Energy & Petroleum Regulatory Authority

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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Core Mandate

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 1st 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.

Mid & Downstream Mandate

❑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

Mid & Downstream Mandate…..\cont.

❑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.

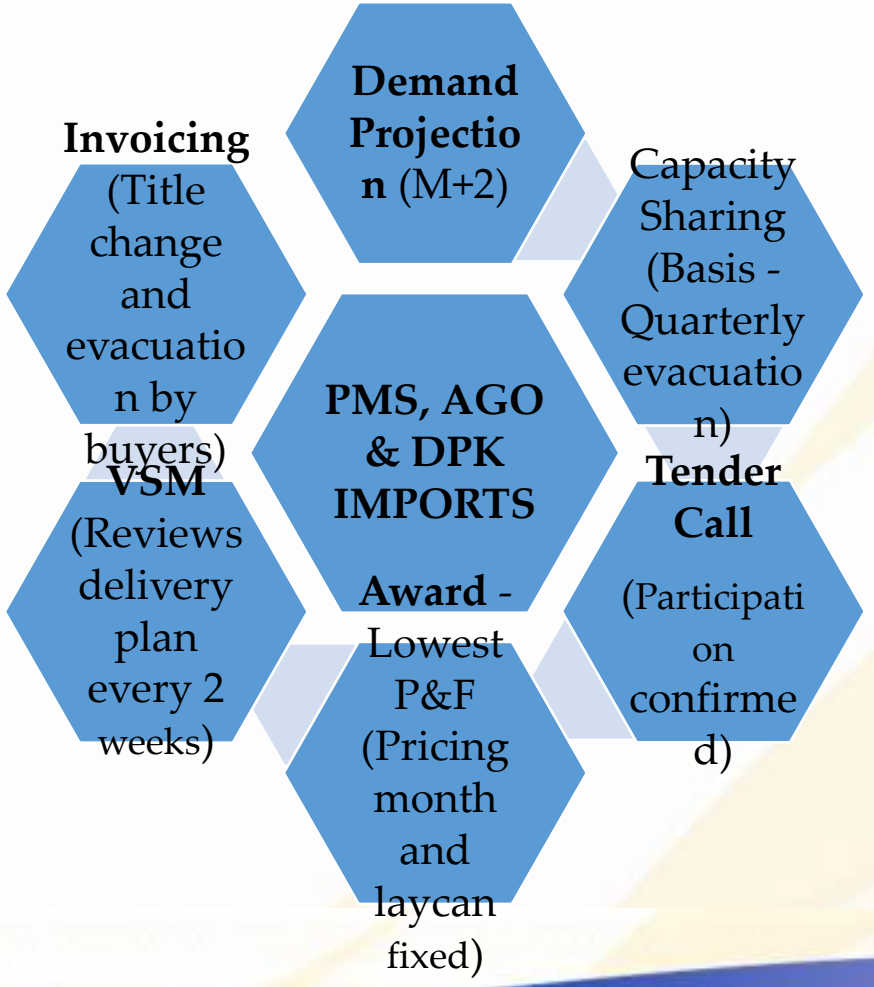
Mid & Downstream Mandate…..\cont.

❑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.

