting Company Limited (KPLC) and the Kenya Electricity Transmission Company (KETRACO).

The total transmission network (220kV and 132kV) stood at 3,674Kms by 2010/11 of which 286 Kms (all at 132 kV) were under Kenya Electricity Transmission Company (KETRACO) while the rest were under Kenya Power and Lighting Company (KPLC). The entire distribution network in the country is under Kenya Power and Lighting Company (KPLC) and as at 2010/11 stood at 42,176 Kms. The distribution network consists of 66 kV feeder lines around Nairobi and 33kV and 11 kV medium-voltage lines distributed throughout the country. The growth in the transmission and distribution network was 5.4% between 2010/11 and 2011/12

Table 3: *Grid Network: Transmission Circuit Network (Kms)*

Voltage (KV)	2010/11	2011/12	Growth
220	1,331	1,331	0.00%
132	2,343	2,343	0.00%
66	655	758	15.73%
40	0	0	0.00%
33	15,271	15,384	0.74%
11	26,250	27,219	3.69%
Total	**45,850**	**47,035**	**2.58%**

Source: Energy Regulatory Commission

The existing transmission network lengths stands at 1,331 Kms of 220kV and 2,343 Kms of 132kV while the distribution network stands at 655 Kms of 66kV, 15,271 Kms of 33kV, and 26,250 Kms of 11kV lines respectively.

The VOK transmission of the sub-station capacity expanded from 2,841 MVA in 2010/11 to 2,954 MVA in 2011/12. On the other hand, distribution sub-station capacity increased from 1,440MVA to 2,241MVA during the same period. The distribution transformer's capacity significantly increased by 27% from 3,081MVA to 4,688MVA.

1.2.3 The Petroleum Subsector

The demand for petroleum increased in the power generation market due to insufficient rains, which limited hydropower generation. The total domestic demand for petroleum products increased by 2% from 3,765.7 tonnes in 2010 to 3,857.9 tonnes in 2011. Similarly, imports of crude petroleum increased from 1,551.5 thousand tonnes in 2010 to 1,772.1 thousand tonnes in 2011 while imports of finished petroleum products increased from 2,071.9 tonnes in 2010 to 2,235.6 tonnes in 2011. The demand for Light diesel (AGO) decreased from 1,517.3 in 2010 to 1,461.8 in 2011. The demand for motor spirit and illuminating kerosene declined while demand of Liquefied petroleum gas, Aviation spirit and Jet/turbo fuel increased. The Commission regulates only four of the indicated fuels i.e. Premium Motor Spirit, Regular Motor Spirit, Light Diesel, and Illuminating Kerosene.

There have been significant challenges ranging from infrastructural constraints to unpredictable volatilities in the price of crude at the international market and exchange rate fluctuations. At the Macro level, the country's total import bill of petroleum products dropped by 3.2% from Ksh.337.7 billion in 2010 to Ksh.326.9 billion in 2011. Table 4 below provides details on demand and supply of petroleum products in Kenya.

Table 4: *Petroleum Supply and Demand. 2008-2012*

Demand	2007/8	2008/9	2009/10	2010/11	2011/12
Liquefied Petroleum Gas	84.4	74.6	87.8	91.6	93.60
Motor Spirit(Premium and Regular	381.3	461.7	597.2	562.1	618.50
Aviation Spirit	2.5	1.4	2.5	2.8	1.80
Jet/turbo fuel	559.2	570.9	539.6	670.6	671.00
Illuminating Kerosene	244.7	332.8	316.0	269.6	309.00
Light Diesel Oil	1,141.1	1,416.1	1,517.3	1,461.8	1,486.30

Heavy Diesel Oil	30.0	23.9	25.0	27.6	20.80
Fuel Oil	690.0	729.4	680.3	771.8	437.0
Total	**3,133.2**	**3,610.8**	**3,765.7**	**3,857.9**	**3,638.0**
Refinery Usage	91.3	92.4	101.4	83.7	48.0
Total Domestic Demand	**3,224.5**	**3,703.2**	**3,867.1**	**3,941.6**	**3,686.0**
Export of petroleum fuels	19.2	20.7	29.4	32.1	11.7
Total Demand	**3,243.7**	**3,723.9**	**3,896.5**	**3,973.7**	**3,697.7**
Supply					
Imports					
Crude oil	1,687.7	1,610.1	1,551.5	1,772.1	997.0
Petroleum fuels	1,740.5	2,259.0	2,071.9	2,235.6	2,803.4
Total	3,392.2	3,869.1	3,623.4	4,007.7	3,800.4
Adjustment	-148.5	-145.2	273.1	-34.0	-102.7
Total Supply	**3,243.7**	**3,723.9**	**3,896.5**	**3,973.7**	**3,697.7**

1.2.4 Petroleum Subsector Infrastructure

There is envisioned growth in the petroleum subsector infrastructure even as the economy grows. In order to promote the export market and requisite licensing, the sector received a boost with the commissioning of "Line 4" to Western Kenya. The 14 inch diameter and 325 Kms long pipeline which is under Kenya Pipeline Company (KPC) runs from Pump Station 10 (Nairobi depot) to Pump Station 27 (Eldoret depot) and will increase product availability at Eldoret KPC terminal thereby alleviating supply shortages to the export market.

Moreover, additional petroleum storage facilities were built to boost the current infrastructure: first was the VTTI receiving, storage and loading terminal in Mombasa with a total capacity of 110,000 M3 for Automotive Gasoil. This terminal was licensed by the Commission in June 2012. The other facility is the common user receipt, storage and loading of Liquefied Petroleum Gas (LPG) terminal at Miritini Mombasa which is also nearing completion. This terminal when complete will have a total storage capacity of 14,000 metric tons of LPG and will greatly reduce freight and demurrage costs currently associated with LPG handling.

At present the petroleum sub-sector is comprised of four Jetties (three normal grade and crude jetties and one PG jetty), one refinery, one Pipeline Company, 54 Petroleum Marketing Companies, 103 Petroleum Wholesalers, 24 Bulk Fuel Depots, 22 LPG Marketing Companies (Members of LPG Exchange Pool), 33 LPG wholesalers, 29 LPG transporters, 19 Bulk LPG Facilities and 1383 Petroleum Retail Outlets. The Kenya Pipeline Company (KPC) network is 896 KM consisting of: "Line 1" from Mombasa to Nairobi which is 450 km, 880 m3 /hr, "Line 2" from Nairobi to Eldoret which is 325 km, 220 m3 /hr, "Line 3" from Sinendet to Kisumu- 121 km, 220 m3 /hr, "Line 4" from Nairobi to Eldoret - 325 km, 330 m3 /hr and 24 pump stations respectively. In terms of storage, this consists of 612,332 (M3).

Table 5: *Petroleum Storage Capacity*

Facility	Storage capacity (m^3)	Remarks
Kipevu Oil Storage Facility (KOSF)	326,961	Owned by Ministry of Energy
Moi International Airport (MIA)	7,349	
Nairobi	100,580	
Embakasi	54,055	Aviation
Nakuru	30,533	Includes truck loading facility
Eldoret	47,766	Includes truck loading facility
Kisumu	45,068	Includes truck loading facility
Total	**612,332**	

Source: Energy Regulatory Commission

Table 6: *The Kenya Pipeline Network*

Line	Location	Length (Km)
Line 1	Mombasa - Nairobi	450
Line 2	Nairobi - Eldoret	325
Line 3	Sinedet - Kisumu	121
Line 4	Nairobi - Eldoret	325

Source: KPC

1.2.5 Renewable Energy Subsector

Kenya has an abundance of renewable energy sources (RES) which include wind, biomass, and small hydro's, geothermal, biogas, solar and municipal waste energy. The RES have potential to generate income and employment, over and above contributing to the electricity supply and diversification of generation sources. The National Energy Policy, Sessional Paper No.4 of 2004, and the Energy Act No. 12 of 2006, encourages utilization of these indigenous renewable energy sources to enhance the country's electricity supply capacity.

In the financial year 2011/12, the Government of Kenya developed a draft National Bio-energy Policy and Strategy and Kenya's Investment Plan (IP) for the Scaling-Up Renewable Energy (SREP) Program. The Bio-energy Policy and Strategy is yet to be adopted while the SREP program is at various stages of implementation. Additionally, the government initiated the second revision of the Feed in Tariffs (FIT) Policy, which has been in place since 2008, to make it more attractive to Renewable Energy investors.

1.2.6 Renewable Energy Resource Potential

Kenya has a significant renewable resource potential for power generation and grid supply. Biomass is the main source of primary energy. In rural areas, with consumers using wood, agricultural residues and other bio-energy sources for up to 90% of their energy consumption and many remain wholly dependent on such sources. This has resulted in the continuous clearing of the country's forests and woodlands.

Importance of biomass energy is not adequately reflected in national energy policies. Furthermore, efforts to promote clean and efficient cook stoves which started in the country back in the 1980s have not significantly penetrated to the rural populations where traditional three stones cook stoves are still dominant with all its disadvantages such as indoor air pollution and environmental degradation.

The challenge of energy security and sustainability around the world today calls for concerted efforts at all levels (national, regional and international) with a view of identifying and developing alternative options for energy supply. The fast depletion of fossil fuels, coupled with the increasing awareness of environmental issues, concern for increasing greenhouse gas emissions and escalating petroleum prices, have led to concerted efforts in the search for renewable and environmentally friendly alternative.

Some RES currently being exploited include large hydropower (more than 750 MW installed) and large geothermal projects (almost 200 MW installed) as of 30 June 2011. However, small-scale (≤10 MW) projects contribute less than 3%.

Table 7: *Installed Capacity of Main Grid-Connected Renewables (MW), 2005-2011*

TYPE	2005	2006	2007	2008	2009	2010	2011
Large hydro(>10MW)	663.3	663.3	663.3	723.3	735.3	764.6	763.3
Small Hydro<10MW)	13.7	13.7	13.7	13.7	13.7	14	14
Geothermal	128	128	128	128	163	198	198
Wind	0.4	0.4	0.4	0.4	0.4	5.1	5.1
Biomass	0	2	2	26	26	26	26
Solar	0	0	0	0	0	0	0.6
Sub-Total Renewable	805.4	807.4	807.4	891.4	938.4	1007.7	1007
Thermal	447	358.5	378.5	428.8	429	467.1	582.6
Total	1252.4	1165.9	1185.9	1320.2	1367.4	1474.8	1589.6
% Renewable	64.30%	69.30%	68.10%	67.50%	68.60%	68.30%	63.30%
%Small-Scale RE (<10MW)	1.10%	1.40%	1.40%	3.00%	2.90%	3.10%	2.90%

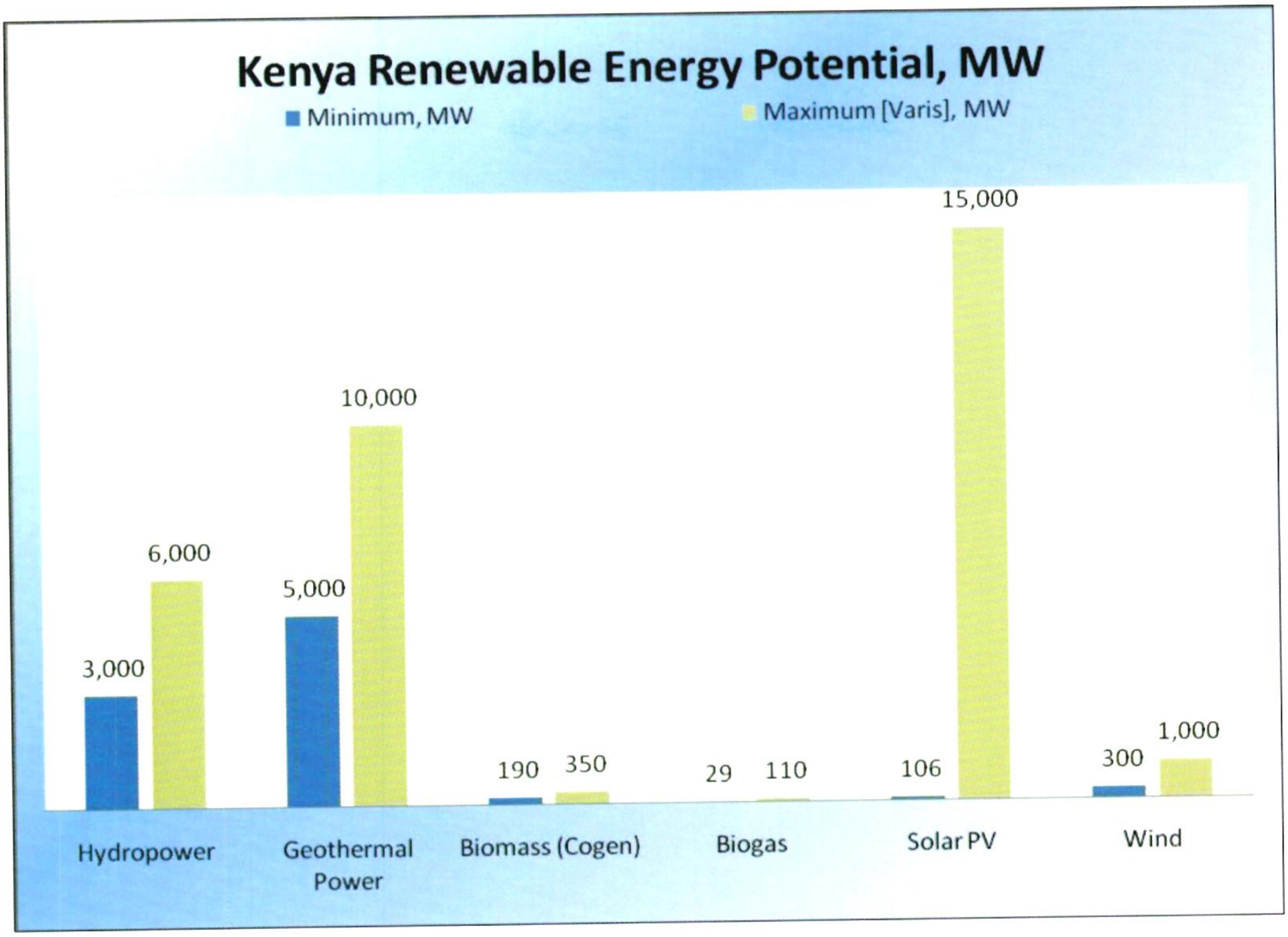
Source: ECA Renewable Energy Resource Potential in Kenya, July 2012

Table 8: *Renewable Energy Sources Potential as at June 2012*

Source	Minimum, MW	Maximum, MW
Hydropower	3,000	6,000
Geothermal Power	5,000	10,000
Biomass (Cogen)	190	350
Biogas	29	110
Solar PV	106	15,000
Wind	300	1,000
Total	8,625	32,460

Source: Energy Regulatory Commission

Figure 2: *Kenya Renewable Energies Potential*



Source: LCPDP & ECA Renewable Energy Resource Potential in Kenya, July 2012

1.2.7 Other Renewable Energy & Energy Efficiency Developments

The Commission has developed draft Solar Photovoltaic Systems and Solar Water Heating Regulations to streamline and promote utilization of solar energy. The regulations will also create an avenue for development of the required human resource capital to support the solar industry in Kenya. Additionally, the Commission has developed draft Energy Management Regulations to enhance and promote energy efficiency and conservation measures in Kenya. The regulations aim to create a framework for licensing of energy auditors and energy audit firms in addition to creating a regulatory requirement for designated energy users to conduct periodic energy audits.

