



VANUATU GOVERNMENT RELEASES
NATIONAL ENERGY ROAD MAP
GEOHERMAL DEVELOPMENT A PRIORITY
29 July 2013

“This Road Map reflects the Government’s firm belief that a fundamental break from the past is needed to achieve the outcomes demanded by the people of Vanuatu. The Government is not prepared to wait for further data and analysis before taking concrete steps forward with sector reform and investment.

I strongly encourage donors and lenders to support the Government in developing the Vanuatu energy sector by contributing to the initiatives identified in this Road Map”

The Honourable Prime Minister Moana Kalosil Carcasses – foreword to the report

Background

The development of a geothermal power plant in the northeast of the main island of Efate, Vanuatu is a key focus of KUTh Energy Limited (KUTh or the company). In January 2013, KUTh (through its wholly owned subsidiary KUTh Energy (Vanuatu) Limited) was issued a 30 year exclusive geothermal production licence by the Government of Vanuatu. Since then KUTh has been in the process of negotiating power offtake agreements with the utility (UNELCO) and land access arrangements with the landowners and in securing project funding. These steps are necessary precursors to the next development stage of drilling production wells into the resource target.

KUTh’s geothermal project is a cornerstone of Government energy policy

On 27 June 2013 the Vanuatu Council of Ministers released the National Energy Road Map (NERM). This energy policy document was developed in conjunction with development partners and followed a detailed review of the energy sector that commenced in 2010. The NERM recommends strategies and actions to achieve a transformation of the country’s energy sector

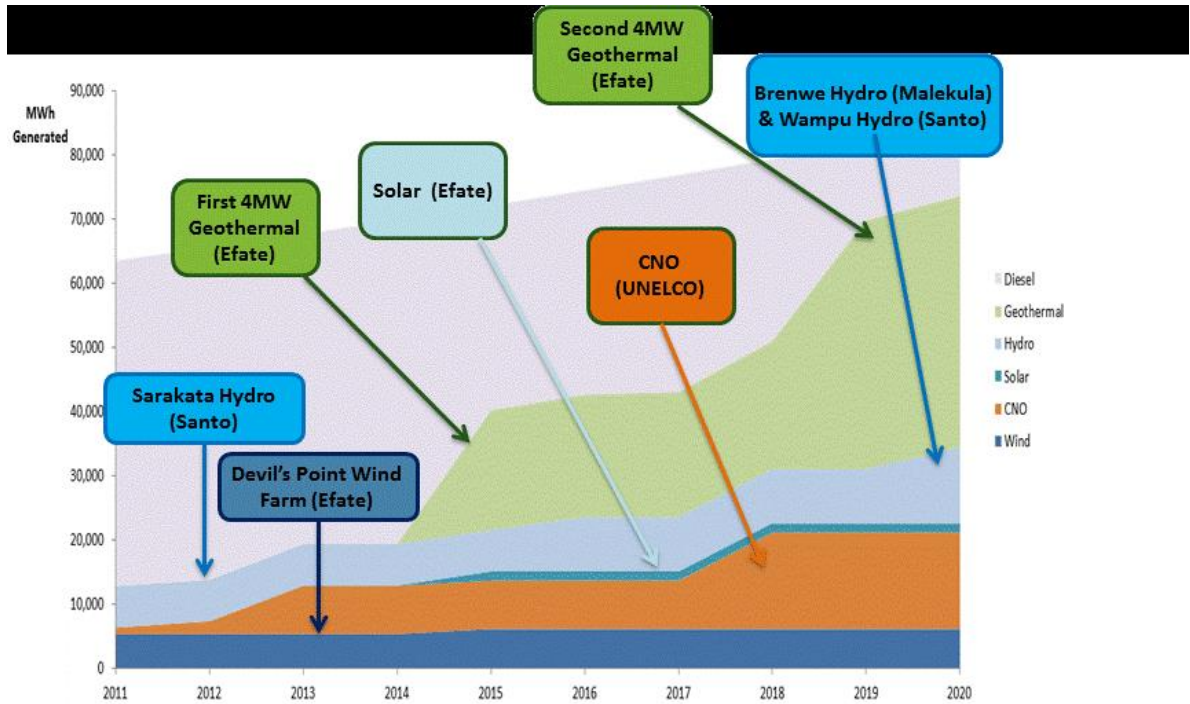
including a move away from its current dependence on diesel power generation. KUTH's geothermal project is a cornerstone of Vanuatu's national energy policy.

