

RIC.



Electricity Regulatory Board

PARLIAMENT
OF KENYA
LIBRARY

NATIONAL ASSEMBLY
REGISTRY
31 AUG 2006
P. O. Box 41882, NAIROBI

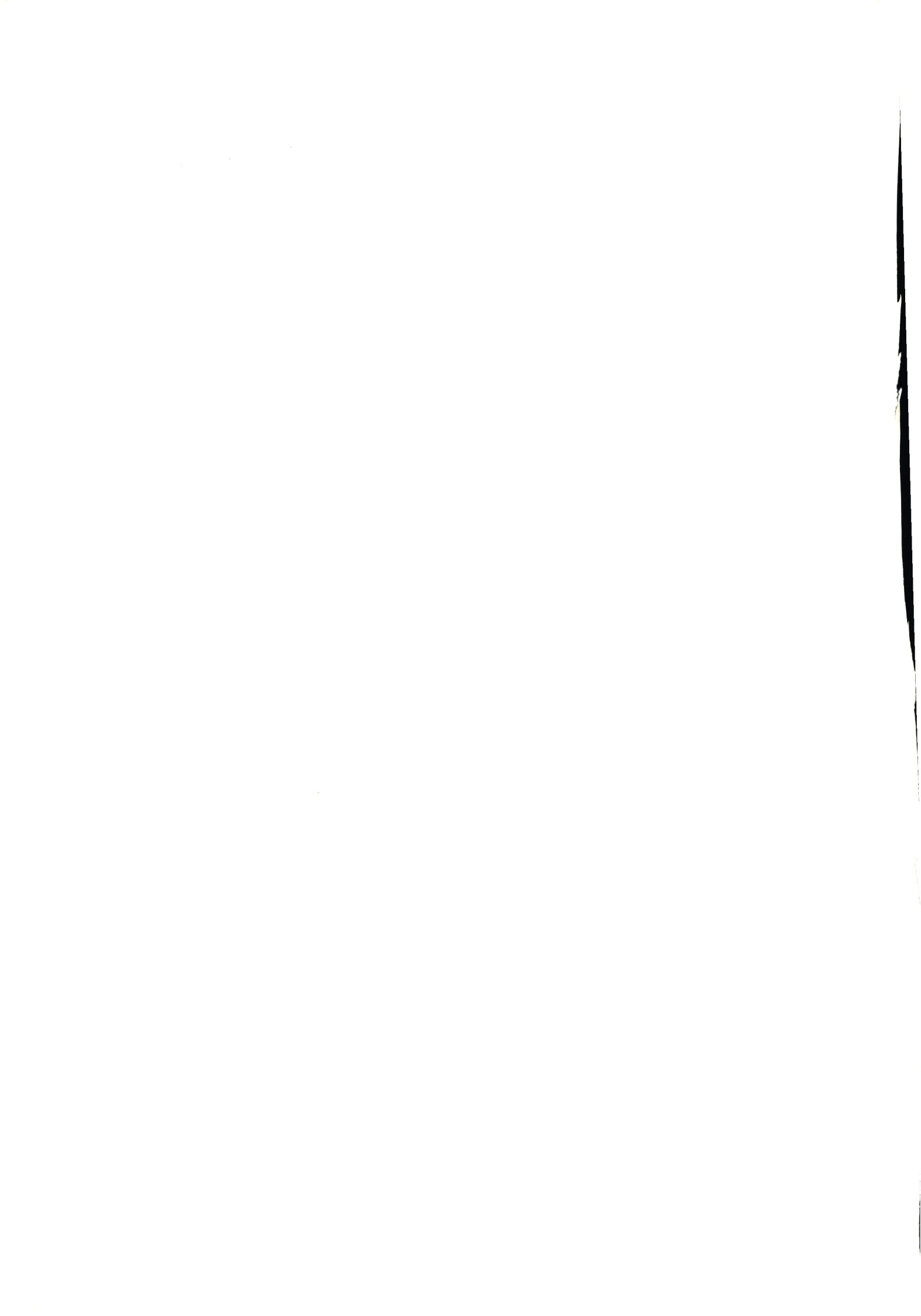


ANNUAL REPORT & FINANCIAL STATEMENTS

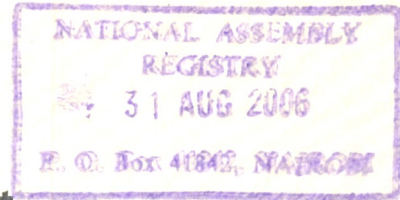
2004/2005

657-3
ERB





Vision and Mission Statements



vision statement

to be a world class energy sector regulator that facilitates and enhances delivery of sustainable, robust and quality energy services

mission statement

to regulate the energy sector in a fair, transparent and predictable manner consistent with government policy and sensitive to stakeholder interests

core values

professionalism

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

predictability

the board shall follow clearly defined rules and regulations in the conduct of its business.

integrity

the highest levels of integrity shall be expected in all transactions.

responsiveness

the board shall endeavor to be sensitive and expeditious in dealing with stakeholders concerns

KENYA NATIONAL ASSEMBLY
Session: 10013230

File No: 657-3 ERB



Table of Contents

Message from the Executive Chairman	3
Composition of the board	5
ERB management	6
Implementation of the Strategic Plan 2003/04 – 2007/08	7
Regulatory Instruments	9
Sessional Paper No. 4 on Energy	10
Tariffs Review Policy	11
Status of industry	13
Reservoir Levels and Inflows	13
Energy purchases and sales	15
Connections	16
Faults and Outages	18
Environment, Health and Safety Performance	18
Inspections	19
Challenges Encountered in the Year	21
Report of the Controller and Auditor General	23
Financial Statements	25



Executive Chairman's Statement

I have the honour to present the Annual Report of Electricity Regulatory Board (ERB) for the Fiscal Year (FY) 2004/05; which was my first full year at the helm of ERB and I am glad to report that it was a successful year for the Board. I wish to express my sincere gratitude to my fellow Board Members for their support and to the Management and Staff of ERB for their co-operation and dedication to duty in the service of our country.

The year under review was the first in which a group of selected government departments and agencies operated under a pilot performance contract scheme. In the following FY it was extended to all government departments and agencies. We at ERB welcome and embrace this move as it will help us consolidate our programs and targets and fine tune our service ethos. To this end ERB signed a performance contract for the FY 2005/06 with the government in which we commit ourselves to deliver on key targets emanating from our strategic plan. These targets mainly focus on the development of key regulatory instruments to facilitate effective and efficient regulation of the electric power sub-sector.

The Energy Sector achieved a major milestone when the government published Kenya's first white paper on Energy Policy as *Sessional Paper No 4 of 2004 on Energy*. This paper, which is of critical importance to the management of the energy sector is of great significance to ERB because the *Electric Power Act, 1997* provides for the Minister of Energy to direct ERB on matters of policy. *Sessional Paper No 4 of 2004 on Energy* encapsulates this policy guidance in a predictable, transparent and comprehensive yet concise manner and is therefore good for all stakeholders in the electric power sub-sector. A key precept of the paper is the transformation of ERB into an Energy Regulatory Commission (ERC) with an extended mandate for regulating the whole of the energy sector. It is noteworthy that ERB participated fully in the process of formulating the policy document and provided the Secretariat and Chief Rapporteur. We are proud of our contribution to this important process.

This was also the second year of ERB's first strategic plan covering the Plan Period 2003/04 – 2007/08. I am glad to report that the implementation of the *Strategic Plan 2003/04 – 2007/08* is on course; and we have achieved key milestones during the year under review: The *Grid Code* and the Rules have been debated by stakeholders and are due to be gazetted for implementation. Further, the Board's *Environmental, Health and Safety Policy Framework* was debated by stakeholders and was due for finalisation by the end of the year. The *Retail Tariffs Review Policy Framework* was approved for exposure to the public for eventual stakeholder debate; which was to take place in the next FY. These achievements are in line with our strategic objectives of putting in place the regulatory instruments necessary for the effective regulation of the power sub-sector.

On the economic regulation front the Board approved a new fifteen-year Power Purchase Agreement (PPA) between Iberafrika and KPLC following the expiry of Iberafrika's seven-year license and PPA. The new PPA incorporates a 50% reduction in the capacity charge, and hence a lower bulk tariff,



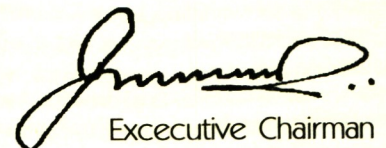
Mr Matere Keriri, CBS

thereby giving KPLC and the consumer some relief. Retail tariffs which had been on a downward trend since the end of the 1999-2001 drought, hit the bottom in 2003/04 and registered an upturn during the year under review, pushed up by rising global oil prices and increasing proportion of thermal generation in the generation mix.

Westmont Power, one of the stop-gap Independent Power Producers (IPPs) did not renew its seven-year license upon its expiry in October 2004. This reduced the number of IPPs in the sub-sector to three with a combined installed capacity of 144 MW down from 187 MW. In November 2004 KPLC started receiving power from TANESCO to supply Lunga-Lunga, a town on the border with Tanzania. Imports from UETCL declined very significantly in the second half of the year due to growing capacity constraints in Uganda.

Significant progress was made on the development of the 330-kV inter-connection to the Southern African Power Pool (SAPP) through Tanzania. The feasibility study for this inter-connector was completed and the governments of Kenya and Tanzania are currently seeking funding for the construction of the line, which is planned to come into service in 2009. The Eastern Africa Power Pool (EAPP) proposal also registered good progress with completion of the feasibility study involving the development of a *Least Cost Power Development Plan* for the combined regional market.

