

Effective legal and regulatory framework for the support of wind energy in Kazakhstan

12 May 2011, Astana

Kieran Lettice BE MSc



“To create a successful policy environment for renewable energy development you need three things. Certainty, certainty and certainty!”

Christopher Knowles

Head of Climate Change and Environment

European Investment Bank

September 2010

Agenda

- Introduction
- My Approach
- RES - current legal and regulatory situation
- Current Legislative Barriers to Investment in Wind
- Best International Practice
- Conclusions
- Recommendations

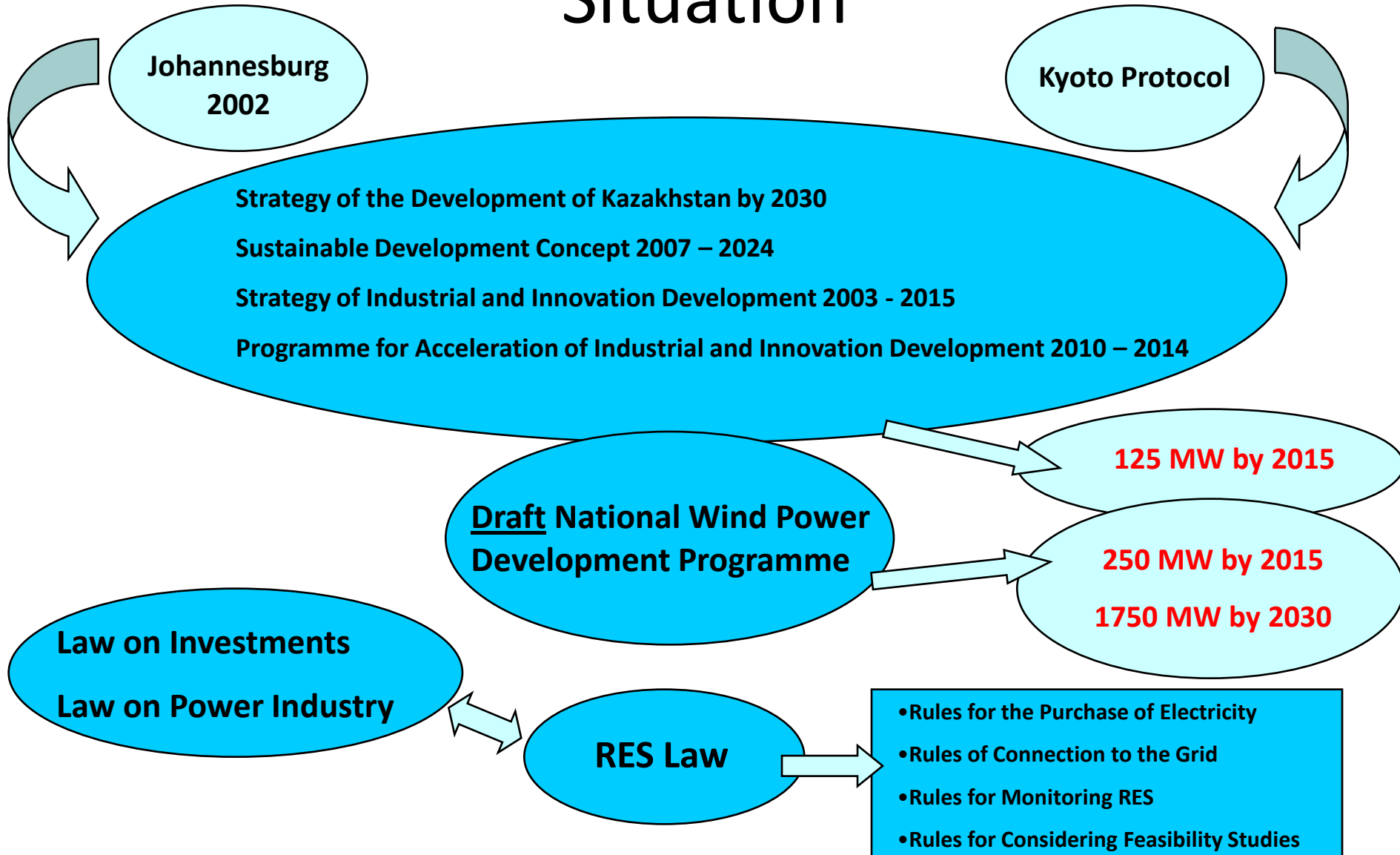
Introduction

- UNDP Kazakhstan – Wind power Market Development Initiative (KAZ 40847)
- This was an analysis of the legal & regulatory environment for wind energy
- Kazakhstan is not wind resource-limited
- Investment funds are available for wind projects with the right risk profile
- An “acceptable” risk/return balance will attract investors to wind in Kazakhstan
- Availability/Cost of Finance \propto Risk \propto Uncertainty

