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ANNUAL REPORT
FINANCIAL STATEMENTS 2013/2014



Energy Regulatory Commission



Clean energy is about offering people the opportunity to do what's right for themselves and the people they love. It's about reducing the pollution that makes people sick. It's about helping the low-income families struggling to pay their gas and electricity bills.

Gloria Reuben

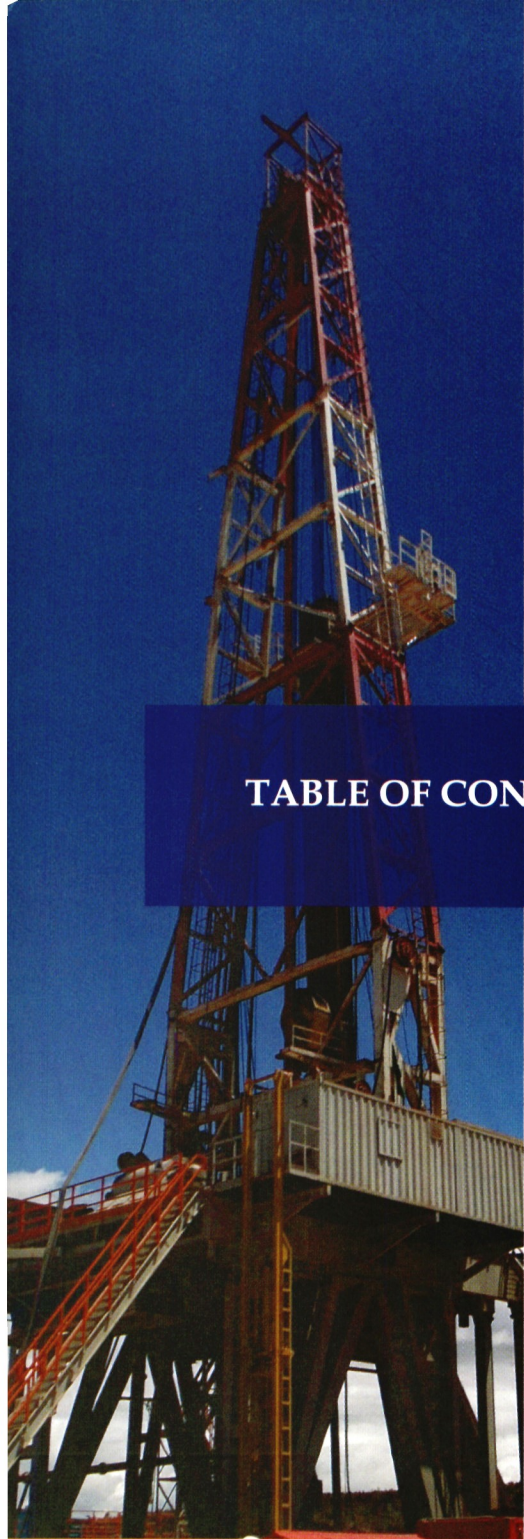


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Energy Regulatory Commission (ERC) was established under the Energy Act 2006 as a single sector regulatory agency, with responsibility for economic and technical regulation of the electric power, renewable energy, and downstream petroleum sub sectors. ERC 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

Professionalism

The Commission shall uphold high standards of professionalism; all members of the Commission and professional staff are expected to adhere to their respective code of ethics.

Predictability

The ERC will follow clearly defined rules and regulations in the delivery of its services.

Integrity

The ERC will ensure the highest levels of integrity in its work.

Responsiveness

The ERC will endeavor to be sensitive and expeditious in dealing with stakeholders.

Teamwork

The ERC will, at all times, embrace teamwork, mutual cooperation and appreciation of diverse perspectives, in the discharge of its functions.



CORPORATE
INFORMATION

Transparency

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

Accountability

The ERC will ensure the highest levels of accountability in its work.

Independence

The ERC will ensure the highest levels of independence in its work.

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 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.

(a) Background information

The Energy Regulatory Commission was formed under the Energy Act, No. 12 of 2006.

(b) Principal Activities

The principal activity/mission of the ERC is to regulate the Energy Sector 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.

(c) Key Management

The ERC's day-to-day management is under the following key organs:

The Commissioners

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

Eng. (Mrs) Emma Kiilu	- Chairperson
Eng. Joseph Ng'ang'a	- Director General
Eng. Joseph Njoroge, MBS	- Principal Secretary, Ministry of Energy and Petroleum
Eng. Titus Ndonga Gitahi	- Alternate to the Principal Secretary
Dr. Keren Kaberere	- Commissioner
Ms. Nassra Haji	- Commissioner
Mr. Stanley Ngaine	- Commissioner
Mr. Kenneth W. Akide	- Commissioner

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:



KEY ENTITY INFORMATION AND MANAGEMENT

Designation	Name
Director General	Eng. Joseph Ng'ang'a
Commission Secretary	Ms. Mueni Mutung'a
Director Petroleum	Eng. Linus Gitonga
Ag. Director Electricity	Eng. Buge Wasioya
Director Renewable Energy	Mr. Pavel Oimeke
Director Economic Regulation	Dr. Frederick Nyang
Senior Manager, HR & Admin.	Ms. Elizabeth Njau
Senior Manager, Finance and Strategic Planning	Mr. James Kilonzo
Senior Manager, Comm. & Public Affairs	Mrs. Antoinette Kamau
Ag. Procurement Manager	Mr. Michael Mwangi
Internal Auditor	CPA. Rosalind Murithi

(e) Fiduciary Oversight Arrangements

The Commission

The Commission is chaired by a Non-Executive Chairperson (Eng. Emma Kiilu) appointed by the President. All Commissioners have extensive business and administrative experience in private and/or public sectors that is applied in the management of the ERC. 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's Finance and Administration Committee is chaired by Non-Executive Commissioner and meets at least on quarterly basis. The members are Mr. Stanley Ngaine (Chair), Eng. Titus Ndonga Gitahi and Dr. Frederick Nyang. The Committee's responsibilities are ensuring overall sound financial reporting, internal system of controls, business plans and budgets, procurement, 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 Mr. Kenneth Akide (Chair), M/s Nassra Haji 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 (Chair), Eng. Titus Ndonga Gitahi, Mr. Kenneth Akide, M/s Nassra Haji and Dr. Frederick Nyang. The committee's responsibilities are to provide technical strategic direction of ERC and approve technical plans, activities, reports and budgets.

(f) Commission Headquarters

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

(g) Commission Contacts

Telephone: (254) 2002847200
E-mail: info@erc.go.ke
Website: www.erc.go.ke

(h) Commission Bankers

Kenya Commercial Bank
Moi Avenue Branch
P.O. Box 48400
GPO 00100
Nairobi, Kenya
National Bank of Kenya
Harambee Avenue Branch
P.O. Box 41862
GPO 00100
Nairobi, Kenya

(i) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser

Musalia Mwenesi Advocates
APA Insurance Arcade
Argwings Kodhek Rd
P.O. Box 29880
Kenyatta N. Hospital 00202
Nairobi, Kenya



Eng. Mrs. Emma Kiilu
Chairperson

Eng. Mrs. Emma Kiilu was born in 1957. She holds a Bachelor of Science in Electrical Engineering and a Masters in Business Administration both from the University of Nairobi.

She is a registered Consulting Engineer, a member of the Institution of Engineers of Kenya and also a Registered Class A Contractor. Before being appointed a Commissioner in Energy Regulatory Commission, She had served as a Director of the board of Rural Electrification Authority.



Eng. Joseph Ng'ang'a
Director General

Eng. Ng'ang'a brings to the Director General's office over three decades of experience in the energy sector. He started out as a drilling engineer with the Kenya Power and Lighting Company at Olkaria in the early 1980s, a time when geothermal power generation in Kenya was at its infancy. Over the years, Eng. Ng'ang'a served in various technical and management positions at Kenya Power & Lighting Company and later at the Kenya Electricity Generating Company (KenGen). He had risen to Deputy Managing Director at KenGen by February 2010 when he joined ERC.

THE COMMISSIONERS





Eng. Joseph K Njoroge, who was born in 1958, has wide experience in power engineering and management. He joined KPLC in 1980 and rose through the ranks to become Managing Director in June 2007. Eng. Njoroge holds a Bachelor of Science degree in electrical engineering and Master of Business Administration with a major in strategic management. He is a Chartered Electrical Engineer, a member of the Institution of Engineering and Technology, UK, a Registered Consulting Engineer, and is also a Fellow of the Institution of Engineers of Kenya. He is also Chairman of the MBA Chapter of University of Nairobi Alumni Association.



Eng. Joseph Njoroge
Principal Secretary,
Ministry of Energy and Petroleum

Eng. Gitahi worked with the Ministry of Public Works from 1983 to 2010, rising through the ranks to a senior engineer position where he was in charge of Design and Supervision of Mechanical Engineering Works in Government Building and Institutions.

In 2010, Eng. Gitahi joined the Ministry of Energy and Petroleum. He has attended several short courses both locally and abroad. Some of the courses attended include Electrical Power Systems Engineering (Tokyo, Japan), Energy Policy Development for Developing Countries (Beijing, China), Power Engineering & Management, Seoul, S. Korea), Environmental Impact Assessment of Projects. He is a Registered Engineer (R. Eng.) and is a Member of the Institution of Engineers of Kenya (MIEK)



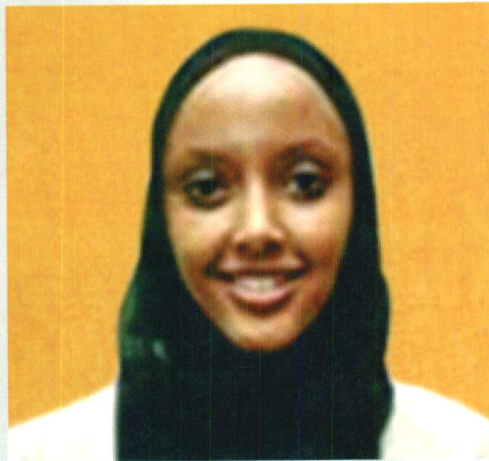
Eng. Titus Ndonga Gitahi
Alternate to the Principal Secretary



Dr. Keren Kanuthu Gitundu Kaberere
Commissioner

Dr. Keren Kanuthu Gitundu Kaberere holds a Doctor of Philosophy in Electrical Engineering from the University of Cape Town, South Africa. She also holds Master and Bachelor of Science degrees in Electrical and Electronic Engineering both from the University of Nairobi.

Dr. Kaberere is a Senior Lecturer in the Department of Electrical and Electronic Engineering at Jomo Kenyatta University of Agriculture and Technology (JKUAT), which she joined in 1993.



Ms Nassra Abdirahman Haji
Commissioner

Ms. Nassra A. Haji holds a Master's degree in Public Administration and Public Policy from London School of Economics and a Bachelor of Science degree in Development Economics from the University of London.

From 2001, she initially worked for Alliance for Africa which is a non-governmental organization that focuses on women empowerment. Ms. Nassra later joined the United Nations (UN) in New York where she was in the division for advancement of women within the Department of Economic and Social Affairs (DESA).



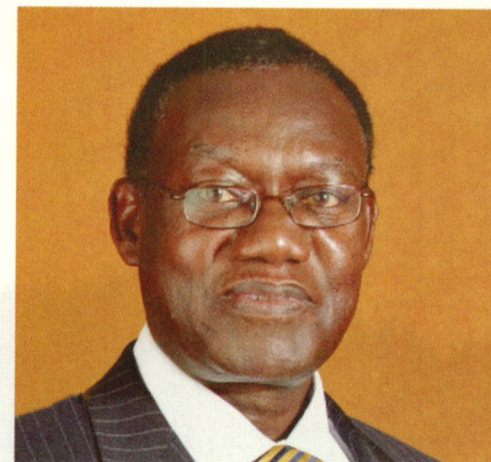


Mr. Stanley M. Ngaine was born on 7th September 1949. He holds a Bachelor of Commerce degree (Accounting option) from University of Nairobi He is a Fellow of Chartered Certified Accountants (FCCA-UK) and is also an associate member of a Chartered Institute of Management Accountants (ACMA-UK). Mr. Ngaine is a Certified Public Accountant, CPA (K) and a Fellow of the World Bank Economic Institute.

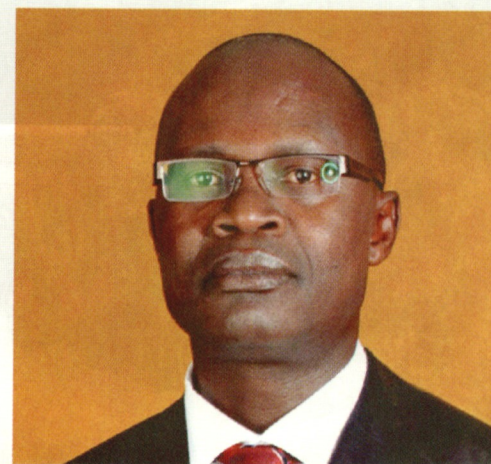
Mr. Ngaine worked as Accounts Manager and Group accountant at Gailey & Roberts Ltd from 1974 to 1976. In July 1976, he joined Esso Standard Kenya Ltd as a Chief Accountant up to 1982 before joining Industrial Development bank Ltd as a Financial Controller and Deputy Managing Director. In July 1985, he joined Business Machine Kenya Ltd & Associated Group of Companies as a Group Financial Director and Company Secretary. Between 1992 and 2004, Mr. Ngaine worked as the Managing Director of the Amuiri Investment & Management Ltd. He also worked in the Ministry of Finance (GoK) from 2001 to 2004 as Director Fiscal & Monetary policy

Mr. Kenneth Wabwire Akide holds a Bachelor of Laws (LL.B) degree from the University of Nairobi and a Diploma from the Kenya School of Law. Mr. Akide is a Practicing Lawyer, an Associate of the Chartered Institute of Insurers (ACII) and an Associate of the Chartered Institute of Arbitrators ACIarb.

Mr. Akide was the Chairman of the Law Society of Kenya from March 2010 to March 2012.



Mr. Stanley M. Ngaine
Commissioner



Mr. Kenneth Wabwire Akide
Commissioner



Eng. Joseph Ng'ang'a

Director General:
Commissioner and Chief Executive Officer



Mueni Mutung'a

Commission Secretary:
Secretary to the Commission and head of the legal function
of the Commission.

MANAGEMENT TEAM

Director Economic Regulation:

Heading the economic regulation function of the Commission.



Dr. Frederick Nyang

Acting Director Electricity:

Heading the electricity subsector regulation function of the Commission.



Eng. Buge Wasioya



Eng. Linus Gitonga

Director Petroleum Regulation:

Heading the downstream petroleum regulation function of the Commission.



Pavel Oimeke

Director Renewable Energy:

Heading the renewable energy regulation function of the Commission.

Senior Manager, Human Resource & Administration:
Heading the human resource and administrative functions
of the Commission.



Elizabeth Njau

Senior Manager, Finance and Strategic Planning:
Heading the finance, ICT, strategic planning and
performance contracting functions of the Commission.



James Kilonzo



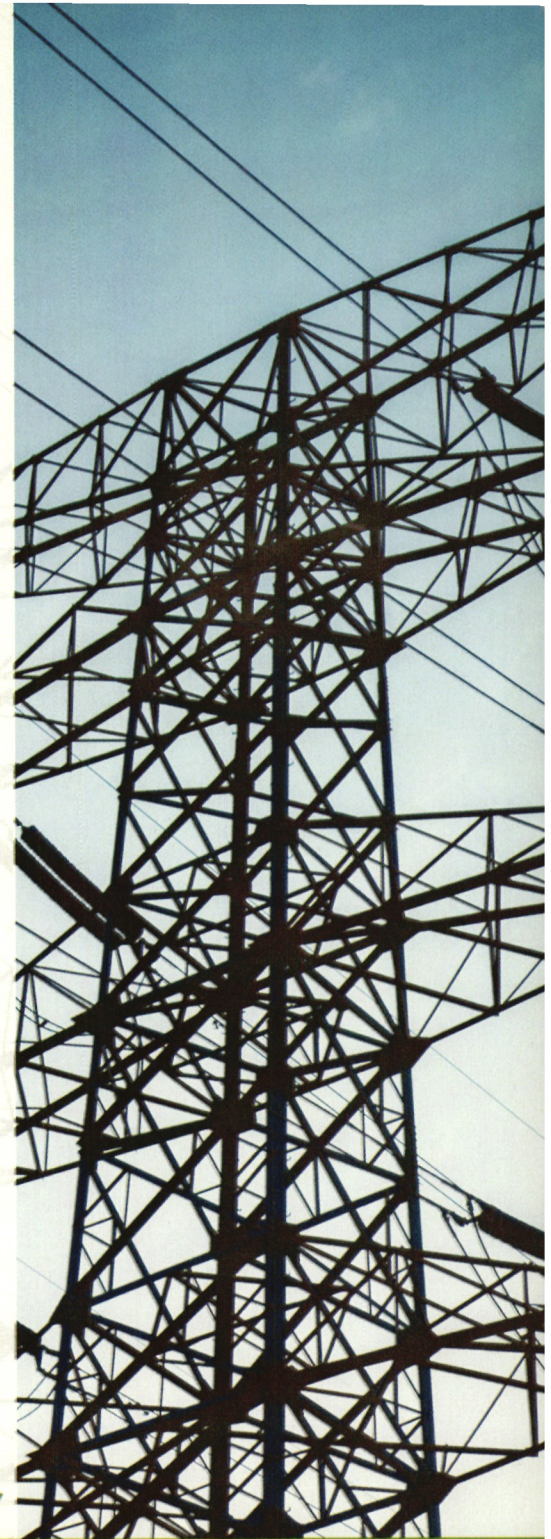
Senior Manager, Communication & Public Affairs:
Heading the communication, Public Affairs and Corporate Social Responsibility functions of the Commission.

Mrs. Antoinette Kamau



Internal Auditor:
Providing value added services in controlling risks, compliance monitoring and continuously improving internal control systems.

CPA Rosalind Murithi



Acting Procurement Manager:
Heading the Supplies and Procurement functions of the
Commission.



Mr. Michael Mwangi



CHAIRPERSON'S STATEMENT

Eng. Mrs. Emma Kiilu Chairperson



It is with great pleasure that I present the Energy Regulatory Commission's 2013-2014 Annual Report and Financial Statements. The Commission was established in 2007 to regulate Kenya's energy sector including the electricity subsector (generation, transmission and supply of electricity), the petroleum subsector (importation, transport, storage and retailing) and the renewable energy subsector (solar, geothermal, wind power and biomass).

Kenya's energy sector is attracting investment from both domestic and foreign sources. Oil and gas exploration is an on-going activity in preparation for commercial production. Alongside this, the energy sector has a roadmap of increasing electricity output to 5,000MW by 2017 through a mix of renewable energy, liquefied natural gas and locally-produced coal. Electricity transmission and distribution systems are also being expanded and upgraded accordingly.

In November 2013, the Commission introduced new retail tariffs for electricity that will apply in the next 3 years. The tariff reviews took account of the commissioning of new electricity generating plants, especially geothermal, that will be less reliant on fossil fuel. Besides, the Commission is continuously exploring ways to reduce tariffs in order to lower the costs of living, while ensuring the tariffs remain attractive to investors. That aside, there is marked progress towards laying a solid foundation for competition in the electricity supply industry. This will initially be through bilateral agreements at

the regional level. But it is anticipated that the shift will attract investors who will set the stage for competition for and in the market. This will in turn lower prices.

