

KENYA PIPELINE CO. LTD.

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FROM THE OFFICE OF THE MANAGING DIRECTOR

MD/ME/1002

3rd August 2005

The Clerk of the National Assembly
Clerk's Chambers
National Assembly
Parliament Buildings
P.O. Box 41842 – 00100 GPO
NAIROBI



Attention: Mr. P.C. Owino Omollo

Dear *Mr. Owino,*

MEETING BETWEEN THE DEPARTMENTAL COMMITTEE ON ENERGY, COMMUNICATIONS AND PUBLIC WORKS AND PERMANENT SECRETARY, MINISTRY OF ENERGY AND MANAGING DIRECTOR, KENYA POWER AND LIGHTING CO. LTD AND MANAGING DIRECTOR, KENYA PIPELINE CO. LTD – AUGUST 04, 2005

In response to your letter ref. NA/DCB/ECPW/CORR/2005/269 dated July 29, 2005 find herewith enclosed twenty (20) copies of Executive summary of KPC's Development Plans for financial years 2004/05 and 2005/06 for submission to individual members of your above Committee.

Most of the projects, as shall be explained during the brief, are essentially on enhancement of pipeline capacity, to enable KPC to provide adequate petroleum products locally and regionally, in the years ahead, whereas some non-core projects initiated by previous KPC Management, e.g. construction of KPC Head Office, has to be

completed to mitigate the substantial amount of funds, approximately Kshs. 1 Billion already spent on the project. The present management is keen on following judicious, transparent and most cost effective ways in the rehabilitation and completion of the stalled projects.

Yours *Sincerely,*



GEORGE J. OKUNGU
MANAGING DIRECTOR

c.c. Mr. Patrick M. Nyoike, CBS (for information only)
Permanent Secretary
Ministry of Energy
Nyayo House
NAIROBI

Encls.



KENYA PIPELINE COMPANY LIMITED

DEVELOPMENT PLANS FOR FINANCIAL YEARS 2004/05 AND 2005/06

**PRESENTED TO THE DEPARTMENTAL COMMITTEE ON ENERGY,
COMMUNICATION AND PUBLIC WORKS**

OVERVIEW

KPC was established by the Kenya Government in 1973 and was charged with the task of constructing and maintaining a pipeline system to transport refined petroleum products from Mombasa to the hinterland. It is now 27 years since KPC commenced its commercial operations.

Over the years, the company has continuously, efficiently and safely served not only the Kenyan economy, but also the economies of the land-locked neighboring countries (Uganda, Eastern Democratic Republic of Congo, Rwanda, Burundi, Northern Tanzania and Southern Sudan through Kisumu and Eldoret depots. During the just ended 2004/05 financial year KPC transported over 3.46 million M³ of which exports (transit) constituted 30% (1.03 million M³) of the total pipeline throughput. Local uplifts were 2.4 million M³ in the same period. Therefore the importance of KPC services to East and Central Africa region can not be overemphasized.

Most of the development projects for the period under review are geared towards the enhancement of the core business and are as contained in the 5 Year Strategic Corporate Plan. The following three parts of this report contain the details and implementation schedules of the development projects.

PART I: DETAILED BRIEF OF DEVELOPMENT PROJECTS

1. Project Name: Kenya-Uganda Oil Pipeline Extension

a. Project Background

The Kenya Uganda oil pipeline extension project was conceived in 1995 when the Governments of Kenya and Uganda signed a Memorandum of Understanding (MOU) on 18th November 1995 for a Feasibility Study of the Extension of the Mombasa - Eldoret Pipeline to Kampala. The MOU called for the establishment of the Joint Co-coordinating Commission (JCC), which was launched in May 1996. The JCC is chaired by the Permanent Secretary, Ministry of Energy, Kenya and the Permanent Secretary, of the then Ministry of Natural Resources (now

Ministry of Energy and Minerals Development) Uganda, while Kenya Pipeline Company Limited as the Executing Agency, is the secretariat.

Two studies carried out in 1999 and 2001 found that the proposed extension is financially and economically viable and was the least cost option for petroleum products' transportation from Mombasa to Kampala.