CHAPTER 2:

LICENSING

2.1 Electricity Subsector

2.1.1 Generation and Transmission

Licensing of generation and transmission facilities was undertaken to comply with the Energy Act 2006, which mandates the Commission to process applications for licences and permits for generation and for transmission of electric power. During the period under review, the following generation licences were issued as shown in Table 9 and Figure 3 below.

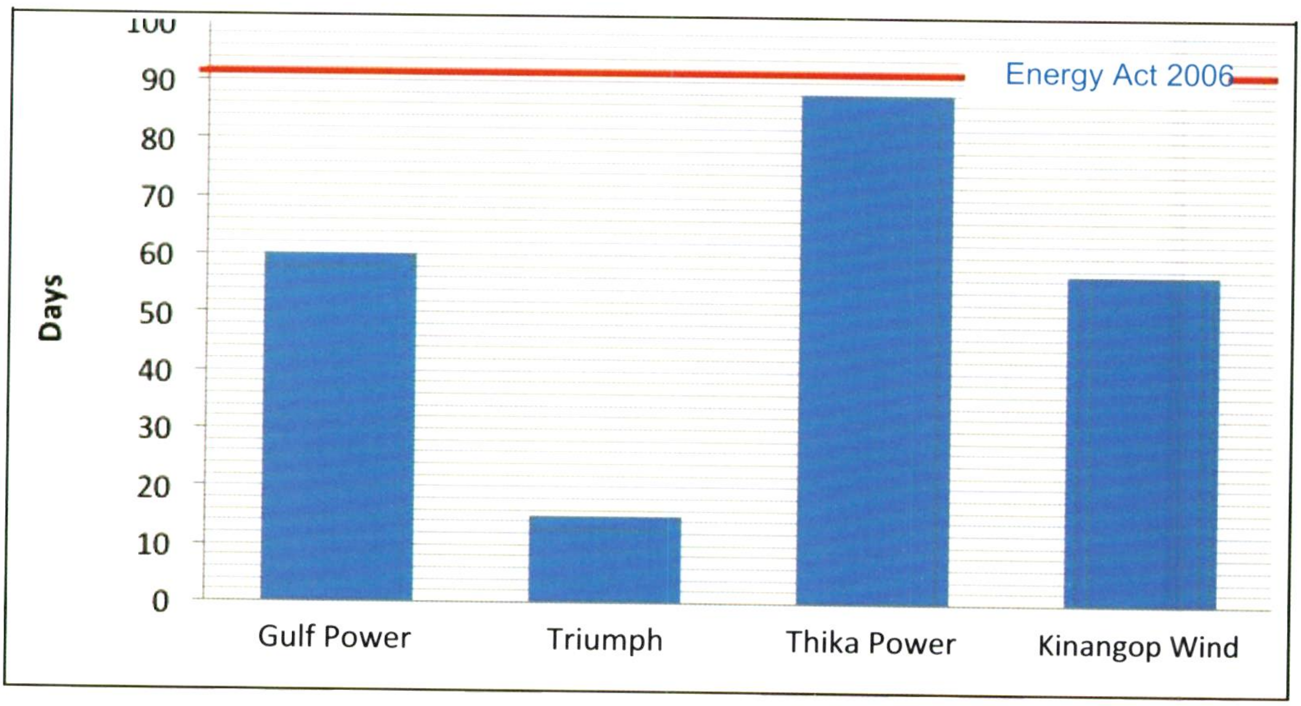
Table 9: *Electric Power Generation Licences and Permits Issued*

Licensee	Technology	Location	Capacity (MW)	Effective Date	Process days
Gulfpower Ltd	Thermal	Athi River	80	14 Sept. 2011	60
Triumph	Thermal	Athi River	83	14 Sept. 2011	15
Thika Power	MSD	Mang'u Area	87	9 Feb. 2012	88
Kinangop Wind	Wind	Kinangop	61	9 Feb. 2012	57

Source: Energy Regulatory Commission

In addition, power generation licence applications from Kwale International Sugar Co Ltd, Sidonge 'A' SHG and Power Technology Solutions were under review. The Commission also received an application of a transmission license from Kenya Transmission Company (KETRACO) which was also under review.

Figure 3: *Days Taken to Process Licences, 2011/2012*



Source: Energy Regulatory Commission

2.1.2 Licensing of Contractors and Electricians

Licensing contractors and electricians was undertaken pursuant to Section 38(4) of the Energy Act 2006. A total of 1,046 applications for electrician licences were received out of which 519 applications (49.6%) were successful after the interviews while 527; (50.4%) were unsuccessful. A total of 158 companies submitted applications to be granted electrical contractor licences. Out of these 103; (65%) were successful while 55; (35%) were not.

2.2 Petroleum Subsector

The Commission licensed petroleum importers, exporters, transporters, refineries and storage facilities. However the licensing of transporters, is subject to a standard by Kenya Bureau of Standards (KEBS) on petroleum tankers design and construction (KS: 2180 of 2010) which specifies the minimum design considerations that a petroleum tanker should have. The objective of this standard is to reduce as much as possible the risks associated with petroleum bulk transportation.

The licensing of refineries is currently subject to Legal Notice No. 24 which was an amendment by Legal Notice No. 197 of 2003. The notice elaborates the transition of the Kenya Petroleum Refineries Limited (KPRL) from tolling to merchant mode of operation. The operation will result in the refinery purchasing crude oil on their account and hence absorbing all expenses and financial inefficiencies associated with crude processing. However, since the refinery is not yet upgraded and will require funds to do so, Oil Marketing companies shall in the short run be obligated to purchase refined products from the refinery.

2.2.1 Importers and Exporters, and Storage facilities licenses

The Commission received a total of 509 applications out of which 307 were approved and licenses issued. A total of 202 were rejected due to non compliance with the stated requirements for licensing. A summary of the licences applied for and the outcome is listed in table 10 below.

Table 10: *Types of Licences Received and Processed*

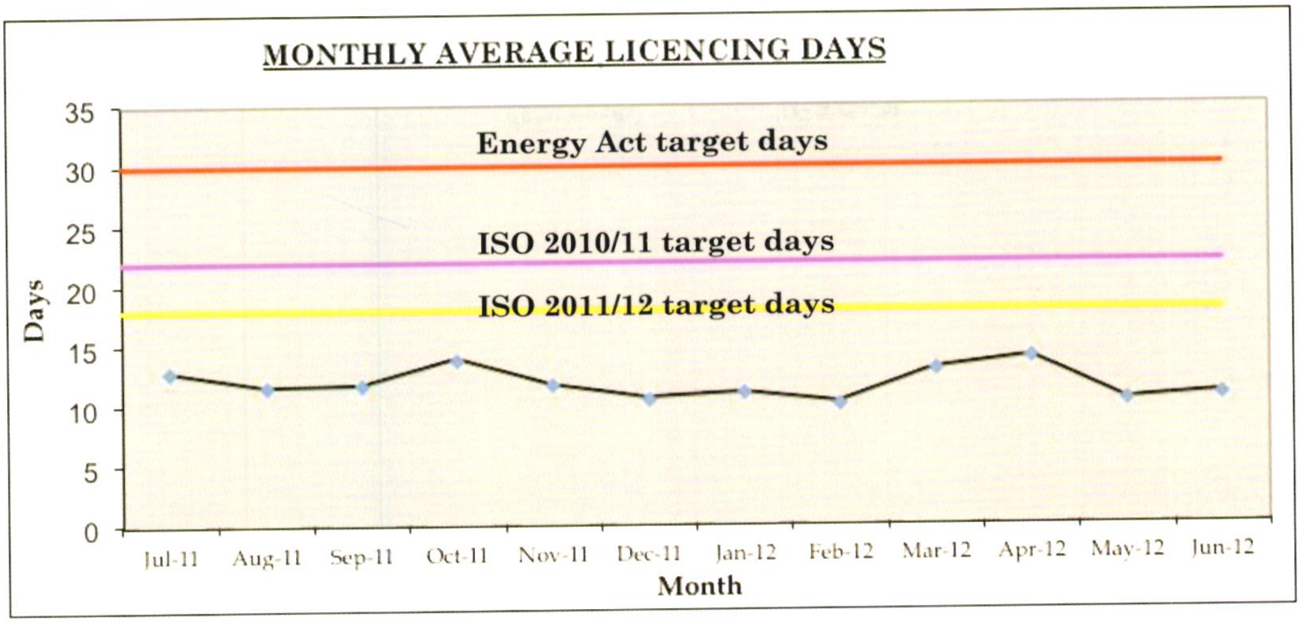
	Type of Licence	Received	
1	Blending, Export and Wholesale of Petroleum Products (Except LPG)	2	1
2	Bunkering of Petroleum Products (Except LPG)	2	2
3	Import, Export and Wholesale of Petroleum Products (Except LPG)	83	49
4	Import for Export (Transit) of Petroleum Products (Except LPG)	13	8
5	Import, Export, Storage, Filling and Wholesale of Petroleum Products (Except LPG)	10	5
6	Import, Export and Wholesale of Liquefied Petroleum Gas (LPG) in Bulk and Cylinders	10	5
7	Import, Export, Storage, Filling and Wholesale of Liquefied Petroleum Gas (LPG) in Bulk and Cylinders	13	6
8	Import, Export and Wholesale of Liquefied Petroleum Gas (LPG) in Bulk	24	17
9	Import and Wholesale of Fuel Oil, Lubricants and Base oil	10	7
10	Refining and Storage of Petroleum Products	1	1
11	Retail of LPG in Cylinders	2	1
12	Storage, Wholesale and Export of Petroleum Products (Except LPG)	26	16
13	Storage of Petroleum Products (Except LPG)	15	6
14	Storage of crude	1	1
15	Storage of Liquefied Petroleum Gas (LPG) in Bulk	2	0
16	Storage, Filling and Wholesale of Liquefied Petroleum Gas (LPG) in Bulk and Cylinders	21	9
17	Storage and Wholesale of Liquefied Petroleum Gas (LPG) in Cylinders	4	4
18	Wholesale and Export of Petroleum Products (Except LPG)	79	63
19	Wholesale of Petroleum Products (Except LPG)	65	42
20	**Wholesale and Export of Liquefied Petroleum Gas (LPG) in Bulk**	**9**	**4**
21	Wholesale of Liquefied Petroleum Gas (LPG) in Bulk and Cylinders	14	7
22	**Wholesale of Liquefied Petroleum Gas (LPG) in Bulk**	**29**	**11**
23	Wholesale of Liquefied Petroleum Gas (LPG) in Cylinders	29	18
24	**Wholesale and Transport of Liquefied Petroleum Gas (LPG) in Bulk**	**13**	**4**
25	LPG Cylinder Exchange Pool membership	8	5
26	**Transport of Liquefied Petroleum Gas (LPG) in Bulk**	**23**	**15**
27	Transport of Petroleum Products (Except LPG)	1	0
	TOTAL	**509**	**307**

Source: Energy Regulatory Commission

2.2.2 Performance Level

According to section 82 (1) of the Energy Act, the Commission is required to grant a license or decline to grant such a license within 30 days from the date of application. During the year under review, the average number of days between application receipt and issuance of licence or letter informing applicants they were not successful was 11.66 days. This is well within the ISO target of ERC for 2011/2012. A license application monthly average performance is depicted in Figure 4 below.

Figure 4: *Monthly average licensing days*



Source: Energy Regulatory Commission

CHAPTER 3:

ENERGY PLANNING

3.1 Indicative Energy Planning

The Commission in conjunction with other stakeholders coordinates preparation of indicative energy plans in the energy sector. This is pursuant to section 5(g), of the Energy Act No. 12 of 2006 that mandates the Commission to prepare Indicative National Energy Plans. In this regard, the Commission updates the Least Cost Power Development Plan (LCPDP) every second year. Additionally, preparations for petroleum, and renewable energy plans are underway.

3.1.1 Least Cost Power Development Plan (2011-2031)

From the financial year 2008/09 the Commission has been overseeing coordination and preparation of a 20 year rolling Least Cost Power Development Plan (LCPDP). The preparation for a complete plan takes two years. A medium term plan is prepared after completion of the planning cycle. In the year 2011/12, the Commission developed a medium term plan in conjunction with stakeholders including: Kenya Power and Lighting Company (KPLC), Kenya Generating Company (KenGen), Kenya Transmission Company (KETRACO), Rural Electrification Authority (REA), Geothermal Development Company (GDC), Ministry of Energy (MOE), Kenya National Bureau of Statistics (KNBS) and stakeholders from the private sector. The purpose of the exercise was to provide guidance to stakeholders on the country's energy plan in the medium term and to monitor the progress of all committed projects.