On the other hand, the country continues to record growth in the downstream petroleum sector as a result of the increased demand for products and services both locally and regionally. As a consequence, plans have been put in place to ensure that the current petroleum infrastructure is expanded to cope with rising demand. The country has in the recent past experienced increased interest by developers in the development of LPG infrastructure. This has been buoyed by a growth in LPG consumption as more Kenyans enter the middle class and abandon traditional biomass sources as cooking fuel.

On this account, the Commission continues to monitor the quality of petroleum fuels used in the country through a national marking and monitoring program. The program ensures that consumers are protected from adulterated fuels and hence safeguards their vehicles from damage. The program also protects the country's tax revenue by preventing dumping of tax exempt export bound petroleum products into the local market.

At a policy level, the Commission is participating in reforms of national energy policy and act. The draft National Energy Bill and draft National Energy Policy will align the energy sector to the Constitution of Kenya 2010 and to the country's Vision 2030. The Commission remains focused on its mandate, in particular on the role it plays in protecting consumers of energy products and services, and in maintaining a competitive business environment.

In this regard, the Commission appreciates the support it has received from both the national and county governments, the energy sector players and from all Kenyans in general. Finally, I take this opportunity to commend the Commission's staff, management and my fellow Commissioners for the conclusion of yet another successful year.

Eng. Emma Kiilu
CHAIRPERSON

REPORT OF THE DIRECTOR GENERAL

Eng. Joseph Ng'ang'a
Director General:



Energy is a key driver of the economy. However, its development is capital intensive and long-term in nature. Hence adequate planning is necessary. On this account, the planned energy infrastructure by the government is critical in the delivery of Vision 2030. As a Commission, we shall play our part in ensuring the regulatory environment supports development of a robust and efficient power, downstream petroleum and renewable energy market.

With the discovery of oil and gas in the country, the petroleum industry has seen a lot of interest and growth. We believe the future is bright for this sub-sector. We also plan to enhance the uptake of LPG through closer oversight and regulatory incentives.

On the power sub-sector, the Commission has been involved in the capacity expansion plans, in particular, project 5000MW+ under the Ministry of Energy and Petroleum. We have committed to review Power Purchase Agreements (PPA) within 30 days, a significant reduction from the statutory 90 days indicated in our service charter. This will save investors time and finances in the project preparation process.

That aside, the Commission has continued to involve stakeholders in the development of regulations, to ensure the regulatory environment is supportive of business. Challenges

however remain from illegal and unlicensed businesses especially in petroleum. Internally, we have increased our human resource capacity in order to undertake our activities efficiently. In line with our Strategic Plan for the period 2012-2017, the Commission is on a path of excellence and continual improvement.

In the period under review, the Commission collected KES 154million from the Petroleum Levy compared to KES.137million the previous year, an increase of 12%. On the other hand, the Electricity Levy increased by 8% from KES 194 million in 2012/13 to KES 211 million in 2013/14.

Government transfers decreased by 11% from KES 90 million in 2012/13 to KES 79 million in 2013/14. In total, revenue went up by 6% from KES 424million in 2012/13 to KES 450 Million in 2013/14. Total recurrent expenditure decreased by 1% from KES 439 million in 2012/13 to KES 436 million.

The Commission's total asset base reduced by 8% from KES 273 million in the previous period to KES 251 million in 2013/14. Non-current assets went down by 30% to KES 84 million down from KES 84 million due to normal depreciation. Current assets went up by 16% to KES 112 million from KES 96 million.

Current liabilities decreased by 38% to KES 58 million down from KES 78 million in the 2012/13 financial year mainly due to settlement of contracted projects. Further, total equity increased by 7% from KES 180 million to KES 193 million in 2013/14.

Eng. Joseph Ng'ang'a
Director General

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 the 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 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.

The Commission

The Commission is chaired by a Non-Executive Chairperson (Eng. Emma Kiilu) appointed by the President. All Commissioners have extensive business and administrative experience in private and/or public sectors that is applied in the management of the ERC. 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.

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The Technical Committee is chaired by a Non-Executive Commissioner and meets at least on quarterly basis. The members are, Dr. Keren Kaberere (Chair), Eng. Titus Ndonga Gitahi, Mr. Kenneth Akide, M/s Nassra Haji and Dr. Frederick Nyang. 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 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 ERC's assets.

The responsibility for the integrity, reliability and objectivity of the ERC's financial statements 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.

Statement of Risk Management and Internal Control

The Commission has recognised its responsibility to manage both internal and external risks as a key component of good corporate governance and is committed to embedding risk management into the daily operations of the Commission; from the setting of objectives, to financial planning towards achieving the set objectives, through

to departmental processes established to aid provision of service by the Commission. It is believed that effective risk management shall help the Commission to achieve its corporate objectives and provide better services. The Commission has developed and is implementing an Institutional Risk Management Policy Framework (IRMPF)

Responsibility


Risk management is one of the most important activities of the Commission. The Commission through the Audit and Risk Committee has a responsibility for overseeing risk management within ERC by determining that appropriate risk management strategies and policies are in place, and that processes established are adequate and effective. The Commission defines ERC's overall level of risk tolerance and ensuring that there are adequate tools and resources for managing risks.

Internal Controls

Internal controls are designed to support the Commission in achieving its objectives. The risks related to the achievement of objectives need to be identified and evaluated in order to manage them. Thus, identification and assessment of risks is a prerequisite for internal control in ERC. The continuity of operations is ensured by safeguarding critical functions and essential resources.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Commission believes in adding value to Kenyan communities by investing in their economic and social growth. This is achieved through structured, continuous Corporate Social Responsibility (CSR) programmes aimed at addressing some of the social, environmental and economic challenges facing Kenyan communities. In the 2013/14 financial year, the Commission was involved in various CSR activities across the country. Among them was sponsoring the Africa Swimming Gala, planting tree seedlings at Eburru forest, a visit to Shelter and the SOS Children's homes and the donation of a water tank to Ogande School for the Mentally Challenged. In the long run, the Commission plans to reach out in a more focused manner. A CSR policy will be rolled out to meet this goal.



**ENERGY IS CRUCIAL IN
KENYA'S ECONOMIC
DEVELOPMENT**

CHAPTER 1: STATUS OF THE INDUSTRY

1.1 Economy

Kenya experienced an improved economic growth rate of 4.7 % in 2013 compared to 4.6% growth in the previous year. The growth can be attributed to relatively low and stable inflation, moderate interest rates and a stable currency. However, uncertainty due to the general election held in March 2013, rising incidents of insecurity and insufficient rains during the fourth quarter of 2013 impacted negatively on the country's economic growth. Kenya's agricultural sector, a major determinant of economic development, saw a reduced growth of 2.9 % compared to 4.2% in 2012 which to a great extent was caused by poor rainfall in some ecological zones during the "short rains" season. Manufacturing and construction sectors each recorded a positive growth rate of 4.8 % and 5.5 % in 2013 compared to 3.2 % and 4.8 % in 2012, respectively. Similarly, electricity and water sectors recorded a positive growth rate of 5.6 % though lower than previous year. The transport and communication sector recorded improved growth of 6.0 % in 2013 compared to a revised growth of 4.7 % in 2012 as financial intermediation and hospitality industry grew by 7.2 % and 4.5 % respectively.

1.2 Energy Market

1.2.1 The Electricity Subsector

The demand for electric power (proxied by energy sales) continued to grow significantly from financial year 2008/09 to 2013/14 at an average annual growth rate of 5.97%. This was driven by a combination of normal economic growth, increased connections courtesy of the Rural Electrification programme as well as the flagship projects which are major drivers of Vision 2030. Emergency power production decreased from 120MW to 30MW after the government retired 90MW resulting in significant savings in terms of fuel cost charge. 30MW was retained due to network challenges experienced in the Western Kenya region but this is however expected to be retired in the near future when network infrastructure will have been fully developed.

Peak demand rose from 1,354MW in 2012/13 to 1,468MW in 2013/14 representing an increase of 8.42%. The supply of electricity had a 9.31% increase from 8,087GWh in 2012/13 to 8,840GWh in 2013/14. Recorded total consumption also demonstrated a significant

increase, at 7,244GWh compared to 6,581GWh in 2012/2013. Total domestic demand for electricity grew by 6.41% from 1,670 million kWh in 2013 to 1,777 million kWh in 2014.

Further, the number of customers connected to the national grid increased from 2,330,962 in 2012/13 to 2,766,441 in 2013/14. This represents an 18.68% increase in customer connections. In the previous period 2012/13 there was a 14.34% increase, which shows that there was a slight increase in the rate of connecting new customers mainly as a result of the Last Mile Connectivity project implemented by the Kenya Power and Lighting Company (KPLC).

Sales in the industrial/commercial customer category increased from 3,440GWh in fiscal year 2012/2013 to 3,819GWh in the year 2013/2014 representing an 11.02% increase in demand. There was an increase of 5.6% in the number of customers connected in this category.

Customers connected through the Rural Electrification Programme rose by 16% from 453,544 customers in 2012/13 to 528,552 customers in 2013/14.

Table 1, depicts KPLC sales by customer type. Industrial/commercial and domestic consumers consumed 3,819GWh and 1,777GWh, respectively in 2013/14. Total sales increased by 10.1% compared to 3.8% the previous year. Consumption sales of other categories, comprising of Small Consumers (SC) and Street Lighting (SL), increased marginally except for Interruptible Supply (IT) which had significantly increased by 56% from 18GWh in 2012/13 to 28GWh in 2013/14.

Table 1: KPLC Sales in GWh by Customer Category

Tariff	Customer	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
DC	Domestic	1,254	1,290	1,424	1,531	1,670	1,777
SC	Small Commercial	823	823	904	993	998	1,107
CI	Commercial and Industrial	3,020	3,153	3,401	3,419	3,440	3,819
IT	Off-Peak	43	36	38	31	18	28
SL	Street Lighting	15	16	18	16	18	20
	Total	5,155	5,318	5,785	5,959	6,144	6,751
	% Increase p.a	2.40%	3.20%	8.80%	3.00%	3.10%	9.9%

The largest power generator in the country is the Kenya Electricity Generating Company (KenGen) which accounted for 70.2% of the industry's effective capacity as at 2013/14. Independent Power Producers (IPPs) accounted for 27.2% while Emergency Power Producers accounted for 1.6% in the same period. Isolated grid generation accounted for 0.83% under the Rural Electrification Programme (REP). This generation mix comprises of 44.63% hydro, 31.14% fossil fuels, 22.71% geothermal, 2% bagasse (cogeneration) and 0.2% wind. However, generation from hydro sources decreased as a result of poor hydrology hence the dependence on expensive fossil fuel generation which saw electricity prices increase. Kenya's current effective installed (grid connected) electricity capacity is 1,804MW as depicted in table 2 below.

As at 2013/14, Kenya had an installed electricity generation capacity of 1,919.01MW comprising hydro (818.2MW), thermal (586.4MW), geothermal (363.4 MW), wind (5.9MW), cogeneration (26MW), Solar 0.7MW, Small Hydros 0.814MW and emergency power (59MW).

Table 2: Power Generation Capacity

Licensee	Installed Capacity in MW as at June 30, 2014										
	Types of Generating Plants									Total	% of Total Generation
Hydro	Geothermal	Wind	Solar	Cogeneration (Biomass)	Gas Turbine	Medium Speed Diesel	High Speed Diesel	Emergency			
KenGen	817.1	253.4	5.3	0.7		60	170	8.6		1,315.10	68.53%
Tsavo							74			74.00	3.86%
Iberafrica							108.5			108.50	5.65%
OrPower4		110								110.00	5.73%
Mumias											
Sugar					26					26.00	1.35%
Rabai							90			90.00	4.69%
Imenti Tea	0.3									0.30	0.02%
James Finlay								1.45		1.45	0.08%
Unilever								1.75		1.75	0.09%
Gulfpower										0.00	0.00%
Triumph										0.00	0.00%
Thika Power							87			87.00	4.53%
Isolated Grids							19.3	25.8		45.10	2.35%
Small Hydros	0.814									0.81	0.04%
Aggreko									30	30.00	3.07%
Total	818.214	363.4	5.3	0.7	26	60	548.8	37.6	59	1,890.01	100.00%
% of Source of Power	42.64%	18.94%	0.28%	0.04%	1.35%	3.13%	28.60%	1.96%	3.07%	100.00%	

Source: Energy Regulatory Commission

Table 3: Installed Capacity of Nominal and Effective Power Generation

Ownership	Source	Installed capacity as at 30.06.2014		Installed capacity as at 30.06.2013	
		Nominal (MW)	Effective (MW)	Nominal(MW)	Effective(MW)
KenGen	Hydro	816	767	817	797
	Petrol- Thermal- EPPs	120	120	30	30
	Petro- thermal	259	209	264	228
	Geothermal	158	153	253	238
	Wind	5.3	5.1	5.3	5.1
IPPs	Petrol-thermal	272.6	273.1	359.5	359.5
	Geothermal	92.4	92.4	110	110
	Bagasse Cogeneration	26	21.5	26	21.5
	Small hydro	0.3	0.3	0.814	0.814
Imports	UETCL	-	-	-	-
	TANESCO	-	-	-	-
Rural Electrification Programme	Petro-thermal	16	11.6	19	15
	Totals	1765.6	1653	1884.614	1804.914

Source: Energy Regulatory Commission

1.2.2 Electricity Subsector Infrastructure

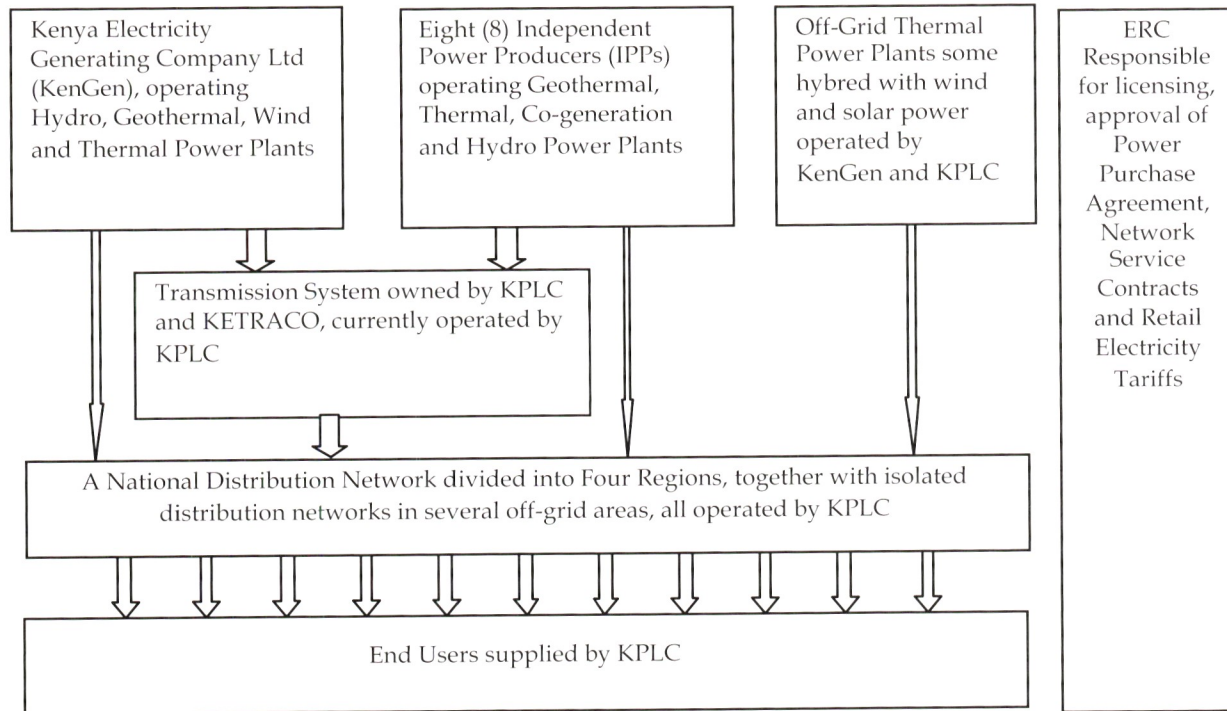
During the period 2013/14, the government embarked on a fast-tracked energy project dubbed Project 5000+MW with the goal of generating more than 5,000MW of power within 40 months. Several initiatives were placed under this project as implementation began almost immediately. This has seen the Commission approve six PPAs with capacity of 117.2MW all from renewable energy sources within the same period.

Thika power MSD with a capacity of 87MW was commissioned in July 2013 which saw the installed capacity increase in that period. In the same 2013/14 period a small hydro power plant, Gikira, with installed capacity of 0.514, two Olkaria wellheads each with installed capacity of 12.8MW and Olkaria IV with installed capacity 70MW were commissioned. This has seen installed capacity increase from 1,765MW to 1,885MW during the period 2012/13 and 2013/14, respectively.

In the year under review, transmission and distribution network's circuit length was 56,797 kilometres for all voltage levels. This represented a 14% annual growth rate compared to the previous period, 2012/2013 and the highest growth rate since 2009. It has been greatly influenced by Kenya Electricity Transmission Company (KETRACO) which plans, designs, constructs and maintains all transmission lines above 132KV.

As graphically depicted in figure 1 (below), the Electricity Supply Industry in Kenya is organized on the single buyer model. During the period under review, electricity generation was carried out by nine electric power producers under licences and permits issued by the Commission. The net electrical energy from the power plants was bought by KPLC through power purchase agreements (PPAs) approved by the Commission. The bulk of the energy was then conveyed over transmission systems owned by KPLC or KETRACO, both licensed by the Commission to provide transmission services. Finally, KPLC carried out distribution and retail supply of the electrical energy to end users in accordance with licences and permits issued to it by the Commission, and at retail tariffs approved by the Commission.

Figure 1: Electricity Supply Structure in Kenya



1.3 The Petroleum Subsector

Demand for petroleum increased in the power generation market due to insufficient rains, which limited hydropower generation. Total domestic demand for petroleum products increased by 1.4% from 3,686 tonnes in 2012 to 3,739.2 tonnes in 2013. Imports of crude petroleum decreased from 997,000 tonnes in 2012 to 567,000 tonnes in 2013 while imports of finished petroleum products increased from 2,803.4 tonnes in 2012 to 2,985.9 tonnes in 2013. This is explained by the closure of KPRL as the country opted to import white products to suffice national demand.

Demand for Light diesel (Automotive Gas Oil - AGO) increased from 1,486.3 tonnes in 2012 to 1,601.2 tonnes in 2013 indicating growth in the transport sector which is a major user of AGO. The demand for motor spirit and aviation spirit rose while demand for Liquefied Petroleum Gas, illuminating kerosene and Jet/turbo fuel declined. The Energy Regulatory 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 macro level, the country's total import of petroleum bill fell by 3.5% from Ksh 326.9 Billion in 2012 to Ksh.315.4 Billion in 2013. The decrease in the import bill was attributed to reduced import quantities and lower international prices. Table 4 below provides details on demand and supply of petroleum products in Kenya for the period 2009 - 2013.

