High-Level African Petroleum Ministers Meeting on Cleaner Fuels

The Importers’ Perspective

Date: 29th - 30th November 2022
Venue: UNEP Headquarters, Nairobi Kenya

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(Director Electricity & Renewable Energy)
The Energy and Petroleum Regulatory Authority (EPRA) is established under Section 9 (1) of the Energy Act 2019 to undertake Technical and Economic Regulation for electricity, renewable energy, downstream coal, coal bed methane gas and petroleum sectors.
Cleaner fuels

Low-Sulphur Diesel for Road Transport

- The EAC region adopted KS-EAS 177 Automotive diesel — Specification and KS-EAS 158: Automotive Gasoline
- The standard caps the sulphur content of AGO imported into EAC region at a maximum of 50 ppm
- Further, PMS is also capped at 50 PPM.
- Since 2013 when the last refinery in the EAC region was shutdown, the Region imports all her petroleum requirements from the refineries along the Indian Ocean coast.
- As a result of the above, Kenya has consistently been importing 10-50 ppm diesel over the period.
- Adoption of these standards has had no significant price increase impact on petroleum fuels prices.
Cleaner fuels

Low-Sulphur Marine Fuels

- Kenya is a member of the International Maritime Organization (IMO)
- On 1\textsuperscript{st} January 2020, a new limit on the sulphur-content in the fuel oil used on board ships came into force, marking a significant milestone to improve air quality, preserve the environment and protect human health.
- The rule limited the sulphur in the fuel-oil used on board ships to 0.50 ppm from the previous limit of 3.5%.
- Kenya adopted this and required all imported fuel-oil to comply.
- Initially this affected freight costs, but the effect was negated by the onset of COVI-19 related travel restrictions and the subsequent fall in demand for tankers.
Cleaner fuels

Replacement of Fuel Oil in Thermal Power-plants

- Recently Kenya signed an MOU with the United Republic of Tanzania to come up with a proposal to import natural gas.
- The main objective is to replace HFO with Natural Gas at three main thermal power plants, namely:
  - Kipevu I (74 Mw);
  - Kipevu III (120 Mw); and
  - Rabai (90 Mw).
- Future expansion of the project will see natural gas replacing HFO and coal as a source of thermal energy in cement, steel rolling and glass manufacturing plants.
Policy for Pricing of Petroleum Products

- Main legislation is LN#192 of 14th October 2022.
- LN#192/2022 incorporates the petroleum pricing formula which was first implemented on December 2010.
- The formula produces price caps for:
  - Gasoline, Illuminating Kerosene and Automotive Gas Oil
- The formula mirrors the petroleum value chain from importation, refining, storage, transportation through to retailing
- Regulator has oversight for efficiency standards and the monopoly or near-monopoly functions: refining, storage, transportation
Policy for Pricing of Petroleum Products

- Key cost points in the supply chain:
  - Landed Cost;
  - The weighted average cost ex KOSF;
  - The transportation cost from Mombasa to the nearest whole sale depot, which is made of 100% of pipeline tariff;
  - Allowed losses as set out in the second schedule;
  - Allowed oil marketing company's gross margin as set out in the third schedule;
  - the total taxes and levies for petroleum products in shillings per litre;
  - the maximum wholesale** and retail pump price of super petrol, kerosene or automotive gas oil/diesel applicable, in shillings per litre; and
  - The formula’s output faithfully reflects the movements of the international global petroleum prices and crude oil prices and Kenya’s exchange rate regime.
Policy for Pricing of Petroleum Products: The Open Tender System

- Sellers/Buyers must fulfil the following:
  - Licensed by EPRA;
  - Signed the Transport and Storage Agreement;
  - Contribution of Line Fill share;
  - Fully paid-up members of OSMAG
  - Honored OTS obligations for the past 3 months

- Sellers must fulfil the following:
  - Licensed by EPRA as an OMC for the past 12 months;
  - Honored all OTS obligations within the 12 months period; and
  - Abide with the terms and conditions of the OTS Agreement.
Policy for Pricing of Petroleum Products: The Open Tender System

- Demand Projection (M+2)
- PMS, AGO & DPK IMPORTS
- Award - Lowest P&F (Pricing month and laycan fixed)
- Capacity Sharing (Basis - Quarterly evacuation)
- Tender Call (Participation confirmed)
- Invoicing (Title change and evacuation by buyers) VSM (Reviews delivery plan every 2 weeks)
Policy for Pricing of Petroleum Products: The Open Tender System

The OTS Cycle

1. OMCs submit monthly requirements per product which are then consolidated by the Supply Coordinator.
2. Tender called by the Ministry of Energy every third or fourth week of the month.
3. Winning bidder mandated to supply product requirement for the month of the tender.
4. Imports arrive 30-45 days after the date of the tender.

