

CLIMATE INVESTMENT FUNDS

July 25, 2017

**[APPROVE BY MAIL]: HONDURAS: GRID-CONNECTED RE DEVELOPMENT SUPPORT-
TRANSMISSION (ADERC) (PHASE 1) (SREP)(IDB) -- XSREHN007A**

INTER-AMERICAN DEVELOPMENT BANK RESPONSE TO COMMENTS FROM SWITZERLAND

ANSWER 1: The document explains the critical role of SREP investments to alleviate the critical bottlenecks in the national transmission system, which will in turn allow to increase the dispatch of RE.

In order to establish a better traceability or causality between the transmission investment and RE generation, we are changing the results indicators to account only for the additional generation that the transmission investment will allow. In the current context, the generation from these RE power plants is curtailed by 8% to 10%. With the new indicator, we will measure the additional RE generation that will take place once the curtailment is removed. The indicator will be as follows (the target assumes a current curtailment of 8%):

- Result: Increased supply of renewable energy
- Indicator: Annual electricity output from RE as a result of SREP interventions (GWh/year) (avoided curtailment)
- Target: 70

We are also updating the emission reductions target in consistency with this change. The new target is 47,000 per year, or 940,000 over 20 years.

The generation indicator will be monitored with the reports from the Operational Department of the National Dispatch Center of the National Power Utility.

ANSWER 2a: Please see answer to question 1.

ANSWER 2b: The new indicator will measure the additional generation of renewable electricity from the power plants that will be benefited by the transmission infrastructure.

The impact of this project on access to energy is indirect. Once the transmission infrastructure is in place, it will be possible to increase electricity coverage. The government is committed to increase the access of electricity and, according to its program of universal access, grid extensions will start in the areas with better transmission infrastructure.

However, since this impact is indirect, the indicator on "number of men and women benefitting from improved electricity access as a result of SREP intervention" is not relevant for this project.

ANSWER 2c: We have removed this indicator. We have instead included a new development indicator as follows: "Share of renewable energy generation over total energy generation in the national grid (currently 49%): target: 53%.

ANSWER 3: The economic analysis considers that the electricity that will be transmitted once the substations will be upgraded is currently electricity not supplied (ENS). The ENS represents the economic loss for not having available electricity. In this case the ENS considered for the economic assessment is 500 US\$/ MWh.

This high value of the ENS results in an extremely high viability from the economic standpoint. However, this result of the economic analysis does not represent the financial point of view of the utility. In the absence of SREP funds, the utility would be unable to make these investments, given competing priorities and the context of the sector.

Currently the financial situation of the national power utility (ENEE) has improved but it still has a deficit. The financial recovery of ENEE is strictly monitored by the IMF and the IDB.

As explained on the investment plan, the Honduran government has made an important financial sacrifice to encourage the introduction of NCRE in the energy matrix. The difficult financial situation of the country does not allow to rely on national resources to do investments in the transmission infrastructure, despite being economically and financially feasible. Moreover, the IMF standby agreement has limited the amount of loans that the government of Honduras (one of the poorest countries in Latin America) can have.

Once new regulations and bylaws will be developed and approved by the regulatory agency, the private sector will be allowed to invest in transmission infrastructure. However, this will not happen in at least two years.

The IDB has been concerned by the financial situation of the national utility and the investment framework in the power sector is based on the progress in the reform process. Due to the progress achieved, the IDB has decided to support investment in the sector offering concessional loans and grants.