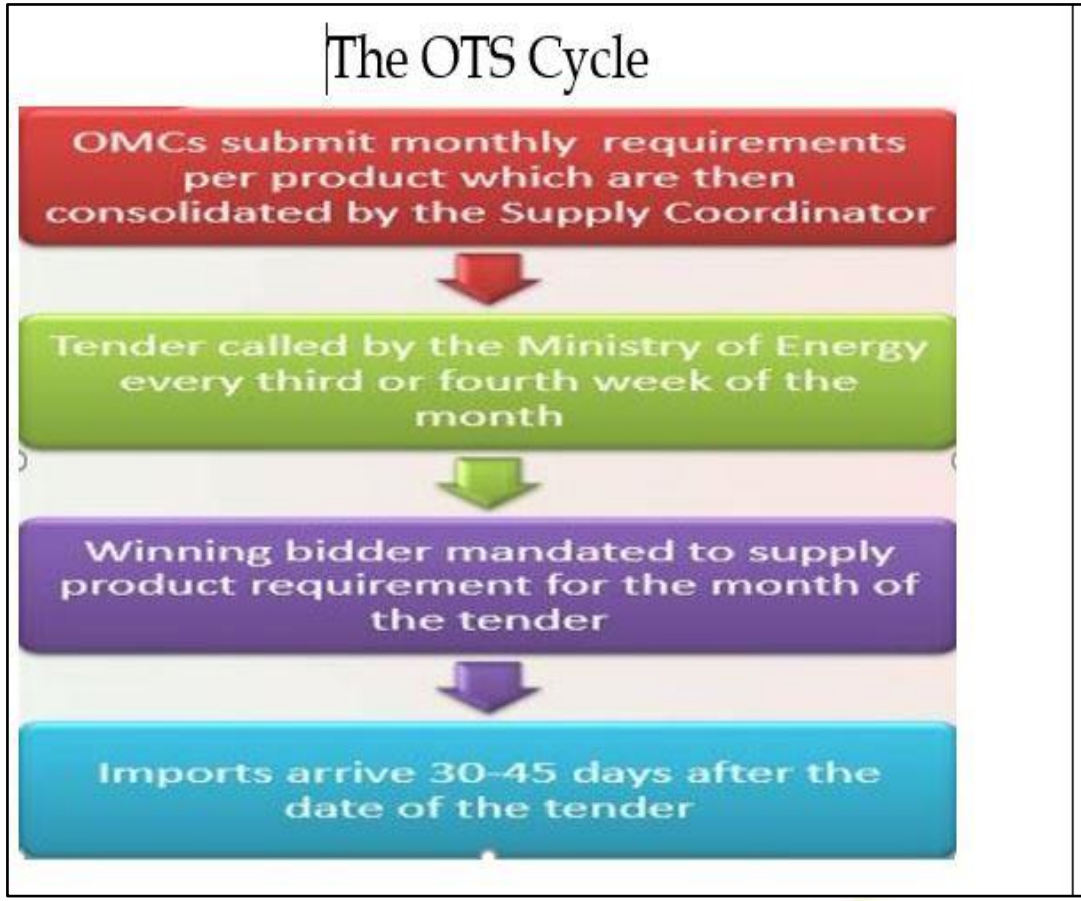
Mid & Downstream Mandate…..\cont.

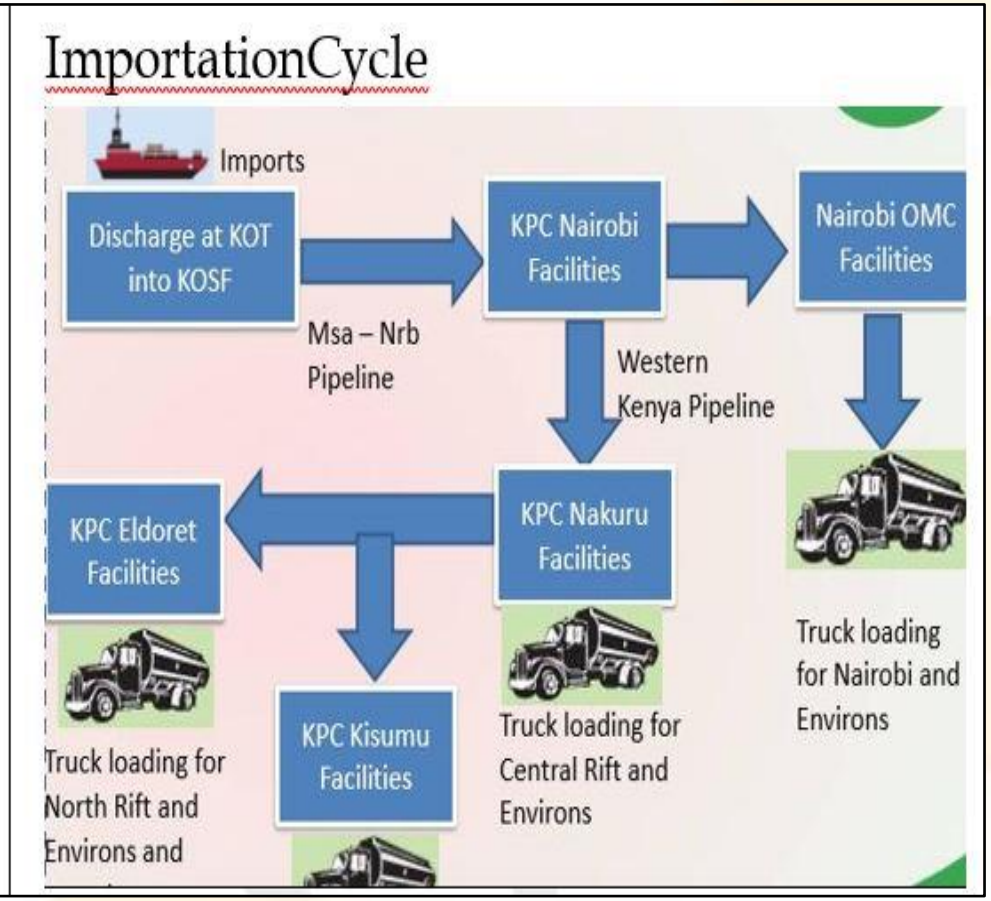
❑Policy for Pricing of Petroleum Products : The Open Tender System



Mid & Downstream Mandate…..\cont.

