

4/14/2014

**Comments Received from Switzerland--Approval By Mail: Ethiopia: Geothermal Sector Development Project (GSDP) SREP (IBRD)**

Dear Patricia, dear all,

In view of the teleconference today, please receive our list of questions and comments. Unfortunately we are again rather late with our questions, but the practice of approving such large grants by mail with a 2 week notice is extremely demanding on our already thin resources.

Looking forward to our discussion.

Thank you and best regards  
Daniel

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## SREP / Ethiopia / Geothermal Sector Development Project (GSDP)

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### Questions (Q) and comments (C) regarding the project

1. (C) The project appraisal document (PAD) is inconsistent with the Project Approval Request (PAR), notably with regards to project scope (PAD includes other components) and total investment (PAD: USD 215.1 million of which USD 125.3 million for Aluto Geothermal Site development - but not the power plant; PAR: USD 326 million of which USD 23.6 million - raised to 24.5 million - SREP contribution). All these figures also differ from those submitted with the Investment Plan (USD 231.6 million including power plant and transmission line). Please clarify these differences and the scope of the project to be supported by the SREP grant.
2. (Q) It is stated in the PAD (p.8) that the GoE has invited the private sector to develop geothermal resources in another site. Which site is this and how appropriate is this site for electricity generation from geothermal resources, in comparison to Aluto Langano? How was the reaction of the private sector to that invitation?
3. (Q) It is stated in the PAD (p.2) that after the commissioning of three large hydro power plants, the installed capacity of EEPCo was increased from about 850 MW to over 2000 MW, while the peak demand was 1100 MW in 2011. It is also stated (p.4) that in the context of the GTP (Growth and Transformation Plan) the installed capacity shall be raised to 8000 MW by 2015 (that means by the end of next year).
  - a. How reasonable is this objective?
  - b. What major power plants are foreseen to be commissioned until the end of 2015?
  - c. What is the expected (peak load) demand by the end of 2015 and to what customers (urban, rural, export) is this related?
  - d. What about the realism of the other stated objectives (table 1, p.4), i.e. 258'000 km of distribution lines (vs 126'038 km in 2010), 18'000 km of transmission lines (vs 10'500 km in 2010), 4 million consumers (vs 2 million in 2010) and a coverage of 75% of the population (vs 41% in 2010).
  - e. How consistent is the figure of 41% coverage in 2010 with conflicting information from other sources, stating that only 23% of the population have access to electricity (World Bank data sheet)?
4. (C) During the IP endorsement process, various Subcommittee members, including Switzerland, raised the issue of electricity export, as not being the right strategy to reduce domestic energy poverty. In the PAD, the increase (and improvement of reliability) of electricity exports is stated at various points (p.4,5,6,10) as an objective of the project. In our opinion, this is not consistent with the conditions under which the SREP IP for Ethiopia was approved. In our eyes the additionally produced electricity should be destined with priority to increase electricity access and productive use in Ethiopia. Only surplus electricity should be exported.
5. (C) In the SREP IP, as endorsed by the Subcommittee, the power plant (Phase II) was explicitly included with its corresponding objectives in the Results Framework. It is therefore not understandable that this component is explicitly excluded in the PAD (Nr34 p.10). Although the SREP financing was already in the IP primarily destined to finance the field development (Phase I), the objectives in the Results Framework (+552 GWh/y from RE; + 1.1 million people benefiting from improved access to electricity; +USD 301.5 million increased public and private investments; -438'122 tons CO<sub>2</sub>/y i.e. -8'762'440 tons CO<sub>2</sub> over 20 years) can only be achieved if the power plant is included.

6. (C) As a consequence to our comment nr.5, the project's Results Framework (Annex 1) is not consistent with the SREP Results Framework and should be adapted. The SREP objectives related to this project should be added.
7. (C) Also as a consequence of our comment nr.5, we do not support the proposed re-allocation of USD 0.9 million from Phase II project preparation to Phase I.
8. (Q) According to table 3 p.13, the financing gap for the Aluto Geothermal Site Development, is USD 132.9 million, of which USD 110 million is expected to be filled by a soft loan from the Government of Japan (GoJ). How strong is the commitment of the GoJ to that project? What sources does the GoE intend to tap to fill the remaining gap of USD 22.9 million?
9. (Q) Who is responsible for procurement (EEP or EEPCo)? How will the governance related risks be mitigated in addition to the capacity building of staff and stakeholders? On what basis was this risk appraised at "moderate" in view of the size and complexity of the involved contracts?
10. (Q) It is stated that EEP (the EEPCo spinoff in charge of the project) has adequate internal controls (p.84). How consistent is this statement with the fact that EEPCo was continuously late with accounting and repeatedly received qualified audits?