Following the JCC recommendations, the two Governments respective cabinets approved the implementation of the project and agreed that the equity holding be as follows:

Government of Kenya	24.5%
Government of Uganda	24.5%
Private Investor	51%

b. Scope

The proposed Kenya – Uganda oil pipeline extension will form an extension of the existing Mombasa – Eldoret pipeline for transportation of white oils from the existing KPC facilities at Eldoret to a new storage and distribution facility to be constructed on the outskirts of Kampala in Uganda. The project components as identified in the complementary study are as summarized below:

- **Pipeline**
 - Pipeline design, construction, engineering, supervision and preliminaries.
 - Eldoret Terminal – tie in to the existing Mombasa – Eldoret pipeline system.
 - Pumping station at kilometre-178

- **Kampala Terminal**
 - Terminal engineering design, construction, and supervision

- **Others Complementary Facilities (to be decided on)**

- Burnt Forest- Eldoret pipeline upgrade (to be implemented by KPC)
- Jinja Strategic Storage
- Entebbe Jet Storage
- Border Terminal
- West Kampala Terminal

c. Objective/Justification

The overall objective is to provide an efficient and safe mode of transportation for white Petroleum Products to Kampala, Uganda. The specific objectives of the project are: -

- To provide the East and Central African region with the least cost means of transporting petroleum products.
- To reduce road damage and carnage.
- To secure delivery of products especially to Uganda to serve the growing market.
- Provide an environmentally safe means of transporting petroleum products.
- Enhance the relationship between the two countries.

d. Cost Estimate

The estimated cost as per the feasibility studies is in the range of US\$ 100 Million to US\$ 120 Million.

e. Project Brief and Current Status

The Project is currently in its Pre-Investment Stage. Identification of a Private Investor process is ongoing and JCC is negotiating with M/s Nexant on provision of Transaction advisory services for this exercise.

The contract for the Environmental Impact Assessment study (EIA) was signed on 19th May 2005 between the Consultant M/s BKS group. The study which will be undertaken in three phases (phase 1- Situation assessment and inception report,

Phase II - Environmental impact assessment, and Phase III - Completion and quality Assurance) is expected to take 14 weeks.

2. Project Name: Truck Loading Facility at Mombasa

a. Scope

The proposed scope of work required is: Loading gantries with loading arms for MSP, MSR, AGO and IK; Service tanks for AGO, MSP, IK and MSR; Administration block; Control room; Field controls; Inventory control systems; Metering facilities; Loading pumps; Rundown lines; Firewater tanks; Fire fighting and detection systems; Civil and structural works; and Electrical/mechanical works.

b. Objective/Justification

The Truck Loading Facility is intended to not only improve the distribution of petroleum products in the coast region but also promote competition in the market by encouraging entry and operations of new oil marketers through the provision of a “common user” facility and generate additional revenue to KPC.

c. Cost Estimate

The project cost is estimated at Kshs. 935,000,000. Actual cost to be determined upon tender and contract award.

d. Current Status

This is a new project and construction is expected to start in 2006. The project will be implemented on Engineering Procurement and Construction (EPC) type contract. Tender for procurement of consultants is ongoing.

3. Project Name: Kisumu Rail Siding

a. Scope

The scope for KPC component includes: Supply and installation of additional product loading pumps for AGO, MSP and KERO and associated mechanical works; Associated electrical installation works including motor cables and control equipment; Civil works e.g. pump & valve bases and supports, cable trenches etc.

b. Objective/Justification

To enhance pipeline capacity by facilitating transfer of petroleum products from the pipeline at Kisumu depot in to lake vessels at Lake Victoria via the Kisumu pier.

c. Cost Estimate

- **Permanent works** – KRC contribution is (at 40%) Kshs 4,322,592 and KPC contribution is Kshs 6,082,824 (Year 2003 estimates).
- **Rail Loading head and associated equipment (KPC cost)** - KPC has already purchased equipment at a cost of Kshs 75million.

