

CLIMATE INVESTMENT FUNDS

November 19, 2015

**APPROVAL BY MAIL: KAZAKHSTAN RENEWABLE PROGRAMMES OPERATION CHANGE REQUEST
RESPONSE FROM EBRD TO COMMENTS AND QUESTIONS RAISED BY GERMANY AND THE UNITED KINGDOM**

Response Matrix for CTF Program Change Request v2			
1. Country/Region	Kazakhstan	2. Date	20-11-2015
3. Project/Program Title	Kazakhstan Renewable Energy Programmes – CTF/EBRD		
1 st Comments from the UK			
1. For Kazakh Railways, the CTF Investment is reduced by 87% as a result of the proposal, but the CO2 Savings are only reduced by 35% to 50,000 tCO2/yr. Is there an explanation for this non –linearity?	1. There has been an engineering re-assessment of the programme. The expected CO2 savings relate to the full programme, including EBRD and CTF finance, covering both the renewable and the energy efficiency aspect.		
2. Also we think that the cost effectiveness should then be 0.93 USD/tCO2 with the proposed allocation, is this correct?	2. This is correct. This was an oversight in the production of the table.		
3. For KazREFF, how has the cost effectiveness ratio been calculated? We have attempted to replicate this, but have come up with slightly different results: $\frac{\text{USD}29,500,000}{(270,000 \times 20 \text{ years})} = 5.46 \text{ (instead of 5.28)}$ $\frac{\text{USD}41,700,000}{(390,000 \times 20 \text{ years})} = 5.35 \text{ (instead of 5.29)}$	3. We excluded the USD1m PPG for regulatory work from this calculation, which is however contained in the total finance volume of the KazREFF operation. The reason for this is that the PPG benefits the renewable energy market in Kazakhstan as a whole, and is not directly linked to the investment facility. We are not accounting for CO2 savings from renewable energy investments not financed by KazREFF, and therefore consider it is right to not count the PPG finance which supported these either. The correct number for the new investment and CO2 abatement volume, taking this into consideration, is USD5.22/tCO2, and for the old investment and CO2 abatement volume it is USD5.28/tCO2.		
4. For the Yereymentau WPP, what is the P95 scenario referenced in the footnote?	4. P(n) refers to the probability of a wind power generator generating at the expected level, where 'n' is the confidence level that an expected level of generation is being reached. In this case it means there is 95% confidence that the expected level of generation will be reached. It often happens in the appraisal process of a project that for credit reasons a more stringent approach is chosen than is e.g. required by the original investor to move forward with the proposal. In the case of Yereymentau WPP, at the time of the initial Concept Review in the EBRD, and the time of the application to the CTF for funding, the confidence level deemed sufficient was P75, which was (and remains) equal to the figure reported to the CTF Trust Fund Committee. Subsequent credit analysis requested that the project should be able to maintain financial covenants even at the implied lower generation level of P95. This number was reported to EBRD's Board for approval, and is now reported back to the CTF Trust Fund Committee. In hindsight, and for future applications to climate		

