

Energy Sector Hybrid Loan

HONDURAS

SECTOR: Energy

PROJECT NAME: Energy Sector Hybrid Loan - Additional Financing
(936/SF-HO, 937/SF-HO and ATN/SF-4737-HO)

TOTAL COST: \$41.0 million

FINANCING:

IDB	\$36.8 million
LOCAL	\$ 4.2 million

DATE OF APPROVAL: December 7, 1994

GENERAL DESCRIPTION: The objectives of this program are to respond, on an exceptional basis, to the request of the government of Honduras to help resolve the serious crisis in the electricity subsector primarily brought on by the drought that has affected the country in 1993 and 1994, and thereby: (a) continue supporting the government in its reform of the energy sector so that the process of implementing sector policies that contribute to the structural adjustment program and recovery of the energy sector can proceed; (b) assist the government and the Empresa Nacional de Energía Eléctrica (ENEE) in resolving the electricity subsector crisis, including financing for priority works; (c) improve the efficiency of the sector by establishing an appropriate regulatory framework and institutional structure to promote private sector participation; (d) contribute to the electrical integration of Central America through an interconnection between Honduras and El Salvador; and (e) carry out a nonreimbursable technical assistance component to strengthen the reform process in the

sector.

The proposed program includes: (a) expansion of the energy sector hybrid program through additional financing in order to provide continuity and follow-up for the reform process launched under the program, for which purpose the scope of the conditionality has been broadened in the new tranche, modifying some targets to adapt them to the country's current situation; (b) an investment component that includes financing for priority works in the electricity subsector related to additional cement injections needed in the Francisco Morazán dam to reduce water seepage, major rehabilitation of the dam's elevator, and partial financing of a feasibility study on, and construction of, a 230 kV interconnection line between Honduras and El Salvador; and (c) a nonreimbursable technical assistance component to support execution of the program.

CONSULTANTS:

The Electric Interconnection Commission will be responsible for selecting a consulting firm to conduct the feasibility study, supervising and coordinating that study, calling for bids, evaluating proposals for construction of the project, administering the execution of the project and preparing the operating regulations that will govern the electric interconnection. Consulting services will also be needed for the following: (a) to carry out a detailed diagnostic study of electricity power losses (\$700,000); (b) to conduct other energy-related studies; (c) to help deregulate the fossil fuel market (\$390,000); (d) to conduct a study to evaluate the ENEE's assets and help the company regionalize and privatize electric power distribution (\$550,000); (e) to help ENEE evaluate new operating and business strategies (individual consultant, \$200,000); (f) to study hourly and seasonal rates (\$70,000); (g) to help modernize the National Dispatching Center (individual consultant, \$50,000); and (h) to study better management and efficient use of firewood (\$40,000).

GOODS AND EQUIPMENT: Computers and other automated equipment will be procured for the electricity loss reduction program (\$225,000). Additionally, computers and software will be acquired for the petroleum market deregulation

program (\$75,000).

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