

# KenGen Media Report

October 11-12, 2011



# Kengen News

## Print Media

Media House	Date	Page	Topic
Daily Nation	October 12, 2011	22	NOTICE: KenGen Geo-thermal Well-head project
The Standard	October 12, 2011	13	NOTICE: KenGen Public Notice
The Star	October 12, 2011	18	PUBLIC NOTICE: KenGen Public Notice

## Industry News

Media House	Date	Page	Topic
Business Daily	October 12, 2011	13	Financing energy projects the biggest hurdle to Vision 2030



## PUBLIC NOTICE

### KenGen GEOTHERMAL WELLHEAD PROJECT

Our attention has been drawn to the lead article in the October 2011 issue of the Nairobi Law Monthly magazine under the banner headline "THE SHILLON POWER PLANT How KenGen boss conspired with Anglo Leasing (mis)managed Despak Kamani to steal cash in dirty electricity deals".

We take this opportunity to emphasize from the outset that neither the Kenya Electricity Generating Company Limited (KenGen) nor its Chief Executive have at any time or in any transaction dealt with Despak Kamani. The said article in its content and nature is false in all material particulars and is highly defamatory of KenGen and its Chief Executive.

For the benefit of the public, we take this early opportunity to provide the correct and true information with regard to the project between KenGen and Green Energy AS of Norway (GEG).

#### Background

It is accepted that our country suffers acute shortfall of power supply. While availability of many sources are under consideration, it is generally acknowledged that the most feasible area of expansion is in geothermal energy which is, not only cost effective per unit, but is efficient and environmental friendly and additionally has large unexploited capacity in the Rift Valley. KenGen has for sometime been involved in prospecting for commercially viable wells for geothermal energy and by August 2009, had confirmed ten (10) productive wells towards establishing the 280MW plant.

Establishment of a geothermal plant takes a considerable lead time and requires substantial resources which have to be negotiated and sourced from diverse sources. The challenge for KenGen has been what to do with unutilised wells while we wait for construction of the plant in circumstances where the country continues to be reliant on expensive thermal energy. It was to close this gap that as early as 2001, KenGen commissioned Messrs Sinclair Knight Merz (SKM) of New Zealand to undertake a feasibility study on how to exploit wellheads, pending construction of the plant. The technology would only be effective, if it was possible to move the unit from site to site. The study proved that this was possible.

**The 5MW Wellhead Pilot Unit** in 2009, when the country was facing the worst drought in 75 years and measures were being sought on how to mitigate the power shortfall and the high cost of diesel generated electricity, the acquisition of KenGen was drawn to the substance of a registered patent for a mobile plant by GEG. In November 2009, GEG made a presentation to KenGen of their Kaldera Power System (KAPS) technology capable of establishing mobile generating

units capable of exploiting existing wellheads that use geothermal energy which fitted well with our strategy of an efficient, reserve-flexible and portable unit. At the time GEG advised that they had one unit under manufacture for installation in Iceland which they could sell to KenGen as a pilot.

Following the presentation by GEG, KenGen agreed to undertake a pilot project on this technology with GEG. In accordance with standard procedures, KenGen entered into a contract with GEG in December 2009 for implementation of the 5MW pilot unit at a cost of US\$ 6.25m on the following terms and conditions, among others:

1. KenGen would pay 50% of the total price i.e. US\$ 4,125m in the following terms:
  - US\$ 1m payable against receipt of GEG bank guarantee of US\$ 1m from a bank acceptable to KenGen;
  - US\$ 2.5m payable against shipping documents;
  - US\$ 0.625m payable after completion of the First Acceptance Test.
2. KenGen would pay the remaining 50% after presentation of the Second Engineers Acceptance certificate certifying that the plant had successfully passed the 18 month pilot run.
3. If the GEG fails to deliver a successful Unit during the test period, they would not be entitled to the balance of the contract price but they would have to replace the equipment at no cost to KenGen and no further payment would be made unless the plant is successful and within the time specified or reasonable time.
4. If the replacement does not operate at all, KenGen would be entitled to a full refund of the amount paid, with a reservation to claim damages.
5. GEG takes responsibility of the Unit until successful handover after 18 months.

