MEMORANDUM ON THE HIGH COST OF ELECTRICITY IN KENYA

PRESENTED TO THE NATIONAL ASSEMBLY AND THE SENATE THE THIRTEENTH PARLIAMENT

SUBMITTED TO THE ENERGY COMMITTEE OF THE NATIONAL ASSEMBLY

20TH JULY 2023

SUBMITTED BY:

INTER-RELIGIOUS COUNCIL OF KENYA

PUBLIC PARTICIPATION (SUBMISSION OF MEMORANDA)

In the Matter of Article 118(1) (b) of the Constitution and National Assembly Standing Order 127(3);

And

In the Matter of Consideration by the National Assembly by the Energy Committee;

Article 118(1) (1) (b) of the Constitution provides that "Parliament shall facilitate public participation and involvement in the legislative and other businesses of Parliament and its Committees''.

1.0 INTRODUCTION

About IRCK

The Inter-Religious Council of Kenya (IRCK), is a coalition of all major faith communities in Kenya, works to deepen interfaith dialogue and collaboration among the members for a common endeavour to mobilize the unique moral and social resources of religious people and address shared concerns. IRCK is made up of the Supreme Council of Kenyan Muslims (SUPKEM), Seventh Day Adventist Church (SDA), the National Muslim Leaders Forum (NAMLEF), the Kenya Conference of Catholic Bishops (KCCB), the Hindu Council of Kenya (HCK), the Organization of African Instituted Churches (OAIC), the Evangelical Alliance of Kenya (EAK), the Shia Asna Ashri Jamaat (SAAJ) and the National Council of Churches of Kenya (NCCK).

IRCK was established in 1983 to be an excellent united inter-religious forum that is a conscience of the society, promoting sustainable peace and development in Kenya.

Rationale and Legal Basis of the Memorandum

It submits this memorandum in line with its mandate. Further, The IRCK submits this memorandum in response to the invitation for public participation and submission of memoranda by the National Assembly's Energy Committee.

This memorandum highlights IRCK's select views on the state of energy costs in Kenya, and view held by members of IRCK across Kenya.

The promulgation of the 2010 Constitution created a robust framework for public engagement in decision-making. The constitution recognizes the sovereignty of the people of Kenya and as such consultation with the public is paramount.

Parliamentary engagement is a crucial aspect of securing the sustainability of reforms across administrations and political cycles, and for advocating for citizen interests and rights. Besides, Article 10(2) of the Constitution of Kenya, 2010, sets out principles of good governance among them being public participation, accountability and inclusion. Given the national outcry about the high cost of living and the high cost of electricity, IRCK, on behalf of its members and other Kenyans, presents this memorandum for the wellbeing of Kenyans.

BACKGROUND/CONTEXT

The energy sector in Kenya is largely dominated by petroleum and electricity, with wood fuel providing the basic energy needs of the rural communities, urban poor, and the informal sector. An analysis of the national energy shows heavy dependency on wood fuel and other biomass that account for 68% of the total energy consumption (petroleum 22%, electricity 9%, others account for 1%).

Households in Kenya use the following source for lighting:

a) Electricity - about 15% of the national population.
b) Use of electricity in urban areas as the source of lighting - 42%; although kerosene lamps still remain the main source of lighting for 55% of households.
c) Kerosene for lighting in rural households - 87%.

Higher global prices

Demand for forex has shot through the roof in recent months as importers seek more dollars to finance imports owing to higher global prices of fuel, food products, cooking oil, steel and other imports. It is likely that this has affected the cost of fuel in Kenya.

The government resorted to government-to-government procurement of fuel, which will see state-owned Gulf companies supply fuel to one local OMC of their choice, who will in turn distribute it to other local players.

The government already floated a tender of nine months for the fuel supply through the new arrangement, which is a temporary move away from the open tender system where some 112 OMCs compete to procure fuel on behalf of the others.

THE KEY ISSUES

High Cost of Electricity in Kenya

Electricity price in Kenya has been on gradual rise. In March 2023, for instance, the Energy and Petroleum Regulatory Authority (EPRA) raised the fuel cost charge (FCC) to Ksh8.3 ($0.064) per kilowatt-hour (kWh) up from Ksh6.59 ($0.051) per unit. This increase was the highest rate of the fuel energy component since June 2012 when it hit a record Ksh9.03 ($0.070) per kWh.