❑Policy for Pricing of Petroleum Products: The Open Tender System





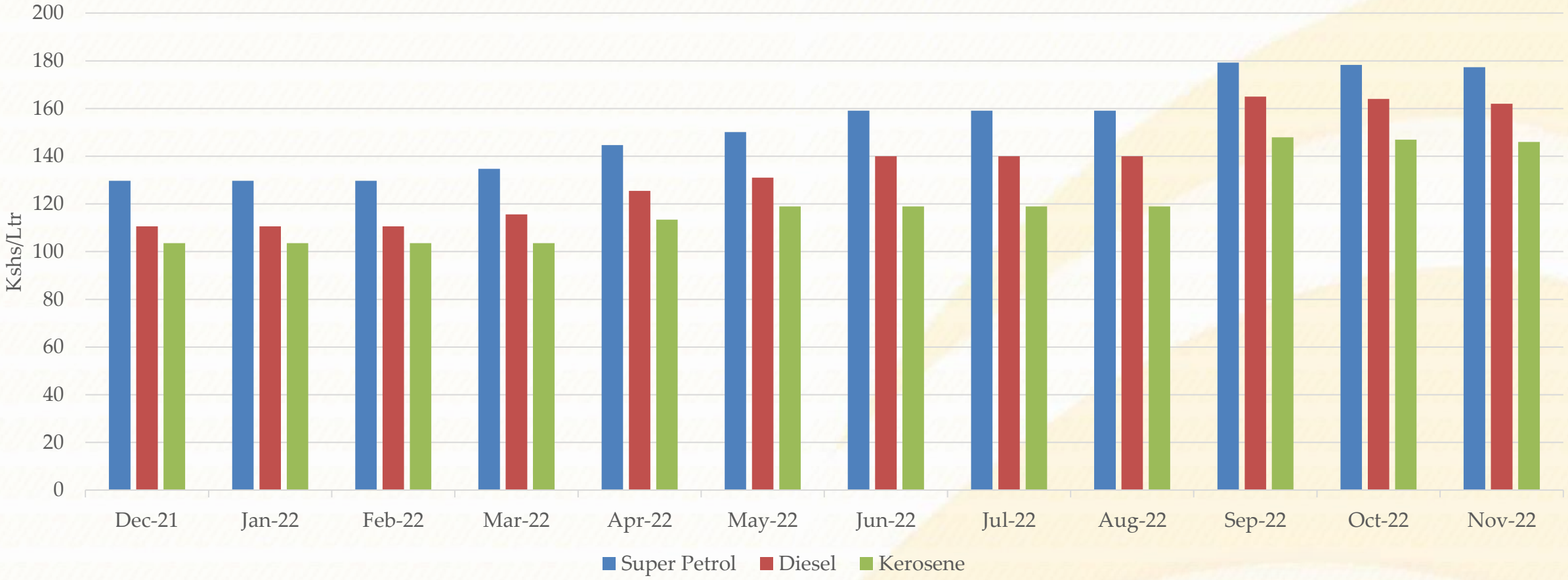
NOTE: *Under the OTS administration, the lowest bidder (Premium & Freight) is awarded the tender to import on behalf of other players*

Mid & Downstream Mandate…..\cont.

❑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				
Cost Item	Cost Description	Super Petrol	Diesel	Kerosene
		KShs/Litre	KShs/Litre	KShs/Litre
Landed Cost (a)	Weighted Average cost for all imports	68.64	69.87	61.96
Storage and distribution (b)		3.30	3.03	2.97
Oil marketing companies margins (c)		12.39	12.36	12.36
Price Stabilisation Amount (d)		(14.53)	(23.29)	(15.88)
Price Stabilisation Deficit (c-d)		(2.14)	(10.93)	(3.52)
Excise Duty	Tax	21.95	11.37	11.37
Road Maintenance Levy	Levy	18.00	18.00	0.00
Petroleum Development Levy	Levy	5.40	5.40	0.40
Petroleum Regulatory Levy	Levy	0.25	0.25	0.25
Railway Development Levy	Levy	1.31	1.33	1.17
Anti-adulteration Levy	Levy	0.00	0.00	18.00
Merchant Shipping Levy	Levy	0.03	0.03	0.03
Import Declaration Fee	Levy	2.29	2.33	2.05
Value Added Tax (VAT)	Tax	10.69	9.92	8.85
Taxes and levies (d)		59.92	48.63	42.12
Actual Retail Prices in Nairobi (a) + (b) + (c) + (d)		144.25	133.89	119.42
Stabilised Retail Prices Nairobi		129.72	110.60	103.54

