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Consultation document on renewable energy Part I – the context

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The consultation exercise aims to

- Identify different potential stakeholders beyond the national electricity company
- Illustrate a simplified consultation process
- Go through the main topics of the guideline documents and main questions from previous workshops
- Have an opportunity to exchange opinions on the basics of renewable regulation from different angles



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The document

- The regulator has previously run oral consultations with energy ministry officials and representatives of the National Electricity Company (NEC) and published a consultation document
- The consultation mainly focuses on the following 4 topics:
 - Purchase obligation and renewable capacity targets
 - Feed-in price setting, based on Avoided Cost of Generation and average national company's generating cost methodology
 - First come, first served connection rights based on shallow cost principle
 - Introduction of net metering at distribution level



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The document

- Each topic in the consultation document is organized in three sub-paragraphs:
 - Proposed regulation by the regulator
 - Motivation behind the regulator's choices
 - Proposed questions for stakeholders
- All stakeholders are invited to reply to the consultation document within 1 month from publication.



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Generation sector

- 3,000MW capacity: 1,000MW of hydro with high seasonal volatility, 1,000MW of coal, and 1,000MW of oil.
- There is a 100MW interconnection
- 20 isolated area access electricity services thanks to diesel generators of some 200kW- 2MW
- A 500MW gas combined cycle is under feasibility study
- Larger production activities have installed their back up system. There is no a regulation for IPPs and so far they are not allowed to sell excess electricity to the grid.



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Market structure

- The electricity market is vertically integrated with a National Electricity Company (NEC) running all system activities except distribution and sales - that is managed by 5 regional distribution companies owned by the local regional governments.



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Electricity demand

- The energy access rate is at 40%, the electricity demand is rising at 5% per year and the main barrier for further growth it is the lack of capacity and the limited transmission lines



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Tariff regulation

- Tariffs are updated every 3 years by the authority.
- Following the last tariff update, the government has frozen the tariff increase and asked the regulator to propose a smoother increase.
- The NEC is complaining the tariff is not enough to cover fixed investment costs especially when considering new investment needs



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Energy resources for electricity production

- The country has some oil resources. Oil is exported and then re-imported once refined. Oil for electricity generation benefits from a full tax exemption.
- The price of diesel used in small generation areas (200kW-2MW) is reduced by 30% through subsidies. The subsidies are paid for by the tax revenues of transport fuels.
- Natural gas will soon be available at very competitive price as, at the moment, there are no relevant gas consumers in the country.



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Renewable potential

- The wind load factor is around 3,000h/year, but it is very concentrated in the wet season when hydro generation is also very high.
- There is additional huge potential for small hydro systems, the national company is not interested
- Two sites with water reservoirs for a total of 200MW
- International investors have approached the NEC to develop a 50MW wind farm on the coast and a single 50MW photovoltaic plant in the Northern/limited connection



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The mandate

- The national energy renewable plan has set a target of 15% renewable production by 2020.
- The government has asked the regulator to introduce a feed-in mechanism to welcome IPPS into electricity system without introducing *'un-necessary costs to the consumers'*.
- The government allows the sale of electricity from IPPs and wants to introduce a purchase obligation for the NEC.
- IPPs can contribute to total national generation as long as renewable energy is limited to 15% of overall national electricity generation.