<p>5. What is the reason for the increase in cost per tonne of CO2?</p>	<p>funds, it would probably be better for us to not just report the expected savings from a renewable generator, but also to include the confidence level that these savings will be reached.</p> <p>5. The lower generation volume associated with a P95 scenario, compared to a P75 scenario, is one reason for the increase in cost. The other is a higher than expected investment volume from the CTF, comparing the actual to the 2013 Investment Plan, with the CTF contribution required increasing by over 13%. The increase is within the normal variance expected for large-scale infrastructure projects in this market.</p> <p>6. Please also note that there was an error in the table for the co-financing result associated with Yereymentau WPP. The table states it is USD63.6 million. This is in fact the EUR volume, and the corresponding USD volume at a standard conversion rate of 1.35 USD/EUR would be USD83.1 million. The total investment volume, including the CTF, is therefore about USD107 million.</p>
<p>2nd Comments from the UK</p>	
<p>7. I'd be interested to know why there is no change in the MPIS grant volumes as requested for the individual projects despite the reallocation of funds?</p> <p>The MPIS for the Renewable Energy I-Waste Management Framework Phase I and II program now seem high as a proportion of the overall project costs given the reallocation and compared to the other projects in the IP.</p>	<p>7. CTF MPIS are centrally administered in the EBRD within a separate budget. The programmes under the renewable energy sector intervention in Kazakhstan are drawing on the same resources on a range of matters, e.g. policy/TA work with the government, business development and project preparation, reporting and communications activities, and programme MPIS is drawn on for activities at the intervention level, since there is no dedicated budget for these. The average MPIS share across all three programmes remains unchanged at 2.2% of the loan volume.</p> <p>The reason no change in the MPIS was proposed was to simplify administration within EBRD's CIF Special Fund, with more of the burden at the intervention level now falling on the waste management framework MPIS.</p> <p>We do not agree that the MPIS for the waste frameworks now seems high. The total request for the MPIS is USD0.91m (comprised of USD0.36m for the original framework and USD0.55m for the extension). From the original 2.6% of loan volume, following the change, this would equate to 3.7% of the loan volume, which still appears to be good value to us.</p> <p>It is on the other hand very low for the KazREFF proposal once the extension is considered (0.9%), for a very complex programme including comprehensive policy dialogue, and working on private sector renewable energy projects in a country with no track record in this sector.</p>

Comments from Germany	
<p>8. Allow me to follow up on the request to reprogram around €12 Mio. in Kazakhstan. What really doesn't work for us here, is that we receive so little information. The few pages do not contain enough project related information in order to judge upon the proposal. Given the fact that the Renewable Energy III- Kazakhstan Renewable Energy Finance Facility (KAZREFF) dates back to 2012, it would be necessary in order to assess the approval request to receive more information before we consider approval of the project, i.e. :</p> <ul style="list-style-type: none"> a. the original project proposal, b. the report on the status of implementation of the project and the individual sub-projects, especially given the number of critical questions that were raised at approval stage and c. an overview of what sub-projects are to be implemented with the additional funds, at what terms, impact on indicators, etc. etc..... 	<p>8. We are sorry to hear that you feel there is insufficient information. Under the rules, this is a minor change in terms of the volume (as it affects only 6% of the IP volume and no sectoral change or public/private client change is foreseen) which normally does not require the implementing MDB to revert to the TFC for approval at all, if the change happens prior to project approval. The reason this could not be handled without referring back to the TFC was that these are approved projects. Nevertheless we see this as a minor change to the implementation of the Kazakh CTF Renewable Energy Programme. We aim to handle the implementation of the CTF in as efficient a manner as possible, and provide information that is in our assessment appropriate to the scale of the change of CTF investments being proposed. We apologise if we got this wrong this time. With that said:</p> <ul style="list-style-type: none"> a. This has been circulated to you separately. b. KazREFF has thus far signed one sub-project, with CTF support of USD15m/EUR13.7m for the 50MW Burnoye Solar Plant in southern Kazakhstan. This was reported on in the Semi-Annual Operations Report, (Table 5) and the Country Portfolio Report (Page 7 Line 3 – although I note an error in that table, the USD39m co-finance should be from 'Private Sector', and not 'Other'). An Annex B report for this project is under preparation and will be circulated once finalised. c. Due to confidentiality concerns specific information on the sub-projects (not including pricing information other than floor pricing) will be circulated separately to those TFC members who have signed the NDA. The impact on indicators is outlined in Table 2, under Annex I. This covers EBRD indicators only, and clearly shows the increase in installed capacity and the overall effect on CO2 emissions reductions. For a full revision of indicators within the Kazakhstan CTF IP, including a full update on the status of programme implementation overall, the MDBs are currently considering an information submission to the May 2016 TFC.