3.1.2 Highlights of the Medium Term Plan

In the medium term plan, the committed power generation projects include; 2,377 MW to be added to the national power pool by 2016 which requires a total investment of US$ 3.6 billion. The load is estimated to increase from 1,236 MW in 2011/2012 to about 2,000 MW by 2015/16. Further, the electric power transmission subsector investment of about US$1.95 billion is required to upgrade the existing system and evacuate power from committed generation projects. Geothermal investment of US$1.05 billion is required for the geothermal resource assessment of the Menengai and Bogoria Silali block.

3.1.3 Energy Balance

The Energy balance in the electricity sub-sector indicates the generation, supply and demand information as well as total system loses. During year 2011, global generation increased from 7,272 GWh in 2010 to 7,632 GWh in 2011 while total end use consumption increased from 6,092 GWh in 2010 to 6,299 GWh in 2011. The total losses during the period increased from 16.2% to 17.4% in 2010 and 2011 respectively largely as a result of an increase in technical transmission losses from the Mombasa-Nairobi lines and the increased connectivity of rural households at low voltage. The energy balance in the electricity sector for the period 2008-2011 is provided in Table 11 below.

Table 11: *Electricity Supply - Demand Balance, GWh, 2008-2011*

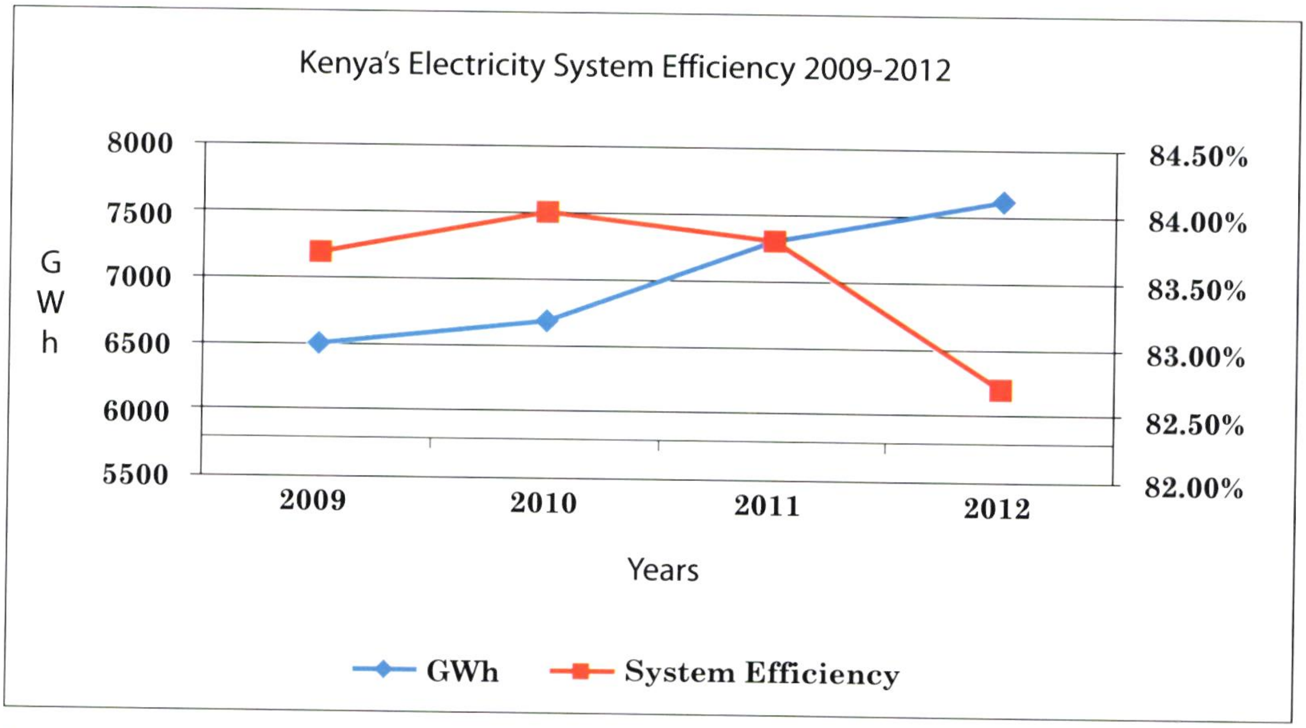
SUPPLY				
	2008	2009	2010	2011
GENERATION IN KENYA				
1. RENEWABLES ENERGIES				
1.1. Hydro plants KenGen	2849	2170	3427	3450
IPP Tea factory	0.0	0.3	0.4	0.8
Total Hydro	**2849**	**2170**	**3427**	**3451**
1.2 Geothermal plants KenGen	903	939	1081	1106
IPP OrPower4	276	400	372	392
Total Geothermal	**1179**	**1339**	**1453**	**1498**
1.3 Wind Farms	0.3	16	18	15
Total Wind	**0**	**16**	**18**	**15**

1.4 Cogeneration Ken gen				
Cogeneration IPP	4	99	87	100
Total Cogeneration	**4**	**99**	**87**	**100**
Total renewable energies	**4032**	**3625**	**4985**	**5063**
2. FOSSIL FUELS				
2.1 Diesel plants Ken Gen	393	335	514	806
AGGREKO	914	1096	267	381
Diesel plants IPP	910	1434	1484	1326
Total diesel	**2217**	**2865**	**2265**	**2513**
2.2. Gas turbines KenGen	193	145	1	33
Total Gas turbines	**193**	**145**	**1**	**33**
Total fossil fuels	**2410**	**3010**	**2266**	**2546**
TOTAL DOMESTIC GENERATION KEN GEN	**4338**	**3605**	**5041**	**5410**
Total IPP	**1190**	**1933**	**1943**	**1819**
TOTAL IPP+AGGREKO	**2104**	**3029**	**2210**	**2200**
OFF GRID (REP)	16	19	21	23
GLOBAL GENERATION	**6458**	**6654**	**7272**	**7632**
PLUS IMPORTS	30	38	31	37.1
GLOBAL SUPPLY in KENYA	**6489**	**6692**	**7303**	**7670**
LESS EXPORTS: (Uganda, Tanesco)	**27**	**27**	**31**	**42**
TOTAL RESOURCES AVAILABLE FOR CONSUMPTION IN KENYA	**6462**	**6665**	**7272**	**7628**
DEMAND				
	2008	**2009**	**2010**	**2011**
1. HV CUSTOMERS	**430**	**466**	**547**	**548**
2. MV CUSTOMERS	**1147**	**1218**	**1362**	**1359**
3. LV CUSTOMERS				
3.1 Domestic Customers				
Dom 1	1254	1290	1424	1520
Total Domestic	**1254**	**1290**	**1424**	**1520**
3.2. Commercial and Industrial LV Consumers				
Small Commercial	**823**	**823**	**904**	**993**
Comm. & Indust.-CI1	**1443**	**1469**	**1492**	**1511**
3.3 Street lighting	**15**	**17**	**18**	**16**
3.4 REP	**250**	**279**	**307**	**308**
3.5 IT Off -peak load	42	37	38	43
Total Commercial & Industrial-LV	**2574**	**2625**	**2759**	**2871**
Total LV	**3828**	**3915**	**4183**	**4391**
Total End Use Consumption	**5405**	**5599**	**6092**	**6299**
3.6 Technical loss shares				
Technical Loss shares: HV	3.70%	3.70%	3.80%	4.20%
MV	5.20%	5.09%	5.14%	5.49%
LV	7.46%	7.23%	7.28%	7.73%
Total losses	**16.36%**	**16.02%**	**16.23%**	**17.42%**

Source: Energy Regulatory Commission

Kenya's electricity generation has increased from 6,458GWh in 2008 to 7632GWh in 2011. On the other hand, the system losses, which are an indicator of efficiency, improved from 16.36% in 2008 to 16.02% in 2009 but worsened thereafter to 16.23% and 17.42% in 2010 and 2011 respectively. This is an indication that Kenya Power and Lighting Company (KPLC) met the targets set in the retail tariff review for the tariff control period 2008-2011 only in the initial years. They have argued that increased connections in the rural areas, which are supplied at a low voltage and lack of transmission infrastructure to evacuate power from the coast, are the major causes of the setback. See figure 5 below.

Figure 5: *Kenya's Electric Power Sub-Sector: System Efficiency 2009-2012*



Source: Energy Regulatory Commission

CHAPTER 4:

ENERGY PRICING

4.1 Energy Pricing

4.1.1 Power Purchase Agreements (PPAs)

In compliance with the timeline set in the Energy Act, 2006, the Commission is required to processes each of the applications received and the appropriate decision made within 90 days. A total of nine Power Purchase Agreements (PPAs) applications from: Kenya Generating Company (KenGen), Independent Power Producers (IPP's) and Uganda Electricity Transmission Company Limited (UETCL) were received. The average approval time was approximately 40 days. The summary of the PPAs reviewed is indicated in Table 12 below.

Table 12: *Summary of the PPAs Reviewed*

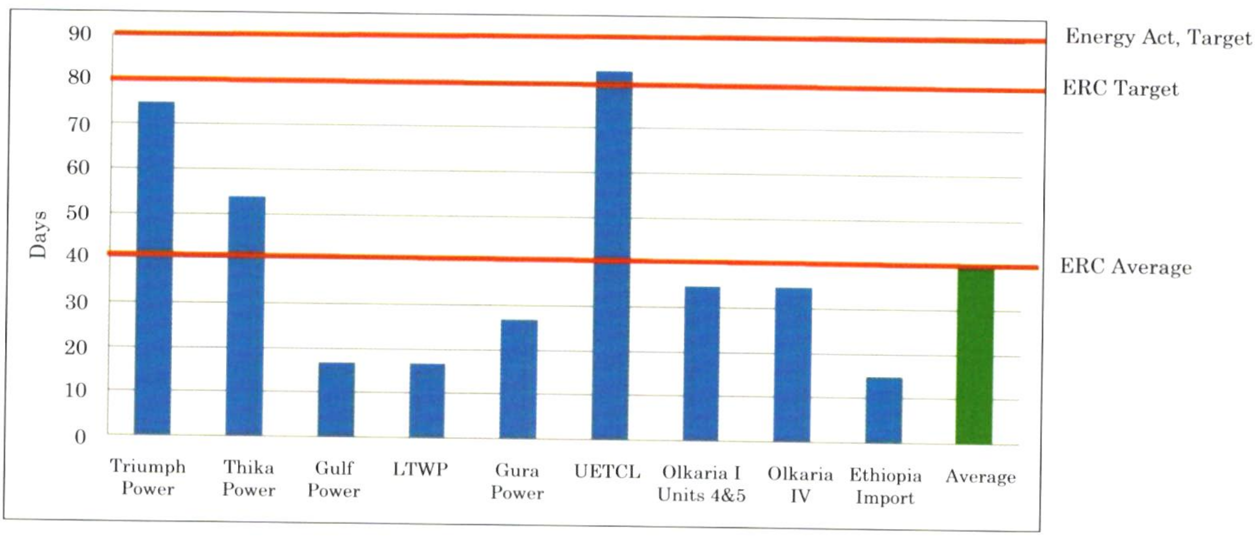
No	Name	Developer	Technology	Capacity (MW)	Process Days
1	Triumph power	IPP	Thermal	83	75
2	Thika Power	IPP	Thermal	87	54
3	Gulf Power	IPP	Thermal	80	17
4	LTWP	IPP	Wind	300	17
5	Gura Power	IPP	Hydro	5	27
6	UETCL	Import	Energy	N/A	83
7	Olkaria I Units 4&5	KenGen	Geothermal	140	35
8	Olkaria IV	KenGen	Geothermal	140	35
9	Ethiopia Import	Import	Hydro	400	15
	ERC AVERAGE				40

Source: Energy Regulatory Commission

4.1.2 Performance Level

Additionally, the Figure 6 below provides information on the number of days taken to approve a PPA by application and shows the average approval days in 2011/12.

Figure 6: *Days Taken to Approve PPAs, 2011/2012*



Source: Energy Regulatory Commission

4.2 Renewable Energy Feed in Tariffs (REFiTS)

The Commission is mandated to issue licences and approve PPA's for investors investing in renewable energy technology. During the period under review 102 projects under the REFiTs programme were approved. Projects under wind power had the highest number approved of 41, while mini-hydro projects were second consisting of 32 projects approved.

As summarized in the following Table 13. Out of the 158 applications received only 102 (65%) were approved.

Table 13: *Renewable Energy Projects Approved in 2011/12*

	Received		Approved		
Technology	**MW**	**Number**	**MW**	**Number**	**% Approved**
Wind	3361	60	2292	41	68
Biomass	222	5	222	5	100
Hydro	303	50	155	32	64
Geothermal	70	1	0	0	0
Solar	1225	35	530	20	57
Biogas	59	5	49	2	40
Cogeneration	18	1	18	1	100
Sea waves	100	1	100	1	100
Total:	**5358**	**158**	**3366**	**102**	

Source: Energy Regulatory Commission

4.3 Retail Electricity Tariffs

The Commission is mandated to set retail electricity tariffs. Therefore, as required the base non fuel tariff was set in July 2008 at Ksh.7.12 /kWh and will remain so until the next review scheduled. Kenya Power and Lighting Company (KPLC) submitted an application for retail tariff review and adjustment in February 2011 but the review was deferred. The decision was partially informed by the prevailing unfavourable rising cost of living particularly with regard to high cost of food and petroleum products. However in the interim, the Commission will be taking into consideration projects which were not included in the Tariff Control Period: 2008-2011, on a case by case basis, to enable Kenya Power and Lighting Company (KPLC) continue to meet its revenue requirements.