The performance of KPLC, the only Public Electricity Supplier (PES) in the country showed little improvement: The number of new connections went up slightly, to nearly 49,000 which is still way below the target of 150,000. The number of outages and faults increased resulting in a decline in the quality of supply, despite the implementation of a project to strengthen the distribution network. Reportable incidents and accidents declined significantly but fatalities increased. The number of complaints did decrease, most (40%) of which related to billing queries and new connections (28%).


Executive Chairman



Composition of Board

The membership of the Board comprises of an Executive Chairman, the Permanent Secretary Ministry of Energy, and five members; two representing the private sector in general and one each representing workers, employers and manufacturers organizations respectively.

The criteria for eligibility for appointment to membership are prescribed in the Act and require prospective appointees to possess a university degree or its equivalent and have not less than 15 years practical experience in matters relating to industry, finance, economics, engineering, energy or law.

The membership of the board during the year was as follows:



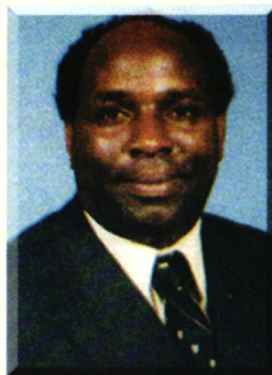
Mr Matere Keriri, CBS
Executive Chairman



Mr Patrick M. Nyoike, CBS
PS, Ministry of Energy



Mr Gershon Konditi



Mr Guantai Kirimi



Mr Joseph Ng'ani



Eng. John Mwirichia



Eng. Mwalimu Musau

ERB Management



Catherine A. Kola (Mrs)
Board Secretary



Eng. Francis Gachuri
Chief Power Engineer / Consumer
Affairs Manager



Dr. Frederick Nyang - Power Economist



Mr. Edward Opiayo - Finance Manager



Mr. John Mathiu - Legal Counsel



Mr. David Kemei - Financial Analyst



Eng. Buge Wasioya - Power Engineer



Jemosbey Misoi (Mrs)
Public Relations Officer



Susan Oyatsi (Mrs)
Assistant Accountant



Mr. George Otieno
Customer Relations Analyst



Mr. Godfrey Osotsi
Information Systems Administrator

Strategic Planning

Implementation of the strategic plan: 2003/04- 2007/08



Hon. Simeon Nyachae, Minister for Energy gives a speech during the Tariff Review Policy Stakeholders workshop at KCCT Mbagathi.



Participants in a working session during the Tariff Review Policy workshop.



Mr. Matere Kereri, the Executive Chairman ERB making opening remarks during the Environment, Health and Safety Policy stakeholders workshop.

The year under review is the second year in the implementation of the Strategic Plan 2003/04 – 2007/08 which is the principal instrument guiding ERB's activities during the plan period. The Strategic Plan 2003/04 – 2007/08 identifies the development of key regulatory instruments and amendments to the sector's legislative framework as key deliverables for the plan period. Other deliverables include streamlining the corporate management function by establishing and implementing comprehensive financial, human resource management and administration policies and systems.

In the FY under review the following milestones were achieved:

- (a) Amendments to the Electric Power Act, 1997 to make it more responsive to the needs of the energy sector were completed and a new law consolidating the Electric Power Act, 1997 and the Petroleum Bill 2000 to be known as the Energy Bill was under drafting.
- (b) The formulation of the Grid Code as well as subsidiary legislation in the form of Rules and Regulations for the smooth operation of the sector was complete. The Rules and Regulations Under the Electric Power Act, 1997 include: Electric Power Safety Code; Electric Power (Licensing) Rules; Electric Power (Supply) Rules; Electric Power (Complaints and Dispute Resolution) Rules. The Grid Code and the Rules were debated by stakeholders and are ready to be gazetted.
- (c) The Board's Environmental, Health and Safety Policy Framework was debated by stakeholders and will be finalised and launched in the next FY.
- (d) The Board's Retail Tariffs Review Policy was approved for exposure to the public for eventual stakeholder debate.
- (e) Board also participated fully in the formulation of the draft National Energy Policy which, for the first time in Kenya's history, gives a comprehensive and harmonised policy framework for the management of the energy sector. Following debate and due approval by Parliament, the National Energy Policy was published as Sessional Paper No.4 of 2004 on Energy. This publication therefore enhances transparency in the sub-sector as it encapsulates the policy guidance that the Act obliges the Minister to provide to the Board

Performance Contract between Gok and ERB

On the 29th June 2005, ERB and the Ministry of Energy signed the first Performance Contract for the financial year 2005/2006. The Executive Chairman signed on behalf of ERB while the Permanent Secretary, Ministry of Energy signed on behalf of the Government.

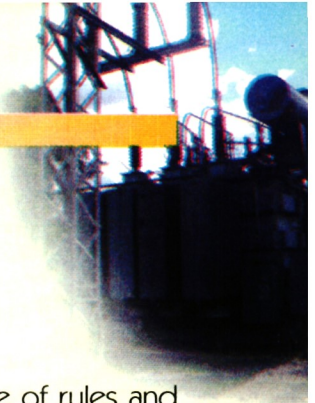
The targets under this contract include formulation of tariff review policy, setting of indicative tariffs, operationalization of the Grid Code, publication of Environmental, Health and Safety [EHS] policy, resolution of complaints and disputes, inspections of licensees works, and compliance with set budgetary limits.



The Sondu Miriu Power Project



Regulatory Instruments



The Board's Management finalised the development of a draft Grid Code and a range of rules and regulations. These rules and codes are part of the instruments that the Board will use to fulfil part of its mandate as provided for in the Electric Power Act 1997 under which the Board was established. The rules and codes developed include:

Grid Code: The Kenya Electricity Grid Code is designed to facilitate the development, operation and maintenance of an efficient, coordinated and economical electric power system in Kenya, by specifying to all parties connected to that system their technical and procedural obligations.

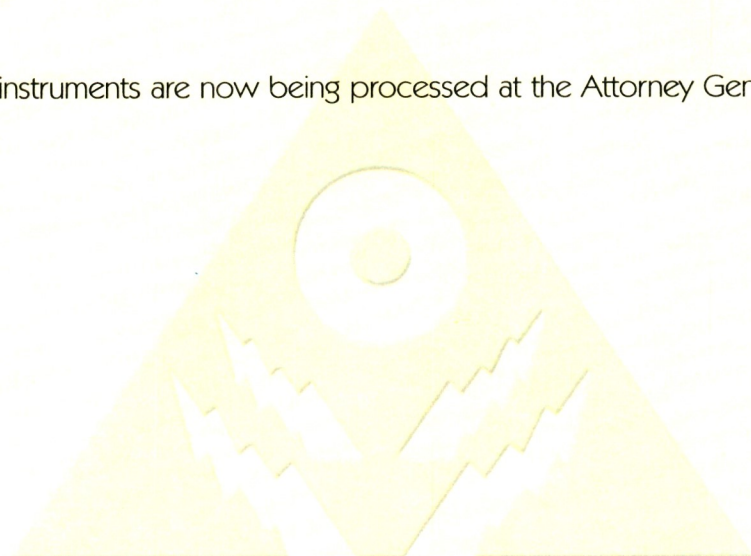
Kenya Electricity Industry Safety Code: The safety code, which is a subsidiary to the Grid Code, specifies the rules and procedures to be followed by persons involved in operations of generating, transmission, distribution and supply equipment and customer installations. In addition to this, general safety requirements and employers' responsibilities regarding employees' safety in operations are spelt out.

Electric Power (Licensing) Rules, 2005: These rules set out the manner and form of application to the Board for electric power production, local generating, transmission, distribution and supply licences. The information required under these rules includes the financial and technical capability of the applicant, and details of the proposed undertaking. These rules further stipulate requisite application fees for all applicants.

Electric Power(Supply) Rules, 2005: These provide for the obligations and rights of both the public electricity suppliers and consumers, and include the requisite account and meter deposits, electricity meter certification and consumers right to require the public electricity supplier to test, free of charge, the accuracy of the meter installed in their premises.

Electric Power (Complaints and Disputes Resolution) Rules, 2005: These provide for the procedures and rules for anyone with a complaint regarding any matter within the powers and functions of the Board.

The above regulatory instruments are now being processed at the Attorney General's Chambers for eventual gazettelement.



During the year under review, parliament debated and passed the Sessional Paper No. 4 on Energy. The draft Energy policy was first subjected to a stakeholders input and ERB staff fully participated in the process of development of the draft before it was presented to parliament. The following are some of the salient features relating to regulatory matters in the Energy policy.

Regulatory Framework

The Sessional paper No. 4 on Energy recognises the current regulatory challenges facing the entire energy sector under the prevailing Electric Power Act, 1997 and the Petroleum Act (Cap.116). The paper proposes that an umbrella Energy Act be enacted into law. Under the proposed Energy Act, the Electricity Regulatory Board should be transformed into the Energy Regulatory Commission [ERC] with an elaborate regulatory mandate for the entire energy sector. To enhance regulatory autonomy, Government will remove ERC from the domain of the State Corporation's Act and give it latitude to formulate and enforce secondary legislation.

Rural Electrification Agency

This policy document recommends the creation of a new rural electrification agency as a State Corporation to carry out rural electrification. The revenues of the new agency will include proceeds of the rural electrification levy imposed by the Minister for Energy, state grants, loans from external sources as approved by Government and fines and fees imposed by ERC under the Act on convicted consumers, electric power producers, public electricity suppliers and independent power producers (IPP's).