Table 4: Petroleum Supply and Demand, 2009-2013

Demand	2009	2010	2011	2012	2013
Liquefied Petroleum Gas	74.6	87.8	91.6	93.60	92.9
Motor Spirit(Premium and Regular	461.7	597.2	562.1	618.50	774.5
Aviation Spirit	1.4	2.5	2.8	1.80	2.2
Jet/turbo fuel	570.9	539.6	670.6	671.00	551.3
Illuminating Kerosene	332.8	316.0	269.6	309.00	296.1
Light Diesel Oil	1,416.1	1,517.3	1,461.8	1,486.30	1601.2
Heavy Diesel Oil	23.9	25.0	27.6	20.80	18.7
Fuel Oil	729.4	680.3	771.8	437.0	371.0
Total	3,610.8	3,765.7	3,857.9	3,638.0	3707.9
Refinery Usage	92.4	101.4	83.7	48.0	31.3
Total Domestic Demand	3,703.2	3,867.1	3,941.6	3,686.0	3739.2
Export of petroleum fuels	20.7	29.4	32.1	11.7	6.2
Total Demand	3,723.9	3,896.5	3,973.7	3,697.7	3745.4
Supply					
Imports					
Crude oil	1,610.1	1,551.5	1,772.1	997.0	567.4
Petroleum fuels	2,259.0	2,071.9	2,235.6	2,803.4	2985.9
Total	3,869.1	3,623.4	4,007.7	3,800.4	3553.3
Adjustment	-145.2	273.1	-34.0	-102.7	192.1
Total Supply	3,723.9	3,896.5	3,973.7	3,697.7	3745.4

Source: Energy Regulatory Commission

1.3.1 Petroleum subsector infrastructure

During the year, the Commission issued construction permits for 2 new aviation fuels depots, one new general petroleum storage depot and 6 new LPG storage and filling facilities.

The downstream petroleum sub-sector infrastructure in Kenya currently comprises the following:-

- i. Four receipt jetties:- Kipevu Oil Terminal, Shimanzi Oil Terminal, Mbaraki Wharf and African Gas & Oil Company Limited Single Buoy Mooring for LPG;
- ii. One refinery;
- iii. One pipeline transport company (total pipe length of 896km);
- iv. 36 bulk petroleum depots;
- v. 24 bulk LPG facilities; and
- vi. 1,600 retail stations.

1.4 Renewable Energy Subsector

Kenya has an abundance of renewable energy sources (RES) which include wind, biomass, small hydros, geothermal, biogas, solar and municipal waste energy. In the last year, there was an upsurge of investment in solar projects by both government and private investors. This will provide electricity in areas not connected to the national grid and reduce the cost of power for heavy consumers. Examples include Williamson Tea Kenya Limited that has invested in a 1 MW solar project aimed at reducing their power bills. NGOs have embarked on distribution of solar lanterns, solar phone chargers and solar fridges to reduce the use of kerosene in rural and sub-urban areas.

Preparations for the school laptop project has seen the government, through the Rural Electrification Authority, invest in solar projects to provide power to schools without grid connection. All these indicate the potential of renewable energy in contributing to the transformation of Kenya's economy.

In addition, the commission approved power purchase agreements for wind projects such the Lake Turkana Wind Project and Kinangop Wind Projects, allowing the investors to proceed with construction.

During the year, 43 proposals with a total capacity of 699.43MW were approved under the Feed in Tariffs policy. The breakdown is as follows:

Table 5: Total Capacity under the Feed in Tariffs

	Solar	Small hydro	Biomass/Biogas	Geothermal	TOTAL MW
No. of Proposals	18	20	4	1	43
Total Capacity (MW)	554.6	77.83	52	15	699.43

Source: Energy Regulatory Commission

Below is a summary showing the potential of renewable energy in Kenya.

Table 6: Renewable Energy Sources Potential as at June 2013

SOURCE	Minimum, MW	Maximum [Varis], MW
Hydropower	3,000	6,000
Geothermal Power	7,000	10,000
Biomass (Cogen)	193	350
Biogas	29	131
Solar PV	106	15,000
Wind	300	1000
Total	10,628	32,481

Source: Energy Regulatory Commission



Energy Regulatory Commission

**ERC SIGNBOARD AT
EBURRU TREE PLANTING
PROJECT SITE**

EBURRU REAFFORESTATION PROGRAMME

A VISION 2030 FLAGSHIP PROJECT



ISO 9001:2008 CE

Energy Regulatory Commission (ERC) in
Collaboration with Kenya Forest Service (KFS)
Tree Planting Project

Quality Energy for Quality Life

Kenya (KENYA VISION 2030

CHAPTER 2: LICENSING

The Commission is mandated to license the electricity, petroleum and renewable energy sub-sectors. The Commission thus ensures that licensees comply with the law in accordance with Section 6 (a) Energy Act 2006, with regulations and license conditions so as to protect energy consumers.

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 transmission of electric power. During the period under review, the Commission issued three generation and one transmission licences as shown in Table 7 below.

Table 7: Electric Power Generation Licences and Permits Issued

Licensee	Technology	Location	Capacity (MW)	Effective Date	Days to Process
Kenya Transmission Company	Transmission	Nairobi	132KV, 220KV, 400KV and 500KV and HVDC lines	18th July 2013	60
Kinangop Wind Park Limited (Modification)	Wind	Near heni village in division, nyandarua	61 MW	10th October 2013	60
Regen Terem	Hydro	Mt Elgon Bungoma County	5.2 MW	27th February 2014	60
CumminsBiomass	Marigat	Baringo County	8.4MW	29th January 2014	60

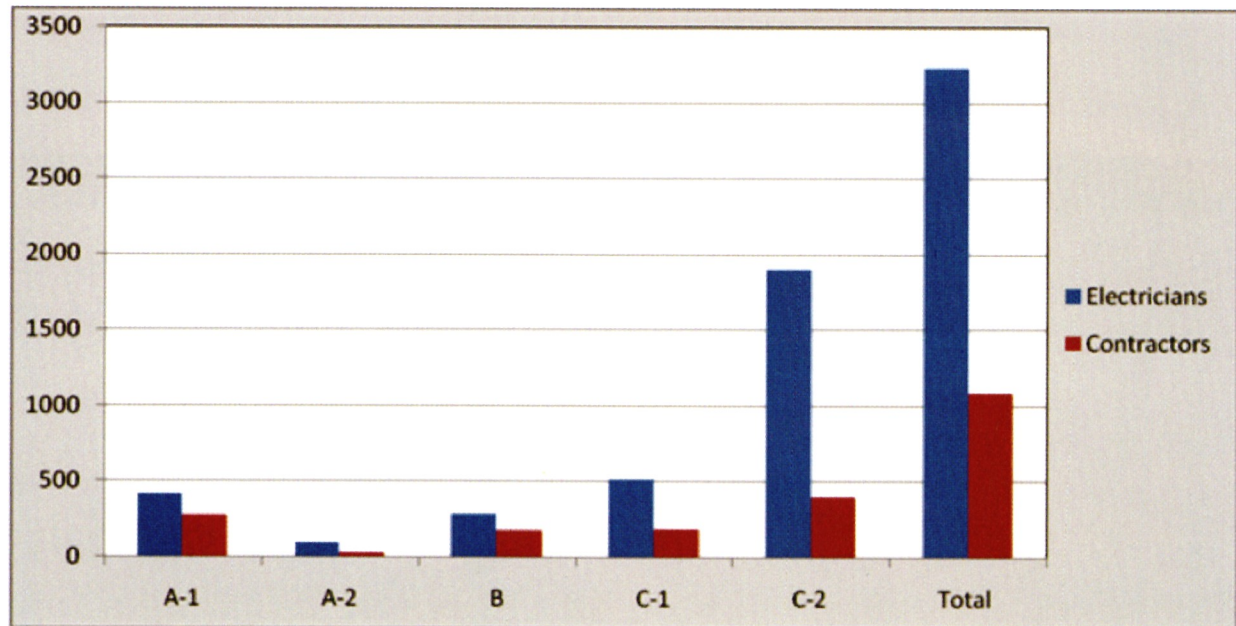
Source: Energy Regulatory Commission

CHAPTER 2: LICENSING

2.1.2 Licensing of Contractors and Electricians

During the year under review, licensing of electrical contractors and electricians was undertaken pursuant to Section 38(4) of the Energy Act 2006. A total of 549 applications were processed. Of these, 264 licences for electricians and 98 contractor certificates were issued in the same period. The entire exercise took an average 65 days to process each licence.

Figure 2: Distribution of Categories of Licences issued.



Source: Energy Regulatory Commission

2.2 Petroleum Subsector

The Commission, through the mandate of Section 80 of the Energy Act 2006, issued licenses for importation, refining, exportation, wholesale, transportation and storage of petroleum products. The Commission received a total of 970 applications out of which 607 were approved and licenses issued while 363 were rejected due to lack of compliance with the stated requirements for licensing. A summary of licenses applied for and the outcome is listed in Table 8 below.

Table 8: Types of licenses received and processed

No.	License Description	Total number received	Number approved
1	Blending, Export and Wholesale of Lubricants	2	1
2	Bunkering of Petroleum Products (Except LPG)	2	1
3	Import, Export and Wholesale of Bitumen	2	2
4	Import Export and Wholesale of Lubricants	7	5
5	Import for Export (Transit) of Petroleum Products (Except LPG)	49	18
6	Import, Export and Wholesale of LPG in Bulk and Cylinders	36	24
7	Import, Export, Storage, Filling and Wholesale of LPG	23	9
8	Import, Export and Wholesale of Petroleum Products (Except LPG)	111	48
9	Import, Storage, Export and Wholesale of Petroleum Products (Except LPG)	4	4
10	Import, Export and Wholesale of Furnace Oil	2	1
11	Refining and Storage of Petroleum Products	1	1

12	Retail of Petroleum Products (Except LPG)	1	1
13	Storage of Bulk LPG	3	1
14	Storage and Filling of LPG	24	11
15	Storage and Wholesale of LPG in Cylinders	5	1
16	Storage of Petroleum Products (Except LPG)	43	27
17	Transport of LPG in Bulk	60	37
18	Wholesale of LPG in Bulk	50	30
19	Wholesale of LPG in Cylinders	47	31
20	Wholesale of LPG in Bulk and Cylinders	20	9
21	Wholesale of Petroleum Products (Except LPG)	478	345
TOTAL		970	607

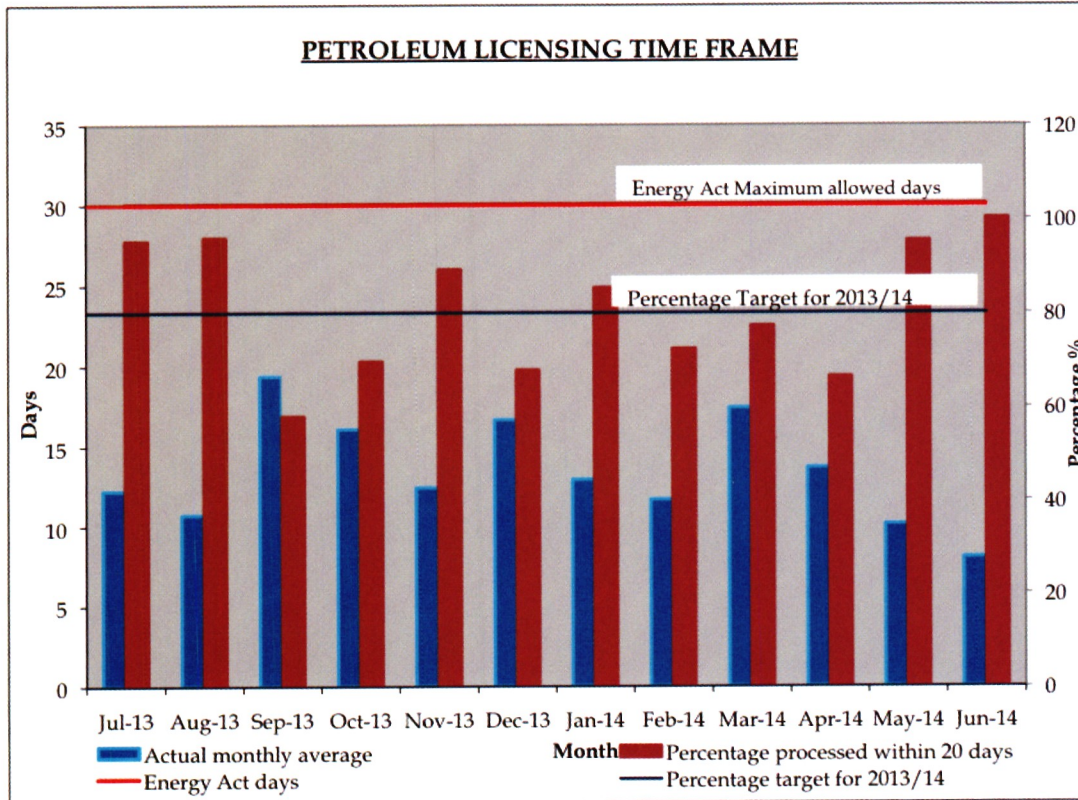
Source: Energy Regulatory Commission

2.2.1 Performance Level

In accordance with section 82 (1) of the Energy Act 2006, the Commission is mandated to either grant or refuse to grant a license within 30 days of receipt of the application. During the year under review, the average number of days taken between receiving applications and issuing of licenses or a rejection letter informing applicants they were not successful was 14 days.

In addition, 80.30% of total applications received were processed within 20 days which was above the target of 80% set for the year 2013/2014. The performance is depicted in Figures 4 and 5 below.

Figure 3: Monthly average licensing days



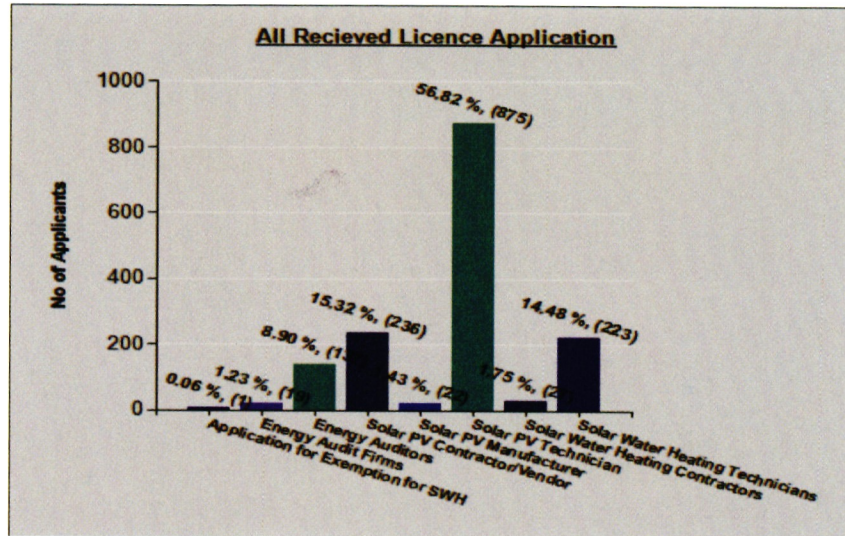
Source: Energy Regulatory Commission

2.3 Renewable Energy Subsector

Licensing

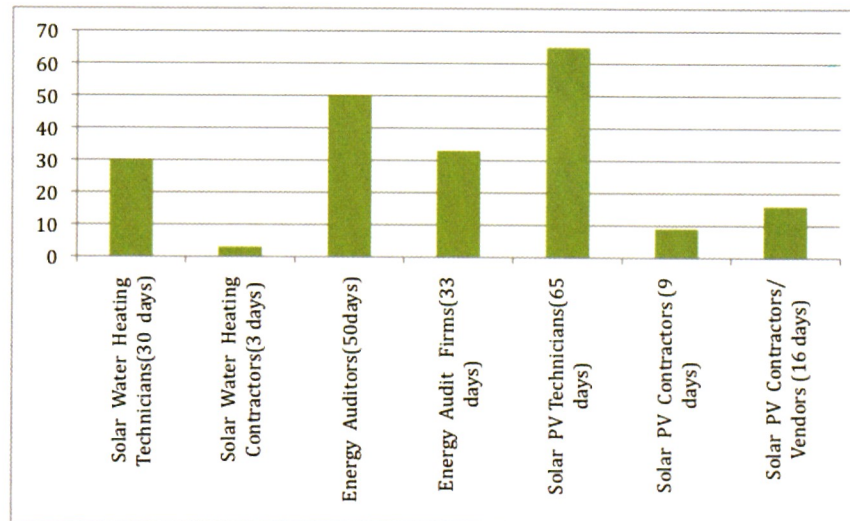
As part of implementing the Energy Management, Solar Water Heating and Solar Photovoltaic System regulations, the Commission received 1,540 applications and issued 176 licenses as indicated below:

Figure 4: Licensing Applications Received in Financial Year 2013/2014



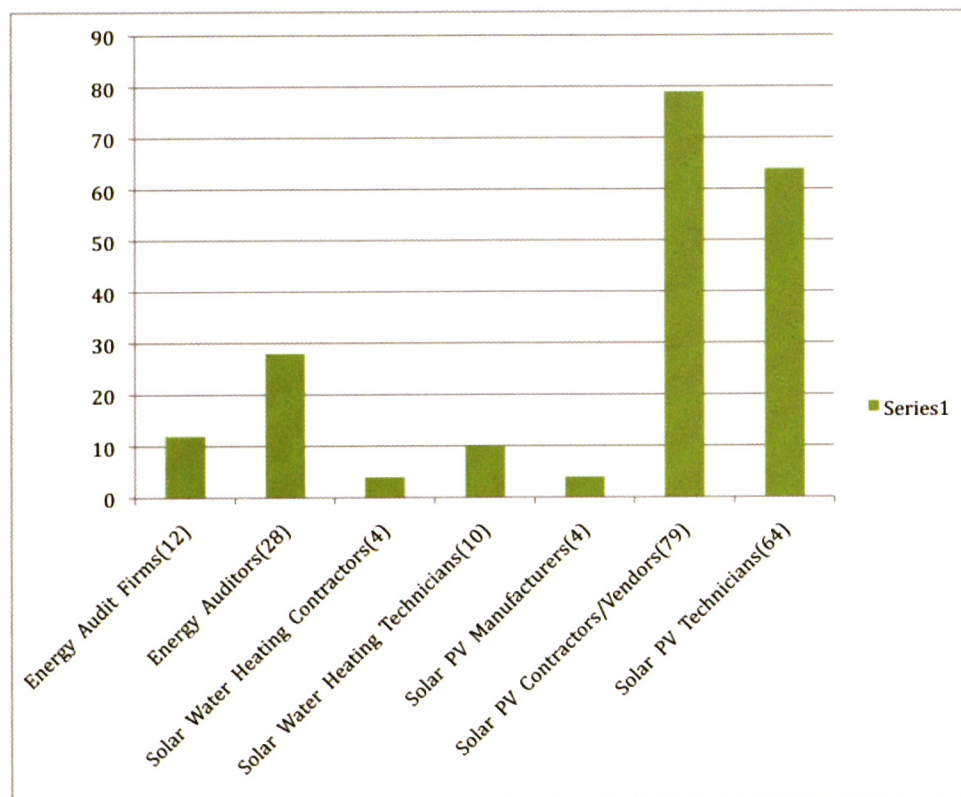
Source: Energy Regulatory Commission

Figure 5: Average Licensing Days for year 2013/2014



Source: Energy Regulatory Commission

Figure 6: Renewable Energy Licensees as at June 2014



Source: Energy Regulatory Commission

Table 9: Summary of issued Renewable Energy licenses

Regulation	Auditors/ Technicians	Audit Firms/Contractors
Energy (Solar Photovoltaic Systems)		
Regulations, 2012	62	70
Energy (Solar Water Heating)		
Regulations, 2012	8	4
Energy (Energy Management)		
Regulations, 2012	21	11

Source: Energy Regulatory Commission

Solar Photovoltaic regulations had the highest number of licensees, followed by energy management regulations. Solar Water Heating Regulations continue to be the least sought after license and this is mainly attributed to lack of solar water heating human capacity in the country.



