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Responses to Questions from CTF TFC Members on Chile's Geothermal Risk Mitigation Program

Prepared by the Inter-American Development Bank (IDB)

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We would like to thank the governments of the United Kingdom, Germany, Canada and France, as well as the World Resources Institute (on behalf of the Natural Resources Defense Council), for their written comments and questions.

The remarks sent by NRDC are very valuable to us, and we will take them into account when designing the project's components.

We defer the question by Germany, Canada, and France to the trustee or the Administrative Unit.

Finally, please find below our responses to the questions by the UK.

Please could you demonstrate clearly how the DPSP finance is additional to the CTF IP finance (beyond just increasing the size of the pot). With the addition of DPSP finance, we feel that a target of more than 1 successful project should be set to ensure the project is sufficiently catalytic.

Beyond the minimum size consideration, the additionality of DPSP resources is based on the fact that financing instruments utilized under IP-funded projects include generic loans and guarantees, but did not explicitly provide for grant convertibility features. The DPSP geothermal program endorsed by the CTF TFC last October specifically identified and proposed loans convertible to grants as one of the financing products needed for such program to effectively help overcome high resource/drilling risk barriers in geothermal exploration and development.

Based on consultations with developers and financial modelling conducted during program preparation, this convertibility feature has the potential of catalysing investment decisions (one of the objectives of the program) by simultaneously reducing a) the amount of capital at risk during exploration and b) the default risk on debt obligations if drilling results did not achieve minimum required objectives. This is the additionality that this type of instrument provides. Guarantees and loans convertible to grants in case of drilling failure have therefore been consistently proposed in the Chilean geothermal program proposal as relevant instruments for early stage geothermal support. The DPSP explicit recognition of the mentioned barriers and its support for the required financing instruments is what makes—along with the size it allows—DPSP's contribution additional.

Going back to the issue of the size of the pot, this consideration should not be disregarded. Some previous initiatives have failed—and might have had a negative demonstration effect—due to the lack of a sufficient amount of resources that would enhance chances of securing at least a basic level of success, if the initial drillings failed. Therefore, the additional finance provided by DPSP that allows support for more than one project can go a long way into enhancing the chances of success and effective demonstration. The target of one successful project is what we considered prudent to establish in the context that we may not be able to support more than two projects (three is not impossible but, given the high costs in Chile, it will depend on the capital needs of the first projects), and chances that one could fail cannot not be disregarded (two failures is significantly more unlikely).

This said, however, the program will of course aim to have all supported projects resulting successful, achieving the objectives set for each of them. The risk mitigation provisions detailed in the proposal (including requirements for significant previous equity investment, previous exploratory drilling conducted, track record of developers, and careful analysis by world-class geothermal experts of project information and drilling plans, among other) will enhance chances across all projects. So the program does aim for more than one successful project. The installed capacity, emission reductions, and other projected outcomes assume however that some set-backs could occur (the risks can be mitigated but not fully eliminated) and the program metrics need to recognize that possibility if they are expected to be realistic (at the risk of being conservative) and honest with investors.

If the TFC prefers instead a range of targets that reflects not just the conservative estimate but also the optimistic one, we could adjust it accordingly; we have in fact already expressed that in the body of the proposal, when we mention target ranges of 100-150MW of intended installed capacity, for example, instead of just the more conservative 100MW in the results table.

We will be interested to see the TA component once it has been developed with the Government. In particular, we would like this TA to focus on ensuring the replication potential and sharing lessons with other geothermal project developers in Chile.

Agreed. The TA component will include support for relevant capacity building and knowledge sharing among developers to maximize replication potential. We will share such information once it is developed with the Government. Please note as well that the World Bank will prepare another TA program with Investment Plan resources, and we will work with them to ensure appropriate coordination.