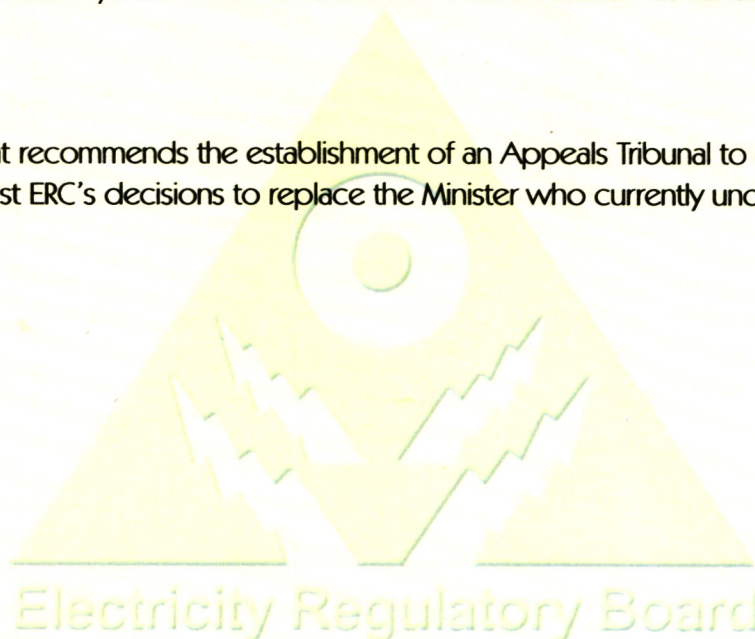
Licensing

The paper proposes that ERC will be granted authority to license electric power producers, power wholesalers and distributors including contractors for wiring buildings and other installations requiring electricity supply upon conducting proficiency tests.

The policy document proposes that ERC be a one-stop office for facilitating, permitting and licensing as opposed to the current system where different Government authorities handle specific aspects of the process.

Appeals Tribunal

The policy document recommends the establishment of an Appeals Tribunal to deal with complaints and grievances against ERC's decisions to replace the Minister who currently undertakes this function.



Tariffs

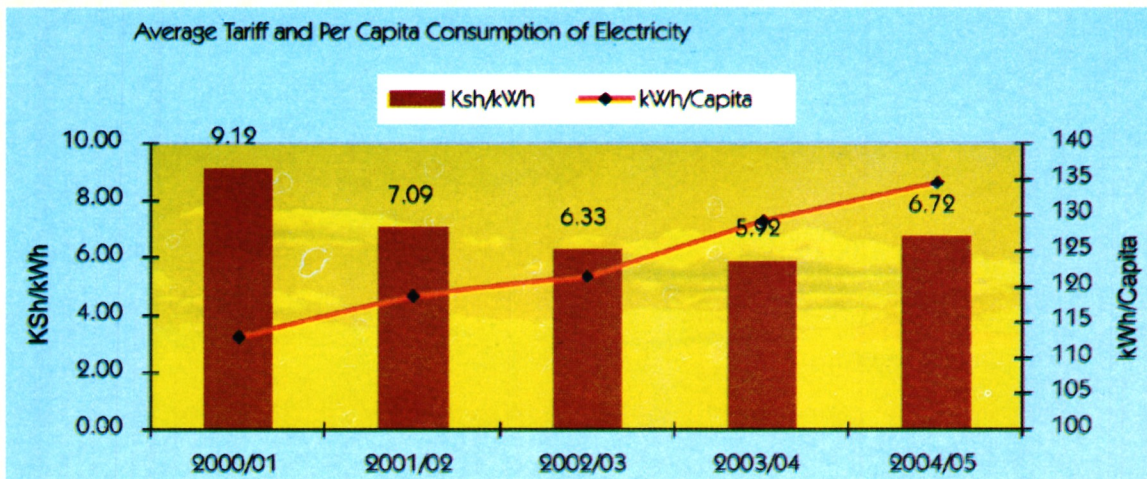
Tariff Review Policy

Management continued with the task of developing a comprehensive *Retail Tariffs Review Policy* from the expert study by NERA-GIBB entitled the “*Review of Electricity Tariff Policy in Kenya – October 2002*” which was completed in October 2002. The draft *Retail Tariffs Review Policy* was approved for exposure to the public and subsequent debate by stakeholders at a date to be determined.

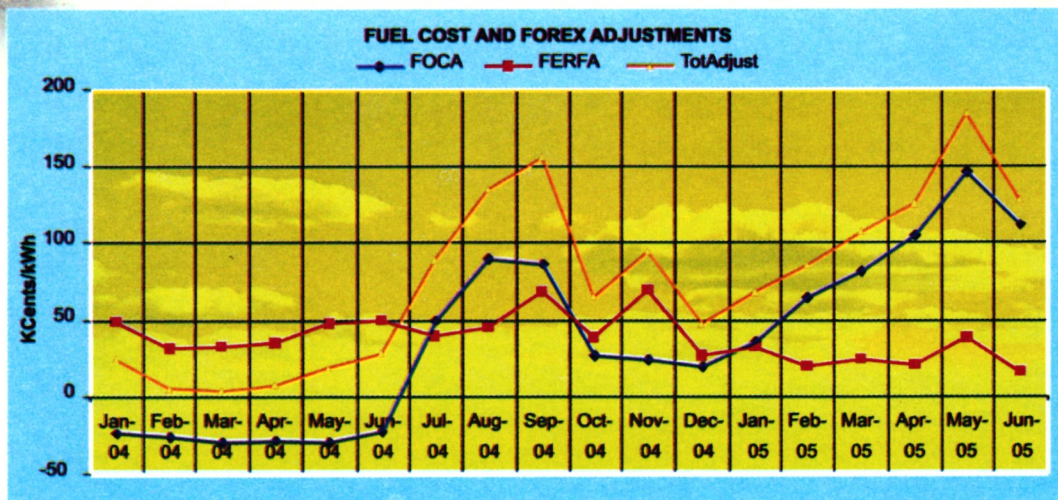
The completion of the expert study by NERA-GIBB on the “*Review of Electricity Tariff Policy in Kenya*” in October 2002 preceded the unprecedented change in government following elections in December 2002. The new government has since put in place a comprehensive agenda for economic recovery and embarked on the process of streamlining the electric power sub-sector with particular emphasis on restructuring KPLC’s balance sheet. The efforts of the government have had a fundamental impact on Management’s efforts to update the tariff models developed in the NERA-GIBB study. Management made good progress in updating the models taking into account the key changes which have occurred since the new government took office in January 2003. The *Revenue Requirements* model has been updated substantially following the restructuring of KPLC’s balance sheet and the utility’s ability to access funding. The *Marginal Cost* models and the *Tariff Module* have also been revised extensively.

Retail Tariffs

The average tariffs for the FY 2004/05 in nominal terms was 6.72 KSh/kWh (8.7 USc/kWh) up from 5.92 (7.8 USc/kWh) the previous Fiscal Year; indicating an upturn in the trend. The LRMV for the electric power sub-sector is estimated at 11.3 USc/kWh. The corresponding per capita consumption for the FY 2004/05 was 135 kWh/Capita; continuing on a sustained upward trend over the last five years.



The level of the End-User-Tariff (EUT) was largely driven by the fuel oil cost adjustment (FOCA) and to foreign exchange rate fluctuation adjustment (FERFA), with the former having the greater impact. The previous year consumers enjoyed a stretch of credits from KPLC in the form of negative FOCA. However, volatility in, and high crude oil prices on the global scene changed the situation in the year under review with the adjustments spiking to 146 KCents/kWh for May consumption.



Bulk Tariffs

The seven year "Stop-Gap" contracts for Iberafrica and Westmont expired in October 2004. Iberafrica's contract has since been renewed for a further period of fifteen years with an attendant 50% reduction in the capacity charge rate. Westmont's contract was not renewed and the plant has ceased operations. The reduction in Iberafrica's capacity charge will have significant implications for KPLC's revenue requirements and hence its financial performance.

Status of Industry Generation

Ownership	Source	Installed Capacity (MW)		Energy (GWh)
		Nominal	Effective	
KenGen	Hydro	677.3	660.4	2,869.0
	Petro-Thermal	214.2	143.4	491.0
	Geo-Thermal	115.0	115.0	920.0
	Wind	0.4	0.4	0.4
IPP	Petro-Thermal	130.0	130.0	842.0
	Geo-Thermal	13.0	13.0	115.0
Imports	UETCL	0.0	0.0	99.0
	TANESCO	0.0	0.0	0.3
GoK-IREP*	Petro-Thermal	5.1	4.6	11.0
TOTALS		1,155.0	1,066.9	5,347

*GoK-IREP means Government of Kenya's Rural Electrification Program

Grid Network: Transmission Circuit Length (km)

	2000/01	2004/05
220 kV	885	1,323
132 kV	2,032	2,032
66 kV	580	600
40 kV	126	58
33 kV	4,975	6,570
11 kV	10,593	16,794

Transformer Capacity (MVA)

	2000/01	2004/05
Generation Sub-stations	1,437	1,537
Transmission Sub-stations	2,462	2,705
Distribution Sub-stations	1,259	1,440
Distribution Transformers	2,411	3,081

Status of Industry

Customer Base

Customer Class	2000/01	2004/05
AO Domestic	426,030	599,419
A1 (Non Domestic)	106,414	130,137
BO Irrigation (Agriculture)	235	228
B1-B3 Medium industrial/Commercial	2,963	3,721
C Large Industrial/Commercial	409	447
E Street Lighting	1,028	1192
Sub - Total KPLC	465,361	633,355
Sub - Total Rural Electrification	71,718	101,789
Tota	537,079	735,144