**GEOHERMAL ACTIVITY
AT LAKE BOGORIA**

CHAPTER 3: ENERGY PLANNING

3.1 Indicative Energy Planning

In pursuit of the provisions of section 5(g) of the Energy Act 2006 that mandates the Commission to prepare Indicative National Energy Plans, the Commission in conjunction with key stakeholders in the energy sector updates the Least Cost Power Development Plan (LCPDP) every second year. This report focuses on developments in the electric power sector and takes a long-term view of the sector given a set of assumptions. Similar reports are planned for both petroleum and renewable energy sub-sectors.

3.2 Medium Term Plan (2014-2018)

Preparation of the MTP for the period 2014-2018 started in July 2013 and was finalized in April 2014. Preparation for the entire plan was done in conjunction with the Kenya Power and Lighting Company (KPLC), Kenya Electricity Generating Company (KenGen), Kenya Electricity Transmission Company (KETRACO), Rural Electrification Authority (REA), Geothermal Development Company (GDC), Ministry of Energy and Petroleum (MOE&P), Kenya National Bureau of Statistics (KNBS) and stakeholders from the private sector. The purpose of the exercise was to update the previous plan (First Medium Term Plan) covering the period 2008-2012 taking into consideration new developments in the sector. Project 5000+ MW is meant to be a game changer in the power sector and with a newly-elected administration coming into office, there was definitely a need to update development plans to incorporate new proposals. The plan constitutes of a load forecast, generation, transmission and distribution plans for the period 2014-18.

3.3 Highlights of MTP 2014-2018

The plan focuses on various areas such as, review of the load forecast based on the proposed investments for meeting Vision 2030 targets, assessment of demand and supply situation in light of the proposed generation investments under the 5000+MW, report on progress of implementation of committed projects, transmission system reinforcement requirements, highlighting the cost estimates for the supply programme and evolution of tariffs in light of the new investments in generation.

In the medium term, the projected installed capacity in the country will rise from 1,748MW in December 2013 to 7,568MW in 2018 under the fast-tracked scenario. Of this, 2,095MW will be developed from geothermal sources, 750MW from natural gas, 630MW from wind, 1,920MW from coal, 163MW from thermal, 18MW from Cogeneration while 400MW will be imported. Of the total additional capacity, 921MW is from KenGen, 1,619MW from IPPs while both will competitively develop 2,987MW. The balance of 400MW will be imported from Ethiopia. Under the moderate scenario, the supply grows from 1,748MW in 2013 to 4,553MW in 2018.

The total generation capital expansion up to 2018 is estimated to cost USD 15.023 billion under the fast-tracked scenario and USD 7.78 billion under the moderate scenario. The additional generation mix under the fast-tracked scenario will consist of 35% geothermal, 32% coal, 12% LNG while wind and imports from Ethiopia will constitute 9% and 7%, respectively.

In the period 2013-2018, several power transmission projects are under development. The total investment cost of the planned transmission lines projects is estimated at US\$ 3,547 million. Out of this, committed funds totaling to about \$ 1,844 million have already been secured from various development partners and the Government of Kenya.

3.4 Ten Year Power Sector Expansion Plan; 2014-2024

The preparation of the Ten Year Plan started in April 2014 and was based on a request from the Ministry of Energy and Petroleum. The purpose of preparing the plan was to integrate the proposed generation expansion under 5000+MW and the need to incorporate renewable energy in the planning process.

The report has been categorized into three key areas namely load forecasting, generation planning and transmission planning with an objective of updating assumptions, new technologies as well as market dynamics that may impact on future power expansion plans. In particular, the report focuses on renewable energy projects approved under the Feed-In-Tariff process and integrates them into overall planning. It is worth noting that this

had not been done in earlier reports (LCPDP and MTP) that may have underestimated the country's installed power from small but now significant investors.

3.5 Energy Balance

The Energy balance in the electricity sub-sector indicates the generation, supply and demand information as well as total system losses. During year 2011/12, global generation increased from 7,670 GWh to 8,840GWh in 2013/14. The number of customers connected to the national grid increased from 2,330,962 in 2013 to 2,766,441 in 2014 representing 18.7% growth in customer connection. There is a positive relationship between the generation capacity of the country and the number of customers connected to the national grid. The increase in demand can partly be explained by increased connections in urban and rural areas as well as the country's goal to transform into a newly industrialized economy. The energy balance in the electricity sector for the period 2010-2014 is provided in Table 10.

Table 10: Electricity Supply - Demand Balance, GWh, 2010-2014

GENERATION IN KENYA	2009/10	2010/11	2011/12	2012/13	2013/14
1. RENEWABLES ENERGIES					
1.1. Hydro plants KenGen	2170	3427	3450	4,298	3,944
IPP Tea factory	0.3	0.4	0.8	0.7	0.1
Total Hydro	2170	3427	3451	4,299	3,944
1.2 Geothermal plants KenGen	939	1081	1106	1,096	1,156
IPP -OrPower4	400	372	392	503	851
Total Geothermal	1339	1453	1498	1,599	2,007
1.3 Wind Farms	16	18	15	14	18
Total Wind	16	18	15	14	18
1.4 Cogeneration Kengen					
Cogeneration IPP	99	87	100	71	57
Total Cogeneration	99	87	100	71	57
Total renewable energies	3625	4985	5063	5,983	6,026
2. FOSSIL FUELS					
2.1 Diesel plants KenGen	335	514	806	533	772
AGGREKO	1096	267	381	261	94
Diesel plants IPP	1434	1484	1326	1,213	1,789
Total diesel	2865	2265	2513	2,007	2,655
2.2. Gas turbines KenGen	145	1	33	27	41
Total Gas turbines	145	1	33	27	41
Total fossil fuels	3010	2266	2546	2,034	2,696
TOTAL DOMESTIC					
GENERATION KENGEN	3605	5041	5410	5,968	5,931
Total IPP	1933	1943	1819	1,815	2,697
TOTAL IPP+AGGREKO	3029	2210	2200	2,076	2,791
OFF GRID (REP)	19	21	23	27	31

GLOBAL GENERATION	6654	7272	7632	8,071	8,753
PLUS IMPORTS	38	31	37.1	42	87
GLOBAL SUPPLY in KENYA	6692	7303	7670	8,113	8,840
LESS EXPORTS: (Uganda, Tanesco)	27	31	42	26	-
TOTAL RESOURCES AVAILABLE					
FOR CONSUMPTION IN KENYA	6665	7272	7628	8,087	8,840
2 - DEMAND					
1. HV CUSTOMERS=table 10+table 11	466	547	548	586	751
2. MV CUSTOMERS=table 8+table 9	1,218	1,362	1,359	1,408	1,482
3. LV CUSTOMERS					
3.1 Domestic Customers					
Dom 1=table 5	1,290	1,424	1,520	1,645	2,031
Total Domestic	1,290	1,424	1,520	1,645	2,031
3.2. Commercial and Industrial					
LV Consumers					
Small Commercial.=table 6	823	904	993	1,059	1,294
Comm. & Indust.-CI1=table 7	1,443	1,469	1,492	1,492	1,599
3.3. Street lighting=table 13	17	18	16	24	20
3.4. REP=table 14	279	307	308	313	454
3.5. IT Off -peak load=table 12	37	38	43	22	29
Total Comm. & industrial-LV	2,266	2,373	2,485	2,551	2,893
Total LV	3,889	3,883	4,372	4,555	5,427
TOTAL END-USE					
CONSUMPTION	5,573	5,792	6,279	6,549	7,660
3. BREAKDOWN OF LOSSES					
3.1 LV LEVEL					
Total sales at LV level	3,915	4,183	4,372	4,555	5,427
Non-technical losses at LV level	0	0	0	0	0

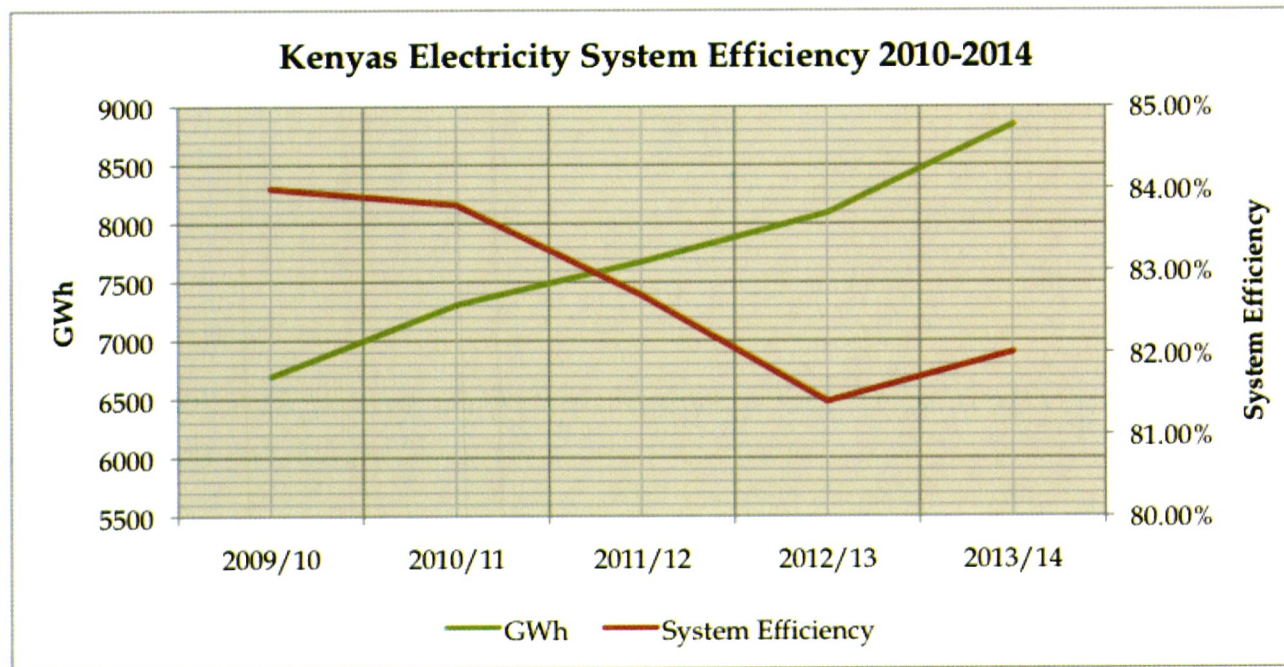
Total end use consumption at LV level ©	3,915	4,183	4,372	4,555	5,427
LV technical Losses	482	530	590	717	734
Total: Energy supplied at MV level for LV customers	4396	4712	4981	5,272	6,161
3.2 MV LEVEL					
Total sales at MV level	1218	1362	1359	1,408	1,482
Non-technical losses at MV level	0	0	0	0	0
Total end use consumption at MV level	1218	1362	1359	1,408	1,482
Energy supplied at MV level for LV customers	4396	4712	4981	5272	6,161
MV technical losses	339	374	419	442	492
Total Energy supplied at HV level for LV & MV customers	5954	6448	6759	7,122	8135
3.3 HV LEVEL					
Total HV sales (or HV end use consumption)	466	547	548	586	751
Energy supplied at HV level for LV & MV customers	5954	6448	6759	7122	8135
HV technical losses	247	276	320	338	370
Total energy supplied at HV level	6666	7272	7628	8045	9256
3.4 SUMMARIZED RESULTS					
Total sales HV+MV+LV	5599	6092	6299	6549	7660
Total non-technical losses	0	0	0	0	0
Total end-use consumption	5599	6092	6299	6549	7660
Total technical losses	1068	1180	1329	1497	1596

TOTAL ENERGY CONSUMED IN KENYA	6666	7272	7628	8045	9256
3.5 TECHNICAL LOSS RATES					
Technical Loss Rates: High					
Voltage	3.70%	3.80%	4.20%	4.20%	4.0%
Medium Voltage	5.70%	5.80%	6.20%	6.20%	6.0%
Low Voltage	10.96%	11.24%	11.84%	13.20%	11.81%
Global	16.0%	16.2%	17.4%	18.6%	18.1%
3.6 TECHNICAL LOSS SHARES					
Technical Loss shares: HV	3.70%	3.80%	4.20%	4.20%	4.20%
MV	5.09%	5.14%	5.49%	5.49%	5.58%
LV	7.23%	7.28%	7.73%	8.91%	8.32%
Total losses	16.02%	16.23%	17.42%	18.60%	18.1%

Source: Energy Regulatory Commission

Kenya's electricity generation has increased from 8,087GWh in 2012/13 to 8,839GWh in 2013/14. On the other hand, system losses, which are an indicator of system efficiency, decreased from 18.6% in 2012/13 to 18.1% in 2013/14. This shows an improvement at Kenya Power and Lighting Company (KPLC) considering that more power came online. However, 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 current losses. A summary of energy purchased and corresponding system efficiency is provided in figure 1.

Figure 7: Kenya's Electric Power Sub-Sector: System Efficiency 2010-2014



Source: Energy Regulatory Commission

A wide, two-lane asphalt highway stretches into the distance under a heavy, overcast sky. A dashed white line runs down the center of the road. In the distance, a white truck with a green container is driving towards the viewer. To the right of the road, there are several other trucks parked or stopped, including a white box truck and a white van. The landscape is flat with some green vegetation and a few trees on the left side. A utility pole is visible on the left side of the road.

**HIGHWAY WITH
TRUCKS**

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 process each of the applications received and an appropriate decision made within 90 days. A total of six Power Purchase Agreements (PPAs) applications from Independent Power Producers were received. The average approval time was approximately 43 days. The summary of the PPAs reviewed is indicated in table 11.

Table 11: Summary of the PPAs Reviewed

No	Name	Developer	Technology	Capacity (MW)	Process Days
1	Regen Terem SHPP	IPP	Small Hydropower	5.00	86
2	Cummings Cogeneration Kenya Ltd	IPP	Biomass	8.40	33
3	Tindinyo Falls Resort Limited	IPP	Hydro	1.50	33
4	QPEA GT Menengai Limited	IPP	Geothermal	35.00	35
5	Sosian-Menengai Geothermal Power Ltd	IPP	Geothermal	35.00	36
6	Orpower Twenty Two Ltd	IPP	Geothermal	32.30	36
		AVERAGE DAYS TAKEN			43

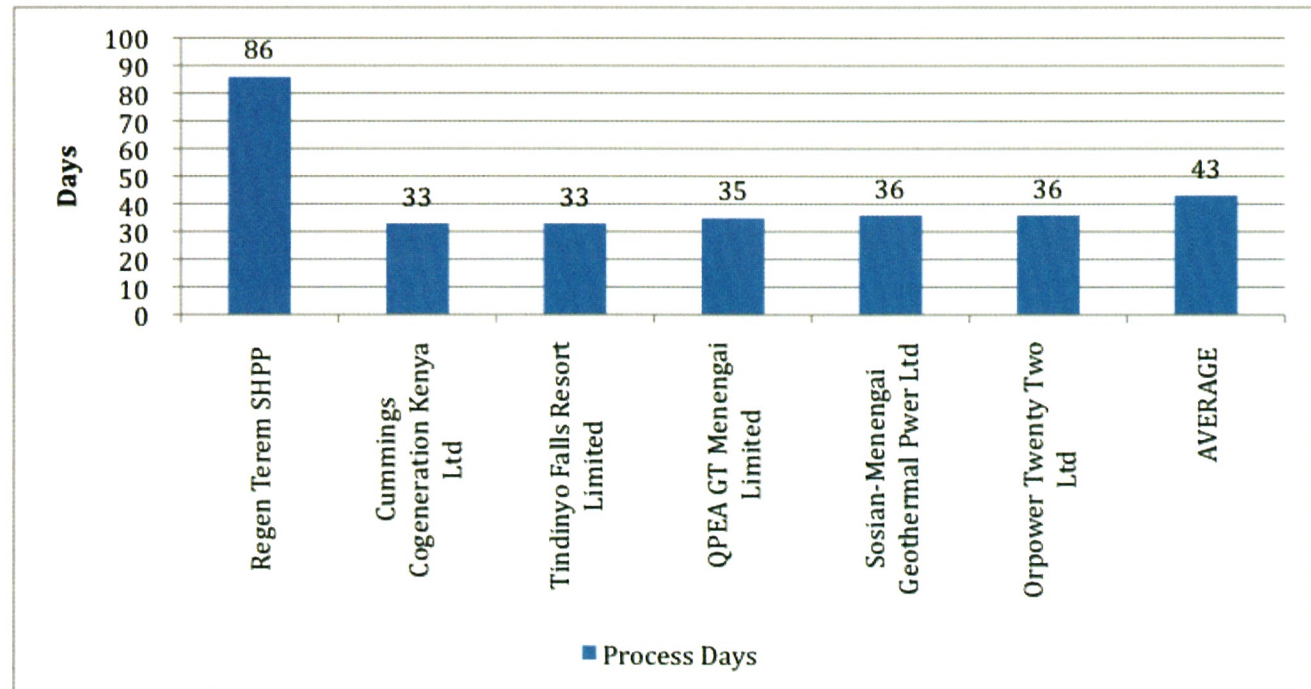
Source: Energy Regulatory Commission

CHAPTER 4: ENERGY PRICING

4.1.2 Performance Level

Additionally, Figure 5 below provides information on the number of days taken to approve a PPA by application and shows the average approval days in 2013/14.

Figure 8: Days taken to approve PPAs



4.1.3 Feed in Tariffs (FiTS)

The Commission is mandated to approve applications for investors interested in renewable energy technology. During the period under review, 25 projects were approved under the FiTs programme. Projects under mini-hydro power had the highest approvals consisting of 44% of the total approved while solar power projects were second consisting of 36% of total approvals. Of the 27 applications received, only 25 (93%) were approved. The summarized tables for feed in tariff (Table 12) shows that of 27 applications received, 25 applications were received representing a 93% approval rate in the country.

Table 12: Feed in Tariffs

TechnologyReceived	Approved		%		
	Capacity(MW)	No.	Capacity(MW)	No.	
Wind	160	3	140	2	8%
Biomass	3	1	3	1	4%
Hydro	97.28	12	93.28	11	44%
Geothermal0	0	0	0	0%	
Solar	343	9	343	9	36%
Biogas	7.2	2	7.2	2	8%
Cogeneration	0	0	0	0	0%
Sea waves 0	0	0	0	0%	
Total:	610.48	27	586.48	25	100%

Source: Energy Regulatory Commission

4.1.4 Retail Electricity Tariffs

The Commission is mandated to set retail electricity tariffs. Kenya Power and Lighting Company (KPLC) submitted an application for retail tariff review and adjustment in February 2011 and resubmitted in February 2013. ERC reviewed and approved retail tariffs in December 2013. The base non-fuel tariff was set at 10.82 Kshs/kWh and will remain so until the next review scheduled for 2016.

During the year under review, crude oil prices in the international market remained high leading to an increase in overall tariffs. Prices of Murban crude oil were recorded at 106.85 US\$/bbl in July 2013 but rose to a peak of 113.85 US\$ /bbl in December 2013 before easing to 109.15 US\$/bbl in May 2014. Consequently the average retail tariff was Kshs 16.01/kWh compared to Kshs 16.69/kWh in the previous financial year.

4.1.5 Adjustments to Retail Tariffs: Fuel Cost Charge (FCC), Foreign Exchange Rates Fluctuations Adjustments (FERFA), Water Resource Management Authority (WARMA) and Inflation Adjustments

The Fuel Cost Charge, (FCC), Foreign Exchange Rates Fluctuation Adjustment (FERFA), WARMA levy 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 4.34 KSh/kWh in July 2013 and 7.22Kshs/kWh in June 2014. During the same period, Murban crude oil prices ranged between 106.85 US\$/bbl in July 2013 and 109.15 US\$/bbl in May 2014. Inflation adjustment had minimal impact on end-user tariffs and remained at 0.31KSh/kWh for the first 5 months between July 2013 and November 2013. For the period December 2013 to February 2014, consumers did not incur any inflation adjustment but it was adjusted to 0.09KSh/kWh from March 2014 to June 2014. WARMA levy was reflected in consumer bills from December 2013 at Ksh. 0.06/kWh later declining marginally to Ksh. 0.05/kWh from February 2014.