d. Current Status

Work is expected to progress once KRC has acquired land for the project. The budget estimate for 2005/06 of Kshs 11,000,000 is to cater for installation works once KRC acquires the necessary way leave for the project

4. Project Name: Kisumu Oil Jetty

a. Scope

The scope of the works will include: Three dedicated product lines from the tank farm at the depot to the oil jetty and the necessary linking pipes and fittings to the respective tanks; Pumping facility; Metering facilities; A fixed gantry; control panel, loading facilities for three products; Power supply to the switchgear and control panel in the oil jetty with remote control at the main control room at the depot; Necessary lighting along the pathway to the oil jetty; Fire fighting facilities; Access road to the shoreline; Leakage detection and management system for spillage recovery; Sentry box for security.

b. Objective/Justification

The objective of the facility is to promote pipeline capacity utilization at its Kisumu depot by enhanced efficient transfer of petroleum products through Lake Victoria to mainly Northern Tanzania.

c. Cost Estimate

The cost estimate is Kshs. 57,000,000. However, the actual cost will be determined after tendering is done.

d. Current Status

Functional specifications for EPC type contract have been finalized and preparation of Request for Proposal documents is ongoing.

5. Project Name: Eldoret Sewage Pumping Main

a. Scope

The works involves the construction of a 2.4km long socket and spigot concrete gravity sewer including ancillary works from the Depot to the existing municipal sewer.

b. Objective/Justification

To improve the foul water drainage system at Eldoret Depot. The existing septic tank is a health hazard, does not cope with the hydraulic load and is expensive to maintain.

c. Contract Price

Kshs. 21,937,565

d. Current Status

The overall progress as at 13th June 2005 was 72%

6. Project Name: Completion of office extensions and staff clinic at Eldoret

a. Scope

The scope of the works comprises 1No. Single storey staff clinic block, 1No. Double storied office block, additional floor to existing control room building and associated works.

b. Objective/Justification

To improve on the existing office accommodation at PS 27 and provide quality medical services to the staff at the station.

c. Cost Estimate

The total cost of the project is Kshs. 152,507,201 comprising Kshs. 79,713,881 for Phase I and Kshs. 72,793,320 for Phase II.

d. Current Status

The project stalled and the Contractor opted to pursue the arbitration process. However, work on the project is expected to continue once the matter is resolved.

7. Project Name: Jet A-1 Tanks at Eldoret & Kisumu

a. Scope

The scope of work involves construction of 2 No. Jet A1 tanks and related facilities at Eldoret and Kisumu depots to allow for ready into plane quality fuel. The nominal capacity of each of the two tanks is 4,400 M³.

b. Objective/Justification

To allow for "ready into plane" Jet A-1 fuel at the Eldoret and Kisumu Airports as well as the Entebbe International airport in Uganda.

c. Cost Estimate

The project cost comprises Kshs. 113,777,500.00 for the local component and US\$.7,458,460 for the foreign component which is equivalent to Kshs. 710,454,300.

d. Current Status

Overall progress was 98.5% as at the end of June 2005. The expected handover date by the Contractor is 15th July 2005.

8. Project Name: Completion of head office

a. Scope

The scope of the project entails construction of eight floor head office with appurtenant external works and a gate house. The other amenities include a basement parking, surface parking and a perimeter wall around the building.

b. Objective/Justification

To cut cost on office rent currently payable to the National Bank of Kenya and increase work efficiency by centralizing business operations within Nairobi. This will also create room for new employees.

c. Cost Estimate

Kshs. 1,026,630,956.88

d. Current Status

This project is on-going. However, it had been suspended following Government intervention in respect to implementation of projects in early 2003. Work is expected to continue during the 2005/06 financial year.

9. Project Name: Completion of staff housing at Morendat

a. Scope

The scope of works included the construction of staff houses, a nursery school, shopping complex, a social hall, water supply borehole for the station and the related services including sewerage system.

b. Objective/Justification

To accommodate staff and provide social amenities at the new Pump station which was commissioned in early 2004.

c. Cost Estimate

Kshs. 487,629,781.40

d. Current Status

The services of the contractor were terminated on 16th December 2004. A joint inventory of work done and materials on site has been completed and determination of the value of work done is under preparation by the quantity surveyor. It is expected that the project implementation will continue in 2005/06 financial year.

