PROJECT SUMMARY NOTE

Quantum Power Menengai Geothermal Power Project

June 2018

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### Project Description:
The Project involves development of a 35 MW Geothermal Power Plant at the Menengai Geothermal Field in Nakuru County, Kenya under Build-Own-Operate (BOO) model (the Project). The electricity generated will be evacuated through a 13 km 132 kV transmission line which has been completed and energized by the Kenya Electricity Transmission Company Limited (KETRACO).

### Borrower and Sponsors:
The sponsor is Quantum Power Group (via a wholly owned subsidiary; Quantum Power East Africa Ltd (QPEA), a pan-African industrial investment platform focused on power generation, energy and related infrastructure. Quantum Power Group is 100% owned by Quantum Pacific International Limited – an international energy company with USD 6 billion in assets. The Sponsor has set up a Project Company (Quantum Power East Africa GT Menengai – QPEA GT) to execute the project. QPEA is focused on investing in energy and power in Africa, including Kenya, Tanzania, Uganda, Burundi and Zambia, among others.

### Cost Structure and Financing Plan:
The total project cost is USD 97.8 million, to be financed with a debt to equity ratio of 75:25. QPEA and its partners will provide the equity and the senior debt will be provided by AfDB, Climate Technology Fund (CTF), Trade and Development Bank (TDB) – formerly PTA Bank, and Finfund.

### Bank’s Role:
The Bank is the Mandated Lead Arranger (MLA) for the debt financing for Project. The Bank will provide up to USD 29.5 million of senior debt with a maturity of 16 years including 2 years of grace period from its own resources. The Bank has also mobilised USD 20 million from CTF, USD 18 million from TDB (PTA) and USD 5.8 million from Finfund. The Bank’s Board also approved a Partial Risk Guarantee (PRG) in 2015 to backstop Geothermal Development Company (GDC) and Kenya Power and Lighting Company Limited (KPLC) contractual payment obligations on the project.

### Implementation Arrangements:
After an international competitive bidding (ICB) process by GDC, QPEA was awarded the concession to finance, build and operate the Project. The Project Company signed a long term (25 years) take-or-pay Power Purchase Agreement (PPA) with KPLC and a Project Implementation and Steam Supply Agreement (PISSA) with GDC. KPLC will pay a tariff of 5 US c/kWh to QPEA GT for the generated electricity. KPLC will also pay 2.0 US c/kWh directly to GDC for the steam. GDC, a wholly owned government of Kenya entity, is responsible for drilling, producing and delivering a pre-agreed quantity and quality of steam to the power plant. The Bank has supported GDC’s drilling program.

### Environmental and Social aspects
The project has been assigned a category 1 in line with the guidelines within the Bank’s Integrated Safeguard System (ISS) for all power generating plants exceeding a generating capacity threshold of 30MW. To comply with the policy requirements of this category 1 rating, QPEA GT updated (in February 2015) an initially prepared Environmental and Social Impact Assessment (ESIA) prepared by the project initiators GDC in September 2013. The updated ESIA has been approved and issued and NEMA license. An Abbreviated Resettlement Action Plan (ARAP) has also been prepared and implemented for a 13km 132Kv T-line, which is an Associated Facility by KETRACO in December 2013. The original GDC and updated QPEA GT ESIsAs have been reviewed by the bank and a summary has been prepared and posted on the Bank’s website.

### Market:
Kenya’s power generation installed capacity in 2017 was 2,354 MW and is expected to grow to 3,570 MW in 2020 and 9,521 MW by 2035 according to the Country’s Least Cost Power Development Plan (2015-2035), prepared in October 2016. In light of the country’s high growth rate, power consumption is expected to increase drastically. Power generated in Kenya will be used for domestic consumption and to support the Government’s flagship projects such as the LAPSETT Oil Pipeline and refineries, Konza Techno city, Special Economic Zones as well as export to the neighboring countries such as South Sudan, Uganda and Tanzania. The electricity demand is projected to grow annually at between 6% (low Scenario) and 10% (GoK Vision 2030 scenario).

### Justifications for the Bank’s Involvement
The project is aligned with Kenya’s 2011 -2030 Least Cost Power Development Plan (LCDPD) and the Vision 2030 Initiative that supports the development of affordable and reliable energy in the country. The Project has been committed to come on-line in 2019 under the Kenya’s Electricity Sector Medium Term Plan (2015-2020). The project is also aligned to the Bank’s High Five priorities in the context of the Ten Year Strategy (2013-2022) with the aim to facilitate the continent’s universal access to electricity by 2025. The project is also supported Kenya’s CSP (2014-2018) that prioritizes infrastructure development and an improvement in energy access across the country. Additionally, this project will complement Kenya’s energy sector policy which aims at diversifying energy sources for the power sector and reducing overall cost of electricity through affordable baseload power generation.

### Development Outcomes:
The project is expected to have strong development outcomes by increasing Kenya’s installed base load capacity, addressing the country’s growing demand for reliable and affordable electricity. The project will create direct and indirect jobs during construction and operation to boost inclusive growth. The Menengai projects also increase the number of developers of geothermal resources which is one of the cheapest sources on energy in Kenya. Producing geothermal power will diversify Kenya’s energy mix and reduce dependence on hydro. The country will therefore rely more on domestic resources rather than imported oil thereby reducing the country’s exposure to volatility of oil prices. The project will also provide CO2–free electricity.

### Additionality and Complementarity:
The Bank’s additionality stems from mobilization of long-term financing unavailable from commercial banks and the provision of a PRG on the project. The Bank’s function to bring CTF funding will enhance the viability of the Project. The Bank will also ensure that the project adheres to high-standard environmental and social requirements.