#### The Status of the Pilot Unit

By March 2011, all unit components had been received, installed and were being tested at Olkaria site Well CW37A. These include the steam supply system, the cooling towers, the control systems, the condenser, the Non-Condensing Gases (NCG) extraction system and the Electrical System for connecting the generator to the national grid. The payment made so far in accordance with the contract to GEG is an amount of US\$ 3,499m and not \$42m as suggested in the article (and which amount is recoverable should the project fail).

The First Acceptance Test was not successful.

In accordance with its obligation under the contract, GEG has undertaken necessary corrective measures and

delivered the unit back to site where it is undergoing pre-commissioning tests. Additionally as is provided for under the contract, GEG has undertaken to deliver a replacement unit should the current unit fail and within the terms referred to.

The article has raised issues in connection with the relationship between GEG and two Indian companies. While KenGen is aware that the Turbines were manufactured for GEG by an Indian company the procurement of various components of GEG equipment is a matter within its competence. KenGen is not involved thereon, except to ensure that whatever is supplied complies with the terms of the contract.

#### Additional 14 Units of Wellhead Generation

The tender for the fourteen (14) wellhead units was advertised and eleven (11) firms purchased the documents but only three submitted bids. These were a Joint Venture of China National Electric Wires & Cable and Unitech Industrial Agencies, Geothermal Development Associates and Green Energy Group.

After technical and financial evaluation, GEG were awarded the tender being the lowest evaluated bidder at a cost of US\$ 93,145,000.00. Noting that the bidder was at that stage involved in a pilot unit, the contract was subject to two conditions precedent to effectiveness:

1. Successful operation of the pilot unit; and
2. GEG provided KenGen with a satisfactory and acceptable (a) project implementation programme (b) evidence of financial and technical capability to implement the project (c) quality assurance plan and (d) a project risk management plan.

As the first condition has not been fulfilled, the contract is not effective and no payments whatsoever have been made to GEG with respect to the additional fourteen (14) units.

#### Conclusion

KenGen has no doubt whatsoever that the article is false and malicious. The project has been undertaken in a transparent and accountable manner with utmost good faith, in the national interest, and has nothing to hide in connection with the project.

We wish to state that KenGen remains committed to providing the nation with affordable clean energy, particularly from geothermal sources. This was and remains the only purpose of pioneering in the wellhead generation project in Kenya.

BY ORDER OF THE BOARD

Daily Nation  
October 12, 2011

KenGen Public Notice



## PUBLIC NOTICE

### KenGen GEOTHERMAL WELLHEAD PROJECT

Our attention has been drawn to the lead article in the October 2011 issue of the Nairobi Law Monthly magazine under the banner headline "THE \$1.8bn POWER PLAY: How KenGen boss conspired with Anglo Leasing to mislead Deepak Karmali on steel cash in its electricity deal".

We take this opportunity to emphasize from the outset that neither the Kenya Electricity Generating Company Limited (KenGen) nor its Chief Executive have at any time or in any transaction dealt with Deepak Karmali. The said article in its content and nature is false in all material particulars and is highly defamatory of KenGen and its Chief Executive.

For the benefit of the public, we take this early opportunity to provide the correct and true information with regard to a project between KenGen and Green Energy AS of Norway (GEG).

#### Background

It is accepted that our country suffers acute shortfall of power supply. While availability of many sources are under consideration, it is generally acknowledged that the most desirable form of expansion is in geothermal energy which is, not only cost effective per unit, but is efficient and environmental friendly and additionally has large unexploited capacity in the Rift Valley. KenGen has for sometime been involved in preparing for commercially viable wells for geothermal energy and by August 2009, had confirmed ten (10) productive wells towards establishing the 330MW plant.