8.7 HISTORICAL PUMP PRICES



** To protect Kenyans from the high costs of petroleum products, the GoK in 2021 introduced price capping on petroleum products through stabilization.*

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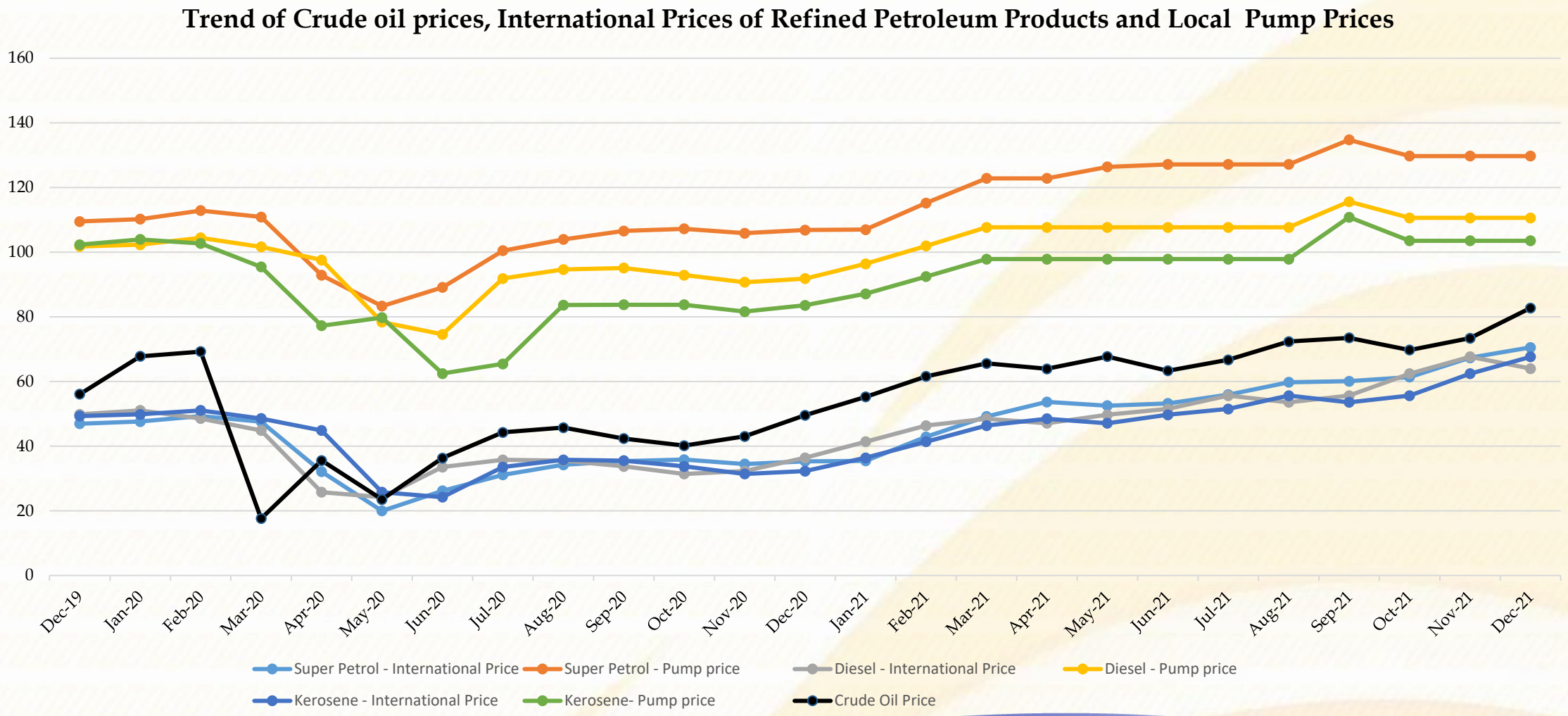

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Thank You

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