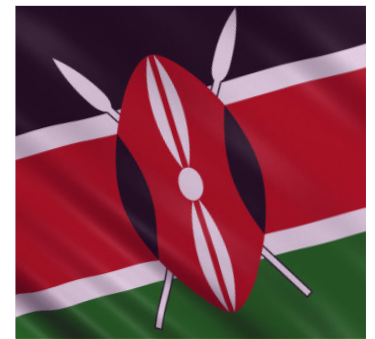


Kenya Power Report – 2019/20



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Kenya Power Report 2019/20 is the second in a series of easy-to-digest studies on key energy industry segments presented by African Energy's consultancy team.

It was published in August 2019 and revised in November 2019 to include a medium term outlook and analysis (2019–2029).

Key features include:

- **Political and economic risk analysis;**
- **Policy and regulation outlook** – including an assessment of the Energy Act 2019 and the market's structure and operation;
- **Demand and supply outlook** – analysing sector planning through to 2029 and future scenarios;
- **Exclusive power sector data:** 15-year (2010–24) trends on installed capacity, broken down by fuel, technology, provinces and more – sourced from **African Energy Live Data**;
- **Profiles of major projects** and selected generation sub-sector developers and financiers;
- **Overview of transmission** infrastructure and planned developments;
- **Analysis of resource availability** including geothermal, solar and wind as well as expected developments in Kenya's hydrocarbons industry;
- Overview of Kenya's rapidly growing **off-grid market**;
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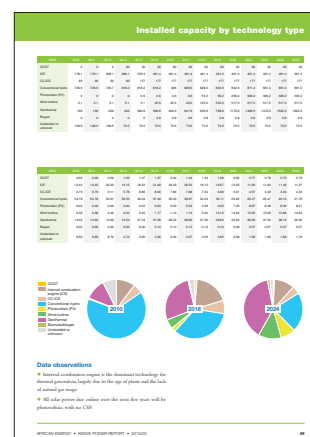
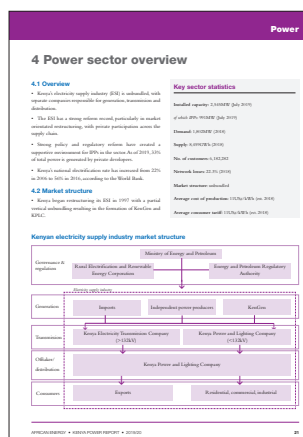
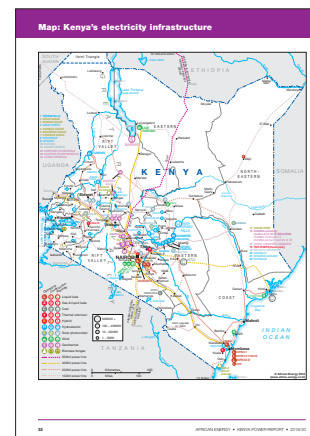
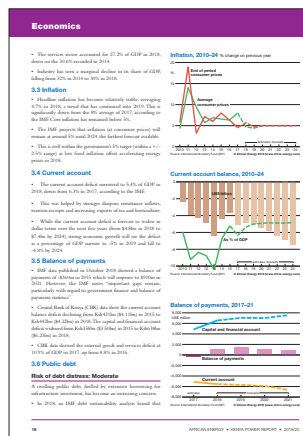
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- Understand the competitive landscape
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- Understand the wider economic environment for power projects
- Unravel the debate over future energy sector planning
- Power generation forecasts based on actual project development pipeline

Other reports available include:

- **Ghana Power Report 2019/20**
- **Egypt Power Report 2020/21**

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1. Executive summary

Kenya is seen as a relatively attractive market for investors, with a functioning democratic polity, a stable economy, and a strong track record of private sector investment. However, the country is not without its challenges. *Kenya Power Report 2019/20* outlines the market's attractions and downsides for power developers, financiers and other stakeholders.

Political and business risk

Kenya's political situation has in many ways improved dramatically since the botched 2017 presidential election, in which tensions threatened to reach levels not seen since the violent fallout of the 2007 poll.

In early 2018, efforts to de-escalate tensions undertaken by President Uhuru Kenyatta and his fierce critic and electoral rival, opposition leader Raila Odinga (universally known as 'Raila'), resulted in the highly-publicised 'handshake agreement' truce. The move has bridged political divides, reduced instability and afforded some breathing space to Kenyatta's governing Jubilee Party, allowing it to focus on delivering key policies.

The agreement has not been without controversy and deep cracks have emerged on both sides of the political divide. The reconciliation has threatened to split Raila's National Super Alliance (Nasa) coalition, with the three-time presidential election candidate losing significant swathes of support among his former allies. Meanwhile, supporters of Deputy President William Ruto – a controversial figure who has for many years been considered heir-apparent to the outgoing president – are also voicing their dismay.