Establishment of a geothermal plant takes a considerable lead time and requires substantial resources which have to be mobilized and sourced from diverse sources. The challenge for KenGen has been what to do with established wells while we wait for construction of the plant in circumstances where the country continues to be reliant on expensive thermal energy. It was to close this gap that as early as 2001, KenGen commissioned Messrs Siebert Knight Herz (SKH) of New Zealand to undertake a feasibility study on how to exploit wells before pending construction of the plant. The technology would only be effective, if it was possible to move the unit from site to site. The study proved that this was possible.

#### The 5MW Wellhead Pilot Unit

In 2009, when the country was facing the worst drought in 75 years and resources were being sought on how to mitigate the power shortfall and the high cost of diesel generated electricity, the attention of KenGen was drawn to the existence of a registered patent for a mobile plant by GEG in November 2009. GEG made a presentation to KenGen of their Kaldera Power System (KAPS) technology capable of establishing mobile generating

units capable of exploiting existing wellheads that use geothermal energy which it took well with our strategy of an efficient, renewable, economic and portable unit. At the time, GEG advised that they had one unit under manufacture for installation in Iceland which they could send to KenGen as a pilot.

Following the presentation by GEG, KenGen agreed to undertake a pilot project on this technology with GEG. In accordance with the bid down procedures, KenGen entered into a contract with GEG in December 2009 for implementation of the 5MW pilot unit at a cost of US\$ 8.25m on the following terms and conditions, among others:

1. KenGen would pay 50% of the total price i.e. US\$ 4.125m in the following terms:
  - US\$ 1m payable against receipt of GEG bank guarantee of US\$ 1m from a bank acceptable to KenGen;
  - US\$ 2.5m payable against shipping documents;
  - US\$ 0.625m payable after completion of the First Acceptance Test.
2. KenGen would pay the remaining 50% after presentation of the Second Engineers Acceptance Certificate certifying that the plant had successfully passed the 18 month pilot run.
3. If the GEG fails to deliver a successful Unit during the test period, they would not be entitled to the balance of the contract price but they would have to replace the equipment at no cost to KenGen and no further payment would be made unless the plant is successful and within the time specified or reasonable time.
4. If the replacement does not operate at all, KenGen would be entitled to a full refund of the amount paid, with a reservation to claim damages.
5. GEG takes responsibility of the Unit until successful handover after 18 months.

#### The Status of the Pilot Unit

By March 2011, all unit components had been received, installed and were being tested at Okaria site Well CW37A. These include the steam supply system, the cooling towers, the control systems, the condenser, the Non-Corrosive Gas (NCG) extraction system and the Electrical System for connecting the generator to the national grid. The payment made so far in accordance with the contract to GEG is an amount of US\$ 2.499m and not \$4.2m as suggested in the article (and which amount is recoverable should the project fail).

The First Acceptance Test was not successful. In accordance with its obligation under the contract, GEG has undertaken necessary corrective measures and

delivered the unit back to site where it is undergoing pre-commissioning tests. Additionally as is provided for under the contract GEG has undertaken to deliver a replacement unit should the current unit fail and within the terms referred to.

The article has raised issue in connection with the relationship between GEG and two Indian companies. While KenGen is aware that the Turbines were manufactured for GEG by an Indian company the procurement of various components of GEG equipment is a matter within its competence. KenGen is not involved therein, except to ensure that whatever is supplied complies with the terms of the contract.

#### Additional 14 Units of Wellhead Generation

The tender for the fourteen (14) wellhead units was advertised and eleven (11) firms purchased the documents but only three submitted bids. These were a joint venture of China National Electric Wire & Cable and Lintech Industrial Agency, Geothermal Development Associates and Green Energy Group.

