

December 1, 2011

Comments from Switzerland on Kenya: Menengai Geothermal Development Project

Dear Patricia, dear Jamie,

Please receive attached our position stating our official support regarding Kenya's request for USD 25 million SREP financing through AfDB.

The document also contains some recommendations and we wish it to be distributed to all SREP Subcommittee members and observers.

As earlier discussed, we were a bit surprised by the short circulation time of the documents on Nov 9th (for non-objection until Nov 17th).

This was unexpected since we stated in our comments of Nov 4th that we would be ready to respond until Nov 30th (provided the document is circulated on Nov 15th).

Also, the SCF Trust Fund rules foresee a non-objection period of no less than two weeks.

Finally, we could not analyze the documents earlier, since they were not transferred to my designated deputy.

Since according to your information, the AfDB Board will approve the project only on December 16th, we assume that our position is still relevant and are happy to convey it via the CIF Admin Unit as agreed during our latest phone conversation (with Jamie).

Thank you best regards
Daniel Menebhi

Daniel Menebhi
Program Manager

Federal Department of Economic Affairs FDEA
State Secretariat for Economic Affairs SECO
Infrastructure Financing



Menengai Geothermal Development Project

During the SREP Subcommittee meeting held on 1st November 2011, Kenya requested approval of a first SREP contribution of USD 25 million for the Menengai Geothermal Development project, channeled through the AfDB, to fund first risk drilling activities which shall prove the field to be viable for steam production and subsequent geothermal power generation.

Following our and other SREP Subcommittee members' comments of November 4, 2011 and the consequent updating of the Project Appraisal Report and preparation of a corresponding Supplemental Document, circulated on November 9th, we would like to:

a) Give our official support to Kenya's above stated request.

b) Make the following recommendations:

1. We acknowledge that thanks to the SREP financing the interest in the project has been increased to the point that a 400 MW development becomes feasible. In the answer to our comment Nr1 (Supplemental Document p.8) it is mentioned that the power plant will be consequently designed for 400 MW, once the private investors have been selected. Given the keen interest by private developers and the now doubled capacity to be developed, the option of granting concessions for two power plants (instead of only one) should be considered. This would contribute to mitigate the development risks in Phase II of the project.
2. We noticed that the Results Framework has been amended with objectives of new electricity connections for households (500'000) and small businesses (300'000). In the Supplemental Document and paragraph 2.6 of the updated PAR, it is mentioned that 70'000 of these households should be in rural areas. We recommend adding this precision into the Results Framework.
3. In the Supplemental Document (p.9), as part of the answer to our comment Nr2, it is stated that "The Menengai project will result in increased generation capacity from Kenya's least cost source of generation and **will** therefore result in reduced retail price of electricity". In the updated PAR section 4.4.9 (p.21) the latter outcome is stated as "**might** therefore result in reduced retail price of electricity". This is not the same.

We consider a retail price reduction of electricity (particularly for the poorer people but also for small businesses) an important outcome of the project and would like to make sure that it is not forgotten in the end. We therefore suggest quantifying such potential retail price reduction and setting an objective in the Results Framework of the project.

Berne, 30th November 2011