The total retail electricity tariff was Ksh15.92/kWh in July 2013 and a high of Ksh. 17.96/kWh in June 2014. This was the highest tariff between the periods of July 2013 to June 2014. The summary of these adjustments is as indicated in the table 14 below.

Table 13: Electricity retail tariff (Ksh/kWh) 2013/2014

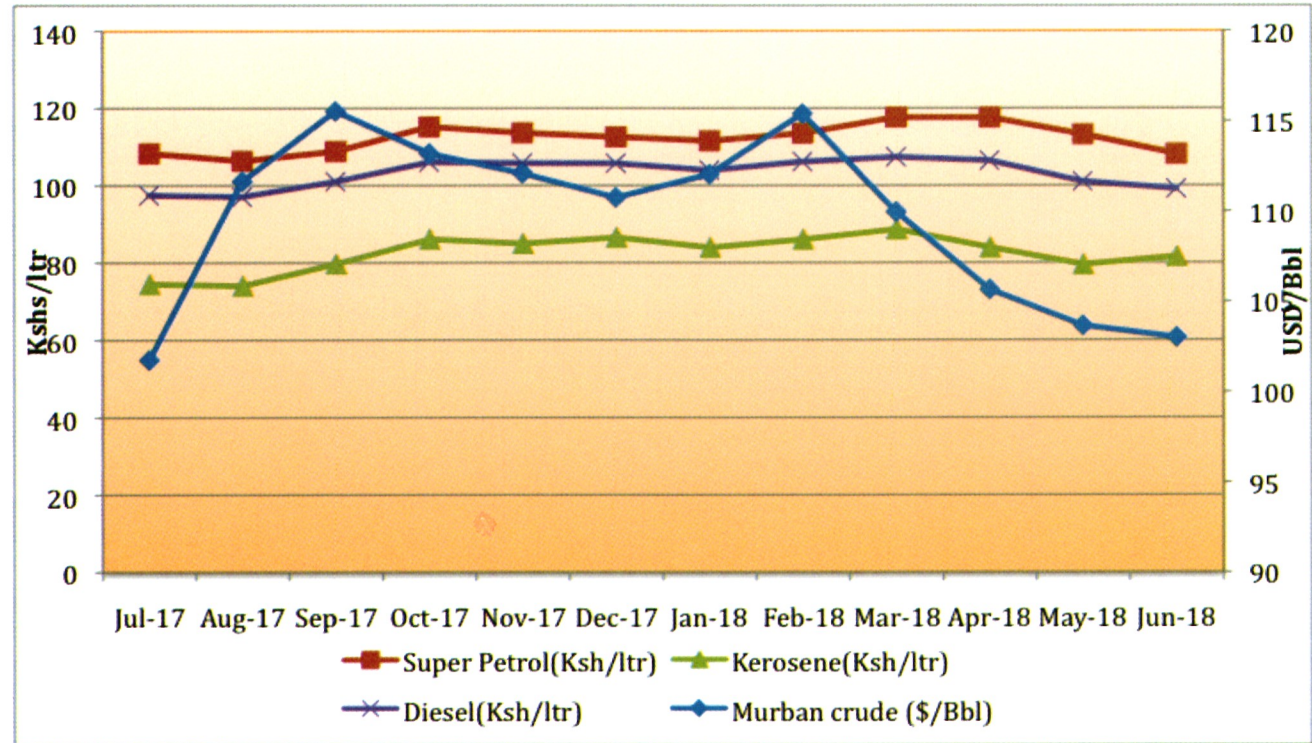
Month	FERFA	FCC	Inflation	WARMA	Sub Total	Average Non Fuel Tariff	Total Average Tariff
July '13	0.95	4.34	0.31	0	5.6	10.32	15.92
August'13	1.39	5.07	0.31	0	6.77	10.32	17.09
September'13	1.39	5.43	0.31	0	7.13	10.32	17.45
October' 13	1.46	5.18	0.31	0	6.95	10.32	17.27
November'13	1.31	5.63	0.31	0	7.25	10.32	17.57
December'13	0.15	5.19	0	0.06	5.4	10.32	15.72
January'14	0.34	5.19	0	0.06	5.59	10.32	15.91
February'14	0.13	5.19	0	0.05	5.37	10.32	15.69
March'14	0.05	5.19	0.09	0.05	5.38	10.32	15.7
April'14	0	5.19	0.09	0.05	5.33	10.32	15.65
May'14	0.2	7.22	0.09	0.05	7.56	10.32	17.88
June'14	0.28	7.22	0.09	0.05	7.64	10.32	17.96

Source: Energy Regulatory Commission

4.1.6 Petroleum pump prices

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 was US\$ 106.85/barrel in July 2013 rising to a high of US\$ 114.5/barrel in September 2013 then declined to US\$111.65/Barrel in June 2014. Kerosene had the lowest price, ranging from Ksh. 79.49/Litre in July 2013 to Ksh. 83.13/Litre in June 2014. The price of Diesel was relatively stable and was highest in February 2014 at Ksh. 105.80./Litre and lowest in July 2013 at Ksh.102.86./Litre . Fuel prices were relatively stable as figure 8 shows.

Figure 8: Trends of Crude Oil and Pump Prices

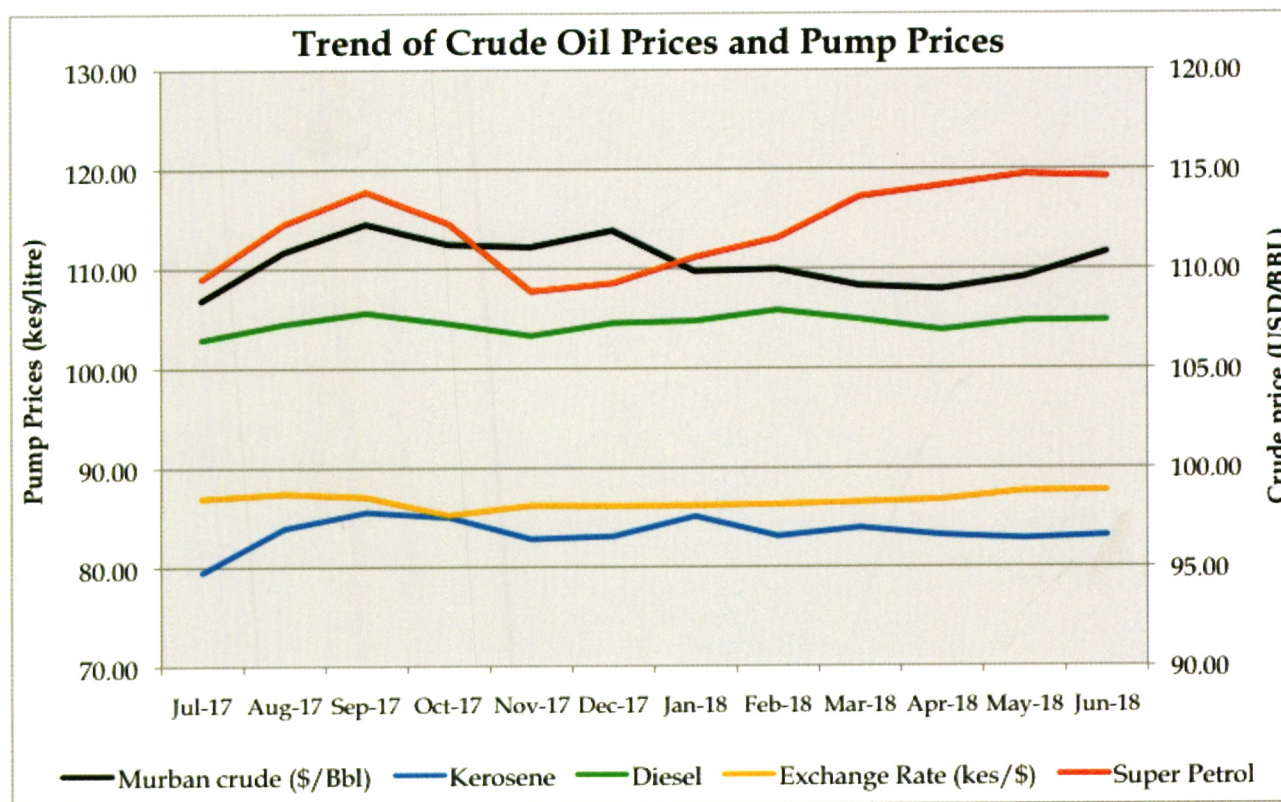


Source: Energy Regulatory Commission

4.1.7 Petroleum pump prices

During the year 2013/2014, the price of crude increased from to US\$106.85 per barrel in July 2013 to US\$114.50 per barrel in September 2013 but declined to US\$102.20 per barrel in November 2013. Kerosene had the lowest price which ranged from KShs.79.49 per litre in July 2013 to KShs.83.13 per litre in June 2014. Super Petrol recorded a high of KShs.114.73 litre in May 2014 and a low of KShs.109.28 per litre in December 2013 while Diesel recorded a high of KShs.105.80 per litre in February 2014 and a low of KShs.102.86 per litre in July 2013. The trend in the fuel prices for the period July 2013 to June 2014 is illustrated in figure 9 below:

Figure 9: Trends of Crude Oil and Pump Prices



Source: Energy Regulatory Commission

4.2 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; five from the electric power sub-sector and four from the petroleum sub sector. They are: Kenya Power & Lighting Company Ltd (KPLC), Kenya Electricity Generating Company Ltd (KenGen), four Independent Power Producers (Tsavo Power Company Ltd, Iberafrica Power (EA) Ltd, Mumias Sugar Company Ltd and Rabai Power), Kenya Pipeline Company Ltd (KPC), National Oil Corporation of Kenya Ltd (NOCK), Total Kenya Ltd and KenolKobil.

Accordingly nine reports were prepared, submitted and noted by the Commission. The reports indicate that the sector utilities performed satisfactorily during the period with the exception of Mumias Sugar Company which had a negative return on assets. This was attributed to the low availability of cane from which the bagasse used as fuel is obtained.



ERC STAFF IN THE FIELD

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 2.41 hours against a target of 2.5. Incidences recorded on the LV and HV/MV networks were 289,416 against 197,499 in the previous year and 7,810 against 6,676, respectively. 3,031 transformers failed in service compared to 3,231 the previous year. Total energy purchased in the current year was 8,902.1GWh with 6,821GWh sold implying system losses of 18.10%. In the previous year, 7,670 GWh were purchased while 6,341GWh were sold implying system losses of 17.3%. There was an increase in customer connectivity of 436,545 compared to 268,056 in the previous year, bringing the total number to 2,706,949 up from 2,270,404

CHAPTER 5: CONSUMER PROTECTION

5.1.2 Surveillance

5.1.2.1 Technical Audits

To ensure that licensees operate in accordance with the Energy Act and the licenses issued to them, the Commission carried out technical audits on the activities of six licensees during the period under review. The audits were carried out in the Mt. Kenya, two in West region and one in Nairobi Regions of the Kenya Power and Lighting Company, independent power producer Imenti Tea Factory and Ketraco's transmission line. Anomalies were found, were brought to the attention of the licensees for appropriate corrective action which have since been carried out and the Commission notified.

During the period under review, 29 accidents/incidences reports were reported to the Commission as required by section 117(1) of the Energy Act 2006. All of the accidents/incidents were from Kenya Power and Lighting Company. Out of the 29 accidents reported, 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. Where the consumer is dissatisfied with KPLC's resolution, the complaint can then be referred to the Commission. During the period under review, 48 complaints were received with billing complaints being the most prevalent and accounting for 39.6% of the total. 14 complaints have been resolved while 21 await responses from 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.

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 2011/12 and 2012/13 financial year, the losses were set at 15.4% while 16.8% was set for the current financial year 2013/14. Kenya Power and Lighting Company achieved system losses of 18.60 in 2012/13 and 18.10% in 2013/14. During this period efficiency declined and the power company missed the set target by 3.2% and 1.3% in 2012/13 and 2013/14 respectively.

5.2 Petroleum

5.2.1 Petroleum Quality

The Commission undertakes joint inspections on a quarterly basis with the Kenya Revenue Authority (KRA) and the Kenya Bureau of Standards (KEBS) to ensure that the quality of petroleum products is maintained at points of sale to consumers.

5.2.2 Compliance with Export and Kerosene Markers

During the year, the Commission inspected a total of 1,661 sites where 18 sites were found in possession of product containing export marker, representing 1.1% of retail licences. Further, of the 1,661 sites inspected in the financial year, 39 sites were found in possession of product containing kerosene marker, representing 2.3% of retail licences.

5.2.3 Combined Compliance Level

A total of 1,661 sites were sampled for both export and kerosene markers. Out of these, 57 sites tested positive for kerosene and/ or export marker, accounting for 3.4% of all the sites tested. This indicates 96.6% overall compliance.

Table 14: Combined compliance during the financial year.

MONTH	REGIONS	SITES VISITED				POSITIVE SITES (EXPORT AND KEROSENE MARKERS)					
		COMPANY	INDEPENDENT	TRUCKS	SUB-TOTAL	COMPANY			INDEPENDENT		
						RETAIL	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL
July	Uasin Gishu, Trans- Nzoia, Busia, Nyandarua, Nyeri, Laikipia, Isiolo and Meru Counties.	69	7 2	-	141	2	-	2	3	-	3
August	Kajiado, Kiambu, Nairobi, Kisii, Nyamira, Homabay, Migori and Kisumu Counties	29	1 1 7	-	146	1	-	1	3	-	3

MONTH	REGIONS	SITES VISITED				POSITIVE SITES (EXPORT AND KEROSENE MARKERS)					
		COMPANY	INDEPENDENT	TRUCKS	SUB-TOTAL	COMPANY			INDEPENDENT		
						RETAIL	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL
September	Kiambu, Kilifi, Kisumu, Kitui, Kwale, Machakos, Makueni, Mombasa, Nairobi and Taita Taveta	73	6 6	-	139	2	-	2	3	-	3
October	Busia, Uasin Gishu Bungoma, Kisumu, Nakuru, Nyandarua counties and Siaya Counties	67	6 2	-	129	1	-	1	3	-	3

MONTH	REGIONS	SITES VISITED				POSITIVE SITES (EXPORT AND KEROSENE MARKERS)					
		COMPANY	INDEPENDENT	TRUCKS	SUB-TOTAL	COMPANY			INDEPENDENT		
						RETAIL	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL
November	Murang'a, Kirinyaga, Nyeri, Laikipia, Uasin Gishu, Transnzoia, Baringo, Elgeyo Marakwet and West Pokot counties	73	60	-	133	-	-	-	5	-	5
December	Busia, Uasin Gishu, Siaya, Trans-Nzoia & Kericho Counties.	66	58	55	179	2	1	3	6	4	10

MONTH	REGIONS	SITES VISITED				POSITIVE SITES (EXPORT AND KEROSENE MARKERS)					
		COMPANY	INDEPENDENT	TRUCKS	SUB-TOTAL	COMPANY			INDEPENDENT		
						RETAIL	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL
January	Bomet, Busia, Embu, Isiolo, Kericho, Kirinyaga, Kisii, Laikipia, Meru, Migori, Murang'a, Nairobi, Nakuru, Narok	73	6 0	-	133	1	-	1	3	-	3
February	Makueni, Kilifi, Taveta, Kwale, Mombasa, Malindi Counties	74	6 8	-	142	-	-	-	1	-	1

MONTH	REGIONS	SITES VISITED				POSITIVE SITES (EXPORT AND KEROSENE MARKERS)					
		COMPANY	INDEPENDENT	TRUCKS	SUB-TOTAL	COMPANY			INDEPENDENT		
						RETAIL	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL
March	Kisumu, Siaya, Busia, Bungoma, Uasin Gishu and Trans Nzoia Counties	66	62	-	128	-	-	-	3	-	3
April	Machakos, Kitui, Garissa, Embu, Meru and Kirinyaga Counties	65	68	-	133	1	-	1	3	-	3

MONTH	REGIONS	SITES VISITED				POSITIVE SITES (EXPORT AND KEROSENE MARKERS)					
		COMPANY	INDEPENDENT	TRUCKS	SUB-TOTAL	COMPANY			INDEPENDENT		
						RETAIL	TRUCKS	SUB-TOTAL	RETAIL	TRUCKS	SUB-TOTAL
May	Vihiga, Kakamega, Bungoma, Tranzoia Counties, Nakuru and Nyandarua Counties	70	61	-	131	-	-	-	5	-	5
June	Uasin Gishu, Kakamega, Bungoma and West Pokot Counties	65	62	-	127	2	-	2	2	-	2
GRAND TOTAL		79	8	5	166	1	1	1	4	4	4
		0	6	5	1	2	1	3	0	4	4

Source: Energy Regulatory Commission

5.2.4 Construction Permits

The Commission has been mandated to issue construction permits to applicants wishing to set up new petroleum 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 the need for a construction permit from the Commission before embarking on the construction of the following:

- Pipeline
- Refinery
- Bulk storage facility
- Retail dispensing site.

5.2.5 Summary of Applications

During the period under review, a total of 24 applications were received and processed. Out of these, 19 were approved and construction permits issued while 5 were deferred due to non-compliance with the requirements for issuance of a construction permit.

Table 15: Construction Permits

NO.	TYPE	FACILITY	APPLICANT	DATE RECEIVED	DATE FINALISED	TOTAL DAYS TAKEN TO REVIEW	COMMENTS
1	New	Filling Station	Nice Supermar -Kets Ltd	2-Jul-13	12-Jul-13	10	Approved With Conditions
2	Re-Sub Mission	Filling Station	Shreeji Service Station Busia	24-Aug-13	16-Sep-13	23	Deffered
3	New	Fuel Depot	Gulf Power Ltd	8-Jul-13	25-Jul-13	17	Approved With Conditions
4	New	Lpg	Fossil				Approved
5	New	Filling Plant	Fuels Limited	13-Aug-13	16-Sep-13	34	With Conditions
6	New	Filling Station	Energy Limited Shreeji	12-Sep-13	27-Sep-13	15	Approved
7	New	Filling Station	Daniel Lekupe	17-Oct-13	17-Oct-13	0	With Conditions
8	Re-Sub Mission	Lpg Filling Plant	Multi Energy Ltd	13-Nov-13	22-Nov-13	9	Approved
9	Re-Sub Mission	Filling Station	Stephene Mbugua	18-Nov-13	28-Nov-13	10	With Conditions

NO.	TYPE	FACILITY	APPLICANT	DATE RECEIVED	DATE FINALISED	TOTAL DAYS TAKEN TO REVIEW	COMMENTS
10	New	Fuel Depot	Heller Petroleum	19-Nov-13	2-Dec-13	13	Deffered
11	Re-Sub Mission	Fuel Depot	Pekenya Gas Limited - Nakuru Plant	26-Dec-13	30-Dec-13	4	Deffered
12	Re-Sub Mission	Fuel Depot	Pekenya Gas Limited - Nakuru Plant	31-Jan-14	6-Feb-14	6	Aproved With Conditions
13	Re-Sub Mission	Fuel Depot	Heller Petroleum	30-Jan-14	7-Feb-14	8	Aproved With Conditions
14	New	Filling Station	Long-Term View	19-Mar-14	1-Apr-14	13	Aproved With Conditions
15	New	Fuel Depot	Finejet Jet Depot	20-Mar-14	24-Apr-14	35	Aproved With Conditions
16	New	Lpg Filling Plant	Enworld Ltd	10-Mar-14	14-Apr-14	35	Deffered
17	Re-Sub Mission	Lpg Filling Plant	Enworld Ltd	28-Apr-14	2-May-14	4	Aproved With Conditions

NO.	TYPE	FACILITY	APPLICANT	DATE RECEIVED	DATE FINALISED	TOTAL DAYS TAKEN TO REVIEW	COMMENTS
18	New	Filling Station	Reuben Munguti	20-May-14	22-May-14	2	Approved With Conditions
19	New	Filling Station	Thomas Mutungi Karunji	8-May-14	22-May-14	14	Approved With Conditions
20	New	Filling Station	Nock Filling Station At Kingongo Nyeri	13-May-14	25-Jun-14	43	Approved With Conditions
21	New	Lpg Filling Plant	Nock Filling Station Lpg Skid And Filling At Thika Service Station	13-May-14	25-Jun-14	43	Approved With Conditions
22	New	Filling Station	Safari Filling Station	20-May-14	26-Jun-14	37	Approved With Conditions
23	New	Filling Station	Mr. Maawiya A. Abdalla	11-Jun-14	26-Jun-14	15	Approved With Conditions
24	New	Lpg Filling Plant	Green Energy Limited Kilifi Depot	18-Jun-14	26-Jun-14	8	Approved With Conditions

Source: Energy Regulatory Commission

5.2.6 Performance Level

The Energy Act 2006 section 90 (3) mandates, the Commission to grant a construction permit or refuse to grant such a permit within 45 days of receipt of the application. During the period under review, the average number of days between receipt of application and issuance of construction permit or deferral letters was 17 days.

