

1272



**Ref #: GEFSEC-N-2000-00451**

**PROJECT MANAGEMENT FOR  
GEFSEC**

**Incoming Correspondence Log**

**Official Use Only**

**Due Date:  
11/27/2000  
STATUS: Open**

**FOR ACTION: Eric Martinot**  
**Project Name: ORMAT Olkaria III Geothermal Power Development**

VPU/Dept/Div: GEF	Date Logged: 11/20/2000 02:43:52 PM
Room : G 6-039	Logged By: Ramon Prudencio C. De Mesa (GEF)
Telephone: 473-0169	

**CORRESPONDENCE DESCRIPTION:**

From: Lars Vidaeus
Organization: WB
Reference #:
To: Mr. Keneth King
Dated: 11/16/2000
Type: OP6
Subject: PDF A: Kenya: ORMAT Olkaria III Geothermal Power Development

**ACTION INSTRUCTIONS:**

<i>Please reply directly and provide a copy</i>
Note: Electronic file attached.

**INFORMATION COPIES:**

Alan Miller, Michael Sanio, Yasemin E.K. Biro, Days





Francine Stephens  
11/16/2000 03:45 PM

Subject: A new submission from the World Bank.  
Project Title: Ormat Olkaria III Geothermal Power Development  
Type: PDF A - Request for Comments

Please find below the indicated submission(s) for your information and/or action.

Date: 11/16/2000  
Name: Gunter Schramm  
Region: IFC  
Country: Kenya  
Project Title: Ormat Olkaria III Geothermal Power Development  
Focal Area: Climate Change  
Type: PDF A - Request for Comments



Kenya Ormat Olkaria III PDF A cvrmemc



KenyaORMATGeothermalPDFA.c



focal point pt keah 110800.do

CC: ahmed.djoghla@unep.org; cparker@unfccc.de; daryal@worldbank.org; Envgc Isc  
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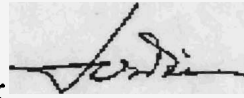
To: Gcoordination@Worldbank.Org

# OFFICE MEMORANDUM

DATE: November 16, 2000

TO: See Distribution Below

FROM: Lars Vidaeus, GEF Executive Coordinator



EXTENSION: 34188

SUBJECT: **KENYA: PDF Block A**  
*Ormat Olkaria III Geothermal Power Development*

Please find attached a PDF Block A for the above-mentioned project. We would appreciate your comments by November 22, 2000. Thank you.

**Distribution:**

R. Asenjo, UNDP  
A. Djoghlaif, UNEP (Nairobi)  
K. Elliott, UNEP (Washington, DC)  
M. Gadgil, STAP  
M. Griffith, STAP (Nairobi)  
C. Parker/M. Perdomo, FCCC Secretariat  
D. Younger/G. Schramm, IFC  
K. Khanna (ENV)  
D. Aryal (ENV)  
ENVGC ISC  
CTEEP Files

## BLOCK A PDF

PART I – ELIGIBILITY	
Project name: <b>KENYA: ORMAT Olkaria III Geothermal Power Development</b>	GEF Implementing Agency: World Bank/International Finance Corporation
1. Country or countries in which the project is being implemented: KENYA	Country eligibility: UNFCCC ratification: August 30, 1994
5. GEF focal area(s), and/or cross-cutting issues: Climate Change	6. Operational program/Short-term measure: Operational Program No. 6 : Promoting the adoption of Renewable Energy Technologies by removing barriers and reducing implementation costs
7. Project linkage to national priorities, action plans, and programs: Increasing power generation capacity is one of the highest priorities of the Government due to persistent shortages, blackouts and brownouts of the existing, hydro-dominated system; at present, the World Bank is assisting the Government to install an additional 75 MW of diesel generating capacity on an emergency basis. IFC also is helping to finance the construction of another 75 MW of diesel generating capacity at the port of Mombassa.	
8. GEF national operational focal point and date of country endorsement: Mathias Benedict Keah; Copy of endorsement letter of Nov. 8, 2000 attached	
9. Expected outcomes:  <b>The outcomes of this GEF project would be:</b> (i) Expanded exploration and development of the geothermal resource in the Olkaria III region; (ii) Leverage of subsequent financing for a commercially viable geothermal power project of up to 64 MW; (iii) Avoidance of about 8 million tons of CO <sub>2</sub> emissions over project lifetime – based on comparison to the diesel alternative to satisfy equivalent electricity demand otherwise; and (iv) Development of an appropriate non-grant financing instrument for the GEF to address the risky exploration and development costs which pose a financial barrier for geothermal applications.	
10. Planned activities to achieve outcomes: The project's planned activities would include provision of up to \$21 million in GEF funding support for the exploration and development stages of the Olkaria III geothermal field. This amount represents a maximum of 50% of the estimated cost of developing the Olkaria III field. The most appropriate financial arrangement to support the project is, at this stage, undecided; however, a suitable non-grant GEF financing arrangement in the form of guarantees, contingent loans or similar provisions is likely to be proposed. The 50% plus balance of the investment during the exploration and development phase will be borne by ORMAT. The GEF financing will be disbursed over a period of about three years and will be structured so as to provide sufficient incentives for the developer to increase the resource's development; moreover, it will include a risk-sharing mechanism that will ensure the best use of the GEF funds as the project proceeds. IFC may be involved in co-financing the construction of the plant including refinancing of the resource development costs at a later stage, if sufficient geothermal resources are identified by ORMAT and a commercially viable generation facility can be built. The total investment costs for the possible commercial geothermal power project (for 64 MW) are estimated to be about \$212 million.	
11. Stakeholders involved in project: ORMAT Industries Ltd. (US) the developer; KPLC, Nairobi, Kenya (the Kenya power utility and proposed power purchaser); The Government of Kenya; IFC, Washington, DC, as a potential lender and/or investor; other commercial investors and/or co-financiers, as yet undetermined.	