10. Project Name: Capacity improvement of line 1

a. Overview and Scope

The existing Mombasa-Nairobi pipeline system had been design on a modular basis to provide for further enhancement of capacity in line with increasing demand. Currently, there are 4No. Pumping stations operating at a flow rate of 440M³/hr. This Pumping stations are Changamwe (PS1), Maungu (PS3), Mtito Andei (PS 5), and Sultan Hamud (PS 7). There is provision for an additional 4No. pump stations to upgrade the pumping capacity to 880M³/hr at Samburu (PS 2), Manyani (PS4), Makindu (PS 6) and Konza (PS 8).

Due to increase in market demand (year 2004/05 prorated is over 3.4million M³), the pumping capacity has reached its threshold (3.46millionM³ assuming 90% line utilization) necessitating installation of the additional pumps. To offer immediate solution, the Phase 1 of the project will entail up-grading the existing system capacity to 540M³/hour by parallel running of mainline pumps in Line-1 (PS 1, 3, 5 &7).

To achieve a flow rate of 880M³/hour, Phase II will entail installation of future pump stations at Pump Station 2, 4, 6 and 8 to boost the existing Pump stations 1,3, 5 and 7.

b. Objective/Justification

To increase Pipeline Pumping Capacity so as to meet increasing demand for petroleum products. This is a new and core project emanating from the need to enhance pipeline capacity which has almost reached its threshold at 95% capacity utilization.

c. Cost Estimate

The total cost of this project is Kshs. 2.502 billion.

d. Current Status

Phase I (Running of pumps in parallel) - Procurement of required items started.

The project will be completed in the next three months.

Phase II (Development of future Stations) – Expressions of Interest (EOIs) for procurement of both EPC consultancy and EIAs consultancy has been prepared and are awaiting tender.

11. Project Name: LPG Project

a. Scope

The proposed project is expected to comprise a “common user” facility for import handling and bulk storage of LPG by all licensed oil marketing companies, linked to the KPRL facilities and the oil marketers’ distribution network at Mombasa, and “common user” storage and distribution facilities at the inland towns of Nairobi, Nakuru, Kisumu, Eldoret and Sagana.

The LPG distribution network will involve the following:-

- Receiving and storing at the port
- Loading to rail and road trucks at the port
- Cylinder filling plant
- Delivery to the five inland distribution inlets i.e.
 - Nairobi (1,000 tonnes storage vessels and 2 x 50 tonne bullet pressure vessels);
 - Nakuru (3 x 50 tonnes bullet pressure vessels), Nanyuki (50 tonnes bullet pressure vessels);
 - Eldoret (4 x 50 tonnes bullet pressure vessels);
 - Kisumu (6 x 50 tonnes bullet pressure vessels).

- The Mombasa terminal will be the largest with a storage capacity of 6,000 tonnes storage vessels, with a provision to expand to a capacity of 8,000 tonnes.

NB: The detailed project scope will be determined once the study is completed and will match the deliverables of the Market Survey.

b. Objective/Justification

The project's objectives are to:-

- To ensure unrestrained availability of supply of LPG by complimenting KPRL's production and in the unlikely event of decline in KPRL'S production, fill in the gap and thereby deepen liberalization of the petroleum sub-sector.
- Allow for importation of economic batches of LPG which can not be imported with the current constrained facilities owned and operated by shippers and allow for multiple supply options.

c. Cost

The cost estimate as per the preliminary market study is up to US\$ 89.7 Million.

d. Current Status

This is a GoK driven project. KPC was appointed to be the implementing organ of the GoK. The study on LPG Demand in Kenya and the East African Region and Preliminary Design for the needed Infrastructure within Kenya to meet the Demand is on-going.

Based on findings of the study, the government will make appropriate decisions on the project implementation and ownership participation (either sole public/private sector participation or Public-private joint sector participation.