Since April 2023, households that spend more than 100 units have had the cost of their tokens increased from Ksh27.92 to Ksh31.75 per unit (14% increase). For Ksh2,000, one now gets around 62.9 units down from 71.6 units before the revision.

The previous base electricity tariff was approved in 2018. However, in April 2023, the rates were adjusted to Ksh 26.10 and Ksh 31.75, respectively, for the domestic category (Table 1 below). This saw a 19.0 per cent increase in power bill for the domestic category.

Table 1: Electricity tariff rates (2018 and 2023)

	Tariff rates 2018 Ksh/Kwh	Current tariff April 2023 Ksh/Kwh
Domestic customer 30-100 KWh	21.99	26.10
Domestic customer category >100 kWh	27.92	31.75

Tariff Bands
The pass-through cost constitutes additional charges incurred by electricity generating plants and include fuel energy charge (FEC), foreign exchange rate fluctuation adjustment (FERFA), Water Resource Management Authority (WARMA) levy, and inflation adjustments. Taxes fluctuate due to global oil prices and electricity generation. The Foreign Exchange Rate Fluctuation Adjustment (FERFA) fluctuates due to project loan repayments. Inflation adjustment, which factors in inflation, is reviewed every six months to protect the utility company from inflationary pressure.

Other approved components include the 3 Kenya cents/kWh EPRA Levy, a 5 per cent levy on the cost passed to the Rural Electrification Authority for the Rural Electrification Programme (REP) levy, and a 16 per cent Value Added Tax (VAT) passed to Kenya Revenue Authority (KRA). The tariff bands are broadly categorized into domestic, small commercial, and industrial/commercial consumers.

The Cost of Electricity
Electricity prices in Kenya have been increasing over the years. Demand for electricity is highly inelastic, implying that consumers will have no alternative but to continue using it even when prices increase. Electricity consumer bills have been a concern for years, with new higher tariffs burdening consumers, households, and industrial users. Past electricity subsidies by the Kenyan government have not fully addressed the issue, as consumers continue to face high prices, and subsidies create financial burdens for the government.

High energy costs are a barrier to economic growth and development. Because electricity is used to produce most goods and services, higher electricity prices have affected the prices of products and services directly and indirectly in all sectors. How can low electricity prices be achieved in the country to balance affordability and efficiency for Kenyan households?

Electricity pricing is determined by the Energy and Petroleum Regulatory Authority (EPRA), which sets tariffs for residential and commercial consumers and determines the prices for electricity generated. Electricity prices are set with the aim of attaining sufficient revenue to meet generation, transmission, and distribution requirements. The pricing system is reflective of the cost of power generation, which forms the base, pass-through charges, system losses, taxes and levies.

Seven Key Components Determining Electricity Cost in Kenya:

1) Value Added Tax (VAT)
2) Fuel Energy charge

3) Forex Energy charge
4) EPRA charge
5) Inflation adjustment charge
6) Water Resources Authority (WRA) charge
7) Rural Electrification Programme (REP) charge

IRCK Observations and Proposals:

1. Kenya needs to must provide an enabling environment for crowding-in affordable private sector investments in electricity sector; apply cost reflective tariffs while paying attention to efficient generation of electricity to lower the costs; and provide incentives and mechanisms to increase the share of renewable energy in the power systems.
2. The government should a consider reducing by half all the levies and taxes on electricity.

Concluding Observations

1. Sustainable Development Goal 7 (SDG) focuses on ensuring access to clean and affordable energy. Kenya will likely not meet the SDG 7 targets due to limited supply and access to electricity, and affordable energy for consumption.
2. Fuel and taxes remain the two primary components that drive the cost of electricity high in Kenya.

CONCLUSION AND RECOMMENDATION

1. Reduction of levies and taxes should be seriously considered, with a view to drastically reduce the cost of electricity.
2. EPRA should reconsider the monthly adjustments of prices of fuel, and possibly be adjusting the fuel prices quarterly or bi-annually.
3. KPLC should consider reducing the percentage monthly income loss it passes on to consumers from 19% to 10%.
4. The National Assembly's Energy Committee should consider engaging the Independent Power Producers with a view to re-negotiating power supply costing rates to KPLC.
5. The Energy Committee should engage the Rural Electrification and Renewable Energy Corporation (REREC) on the need to expedite policy formulation toward renewable energy in Kenya.
6. Parliament should consider ending KPLC's monopoly for power supply. Introducing power supply competition will giver Kenyans options, and encourage creative power reduction measures.