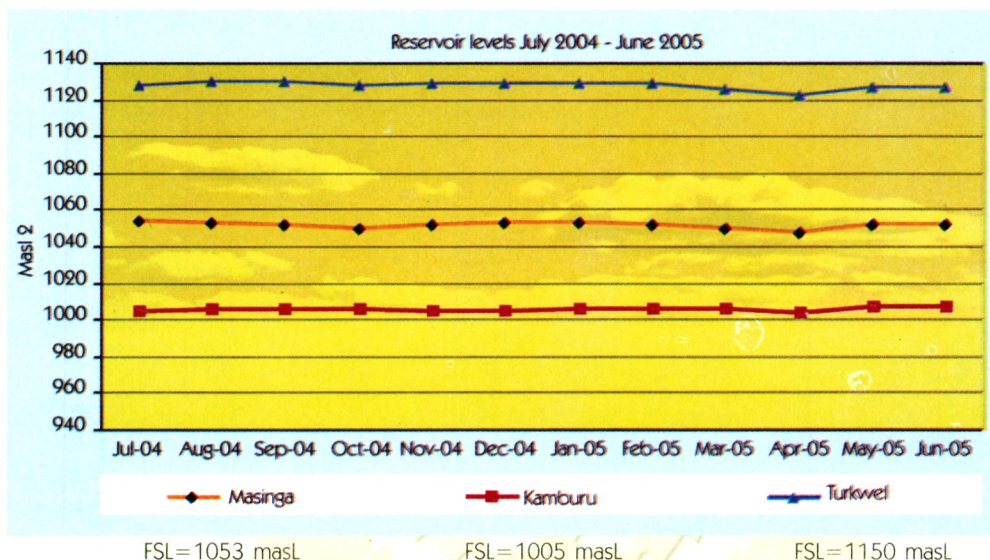
Efficiency Parameters

Parameters	Measures	2000/01	2004/05
Unit Cost of Service	KSh/kWh	10.27	6.45
Unit Revenue from Service	KSh/kWh	9.12	6.72
Labour Productivity	Consumers/Employee	71	120
	kWh/Employee	473,064	687,602

Reservoir Levels and Inflows

The following figures 1(a) show the water levels for the reservoirs at Masinga, Kamburu and Turkwel while, fig. 1 (b) shows inflows into Masinga, Thiba and Turkwel as a percentage of Long Term Average (LTA) for the period July 2004 to June 2005. Fig. 1 (c), 1(d) and 1(e) compare the Masinga, Thiba and Turkwel inflows with (LTA) inflows respectively for the same period.

Fig. 1 (a) Reservoir Levels



FSL means full storage level (in metres above sea level)
masl means altitude expressed in metres above sea level.



Fig. 1 (b)

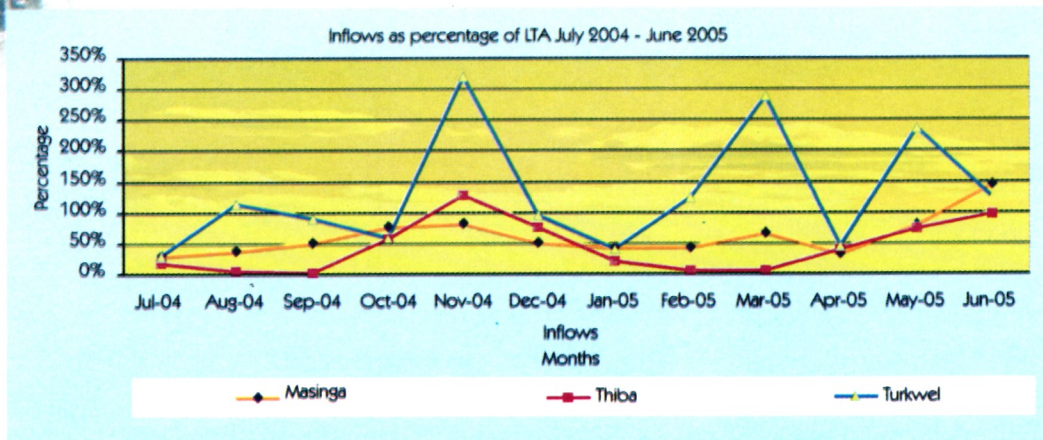


Fig. 1 (c)

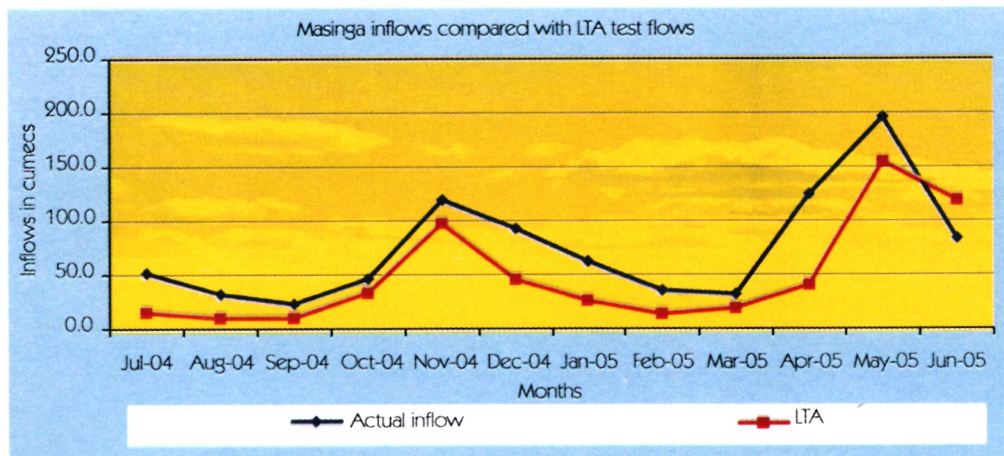
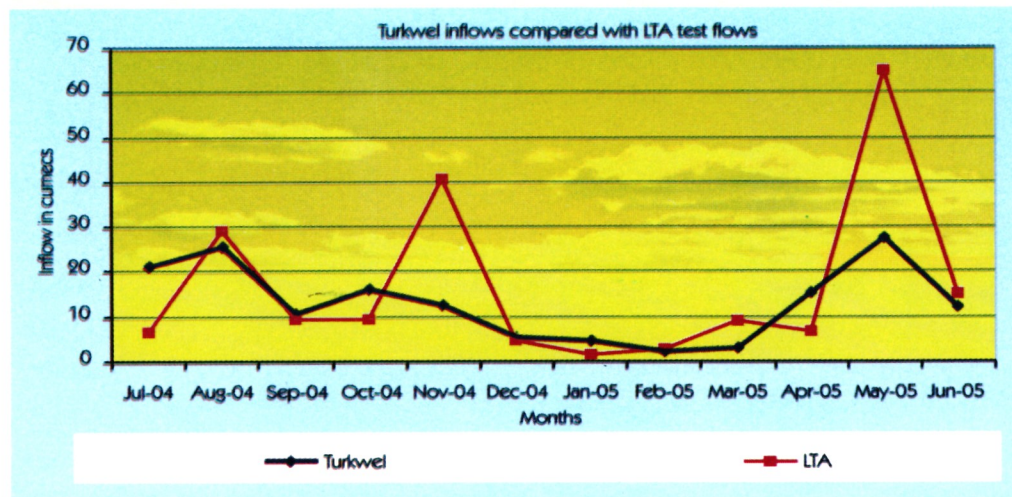
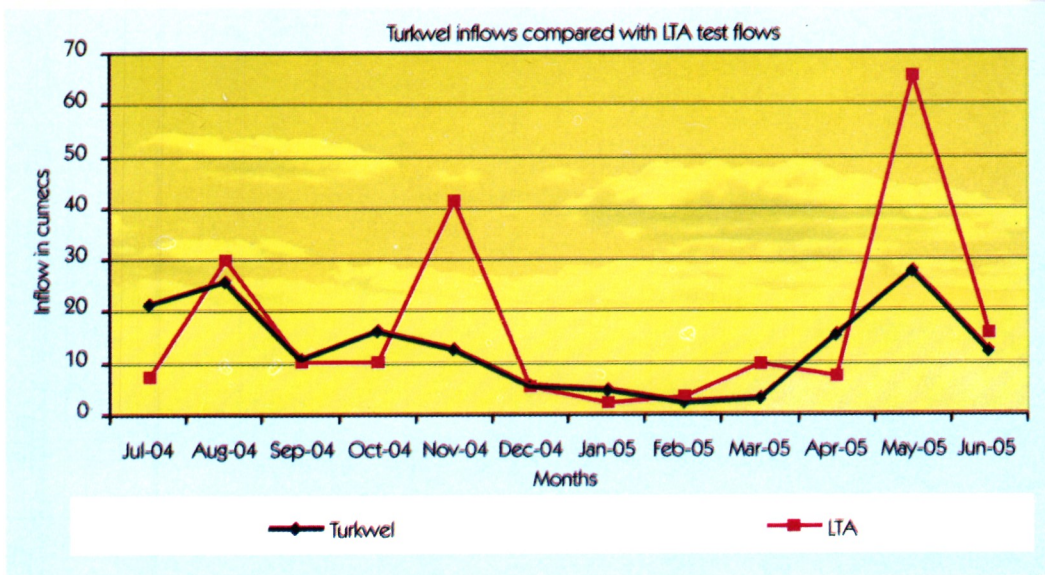


Fig. 1 (d)

