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# New Opportunities for Developing Renewable Energy in Azerbaijan



# HARDTALK

## RECOMMENDATIONS FOR ATTRACTING PRIVATE INVESTMENTS IN RENEWABLE ENERGY

*This document represents a summary of the key issues that need to be addressed and ways to address them in order to increase renewable energy uptake in Azerbaijan. The recommendations below are the result of the multi-stakeholder discussions held during the Hard Talk.*

Risk Category	Key Issues	Recommendations
Market risk	<ol style="list-style-type: none"> <li>While 'Strategic Roadmap for Public Utilities' outlines the key milestones, there is a need for more detailed planning on its implementation. Most of the existing tasks of the 'State Programme on Use of Alternative and Renewable Energy Sources in the Republic of Azerbaijan' have been completed and therefore an update is needed.</li> <li>Lack of a unified, comprehensive law on renewable energy and existing legislation needs to be revised.</li> </ol>	<ol style="list-style-type: none"> <li>Undertake, with donor support, a study on renewable energy development options to meet and exceed targets, taking into account the advantageous synergies between gas and renewables for power generation. Reconsider mid- and long-term targets taking into account the study's results.</li> <li>Based on the study, formulate a comprehensive National Renewable Energy Action Plan (NREAP) that addresses mid and long-term targets, with a clear vision regarding the involvement of the private sector. Include the NREAP in the updated the 'State Programme on the Use of Alternative and Renewable Energy Sources in the Republic of Azerbaijan'.</li> <li>Develop a comprehensive, unified legal instrument that clearly and efficiently regulates Renewables. A new "Law on Energy from Renewable Resources" that not only incorporates current best practices but also properly responds to the needs and realities of Azerbaijan.</li> <li>In order to keep momentum, proceed with the implementation of 2020 target of 420 MW and use the lessons learned from these initial projects for the post-2020 phase.</li> </ol>

<b>RES Support Mechanisms</b>	<ol style="list-style-type: none"> <li>1. Lack of comprehensive support scheme for renewable energy generation.</li> <li>2. No transparent support mechanism in place makes investors reluctant to be involved even in pre-screened, viable projects.</li> </ol>	<ol style="list-style-type: none"> <li>1. A comprehensive support scheme must be developed towards sustainability.</li> <li>2. The support scheme should be included in updated versions of existing laws and in the proposed new law that will regulate the area of renewable energy.</li> <li>3. Investment environment (including support measures, remuneration, connection terms, etc.) should be stable and known in advance and applicable to all interested parties in the same way.</li> <li>4. Establishment of a 'Special Fund for RES' (funded with additional export revenues of natural gas saved by the use of RES) to support payments to RES producers.</li> <li>5. In view of the RES support scheme to be developed, consider international best practice with national regulators and examine the option of establishing an independent regulatory authority.</li> <li>6. The support scheme should take into account other uses of renewable energy (e.g. for transport, rooftop solar, heating, and off-grid solutions for remote areas) while also ensuring that energy efficiency and environmental aspects are duly considered (nexus approach).</li> </ol>
<b>Tariffs</b>	<ol style="list-style-type: none"> <li>1. Renewable energy tariff calculation methodology is not clear.</li> </ol>	<ol style="list-style-type: none"> <li>1. In order to attract private investors, renewable energy tariffs should take into consideration global return on investment (ROIs) for similar projects, taking into account the specific economic conditions in Azerbaijan.</li> <li>2. Donor-funded technical assistance for developing a computation methodology should be requested.</li> <li>3. Tariffs should incorporate and reflect added benefits from renewables (health, environmental, Natural Gas savings, etc.).</li> </ol>
<b>Permitting</b>	<p>The procedure of permitting in the field is not easily accessible for foreign investors.</p>	<ol style="list-style-type: none"> <li>1. A clear, concise and practical Guide must be written (with donor support) and made available to investors, describing</li> </ol>

		the project development process. This will make the environment more accessible and understandable to foreign investment actors.
<b>Transmission and Distribution Grid</b>	<ol style="list-style-type: none"> <li>1. Technical standards for connection are not well regulated.</li> <li>2. Connection costs are not cost-efficient.</li> <li>3. A Grid Code is not of international standard and needs updating.</li> <li>4. Lack of awareness and knowledge of the grid operator to develop technical solutions to accept renewable energy integration into the grid and cost-efficient connection terms.</li> </ol>	<ol style="list-style-type: none"> <li>1. Introduce an updated Grid Code, with the support of donors.</li> <li>2. Information on connection points and available capacities should be made available to interested parties.</li> <li>3. The technical standards (including type of connection method) for the integration of renewable energy sources into the grid should be clearly defined and adopted in advance.</li> <li>4. Grid expansion should incorporate renewables resource mapping for technologies where it is available (e.g. wind).</li> <li>5. Increase know-how of grid operator through exchanges of best practices and cost-efficient solutions to renewable grid integration and connection.</li> </ol>
<b>Resource and technology risk</b>	Lack of technical knowledge and capacity in new RES technologies and methods.	<p>Increase domestic technical capacity through:</p> <ol style="list-style-type: none"> <li>1. Technical education programmes, courses and degrees</li> <li>2. Advanced learning on RES for trained professionals</li> <li>3. Establishment of knowledge validation and certification programmes</li> </ol>
<b>Bankability</b>	<ol style="list-style-type: none"> <li>1. High interest rates and high securities requirements from local banks.</li> </ol>	<ol style="list-style-type: none"> <li>1. Involve donors and international financial institutions to reduce risks and build capacity for local banks to provide funding for renewable energy projects.</li> </ol>
<b>PPA Terms</b>	<ol style="list-style-type: none"> <li>1. Existing model of the Power Purchase Agreement (PPA) is not according to international standards.</li> </ol>	<ol style="list-style-type: none"> <li>2. Adopt standard template of PPA accommodating specific requirements of different technologies.</li> </ol>

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