During the year under review, crude oil prices in the international market rose significantly leading to an increase in overall tariffs charged. Prices of Murban oil were recorded at 113.95 US$/bbl in July 2011 but rose to a peak of 121.2.5 US$ /bbl in April 2012. Consequently the average retail tariff was Ksh.15.97/kWh compared to Ksh.12.58/kWh in the previous financial year.

4.3.1 Adjustments to the Retail Tariffs: Fuel Cost Charge (FCC), Foreign Exchange Rates Fluctuations Adjustments (FERFA) and Inflation Adjustments

The Fuel Cost Charge, (FCC), Foreign Exchange Rates Fluctuation Adjustment (FERFA) and Inflation Adjustments are instruments used for cushioning regulated operators against fluctuations in the concerned parameters which are beyond their control. During the period under review, the Fuel Cost Charge ranged between Ksh. 7.23/kWh in July 2011 and Ksh.5.97/kWh in June 2012. During the same period, Murban crude oil prices ranged between 113.95 US$/bbl in July 2011 and 97.35 US$/bbl in June 2012. Inflation adjustment had minimal impact on end-user tariffs and remained at Ksh.0.17/kWh for the first 6 months between July 2011 and December 2011 but was adjusted upwards to Ksh.0.22/kWh between January 2012 and June 2012. The total retail electricity tariff was Ksh.17.99/kWh in July 2011 and Ksh.16.84/kWh in June 2012 indicating a decline by the end of the close of the year. The summary of these adjustments is as indicated in the table 14 below.

Table 14: *Electricity Retail Tariff (Ksh/kWh) 2011/2012*

Month	FERFA	FCC	Inflation	Sub Total	Total tariff **
July '11	1.19	7.23	0.17	8.59	17.99
August'11	1.27	7.91	0.17	9.35	18.75
September'11	1.48	8.21	0.17	9.86	19.26
October' 11	2.74	8.40	0.17	11.31	20.71
November'11	2.62	9.03	0.17	11.82	21.22
December'11	1.49	8.50	0.17	10.16	19.56
January'12	1.38	5.48	0.22	7.08	16.48
February'12	1.31	5.64	0.22	7.17	16.57
March'12	1.00	7.56	0.22	8.78	18.18
April'12	1.34	7.42	0.22	8.98	18.38
May'12	0.75	6.97	0.22	7.94	17.34
June'12	1.25	5.97	0.22	7.44	16.84

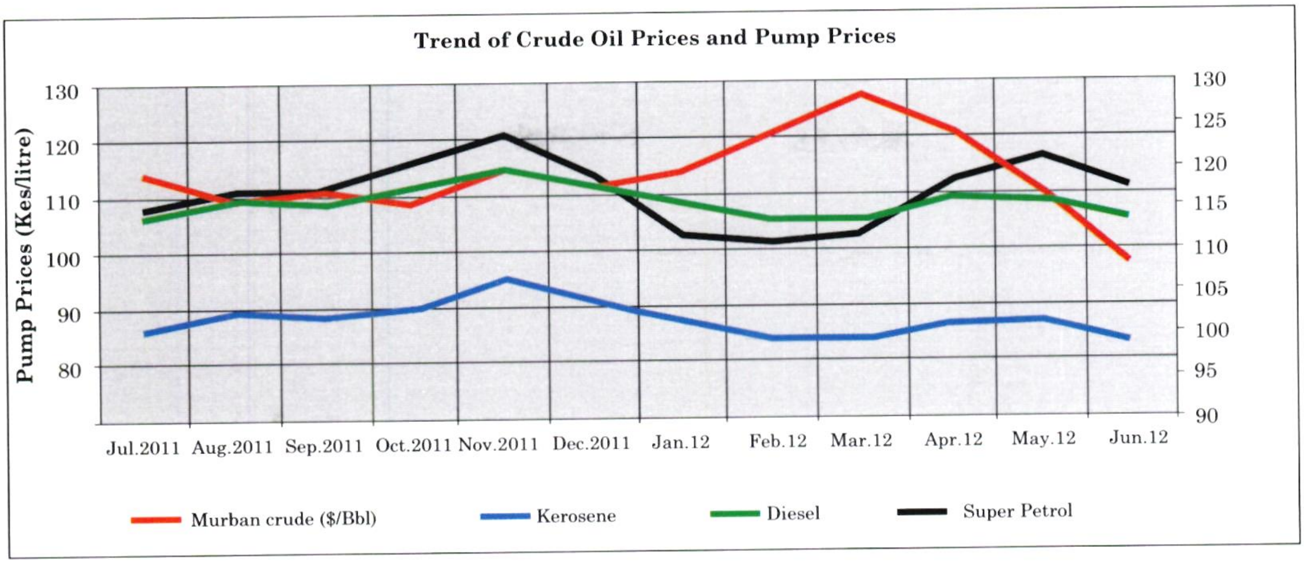
Source: Energy Regulatory Commission

**Non fuel tariff is Kshs 9.40/kWh

4.4 Petroleum Pump Prices

In the period prior to the regulations petroleum price determination was done by the Oil marketing Companies who used various models for achieving the same. The gazettement of the Energy (Petroleum Pricing) Regulations implementation began on 3rd December 2010 with the first petroleum price release being done on 14th December 2010. During the year under review, the Commission maintained data on the prices of crude oil and the individual product prices for each month. The price of crude increased from US$ 114. /barrel in July 2011 to US$127/Barrel in March 2012 but sharply declined to US$ 97/Barrel in June 2012. Kerosene had the lowest price which ranged from Kshs.86/Litre in July 2011 to Ksh.83/Litre in June 2012. The price of Diesel was relatively stable and was recorded highest at Kshs.114/Litre in November 2011 and lowest at Kshs.105.12/Litre in March 2012. The fuel prices were relatively stable as figure 7 below shows consistency in the trends of crude oil versus the product prices.

Figure 7: *Trends of Crude Oil and Pump Prices*



Source: Energy Regulatory Commission

4.5 Financial Performance of Selected Electricity and Petroleum Utilities

The Commission is mandated to monitor and ensure economic and financial viability of sub-sector utilities with respect to their financial performance. This is pursuant to sections 5, 6 and 43 of the Energy Act, 2006. An assessment was made of the financial performance of nine licensees; six from the electric power sub-sector and three from the petroleum sub sector. They are Kenya Power & Lighting Company Ltd (KPLC), Kenya Electricity Generating Company Ltd (KenGen) and four Independent Power Producers (Tsavo Power Company Ltd, Iberafrica Power (EA) Ltd, Mumias Sugar Company Ltd and OrPower4 Inc) from the electric power sub-sector and Kenya Pipeline Company Ltd (KPC), National Oil Corporation of Kenya Ltd (NOCK) and Total Kenya Ltd (NSE quoted company) from the petroleum sub sector.

Accordingly nine reports were prepared, submitted and noted by the Commission. The reports indicate that the sector utilities performed satisfactorily during the period.

CHAPTER 5:

CONSUMER PROTECTION

The Commission monitors the quality of energy parameters to ensure consumers are protected by getting quality energy supply in a safe environment. In this regard the Commission carried out various activities to ensure compliance as stated.

5.1 Electricity

5.1.1 Reliability and Quality of Supply

During the period under review, average restoration time to customers' complaints was 3.07 hours against a target of 3.5. Incidences recorded on the LV and HV/MV networks was 93,646 against a target of 76,596 and 6,567 against a target of 3,024, respectively, while 3,461 transformers failed in service against a target of 300. The total energy purchased was of 7,670 GWh while 6,341 GWh were sold implying system losses of 17.3%. 279,163 new customers were connected, bringing the total number to 2,038,625 up from 1,753,348.

5.1.2 Surveillance

5.1.2.1 Technical Audits

In its efforts to ensure that licensees operate in accordance with the Energy Act and the licenses issued to them, the Commission carried out technical audits of the undertakings of five licensees during the period under review. The audits were carried out in the Mt. Kenya Region of the Kenya Power and Lighting, Oserian Development Company Ltd, Sotik Tea Company Ltd, Mumias Sugar Company Ltd and Imenti Tea Factory. Where anomalies were found, these were brought to the notice of the licensees for appropriate corrective measures.

During the period under review, 29 accidents/incidences reports were reported to the Commission as is required by section 117(1) of the Energy Act 2006 all of which were from (Kenya Power and Lighting Company) KPLC. Out of the 29 accidents received, 13 (45%) were investigated and reports prepared and sent to KPLC for follow-up and remedial action. These accidents resulted in the loss of 20 human lives and 16 injuries.

Under the Complaints Handling procedures, (Kenya Power and Lighting Company) KPLC handles all consumer complaints and where the consumer is dissatisfied with their resolution, the complaint can then be referred to the Commission. During the period under review, 18 complaints were received with billing complaints being the most prevalent and accounted for 56% of the total. 10 complaints have been resolved while two await responses from (Kenya Power and Lighting Company) KPLC.

5.1.3 Efficiency in Electricity Supply

The Commission monitors various parameters of efficiency in a bid to improve service delivery and to make energy consumption efficient and affordable. These parameters have a bearing on the overall retail tariff. In this regard a key efficiency parameter is the allowable system losses. Prior to 2007/08, the target for allowable system losses was fixed at 15%. However, in the last tariff review, the Commission pegged the system loss on an agreed "loss reduction path" to assist Kenya Power and Lighting Company's (KPLC) efficiency and cost management efforts with a view to avoid loss of revenue while enhancing system efficiency.

In the financial year 2009/10, system losses were set at 15.9%. KPLC was however able to achieve almost similar level of 16.0%. In the 2010/11 and 2011/12 financial year, the losses were set at 15.4% while (Kenya Power and Lighting Company) KPLC achieved system losses of 16.2% and 17.3% respectively. This is an indicator that efficiency marginally declined and the power company missed the set target by 0.8% in 2010/11 and 1.90% in 2011/12.

Labour productivity has decreased consistently in the last 3 years. In the reporting period, labour productivity decreased from 0.681 GWh/employee to 0.619GWh/employee. This is as a result of higher employee growth from 8,543 employees in 2010/11 to 10,252 employees in 2011/12 representing a 20% increase compared to 3.6% growth in GWh sold. In addition, KPLC has been profitable over the last 5 years. This is consistent with the sub-sector policy which requires the retail electricity tariffs to be cost reflective; and with the Energy Act 2006 which provides for financial viability of sector entities. Table 15 below shows selected Efficiency parameters.

Table 15: *Performance Trends in Electricity Supply*

Parameters	Measures	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/2012
Unit revenue	Kshs/kWh	7.64	7.83	8.03	12.58	13.69	11.99	15.97
Unit cost	Kshs/kWh	7.34	7.57	7.55	11.71	12.67	10.96	11.03
Gross Margin	Kshs/kWh	0.30	0.26	0.48	0.87	1.02	1.03	1.23
Labour	Consumers/employee	129	144	159	181	201	205	199
Productivity	GWh/Employee	0.717	0.753	0.762	0.739	0.734	0.681	0.619
System	Target %	15	17.4	16.9	16.4	15.9	15.4%	15.40%
Losses	Actual %	18.1	17.9	16.6	16.3	16.0	16.2%	17.30%

Source: Energy Regulatory Commission

5.2 Petroleum

5.2.1 Petroleum Quality

There are two main controls of maintaining quality of petroleum products in Kenya: One is that all products prior to offloading at the port of Mombasa (Kipevu, Shimanzi and Mbaraki jetties) are counterchecked for quality by independent surveyors and the Kenya Bureau of Standards (KEBS). Quality certificates are then issued for each batch of petroleum products received. Secondly, to ensure that Kerosene is not added to motor fuels i.e. Super petrol and Diesel, all domestic Kerosene are marked with an invisible marker. Possession of any motor fuels with this marker is an indication of adulteration.

An independent firm SGS (K) Limited has been engaged by the Government of Kenya since 1998 to mark all motor fuels meant for export and all domestic kerosene with an invisible marker. The firm marks Premium Motor Spirit (PMS), Regular Motor Spirit (RMS), Illuminating Kerosene (IK) and Automotive Gas Oil (AGO) designated for export and duty free products, Kerosene designated for domestic use within Kenya, bunkering fuels (IK, PMS, RMS and AGO) at terminals located in Mombasa, Nairobi, Nakuru, Eldoret and Kisumu using Authentix® markers. The company further monitors for the presence of these markers in motor fuels sold at retail sites all over the country in a monthly schedule.

Reports of sites with the markers (positive sites) are reported to the Commission, Kenya Revenue Authority (KRA) and Kenya Bureau of Standards (KEBS) immediately within 5 minutes of testing positive. Retail service stations found in possession of motor fuels containing the marker are closed down and punitive fines and penalties imposed by KRA. They will be further required by KEBS to upgrade any adulterated motor fuels prior to re-opening and after paying the fines and penalties. The Commission will only allow the retail sites to reopen after meeting the requirements of KRA and KEBS and after committing in writing that they will put in place control measures to ensure that the incident is not repeated.

During monitoring of petroleum products, presence of these markers is tested at random in selected retail outlets. Presence of kerosene marker in petroleum products indicates adulteration of AGO or PMS with domestic kerosene. Presence of export marker in motor fuels indicates dumping of transit material in the local market.

For quality control purposes IK (Illuminating Kerosene) is tested at random to ascertain consistency of kerosene marking at petroleum depots. If a sample of IK gives negative result, then this means that the product is not marked as required and indicates a weakness in the SGS processes or dumping of Jet-A1 which is not taxed and marked.

5.2.2 Compliance with the Kerosene Marker

The Commission occasionally undertakes joint inspections with KRA and KEBS to ensure quality of the programme is maintained. During the financial year, the Commission and its agents visited a total of 1,367 retail sites of which 37 were found with adulterated fuels and 56 were found in possession of motor fuels meant for export. During the year a total of four (4) such joint inspections were done in the months of September 2011, December 2011, March 2012 and June 2012.

5.2.3 Compliance with Export Marker

Of the 1,367 sites inspected in the financial year, 36 sites were found in possession of product containing export marker. Out of the 36 sites positive on export marker, 34 were independently owned and 2 were company owned (i.e. branded).

