

January 14, 2015

**Comments from Switzerland--Approval by mail: Kenya: Electricity Modernization Project (SREP) (IBRD)**

Dear Mafalda,

Thank you for circulating the documents regarding the Electricity Modernization Project in Kenya.

We have the following questions and comments, we would like to see answered or addressed, prior to give our support to approve the SREP grant:

1. Financing:
  - a. Compared to the IP there are considerable differences in the proposed financing set-up. Notably, the MDB and the private sector contributions are much lower in the project proposal. Please explain.
  - b. The leverage factor for the SREP contribution (1:1.76) is much lower than announced in the IP (1:5.8). Please explain.
  - c. The type of private sector contribution should be specified. How much should be equity and how much (commercial) loans? Will there be a draw on the IDA guarantee to secure these commercial loans?
2. Business model:
  - a. Is the SREP component exclusively foreseen to buy down the investment in RE generating equipment? We would favor a model which also sets an incentive to maximize generation of electricity from RE and keep this generation level as high as possible over a pre-determined period of years.
  - b. It is mentioned (point 9 p.106) that "fees charged by the services contractors will be passed-through into KPLC's allowed tariff revenues". Please explain this concept?
  - c. There is some concern that the concept of passing-through the diesel fuel costs creates an incentive to use the diesel generators as much as possible. This is not aligned with the objectives of maximizing the output of RE and should be addressed in some way. Please explore a solution.
  - d. A fixed capital contribution for RE equipment is not aligned with the objective to seek competitive prices and benefit from declining costs for RE equipment. A solution should be sought to incentivize the procurement of high quality equipment at reasonable costs.
3. Cost assumptions:
  - a. At \$6000 per kW installed capacity the cost assumption for solar PV generating units (including balance of system) are at twice the average costs for 2012 (not 2015!). These cost assumptions are very high and efforts must be made to incentivize cost effective procurement.
  - b. The assumed costs for civil works also seem high.

- c. The assumed cost structure (table p.107) does not correspond to the proposed financing structure as outlined in point 9 p.106. It is notably unclear, who should cover the civil works cost. Please explain.
4. Procurement: The project proposed to use PPPs with Power Purchasing Agreements to be concluded between interested developers and KPLC, yet no mention is made to PPP specialists regarding the procurement. Please explain.
5. Recommendation: In accordance with our earlier comments at the stage of the SREP Investment Plan for Kenya, we recommend to concentrate the RE part of the mini grids on the most appropriate technology (presumably solar PV) and to emphasize on the development of engineering, installation and maintenance capabilities, using synergies with other (e.g. off-grid electrification) programs.

Please transmit these questions and comments to the representatives of Kenya and IBRD so that they can address them.

Thank you and best regards  
Daniel

**Daniel Menebhi**  
Program Manager

Federal Department of Economic Affairs, Education and Research EAER  
State Secretariat for Economic Affairs SECO  
Infrastructure Financing

Holzikofenweg 36, 3003 Berne  
Tel. +41 58 46 22207  
Fax +41 58 46 40962  
[daniel.menebhi@seco.admin.ch](mailto:daniel.menebhi@seco.admin.ch)  
[www.seco.admin.ch](http://www.seco.admin.ch)