Kenyatta is not expected to run in the next election, due in 2022, having served his two-term limit. The polls will have a painfully long run-up – indeed, the elections are already weighing heavy on the political landscape. Speculation that Raila will again seek the Nasa candidacy – despite his assurances to the contrary – has angered many in the opposition.

Factionalism within the ruling Jubilee Party has intensified in 2019 as the rift between Kenyatta and Ruto widens. These divisions have been exacerbated by speculation that the president may back Raila, not Ruto, in the 2022 poll. The conditions for a hotly contested and unpredictable 2022 race are thus already emerging, with the threat of increased volatility.

Despite the political fallout and divisions within government, Kenyatta continues to pursue his overarching economic strategy,

known as the 'Big Four Agenda'. The ambitious plan, on which Kenyatta is pinning his legacy, aims to provide universal healthcare and affordable housing, increase manufacturing and improve food security. However, tangible results have thus far been limited, with time running out to deliver on these highly ambitious objectives.

Delivering on these promises will be made more difficult as large-scale borrowing from China to fund major infrastructure projects has raised concerns that Kenya may fall into a new 'debt trap'. At the same time, government indecision and poorly conceived policies have limited the appetite of private investors for large-scale infrastructure projects.

The Kenyatta administration has said that battling corruption is one of its top priorities, which has for decades dented public trust and deterred investors. While efforts have been stepped up and a number of high-profile investigations have taken place, graft is still a major problem to overcome, from top to bottom in the political system.

At a macro level, the economy's performance has been a positive for the government. Annual GDP growth of around 6% in 2018 is expected to continue for the foreseeable future. A free-spending government has been happy to accelerate debt-to-GDP ratios to finance major projects, even though rising concerns over debt sustainability have caught the attention of the International Monetary Fund (IMF) and other financial institutions. Credit rating agency Moody's Investors Service reacted negatively to what it sees as over-borrowing and issued a rating downgrade to B2 in February 2018.

The electricity supply industry

The Kenyan Electricity Supply Industry (ESI) has gone through several reform programmes, particularly during the 1990s and early 2000s. Reforms have led to a relatively stable and attractive power market for foreign investors. Issues remain, but the government continues to be relatively proactive in improving the sector, despite a slow policy making process.

- Installed on-grid capacity stands at 2,788MW as of November 2019, which is in excess of the 2017/18 demand figure of 1,802MW. However, network losses of over 20%, reserve margin requirements, frequent droughts and variable renewable power mean supply is not considered adequate to cover demand.

Republic of Kenya



Capital Nairobi

Population 49.36m (est. 2019)

Area 580,367km²

Official language Swahili, English

Head of government President Uhuru Kenyatta

Economy

Currency Shilling (subunit: 1/100 cent)
\$1=KSh99.94 as of 28 June 2019

GDP (nominal) \$79.21bn (2017)

GDP growth rate 4.87% (2017)

Inflation (y-o-y) 5.7% (June 2019)

Power sector

Installed generation capacity 2,545MW (July 2019)

Installed IPP capacity 991MW (July 2019)

Electricity demand 1,802MW (2018)

- There is strong private participation: independent power producers (IPPs) account for 1,048MW of on-grid capacity.
- According to the project pipeline compiled by *African Energy Live Data*, substantial capacity additions are due online in the short term to meet expected domestic demand growth.
- The East African Power Pool (EAPP)'s connection with the Southern African Power Pool (SAPP) through the under construction Zambia-Tanzania-Kenya (ZTK) interconnection could prove a gamechanger.
- Distribution utility Kenya Power has a credible payments record. But a big concern is the *Kinangop Wind project's* failed attempt to call in a sovereign 'Letter of Support' (LoS), causing the government to water down its IPP guarantee and investors to fret.
- Even with the introduction of regulated and cost-reflective tariffs, the financial outlook for Kenya Power and state generation company KenGen is mixed; both had to restructure their short-term debts with assistance from the World Bank Group. (WBG)
- Emphasis has been placed on least-cost generation expansion. Geothermal generation – already a key component of Kenya's energy mix – is identified as a key resource for medium- to long-term capacity additions. An estimated 656MW of geothermal generation is expected to come online by 2024.
- The government has set ambitious targets for universal electricity access by 2020, but these are unlikely to be achieved. Off-grid and renewable hybrid mini-grid solutions have received considerable attention, while the private sector-backed solar home systems (SHS) market has taken off in Kenya.
- The 2019 Energy Act is leading to the creation of new regulatory bodies and a shakeup of market operations. It mandates Kenya Electricity Transmission Company (Ketraco) as the sole independent systems operator.
- Controversy has grown over the use of non-renewable power. The government has agreed to review the \$59bn Updated Least Cost Power Development Plan 2017-2037 (LCPDP), published in June 2018, due to its recommendations regarding nuclear and coal.
- As a result, medium-term planning remains in a state of flux and debate is raging over whether Kenya should focus on baseload power – to drive the government's industrialisation strategy – or procure variable power to meet increasing low-voltage consumption and falling load factors.

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