The retail sites complied with the requirement not to sell export material to a level of 97.4% during the financial year.

Table 16: *Petroleum Quality-Compliance With Exporter Marker*

MONTH	REGION	SITES VISITED				NUMBER OF POSITIVE SITES					
						COMPANY			INDEPENDENT		
		COMPANY	INDEPENDENT	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL
JUL	Western, Nairobi, Nyanza and Rift Valley	65	43	0	**108**	1	0	**1**	4	0	**4**
AUG	Eastern, Nairobi, Central and Rift Valley	59	43	0	**102**	0	0	**0**	2	0	**2**
SEP	Eastern, Nairobi, Central and Rift Valley	55	49	0	**104**	0	0	**0**	4	0	**4**
OCT	Western, Nairobi, Central, Nyanza and Rift Valley	62	41	0	**103**	0	0	**0**	1	0	**1**
NOV	Nairobi, Central and Rift Valley	61	43	0	**104**	0	0	**0**	0	0	**0**
DEC	Eastern, Western, Nairobi, Central, Nyanza and Rift Valley	60	54	0	**114**	0	0	**0**	7	0	**7**
JAN	Eastern, Nairobi, Central, Nyanza and Rift Valley	63	46	0	**109**	0	0	**0**	5	0	**5**
FEB	Nairobi, Central, and Rift Valley	64	45	0	**109**	0	0	**0**	1	0	**1**
MAR	Western, Nairobi, Central, Nyanza and Rift Valley	56	42	0	**98**	1	0	1	2	0	**2**
APR	Nairobi, Eastern, Coast and Rift Valley	62	75	0	**137**	0	0	**0**	2	0	**2**
MAY	Nairobi, Central, Eastern and Rift Valley	62	77	0	**139**	0	0	**0**	0	0	**0**
JUN	Nairobi, Uasin Gishu, Trans Nzoia, Western and Nyanza	66	74	0	**140**	0	0	**0**	6	0	**6**
GRAND TOTAL		735	632	0	**1367**	2	0	2	34	0	**36**

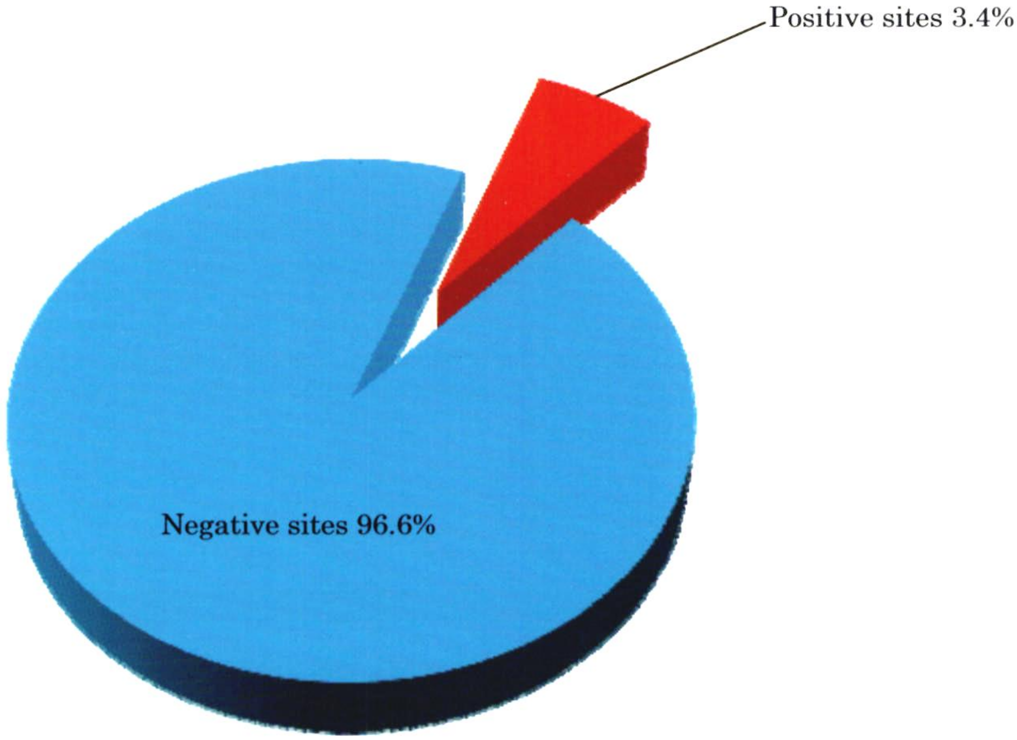
Source: Energy Regulatory Commission

5.2.4 Combined Compliance Level

A total of 1,367 sites were sampled for both export and kerosene markers. Out of these, 93 sites tested positive for kerosene and/ or export marker, accounting for 3.4% of all the sites tested. This is an indication of 96.6% overall compliance.

Figure 8: Combined Compliance Level

Combined Compliance Level in the Financial Year 2011-2012



Source: Energy Regulatory Commission

5.2.5 Construction Permits

The Commission has been mandated to issue construction permits to applicants wishing to set up new facilities or make major changes to existing facilities. Issuance of construction permit is provided for under Section 90 and 91 of the Energy Act 2006. The Act specifies that the following activities need a construction permit; construction of a pipeline, construction of a refinery, construction of a bulk storage facility and construction of retail dispensing site. The Commission shall grant or defer a construction permit for all applications made within 45 days.

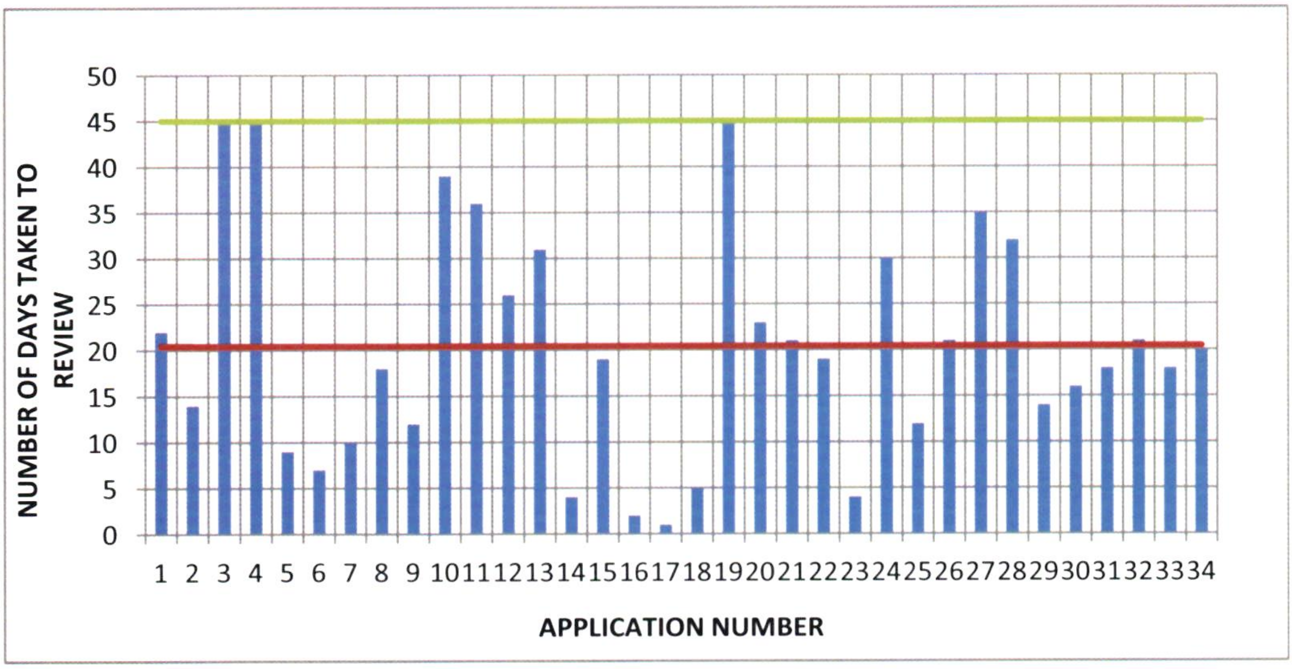
5.2.6 Summary of Applications

A total of 34 applications were received and processed. Out of these 22 were approved and construction permits issued while12 were deferred due to non compliance with the requirements for issuance of construction permit.

5.2.7 Performance Level

The Energy Act 2006 section 90 (3) requires, the Commission to grant a construction permit or refuse to grant such a permit within 45 days upon application. During the period under review, the average number of days between receipt of application and issuance of permit or deferral letters was 20.4 days as shown in figure 9 below.

Figure 9: *Performance levels*



Source: Energy Regulatory Commission

5.3 EHS Audits

The Commission is mandated under Section 6(d) of the Energy Act 2006, to formulate, enforce and review environmental, health and safety and quality standards for the energy sector. As stated in the Environment Health and Safety (EHS) policy of the electric power sub-sector, monitoring of EHS performance facilitates supervision and oversight and is an important tool in the enforcement of EHS requirements.

The Commission conducted Environment Health and Safety Audits on eleven electric power facilities namely: Iberafrica Nairobi South Power Plant, KenGen Lamu Power Plant, KPLC Mpeketoni Power Plant, Unilever Tea Power Plants, James Finlay Power Plants, KenGen Sagana Power Plant, KenGen Wanjii Power Plant, KenGen New Tana Power Plant, KenGen Masinga Power Plant, KenGen Gitaru Power Plant and KenGen Kindaruma Power Plant.

Similarly the Commission conducted EHS audits on nine petroleum installations namely: KPC Nairobi Oil Depot, KPC Nakuru Oil Depot, KPC Kisumu Oil Depot, KPC Eldoret Oil Depot, and Mbaraki Mombasa Oil depot, Oil Libya Mombasa Oil Depot, Gapco Mombasa Oil Depot, Tecaflex Mombasa Oil Depot Servanthood and Light Development LPG Plant in Kitale.

5.3.1 Review of EIA Reports

The Commission is mandated to review environmental impact assessment reports of proposed projects within the energy sector as provided by the Energy Act, 2006, Environmental Management and Co-ordination Act (EMCA, 1999) and the Environmental Impact Assessment and Audit Regulations of 2003. The project proponents carryout Environmental Impact Assessments as required under Section 58 of the EMCA, 1999 and the EIA Regulations 2003 and send the reports to NEMA for review. NEMA then sends the energy related reports to the Commission as the Lead Agency for recommendations which are considered to make a decision.

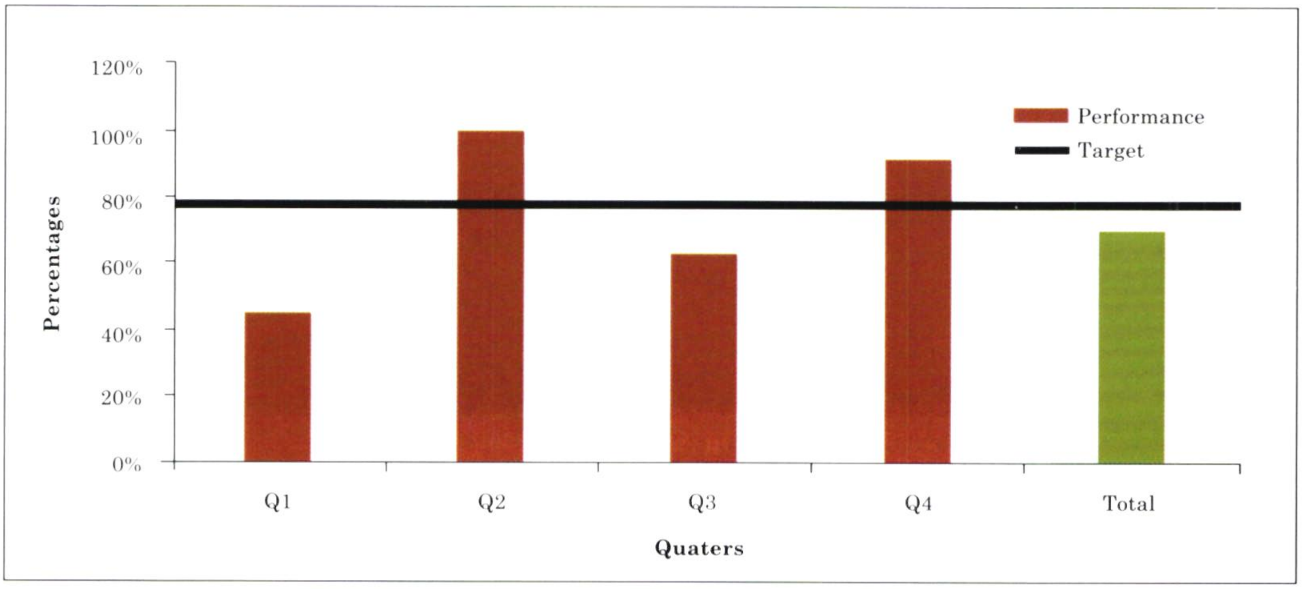
For year under review, the Commission received 227 EIA reports from NEMA. 82.5% of the project reports were reviewed within 21 days against a set target of 75% while for study reports 69.7% of the reports were reviewed within 30 days against a target of 78% (See figure 10 and 11). The reports were also categorized per sub-sector and as shown on table 17 below.