<b>PART II - INFORMATION ON BLOCK A PDF ACTIVITIES</b>	
12. Activities to be financed by the PDF:	
<ul style="list-style-type: none"> <li>(a) Geophysical assessment of the inferred OLKARIA III resource base;</li> <li>(b) Critical independent evaluation of ORMAT's cost estimates for exploration, field development and power plant construction;</li> <li>(c) Comparison of OLKARIA III generating cost estimates with the costs of alternative power projects that could supply the KPLC System;</li> <li>(d) Evaluation of the performance of the already completed 8 MW geothermal power plant at the OLKARIA III concession area.</li> </ul>	
13. Expected outputs and completion dates:	
An evaluation report of sufficient detail to serve as a decision document for IFC and the GEF to evaluate and decide whether or not to proceed with the proposed GEF support for the exploration and development phase of the project. Completion expected within six to eight months following grant approval.	
14. Other possible contributors/donors and amounts:	
IFC: About \$10,000 for PDF A project supervision and evaluation of results.	
15. Total budget and information on how costs will be met (including the Block A grant):	
Consulting fees (GEF):	\$15,000
Travel costs & Incidental expenses (GEF)	\$10,000
Administrative and Supervisory expenses (IFC)	<u>\$10,000</u>
TOTAL.....	<u>\$35,000</u>
<b>PART III - INFORMATION ON THE APPLICANT INSTITUTION</b>	
16. Name:	17. Date of establishment, membership, and leadership:
International Finance Corporation/World Bank Group	1956 - owned by its 174 member countries
18. Mandate/terms of reference:	19. Sources of revenue:
To promote private sector investment in developing countries	Returns from loan and equity investments
20. Recent activities/programs, in particular those relevant to the GEF:	
IFC administers some \$120 million of GEF funds in a variety of projects.	
<b>PART IV - INFORMATION TO BE COMPLETED BY IMPLEMENTING AGENCY</b>	
21. Project identification number:	
22. Implementing Agency contact person:	
Dana R. Younger GEF Climate Change Program Coordinator Environmental Projects Unit Environment Division Technical & Environmental Department International Finance Organization F9K-148 Tel: (202) 473-4779, <a href="mailto:Dyounger@ifc.org">Dyounger@ifc.org</a>	
23. Project linkage to Implementing Agency program(s):	
IFC is seeking investments in renewable energy projects on a high priority basis.	

Mr. Lars Vidaeus,  
Program Leader,  
World Bank Global Environmental Facility Program,  
World Bank,  
1818 H. St. N. W.  
Washington D.C.  
U.S.A.  
Fax # 202 522 2130

November 8, 2000

Re: Global Environment Facility - International Finance Corporation Application for  
a \$25,000 PDF A Facility to Cover certain External Consultants Costs for Assessing  
the ORMAT OLKARIA III Geothermal Development

We have reviewed the application by the International Finance Corporation for a GEF \$25,000 PDF A Grant to undertake a due diligence evaluation of the likely technical and economic viability of the ORMAT Industries Ltd. OLKARIA 11165 MW geothermal power development. This investigation would serve as the basis for discussing additional GEF conditional guarantee support for the exploration phase of the OLKARIA III Project and, if successful, for subsequent potential IFC financing of the power plant development itself.

We are pleased to support this application.

Signed:

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Mathia Benedict Keah GEF Political Focal Point Assistant Minister Ministry of Information,  
Transport & Communication