



## SUBMISSIONS TO QUESTIONS FROM THE PRESIDENTIAL PPA TASKFORCE

### 1. What are your greatest concerns on power generation and consumption in Kenya?

- **Lack of support in IPPs** - The government watered down the commitment provided to IPPs in letters of support covering political risks. IPPs also experienced protracted delays in the processing of PPAs. In 2019, Kenya Power froze the signing of new PPAs indefinitely, citing financial constraints and excess capacity.
- **Perception of Electricity oversupply** - The country has a perception of excess supply of electricity generated. However, in our view, the system is suffering from a lack of demand and not an oversupply. A situation that needs to be remedied.
- **High upfront investment cost** - There are several bottlenecks to importing and setting up new electricity generation projects such as bureaucratic inertia, litigation, land issues. Low consumption levels generally make it unfeasible to set up power projects due to the high investment cost, with limited returns.
- **National and county government priority mismatch** - There is an imbalance between the energy issues in the rural and urban areas. The rural areas have been a low priority and lack a framework to address the key issues at that level.
- **Lack of clear framework for Power Purchase Agreements** - Expected is the development of tariff structures that will drive down financial risks for IPPs, which have historically also been hindered by inherent political and other risks. Addressing the lack of a strong regulatory and tariff framework – which drives up negotiating periods and the risk of regulatory flux.
- **High Petroleum prices**- Petroleum prices are comparatively high in comparison to similar markets, due to the number of levies and taxes, which comprise 50% of the retail price. The price is far much higher than that of Egypt and South Africa.
- **Lastly** - Aside from the obvious consumer issues, i.e., reliability, cost, and parastatal challenges, Kenya needs to seize the opportunity to prepare itself as a regional leader in power production and innovation. This is as much a commercial issue as it is public services delivery.



## 2. What impacts do they have on your business/business environment?

- **Stifle the growth of the renewable energy sector:** Lengthy and costly process with no assurance of getting the actual go ahead to proceed with the project. Higher costs of installation, particularly for small systems that may form part of a mini grid.
- Due to prevailing market conditions (lack of adequate demand) and an underestimation of the time it takes to develop new power plants affects the level of foreign investment in the energy sector.
- The lack of clear regulatory framework leads to businesses not having a framework when engaging with government thus slowing down the ease of business in the energy sector.
- Long procedures and inconsistency in approval of Power Purchase Agreements (PPAs) leads to prolonged business venture in the sector.
- Lack of transparency in energy transactions and dealings - the sector seems to be steeped in corruption.

## 3. What in your opinion are the causes of the concerns?

- Lack of support in IPPs – there lacks a clear regulatory framework to address this. Additionally, the Kenya Power’s financial risk is a driver to this concern.
- The government has a goal to improve/increase connectivity and access to power to all Kenyans. However, the National and county government priority mismatch is due to the lack of clear framework and lack of involvement with the private sector in attain this goal
- The high cost of fuel in Kenya is made up of various taxes and levies. Removing some or all of these would have significant revenue generation impacts.
- There are unsubstantiated power demand projections leading to electricity supply-demand mismatch
- The Energy Act requires the development of new regulations and reviewed tariffs, which the government is slow to develop.
- There is an imbalance between the energy issues in the rural and urban areas. The rural areas have been a low priority and lack a framework to address the key issues at that level.



4. What benefit do you see if these concerns were adequately addressed?
  - Growing household and residential demand for reliable and affordable energy.
  - Streamlined Public-Private Partnerships thus greater investment in the sector.
  - Expansion of the geothermal industry into Sub Saharan Africa.
  - Increased demand for off grid power providing a business opportunity for IPPs.
  - The proximity of new infrastructure (rail and SEZ) to renewable resources offers opportunities for industries that rely on clean energy.
  - Increase in demand for energy that can be attributed to increased investment by both the formal and informal sectors as well as increased demand for power by households.
  - Diversification of sources beyond petroleum products.
  - Rapidly changing business environment that requires more energy to facilitate transport and production e.g. in manufacturing.
  - Streamlined and efficient prospecting and licensing processes. Reduces costs of prospecting for sites.
  
