

CLIMATE INVESTMENT FUNDS

July 27, 2016

**[APPROVE BY MAIL]: DPSP II: INDONESIA & PHILIPPINES: PRIVATE SECTOR GEOTHERMAL
PROGRAM (ADB) (CTF)--PCTFDP601A**

COMMENTS RECEIVED FROM TRUST FUND COMMITTEE

July 27, 2016

Comments received from the United States

Dear CIF Admin Unit,

Thank you for the opportunity to review the DPSP proposal for Indonesia. We would like to ask the following questions:

- What is the expected breakdown of the \$30 million CIF investment between Indonesia and the Philippines?
- Our understanding is that there have been significant changes to the laws governing geothermal in Indonesia over the past few years, yet the discussion in the proposal does not reflect these changes. Please provide an updated explanation of the legal and institutional context and better explain how the use of CTF funds will address current barriers.
- We have some concerns that the amount requested from CTF is too small to for scale up and driving transformation in the market because exploration programs conducted following previous PPA signings have tended to result in lower proven reserve and lower capacity output. Thus, more exploration wells must be drilled to meet the necessary reserve and capacity output commitment in the PPA. Has the ADB considered the use of a PPP scheme to help mitigate this problem and leverage the CTF resources?
- When do ADB staff expect this project to come to the ADB Board?
- What is the likelihood these projects will be Category A projects?

Danny

July 19, 2016

Comments received from Germany

Dear Mrs. Duarte,

The presented concept to encourage private sector participation in the development of geothermal power resources in Indonesia and Philippines seems plausible and suitable to lower barriers for private sector investments in the geothermal sector. We agree with the analysis, that the use of concessional finance for geothermal drilling, exploration and power generation due to limited levels of government support in Indonesia and the Philippines, and high potential in these countries is needed to unlock significant private sector investment in this subsector. Especially, the use of geothermal exploration risk insurance has a significant potential to increase private sector participation as high cost and risk of drilling and exploration are preventing the development of many geothermal projects. We highly recommend, if not already done, to coordinate the project concept with a World Bank proposal for using CTF Funds in the amount of 50 Mio. USD to facilitate investments in geothermal energy in Indonesia (“Geothermal Energy Upstream development project”), primarily by setting-up a Risk Mitigation Facility for Geothermal Exploratory Drilling, in order to maximize synergies between these two projects

Best,
Michael Kömm (p.p. Hans-Peter Küppers)

July 15, 2016

Comments received from the United Kingdom

Mafalda,

Thank you for this proposal. Please see the comments/questions from the UK below:

- Additionality - Indonesia already has 5 projects with a focus on the geothermal sector. What is this project adding to the development of the sector that the other programmes are not? And if there is something unique and essential to the development of the sector why has it not been addressed in any of the other programmes previously? It is stated that several projects (440 MWe) are at an advanced construction including the Sarulla and Rantau Dedap projects, partially financed by the CTF country programme for Indonesia. However, the proposal doesn't highlight very well how this is additional to other geothermal projects by CTF – in particular what specific barriers this project will address to create an enabling environment for private sector to invest in geothermal projects.
- We are unclear as to how the decision to opt for option (i) or (ii) is taken. The cost of insurance is likely to be very high so we are not sure how this option could ever be more attractive to private investors than the provision of CTF financing covering the exploration drilling, even taking account the fact that debt will be more expensive under (ii), reflecting the increased exploration risk for the banks. We'd be grateful if the project team could explain this further.
- On option (i) and in the event that the insurance is triggered as the exploration and drilling are not successful, the sponsors would have no obligation to repay the contingent grant but we were wondering what type of control we hold for the utilisation of the insurance proceeds?
- It seems that option (ii) would be favoured for expansion projects where “resources are partially proven and the cost of a premium may be prohibitively expensive” – as pointed out above, we should understand the decision process for opting for (i) or (ii): if resources are proven, no insurance should be needed and if they are unproven the insurance is likely to be very expensive.
- The geothermal exploration risk insurance proposal seems an innovative concept and this project could demonstrate proof of concept. However, has any assessment been conducted on whether this has worked in other regions (e.g. Africa or Latin America)?
- Both the Philippines and Indonesia have seen moves by their governments to encourage private investment in the energy markets previously dominated by state owned utilities for quite some time (2009 and 2008 respectively). How confident can we be that this programme will unlock private investments in the development of the pipeline of geothermal projects, is the ADB confident that the policy and regulatory structures put in place will enable the private sector to invest? In the Philippines in particular, the structure of the power market due to the WESM (and the non bankability of projects due to the inherent merchant risk) sounds like a structural obstacle to private investments (even if the programme unlocks some of these investments, we are concerned about the future replicability without the programme if the structure of the market is not reformed).

- As part of this project, has it been considered whether additional incentives from respective governments – other than CTF concessional financing – will be needed to increase private sector involvement?
- Could you split up the estimate of co-finance? Currently private sector and bilateral co-finance are combined
- We note that even if all of the co-finance was from the private sector the leverage ratio is still relatively low (1:3) for a DPSP project
- How are the results from this project being attributed? If CTF funding is being used for exploration phase then the results should not be fully attributed as that could lead to double counting once the later phases begin. How will ADB/CIF AU ensure that there is no double counting for this project?
- Please could the project team provide more detail on the development impact of the project, currently the PAD focuses on the direct impacts but what are the wider development impacts of the project? E.g. jobs, environmental improvements, air quality, energy prices etc.
- It is clear that CTF funding in the short-term is needed to enable the private sector to invest, however, what assessment have been done on when the geothermal market will be sufficiently developed and will no longer need concessional financing?
- We understand from our country office in Indonesia that a similar previous project between ADB, WB and GoI was carried out in 2010 (via PIP of MoF) which was not successful, what is different about this project and what lessons have been learned from the 2010 project?
- The country office in the Philippines flagged that it would be beneficial if this project could be targeted towards tackling the power deficits in the Visayas and Mindanao regions in particular but we do appreciate that this could depend on the decisions made once the project is underway.

Happy to discuss over the phone if that's helpful.

Kind regards,
Kate