Featured quotes of the Road Map impacting geothermal development

- **Renewable targets :**
 - 65% renewable energy by 2020
- The **development of renewable energy, especially as base load generation** under a least cost plan will contribute to improving energy security and can help lower and stabilize retail electricity prices to consumers.
- The Government of Vanuatu is interested in exploring the option for electricity projects that provide particular benefits, but have risks that private investors may not be well placed to manage. **A priority first case in point is the potentially transformative Efate geothermal power and ring road network development project** transaction that has been assessed in a Government sponsored pre-feasibility study as the overall least cost option for scaling up access on Efate (subject to resource confirmation) and if efficiently structured, can substantially lower the cost of electricity production by substituting high cost base load diesel generation with significantly lower cost base load geothermal power.
- Within the near-term time frame covered by this Road Map, **a PPP (Public Private Partnership) policy is urgently needed to support the geothermal power and network development transaction on Efate; a large investment that requires explicit Government support to ensure that the asset base and return-to-shareholders are kept to a reasonable level.** The Government will commission on a priority basis the preparation of a PPP policy framework for approval by Council of Ministers; **with particular emphasis on advancing the Efate geothermal power and ring road network development project transaction as soon as possible.** The PPP framework will also include provisions for independent power producer licensing and compliance, PPAs, and PPA pricing policy. The Government will explore how these provisions could be included in an efficient, consistent and transparent way within the established institutional, regulatory and concession contracts framework to provide certainty for potential investors in generation facilities, and to ensure that they have a positive relationship with the existing concession contracts.
- At a world oil price of US\$1/litre, the **geothermal generation would displace diesel, resulting in present value savings to the average residential customer of between US\$75 (VUV6750) and US\$348 (VUV31,320) (per annum).**⁽¹⁾

(1) World Bank Report also identified on the same basis that present value savings to the average commercial customer could be between US\$1,630 and US\$7,593 (per annum)

- **Projected Share of Cost Competitive Renewable Energy Generation contained in NERM**



Based on the energy to be supplied from investments in this Road Map, and the levelized cost of electricity as determined in the generation feasibility studies: Castlerock, "Vanuatu: Efate Geothermal Power and Island-Ring Grid Development Framework" January 2012; ADB & SMEC, Draft Final Pre-Feasibility Study. Includes proposed 1MW solar PV plant on Efate and CNO use as per UNELCO's estimates, including plans for up scaling CNO subject to feasibility.

Why the Road Map is important

KUTh has enjoyed a close and effective working relationship with the Government of Vanuatu, and in particular with its Geothermal Task Force over the past year. The support of the Government and the broader community for the project has not been reflected in the urgency of other stakeholders prolonging our ability to finalise negotiations and get a start on the project. The positioning of the project as central to Government energy policy should instil a necessary sense of urgency in negotiations.

The securing of project funding should also be assisted. The Road Map, developed in conjunction with some major aid donor organisations, opens possibilities for donor participation in the drilling phase of the project in return for a reduction in the tariff. The Government recently called on aid donors to support the project in this way. KUTh has been supportive of this approach which should be a win-win for KUTh's shareholders and the people of Vanuatu – by reducing the capital investment needed to be met by KUTh's shareholders and reducing the tariff

paid by consumers. We are currently in discussion with various aid donors on implementing this request by the Government.

Next Steps

The company remains very conscious of the time delays with this project and the considerable capital that has been expended in trying to bring closure to the key areas of PPA finalisation and land tenure arrangements.

We will continue to work with the Government to implement the project and are hopeful that the elevation in the status of the project within Vanuatu will lead to the expeditious commencement of the drilling of production wells to confirm the geothermal resource.

Our immediate focus is on:

- concluding the negotiation of a commercial power purchase agreement (PPA) with the electricity utility, UNELCO, at a price and volume consistent with Government energy policy;
- working with the government to clarify the land ownership issues at Takara which continue to delay the formal negotiation of a land lease;
- working with the government and aid donors to secure, if possible, funding for the drilling stage of the project; and
- following the signing of a PPA, concluding negotiations with private sector investors for project funding.

A copy of the final NERM report is included on the KUTh website www.kuthenergy.com

ENDS

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