

CLIMATE INVESTMENT FUNDS

June 5, 2017

[APPROVED BY MAIL]: DPSP II: DOMINICA: GEOTHERMAL RISK MITIGATION (WORLD BANK) (CTF) - XCTFDM619A

WORLD BANK RESPONSE TO COMMENTS FROM UNITED KINGDOM

Relationship to the IDB's Sustainable Energy Facility for the Eastern Caribbean – which received funding from CTF and GCF:

(#1-1) In 2015 the CTF supported (with a \$20m in convertible grants and contingent recovery grants) the Sustainable Energy Facility for the Eastern Caribbean that included a geothermal element in Dominica. This programme has also been allocated funding from the GCF. We understand that only one geothermal power plant will be funded in Dominica – is this correct? If yes, please could the WB and IDB set out: - how their respective project/programme will be complementary to each other - whether as a result of the WB funding this project means the IDB will no longer be funding a power plant in Dominica - and whether the IDB will now consider funding other elements of geothermal chain in Dominica.

(#1-2) What coordination has taken place, in consultation with the Dominican Government, between the WB and IDB on developing a coordinated approach to building geothermal energy?

The geothermal program in Dominica is relatively advanced compared to other peers in the region. An exploration and drilling campaign completed in 2009 with support from several partners (EU; Government of France; Regional Councils of Guadeloupe and Martinique; AfD) confirmed the existence of a geothermal resource at the Wotten Waven-Laudat field in the Roseau Valley that could provide as much as 100 MW of potential geothermal capacity. Subsequent drilling of two production/injection wells confirmed sufficient steam availability at the wellhead to develop a 5-7 MW plant to meet domestic demand. This is the project that the Government of Dominica (GoCD) is currently focusing on (Small Geothermal Power Plant – SGPP).

The World Bank's partnership with the Government of Dominica on geothermal energy goes back several years, during which time the Bank, working in partnership with the Government of New Zealand (GoNZ) and the Clinton Climate Initiative (CCI), has provided various forms of technical assistance, including advice and support to establish a framework for geothermal development. Specifically, the Bank and partners have advised the Government in the drafting of the 2016 Geothermal Resource Development Act, which sets the legal and policy framework governing the use of geothermal resources, as well as the establishment of the Dominica Geothermal Development Company (DGDC), a special purpose vehicle (SPV) with the mandate to develop and operate the Wotten Waven-Laudat field. In addition, support for project design, technical, commercial aspects as well as environmental and social safeguards has allowed the Government of Dominica to advance preparation of the project and reach its current investment-ready status. DGDC is also negotiating a PPA with the national utility (DOMLEC) for the sale of power produced at the SGPP.

At the Government's request, the SGPP is to be financed by the World Bank through IDA, along with co-financing from DFID and risk mitigation support from the CTF through the proposed Dominica Geothermal Risk Mitigation Project. The proposed World Bank/DFID/CTF project (Dominica Geothermal Risk Mitigation Project), in addition to help finance the construction of the initial 5-7 MW SGPP plant for domestic needs, will support assessment of the viability of developing a Larger Geothermal Power Plant (LGPP) for export purposes, including through targeted technical assistance activities.

The financing package for the 5-7 MW SGPP is complete and no additional funding support is needed at this stage. Nonetheless, IDB is in contact with the Government of Dominica for potentially supporting associated investments (for instance to refurbish the capacity of the transmission network) shall the need arise. The Bank and IDB are coordinating closely on this matter.

Coordination with partners, including IDB, will continue for the next stage of development of the Wotten Waven-Laudat field. The successful operation of the SGPP will provide additional data that can help confirm the production capability of the steamfield, which is a pre-requisite to further expansion of the Wotten Waven-Laudat field through the LGPP. Therefore, in addition to the support from the World Bank's proposed project, supplementary investments for drilling and resource confirmation as well as additional technical and advisory support may well be needed. As the private sector is a preferred route to achieve the scale that Dominica expects to expand its geothermal capacity, broader and coordinated donor support will be key going forward to help the GoCD

continue to de-risk the Wotten Waven-Laudat field and ultimately attract a suitable private partner for developing the LGPP.

IDB support is tailored for the private sector and will be made available to the SPV should it seek future financing options; IDB/CDB support through the SEF is an important financing option for the next stage of geothermal development in Dominica.

In summary, the World Bank and IDB-CDB will continue to coordinate closely together and with the Government of Dominica and to assess needs for support as the current project progresses and as prospects for the further development of the Wotten Waven-Laudat field become clearer.

Need for the Contingency Fund: The assessment of the likelihood of the guarantee being called is low but the provision will tie up CTF resources whilst it is in place thus making it unavailable for other projects. Given this could the WB project team clarify the maximum timeframe the 'Contingency Fund' will be required for?

Ideally the first-loss guarantee/insurance mechanism would coincide with the length of the PPA (expected to be 25 years in the case of the proposed project), which may be necessary in order to provide adequate insurance against the unforeseen risks that may affect a geothermal field that is being operated for the first time. As the project document notes, such risks, if not addressed, may compromise prospects for geothermal development in Dominica and raise risk perception by prospective investors. Nonetheless, it is highly likely that any residual resource risk that would require contingent drilling may emerge within the first years of plant operation, and therefore the guarantee may be called early on during project implementation.

As in the case of the India PRSF project, the World Bank project implementation period is five years, subject to any approved extensions in accordance with applicable WB guidelines. Consistent with how guarantee operations are typically administered, the availability period of the CTF guarantee period is subject to negotiation with the client and will be indicated at the time of Board submission. The World Bank's intent is that the maximum availability period of the guarantee not exceed a period of more than ten years after plant commissioning and will make every effort to negotiate this maximum period in the relevant agreements.

Macro-economic analysis: When the DPSP II was approved, the decision stated "Should a project or program proposal foresee project activities in a country assessed at being at moderate or high risk of debt distress, the MDB is requested to conduct a macro-economic analysis to evaluate the potential for the CTF project or program to impact the country's debt sustainability. Such analysis should be included as an annex when the project or program proposal is submitted for approval of CTF funding". Can the WB project team confirm whether a macro-economic analysis been carried out for Dominica? If not, can the project team set out whether such analysis is needed before CTF Trust Fund Committee approve funding for this project.

The proposed CTF support includes a US\$ 1million grant for technical assistance and a US\$9 million contingent finance in the form of a first loss guarantee. As in the case of India PRSF, the amount of \$9 million will be held by the trustee and will only be paid out to the client if the guarantee is called during the availability period. In the event of a call on the guarantee, the payment would be authorized and made on a grant basis and, as such, would have no impact on the country's debt sustainability. Given the grant nature of the CTF support, the Bank's team concluded that a separate macro-economic analysis is not needed. Nonetheless, the team has coordinated closely with the IMF, which has recently conducted an Article IV mission in Dominica, endorsing the country's geothermal development program.