12. Project Name: Line-Fill

a. Overview

This is a government directive for KPC to acquire line-fill to facilitate entry of new oil marketers. The line-fill in the KPC pipeline system consists of the petroleum product that is within the systems pipe work and tank bottoms. These products belong to all the oil shippers and marketers that use the pipeline system. The line-fill is apportioned to each shipper based on a ratio that is determined by each marketer's usage of the pipeline system i.e. the higher the usage, the higher the contribution to the line fills. The table below shows the composition of line-fill in the pipeline system.

Line-fill Composition

LINE SECTION	VOLUME (M³)
LINE 1	41,600
LINE 2 & 3	13,450
TANK BOTTOMS	
PS 9	2,968
PS 10	5,725
PS 12	720
PS 25	2,284
PS 27	3,206
PS 28	3,027
Intersite line 1	1,527
Intersite line 2 & 3	302
Hydrant line 1	1,059
TOTAL VOLUME	75,868

b. History of the Line-fill

The history of the line-fill dates back to 1978 during the commissioning of the line 1 and 1994 during the commissioning of line 2. Line 1 line fill was obtained from the East Africa Oil Refineries (EAOR). An agreement was made between the then Shippers volumes to fill the line for commissioning purposes.

The line-fill for line 2 & 3 was loaned to KPC by the Shippers for purposes of commissioning. KPC paid the Shippers interest rate and return on Assets up to 1996

c. Cost Estimate

Acquiring the line fill will cost about Kshs. 4,000,000,000 including duties and taxes.

d. Current Status

KPC is working out modalities for operationalization and financing of the Line-fill and will revert to the Government on the impact on the same to the commercial operations of KPC.

PART II: SUMMARY OF DEVELOPMENT PROJECTS

The table below gives the respective Budget allocation for 2004/05 and 2005/06 and the actual expenditure of the Development projects to date.

