



12 June 2014

SREP Investment Plan for Solomon Islands

We thank the Solomon Islands for a well prepared Investment Plan.

We understand and value the efforts that were made to produce a document that addresses the needs of the country and is consistent with the strategies already pursued.

Prior to the decision about the endorsement, we have the following questions (Q) and comments (C):

1. Subcomponent 1 - Mini Grids
 - a. Q: Is the use of coconut oil as biofuel not a waste of resource, as coconuts could be used in a more valuable way? Or is the oil a waste product from coconuts?
 - b. Q: It is mentioned that the power tariffs in the Solomon Islands are (at \$0.86/kWh to residential and \$0.92/kWh to commercial customers, some of the highest in the Pacific. In what relation do these tariffs stand with the costs? Are these tariffs subsidized?
2. Subcomponent 2 - grid extensions in relation to Tina River and Fiu River hydro power projects):
 - a. Q: This is not actually an investment in renewable energy but in transmission and distribution. There is also no SREP contribution foreseen for this. What is the rationale to include it in the investment plan?
 - b. Q: How far advanced are these two hydro power projects (Tina River and Fiu River)? Is the financing secured? Could the SREP contribute in a more targeted way to these projects, (e.g. with transaction advisory services for the PPP or technical assistance)?
3. Subcomponent 5 - Grid connected solar PV plant:
 - a. C: Whereas the proposed 1.5 MW plant in Honiara and the 400 kW plant in Gizo will make good pilot projects, we believe the two 50 kW plants are too small to add real benefits in this subcomponent.
 - b. C: At a calculated 4900 USD per installed kW, the investment costs for the 2 MW of grid connected solar PV seem very high. According to IRENA statistics, the global weighted average cost for utility scale solar PV plants was 2350-2700 USD per installed KW in 2012, depending on the technologies and including balance of system.
4. Subcomponent 6 - Solar Home Systems (SHS):
 - a. C: It is noted that the current practice of "giving-away" solar home systems is not sustainable and that the proposed program would request the beneficiaries to participate in the (investment) costs, as well as address the issues of maintenance and recycling (notably of batteries). Whereas this approach is definitely better than the former practice, it still does not go far enough towards a market based system to be entirely successful. In a market based

system, the beneficiaries would be customers who eventually pay enough for the power they are delivered, to fully cover the investments as well as the operation, maintenance and recycling, including a sufficient profit for the private operators to be ready to provide the services. It is thus recommended that the beneficiaries also pay a service charge in addition to a share of the investment cost. A micro credit system could allow the beneficiaries to pay for the SHS and O&M. SREP grants, as well as co-financing from MDBs and the Government could be used to facilitate such a micro credit system.

- b. Q/C: The calculated costs of 2000 USD per SHS seems very high. What is the technical specification of such a SHS? Is it needed to be that large? In case SHS cover more than the basic needs, a larger cost contribution from the beneficiaries should be sought.

5. Financial plan

- a. Q: An amount of USD 1 million is reserved for the regional component. It is assumed that an equivalent amount will be reserved in the IP of Vanuatu. Is this in line with earlier SREP Subcommittee decisions regarding the magnitude of the regional/knowledge sharing component?
- b. C: As noticed also by the independent expert, the project preparation costs for the solar power development project seem high (1'000'000 USD). At the stage of the project application, such costs will have to be detailed and justified.
- c. Q: Where and with what amount is the component "strengthening the enabling environment for RE" included in the financial plan?

6. Expected results

- a. C: The information regarding the expected additional installed capacity of RE and additional electricity production from RE sources should be added in the Results Framework.
- b. C: The increase in investments from the private sector in RE (USD 4 million) seems low as it represents only 10% of the total investment plan and less than 1/3 of the SREP contribution. It is stated that RE is expected to be highly competitive against small scale diesel generation. Thus, given the high tariffs, a stronger promotion of private sector involvement, and consequently a larger co-financing part from private sector investors, should be possible and sought.