My Approach

- Kieran Lettice
- Senior Consultant with Energy Services Ltd
- We're very involved in wind energy development in Europe at all stages and have significant experience of Central Asia (e.g. Asian Development Bank)
- We broker wind energy project transactions
- We know what investors like and what they dislike
- I applied this commercial awareness to this task

RES - Current Legal and Regulatory Situation



Current Legislative Barriers to Investment in Wind

- **RES Law**

- No fixed feed in tariff (price/kWh and duration)
- High up-front cost to estimate PPA price through feasibility study – this is the wrong approach
- Current approach does not give a clear investment signal

- **Rules for Considering Feasibility Studies**

- If a fixed feed in tariff is adopted this rule may be discarded
- If it remains, clarity over cost and design indices is crucial – if feed in tariff remains variable (not recommended) then these indices will decide whether a project is commercially viable or not

Current Legislative Barriers to Investment in Wind

- **Rules for the Purchase of Electricity**

- Currently price is estimated in feasibility study – too expensive and uncertain for investors
- No criteria given for assessing PPA applications (what is a fair price?)
- No appeals process (take it or leave it?)
- This Rule should be revised to set out the administration of fixed feed-in-tariff PPAs

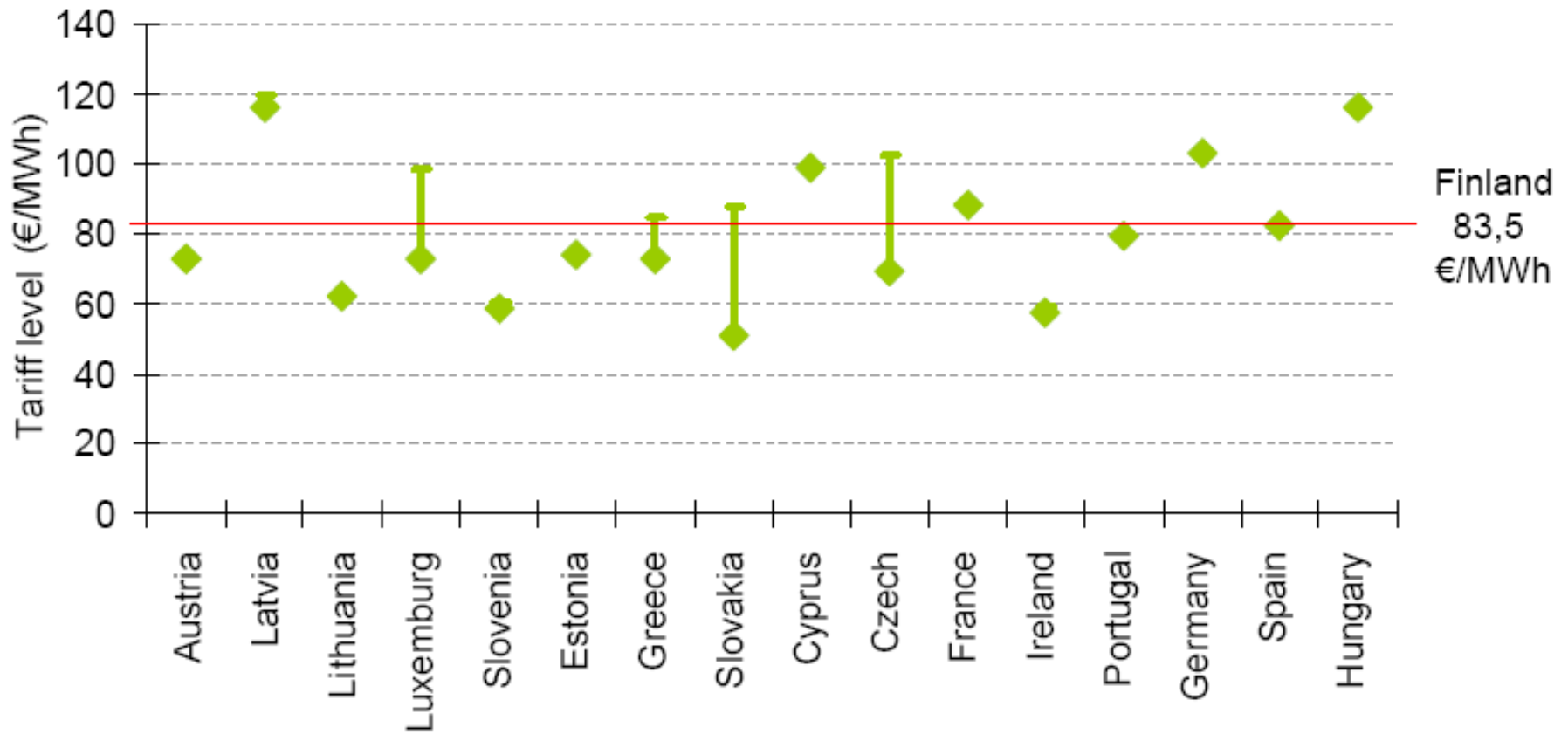
- **Rules of Connection to the Grid**

- These rules are untested. Other countries have experienced difficulties in splitting deep and shallow works to the grid

Best International Practice

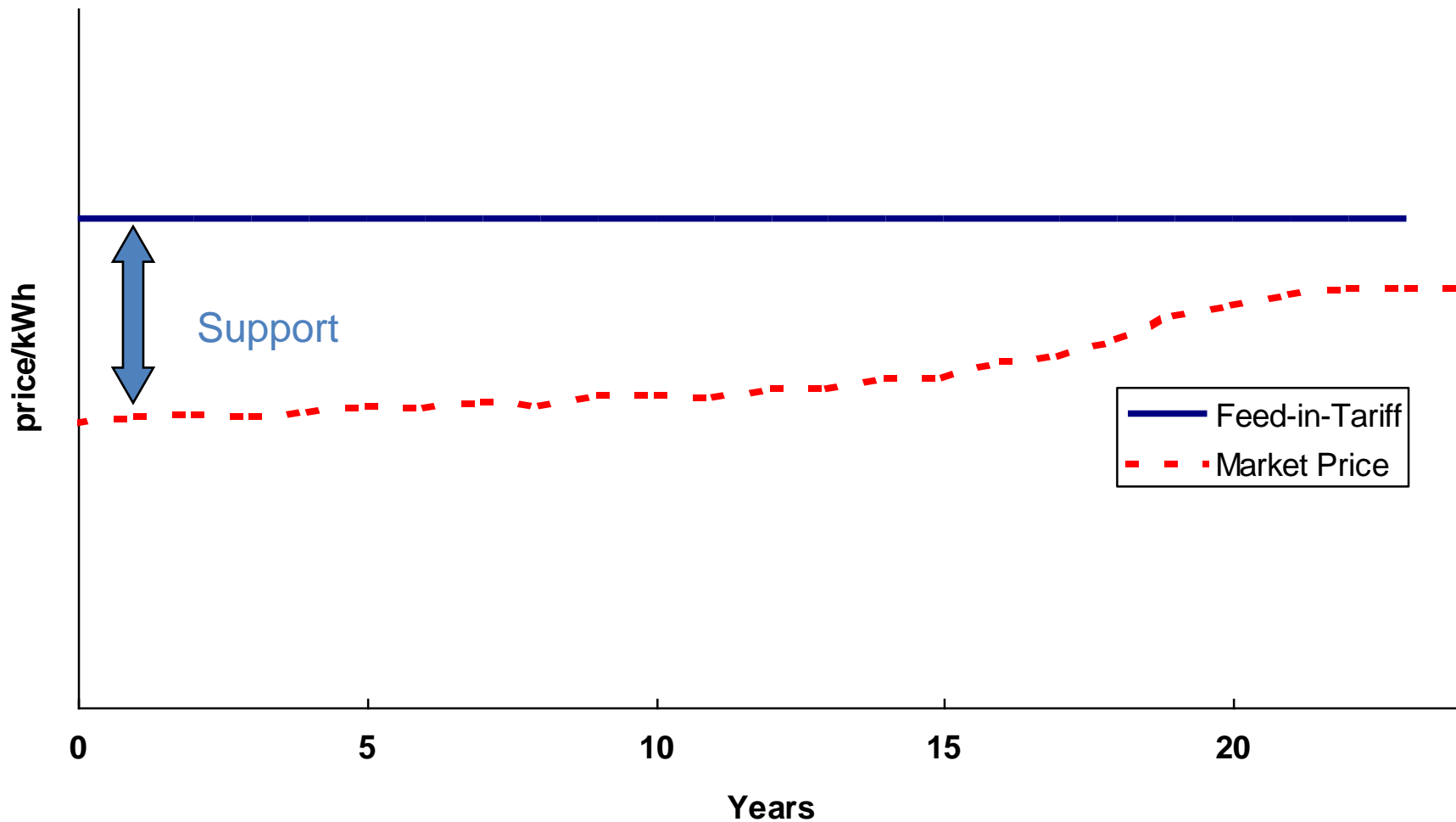
- **Targets** must be firm and achievable
 - achieve early targets
 - success builds confidence
- **Feed in tariff** – fixed price and duration
 - level based on sound economic assessment
 - different markets require different levels
 - variable price based on feasibility study
typically deters early interest and encourages high (safe) prices submitted