After technical and financial evaluation, GEG were awarded the tender being the lowest evaluated bidder at a cost of US\$ 91,145,000.00. Noting that the contract was subject to two conditions precedent to effectiveness:

1. Successful operation of the pilot unit; and
2. GEG provided KenGen with a satisfactory and acceptable (a) project implementation programme (b) evidence of financial and technical capability to implement the project; (c) quality assurance plan and (d) a project risk management plan.

As the first condition has not been fulfilled, the contract is not effective and no payments whatsoever have been made to GEG with respect to the additional fourteen (14) units.

#### Conclusion

KenGen has no doubt whatsoever that the article is false and malicious. The project has been undertaken in a transparent and accountable manner with utmost good faith, in the national interests, and has nothing to hide in connection with the project.

We wish to state that KenGen remains committed to providing the nation with affordable clean energy, particularly from geothermal sources. This was and remains the only purpose of engineering in the wellhead generation project in Kenya.

BY ORDER OF THE BOARD

# The Standard October 12, 2011 KenGen Public Notice



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Establishment of a geothermal plant takes a considerable lead time and requires substantial resources which have to be negotiated and sourced from diverse sources. The challenge for KenGen has been what to do with established wells while we wait for construction of the plant in circumstances where the country continues to be reliant on expensive thermal energy. It was to do so that as early as 2001, KenGen commissioned Messrs Steiner-Knight Marz (SKM) of New Zealand to undertake a feasibility study on how to exploit wellheads, pending construction of the plant. The technology would only be effective, if it was possible to move the unit from site to site. The study proved that this was possible.

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KenGen has no 'double whammy' that the article is false and malicious. The project has been undertaken in a transparent and accountable manner with utmost good faith in the national interest, and has nothing to hide in connection with the project.

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BY ORDER OF THE BOARD

# The Star October 12, 2011 KenGen Public Notice

# IDEAS & DEBATE

OPINIONS | REVIEWS | ANALYSIS



Workers put final touches on the Western Kenya pipeline. A consortium of local banks funded the project to the tune of \$83bn.

## Financing energy projects the biggest hurdle to Vision 2030



BY GEORGE WACHIRA

Proceedings of last week's National Energy Conference held in Nairobi revealed that securing funding for projects is a challenge that might impede realisation of Vision 2030 goals.

Between now and 2030 the energy sector is looking for about \$57 billion to finance various projects. On one hand, closing financing deals for various projects is taking too long to achieve, while on the other financiers are reluctant to take risks in the absence of sovereign guarantees.

With a weak balance of payment, Treasury might not be in a position to issue such guarantees.

At the conference, government and energy-related parastatal representatives said they were frustrated by the slow financial closures of projects meant to provide electricity.

Such projects include wind power, geothermal, and a number of plants supported by independent power producers. The trend has prolonged the country's reliance on expensive

### Elusive financing

- The energy sector is looking for \$57 billion to finance projects.
- Closing financing deals is taking too long to achieve.
- In the absence of sovereign guarantees, financiers are reluctant to take risks.
- With a weak balance of payment, Treasury might not be in a position to issue such guarantees.
- The World Bank says Kenya has fulfilled

- most requirements needed for energy projects financing.
- The bank has instruments in place to provide partial credit and risk guarantees to commercial financiers.
- However, the government has to provide guarantees to cover risks.
- Kenya has a lot to work on if it has to successfully close power project finance deals.

thermal generation that depends on imported oil. From the World Bank's perspective, the country has fulfilled most of the requirements needed for energy projects financing.

The bank said local projects are viable citing strong and secure power demand, the existence of an effective regulatory and institutional framework that is both efficient and transparent, full government support for power projects, and private investors and financiers' willingness to invest.

#### Risk guarantees

The bank has instruments in place to provide partial credit and risk guarantees to both foreign direct investors and commercial financiers.

However, the government has to provide guarantees to cover such risks due to political uncertainty, currency fluctuations, and regulatory risks that may impact on tariffs and licenses.