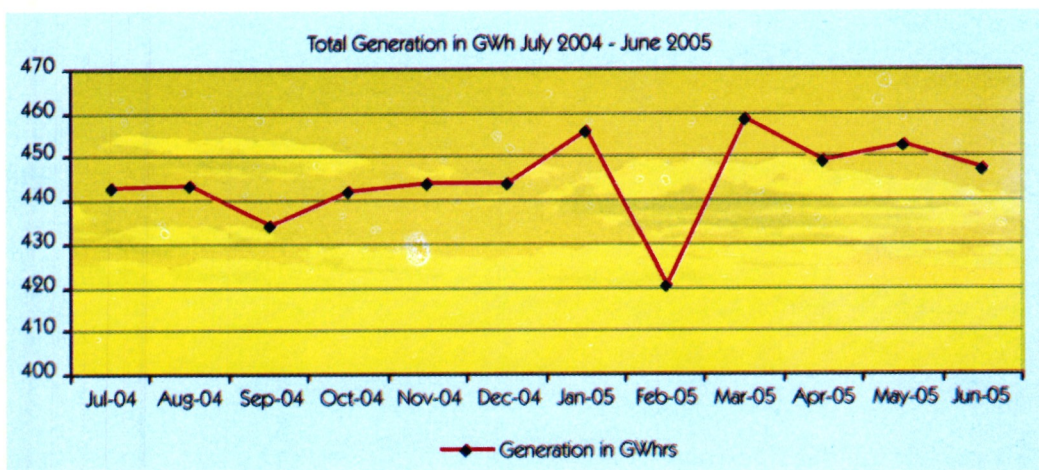




Energy purchases and sales

The fig. 2 (a) depicts the summary of total generation for the period July 2004 to June 2005 while, Fig 2(b), 2(c) and 2 (d) show total units in (GWh) purchased by KPLC from hydro and wind, geothermal and thermal generating plants respectively for the period July 2004 to June 2005.

Fig. 2 (a) - Summary of Energy Generated from all power plants



Generation from Hydro and Wind plants

Imports from UETCL have reduced significantly since February 2005 as is shown by the chart below. Under agreement between KPLC and TANESCO, KPLC started receiving power supply at Lunga-Lunga in Coast Province from Tanzania in November 2004.

Fig 2 (b) - Generation from Hydro and Wind

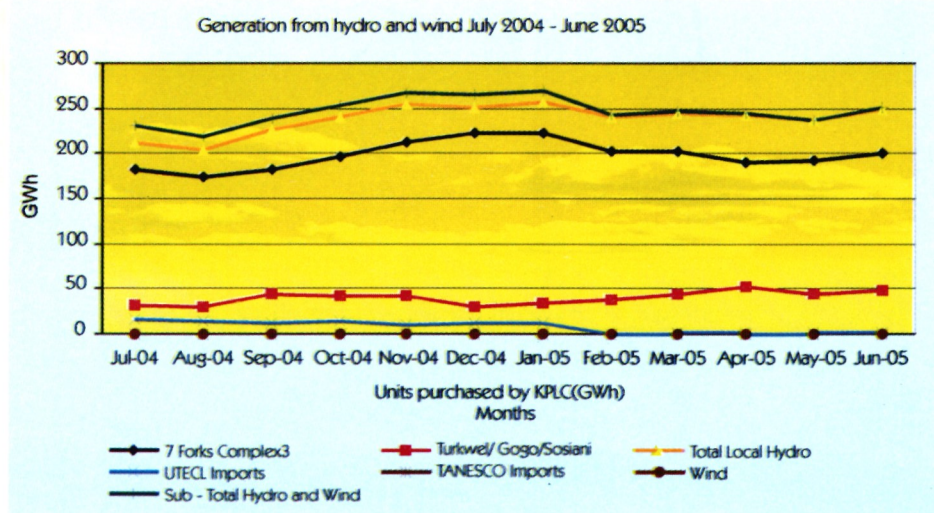


Fig. 2 (c) - Generation from Geothermal Power Plants

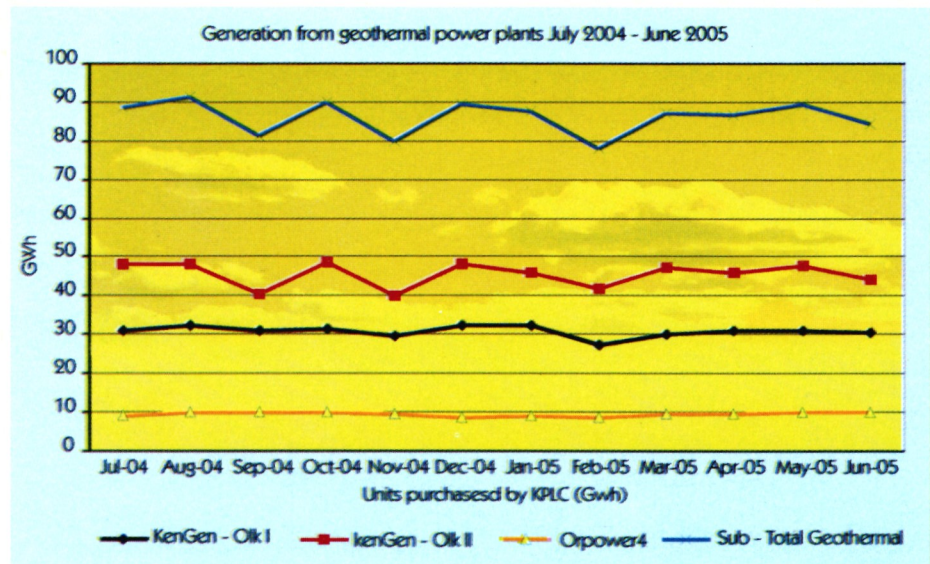
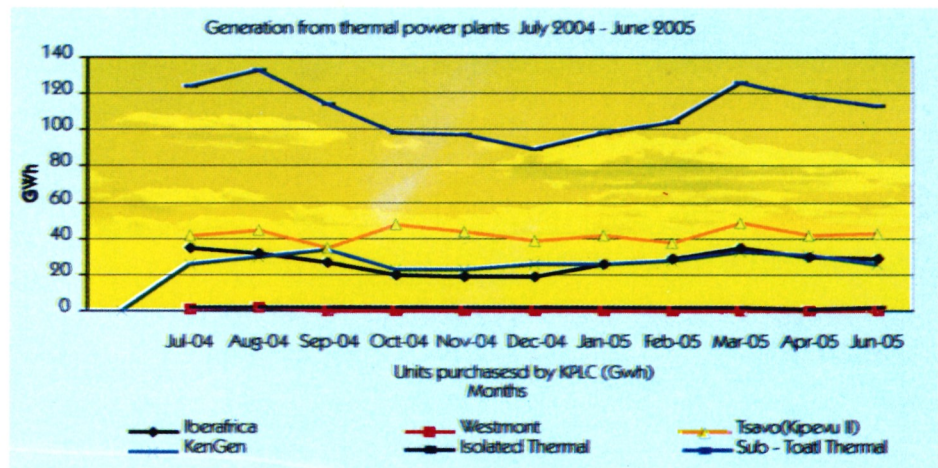


Fig. 2 (d) - Generation from Thermal Plants



Energy Purchases and Sales



Table 1 shows energy purchases vis-à-vis sales and losses for the period July 2004 to June 2005.

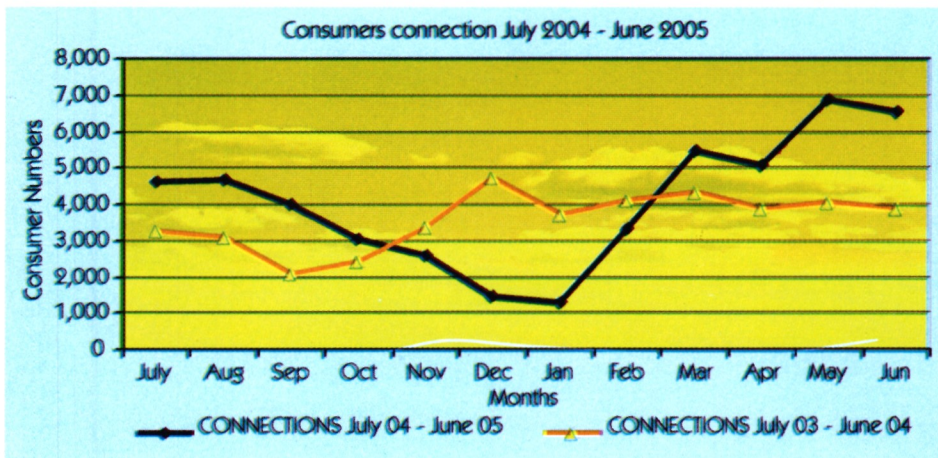
Month	Jul -04	Aug -04	Sep -04	Oct -04	Nov -04	Dec -04	Jan -05	Feb -05	Mar -05	Apr -05	May -05	Jun -05
Purchases	442.73	443.21	433.93	441.72	443.79	443.92	455.62	420.37	458.56	448.97	452.62	446.79
Sales	349.41	359.26	364.69	354.67	363.61	362.21	371.8	371.63	345.43	448.97	365.23	372.08
Losses	21.08%	18.94%	15.96%	19.71%	18.07%	18.41%	18.40%	11.59%	24.67%	16.71%	19.31%	16.72%

4 - Fuel Cost / Forex Adjustment

The fuel cost and forex cost adjustment is shown by fig. 4 (a) which shows the trends in the fuel cost and foreign exchange rate adjustments for the period between July 2004 and June 2005. The fuel cost adjustment was high in all the months except for the months of October, November and December 2004 while the forex cost adjustment was lowest in all months except in October, November and December 2004 respectively. The total for both the fuel cost and forex adjustment was highest at 1.84 in the month of May 2005 while it was lowest at 0.47 during the month of December 2004.