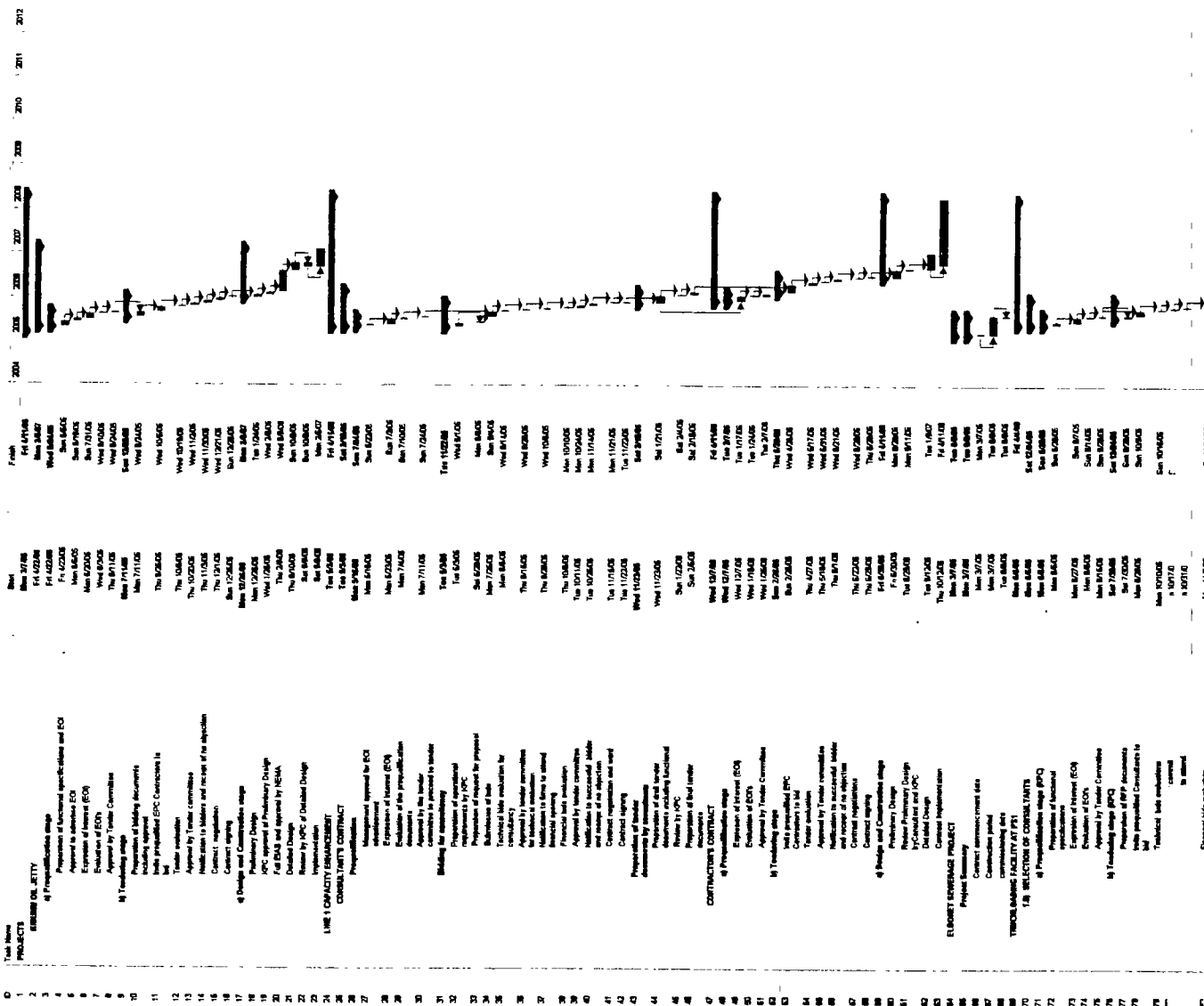
Item	Plan Projects	Total Cost (Kshs)	2004/05 Budget (Kshs)	2005/06 Budget (Kshs)	Expenditure to date (Kshs)	Remarks
1	Kenya – Uganda oil Pipeline extension.	8,000,000,000	10,000,000	179,046,000	30,297,865	This is a new project being undertaken by the two governments of Uganda and Kenya. A private sector shareholder is being sourced by the two governments.
2	LPG project		50,000,000	200	63,300	The Project is On-going . This is a GoK project and KPC was appointed to be the implementing organ.
3	Truck loading facility at Mombasa.	935,000,000	30,000,000	50,000,000	2,073,887	This is a new project and construction is expected to start in year 2006. Re-tender for procurement of consultants is ongoing. Actual cost to be determined upon tender and contract award
4	Kisumu rail siding	86,000,000	11,000,000	11,000,000	48,694,653	The project is being implemented by KPC and Kenya Railway Corporation (KRC) at a ratio of 40%: 60% (KPC: KRC respectively). Work is expected to progress once KRC has acquired land for the project.

Item	Plan Projects	Total Cost (Kshs)	2004/05 Budget (Kshs)	2005/06 Budget- (Kshs)	Expenditure to date (Kshs)	Remarks
6	Kisumu Oil Jetty	57,000,000	200	50,000,000	8,996,232	This is a new project and the actual capital cost will be determined after tender and contract award. Documentation for procurement of consultant is ongoing.
7	Eldoret sewage pumping main	21,937,565	13,000,000	12,000,000	6,644,232	This is an on-going Project. The overall progress as of 13th June 2005 was 72%. Project is expected to be completed in August 2005.
8	Jet A-1 Tanks at Eldoret Kisumu	710,454,300	72,000,000	32,539,832	858,161,180	This project is on-going and is about 98.5% complete. Expected completion date is 15th July 2005.
9	Completion of office extensions and staff clinic at Eldoret	52,507,201	101,989,800	9,000,000	129,253,291	The project stalled and the Contractor opted to pursue the arbitration process. However work on the project is expected to continue once the matter is resolved.
10	Completion of head	1,026,630,957		300,000,000	807,716,854	The services of the contractor were