Importation Cycle

1. Discharge at KOT into KOSF.
2. Msa - Nrb Pipeline.
3. Western Kenya Pipeline.
4. Truck loading for North Rift and Environ and KPC Eldoret Facilities.
5. KPC Nakuru Facilities.
6. Truck loading for Central Rift and Environ and KPC Kisumu Facilities.
7. Nairobi OMC Facilities.

NOTE: Under the OTS administration, the lowest bidder (Premium & Freight) is awarded the tender to import on behalf of other players.
### Policy for Pricing of Petroleum Products

#### Breakdown of the costs of Super Petrol (PMS), Diesel (AGO) and Kerosene (DPK) in Nairobi: 15th February - 14th March 2022

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Cost Description</th>
<th>Super Petrol</th>
<th>Diesel</th>
<th>Kerosene</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>KShs/Litre</td>
<td>KShs/Litre</td>
<td>KShs/Litre</td>
</tr>
<tr>
<td><strong>Landed Cost (a)</strong></td>
<td>Weighted Average cost for all imports</td>
<td>68.64</td>
<td>69.87</td>
<td>61.96</td>
</tr>
<tr>
<td><strong>Storage and distribution (b)</strong></td>
<td></td>
<td>3.30</td>
<td>3.03</td>
<td>2.97</td>
</tr>
<tr>
<td><strong>Oil marketing companies margins (c)</strong></td>
<td></td>
<td>12.39</td>
<td>12.36</td>
<td>12.36</td>
</tr>
<tr>
<td><strong>Price Stabilisation Amount (d)</strong></td>
<td></td>
<td>(14.53)</td>
<td>(23.29)</td>
<td>(15.88)</td>
</tr>
<tr>
<td><strong>Price Stabilisation Deficit (c-d)</strong></td>
<td></td>
<td>(2.14)</td>
<td>(10.93)</td>
<td>(3.52)</td>
</tr>
<tr>
<td><strong>Excise Duty</strong></td>
<td>Tax</td>
<td>21.95</td>
<td>11.37</td>
<td>11.37</td>
</tr>
<tr>
<td><strong>Road Maintenance Levy</strong></td>
<td>Levy</td>
<td>18.00</td>
<td>18.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Petroleum Development Levy</strong></td>
<td>Levy</td>
<td>5.40</td>
<td>5.40</td>
<td>0.40</td>
</tr>
<tr>
<td><strong>Petroleum Regulatory Levy</strong></td>
<td>Levy</td>
<td>0.25</td>
<td>0.25</td>
<td>0.25</td>
</tr>
<tr>
<td><strong>Railway Development Levy</strong></td>
<td>Levy</td>
<td>1.31</td>
<td>1.33</td>
<td>1.17</td>
</tr>
<tr>
<td><strong>Anti-adulteration Levy</strong></td>
<td>Levy</td>
<td>0.00</td>
<td>0.00</td>
<td>18.00</td>
</tr>
<tr>
<td><strong>Merchant Shipping Levy</strong></td>
<td>Levy</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td><strong>Import Declaration Fee</strong></td>
<td>Levy</td>
<td>2.29</td>
<td>2.33</td>
<td>2.05</td>
</tr>
<tr>
<td><strong>Value Added Tax (VAT)</strong></td>
<td>Tax</td>
<td>10.69</td>
<td>9.92</td>
<td>8.85</td>
</tr>
<tr>
<td><strong>Taxes and levies (d)</strong></td>
<td></td>
<td>59.92</td>
<td>48.63</td>
<td>42.12</td>
</tr>
<tr>
<td><strong>Actual Retail Prices in Nairobi (a) + (b) + (c) + (d)</strong></td>
<td></td>
<td>144.25</td>
<td>133.89</td>
<td>119.42</td>
</tr>
<tr>
<td><strong>Stabilised Retail Prices Nairobi</strong></td>
<td></td>
<td>129.72</td>
<td>110.60</td>
<td>103.54</td>
</tr>
</tbody>
</table>
To protect Kenyans from the high costs of petroleum products, the GoK in 2021 introduced price capping on petroleum products through stabilization.
8.7 HISTORICAL PUMP PRICES

Trend of Crude oil prices, International Prices of Refined Petroleum Products and Local Pump Prices