Climate Investment Funds

December 5, 2017

Meeting of the SREP Sub-Committee
Washington D.C.
Thursday, December 14, 2017

COMMENTS FROM SWITZERLAND ON SREP INVESTMENT PLAN FOR LESOTHO

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER

State Secretariat for Economic Affairs SECO
Economic Cooperation and Development
Infrastructure Financing

SREP Investment Plan for Lesotho

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We thank the Government of Lesotho for a well prepared investment plan.
We have the following questions (Q) and comments (C)

1. Potential for on-grid RE technologies:
    a. (C/Q) Wind seems to have by far the largest potential of any RE resource that could be connected to the main grid (2077 MW vs 118 MW for solar PV), yet it was not selected as a priority for SREP. Why? Do you expect to find other financing to support a wind power demonstration project?
    b. (C/Q) Rooftop solar PV seems to have been neglected as a potential source for grid connected RE electricity generation. Why?
    c. (C) With regards to the prioritization of RE technologies (Chapter 6) we understand that one of the criteria that resulted in a low ranking of wind power (despite its large availability) was its higher LCOE (levelized cost of energy) than e.g. solar PV, i.e. its larger viability gap.
        i. (C/Q) It is unexpected that wind power should have a larger viability gap (i.e. higher LCOE) than solar PV. What peculiarities to the situation in Lesotho could explain this unexpected result?
        ii. (Q) Taking into account that solar parks are "economically and financially viable now" (table 6.3 p.68) and wind parks financially viable only with subsidies, why do you propose to use the SREP subsidies (grants and concessional financing) for solar PV instead of wind parks?
        iii. (Q) To what extent is wind power less reliable than solar PV? How would solar power be stored for use during the night? Have the storage costs been considered in the economic and financial viability appraisals?
    d. (C) The (economic and financial) viability studies (figures 5.2 p.59, 5.3 p.60 and 5.5 p.62) indicate that solar (PV) parks are economically viable and financially nearly viable. Therefore a 100% concessional financing as used in these analyses (table 5.3 p.59) seems not appropriate but rather any concessional loans should be blended with (private) equity and commercial loans. If the concessionality of the proposed package is too generous for the first project, there is the risk of a crowding out of private funds, rather than the targeted catalyzing effect. We note that blending is proposed in the financial plan.
2. Off-grid component
    a. (Q) What is the typical size (installed capacity and number of connections) of what you qualify as micro-grids? Why not consider mini-grids?
    b. (C) With regards to the evaluation of RE technologies (table 6.3 p.67ff) it should be noted that "microgrids" based on intermittent RE (e.g. solar PV or wind) will only provide "reliable firm power" for productive uses if associated with some sort of storage, most likely batteries.
3. Financing Plan and Instruments
    a. (Q) The total amount of SREP contribution of USD 18.5 million is well below the indicative allocation of USD 30 million. Why?
    b. (Q) Are the technical assistance components "RE Integration Study" (USD 0.6 million) and "Small Hydropower plants pre-feasibility studies" (USD 0.9 million) equivalent to

the preparation grants requested in the decision or are the latter coming on top to finance feasibility studies for the projects?

c. (C) In the summary of the financing plan (table 1.2 and 8.1) the SREP contributions are not detailed in grants and non-grants. This distinction is needed and should be added.
d. (Q) With regards to the financing plan, to what extent are funds qualified as "from other donor/DFI or private lender" to be considered as funding gaps? How confident are the MDBs (AfDB and WB) that these gaps can be filled?
e. (Q) What is the nature of private sector funds expected to be raised for micro-grids (USD 15 million) and other distributed RE technologies (USD 5 million)?

4. Expected results
   a. (C/Q) The outcome of 125'000 tCO_2/year seems high in relation to the expected increase of annual electricity output from RE (91.5 GWh). What are the underlying assumptions that lead to this result? Please detail the calculation.
   b. (C) The expected increases of households with electricity access between 2016 and 2022 (i.e. within six years of which two already passed) seem highly ambitious if not unrealistic, in particular with regards to rural households (from 18% to 75%).
5. Implementation modalities
   a. (C/Q) With regards to the proposed investment into the first commercial utility-scale RE project (i.e. 20 MW solar PV park as described p.73-74), it is not quite clear how the introduction of concessional SREP co-financing will respect the principles of transparency and equal treatment of all contenders, at a stage where a "preferred bidder" has already been identified after a competitive bidding process. Please elaborate.
   b. (C/Q) The proposed RE integration study will identify needed investments into the LEC grid to allow the introduction of multiple sources of electricity generation from RE. Who will implement these necessary investments and how will they be financed?
   c. (C/Q) With regards to the investments in other distributed RE, a self-sustained financing facility that will support investments well beyond the time frame for SREP investments is foreseen. From what sources is such a self-sustaining facility expected to be funded? Does that include reflows from the concessional lending?
   d. (Q) With regards to the technical assistance for SHPP, does this also include transaction advisory services to define FiT and concession agreements? If not, who will provide and finance such advice?
6. Co-benefits/risks – potential power exports
   (C) In relation to the still incomplete electricity access of Lesotho we are concerned by the consideration of the proposed SREP co-financed solar park as a potential source for energy exports. This would constitute a sacrifice of the national development potential intended by the project in favor of short term pecuniary benefits to the government or private interests and is not adequate in our eyes. The concession agreement to be concluded with private developers should make clear provisions as to the precedence of national consumers (households and enterprises) on exports.

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