	office		100,000,000				terminated by KPC in September 2004 and the Contractor obtained a court injunction. Project is expected to continue once the court case is concluded.
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Item	Plan Projects	Total Cost (Kshs)	2004/05 Budget (Kshs)	2005/06 Budget- (Kshs)	Expenditure to date (Kshs)	Remarks
11	Completion of staff housing at Morendat	487,629,781	0	125,000,000	391,775,891	The services of the Contractor were terminated by KPC in December 2004. Work is expected to continue once the contractor is cleared out of site.
12	Capacity improvement of line 1	2,502,000,000	0	1,668,000,000	0	This is a new and core project emanating from the need to enhance pipeline capacity which has almost reached its threshold at 95% capacity utilization. Prequalification of consultants is being finalized.
13	Line fill	200		200	0	This is a government directive for KPC to acquire line-fill. Modalities of operationalizing and financing of the same are being worked out.

PART III: DEVELOPMENT PROJECTS IMPLEMENTATION



ID	Task Name	Duration	Start	Finish	2006			
					Qtr 2	Qtr 3	Qtr 4	Qtr 1
0	KENYA - UGANDA OIL PIPELINE EXTENSION PROJECT	564 days	19/05/05	17/07/07				
1	JCC Meeting in Nairobi	2 days	19/05/05	20/05/05				
2	EIA study - BKS Group	93 days	19/05/05	26/09/05				
3	Commencement	1 day	19/05/05	19/05/05				
6	Mobilization	16 days	20/06/05	11/07/05				
8	Phase I: Situation Assessment and Inception	15 days	20/06/05	08/07/05				
14	Phase II: Environmental Impact Assessment	51 days	11/07/05	19/09/05				
22	Phase III: Completion and Quality Assurance	5 days	20/09/05	26/09/05				
25	JCC Meeting in Kampala	2 days	06/06/05	07/06/05				
26	Appointment of Transaction Advisor	3 wks	10/06/05	30/06/05				
27	Private Investor Selection	179 days	19/05/05	24/01/06				
28	Finalization of Draft RFP Doc	4 wks	19/05/05	15/06/05				
29	Issue of Draft RFP Doc to Bidders	1 day	16/06/05	16/06/05				
30	Bidders' comments on draft RFP	2 wks	17/06/05	30/06/05				
31	Update and Finalization of RFP Doc	2 wks	01/07/05	14/07/05				
32	Technical Team and JCC Meetings	2 days	06/07/05	07/07/05				
33	Issue of Final RFP Doc	1 day	15/07/05	15/07/05				
34	Pre-bid Meeting	2 days	08/08/05	09/08/05				
35	Preparation and submission of Proposals	4 mons	18/07/05	04/11/05				
36	Receipt and Opening of Bids	1 day	07/11/05	07/11/05				
37	Evaluation of Bids	4 wks	08/11/05	05/12/05				
38	Govt Approvals & Negotiations	6 wks	06/12/05	16/01/06				
39	Offer & Award	1 wk	17/01/06	23/01/06				
40	Signing of Heads of Agreement	1 day	24/01/06	24/01/06				
41	Finalization of Inter-Governmental Agreement	6 mons	01/07/05	15/12/05				
42	Finalization of Host Country Agreement	6 mons	01/07/05	15/12/05				
43	Finalization of Commercial Agreements	6 mons	25/01/06	11/07/06				
44	Finalization of Shareholders' Agreement	6 mons	25/01/06	11/07/06				
45	Finalization of Investment Decision	1.5 mons	19/04/06	30/05/06				
46	EPC	385 days	25/01/06	17/07/07				
47	Detailed Engineering Design	3 mons	25/01/06	18/04/06				
48	Wayleave/Land Acquisition & Resettlement	8 mons	19/04/06	28/11/06				
49	Detailed EIA	4 mons	29/11/06	20/03/07				
50	Tender for FEED	2 mons	25/01/06	21/03/06				
51	Tender for procurement	2.5 mons	19/04/06	27/06/06				
52	Procurement	12 mons	19/04/06	20/03/07				
53	Tender for Pipe laying construction	2.5 mons	19/04/06	27/06/06				
54	Construction	16 mons	19/04/06	10/07/07				
55	Commissioning	1 wk	11/07/07	17/07/07				

JULY 2005