Tariff levels elsewhere (normalized into 12 year tariff period)

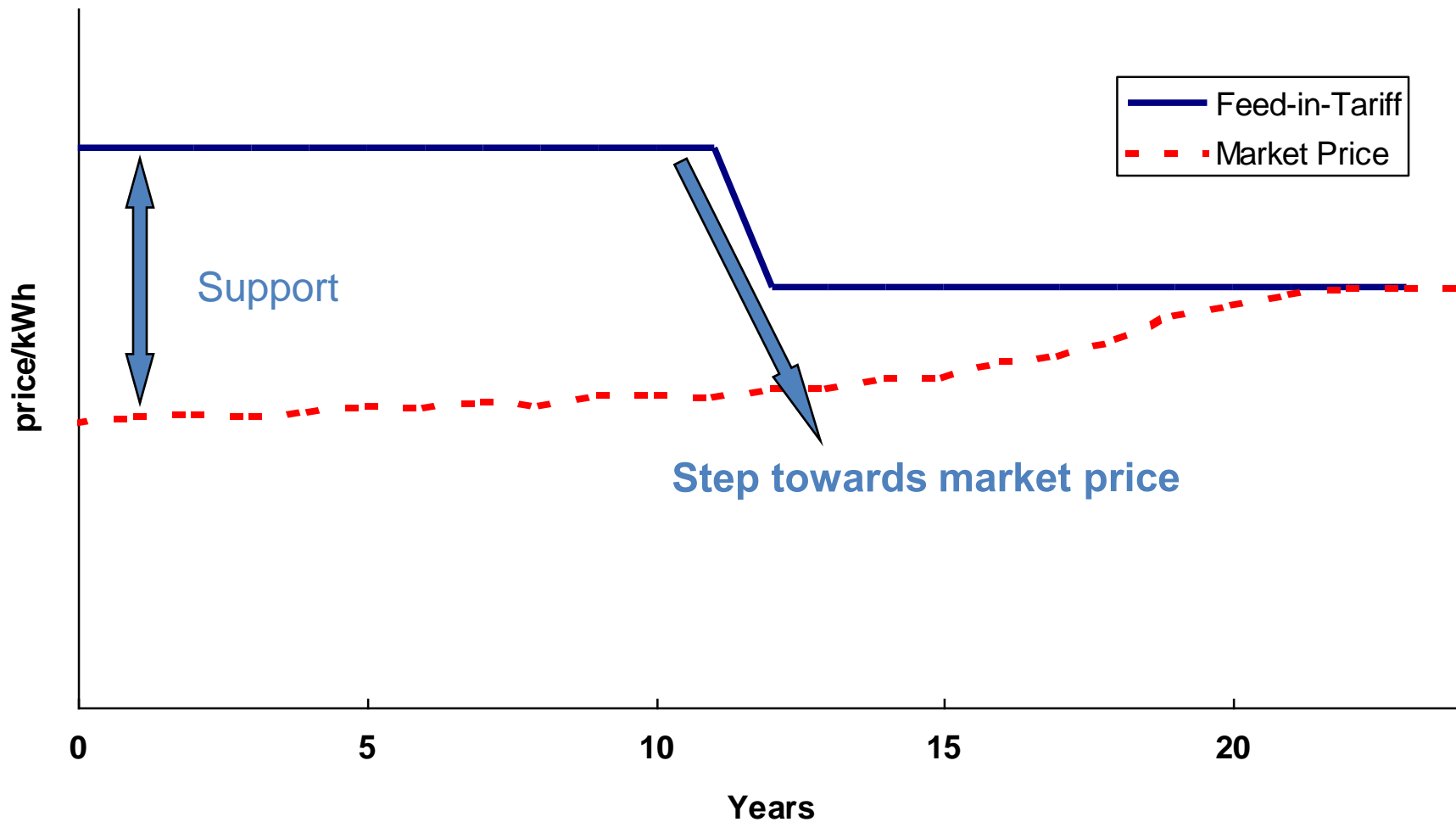


