

# Why Policy Alone is Not Enough for Developers

## 2nd Quantum Leap in Wind: Overcoming Challenges and Building Momentum in Asia

**Ramon Terrones**

**Gamesa Regional Director - Asia Pacific & Oceania**

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## Energy: preliminary considerations

**Energy markets are always the result of political choices**

# Energy: preliminary considerations

- o These political choices take into account:
  - Energy needs and growth perspectives
  - Cost of energy
  - Energy independence / security
  - Environmental impacts of energy mix
  - ... and, increasingly, socio-economic aspects of energy mix (rural development, employment, brain power...)
  
- o But also:
  - Voters interests
  - Economic interest of different groups

## Energy: preliminary considerations

- o In approaching energy market regulation, the initial debate is whether to “internalize” the hidden costs of conventional energy sources (e.g., adding CO<sub>2</sub>) or instead to provide incentives for the development of alternative sources

**In this context, renewable energy incentives clearly are not “subsidies” but rather re-balance the market**

# Renewable energy incentives re-balance the market

## Alternative mechanisms to stimulate renewable energy promotion

	Tariff is regulated	Volume is regulated
Investment-based	Subsidies / Grants or Tax incentive	Auctions/Tenders
Production-based	Price mechanisms	“Green” Certificates

**Most effective\*:  
feed-in tariff**

o Why most effective? Investor confidence – Continuity – Security: most developed wind markets = feed-in tariff

- In Spain, wind energy supplied 16.4% of demand in 2010 and in March 2011 was the first technology of the system with 21% of production
- In Spain, wind energy **reduces electric prices** by 6€/MWh, because it enters the pool at 0€/MWh

## Price mechanisms: Feed-in tariffs

- o Renewable energy producers have the right to sell all their production to the grid, at a remuneration level fixed by law and depending on the technology used
  - The tariff can be a fixed price – with the advantage of cash flow certainty – or a “bonus” on wholesale market price
- o Guaranteed remuneration for a determined period
- o The system is widely deployed in Europe, with prime examples in Germany and Spain
- o The system requires that the tariff be sufficiently high as well as temporal stability

## Price mechanisms: Feed-in tariff

- o This system has proven to be a simple and efficient system
  - Supports the introduction of small and mid-sized companies
  - One of the most cost-effective ways to produce renewable energy
  - Creates transparency and provides market security
  - Proven ability to develop wind capacity when fixed tariffs are sufficiently high

**INVESTOR CONFIDENCE - CONTINUITY - SECURITY**



# Why policy alone is not enough

- o There is enough experience for analysis
- o Harmonization is useful only if it is an efficient development tool for renewable energy
- o No mechanism is efficient if not combined with pertinent and effective regulation facilitating wind energy implementation in terms of **siting** and **permits, grid planning** and **connection**
- o Efficient means that:
  - Investment is stimulated in an stable, profitable, “self-assessable” and clear environment



## Why policy alone is not enough

- o Both a feed-in system and a Green Certificate system can stimulate development if they are well defined, although feed-in tariffs are more efficient and cost-effective
- o Forced harmonization, without an adequate transitory period, could be a shock to the market
- o Transitory periods should be defined in such a way as to allow recovery of the investments made in a fixed economic environment

## Why policy alone is not enough

- o Investors should be able to choose between continuing with the former system or moving to the new one
- o We cannot forget that a system to promote wind energy requires more than economic incentives. To achieve efficiency, administrative procedures and grid connection procedures must also be homogenized
- o Incentive schemes must be sustainable in the long term. Overly generous systems can cause uncertainty

# Conclusions

## **Regulation is not only establishing a support scheme**

- A good and transparent administrative procedure
- Clear and transparent grid connection systems
- A good cooperation between the electric system operator and the wind industry
- Avoid geographical and sectorial regulation dispersion
- Limit decision-making discretionary power

**“The devil is in the details”**

# Conclusions

**The wind industry must be ready because there is an increasing pressure to eliminate renewable energy incentives, particularly in an economic crisis environment**





“The nation that leads the clean energy economy will be the nation that leads the global economy”

Barack Obama  
State of the Union address, January 27, 2010

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