KPC has one of the strongest cash flows in the country, secured on a base of reputable customers with a strong current and future demand base.

If funding from western financiers proves difficult to conclude mainly because of lengthy processes and insistence on sovereign guarantees, the country might pursue the eastern window provided by emerging partners such as China and Japan.

Many have argued that investment arrangements with eastern partners have not always been transparent or necessarily competitive.

However, traditional western financiers have shied away from local projects. The Kiti coal project is a potential candidate for eastern sourced capital. If mined, coal will have the greatest multiplier effect on the economy.

#### Game-changer

It will produce power, fuel heavy industries, power potential steel and cement industries, replace imported oil, and provide exports in a case of emphasis. The government should recognise this enormous "game-changer" sitting in Kiti and develop the right regulatory and institutional framework to fast track the mineral exploitation.

At the conference, prime minister Raila Odinga urged Treasury to speed up formulation of the legal and regulatory framework for public-private partnerships (PPPs).

As far as petroleum infrastructure development goes, private investments should be enticed to free government funding to other priority areas.

For this to happen, policies and long term planning for infrastructure projects should be clear, consistent and predictable.

Clear delineation of roles between private firms and parastatals will guide investment in the petroleum sector.

The conference touched on other energy areas that need funding, already the African Development Bank is providing financing for green projects. There is a need for funding of research in renewable energy as well as human resource development.

Conference participants included private investors interested in the energy sector. They expressed concern over bureaucracy and the absence of relevant, supporting information on investment.

Conference attendees concurred that one-stop-shop should be established within the Energy ministry to guide aspiring investors.

Kenya has a lot to work on if it has to successfully close power project finance deals. The country's leadership needs to focus on minimising risks to unlock firm ones.

At the same time, Vision 2030 managers need to rethink how the country will finance all the goals, for without sufficient funding the dream may as well turn into a nightmare.



### Other Voices

#### Arab Uprising Egypt's case



Editorial (Guardian)  
What is so disturbing about Sunday's clashes in Cairo is that the qualities that made Egypt's uprising so influential and that made it different from the armed conflicts that broke out in Libya, Yemen and Syria, no longer hold true. If the generals of Egypt's Supreme Council of the Armed Forces are reverting to the tactics of Hosni Mubarak, they too must be brought to account for them. Elsewhere, the leadership of Egypt needs challenging government, then it may have to go back to its barracks.

#### Steve Jobs Late Apple boss



Robert Samuelson (Washington Post)  
None can deny Jobs' accomplishment. He created a company with sales approaching \$300 billion and market capitalization around \$550 billion, making it world's most. But by history's measure, Jobs' achievements are tiny. Transforming the music industry isn't the same as transforming society. There are many technological advances that include large impact on society: antibiotics, air travel, air conditioning and television.

#### Sarah Palin US politician



Bill Keller (New York Times)  
Is the Tea Party over? It's spectacularly so as deliberative as speed-dating, candidates listed out for the end of No Mitt Romney. We had the Sarah Palin fiasco, replaced by the short-lived Michele Bachmann situation, followed by the ones we've seen, led by Rick Warren, Herman Cain, and finally, the little thing, though even voters who like his style don't think he can win.

# Business Daily October 12, 2011

Proceedings of last weeks National Energy Conference held in Nairobi revealed that securing funding for projects is a challenge that might impede realization of Vision 2010 goals.

# KenGen News

## Electronic Media

Media House	Date	Link	Topic
Citizen TV	October 11, 2011	<a href="http://bit.ly/q8Lxhn">http://bit.ly/q8Lxhn</a>	KenGen refutes claims of awarding tenders irregularly
KBC	October 11, 2011	<a href="http://bit.ly/ql4VjE">http://bit.ly/ql4VjE</a>	KenGen boss denounces involvement in money scandal
NTV	October 11, 2011	<a href="http://bit.ly/mPynaе">http://bit.ly/mPynaе</a>	KenGen denies report of corruption

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