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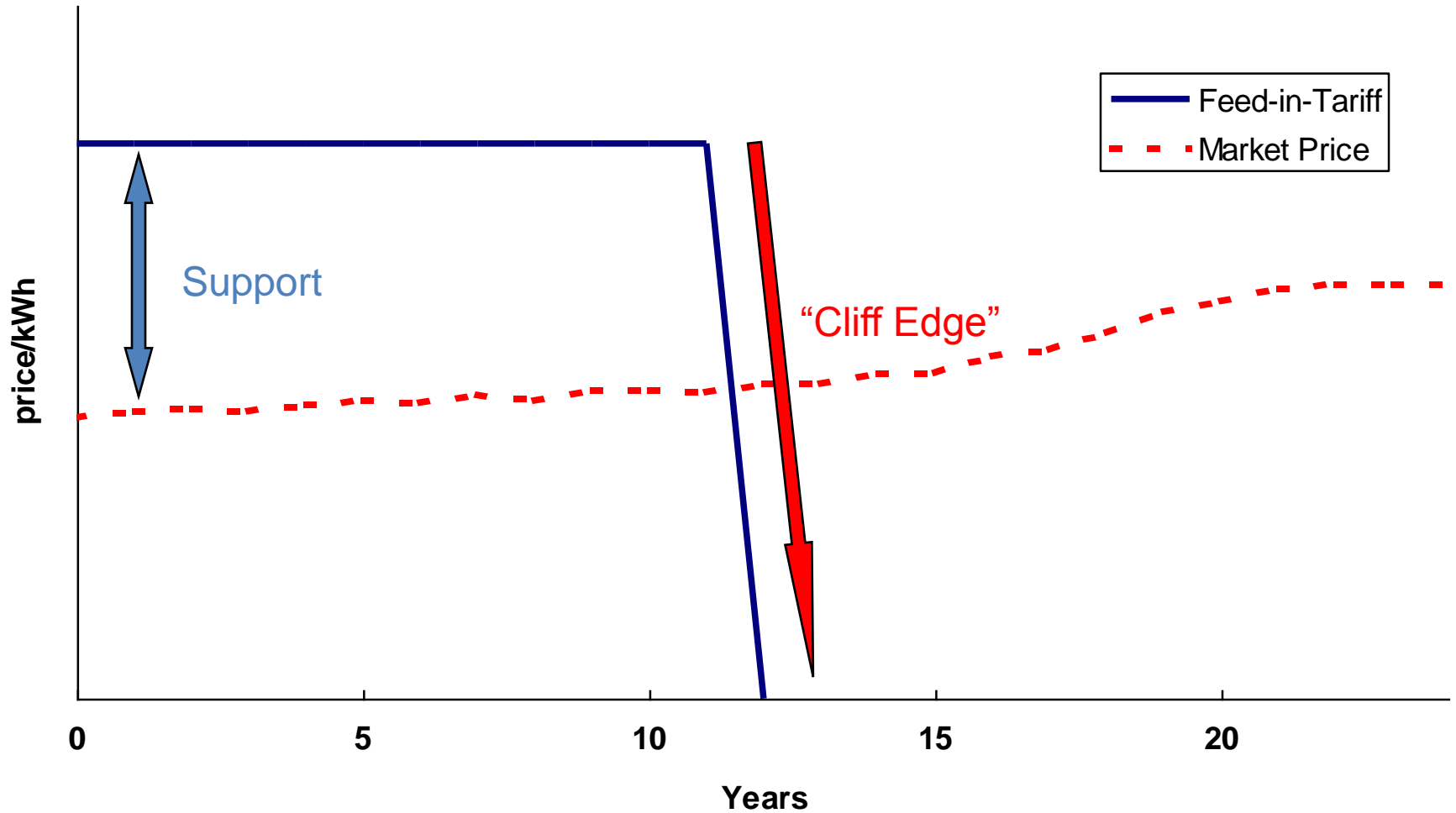
Generally, investors favour this approach.....



