

April 23, 2015

Approval by Mail: Endorsement of the Revised Investment Plan for Nepal (SREP)—Comments from the UK

Dear Mafalda,

Having considered the revised Investment Plan for Nepal we have the following questions which we would like further information on before we can endorse the decision.

- 1) We would like to see some more information and analysis underpinning the core assumption that the flow of credit to the SHP sector is now not a barrier and that SREP has no further role to play in the SHP sector. Our impression would have been that the small hydro sector remains a potentially high return, low unit cost renewable option which remains a high risk area for investment and needs new/different ways of working.
- 2) The IP states that grid-connected solar does not exist in Nepal however we would appreciate more consideration of the existing activities in the area of solar, including institutional solar systems (schools, street lights, police posts, health centres) which Denmark, Norway and the UK are also supporting.
- 3) We have some concerns that the project will be using a parallel fund flow mechanism alongside CREF (footnote on page 2). If so, it would be good to know how the revised project will build the capacity of CREF (even if they are not using it), or else, the SREP investment needs to have a sustainability plan of the component.
- 4) The actual use of the proposed funds is not clear, even in outline. What percentage of project funds will be used for grant/subsidy and/or credit? How will this revised investment plan will work towards reducing subsidy dependence in the sector? How will the IP avoid excessive grant proportions going to captive generation projects with more limited wider benefits?
- 5) The renewable shares for Nepal stated in para 15 seem very low, are these not including hydropower? If not why not?
- 6) Table 7 and the Table 8 results 1 and 2 indicate significant reduction in planned RE capacity and energy produced as well as energy access for the same SREP investment compared with the original IP and the baseline (are these the same?). Could you also clarify why the on-grid solar capacity related results target are different in Table 8 and Table A1.1 (32.85 vs. 36.5 Gwh/y)?
- 7) Assuming that the answer to the above relates to wet season versus dry season capacity, can the importance of the additional capacity in the dry season provided by solar be better quantified to better explain why this reduction in power and access expectation is not a negative outcome for SREP? Linked to this, will higher dry season feed-in prices offset the typically higher unit costs of solar compared with SHP so as to enable viability?

- 8) We would appreciate more consideration of the gender and poverty alleviation dimensions (this adds to the question in point 4 about capture of subsidies).

- 9) The Medium/Low risk rating regarding the lack of policy with respect to the new solar component seems potentially optimistic. Can the GoN provide clearer indications of their intentions in this regard?

- 10) Private financing of \$50m is expected in the results table A1.1 while only \$5m is included in the financing plan below. In general, the financing plan (and especially the public proportion) presented on pg 12. Looks out of proportion compared to the project size of 25MW utility scale solar. Please clarify, and provide the basis for the \$5m and \$50m estimates, as well as indications of how such private investment will be maximised (especially in the captive cases).

Best regards

Simon Foster

(on behalf of DFID and DECC)

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