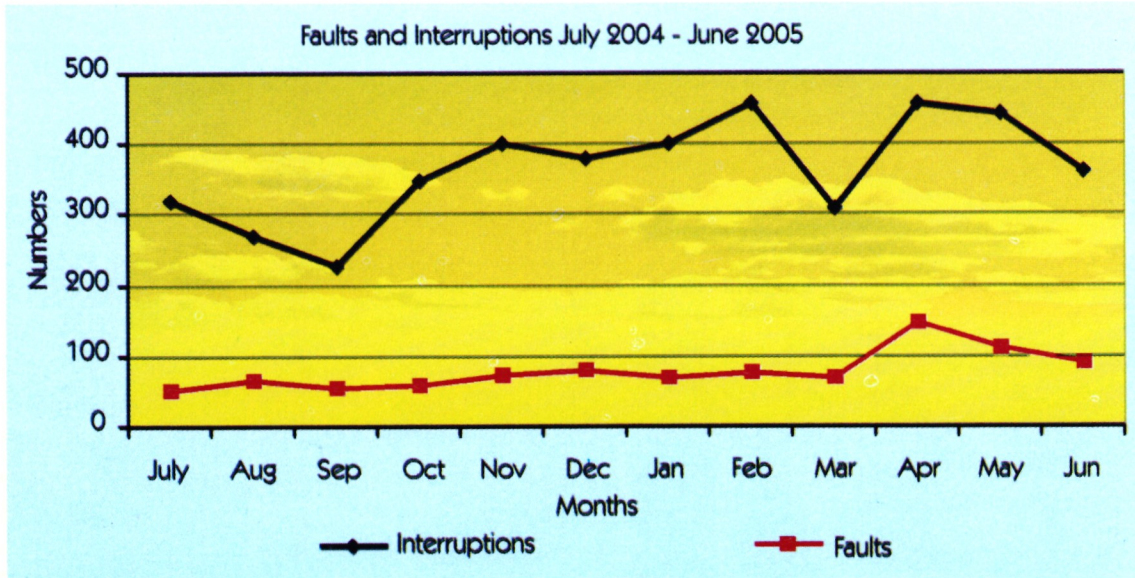
Connections

In the year under review, July 2004 to June 2005 there was a total of 48,949 customers who were connected to the grid as compared to July 2003 to June 2004 where only 42,921 were connected. There was a drop in connectivity in the months of November, December, January and February for the period under review July 2004 to June 2005. There was 14.04% increase in connectivity of customers. However, this did not meet KPLC's set out total target of 150,000 customers per year.



Faults and Outages

The total number of HV/MV interruptions was 4374 while transformer faults were 931. These have increased compared to 3822 and 867 respectively between July 2003 and June 2004. Most of the faults and outages occurred between April and May as this is the period when the country experienced the long rains. However, KPLC has intensified its effort to cut trees which have encroached onto the distribution lines as these are the major causes of interruptions. There were also a number of projects which were implemented to strengthen the distribution network to reduce on the frequency of interruptions.



Environmental, Health and Safety Policy Framework for the power sub-sector

Management completed drafting the Board's *Environmental, Health and Safety Policy Framework* for the electric power sub-sector and the same was approved by the board for exposure to the public as provided for by statute, in preparation for debate by stakeholders. The draft *Environmental, Health and Safety Policy Framework* was subsequently debated at a well attended stakeholders' workshop held on the 5th of April 2005.

The stakeholders' workshop drew participants from the electric power sub-sector, commercial, industrial, and domestic consumers, government departments including NEMA, the academia, civil society and the diplomatic corps. It was opened by the honourable Minister for Energy and closed by the honourable Minister for Environment and Natural Resources.

As the Fiscal Year drew to a close Management was collating, analysing and incorporating the stakeholders' comments for review and final approval by the Board. Therefore the *Environmental, Health and Safety Policy Framework* will be launched for implementation.

Review of Environmental Impact Assessment Reports

As the Lead Agency in the electric power sub-sector the Board collaborates very closely with the National Environmental Management Authority (NEMA) in the review of Environmental Impact Assessment reports produced by project proponents. In the year under review, EIA reports for the following projects were reviewed:

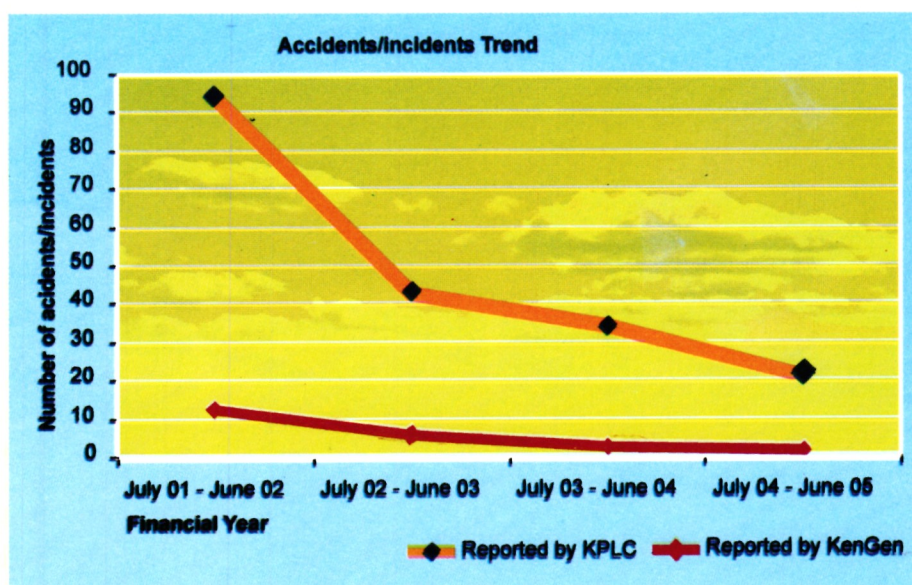
	Project Proponent	Project Description
1	Baraani Community Project	The proposed 130 kW _e Baraani micro hydro - power project in Baraimu sub - location, Chogoria location, Chuka division, Meru South district
2	Kenya Electricity Generating Company (KenGen)	The proposed relocation of Lamu power station to the main land
3	Kenya Tea Development Authority (KTDA)	The proposed Imenti Tea Factory hydro-electricity project in Meru Central district
4	Oserian Development Company Limited (ODCL)	The proposed 2 MW _e electric power generation plant at Olkaria in Naivasha.
5	PanAfrican Paper Mills (PPM)	The proposed 9 MW _e cogeneration (CHP) plant at PanAfrican Paper Mills - Webuye

Inspections

In order to ensure the licensed utilities observe and maintain safety standards in their respective operations , the Board carried out routine inspections on the power transmission and distribution networks in Nairobi, Mt. Kenya, Coast, and West Kenya regions during the year under review. Anomalies noted during the inspections were; poorly strung/ designed overhead power lines, dangerously leaning poles, inadequate line to building clearance, infringement of power wayleaves by private developers, uncleared way leaves, idle materials found on site, stay wires without stay insulators and illegally connected installations.

- ◆ *Actions taken:* Reports generated from the inspections were forwarded to KPLC for their corrective action.
- ◆ *Observations:* The inspections and other interventions made by the Board have significantly contributed to the decrease in the number of reportable accidents/incidents. Over the period under review, the accidents reduced from 35 in 2003/04 to 22 in 2004/05 a reduction of 37.14%. However, fatal accidents increased from 14 reported in 2003/04 to 19. Although there is a reduction of the accidents, there is need to intensify public safety awareness campaign as some of the reported accidents could have been avoided, if the victims had been better informed of the dangers inherent in electric power systems.

As demonstrated in graph No.1 the reportable accidents/incidents trend between July 2001 and June 2005 reported to the Board by KPLC and KenGen drastically decreased.



COMPLAINTS

Table below shows complaints received by Electricity Regulatory Board from consumers of electricity and/or Utilities from July 2004 to June 2005. These complaints are input in the database for analysis and categorization depending on nature of the complaints, the region from which the complainants reside and their status. The Board uses the analysis to either refer the complaints to the relevant utilities or complainants for addressing and more information respectively. However, if a complaint could not be resolved and has been outstanding for a long period the Board, books it for hearing.

Billing complaints were the highest amongst the 60 reported cases representing 40% of the total followed by new connections with 28.33%. Other types of complaints account for less than 12% of the total.

80% of the complaints were resolved, 3.33% awaited arbitration by the Board while 15% and 1.67% awaited response from utility and complainant respectively in the same period.

Nairobi Region had the highest number of complaints reported with 42% while Coast and Mt Kenya Regions had the least with 3% each.

Month	Nature of Complaint														Region						
	Billing	Damages	Disconnection	Interruption	Metering	New Connections	Supply Quality	Tariff	Way leaves	Power factor correction surcharge	Totals	Awaiting Utility response	Arbitration	Resolved	Awaiting response from complainant	Total	Nairobi	Mt. Kenya	West Kenya	Coast	Total
August 2004	4	0	0	0	0	0	1	0	0	0	5	0	0	5	0	5	4	0	0	1	5
September 2004	0	1	0	0	0	2	0	0	0	0	3	0	0	3	0	3	2	1	0	0	3
October 2004	4	2	1	0	0	1	0	0	1	0	9	0	0	9	0	9	6	0	3	0	9
November 2004	4	0	0	0	1	1	0	0	1	0	7	0	0	6	1	7	5	0	2	0	7
December 2004	1	0	0	0	0	2	0	0	0	0	3	0	0	3	0	3	2	0	1	0	3
January 2005	3	0	0	0	0	1	0	0	1	0	5	0	1	4	0	5	4	0	0	1	5
February 2005	4	0	0	0	0	1	0	0	0	0	5	1	1	3	0	5	3	0	1	1	5
March 2005	1	0	0	0	1	0	0	0	1	0	3	0	0	2	1	3	3	0	0	0	3
April 2005	0	0	0	1	0	5	1	0	1	0	8	1	0	7	0	8	5	0	1	2	8
May 2005	2	0	0	1	0	2	0	1	1	1	8	1	0	6	1	8	6	1	1	0	8
June 2005	1	0	0	0	0	2	0	0	1	0	4	2	0	2	0	4	2	0	2	0	4
Totals	24	3	1	2	2	17	2	1	7	1	60	5	2	50	3	60	42	2	11	5	60
%age of Total	40.00	5.00	1.67	3.33	3.33	28.33	3.33	1.67	11.67	1.67	100.00	8.33	3.33	83.33	5.00	100.00	70.00	3.33	18.33	8.33	100.00





Rules and Regulations

Electricity Supply Industry (ESI) has in the past operated without written rules and regulations. This made it difficult for the regulator to achieve its mandate in technical, environmental, public interest and economic regulation.