Table 17: *EIA Reports Received*

	Sub-sector	No. of Reports
1.	Downstream Petroleum	126
2.	Upstream Petroleum	3
3.	Electricity	92
4.	Others	6
	Total	**227**

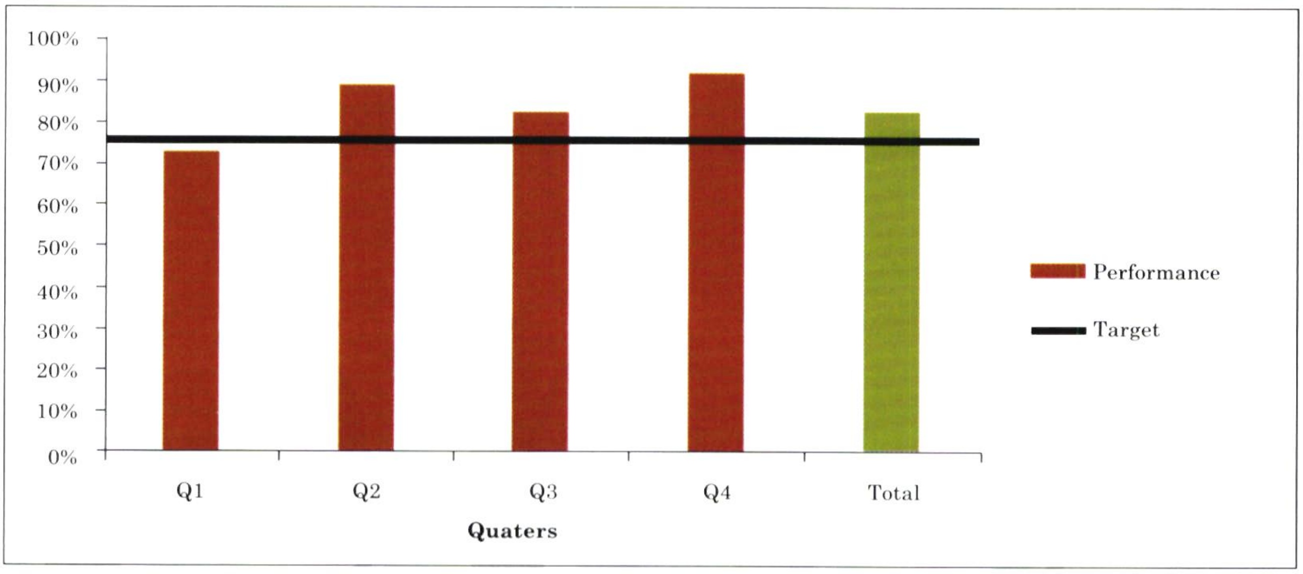
Source: Energy Regulatory Commission

Figure 10: *EIA Study Reports Review FY 2011/12*



Source: Energy Regulatory Commission

Figure 11: *EIA Project Reports Review FY 2011/12*



Source: Energy Regulatory Commission

5.3.2 Safety

In the financial year 2011/2012 three major incidents occurred in petroleum facilities:

5.3.2.1 Kenya Pipeline rapture at Mariakani in Mombasa County

The incident occurred on 27th July 2011 when contractors undertaking excavation works on behalf of Kenya Rural Roads Authority hit and ruptured petroleum line 1 belonging to KPC at KM24 near Mariakani. This damage resulted in a loss of 150,000M3 of super petrol. Fortunately, no fatalities or personal injuries were reported but the spillage resulted in damage to the neighbouring flora and fauna.

5.3.2.2 Petroleum fire at Sinai Slums in Nairobi County

This was a fire incident that occurred on 12th September 2011 at Sinai slums in industrial area Nairobi. The incident resulted in 127 fatalities and 46 injuries. A committee spearheaded by the Ministry of Energy (MOE) undertook the investigation of the incident where the primary cause was attributed to failure of a gasket at Kenya Pipeline Limited's pump station 10 leading to loss of containment of petroleum products in the pipeline. The committee found out that during maintenance, a gasket in one of the pipelines was improperly fitted leading to pressure build up and eventual failure during operation.

5.3.2.3 Liquefied Petroleum Gas (LPG) fire at Giakanja in Nyeri County:

The incident occurred on 5th January 2012 at Giakanja in Nyeri County. The incident resulted in 5 fatalities and an additional 3 injuries. ERC appointed a technical committee comprising of experts from the petroleum industry to investigate the incident. The committee findings were that during delivery of LPG by a 20 ton truck vessel an uncontrolled release of LPG occurred culminating in a big fire. The fire was exacerbated by the fact that the fittings that had been used within the plant were substandard and could not contain heat and pressure that resulted.

5.4 Renewable Energy

5.4.1 Renewable Energy: Standards and Labeling

The Commission, in its mandate to protect consumers in collaboration with Kenya Bureau of Standards (KEBS) and other stakeholders, is actively involved in the developing of Minimum Energy Performance Standards for the following appliances; Self Ballasted Lamps, Double Capped Fluorescent Lamps, Ballasts for Fluorescent Lamps, Refrigerating Appliances, Non-Ducted Air Conditioners ,Three-Phase Cage Induction Motors. Once the standards are gazetted, the Commission will develop Regulations to ensure only energy efficient models of the listed appliances are imported, manufactured, distributed or retailed in Kenya.


6.1
19.7
23.4

CHAPTER 6:

REGULATIONS

6.1 New Regulations

Pursuant to Section 110 of the Energy Act, 2006, the Commission is responsible for developing requisite regulations for the Energy sector in Kenya. During the year under review, new regulations were developed as discussed below.

6.2 Renewable Energy

a) The Energy (Solar Water Heating) Regulations, 2012 were gazetted on the 31st of May 2012 and the licensing

b) Solar Water Heating technicians and firms has commenced.

c) Due to existing Charcoal Regulations, the Forests (Charcoal) Rules, 2009, under the Ministry of Forestry and to avoid duplicating regulations, a resolution was made to identify gaps in these regulations. The Commission and Kenya Forestry Service (KFS) worked together to identify gaps in the existing Charcoal Regulations. The Commission is developing Bio-energy Regulations which will include charcoal and other biomass related energy.

Draft Regulations on Energy Management and Solar Photovoltaic were developed and subjected to stakeholder consultations. The final draft was forwarded to the Minister for Energy for gazettement.

6.3 Electricity

a) The Energy (Complaints and Dispute Resolution) Regulations, 2012, published as Legal Notice No. 42, Kenya Gazette Supplement No.49 (Legislative Supplement No. 15) on May 25, 2012 provides the means by which the Commission can help resolve complaints and disputes between a licensee and its customers where a party remains dissatisfied after exhausting the licensee's complaints resolution procedures.

b) The Energy (Electricity Licensing) Regulations, 2012 published as Legal Notice No. 44, Kenya Gazette

c) Supplement No.49 (Legislative Supplement No. 15) on May 25, 2012 sets out requirements to be fulfilled by any person desiring a licence or permit authorizing him to carry out any undertaking in the generation, transmission, distribution or supply of electrical energy in Kenya.

6.4 Regulations In progress

6.4.1 Petroleum

In the financial year 2011/2012, the following 10 draft regulations were developed for the downstream petroleum sub-sector:

1. The Energy (Petroleum Businesses and construction permits) Regulations 2012

2. The Energy (Petroleum Retail Businesses and construction permits) Regulations 2012

3. The Energy (Refining Businesses and construction permits) Regulations 2012

4. The Energy (Petroleum Logistic facilities and Businesses and construction permits) Regulations 2012

5. The Energy (Petroleum Road Transportation Business) Regulations 2012
6. The Energy (Operation of Common User Petroleum Logistics Facilities) Regulations 2012
7. The Energy (Operation of Marine Petroleum Jetties) Regulations 2012
8. The Energy (Operation of Petroleum Refining Businesses) Regulations 2012
9. The Energy (Importation of Petroleum) Regulations 2012
10. The Energy (Petroleum Information and Statistics) Regulations 2012

The drafts were then published for public comments on 16th March 2012.

CHAPTER 7:

STUDIES AND SURVEYS

7.1 Electricity

7.1.1 Cost of Service Study for the Electric Power Subsector

The Commission in conjunction with the Ministry of Energy (MOE) undertook the procurement for the cost of service study consultant, SNC-Lavalin of Canada to undertake the Cost of Services Study for the electricity sub sector.

The consultant was awarded the tender on 3rd of January 2012. A preliminary interim report was prepared in the month of May/June 2012 and the economic and financial models were presented in a stakeholders workshop held on 14th June 2012. The final report is scheduled for the next financial year.

7.2 Customer Satisfaction Survey

The Commission carried out a customer satisfaction survey in a bid to respond effectively to customers' evolving needs. The objectives of the survey were to establish the level of customer satisfaction with services offered by the Commission with a view to establish areas of weaknesses and make recommendations for improvements. The survey which was carried out in June 2012 established that the overall level of customer satisfaction was 70.7%.

7.3 Research and Development

During the period under review, the Commission undertook research, namely "a comprehension on competition dynamics in the downstream petroleum market in the country". Two comprehensive monitoring surveys were undertaken covering all the country's regions except Nairobi and North-Eastern. A total of 16 counties were covered while Phase 2 of the exercise covered 414 outlets.

Some of the conclusions from the study were;

a) There is even spread of outlets across major urban areas but poor service coverage in infrastructure challenged areas.

b) Discriminatory charges by OMCs were seen as a major constraint to expanding competition in the country;

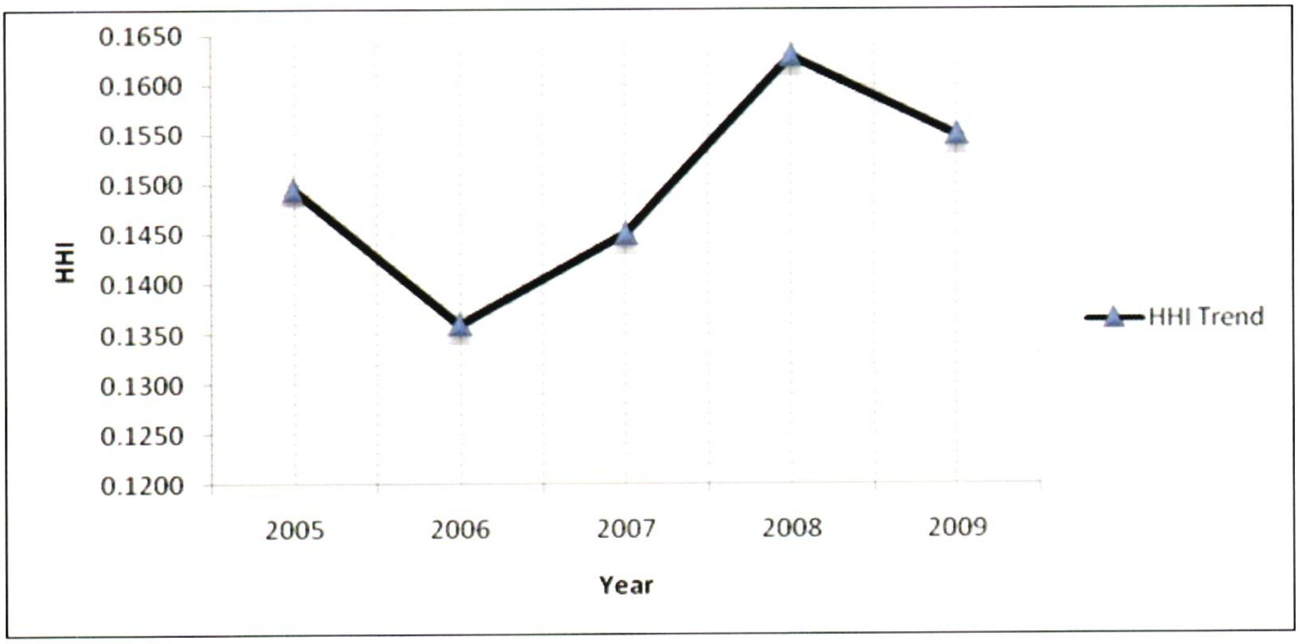
c) Maximum retail price which assume uniformity of conditions across all retail outlets within a large area which were perceived to be unrealistic.

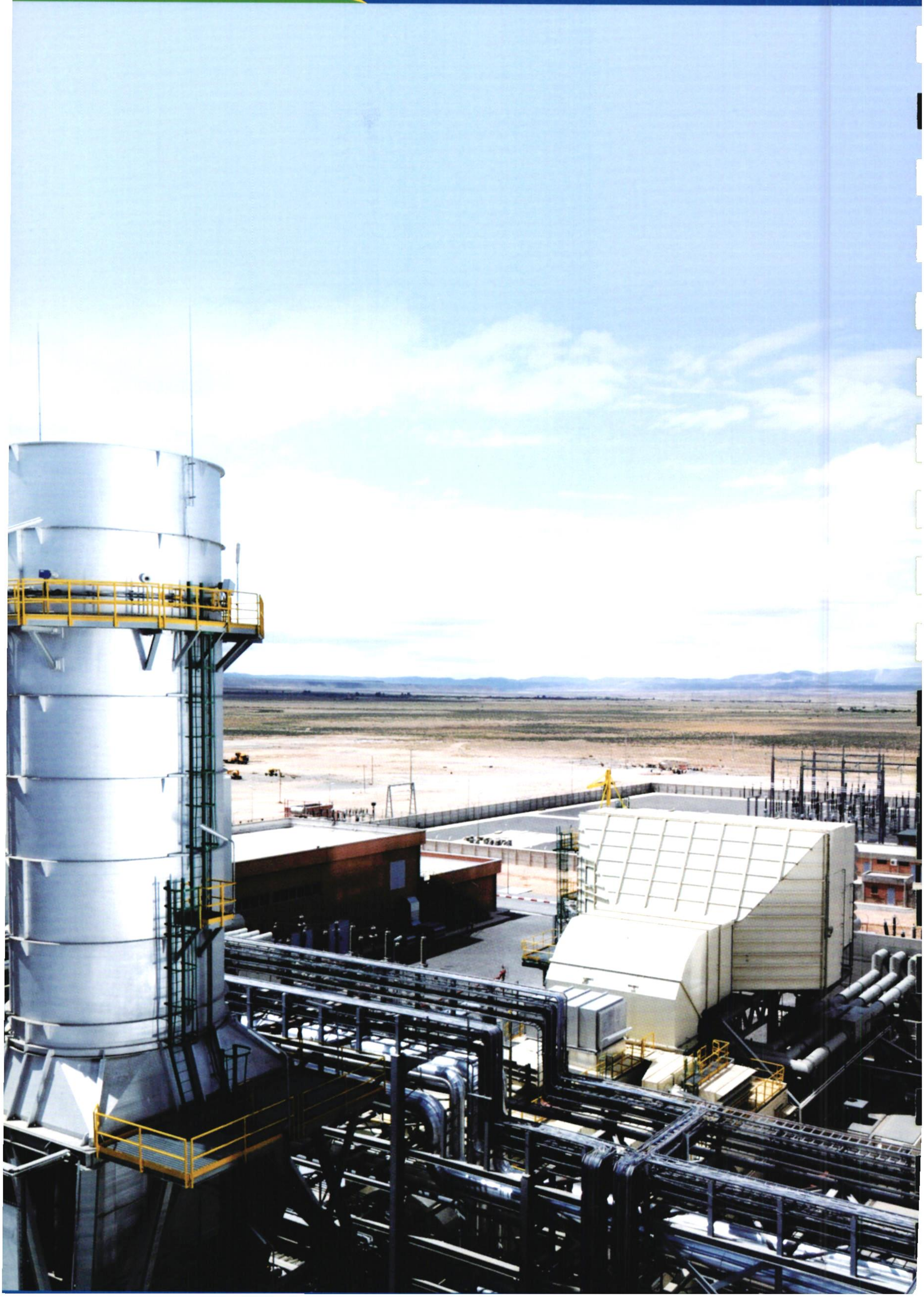
d) It was observed that there were significant horizontal and vertical integrations among major OMCs even with independent companies. However, it was difficult to confirm that such relationships constitute grounds for collusion.

