June 15, 2017

[APPROVE BY MAIL]: NICARAGUA: GEOTHERMAL DEVELOPMENT PROJECT (SREP) (WORLD BANK)- XSRENI053A

COMMENTS FROM SWITZERLAND

Thank you for circulating the proposal for the Geothermal Development Project in Nicaragua.

We have the following questions (Q) and comments (C):

1. Project description and rationale
 a. The Cerro Colorado Power S.A. (CCP) directly and substantially benefits from the project. You stated that this is a public private partnership.
  i. (Q) Who are the public and private owners of CCP and what are their proportions of ownership?
  ii. (Q) How was CCP selected as developer of the Casita-San Cristobal geothermal field?
  iii. How was the cost sharing between the public and private sector determined?
 b. (Q) How will the planned geothermal power plant be connected to the national grid? Does a transmission line exist within reasonable distance to the field? If not, who will build this and how will it be financed?

2. Project budget and financing
 a. (Q) In the project funding structure it is stated that the private developer (i.e. CCP) has contributed $8.49 million equity towards surface reconnaissance. On what basis was this figure determined and what activities have been thereby financed and implemented?
 b. In paragraph 26 (p.13) it is stated that the (SREP co-financed) budget for ex-ploration drilling, which is based on a drilling strategy developed by CCP (3-5 well program), includes sufficient contingencies consistent with industry stand-ards and that “any funds that are not utilized due to lower exploration costs will be reallocated to better support activities in component 2” (which according to the funding structure is not supposed to be co-financed by SREP).
  i. (Q) How much contingencies are included (expressed in USD and % of the estimated drilling costs)?
  ii. (Q) What are the maximum savings that could be realized if only 3 wells need to be drilled and no contingencies need to be utilized?
  iii. (Q) How would these savings be shared between SREP and WB(IDA)?
  iv. (Q) What kind of activities are proposed to be financed from such savings under component 2?
  v. (Q) Why should SREP grants be used to finance such activities, once the geothermal resource is proven?
 c. (Q) According to the funding structure, multilateral and private financing will be used along with $10 million equity to finance the SAGS and the power plant. What specific sources of financing have been identified for this?
 d. (Q) In the endorsed IP, it was stated that a contribution ($100 million) from GCF would be sought to co-finance the geothermal development program. Given that Nicaragua is one of the very few countries that have not signed the Paris Agreement, how realistic is a GCF contribution in your eyes?

3. Expected results
 a. (Q) We noticed the much higher number of people (1’236’642) expected to benefit from “sustained electricity service” as a result from SREP intervention, than the entire IP (400’000). How was this number of beneficiaries determined and what are the benefits they are expected to get?
 b. (Q) What process is foreseen for the subsequent development of the full Casita-San Cristobal field? Does CCP have an option to undertake this or will a call for proposals/tender be made to search for private developers?

4. Economic and financial viability

a. We understand that the net present value of economic benefits, including environmental and health as well as ghg emissions, was estimated at $173-184 million on the basis of a substitution of heavy fuel oil for power generation.

i. (Q) What is the underlying oil price for this estimate?

ii. (Q) How will these benefits be shared between the public and private sector?

b. (Q) What agreements have been made with the private developer (CCP) with regards of the profitability that shall be allowed in the setting of the off-take tariff, based on LCOE?

5. Risks

a. (Q) Four key risks have been (shortly) described in Chapter V of the PAD. What is the appraised value of each of these risks and how is this deductible from likeliness and impact on the project?

b. (Q) With regards to risk (c) “Inability of secure offtake agreement”, we assume that ENEL will be the likely off-taker. How capable in terms of financial steadi-ness and creditworthiness is ENEL to assume this role? Are there any mitiga-tion measures foreseen to mitigate a possible default from ENEL?