DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
AFCC2/RI-THE EASTERN ELECTRICITY HIGHWAY PROJECT UNDER THE FIRST PHASE OF THE EASTERN AFRICA POWER INTEGRATION PROGRAM
APPROVED ON JULY 12, 2012
TO
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA, REPUBLIC OF KENYA

ENERGY & EXTRACTIVES
AFRICA

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
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<td>P126579</td>
<td>Investment Project Financing</td>
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Organizations

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<td>Federal Democratic Republic of Ethiopia,</td>
<td>Kenya Electricity Transmission Company, Ethiopian Electric Power</td>
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<td>Republic of Kenya</td>
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Project Development Objective (PDO)

Original PDO

Project objectives are to: (a) increase the volume and reduce the cost of electricity supply in Kenya; and (b) provide revenues to Ethiopia through the export of electricity from Ethiopia to Kenya.

Summary Status of Financing

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<th>Ln/Cr/Tf</th>
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Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No
I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

This restructuring paper requests extension of IDA Credit closing date(s) for the Eastern Electricity Highway Project (EEHP) from June 30, 2019 to December 31, 2020. The project was approved by the World Bank’s Board of Directors on July 12, 2012 and became effective on December 5, 2013. If approved, this will be the first restructuring of the project.

The EEHP is a regional project which includes a US $441 million IDA Credit for Kenya and a US $243 IDA Credit for Ethiopia (total of US $684 million, as originally signed). The EEHP also includes parallel-financing by African Development Bank (AfDB) and Agence Française de Développement (AFD).

The EEHP connects the power grids of Ethiopia and Kenya with a nearly 1,000 km, 500 kV high-voltage power transmission line, capable of up to 2,000 MW of bi-directional power transfer. As first of its kind in Sub-Saharan Africa, this power transmission line, when operational, will become the flagship of power trade in the Eastern Africa Power Pool (EAPP) region. In fact, physical interconnectivity in the region is underpinned by this transmission interconnector.

EEHP finances the development of one of the most complex pieces of power transmission infrastructure in the region. As such, EEHP faced initial delays in procurement and contract management during implementation. However, during the year 2018, all the EEHP supported components (converter stations in Ethiopia and Kenya) have demonstrated substantial progress and the converter stations are on track to be commissioned by April 2020 (under budget, but behind original schedule by about 9 months). Consequently, the IDA Credit disbursements have also picked up pace and the disbursements are expected to be about 35% by end of the fiscal year 2019. The current disbursement rate is 28%.

The project components are (Sub-Components A2 and A4 and Component C, are IDA financed):

(a) Component A: Construction of a High Voltage Direct Current (HVDC) transmission interconnection between Ethiopia and Kenya
   i. Sub-Component A1 - Construction of a 500kV high voltage direct current overhead transmission line (HVDC OHL), financed by AfDB in Ethiopia; and parallel-financed by AfDB and AFD in Kenya;
   ii. Sub-Component A2 - Engineering design, construction and commissioning of one 2,000 MW converter substation at Sodo (Ethiopia) and one 2,000MW converter substation at Suswa (Kenya); including ground electrodes and repeater stations along the lines for the fiber optic communication system; financed by IDA in Kenya, and IDA and AfDB in Ethiopia;
   iii. Sub-Component A3 – Environmental and Social Management, financed by the implementing agencies in both countries;
   iv. Sub-Component A4 - System reinforcement in Kenya, financed by IDA and Kenya Electricity Transmission Company (KETRACO));

(b) Component B – Project management and capacity building, including technical assistance and capacity building to Ethiopian Electric Power (EEP) and KETRACO; and

(c) Component C – Purchase of helicopters for operation and maintenance.

Project Implementation Status
The project’s ratings for progress towards achieving the development objective and implementation status are Moderately Satisfactory. During January 2019 the implementation status rating of the project was upgraded from Moderately Unsatisfactory to Moderately Satisfactory owing to the demonstrated positive progress of implementation of works.

Sub-Component A1 (Transmission Lines); financed by AfDB and AFD:
The transmission line is estimated to be 90 percent complete. The bulk of the work remaining is on two lots in Kenya:
(a) Lot 5 (195km from west of Logo Logo town to Ol Doinyo Nyiro financed jointly by AfDB and AFD): one tower is not yet built; and 23km of line are not yet strung.
(b) Lot 6 (Ol Doinyo Nyiro to Suswa financed by AfDB): (i) construction of 60 foundations, (ii) erection of 152 towers, and (iii) stringing of 102km of conductor.
Completion is delayed by incomplete wayleave compensation. Assuming prompt resolution of wayleaves acquisition, expected completion date is July 2019.

Sub-Component A2 (Converter Stations at Sodo – Ethiopia and Suswa – Kenya); financed by IDA:
Construction of both converter stations fell behind schedule during 2016 following the bankruptcy of one of the Joint Venture (JV) partners that had signed the construction contract with KETRACO and EEP. During July 2017, the JV contracting parties completed the process of separation, and Siemens AG took over the full scope of works as sole contractor. Since the dissolution of the JV, the contractor has made good progress in implementation of the project. Progression during fiscal year 2018/2019 (between June 2018 and March 2019) is as follows:
(a) Implementation progress at Suswa, Kenya increased from 56% to 84%;
(b) Implementation progress at Sodo, Ethiopia increased from 55% to 85%; and
(c) Disbursement increased from 18% to 28%

KETRACO and EEP have agreed with the contractor on a revised schedule to complete and commission the convertor stations, indicating completion date of April 30, 2020. The schedule is achievable based on technical assessment of the Bank team.

