

May 5, 2010

IBRD Response to Germany
Approval of CTF Funding for project entitled - Egypt: Wind Power Development Project
(IBRD)

Dear Annette,

Thank you for your comments on the Egypt Wind Power Development Project. Please find below the World Bank's responses to your questions (other than those already addressed in the response to Japan).

Vielen Dank,

Rohit

- Will the private sector really build the windparks that need the transmission line?

It is key to the success of the Project that the private build-own-operate (BOO) pilot projects materialize as expected. We would welcome an analysis regarding the probability that the private sector takes part in the Wind-power-expansion scenario and to what extent the government of Egypt is committed to cover the costs for a feed-in-tariff. (E.g. what is the risk that Egypt will not be able to continue its sector reforms.)

The tender process for the first 250 MW BOO/IPP wind farm had 34 consortia applying for pre-qualification and ten companies which were pre-qualified, half of which are major international developers. Nine of the companies have decided to join together to finance a joint site measurement program, which will be spending some US\$ 1.5-2 million on gathering wind data, a topographical survey and a geotechnical survey. Given that the site is one of the windiest in the world with an expected capacity factor in excess of 50%, the pricing of bids may be expected to be highly competitive in the international context.

Whereas the request for pre-qualification and the very innovative concept of a joint wind measurement program has been enthusiastically received by all developers, the developers' primary concern is currently whether the transmission line to the site will be operational at the agreed time for testing and commissioning of the wind farm (autumn 2013-early 2014). There is a firm commitment from the Government of Egypt to move ahead with this pipeline of commercial wind projects, and this has been prominently announced nationally and internationally. It should also be noted that Egypt has successfully executed its obligations under previous thermal BOO/IPP projects. A fixed-tariff scheme for smaller wind projects outside the Gulf of Suez area, possibly with a size limit of 25-50 MW is being prepared by the Energy Regulator with assistance from consultants. Preparations began in late 2009 with a report expected by end 2010.

As noted in the Project Document, there are three risks related to sector reforms and the BOO program.

First, weakened financial sustainability of renewable energy in Egypt due to the political economy of prices for fossil fuels and higher than expected capital costs. This risk is rated modest. The Government has made a commitment at the highest level to incorporate 20% renewable by 2020. The Government has a commitment to reforms and is currently implementing average annual increases of about 7.5% in the electricity sector. Further, the government has announced a strategy for comprehensive energy price

reforms in 2007. The World Bank's sector dialog will play a critical role in helping move this agenda forward.

Second, reduced private and public sector interest in wind power development as a result of global economic slowdown . This risk is rated modest. The Government has put in place an interdepartmental task force that is integrating global best practices in providing clear information to the bidders. The program will closely interact with the private sector through pre-bid meetings to monitor the situation.

Third, inadequate capacity to manage the BOO program. This risk is rated substantial. The main risk mitigation measure is that EETC will incorporate lessons from the implementation of the thermal BOO projects and a steering committee including staff with previous experience has been created at the level of the Ministry. The proposed framework for wind development allows different PPP models. The project also includes technical assistance to support the BOO program that is already underway.

- Minor / technical points: What will happen with CTF funds if the tender turns out to be cheaper? We highly welcome the inclusion of Annex 13 reflecting the expertise of the IEA. We would welcome a more elaborate and convincing clarification of the concerns raised w.r.t. the economic analysis on page 136.

IBRD disburses funds on the basis of actual needs. In the event that the tender for the transmission component is lower than costed in the project document, the Bank would cancel the undisbursed balance of the CTF loan and return it to the CTF Trust Fund.

This comment by the IEA reviewer was in relation to an early draft of the document. We will summarize the final economic analysis in the section for completeness.

Timeline for Social and Environmental Study on Wind Parks in relation to transmission lines

As the Study is currently being carried out for the Wind Parks, how do you envisage the timeline if the results should be problematic or require further measures?

The social and environmental study for the 200 km² area, which includes the first BOO/IPP wind farm is expected to be completed with an avian study in autumn 2010. Previous master plan environmental impact studies have classified this zone as being low-risk for birds, and two recent avian studies for two neighboring wind farms have confirmed this assessment. The primary outstanding concern from a wind development point of view is what the maximum allowable height for wind turbines will be. This may have an impact on the choice of turbines for the site and the kWh cost for the project. The timeline is not foreseen to be affected in this case.

"Annette Windmeisser" ---05/05/2010 09:21:00 AM---Dear Rohit, We have a number of questions we would like to be clarified before we

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05/05/2010 09:21 AM

Subject:

Antw: Approval of CTF Funding for project entitled - Egypt: Wind Power Development Project (IBRD) - Corrigendum

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Dear Rohit,

We have a number of questions we would like to be clarified before we reach a final decision of the project proposal.

We drafted these questions before you had sent your comments regarding the Japanese interventions. We found these answers relevant, therefore I'm only sending our questions pertaining to these issues raised by Japan in order for you to appreciate our overall approach, and the extent of our concerns.

- Will the project contribute to an especially efficient transmission system?

As it was pointed out by our colleagues from Japan: What is actually financed is a potentially conventional 500kV transmission line. The proposal dresses this as a "Wind Power Development Project". Although the extension of the grid seems to make perfect sense from a technical point of view and given the national context, it needs to be clarified

in what respect the CTF funding is used to contribute to an especially efficient transmission system.

- Are the CTF Funds really needed?

On page 76 the proposal states that there are potential scenarios under which the project would be economically viable without CTF financing. We consider this highly relevant but the corresponding information is lacking in the document. (At least in our version pages 77/78 are left blank.) We would like to receive the full set of information including the results of the financial analysis showing scenarios with and without CTF financing. (In this we also support the point made by the colleagues from Japan.)

- Will the private sector really build the windparks that need the transmission line?

It is key to the success of the Project that the private build-own-operate (BOO) pilot projects materialize as expected. We would welcome an analysis regarding the probability that the private sector takes part in the Wind-power-expansion scenario and to what extent the government of Egypt is committed to cover the costs for a feed-in-tariff. (E.g. what is the risk that Egypt will not be able to continue its sector reforms.)

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economic analysis on page 136.

Timeline for Social and Environmental Study on Wind Parks in relation to transmission lines

As the Study is currently being carried out for the Wind Parks, how do you envisage the timeline if the results should be problematic or require further measures?

Thank you very much for your considerations of these questions,

Best regards
Yours sincerely
Annette

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