

# CLIMATE INVESTMENT FUNDS

July 13, 2017

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**[APPROVAL BY MAIL]: TANZANIA: GEOTHERMAL ENERGY DEVELOPMENT PROJECT  
(SREP)(AFDB)-XSRETZ027A**

**AFRICAN DEVELOPMENT BANK RESPONSE TO COMMENTS FROM UNITED KINGDOM**

## Project Rationale

(Q) The AfDB say that the SREP PPG final report by Norton Rose Fullbright LLP should be available soon. And that it will include detailed technical and economic information on the geothermal resources of the country, as well as a legal and regulatory framework providing detailed roles of key stakeholders (TGDC, TANESCO, private sector) that are (and will be) involved in geothermal activities across the country.

Can the AfDB confirm that the implementation of proposed SREP geothermal development project at Ngozi will only go ahead if it is consistent with that report? And that how it is consistent will be made clear when the SREP project is subject to “internal review by a number of AfDB’s internal committees and approval by the Board of Directors” as identified in answer to another question.

[AfDB]: In considering projects for the deployment of financing, AfDB undertakes detailed technical, economical, financial, legal, environmental and social assessments. Furthermore, it ensures that any risk raised by any particular feasibility study/assessment is properly addressed. In order to that, AfDB takes into account all relevant project background information. The scope of work of Norton Rose Fulbright LLP was carefully reviewed by the Government of Tanzania, AfDB and other relevant players in the geothermal space in Tanzania and will certainly be taken into consideration prior to “internal review by a number of AfDB’s internal committees and approval by the Board of Directors”.

## Justification for SREP Intervention

(Q) On the necessary transmission and distribution systems to connect power generated at Ngozi, the AfDB say that a substation owned by TANESCO in the city of Mbeya, around 23km from the Ngozi geothermal site, will be used. But it is still unclear who will fund the transmission infrastructure needed.

[AfDB]: The exploration drilling phase of the Ngozi Field has not started and the potential has not been fully proven at the moment despite the obvious potential. AfDB, the Government of Tanzania and other energy sector development partners will engage in such discussions in due time to ensure that the power plant is rolled out in a timely manner and under a structure that ensures value-for-money and minimizes transaction costs. The Government of Tanzania can either mobilize its ODA support to fund the transmission infrastructure or request the IPP to finance it and build it as part of the project’s scope for which the cost would have to be passed through under the Power Purchase Agreement in the form of a higher tariff per kWh.

Can AfDB confirm that the cost of the construction of the transmission line will be included when the Economic and Financial Viability is subject to “internal review by a number of AfDB’s internal committees and approval by the Board of Directors”? Also can the AfDB confirm that the SREP project will take a phased approach so that such costing can be updated when practical and that if costings demonstrate that the power generated would not be attractive for an IPP then the project would be stopped?

[AfDB]: The costs of the transmission line will not be included in the economic and financial viability of this proposed project. The analysis will be made in the context of the power plant itself and when key inputs are for the assessment are well known (e.g. installed capacity).

## Project Description

(Q) The AfDB say that the TGDC business model to manage the steam has not yet been confirmed even though it is very likely that the Kenyan model (state-owned company owns the steam and enters into a sale agreement to supply the steam needed for power generation) will most likely be adopted. A final decision will be made once the work of Norton Rose Fullbright LLP is completed and the GoT formally adopts the sector key documents.

Can the AfDB confirm that the viability of the chosen business model and any associated risks will be addressed when the project is subject to “internal review by a number of AfDB’s internal committees and approval by the Board of Directors”? This includes whether the chosen business model will be viable and commercially attractive to prospective IPPs.

[AfDB]: The definition of TGDC Business Model will be defined over the course of next years as the implementation of the proposed project progresses and the outputs of the exploratory drilling phase are known. This will involve discussions and negotiations between the Government of Tanzania and its development partners, including AfDB, other MDBs and other DFIs present in the country.

It is counterproductive, at this very early stage, for the business model of TGDC to be defined. Therefore, AfDB cannot confirm that the viability of the chosen business model and any associated risks will be addressed when the project is subject to “internal review by a number of AfDB’s internal committees and approval by the Board of Directors”.

## SREP Investment Criteria

(Q) Concerning the “Economic and Financial Viability” criteria: the AfDB say that the economic and financial viability analysis for this project is not yet finalized. However, its finalization is a pre-condition for internal review by a number of AfDB’s internal committees and approval by the Board of Directors.

Can the AfDB confirm that internal review by a number of AfDB’s internal committees and approval by the Board of Directors will actively consider the economic and financial viability of the project?

[AfDB]: AfDB can confirm that the Economic and Financial Viability of the project will be assessed as part of “review made by a number of AfDB’s internal committees and approval by the Board of Directors”.