The study used the Herfindahl Index (HHI) which measures the size of firms in relation to the industry and an indicator of the amount of competition among the firms. Increases in the Herfindahl Index generally indicate a decrease in competition and an increase of market power, whereas a decrease indicates the opposite.

In the case of Kenya, the HHI was recorded at 0.149 in 2005, reduced to 0.135 in 2006 but increased to 0.163 in 2008 before declining to 0.154 in 2009 (See Figure 12). The competition threshold for Kenya is defined as follows: An HHI index below 0.1 indicates an un-concentrated industry while an HHI index between 0.1 and 0.18 indicates moderate concentration. An index above 0.18 indicates high concentration. From the analysis therefore, there is moderate concentration in the market power in the petroleum sub sector in Kenya.

Figure 12: HHI Index in Kenya's Petroleum Sub Sector-2005-2009





CHAPTER 8:

CORPORATE SERVICES

8.1 Competency Development

The Commission is a knowledge based institution. To enhance the knowledge of its employees, the Commission implements a competency development plan each financial year to address identified competency gaps. In the period under review, employees attended trainings both locally and abroad.

8.2 International Liaison

The Commission works closely with regional utility regulators to front a common approach in interconnection of power and petroleum transportation in the region. They also collaborate on human capacity development to strengthen and improve energy regulation in the region. This is achieved through collaborative studies, benchmarking, staff exchange programmes, annual general meetings, working groups on specific issues, among other initiatives. The forums include the African Forum for Utility Regulators (AFUR), the Energy Regulatory of East Africa (EREA), and Regulators for Eastern and Southern Africa (RAERESA) and the East African Power Pool (EAPP). During this financial year, the Commission hosted delegations from other regulatory agencies who visited to learn the regulatory environment in Kenya. ERC also participated in a peer review with six other regulators in the region from Ghana, Tanzania, Uganda, Namibia, South Africa and Tanzania among others. The Commission is thus at the forefront in ensuring better regulation and improving the environment of doing business and investment in the African region.

8.3 Corporate Social Responsibility (CSR)

During the period under review, the Commission participated in various CSR programmes aimed at creating long term value for selected communities in which ERC operates. ERC sponsors key programmes with a marked impact by improving livelihoods and enriching the environment. The Commission held tree planting and environment rehabilitation exercise at Eburru Forest. The Commission in collaboration with a Community Based Organisation planted 5000 seedlings on 7 hectares of forest land.

8.4 Exhibitions and Promotional Activities

The Commission participated in Africa Rift Geothermal Conference (ARGEO) an event that provided an opportunity to interact directly with the public and shed light on the workings of the Commission. The Commission continued to engage stakeholders locally through workshops. They included:

a) Energy (Electrical Installation Works) Regulations,

b) County Public Sensitization on Draft Energy Policy and Bill, 2012 whose purpose was to align the Sector Policy ,

c) Legal frameworks with the constitution of Kenya 2010

d) Kenya Geothermal Conference on regulatory framework supporting Geothermal Development in Kenya.

8.5 Performance Contract

Since the introduction of performance contracting in the public service in 2004, the Commission and its predecessor Electricity Regulatory Board (ERB) have participated on an annual basis with effect from June 29, 2005. The Commission has reported regularly on its performance to the Government by preparing quarterly and annual performance reports in the prescribed format, in accordance with Legal Notice No. 93 of 2004 and Performance Contracting Guidelines. ERC's performance for the contract period 2011/2012 was rated at a weighted score of 2.934 compared to the score of the previous year of 2.5565. The performance contracting department has over the years improved its evaluation criterion values leading to a change in the criterion values from the year 2011/2012.

Table 18: *ERC Performance Contract Scores*

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Score	2.8222	2.9136	2.5594	2.5565	2.9340
Grading	Good	Good	Good	Very good	Very good

Source: Energy Regulatory Commission

8.6 Regulatory Management Information System

In order for the Commission to assert itself within the changing business environment, it has embraced an Integrated Regulatory Management Information System (RMIS). The RMIS project was commissioned on 29th May 2012 marking the end of the implementation and testing phases of the system. The RMIS comprises of the following parts:-Enterprise Resource Planning System (ERP), Interactive Voice Response System (IVRS), Document Management System (DMS), Short Message Service (SMS) and Customer portal.

CHAPTER 9:

FINANCIAL INFORMATION

REPORT OF THE COMMISSIONERS FOR THE YEAR ENDED 30TH JUNE 2012

The Commissioners submit their report together with the audited financial statements for the year ended 30th June 2012, which show the state of the Commission's affairs.

INCORPORATION

ERC is a state corporation established under the Energy Act, No. 12 Of 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Commission are:

1. To regulate: -

    i. Importation, exportation, generation, transmission, distribution, supply and use of electrical energy;

    ii. Importation, exportation, transportation, refining, storage and sale of petroleum and petroleum products;

    iii. Production, distribution, supply and use of renewable and other forms of energy;

2. Protect the interests of consumer, investor and other stakeholder interests

RESULTS

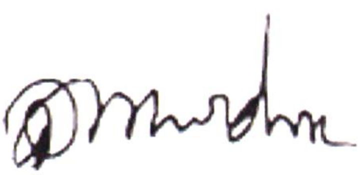
The results together with the notes for the year are shown from page 66 to 80.

STATEMENT OF COMMISSIONERS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The Energy Act, No. 12 of 2006 requires the Commission to prepare financial statements for each financial year, which includes a Statement of Financial Position showing in detail the assets and liabilities of the Commission, a Statement of Financial Performance showing the income and expenditure, and such other statements that the Commission may deem necessary. The State Corporations Act (Cap 446) requires the Commission to ensure that proper books are kept recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Commission. The Commission is also responsible for safeguarding the assets of the Commission.

The Commissioners accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Commissioners are of the opinion that the financial statements give a true and fair view of the State of the financial affairs of the Commission and of its operating results. The Commissioners further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Commissioners to indicate that the Commission will not remain a going concern for at least twelve months from the date of this statement.



Eng. Kaburu Mwirichia
DIRECTOR GENERAL

Date: 18th March 2013

Eng. Emma Kiilu (Mrs.)
CHAIRPERSON

Date: 18th March 2013

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT OF
THE
AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF ENERGY REGULATORY COMMISSION FOR THE YEAR ENDED 30 JUNE 2012

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON ENERGY REGULATORY COMMISSION FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Energy Regulatory Commission set out at pages 13 to 32, which comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in reserves and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statement that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at 30 June 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Energy Act, 2006.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 April 2013

Statement of Comprehensive Income for the Year ended 30th June 2012

	Notes	2012 KES	2011 KES
Operating revenue			
ERB Levy	2(a)	182,574,919	172,848,343
Petroleum Levy	2(b)	23,358,289	134,326,356
Transfers from other government entities	2(c)	38,361,002	3,494,139
Other operating revenue	3	10,870,934	8,835,636
Total operating revenue		**355,165,144**	**319,504,473**
Operating expenses			
Commission expenses	4	19,094,707	27,976,559
Personnel emoluments	5	139,765,101	122,906,638
Training and other personnel costs	6	38,897,443	24,966,172
Office supplies and expenses	7	9,492,552	8,040,272
Transport and travel	8	24,390,49	17,572,719
Public relations and consumer services	9	36,914,653	28,459,183
Utilities	10	2,017,622	2,053,210
Information and communication technology expenses	11	3,380,106	1,986,602
Office rent and office services	12	2 6,181,247	22,994,213
Consultancy and other professional services	13	70,090,734	56,107,645
HIV/AIDS prevention related expenses	14	1,949,774	2,073,752
Depreciation/Amortization	15 & 16	40,614,271	3,771,787
Total operating expenses		**412,788,700**	**318,908,753**
Surplus (Deficit) from operating activities		(57,623,556)	595,720
Gain on disposal	25	1,123,075	863,590
Total non-operating revenue		1,123,075	863,590
Net surplus (loss) before transfer to Exchequer		(56,500,481)	1,459,310
Surplus to Exchequer (90%) provision		-	1,313,379
Net surplus (loss) after transfer Exchequer		**(56,500,481)**	**145,931**

Statement of Financial Position as at 30th June 2012

ASSETS	Notes	2012 KES	2011 KES
Non-current assets			
Property, Plant and Equipment	15	116,503,210	164,311,349
Intangible Assets	16	42,784,672	-
		159,287,882	164,311,349
Investments			
	19	55,537,700	55,537,700
Current assets			
Receivables	20	61,440,742	38,314,522
Cash & cash equivalents	17 & 18	41,944,912	146,993,550
		103,385,653	185,308,072
Total Asset		318,211,235	405,157,121
OWNERS FUNDS AND LIABILITIES			
Owners Funds			
Revaluation Reserves		7,032,500	7,032,500
Retained reserves		131,230,048	187,730,529
Sinking fund	22	55,000,000	55,000,000
		193,262,548	**249,763,029**
Liabilities			
Payables	**21**	**112,059,623**	**63,513,494**
Provisions	**22**	**2,935,961**	**82,079,696**
Employee benefits	**23**	**9,953,103**	**9,800,903**
		124,948,687	**155,394,093**
Total Owners Funds and Liabilities		**318,211,235**	**405,157,122**

The Financial statements were approved by the Commission on 27th September 2012 and signed on its behalf by:

Eng. Emma Kiilu (Mrs)

Eng. Kaburu Mwirichia

Statement of changes in Owners Funds for the year ended 30th June 2012

	Revaluation Reserves KES	Retained Reserves KES	Sinking Fund Reserves KES	Total Reserves KES
Balance as at 30th June, 2010	**7,032,500**	**277,601,116**	**45,000,000**	**329,633,616**
Adjusted	7,032,500	277,601,116	5,000,000	329,633,616
Net surplus for the period	-	145,931	-	145,931
Transfer to/from Sinking Fund		(10,000,000)	10,000,000	-
Surplus to Exchequer		**(80,016,518)**		**(80,016,518)**
Balance as at 30th June, 2011	**7,032,500**	**187,730,529**	**55,000,000**	**249,763,029**
Balance as at 1st July 2011	**7,032,500**	**187,730,529**	**55,000,000**	**249,763,029**
Net surplus/Loss for the period	-	**(56,500,481)**	-	**(56,500,481)**
Transfer to/from Sinking Fund	-	-	-	
Surplus to Exchequer	-	-	-	-
Balance as at 30th June, 2012	**7,032,500**	**131,230,048**	**55,000,000**	**193,262,548**

Statement of cash flow as at 30th June 2012

	Notes	2012 KES	2011 KES
Cash flow from operating activities:			
Net surplus (loss) from operations before transfer to treasury		(56,500,481)	1,459,310
Adjustments:			
Investment Income		(10,336,128)	(7,415,536)
Gain on Disposal		(1,123,075)	(863,590)
Depreciation		40,614,271	3,771,787
Operating surplus (loss) before working capital changes		(27,345,412)	(3,048,029)
Decrease (Increase) in debtors		(23,126,220)	(6,073,963)
Increase (Decrease) in creditors and accruals		(30,445,406)	29,474,745
Cash generated from operations		**(80,917,037)**	**20,352,753**
Investing activities:			
Purchase of fixed assets	15 & 16	(35,626,429)	(95,095,796)
Purchase of Treasury Bonds		-	(55,537,700)
Proceeds of Sale of fixed assets		1,156,000	3,375,675
Interest Received		10,338,829	8,072,459
Net Cash outflow from investing activities		(24,131,600)	(139,185,362)
Net Increase (Decrease) in cash & cash equivalents		(105,048,638)	(118,832,609)
Cash & cash equivalents at the beginning of the Period		**146,993,550**	**265,826,159**
Cash & cash equivalents at the end of the period represented by:		**41,944,912**	**146,993,550**
Short term deposits		**30,000,000**	**135,000,000**
Bank balances		**11,894,912**	**11,943,549**
Petty cash		**50,000**	**50,000**
		41,944,912	**146,993,549**

Notes to the financial statements for the year ended 30th June 2012

1. Significant Accounting Policies

a) Basis of Accounting

The financial statements comply with International Financial Reporting Standards (IFRS). The measurement base is historical cost adjusted for revaluation of assets.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

b) Revenue Recognition

Revenue from the levy is recognized when received or receivable. Other sources of revenue are recognized to the extent that related revenue can be reliably measured.

c) Fixed Assets and Depreciation

Fixed Assets are stated at cost less accumulated Depreciation

Depreciation is calculated on the cost of the fixed assets on a straight line basis, at annual rates estimated to write off the cost of these assets over the expected useful life.