.....or this approach.....



....but this is a dangerous approach



Best International Practice

- **Connection to grid**
 - Clear split of costs – projects should not be overburdened
 - Minimise any export constraints
- **Power Purchase Agreements** - formal legal document
 - Between generator and supplier/consumer/third party (trader)
 - Agreed price/kWh, volume (kWh), delivery conditions and duration
 - Inflation, currency issues all agreed in PPA
 - An investor should be able to bring a PPA to the bank/shareholders with confidence

Best International Practice

- **Land reservation and submission**
 - Typically “planning permission” i.e. permission for specific land use and development is required from local government
 - In Kazakhstan “Investigation Period” is used for Govt. land
 - If public/government land is used then long, stable, clear land leases are required to reduce project risk
- **Permissions and procedures**
 - few, simple, clear and fair
 - no unreasonable delays for developers

Conclusions – Part 1

- Formal Legal and Regulatory Barriers to Wind Energy in Kazakhstan
 - The lack of price certainty and need for premature decision on price based on feasibility study
 - Lack of experience with grid cost sharing
 - Lack of firm targets for wind development
 - Failure to approve the National Programme
 - Low price of wholesale electricity – this means that a firm and attractive financial support must be offered to investors (circa €0.02 market price alone will not support new wind)

Conclusions – Part 2

- Informal Barriers to Trade Hampering Wind Energy in Kazakhstan
 - Lack of clarity and certainty for potential investors e.g. no certainty on PPA price before significant development funds are spent
 - Perceived high level of corruption and bureaucratic barriers
 - Perception of lack of complete certainty regarding private property and investment rights
 - These risks may be unfounded BUT perception is everything!

Recommendations

1. National Wind Power Programme target should be 125 MW in 2015
2. Intermediate targets for 2020, 2025 and 2030 should be inserted
3. Regional targets should be considered
4. National Programme should be officially approved and promoted to give high-level guidance to industry

Recommendations

5. National office for RES promotion in MINT should be sufficiently empowered and supported
6. Fixed feed in tariff recommended (price/kWh and defined time period) – RES Law Article 9.2
7. Expand and clarify Articles 10.5 and 10.6 of the RES Law defining the split in grid costs
8. Steadfast and certain implementation of the Law on Investments

Recommendations

10. Pro-forma long term PPA documents should be prepared and made available to developers
11. General rule – minimum number of approvals and permissions should be required
12. All informal barriers to trade, especially any perception of corruption and bureaucratic barriers should be minimised by all means
13. Gap analysis to determine current capability of the economy to support wind energy e.g. skills, contractors

Recommendations

14. Continue to hold information workshops and dissemination activities for decision makers in Kazakhstan

Final Remarks

- Kazakhstan is not wind resource limited
- The review finds that there are no obstacles to development that cannot be overcome
- Other countries have solved these issues
- A vibrant wind energy industry is a realistic goal for Kazakhstan
- If the risk/reward balance is right – investors will enter the market

- Wind policies, laws and regulations must be:
 - **Long** – consistent and predictable
 - **Loud** – give clear price and risk signals
 - **Legal** – strong political support and legal penalties for non-compliance

Thank you for your attention
Questions?