5.3 Environment, Health and Safety (EHS) Compliance Audits

The Commission is mandated under Section 6(d) of the Energy Act 2006, to formulate, enforce and review environmental, health, 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.

5.3.1 Electricity EHS compliance audits

In its pursuit to ensure that electricity is generated, transmitted and distributed safely, the Commission conducted EHS compliance audits on eleven electric power installations namely the Muhoroni emergency power plant operated by Aggreko, James Finlay mini hydro and thermal power plants in Kericho, KenGen Sondu Miriu and Sangoro hydro power plants, KenGen Olkaria I and II geothermal power plants in Naivasha, Orpower geothermal power plant in Naivasha, Bidco Cogen power plant in Thika, Tsavo thermal power plant in Mombasa, Rabai thermal power plant in Mombasa and KETRACO Rabai-Malindi Transmission Line. The companies were issued with compliance inspection reports for implementation.

5.3.2 Petroleum EHS compliance audits

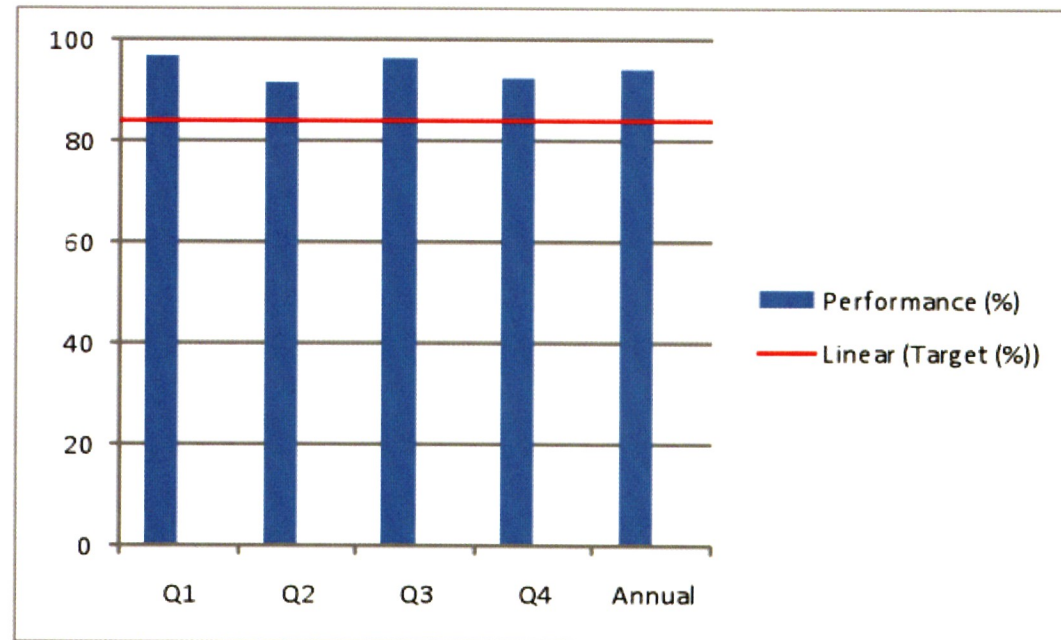
The Commission conducted EHS compliance audits on fourteen petroleum installations namely: KPC petroleum depots in Kisumu, Eldoret and Nakuru, Multi Energy LPG site in Kisumu, Midland Energy LPG depot in Nairobi, Mombasa Joint Terminal in Changamwe, Tecaflex petroleum depot in Mombasa, African Gas Oil (AGOL) LPG depot in Mombasa, Trojan petroleum depot in Nanyuki, Nairobi Joint LPG depot, Green Energy LPG plant in Nairobi, Libya Oil petroleum depot in Mombasa, Mombasa Joint Terminal in Shimanzi and National Oil Corporation fuel depot in Nairobi. The companies operating the captioned facilities were issued with compliance inspection reports for implementation.

5.3.3 Environmental Assessment of Proposed Projects

Review of Environmental Impact Assessment (EIA) reports of proposed projects within the energy sector is one of the core functions of the Commission 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' carry out Environmental Impact Assessments as required under Section 58 of EMCA, 1999 and the EIA Regulations 2003 and send the reports to NEMA for review. NEMA sends the energy related reports to the Commission as the Lead Agency for recommendations which are considered in making a decision.

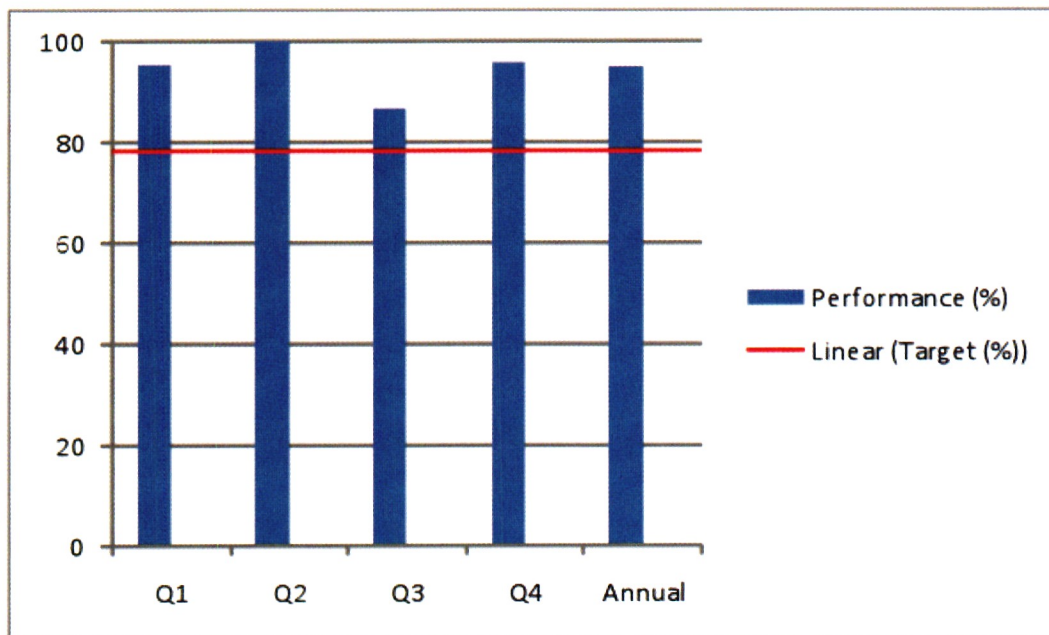
The first stage of environmental assessment is the Environmental Impact Assessment Project Report. If the project is determined to have significant impact on the environment and that mitigation measures proposed are insufficient, the proponent is required to conduct a more rigorous Environmental Impact Assessment Study and submit a study report. The Commission set review targets for environmental reports as shown in figures 10 and 11.

Figure 10: EIA Project Reports Review FY 2013/14



Source: Energy Regulatory Commission

Figure 11: EIA Study Reports Review FY 2013/14



Source: Energy Regulatory Commission

During the year, the Commission received 297 EIA reports from NEMA. This is an increase of 1.2% compared to previous year. The reports were categorized per sub-sector and are as shown on table 17 below.

Table 17: EIA Reports Received

	Sub-sector	No. of Reports	Percentage (%)
1.	Petroleum	234	79
2.	Electricity	57	19
3.	Others	6	2
	Total	297	100

Figure 11: EIA Study Reports Review FY 2013/14

5.3.4 Performance level on Environmental Assessments

The Commission reviewed all the 297 reports which were received from NEMA. Ninety four percent (94%) of the project reports were reviewed within 21 days against a set target of 84% while for study reports, ninety five (95%) of reports were reviewed within 30 days against a target of 78%.



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CHAPTER 6: REGULATIONS

6.1 Development and Recommendation of Draft Regulation

When the Energy Act, 2006 was enacted, it was not accompanied by regulations that would guide and simplify implementation of the Act. The Commission has been developing new regulations in addition to developing regulations to repeal old ones developed under the now repealed Electric Power Act 1997 and the Petroleum Act.

In addition, the Commission is empowered by Section 6(c) of the Act to formulate, enforce and review environmental, health, safety and quality standards for the energy sector in coordination with other statutory authorities. As such, the Commission works in partnership with the Kenya Bureau of Standards in ensuring that there are standards and codes of practice in the energy sector and that they remain relevant.

6.1.1 New Regulations: Petroleum

In the year 2013/2014, the following regulations were gazetted and Legal Notices issued:

- i. The Energy (Licensing of Petroleum Logistics Business and Facility Construction) Regulations 2013 - The regulations are aimed at streamlining the issuance of construction permits and operational licences to petroleum storage facilities.
- ii. The Energy (Licensing of Petroleum Road Transportation Business) Regulations 2013 - The regulations are aimed at streamlining the licensing of petroleum road tankers and issuance of permits to petroleum tanker drivers.
- iii. The Energy (Petroleum Information and Statistics) Regulations 2013 - The regulations will streamline collection and compiling of petroleum data which will greatly aid in planning;
- iv. The Energy (Retail Facility Construction and Licensing) Regulations 2013 - The regulations are aimed at fostering compliance in the petroleum retail sector.

6.1.2 Regulations in Progress Petroleum

During the year 2013/2014 the Commission developed and submitted for approval to the Ministry of Energy and Petroleum the following regulations:

1. The Energy (Minimum operational stocks and capacity sharing) Regulations, 2014 which are aimed at ensuring that the supply of petroleum products to the country remains intact in the event of a temporary disruption to the petroleum supply chain. The regulations are also aimed at ensuring fair sharing of petroleum storage capacity at the Kenya Pipeline Company's storage facilities and ensuring that all users of the pipeline contribute to the restricted pipeline stock normally used as the displacement media during product transportation.
2. The Energy (Petroleum products quality management) Regulations 2014 aimed at ensuring that the quality of petroleum products is controlled throughout the supply chain. Through these regulations, petroleum product adulteration will be greatly minimized hence ensuring that consumers get value for money while getting their machines protected from contaminated fuels which may lead to increased maintenance costs. In addition, the regulations will reduce the diversion of export product into the local market which leads to losses in government revenue through tax evasion.

Participation in standards development

During the year 2013/2014, the Commission participated in the development of the following draft standards:

1. The draft Liquefied Natural Gas (LNG) facility standard;
2. The draft Petroleum Retail Service Station Layout Standards;
3. The draft Installation of Underground Storage Tanks, Pumps/Dispensers and Pipe Work at Service Stations and Consumer Installations - Code of Practice.

6.1.4 Consumer Protection

The Commission, with the aim of creating awareness, released several public notices on the need for the public to check that they employ the services of licensed solar photovoltaic technicians, solar water heating technicians and energy auditors. This will inculcate professionalism and credibility into the renewable energy sub-sector.

Renewable Energy Regulations

The department has been implementing the following regulations

- a. **The Energy (Solar Water Heating) Regulations, 2012** were gazetted on 25th May 2012. These regulations require that all premises with hot water requirements exceeding 100 litres to install water heaters. The purpose of the regulations is to increase access to electricity in the country through demand management in addition to reducing CO2 emissions.
- b. **The Energy (Solar Photovoltaic Systems) Regulations, 2012** gazetted on 28th September 2012. The regulations help ensure that all practitioners in the solar photovoltaic industry are professionals.
- c. **The Energy (Energy Management) Regulations 2012**
These regulations were gazetted on 28th September 2012 to facilitate the implementation of energy efficiency and conservation as outlined in Sections 105 and 106 of the Energy Act, 2006. The regulations provide for the management and implementation of energy efficiency and conservation measures with a focus on industrial, commercial and institutional consumers of energy as they offer the highest potential for energy efficiency and conservation. The regulations require all designated facilities (industrial, commercial and institutional users of energy consuming more than 180,001 kWh per year) to conduct energy audits. Full implementation of the regulations will ensure adoption of best practices in energy efficiency and conservation. This will help the country “create” a “virtual source” of energy for distribution to other regions without grid access.

The Energy (Energy Management) Regulations 2012 govern the operations and licensing of energy management and conservation including licensing of Energy Auditors and Audit firms. The regulations are expected to provide an opportunity for financiers to help implement the Energy Management Plans (EMP) developed through the energy audits.

The adoption and enforcement of the Energy (Energy Management) Regulations 2012 will address the following key challenges to energy efficiency and conservation;

- a) Low uptake of energy efficiency and conservation;
- b) Insufficient regulatory framework to support energy efficiency processes;
- c) Insufficient data on energy efficiency and energy utilization in industrial, commercial residential and transport sectors;

- d) Limited numbers of trained, qualified and certified personnel to undertake energy efficiency assessments, project development and implementation.

The regulations require that all designated facilities undertake an energy audit at least once every three years. The designation of facilities was designated by the Commission and is available on the website.

All energy audits are undertaken by licensed energy auditors or energy audit firms. These auditors are licensed by the Commission upon meeting the minimum requirements stipulated in the regulations. The audit reports are supposed to be submitted to the Commission, online or in hard copy, within six months of the end of the financial year. The regulations also contain penalties for owners or users of facilities that do not submit the reports.

If the Commission is dissatisfied with any Energy Report submitted to it, it may require the owner or occupier of a facility, at own cost, to engage an independent energy auditor to undertake an energy audit. The Owner or Occupier is required to appoint the independent auditor from a list of not less than five (5) auditors recommended by the Commission.

An ERC team, carried out an energy audit of Eagle Africa Centre, the building where the Commission's offices are located. The team compiled a report which will be presented to the management of ERC and that of Eagle Africa Insurance Brokers (the building's owners) for implementation.

6.2 Draft Regulations

The Commission developed the following regulations and subjected them to stakeholder consultations in accordance with Section 110 of the Energy Act. Final drafts have been forwarded to the Cabinet Secretary for Energy and Petroleum for gazettelement.

6.3 The Energy (Appliances' Energy Performance & Labelling) Regulations, 2014

These regulations will help enforce the Minimum Energy Performance Standards (MEPS) that specify the minimum efficiency of selected electrical appliances used in Kenya. This would provide incentives for the industry to develop and invest in energy efficient product design thus reducing overall energy demand. In addition, this will help the country meet climate change goals and avert urban/regional pollution.

The regulations were approved by the Commission on 26th of June 2014 and have been forwarded to the Cabinet Secretary for gazettelement.

A group of four men in white hard hats and orange safety vests are standing on a yellow metal walkway at an industrial facility. They are looking towards a large, cylindrical, metallic structure that appears to be a turbine or generator. One man in the center is pointing towards the structure. The background shows more industrial equipment and structures.

ERC STAFF ON AN
INSPECTION TOUR
OF AN ELECTRICITY
GENERATING PLANT

CHAPTER 7: STUDIES AND SURVEYS

7.1 Customer Satisfaction Survey

In pursuit of improving service delivery to its customers and stakeholders, ERC engaged a research firm to conduct a customer satisfaction survey during the financial year 2013/2014. The survey was meant measure improvement in the Commission's service delivery levels after implementing the recommendations of the 2012/2013 survey.

The survey focused on measuring customer perception of how well the Commission delivers on its mission critical success factors, dimensions of the core business and improvement in service delivery. From the survey, the Commission established the levels of customer satisfaction and perception and identified the areas of improvement.

The study targeted ERCs' direct and indirect customers where direct customers are the energy sector players and stake holders, while indirect customers are the energy consumers. Various methods were used to obtain the data. The survey identified the level of customer satisfaction with services offered by the Commission, areas of weaknesses and also suggested the recommendations which will help improve performance and service delivery.

From the 2013/2014 survey, the overall satisfaction index for ERC stood at 73.5% with the highest rated service dimension being staff attitude at an average of 82.0% while the lowest rated was 'execution of mandate' at an average of 69.4 %.

7.2 Competition Monitoring in the Energy Sector

The Commission is mandated to protect the interests of consumers, investors and stakeholders. In this regard, analyzing and monitoring competition in the electricity and petroleum sub-sectors is paramount. The Hirschman Herfindahl Index (HHI) has been used over the years in determining the extent of competition within the energy sector and has proved to be a reliable and robust tool. An increase in HHI generally implies a decrease in competition while a decrease in HHI implies an increase in competition.

The competition threshold across countries is defined differently. For Kenya it is defined as follows: A HHI index below 0.1 indicates an unconcentrated industry while an HHI index between 0.1 and 0.18 indicates moderate concentration. An index above 0.18 indicates high concentration. There exists an inverse relationship between the level of concentration and competition such that the higher the concentration the lower the competition and vice versa.

CHAPTER 7: STUDIES AND SURVEYS

7.3 Competition in Electricity Power Generation

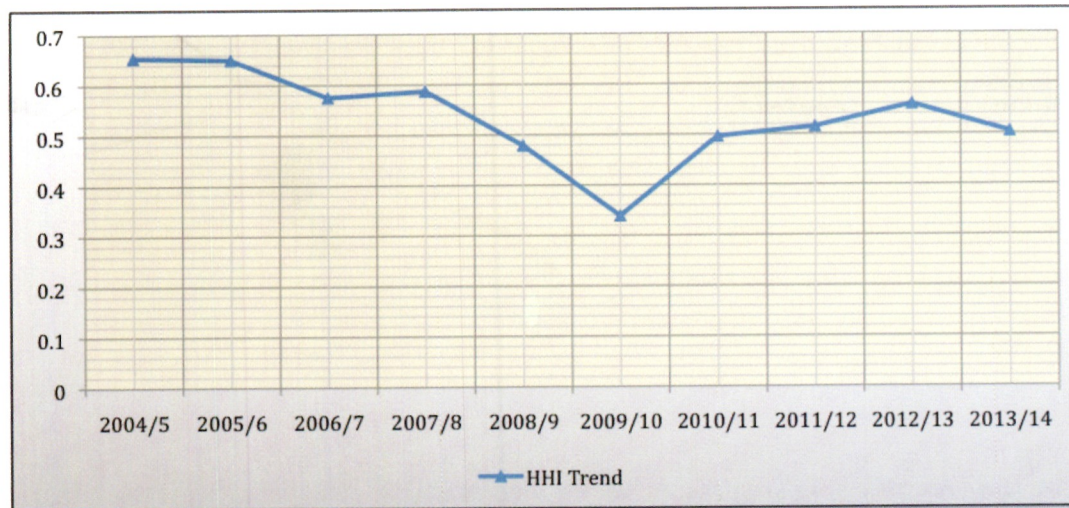
Over the past two years, KenGen which is the biggest electricity producer, has seen a loss of close to 3 percentage points in market share. The Commissioning of an 87MW thermal power station (Thika MSD Melec) contributed to KenGen's loss of market share and consequently reducing concentration in the market which is healthy for competition in the electricity sub-sector. The upgrade of OrPower 4 from 100MW to 110MW has also been significant in redefining market share structure. However, in 2014/15 when KenGen will be commissioning 210MW of geothermal power, it's expected that the company's market share will improve. While this is good for the country as it improves the supply, dominance by one company reduces competition.