The Depreciation rates used are as follows;

• Motor vehicles	25%
• Furniture & Fittings	12.5%
• Computer Equipments	30%
• Equipments	12.5%

The Amortization rates used are as follows;

• Intangible assets	30%

d) Taxation/Transfer to Treasury

No provision has been made for Income Tax. The commission does not operate for gain. Its income is therefore not subject to tax. However a provision is made for transfer of surplus funds to Treasury in line with Section 13A of the Government Financial Management Act that states that a regulatory authority established by an Act of Parliament shall remit into the Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year.

e) Retirement Benefits

The Commission operates a defined contribution pension scheme for permanent and pensionable employees. The scheme is currently administered by Retirement Benefit Authority (RBA) approved Administrator, namely CFC Insurance Company. The Commission makes a monthly contribution of 15% of the employees' basic salary and the employee contributes 7.5% of their monthly basic salary.

The Commission also contributes to a statutory defined contribution plan, National Social Security Fund. Contributions are determined by Local statute and are currently limited to a maximum of KES 200 per employee per month.

f) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise cash at hand and deposits held at call.

g) Comparatives

Where necessary, comparative figures have been adjusted where applicable to conform to changes in the current presentation.

h) Employee Entitlement

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

Employee entitlements to gratuity are recognized whey they accrue to employees. A provision is made for the liability for such entitlements as a result of services rendered by employees up to the balance sheet date.

i) Capital

The Commission's capitals consist of the Accumulated reserves and the Sinking Fund. The objectives when managing capital include:-

- To safeguard the Commission's ability to continue as a going concern so that it can continue to provide energy regulatory services to the nation.
- To match the profile of its assets and liability, taking account of the risks inherent in the business operation.
- To comply with the statutory requirements on provision for the renewal of depreciating assets

j) Incorporation

The Commission is a state corporation established under The Energy Act NO.12 of 2006

k) Currency

These accounts are presented in Kenya Shillings (KES)

2 a) ERB Levy

The ERB levy is payable by every consumers of electricity energy at the rate of 3 cents per every unit of electricity sold and payment in respect thereof received by Kenya Power and Lighting Company Limited (KPLC) as per Legal Notice No. 148 of 1999. The Levy collected is payable to ERC by KPLC before the 30th day of each month in respect of the immediately preceding month.

	2012 KES	2011 KES
ERB Levy	**182,574,919.05**	**172,848,342.85**

2 b). Petroleum Levy

The Petroleum levy is paid per Legal Notice Nos. 91 & 108 of 2008 on the petroleum products consumed in Kenya as follow: Motor spirit (gasoline) regular KES 50.00 per 1,000 litres at 20°C, Motor spirit (gasoline) Premium KES 50.00 per 1,000 litres at 20°C, Kerosene KES 50.00 per litre at 20°C, Automotive gas oil KES 40.00 per 1,000 litres at 20°C and Diesel oil (industrial heavy) KES 50.00 per 1,000 litres at 20°C. The levy is collected by the Kenya

Revenue Authority (KRA) and is payable to ERC by KRA before the 30th day of each month in respect of the immediately preceding month.

	2012 KES	2011 KES
Petroleum Levy	**123,358,288.80**	**134,326,355.90**

2 c). Transfers from Government

ERC was financed under the Energy Sector Recovery Project. The Funds were received from International Development Association under Credit agreement Number 3958KE. The funds were utilized as follows:

	2012 KES	2011 KES
Consultancy -Drafting of Regulations, Codes	26,947,698	2,629,839
Capacity Building – World Bank	9,396,604	
Consultancy Regulatory Management Information System	2,016,700	864,300
	38,361,002	**3,494,139**

3. Other operating revenue

	2012 KES	2011 KES
Interest on investments	10,336,128	7,415,536
Miscellaneous revenue	534,808	1,420,100
	10,870,934	**8,835,636**

4. Commission expenses

	2012 KES	2011 KES
Basic Salary	-	5,419,355
House Allowance	-	960,000
Other Allowances	-	720,000
Gratuity	-	1,680,000
Monthly Fees /Honoraria	4,355,664	3,120,000
Sitting allowance - Commissioners	5,604,000	5,100,000
Seminars, travel & accommodation	7,695,611	9,414,520
Medical	562,646	692,949
Meeting, entertainment & others	876,784	869,736
	19,094,707	**27,976,559**

Included in the Commission expenses for FY 2010/11 is KES 12,155,649 of the Director General as Chief Executive officer (CEO) of the Commission. This FY 2011/12 all the CEO's expenses amounting to KES 11,492,750 have been transferred to Employee/Staff expenses.

5. Staff salaries & benefits

	2012 KES	2011 KES
Salaries	81,902,505	70,729,110
House Allowance	28,881,468	26,516,226
Car/Commuting allowance	13,366,478	13,385,934
Pension & gratuity	13,469,080	9,545,234
Special Duty / Acting Allowance	448,176	327,376
Leave & Other Allowances	1,697,394	2,402,758
Total for staff	**139,765,101**	**122,906,638**

Included in the staff salaries and benefits is KES 8,911,200 of the

Director General's expenses as the Chief Executive of the Commission

6. Training & other Staff costs

	2012 KES	2011 KES
Medical	8,683,717	8,285,349
Life & accident insurance	1,542,004	1,663,387
Training & capacity building - ERC funded	18245,470	13,482,677
Training & capacity building - World Bank funded	9,396,604	-
Subscriptions-clubs & professional associations	897,267	660,597
Staff welfare & laundry	67,088	572,879
Staff uniforms	65,293	301,283
	38,897,443	**24,966,172**

7. Office supplies & expenses

	2012 KES	2011 KES
Stationery ,postage & supplies	4,529,813	6,271,180
Meetings, office tea & miscellaneous	3,407,413	1,242,925
Newspapers, books & periodicals	1,555,327	526,167
	9,492,552	**8,040,272**

Included in the Office supplies & expenses is KES 212,227 of the Director General's expenses as the Chief Executive of the Commission

8. Transport & travel expenses

	2012 KES	2011 KES
Travel-local and surveillance Audits	13,825,279	6,768,924
Travel-international	7,180,431	7,697,314
Fuel	1,469,628	1,224,909
Vehicle repair & service	918,921	1,097,970
Vehicle insurance & licenses	996,233	783,601
	24,390,491	**17,572,719**

Included in the Transport & travel expenses is KES 2,187,318 of the Director General's expenses as the Chief Executive of the Commission.

9. Public relations & consumer services

	2012 KES	2011 KES
Corporate subscriptions	875,234	891,423
Corporate social responsibility	3,797,681	2,618,505
Advertisements & public relations	22,610,115	14,529,185
Branding	4,125,911	5,826,579
Public seminars/workshops	3,505,712	2,593,491
Kenya Energy Environment Programme (KEEP)	2,000,000	2,000,000
	36,914,653	**28,459,183**

10. Utilities

	2012 KES	2011 KES
Telephone & fax	1,747,321	1,608,083
ISDN line	270,301	445,126
	2,017,622	**2,053,210**

11. Information and communication technology expenses

	2012 KES	2011 KES
Bandwidth	741,588	695,794
Web hosting	-	23,200
Software licenses	2,638,518	1,267,608
	3,380,106	**1,986,602**

12. Office rent & office services

	2012 KES	2011 KES
Rent	22,078,761	18,608,571
Security	1,090,345	1,506,934
Office cleaning	1,957,549	1,922,504
Repair & service-office equipment	669,703	473,273
Insurance & other	384,889	482,931
	26,181,247	**22,994,213**

13. Consultancy & other services

	2012 KES	2011 KES
Consultancy - ERC funded	40,174,524	51,711,259
Consultancy - WB funded	28,964,398	3,494,139
Bank charges	651,812	602,247
Audit fees & Expenses	300,000	300,000
	70,090,734	**56,107,645**

14. HIV/AIDS Prevention Related Expenses

	2012 KES	2011 KES
Gender	498,800	695,552
Drugs & Substance Abuse	40,000	40,000
HIV / AIDS Disability, Drug and Substance Abuse and safety	1,410,974	1,338,200
	1,949,774	**2,073,752**

15. Property, Plant and Equipment

	Motor Vehicles	Computer equipment	Furniture & Fittings	Equipment (Telephone Fax & others)	Work in Progress	Total
	KES	Equipment KES	Fittings KES	KES	KES	KES
Cost						
At 1st July,2010	**29,332,856**	**20,727,125**	**35,958,479**	**7,835,606**	**62,513,411**	**156,367,477**
Adjustment	-	6,588	-	315	-	6,273
Add: additions during the year	2,803,126	960,910	-	989,819	90,341,941	95,095,796
Less: disposal during the year	6,656,625	3,954,036	(35,958,476)	1,052,590	-	47,621,727
At 30th June 2011	**25,479,357**	**17,727,411**	**3**	**7,773,150**	**152,855,352**	**203,835,273**
Cost						
At 1st July, 2011	25,479,357	17,727,411	3	7,773,150	152,855,352	203,835,273
Adjustment	-	5,774,054	96,942,486	964,457	(152,855,352)	(49,174,354)
Add: additions during the year	14,466,450	2,536,949	201,840	2,834,251	-	20,039,490
Less: disposals during the year	(4,399,200)	(915,470)	-	(399,248)	-	(5,713,918)
At 30th June 2012	**35,546,607**	**25,122,944**	**97,144,329**	**11,172,610**		**168,986,490**

Depreciation

At 1 July, 2010	**22,913,687**	**18,894,761**	**34,036,415**	**4,998,315**	**-**	**80,843,178**
Charge for the year	1,806,807	1,136,689	-	828,292	-	3,771,788
Disposal	(6,656,626)	(4,293,793)	(34,036,412)	(104,209)	-	(45,091,040)
At 30 June, 2011	**18,063,868**	**15,737,657**	**3**	**5,722,398**	**-**	**39,523,926**
Depreciation:						

At 1 July,2011	**18,063,868**	**15,737,657**	**3**	**5,722,398**	**-**	**39,523,926**
Adjustment		(3,920,336)	-			(3,920,336)
Charge for the year	3,950,103.20	5,006,075.50	12,142,413.59	1,263,390.81	-	22,361,983
Disposal	(4,399,200)	(915,470)	-	(363,623)	-	(5,678,293)
At 30 June,2012	**17,614,771**	**15,907,927**	**12,142,417**	**6,622,166**	**-**	**52,287,280**
Net book value:						
At 30 June 2012	**17,931,836**	**9,215,018**	**85,001,912**	**4,550,444**	**-**	**116,699,210**
At 30 June 2011	**7,415,490**	**1,989,755**	**-**	**2,050,752**	**152,855,352**	**164,311,349**

NB:

1. *Included in the cost of Property, Plant and Equipment is a carrying amount of KES 11,049,804 (KES 40,063,835 in 2011) of fully depreciated property and equipment.*

2. *Work in progress brought forward amounting to KES 152,855,352 has been distributed to various classes of Property, Plant and Equipment and the balance of KES 49,174,354 transferred to intangible assets.*

16. Intangible Assets

Cost:	**KES**
At 1st July, 2011	**-**
Adjustment	49,174,355
Add: additions during the year	15,586,939
Less Disposal during the year	-
At 30th June 2012	**64,761,294**
Amortization Charge	
At 1 July, 2011	
Adjustment	3,920,334
Amortisation charge	18,252,288
Less Disposal during the year	-
At 30 June, 2012	**22,172,622**
Net book value	**42,588,672**

17. Fixed/ Call Deposits

	2012 KES	2011 KES
National Bank of Kenya (FDR)	30,000,000	135,000,000
	30,000,000	135,000,000

18. Bank Balances

National Bank of Kenya	11,294,634	1,338,755
Kenya Commercial Bank	600,277	10,604,795
Petty Cash	50,000	50,000
	11,944,912	11,993,550

19. Investments

Treasury bonds	55,537,700	55,537,700

20. Receivables

G.O.K(I.D.A project)-Consultancy	27,857,546	3,494,139
Hospital and Rent Deposits	4,660,472	4,660,472
Levies	23,767,732	27,213,620
Telephone-Deposits	94,000	94,000
Investment Interest Receivable	681,863	990,946
Staff Advance	130,187	117,957
Commission Imprest	-	277,680
Staff Imprest	2,991,492	201,798
Miscellaneous receivables	677,449.41	883,910
Miscellaneous deposits	580,000	380,000
	61,440,742	38,314,522

21. Payables

Suppliers	64,267,658	4,702,284
Rural Electrification Authority Contractors	209,400	762,220
Year end Accrual	26,061,467	57,928,765
Commission Fees payable	1,433,976	-
Energy Act Advances from energy sector stakeholders	20,087,122	120,225
	112,059,623	63,513,494

22. Provisions

Cons. Fund 90% Surplus payable for 2010/11	-	80,016,518
Cons. Fund 90% Surplus payable for 2011/12	-	1,313,379
Audit fees	300,000	300,000
Withheld VAT and Other statutory deductions	2,635,961	449,799
	2,935,961	**82,079,696**

23. Employee Benefits

Gratuity Director General	3,177,200	1,466,000
Gratuity & staff accruals	2,342,083	8,631,842
Other-payroll Benefits	4,433,820	296,939

24. Sinking Fund

The Commission established a sinking fund policy and management frame work and approved an initial provision of KES 45,000,000 sinking fund in 2010 to be separated from accumulated reserves in line with the State Corporation Act (Cap 446) section 16(1), which states that 'every state corporation shall make provision for the renewal of depreciating assets by the establishment of sinking funds and for contributions to such reserve and stabilization funds as may be required'. A further sinking fund provision of KES 10,000,000 was made in 2011 making the total sinking fund KES 55,000,000.

25. Gain on Disposal

During the year under review, in line with the Procurement and Disposal Act, ERC disposed several fixed assets above their net book value realizing a gain on disposal amounting to KES 1,123,075.

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