Sub-Component A3 (Environmental and Social Management); financed by KETRACO and EEP:
Management of the Environmental and Social Management Plans (ESMPs) as defined in the Environmental and Social Impact Assessments (ESIAs) and the Resettlement Action Plans (RAPs) is ongoing and all financiers to the project are monitoring its progress.

Sub-Component A4 (system reinforcement in Kenya); financed by IDA:
Construction of Isinya 400/220 kV Substation, Athi River and Nairobi North extension is behind schedule, with the current completion date being April 2019. The completion rate is currently 95%. The completion date is dependent on contractor being given access and required shutdowns to complete works, and completion of interfacing projects. Some works may not be completed owing to delayed interfacing projects and some of the incomplete works could be handed over to contractors working on the interfacing projects.

Component B (project management and capacity building); financed by AfDB: The performance of the supervision consultant is satisfactory. Several training courses have been scheduled, and with most already undertaken, by staff of EEP and KETRACO, conducted by the project consultant and contractors for Component A.

Component C (Purchase of helicopter for operation and maintenance); financed by IDA: Shipment and delivery of a twin-engine helicopter in Kenya was completed in December 2018.
Disbursements:
The disbursement rate of both IDA Credits has improved over the last 6 months and is now 28 percent. The main reason for the slow rate of disbursement is that the converter stations contractor delayed in submitting invoices for works and equipment delivery that had been completed (such invoices were not submitted for 18 months). The contractor has now started consistently invoicing both EEP and KETRACO. Invoices amounting to US$ 41M (7% of credit) have been approved by KETRACO and are awaiting payment, while US$ 6M (3% of credit) have been approved by EEP and are awaiting payment. If all these invoices are approved, the disbursement rate could be more than 38% this FY.

However, KETRACO exhausted their FY 2018/2019 budget allocation and have requested The National Treasury (NT) in Kenya for supplementary budget to enable them to clear the outstanding invoices before the end of FY 2018/2019.

Project Cost Savings:
International competitive bidding of the converter stations resulted in lower contract prices than originally budgeted. There were also losses in the originally committed IDA Credit amounts due to currency fluctuation. Overall, the team expects that Ethiopia will use all the remaining IDA Credit (Cr. 51490) amount, while the remaining savings in the IDA Credit (Cr. 51480) for Kenya are approximately US $90 million. The Government of Kenya has requested the WB for no-objection to use the savings for additional consultancy services, and to purchase equipment for extension and reinforcement of 12 substations. The proposed substations rehabilitation will increase the capacity of Kenya’s electricity network to transfer energy, hence contributing to the project PDO. The funds are saved from Sub-Component A2 and will be spent in sub-component A4 (both within Component A). There will be no re-allocation between categories. The substation works would include purchase and installation of power and auxiliary transformers, switching equipment and associated installation materials at existing substations. The proposed sub-projects do not require any physical or economic displacement, since they are being implemented on land belonging to KETRACO. The WB safeguard specialists will evaluate and confirm that the safeguards category of the project will remain the same by inclusion of the proposed sub-projects into EEHP. The Bank has requested a letter of commitment from KETRACO to confirm that in case installation and commissioning of the goods is not complete within the proposed extended time for completion of the project activities related to the converter station for the Ethiopia-Kenya link; KETRACO will complete the works using own funds.

Power Purchase Agreement (PPA) between EEP and KPLC:
The Ministry of Energy (MoE) in Kenya states that the PPA signed between EEPCO and KPLC on February 14, 2012 (to transfer 400 MW) had lapsed, while the Government of Ethiopia disputes this. The two governments are in discussions to have the PPA reinstated.

Proposed Changes:
This restructuring requests an extension by 18 months from June 30, 2019 to December 31, 2020. The governments of Ethiopia and Kenya have both submitted requests for extension of the project to provide adequate time for the Implementation Agencies (EEP and KETRACO) to complete converter stations works and all outstanding implementation activities. The Government of Kenya requested extension of project until June 30, 2020, while the Government of Ethiopia requested extension of project until December 31, 2020 (attached).
Considering the contractors time schedule to complete the project by April 2020, this extra time provision would ensure that there is enough time to evaluate the performance of the PPA, monitor the flow of energy in the transmission line, and monitor the revenue earned by Ethiopia before project close. If approved, this extension would be the first closing date extension to the project.

The Task Team confirms the following: (i) the project objectives continue to be achievable; (ii) the performance of the Borrower remains moderately satisfactory; and (iii) the Bank and the Borrower agree on actions that will be undertaken by the Borrower to complete the Project. There is no outstanding IFR under the project. However, entity audit report of the Ethiopian Electric Power for the year ended July 7, 2018 which was due for submission on January 7, 2019 is not submitted to the Bank. The team requested for Exception to the Provisions of OP/BP 10.00 and Clearance to Proceed with Restructuring and the requested has been cleared both by PMFM and WFA Managers.

II. DETAILED CHANGES

LOAN CLOSING DATE(S)

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<th>Ln/Cr/Tf</th>
<th>Status</th>
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