During the period 2013/14, HHI in the electricity sub-sector was 0.504 which is lower compared to 2012/13 which was at 0.559. This indicates that concentration of activities within the industry declined as a result of increased competition. The current market structure is expected to change with the implementation of project 5,000+MW. This however, will give KenGen the highest market share on one hand and increased competition on the other, hopefully having an impact on the cost of power and adequacy of power supply. Over the past one decade, HHI has been well above 1.8 indicating high concentration of activities in only a few firms thus low competition.

Table 18: Market Shares and HHI for the Electricity Sub-Sector, 2005-2014

Sources	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
KenGen	0.8	0.797	0.746	0.755	0.669	0.54	0.69	0.71	0.74	0.70
REA	0.002	0.002	0.002	0.002	0.002	0	0	0	0	0.01
Iberafrica	0.062	0.072	0.052	0.048	0.053	0.1	0.1	0.09	0.07	0.06
Westmont	0.001	0	0	0	0	0	0	0	0	0
Tsavo	0.095	0.1	0.089	0.087	0.087	0.07	0.05	0.04	0.02	0.04
Mumias										
cogen	0	0.002	0.001	0.001	0.001	0.01	0.01	0.01	0.01	0.01
or-power	0.022	0.021	0.018	0.015	0.043	0.06	0.05	0.05	0.06	0.06
Aggreko	0	0.005	0.091	0.087	0.141	0.16	0.04	0.05	0.03	0.02
UETCL	0.019	0.003	0.002	0.004	0.004	0.01	0	0	0.01	0
TANESC	0	0	0	0	0	0	0	0	0	0
Rabai						0.05	0.05	0.04	0.05	0.05
Imenti						0	0	0	0	0
Thika										0.05
HHI Trend	0.654	0.65	0.575	0.587	0.479	0.339	0.496	0.515	0.559	0.504

Figure 12: Trend of the HHI for the Electricity sub-sector, 2005-2014



7.4 Petroleum Industry

The petroleum subsector is one of the most competitive in the energy sector. Kenya on average has about 36 operational firms with a market share of at least 0.2% in the petroleum industry. The four largest companies mainly multinationals hold 60.2% in market share. The rest of the companies are competing on the remainder.

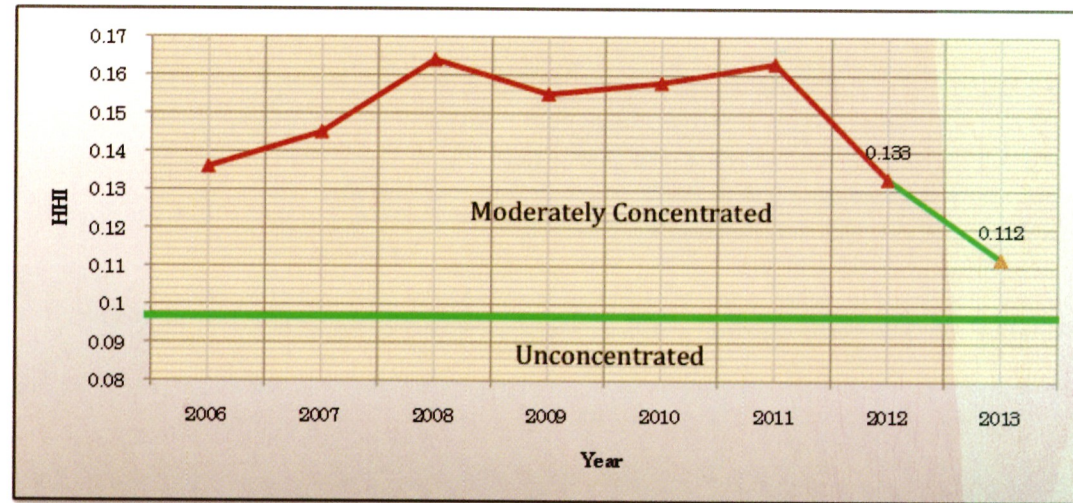
By considering the four firms and eight firms' concentration ratio (Table 14), the industry tells us that the market structure is oligopolistic in nature. Problems of collusion and non-price competition are common with this kind of market structure and therefore close operational supervision should be enhanced

Table 29: Summary of concentration ratio's

Year	Four firm concentration ratio	Eight firm concentration ratio
2006	68.7	89.5
2007	71.85	88.7
2008	75.3	91.6
2009	72.6	90.6
2010	74.9	88.8
2011	74.9	88.4
2012	66.94	84.2
2013	60.9	76.4
Average	70.76	87.28

A summary of the trend of HHI for the period 2006 - 2013 in the petroleum industry is provided in figure 13. The variation in HHI was mainly driven by enormous expansion by small firms in the industry which separately saw them improve their market shares close to 0.05 percentage points relative to the previous period. This is also supported by the four firm concentration ratio which is lower by 6 percentage points relative to the previous period.

Figure 13: HHI trend for petroleum industry from 2006-2013



HHI for 2012 was 0.133 which was higher than 2013 HHI at 0.112. This suggests that there was more competition in the petroleum subsector courtesy of effective and fair regulations which attracts investors into the market. Small firms in the industry have grown to secure a substantial portion market share hence improving on product accessibility which is an essential element of supply security. If the same growth in small firms will be realized during the period 2014/15, HHI might be lower than 0.1 introducing a new phase of competitive structure in the petroleum industry.

It is ERC's responsibility to provide a level playing field in law both to large and small firms in the petroleum industry. Monitoring and managing competition in the market is therefore important.

Key:

Average HHI for the period 2006 - 2012 = 0.150579886.

Threshold for Kenya is defined as follows: An index below 0.1 indicates an unconcentrated index. An index between 0.1 and 0.18 indicates moderate concentration. An index above 0.18 indicates high concentration.

In conclusion, the downstream petroleum sub-sector/industry has been moderately concentrated for the period considered in the analysis with an average HHI of 0.1505 courtesy of price regulation by the Commission.



JOURNALISTS AT AN
ERC EVENT

CHAPTER 8: CORPORATE SERVICES

8.1 Competency Development

As the Commission continually enhances the knowledge and skills of its employees, it implements a competency development plan each financial year to address identified competency gaps. In the period under review, employees attended training both locally and abroad including on customer services, oil and gas value chain, leadership, change management, reform & regulation in the electricity and water sectors, PPP contract procurement, implementation, performance monitoring, conflict resolution and wind power development.

8.2 International Liaison

The Commission continues to work closely with regional utility regulators and other state agencies to build consensus on interconnection of electric power and the transportation of petroleum in the region. The forums include the African Forum for Utility Regulators (AFUR), the Energy Regulators Association of East Africa (EREA), the Regional Association of Energy Regulators for Eastern and Southern Africa (RAERESA) and the East African Power Pool (EAPP).

During Financial Year 2013/14, the Commission hosted the 11th AFUR conference. This was a five-day international event dubbed “A decade of infrastructure regulation on the African continent: experiences, challenges, prospects” and held at the Intercontinental Hotel, Nairobi from 5th to 9th May 2014. The conference drew participants from African regulatory agencies, consultancies and from non-governmental organizations.

The conference discussed the challenges and prospects of infrastructure regulation in Africa including the roles of regulation and performance of regulators in Africa.

Furthermore the Commission is involved with the East African Power Pool (EAPP). The current EAPP members comprise 9 countries namely Burundi, the Democratic Republic of Congo (DRC), Egypt, Ethiopia, Kenya, Rwanda, Sudan, Tanzania and Uganda.

EAPP’s Mission is to build up a regional electricity market and enhance the development and integration of national power systems.

CHAPTER 8: CORPORATE SERVICES

8.3 Corporate Social Responsibility (CSR)

During financial year 2013/14, ERC allocated Ksh3 million for various country wide corporate social activities. The commission carried out charitable events which included sponsorship of Nyeri Hospice, sponsorship of the Lions Sight First Eye Hospital, and sponsorship of Marienga School in buying laboratory equipment.

The Commission has also contributed towards environmental sustainability programs like planting and maintenance of trees in Eburru forest, planting trees at Thika and Muthaiga Golf Clubs and Machang'a Primary School Green Initiative Challenge. The Commission also sponsored the Africa Swimming Academy Gala. These activities add value to Kenyan communities by investing in their economic and social development.

8.4 Stakeholder engagement

ERC carries out stakeholders' engagement activities and during this financial year, it carried out several stake holders' workshops and an Open Day which created a forum for interaction between the commission's officers and the general public.

8.5 Procurement Plan

The Commission is tasked with procurement of goods, services and works as prescribed by the Public Procurement and Disposal Act and Regulations.

In line with section 26(3) of the PPD Act, the Commission prepared an Annual Procurement Plan during the 2013/2014 financial year with calculated effort to engage the youth, women and people living with disabilities in tendering processes. This has been done by highlighting specific tenders which should expressly be undertaken by these groups.

During the period, the Commission awarded tenders worth KSh.6.7 million to these special categories of suppliers which were distributed as table 20 below:-

Table 20: Procurement Special Categories Budget

No.	Category	Amount (Ksh)
1	Youth	4,214,199.00
2	Women	1,829,251.00
3	PWD	620,200.00
Total		6,663,650.00

Source: Energy Regulatory Commission

The Commission is committed to promoting these special groups by allocating tenders for them as part of affirmative action. Other tenders where relevant experience is required are processed competitively using applicable procurement methods as provided for in Public Procurement laws and regulations.

8.6 Performance Contract

The policy decision to introduce Performance Contracts in the management of the Public Service was conveyed in the Economic Recovery Strategy for Wealth and Employment Creation (ERS), (2003-2007). The decision was given legal backing through Legal Notice No. 93 of 2004.

The introduction of Performance Contracts as the national management accountability framework in Kenya was premised on the need to build the country's competitiveness around the performance of the Public Service. The system redefined public sector 'performance' to mean focusing on outputs and outcomes, not on inputs, processes, or preoccupation with activities.

Since the introduction of performance contracting in the public service in 2004, ERC and its predecessor, ERB, have signed Performance Contracts annually since June 29, 2005.

8.7 Review of the Performance Contract for 2007/8 to 2012/13

Table 21 below summarizes ERC's performance in the recent past; which indicates an improvement over the last two years. The results for FY 2013/14 show a slight decline.

Table 21: ERC Performance Contract Scores

PC Year	Composite Score	Rating
2007/2008	2.8222	Good
2008/2009	2.9136	Good
2009/2010	2.5594	Good
2010/2011	2.5565	Good
2011/2012	2.9340	Very good
2012/2013	2.8086	Very good
2013/2014	3.0443	Good

8.8 Online on Board/Commission Meetings

The Commission is embracing Information Technology as a strategic tool to enhance service delivery to its customers. A number of ERC's business processes/systems are handled electronically through the Regulatory Management Information Systems (RMIS). Business processes of the Commission's board meetings were largely handled manually but this has now been automated. During the Financial Year under review, the Commission identified Software Technologies as a competent bidder to supply and install a state of the art Board Management System (BMS). Some of the benefits realized as result of this investment include but not limited to the following:-

- a. Reduced costs of board meeting preparation and distribution.
- b. The automation of the board meeting was one of the strategies towards the realization of the commission's vision statement that is "To be a globally respected regulator enabling access to energy for socio-economic transformation".
- c. Time saved in preparation and distribution of the board papers. With the eBMS system only a single set of papers is uploaded for commissioners and the director's use thus saving time and effort in making several sets as per current practice. This frees staff to engage in other value adding activities.
- d. Improved collaboration between the office of Commission Secretary and the commissioners. Documents are uploaded into the portal and instantly become available to the commissioners compared to the previous practice where they were hand delivered.

- e. Improved accessibility and flexibility. With electronic board management system, commissioners and directors can access board papers from anywhere at any time. Access to the portal requires internet connectivity which is currently affordable and readily available.
- f. Improved document management and availability for easy of reference.

A photograph of a man in a light blue jacket standing and speaking into a microphone at a workshop. He is holding a folder and a smartphone. The room is filled with other participants seated in rows of chairs. A large blue screen is visible in the background. The scene is lit with overhead fluorescent lights.

**PARTICIPANT AT
ELECTRICITY WORKSHOP
STANDS TO MAKE HIS
CONTRIBUTION**

CHAPTER 9: FINANCIAL INFORMATION REPORT OF THE COMMISSIONERS

The Commissioners submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Commission's affairs.

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.

Results

The results of the Commission for the year ended June 30, 2013 are set out from page 93 to 121

Commissioners

The members of the Board of Commissioners who served during the year are shown on page v. The Commissioners are appointed in line with Section 10 of the Energy Act 2006.
Auditors

The Auditor General is responsible for the statutory audit of the Commission in accordance with the Section 22 (4) of the Energy Act 2006.

By Order of the Commission

Ms. Mueni Mutung'a
Commission Secretary
Nairobi

CHAPTER 9: FINANCIAL INFORMATION

STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, section 21 of the Energy Act 2006 and section 9 of the State Corporations Act, require the Commissioners to prepare financial statements in respect of that Commission, which give a true and fair view of the state of affairs of the Commission at the end of the financial year/period and the operating results of the Commission for that year/period. The Commissioners are also required to ensure that the Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Commission. The Commissioners are also responsible for safeguarding the assets of the Commission.

The Commissioners are responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Commission;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Commission;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Commissioners accept responsibility for the Commission's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and

STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Commissioners are of the opinion that the Commission's financial statements give a true and fair view of the state of Commission's transactions during the financial year ended June 30, 2014, and of the Commission's financial position as at that date. The Commissioners further confirm the completeness of the accounting records maintained for the Commission, which have been relied upon in the preparation of the Commission's financial statements as well as the adequacy of the 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 the next twelve months from the date of this statement.

Approval of the financial statements

The Commission's financial statements were approved by the Commission on 25th September 2014 and signed on its behalf by:



Chairperson



Director General

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 2014

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON ENERGY REGULATORY COMMISSION FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Energy Regulatory Commission set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, the statement of changes in assets, the statement of cash flows, the statement of comparative budgets and actual amounts and a summary of significant accounting policies and other explanatory information in accordance the provisions of Article 229 of the Constitution of Kenya, 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 purposes of the audit.

Management's Responsibility for the Financial Statements

The Management of Energy Regulatory Commission is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation for financial statements that are free from material misstatement, whether due to fraud or error.

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 these 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 report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with the 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 judgment, including the assessment 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

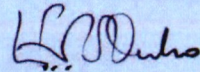
X. REPORT OF THE INDEPENDENT AUDITORS ON THE ENERGY REGULATORY COMMISSION

preparations 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 audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Energy Act, 2006.



Edward R. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 December 2014

		2013-2014 KES	2012-2013 KES
Revenue from non-exchange transactions	Note		
Electricity Levy	3	210,906,037	194,487,122
Petroleum Levy	4	153,770,283	137,087,045
Transfers from other government entities	5	79,471,225	89,689,876
		<u>444,147,545</u>	<u>421,264,043</u>
Revenue from exchange transactions			
Finance income - external investments	6	6,076,355	3,220,242
		<u>6,076,355</u>	<u>3,220,242</u>
Total Revenue		<u>450,223,900</u>	<u>424,484,285</u>
Expenses			
Commission costs	7	14,038,926	22,736,899
Employee costs	8	174,891,462	172,389,700
Training and other personnel costs	9	41,832,170	38,877,623
Office supplies	10	12,277,030	8,964,992
Transport and travel	11	25,997,931	22,722,971
Public relations and consumer services	12	31,778,070	24,180,533
Utilities	13	3,047,985	2,780,301
Information & communication technology	14	9,751,087	3,098,072
Office rent and office services	15	26,859,316	29,474,395
Consultancy & other professional services	16	61,487,803	70,018,189
HIV/AIDS prevention	17	1,068,318	832,230
Depreciation/ Amortization	22&23	42,424,813	42,981,269
Total expenses		<u>445,454,911</u>	<u>439,057,174</u>
Surplus / (Deficit) from operating activities		4,768,989	(14,572,890)
Other Gains/Losses			
Gain / (Loss) on disposal	18	(46,804)	1,685,115
Surplus before tax		4,722,185	(12,887,776)
Taxation		-	-
Surplus for the period		4,722,185	(12,887,776)

**XI. STATEMENT OF
FINANCIAL PERFORMANCE**
For the year ended 30 June 2014

**XII. STATEMENT OF
FINANCIAL POSITION
For the year ended 30 June 2014**

ASSETS	Note	2013-2014 KES	2012-2013 KES
Current assets			
Cash & cash equivalents	21	86,895,506	50,151,142
Receivables from exchange transactions	19	6,695,967	5,339,472
Receivables from non-exchange transactions	20	<u>19,061,650</u>	<u>40,916,438</u>
		112,653,123	96,407,052
Non-current assets			
Property, plant and equipment	22	77,725,438	96,568,124
Investments	24	55,167,776	55,537,700
Intangible assets	23	7,335,219	24,360,744
		<u>140,228,433</u>	<u>176,466,568</u>
Total Assets		<u>252,881,556</u>	<u>272,873,620</u>
LIABILITIES			
Current liabilities			
Trade & other payables from exchange transaction	25	53,189,029	77,956,787
Provisions	26	7,269,688	2,615,539
Employee benefits obligation	27	7,639,779	11,926,522
		<u>68,098,496</u>	<u>92,498,848</u>
Total Liabilities		<u>68,107,045</u>	<u>92,498,848</u>
Net Assets			
Reserves (sinking fund)		55,000,000	55,000,000
Accumulated surplus		129,783,060	125,374,772
Total net assets		<u>184,783,060</u>	<u>180,374,772</u>
Total net assets and liabilities		<u>252,881,556</u>	<u>272,873,620</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Commission's financial statements were approved on 25th September 2014 and signed by:

Director General



Chairperson of the Commission



	Sinking Fund Reserves KES	Accumulated Surplus KES	Total Reserves KES
Balance as at 1st July, 2012	55,000,000	138,262,548	193,262,548
Net surplus for the period	-	(12,887,776)	(12,887,776)
Transfer to/from Sinking Fund	-	-	
	-----	-----	-----
Balance as at 30th June, 2013	<u>55,000,000</u>	<u>125,374,772</u>	<u>180,374,772</u>
Balance as at 1st July, 2013	55,000,000	125,374,772	180,374,772
Adjustment	-	(313,896)	(313,896)
Net surplus/loss for the period	-	4,722,184	4,722,184
Transfer to/from Sinking Fund	-	-	
	-----	-----	-----
Balance as at 30 June, 2014	<u>55,000,000</u>	<u>129,783,060</u>	<u>184,783,060</u>