Consumer Affairs

Since inception in September 1998, ERB and its function were little known by public and in most instances it was mistaken as a mere department of KPLC, KENGEN or the Ministry of Energy (MOE). It was no wonder that consumers of electricity used to write to the Permanent secretary, MOE to resolve their complaints and disputes with the licensees with only a few of such letters copied to ERB. Our major challenge in consumer affairs has been to create an identity of ERB through public exposure in the form of interactions with stakeholders, press releases and supplements in 2004/2005. Much needs to be done on consumer awareness campaigns and consumer education.

Power Purchase Approval

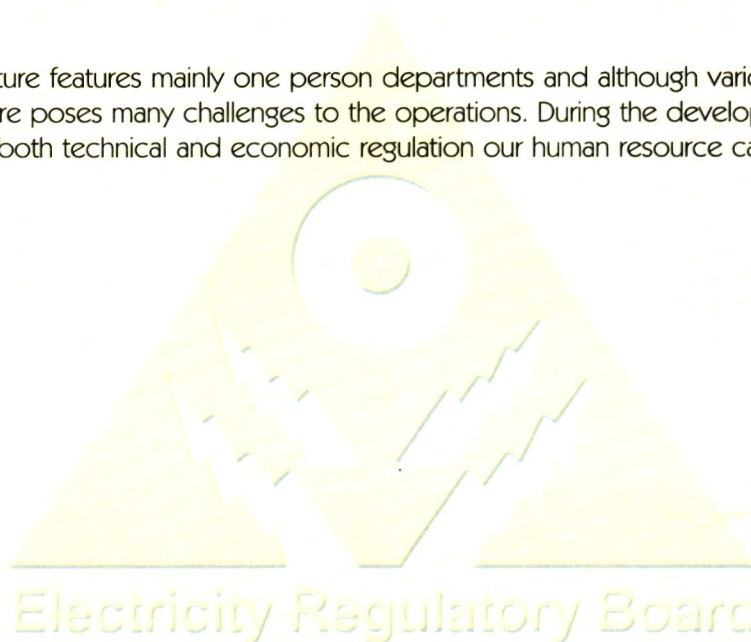
Power Purchase Agreements (PPA) between KPLC independent power producers, Iberafrica and Westmont expired after operating for seven years. Prior to expiry of these contracts, there was hue and cry from consumers and general public that bulk tariffs for electricity generated by these IPPs were onerous. These contracts were renegotiated and Iberafrica's capacity charges were reduced by half in the new PPA which was approved by the Board for further term of 15 years. Westmont was not successful in the bilateral negotiations with KPLC and it ceased to operate from August 2004.

Interactions with Investors

In the year under review, ERB Management held several of consultative meetings with would-be investors and development partners in the electricity supply industry thus encouraging competition, particularly in generation where various projects have been identified for the development by either the private sector or through joint venture in order to meet the demand for electricity in this country.

Human Resource

ERB's organization structure features mainly one person departments and although various professionals are well trained, the structure poses many challenges to the operations. During the development of various instruments to facilitate both technical and economic regulation our human resource capacity was stressed to the limit.





Electricity Regulatory Board



Electricity Regulatory Board

Financial Statement For the Year
Ended June 30th 2005

The Auditor General's Report



Electricity Regulatory Board

Report of the Controller and Auditor General

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF ELECTRICITY REGULATORY BOARD FOR THE YEAR ENDED 30TH JUNE 2005

I have audited the financial statements of Electricity Regulatory Board for the year ended 30 June 2005 in accordance with the provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information explanations which to the best of my knowledge and belief were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

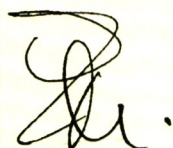
As set out in the statement of directors responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view of the Board's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The Audit was conducted in accordance with the International standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors as well as an evaluation of the overall presentation of the financial statements. I believe my audit provides a reasonable basis for my opinion.

Opinion

In my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Board as at 30th June, 2005 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Electric Power Act, 1997.

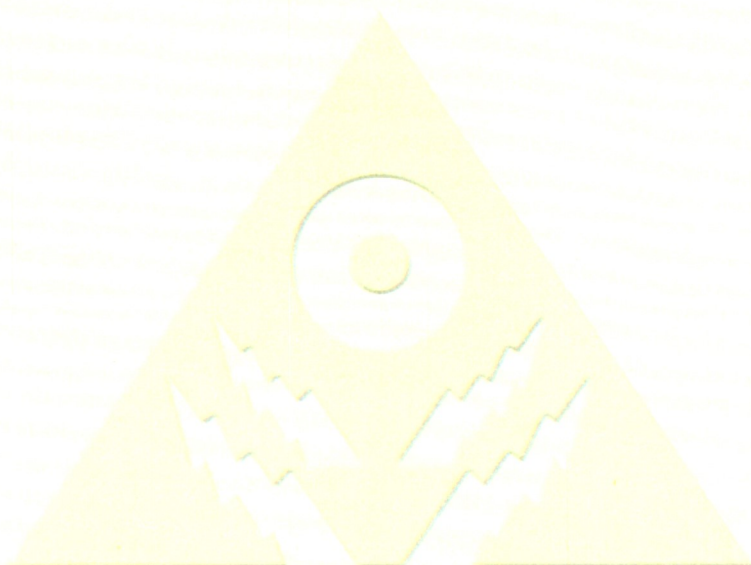


E.N. Mwai

Controller & Auditor General

Nairobi

03 March 2006



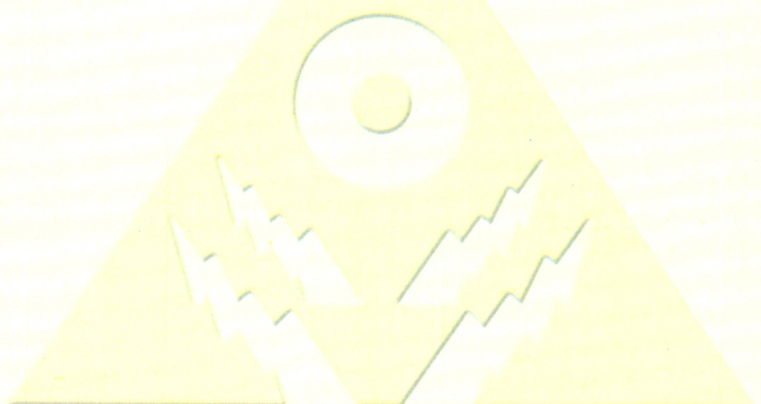
Electricity Regulatory Board

Financial Statements



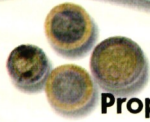
INCOME & EXPENDITURE FOR THE YEAR ENDED 30TH JUNE 2005

	NOTE	2005 KShs.	2004 KShs.
Income			
ERB Levy		123,356,613	115,042,406
Interest		2,252,319	1,343,317
Miscellaneous Income		1,104,840	147,540
Total Income		126,713,772	116,533,263
Expenditure			
Board Members Expenses	2	19,806,346	14,751,774
Staff Salaries, Benefist & Training	3	55,841,893	50,624,157
Office Supplies & Expenses	4	2,696,470	2,443,660
Transport & Travel Expenses	5	4,228,584	3,837,951
Public Relations/Consumer Service	6	6,693,170	2,261,244
Utilities	7	1,949,830	1,977,832
Office Rent& Office Services	8	6,330,860	6,445,126
Consultancy & Other Services	9	10,025,527	3,255,308
Depreciation Charges	10	13,687,861	6,858,067
Total Expenditure		121,260,541	92,455,119
Surplus (Deficit) for the Year		5,453,231	24,078,144



Financial Statements

BALANCE SHEET AS AT 30TH JUNE 2005



Property and Equipment

Current Assets

Receivable and prepayment
Short Term Deposits
Bank Balances
Cash at hand

CURRENT LIABILITIES

Payables and Accruals

NET CURRENT ASSETS

Net Assets

FINANCED BY:

CAPITAL FUND

RESERVE FUND

Notes

10

11

12

13

14

15

16

17

2005

KShs.

34,057,350

4,529,978

69,113,380

21,961,675

50,000

95,655,033

9,550,834

9,550,834

86,104,198

120,161,548

111,081,548

9,080,000

120,161,548

2004

KShs.