5. What is your opinion on the energy policy and energy act in as far as power generation is concerned? Does the policy and the act create a conducive environment for business?
  - Both the policy and Act are progressive e.g provisions on integrated energy planning, electricity market, private participation, open access and minimum energy performance standards. However, regulations to effectuate policy and Act are in draft stages/non-existent thus cannot be implemented.
  
6. What is your opinion on the procurement methods currently used for bringing on board power producers?
  - Competitive bidding has lacked bidding strategy (volume and timeline recommendations, type of bidding, roles of key agencies); procurement framework (qualification requirements, winner selection process) and action plan (capacity assessment of key agencies, communication strategy) and has therefore been abused in the past.
  - Transition to energy auctions is welcome. If well designed it will increase cost efficiency, allow price discovery of renewable energy-based electricity, avoiding potential windfall profits and underpayments.
  
7. What are your comments on the standardized PPA agreements?



- Standardizing PPAs is welcome as all sectors, especially strategic ones, need regulation and standardization to ensure commercial entities understand the rules to operate and that Kenya's sector remains competitive, transparent, and value-add.

8. Is it adequate or is there still room for improvement?

- The biggest concern from a member perspective is that there is a lack of information. The lack of available information sows uncertainty and risk for clients who feel projects outside of East Africa are more predictable. The reputation of "reform", "standardization," and "policy review" in the region underscores continued mistrust of government activities which dissuade well behaved investors from operating here.

9. What is your opinion on Government policy to go green in power generation?

- This is an excellent effort but needs to be well-integrated with other government, investment, and commercial priorities to be successful. Kenya has enormous potential to be a dynamic market player but synchronizing and streamlining these policies in a whole-of-government approach is still needed.
- Rapid growth in variable renewable electricity generation such as wind and solar has meant that power systems and markets must be more flexible to compensate for the greater volatility in this generation and keep the balance with customer demand. An effective tool to assist Governments towards a better planned and well executed transition, has been an evaluative assessment, known as the Renewable Readiness Assessment (RRA). In the report, each country's electricity market is assessed according to its progress against; socio-political support for the energy transition; ability to exploit new technologies and business models and open market access for flexibility services. AmCham is currently working on Kenya's RRA and will be reaching out to the MoE to partner on the same.

10. What are your experiences in the use of captive power and what are the advantages and disadvantages?

- With captive solar which many have turned to, innovative financing methods have helped the uptake of the technology.
- Captive power allows for some degree of autonomy though it may be expensive to invest in or unfeasible for highly energy intensive applications.



- This model of generation helps to ensure high fuel efficiency and minimise losses associated with the transmission of electricity from the national grid. Other benefits include security of supply, greater control of increases/decreases in generation capacity to align with production cycles, control over the capacity, specifications and operation of the power plant, improved environmental performance and reduced costs resulting from fuel efficiency, etc. In addition, with captive power projects, there is an added advantage of tariff certainty and not being subject to tariff increases of grid-connected power supply.

11. What do you consider to be the benefits of the use of “Take and Pay” in PPAs?

- It recognises that the valuable service provided by a power plant is availability, not the actual production of power. It is therefore structured to make payment for the time for which a plant is available – that is ready to provide power when called on – rather than just for the time that the plant is actually called on to run. That recognition means that the market risks are being borne by the off-taker rather than by the generator.
- Deals with the allocation of risk between the generator and the off-taker by providing certainty to generators which in turn underpins investment.
- Enables government obtain new capacity without paying the upfront costs
- Promotes investment in new generation. New entrants are simply unable to trust new markets – even where they exist unless they have the backing of a take-and-pay clause in a PPA. It’s worth noting that merchant power plants built to exploit market opportunities without having the backing of a PPA are extremely rare. There have been examples of merchant power plants in both European (particularly the United Kingdom) and US systems, built to take advantage of the availability and low price of gas compared to coal fired power. As that price advantage was eroded the incentive to build merchant power fell away.

12. Captive generation - To what extent are members considering or engaging in captive generation? If so, which technologies?

- In the manufacturing and horticultural sector many have turned to solar for captive generation, where feasible, others are taking up small hydropower.

13. Any other information/perspectives that should be shared?



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KENYA