**XIII. STATEMENT OF
CHANGES IN NET ASSETS**
For the year ended 30 June 2014

STATEMENT OF CASH FLOW
For the year ended 30th June, 2014

Receipts	Notes	2013-2014 KES	2012-2013 KES
Levy		380,465,773	326,594,822
Transfers from other government entities		88,172,178	106,903,048
Receipts From staff advances		332,954	
Other miscellaneous receipts		<u>191,393</u>	<u>1,265,266</u>
Total Receipts		469,162,298	434,763,136
Payments			
Commissioners expenses		14,094,012	24,089,393
Employee costs		174,515,506	171,148,101
Training and other personnel costs		41,832,170	39,462,623
Office supplies and expenses		12,277,031	8,964,992
Transport and travel		25,957,256	25,680,719
Public relations and consumer services		32,674,229	24,180,533
Utilities		3,047,984	2,780,301
Information and communication technology expenses		9,751,087	3,098,072
Office rent and office services		26,859,316	29,474,395
Consultancy and other professional services		85,296,332	99,820,782
HIV/ AIDS prevention related expenses		1,382,214	832,230
Staff Imprest		<u>3,301,591</u>	<u>(2,092,824)</u>
		430,988,727	427,439,317
Net Cash Flow from Operating Activities		38,173,571	7,323,819
Investing activities:			
Purchase of fixed assets		(6,779,067)	(4,812,242)
Proceeds of Sale of fixed assets		137,000	1,875,100
Interest received		5,212,861	3,819,544
Net Cash outflow from investing activities		(1,429,206)	882,402
Net Increase (Decrease) in cash & cash equivalents		36,744,364	8,206,221
Cash & cash equivalents at the beginning of the period		<u>50,151,142</u>	<u>41,944,921</u>
Cash & cash equivalents at the end of the period		86,895,506	50,151,142
Represented by:			
Short term deposits		60,590,620	30,000,000
Bank balances		26,204,886	20,150,517
Petty cash		100,000	625
Total		86,895,506	50,151,142

	Original Budget 2013-2014 KES	Adjustments 2013-2014 KES	Final Budget 2013-2014 KES	Actual on Comparable Basis 2013-2014 KES	Performance Difference 2013-2014 KES
Revenue					
ERB Levy	208,930,000	(1,536,099)	207,393,902	210,906,037	3,512,135
Petroleum Levy	144,072,000	10,475,564	154,547,564	153,770,283	(777,281)
Transfers from other government entities	75,400,000	60,000,000	135,400,000	79,471,225	(55,928,775)
Other operating revenue	7,000,000	(2,131,308)	4,868,693	6,076,355	1,207,662
Total revenue	435,402,000	66,808,157	502,210,159	450,223,900	(51,986,259)
Expenses					
Board expenses	18,840,000	-	18,840,000	14,038,926	4,801,074
Personnel emoluments	186,482,494	(11,566,284)	174,916,210	174,891,462	24,748
Training and other personnel costs	40,698,200	727,500	41,425,700	41,832,170	(406,470)
Office supplies and expenses	13,367,050	-	13,367,050	12,277,030	1,090,020
Transport and travel	18,547,000	7,000,000	25,547,000	25,997,931	(450,931)
Public relations and consumer services	28,780,000	5,220,000	34,000,000	31,778,070	2,221,930
Utilities	3,240,000	-	3,240,000	3,047,985	192,015
Information and comm. Tech. expenses	9,670,000	-	9,670,000	9,751,087	(81,087)
Office rent and office services	26,096,590	-	26,096,590	26,859,316	(762,726)
Consultancy & other professional services	46,090,000	54,718,000	100,808,000	61,487,803	39,320,197
HIV/AIDS prevention related expenses	1,000,000	400,000	1,400,000	1,068,318	331,682
Depreciation / Amortization	33,250,000	8,746,988	41,996,988	42,424,813	(427,825)
Total expenses	426,061,334	65,246,204	491,307,538	445,454,911	45,852,627
Surplus for the period	9,340,666	1,561,953	10,902,621	4,768,989	

**XIV. STATEMENT
OF COMPARISON
OF BUDGET
AND ACTUAL
AMOUNTS
For the year ended 30
June 2014**

XV. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The Commission's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Commission. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis. The accounts are presented in Kenya Shillings (KES)

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Electricity and Petroleum Levies

The Commission recognizes revenues from Electricity and Petroleum levies when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Commission and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Commission and can be measured reliably.

ii) Revenue from exchange transactions

Rendering of services

The Commission recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Commission.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Commission. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Commission differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) 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 percent of its surplus funds reported in the audited financial statements after the end of each financial year.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Commission recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a

major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated on the cost of the fixed asset assets on straight line basis, at annual rate 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 and Fittings	12.5%
• Computer Equipments	30%
• Equipments	12.5%

f) Leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Commission. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The amortization rates used are as follows;

• Intangible Assets	30%
---------------------	-----

The useful life of the intangible assets is assessed as either finite or indefinite.

h) Research and development costs

The Commission expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Commission can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential

- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

i) Financial instruments

Financial assets and financial liabilities are recognised on the Commission's statement of financial position when the Commission has become party to the contractual provisions of the instrument. Specific accounting policies adopted by the Commission for its financial instruments outstanding at year end are set out as follows:

Government securities

Government securities comprise treasury bonds which debt securities are issued by the Government of Kenya. Government securities are classified as held to maturity and are stated at amortised cost.

Short term deposits

Short term deposits are classified as held to maturity and are stated at amortised cost.

Trade receivables

Trade receivables are carried at anticipated realised value. An estimate is made for bad and doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps taken to recover them have failed.

Trade payables

Trade payables are not interest bearing and are stated at their fair value

j) Provisions

Provisions are recognized when the Commission has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Commission expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

k) Contingent liabilities

The Commission does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

l) Contingent assets

The Commission does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

m) Nature and purpose of reserves

The Commission creates and maintains reserves in terms of specific requirements.

Accumulated Surplus

The Commission's capitals consist of the accumulated reserves. 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

Sinking Fund Reserves

The sinking Fund reserves is money which the Commission set aside over time in order to renew depreciating assets

n) Changes in accounting policies and estimates

The Commission recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

o) Employee benefits**Retirement benefit plans**

The Commission provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which the Commission pays fixed contributions into a separate Commission (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

p) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

q) Related parties

The Commission regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Commission. Members of key management are regarded as related parties and comprise Commission Members and senior managers (see further disclosures of related parties in note 29).

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

t) Significant judgments and sources of estimation uncertainty

The preparation of the Commission's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Commission based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Commission. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Commission
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

v) Incorporation

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

	2013-2014	2012-2013
	KES	KES
3 Electricity Levy: Electricity Levy from Kenya Power Legal Notice No. 148 of 1999)	210,906,037	194,487,122
4 Petroleum Levy: Petroleum Levy	<u>153,770,283</u>	<u>137,087,045</u>
	<u>153,770,283</u>	<u>137,087,045</u>
(Legal Notice No. 91 & 109 of 2008)		
5 Transfers from Government: Consultancy-Drafting of regulations, codes and fuel marking Capacity Building – World Bank	63,171,200	79,045,502
	<u>16,300,025</u>	<u>10,644,374</u>
	<u>79,471,225</u>	<u>89,689,876</u>
6 Revenue from exchange transactions Interest on investments Miscellaneous Revenue	5,959,705	3,137,681
	<u>116,649</u>	<u>82,561</u>
	<u>6,076,354</u>	<u>3,220,242</u>

7	Commission Expenses:		
	Monthly fees/Honorarium	4,620,000	5,126,129
	Sitting Allowance-Commission Members	5,300,000	7,080,667
	Seminars, Travel and Accommodation	2,423,419	7,942,073
	Medical and GPA	562,815	746,503
	Meeting, Entertainment and Others	1,132,692	1,841,527
		<u>14,038,926</u>	<u>22,736,899</u>
8	Staff Salaries and Benefits:		
	Salaries	106,081,989	105,587,717
	House Allowance	30,078,119	30,654,329
	Car/Commuting Allowance	13,454,774	13,657,829
	Pension and Gratuity	16,481,300	15,802,855
	Employee Compensation-Court Award	5,000,000	-
	Special Duty/ Acting Allowance	1,397,823	548,695
	Leave and Other Allowances	2,397,458	6,138,275
		<u>174,891,462</u>	<u>172,389,700</u>
9	Training and Personnel Costs:		
	Medical	12,952,617	14,989,710
	Life and Accident Insurance	2,867,748	2,042,583
	Training and Capacity Building-ERC funded	7,739,099	9,732,402
	Training and Capacity Building - World Bank funded	16,300,025	10,211,524
	Subscriptions-club and professional associations	1,124,257	1,110,117
	Staff welfare and laundry	478,152	65,108
	Staff uniforms	370,272	759,779
		<u>41,832,170</u>	<u>38,877,623</u>
	Number of Employees	76	69
10	Office Supplies and Expenses:		
	Stationary, postage and supplies	6,169,489	4,432,248
	Meetings, office tea and miscellaneous	4,962,532	3,644,089
	Newspapers, books and periodicals	1,145,009	888,655
		<u>12,277,030</u>	<u>8,964,992</u>

11	Transport and Travel Expenses		
	Travel-Local and Surveillance Audits	11,465,786	9,867,681
	Travel-International	10,672,917	8,747,492
	Fuel	1,412,297	1,659,455
	Vehicle repair and service	1,151,638	1,245,420
	Vehicle insurance and licences	1,295,293	1,202,923
		<u>25,997,931</u>	<u>22,722,971</u>
12	Public Relations and Consumer Services		
	Corporate subscriptions	1,472,570	1,612,163
	Corporate Social Responsibility (CSR)	2,003,222	4,116,119
	Advertisement and Public Relations	17,657,915	12,880,559
	Branding	2,150,87	498,550
	Public Seminars/Workshops	6,493,494	3,073,142
	Kenya Energy Environment Programme (KEEP)	2,000,000	2,000,000
		<u>31,778,070</u>	<u>24,180,533</u>
13	Utilities		
	Telephone and fax	2,125,936	2,492,328
	ISDN Line	922,049	287,973
		<u>3,047,985</u>	<u>2,780,301</u>
14	Information and Communication		
	Technology Expenses Bandwidth	904,609	1,109,360
	Software licenses	8,846,478	1,988,712
		<u>9,751,087</u>	<u>3,098,072</u>
15	Office Rent and Office Services		
	Rent	21,502,866	25,810,743
	Security	990,000	1,164,800
	Office cleaning	1,876,517	1,569,619
	Repair and service-office equipment	1,460,358	463,760
	Insurance and other	1,029,575	465,473
		<u>26,859,316</u>	<u>29,474,395</u>
16	Consultancy and other services		
	Consultancy-ERC funded	60,632,588	26,741,655
	Consultancy - World Bank-GoK funded	-	42,396,785
	Bank charges	507,215	531,749
	Audit fees and expenses	348,000	348,000
		<u>61,487,803</u>	<u>70,018,189</u>

17	HIV/ AIDS Prevention Related Expenses		
	Gender	-	116,000
	Drugs and substance abuse	70,624	-
	HIV/ AIDS, Corruption, Disability and Safety	997,694	716,230
		<u>1,068,318</u>	<u>832,230</u>
18	Gain (Loss) on sale of assets		
	Property, plant and equipment	(46,804)	1,685,115
19	Receivables from exchange transactions		
	Hospital and rent deposit	5,245,472	5,245,472
	Telephone-deposits	94,000	94,000
	Investment interest	1,356,495	-
		<u>6,695,967</u>	<u>5,339,472</u>
20	Receivables from non-exchange transactions		
	Levies	12,717,898	28,747,077
	Consultancy-GoK (IDA) project	1,943,421	10,644,374
	Staff advance	200,072	541,575
	Commission imprest	-	10,000
	Staff imprest	4,200,259	898,668
	Miscellaneous receivables	-	74,744
		<u>19,061,650</u>	<u>40,916,438</u>
21	Cash and cash equivalents		
	Fixed/ Call Deposit:		
	NBK (FDR for 3 months at 10%)	10,000,000	30,000,000
	NBK (Call deposit at 7%)	10,000,000	
	KCB (FDR for 3 months at 10%)	40,590,620	-
		60,590,620	30,000,000
	Bank Balances:		
	Commercial Bank of Africa	87,360	94,500
	National Bank of Kenya	3,008,811	120,212
	Kenya Commercial Bank	23,108,715	19,935,805
	Petty Cash	100,000	625
		<u>26,304,886</u>	<u>20,151,142</u>
	Total cash and cash equivalents	<u>86,895,506</u>	<u>50,151,142</u>

22. PROPERTY, PLANT, AND EQUIPMENT

	Motor Vehicles	Computers	Furniture & Fittings	Equipment	Total
	KES	KES	KES	KES	KES
Cost					At 1 July 2012
35,546,607	25,122,944	97,144,329	11,172,610	168,986,490	
Add: additions during the year	-	3,723,475	164,245	900,161	4,787,881
Less: disposals during the year	(4,700,000)	(5,139,198)	(66,773)	(144,130)	(10,050,101)
Adjustment		2,251,650	(5)	(2,251,650)	(5)
At 30 June 2013	30,846,607	25,958,872	97,241,796	9,676,991	163,724,266
Cost					
As at 1st July 2013	30,846,607	25,958,872	97,241,796	9,676,991	163,724,266
Add: additions during the year	-	3,385,732	1,508,963	511,640	5,835,335
Less: disposals during the year	-	-	(114,002)	(217,490)	(331,492)
At 30th June 2014	30,846,607	29,344,604	98,636,557	9,971,141	168,798,909
Depreciation					
At 1 July 2012	17,614,771	15,907,927	12,142,417	6,622,166	52,287,281
Adjustment		828,870	(3)	(828,870)	(3)
Charge for the year	6,124,201	5,664,376	12,152,878	787,526	24,728,981
Disposal	(4,700,000)	(5,043,802)	(8,347)	(107,967)	(9,860,116)
At 30 June 2013	19,038,972	17,357,371	24,286,945	6,472,855	67,156,143
Depreciation					
At 1st July 2013	19,038,972	17,357,371	24,286,945	6,472,855	67,156,143
Adjustment	34,425	(38,079)	(3,654)		
Charge for the year	5,316,144	5,896,078	12,223,023	633,626	24,068,871
Disposal	-	-	(35,626)	(112,062)	(147,688)
At 30 June 2014	24,355,115	23,287,874	36,474,343	6,956,340	91,073,672
Net book value					
At 30 June 2014	6,491,492	6,056,731	62,162,414	13,801,777	72,542,438
At 30 June 2013	11,807,635	8,601,501	72,954,853	13,596,568	94,960,557

At 30 June 2014, property and equipment with cost amounting to Kes 27,382,920 were fully depreciated and Intangible Assets with Cost amounting to Kes 3,920,334 were fully amortised.

	2013-2014	
	KES	KES
23 Intangible assets		
Cost		
At 1 July 2012	64,761,294	
Adjustment	-	
Add: Additions during the year	24,360	
Less: disposal during the year	-----	
At 30 June 2013	<u>64,785,654</u>	
Cost		
At 1st July 2013	64,785,654	
Adjustment	-	
Add: Additions during the year	1,334,071	
Less: disposal during the year	-----	
At 30th June 2014	<u>66,119,725</u>	
Amortization charge		
At 1st July, 2012	22,172,622	
Adjustment	-	
Amortization charge	18,252,288	
Less disposal during the year	-----	
At 30 June 2013	<u>40,424,910</u>	
At 1st July, 2013	40,424,910	
Adjustment	3,654	
Amortization charge	18,355,942	
Less disposal during the year	-----	
At 30 June 2014	<u>58,784,506</u>	
Net book value 30 June 2014	7,335,219	
Net book value at 30 June 2013	24,360,744	
24 Investment		
Treasury Bonds	55,537,700	55,537,700
Armotisation Charge	369,924	-----
	<u>55,167,776</u>	<u>55,537,700</u>

25	Payables from Exchange Transactions		
	Suppliers	31,796,300	41,175,872
	Rural Electrification Authority (REA)		
	contractors	345,295	593,525
	Year End accrual	13,754,607	14,141,173
	Commission Fees payable	26,397	91,482
	Energy Act advances from energy		
	sector stakeholders	<u>7,266,430</u>	<u>21,954,736</u>
		<u>53,189,029</u>	<u>77,956,788</u>
26	Provisions		
	Audit fees	348,000	348,000
	Lawsuit-Former Employee	5,000,000	-
	Withheld tax and other statutory deductions	<u>1,921,688</u>	<u>2,267,540</u>
		<u>7,269,688</u>	<u>2,615,540</u>
27	Employee benefits		
	Gratuity - Director General	-	3,959,570
	Gratuity - staff	1,897,152	1,248,431
	Other payroll benefits	<u>5,742,627</u>	<u>6,718,520</u>
		<u>7,639,779</u>	<u>11,926,521</u>

28. Financial Risk Management Objectives and Policies

The commission activities expose it to a variety of financial risks, including credit risk, liquidity risk and interest rates. The commission's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The commission regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the supervision of the Commissioners. The Commissioners provides policies for overall risk management, as well as policies covering specific areas such as, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

a) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company.

Credit risk arises from bank balances, trade receivables and amounts due from related parties. The Commission's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

Classification of credit risk bearing assets

The table below represents company's maximum exposure to credit risk as at 30th June 2014

	Fully performing KES	Past due KES	Impaired KES	Total KES
Receivables from non-exchange transactions	19,073,949	-	-	19,073,949
Government securities	55,167,776	-	-	55,167,776
Bank balances	<u>86,895,506</u>	<u>-</u>	<u>-</u>	<u>86,895,506</u>
	<u>161,137,231</u>	<u>-</u>	<u>-</u>	<u>161,137,231</u>

All the Commission's receivables are fully performing and are expected to be repaid.

The Government securities are from the Government of Kenya that has no history of default.

Bank balance includes cash in hand and deposits held with banks. Bank balances are not restricted to any use by the client.

b) Market risk management

Interest rate risk

The Commission's interest rate risk arises from investments in short term deposits and Government securities. These are fixed income instruments and would not be significantly affected by fluctuations in interest rates.

Foreign currency risk

The commission does not hold any foreign currency denominated assets or liabilities and hence there is no exposure to foreign currency risk.

Price risk

The Commission does not hold investments that would be subject to price risk; hence this risk is not relevant.

c) Liquidity risk management

Liquidity risk is the risk that the commission will not be able to meet its financial obligations when they fall due. The Commission's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging reputation.

The Commission ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the Commissioners.

The table below provides a contractual maturity analysis of the Commission's financial liabilities:

	1-6 months KES	06-12 months KES	Total KES
Trade & other payables from exchange transactions	48,297,866	-	48,297,866
Employee benefits Obligation	7,226,121	-	7,226,121
Lawsuit-Former Employee	5,000,000	-	5,000,000
Audit fees payable	348,000	-	348,000
Withheld tax and other statutory deductions	1,930,236	-	1,930,236
	<u>62,802,223</u>	<u>-</u>	<u>62,802,223</u>

29. Related Party Transactions

The following transactions were carried out with related parties

Key management compensation

	2013-2014 KES	2012-2013 KES
Key management compensation		
Salaries to senior Management	46,979,895	46,439,825
Other Allowances	28,002,970	30,914,068
	<u>74,982,865</u>	<u>77,353,893</u>

Board remuneration

	2013-2014	2012-2013
	KES	KES
Board Remuneration		
Monthly fees/Honorarium	4,620,000	5,126,129
Sitting Allowance-Commission Members	5,300,000	7,080,667
Seminars, Travel and Accommodation	2,423,419	7,942,073
Medical and GPA	562,815	746,503
Meeting, Entertainment and Others	1,132,692	1,841,527
	<u>14,038,926</u>	<u>22,736,899</u>

Grants from GOK

	2013-2014	2012-2013
	KES	KES
Recurrent grant	79,471,225	89,689,876

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)

XVI. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Director General



Chairperson