36,739,030

2,103,625

72,296,465

14,396,92

50,000

88,847,01

10,307,409

10,307,409

78,539,602

115,278,632

105,628,632

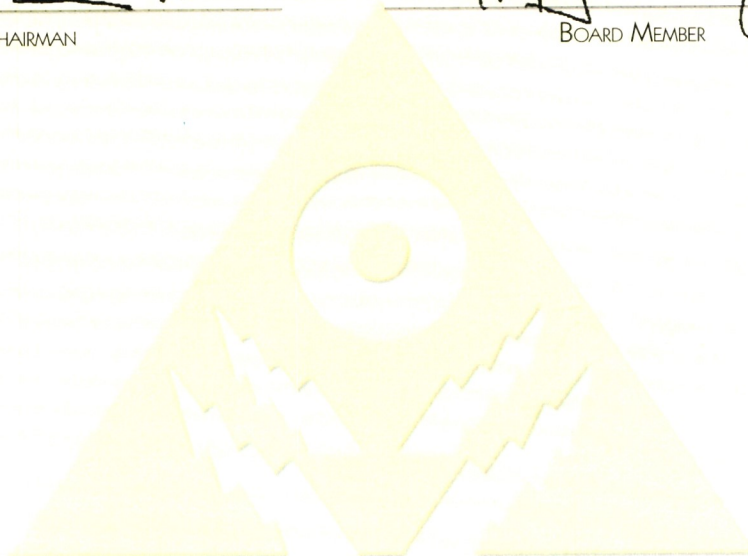
9,650,000

115,278,632

The notes on page 25 to 29 form an integral part of this financial statement.


EXECUTIVE CHAIRMAN


BOARD MEMBER



Financial Statements



CASH FLOW STATEMENT FOR THE PERIOD ENDED 30TH JUNE 2005

	Note	2005	2004
		KSHS	KSHS
Cash flow from Operating Activities:			
Net Surplus/ (Deficit) from Operations		5,453,231	24,078,144
Adjustments:			
Depreciation		13,687,861	6,858,067
Operating Surplus/ (Deficit) Before Working Capital Changes		19,141,092	30,936,211
Increase in Debtors		(2,426,353)	(818,697)
(Decrease)/Increase in Creditors And Accruals		(756,575)	3,148,525
Cash Generated from Operations		15,958,164	33,266,039
Investing Activities:			
Purchase of Fixed Assets	2	11,576,181	11,063,136
Net Cash Outflow Investing Activities		11,576,181	11,063,136
Net Increase in Cash & Cash equivalents		4,381,983	22,202,903
Cash & Cash Equivalents at the beginning Of the Period		86,743,389	64,540,486
Cash & Cash Equivalents at the end Of the Period	14	91,125,372	86,743,389

The notes on page 25 to 29 form an integral part of this financial Statement.

Financial Statements



Notes to the Accounts for the Financial June/2005

1. Significant Accounting Policies

The financial statements are prepared in accordance with and comply with International Accounting Standards. The principal accounting policies adopted are set out below.

a) Basis of Accounting

The Financial statements have been prepared under the historical cost convention.

b) Income Recognition

Income is recognized when received.

c) Fixed Assets and Depreciation

Fixed Assets are stated at cost less accumulated Depreciation.

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

The Depreciation rates used are as follows:

Motor Vehicle	25%
Furniture & Fitting	12.5%
Computer Equipment	30%
Equipment	12.5%

d) Taxation

No provision has been made for income Tax.

Financial Statements



Retirement Benefits

The Board operates a defined contribution pension scheme for all its employees. The scheme is administered and is funded from contributions from both the board and employees.

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

b) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and deposits held on call.

c) Comparatives

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

d) Retirement Benefit Obligation.

All permanent employees of the Board are members of contributory pension scheme. The scheme is currently administered by an insurance company.

The board makes a monthly contribution of 10% of the employee's basic salary and the employee contributes 5% of the monthly basic salary.

e) incorporation

The Board is a state corporation established under the Electric power Act 1997.

f) Currency

These Accounts are presented in Kenya Shillings (KShs.)

2. Board Expenses

	2005 Kshs	2004 Kshs
Salary & Allowances Executive Chairman	7,575,000	6,147,932
Honoraria	1,200,000	-
Sitting Allowances	2,972,000	1,990,000
Seminars, Travel & Accommodation	5,095,662	3,735,901
Gratuity	2,007,250	1,863,157
Medical	197,712	192,928
Meeting, Entertainment & Others	758,722	821,856
	<u>19,806,346</u>	<u>14,751,774</u>

Financial Statements

Notes to the Accounts for the Financial Year Ended June 2005

	2005 Kshs	2004 Kshs
3. Staff Salaries & Benefits		
Salaries	33,719,815	30,612,009
Car/Transport Allowance	2,105,000	-
Pension & Gratuity Contribution	2,756,472	3,010,742
Medical	3,861,295	4,275,653
Insurance	1,181,244	966,696
Training & Capacity Building	9,672,076	9,824,641
Leave Allowance	-	1,210,000
Other	2,545,992	724,416
	<u>55,841,893</u>	<u>50,624,157</u>
Number of Employees	30	30
4. office Supplies & Expenses		
Stationery, Postage & Supplies	1,326,759	1,191,900
Meetings, Office Tea Miscellaneous	810,208	832,950
Newspaper, Book & Periodicals	559,502	418,810
	<u>2,696,470</u>	<u>2,443,660</u>
5. Transport & Travel Expenses		
Travel Local	1,132,537	1,213,590
Travel International	851,097	73,492
Fuel	897,285	816,715
Vehicle Repair & Service	560,068	774,366
Vehicle Insurance & Licenses	787,598	959,788
	<u>4,228,584</u>	<u>3,837,951</u>
6. Public Relations & Consumer services		
Corporate Subscriptions	277,408	187,500
Advertisements & Public Relations	1,518,800	1,138,759
Public Seminars/Workshops	4,896,962	823,884
Media Announcements	-	111,101
	<u>6,693,170</u>	<u>2,261,244</u>
7. Utilities		
Telephone, Fax & E-mail	841,545	1,187,341
Bandwidth	815,592	757,491
Web Hosting	205,643	33,000
Software Licenses	87,051	-
	<u>1,949,830</u>	<u>1,977,832</u>
8. Office Rent & office Service		
Rent	5,253,840	5,253,840
Office Cleaning	363,589	429,646
Repair & Service Office Equipment	277,574	272,642
Insurance & Others	435,857	488,998
	<u>6,330,860</u>	<u>6,445,126</u>

Financial Statements



9. Consultancy & Other Services

	2005	2004
Consultancy	9,651,517	2,895,380
Bank Charges	174,010	179,928
Audit Fees	200,000	180,000
	<u>10,025,527</u>	<u>3,255,308</u>

10. Properties and Equipment

	Motor Vehicles	Computer Equipment & Software	Furniture & Fittings	Equipment (Telephone Fax, Other)	Total
Cost	KSHS	KSHS	KSHS	KSHS	KSHS
At 1 st July, 2004	26,558,671	16,955,494	34,770,337	3,629,613	81,914,116
Add Additions during the year	9,099,200	102,935	534,267	1,839,779	11,576,181
Less Disposals	(760,000)	-	-	-	(760,000)
At 30 th June 2005	34,897,871	17,058,429	35,304,604	5,469,392	92,730,297
Depreciation At 1 st July 2004	15,217,576	7,552,561	21,054,640	1,350,310	45,176,086
Charge for the Year	5,110,074	3,714,174	4,413,075	450,538	13,687,861
Disposal	190,000	-	-	-	(190,000)
At 30 th June, 2005	20,137,650	11,266,735	25,467,715	1,800,848	58,672,947
Net Book Value:					
At 30 th June 2005	14,760,221	5,791,694	9,836,890	3,668,545	34,057,350
At 30 th June 2004	<u>11,341,095</u>	<u>9,402,933</u>	<u>13,715,698</u>	<u>2,279,304</u>	<u>36,739,030</u>

11. Sundry Debtors & Deposits

	2005	2004
Other Debtors MOE	2,199,616	-
Hospital Deposits	777,797	575,000
Staff Advances	1,027,401	1,361,983
Staff imp rests	386,147	166,642
Miscellaneous Deposits	139,017	-
	<u>4,529,978</u>	<u>2,103,625</u>

Financial Statements

12. Short Term Deposits

	2005 KSHS	2004 KSHS
Short term deposits & investments are invested as follows:		

Treasury Bills	49,113,380	49,796,465
National Bank of Kenya	20,000,000	22,500,000
	<u>69,113,380</u>	<u>72,296,465</u>

13. Bank Balances

The amounts below were being held in current account.

National Bank of Kenya	1,189,272	12,532,583
Kenya Commercial Bank	20,772,404	1,864,338
	<u>21,961,675</u>	<u>14,396,921</u>

14. Cash & Cash carry Equivalents

Petty cash	50,000	50,000
Bank Balances	21,961,675	14,396,921
Short Term Deposits	69,113,380	72,296,465
	<u>91,125,055</u>	<u>86,743,386</u>

15. Accruals

Audit fees	400,000	540,000
Telephone	34,361	57,014
Hospital Bills	60,034	183,428
Suppliers Invoices	8,215,255	8,977,250
Other	841,185	542,717
	<u>9,550,834</u>	<u>10,307,409</u>

16. General Reserve

Brought Forward	105,628,317	81,550,488
Surplus/ (Deficit)		
For the year	5,453,231	24,078,144
Carried forward	<u>11,081,548</u>	<u>105,628,632</u>

17. Capital Fund

Brought Forward	9,650,000	-
Revaluation Surplus during the year	-	9,650,000
Net book Value		
Of retired assets	(570,000)	-
Carried Forward	<u>9,080,000</u>	<u>9,650,000</u>





Electricity Regulatory Board

Electricity Regulatory Board

1st Floor, Integrity Centre
Valley Road
P.O.Box 42681- 00100 GPO
Nairobi, Kenya
Tel: 254-20-2717627/31/75
Fax: 254-20-2717603
E-mail: info@erb.go.ke
Website: <http://www.erb.go.ke>