

Generous incentives spark rapid growth

Romania's installed capacity has grown in the last two years from 14MW to over 1GW, an impressive growth rate set to continue after a new legislative framework was enacted last year. But some critics argue that the rates of return are so high as to be risky. **Heather O'Brian** reports



Being built CEZ's 600MW Fantanele-Cogaelac wind farm due for completion later this year

Head back just two years and Romania's wind-energy sector would in many ways be unrecognisable. At the end of 2009, the country had just 14MW of installed wind capacity and the environment faced by investors interested in the opportunities offered by the strong wind resources was often described as a wild west.

While Romania is still far from joining the ranks of mature European wind markets like Denmark, Spain or Germany, it has grown up significantly in recent years. More than 1GW of installed wind capacity is now turning and a solid core of investors has emerged with significant additional investments expected in the next few years.

In 2009, Romania's renewables scheme was also in legislative high water. A key renewable-energy law first approved in late 2008 could not be enacted. It took until last July for Romania to receive European Commission

approval for an amended version of that law, which finally went into effect in late 2011 with the issuing of a Romanian government ordinance.

According to the current legislative framework, wind-energy producers are awarded two green certificates up to the end of 2017 for every megawatt hour of electricity produced before reverting back to one green certificate from the beginning of 2018. Green certificates may be sold on to companies subject to a renewable-energy mandate. They are issued for a period of 15 years and trade in a band of €27-55/MWh. To date the selling price has been at the top of the range due to a shortage of certificates available on the market.

There is a hitch though. Producers must have their plants operating by 2016 in order to access the incentive scheme. What will happen after that date is still not clear, which has led developers and investors to accelerate investments to ensure they will make the

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deadline. There is also a clear interest in getting wind farms up and running as soon as possible, so as to receive the two-green-certificate per MWh rate for as long as possible.

"Many investors want to consider projects that are already generating electricity and income, or very close to doing so," notes Bryan Jardine, partner with the Bucharest office of law firm Wolf Theiss. "Early-stage investment opportunities in the renewable-energy sector in Romania are at this time less attractive for investors, due to concerns with the longer-term sustainability of the current green-certificate support scheme. The investment appetite for renewable projects in the Romanian market has therefore evolved towards more developed wind farms, which are being targeted by larger strategic investors." Jardine says investors are primarily looking at projects in the range of 50-200MW.

Among recent market entrants is GDF Suez, which in February acquired a 48MW, advanced-stage wind project in the municipality of Gemenele from developer Belrom. It joins a series of investors already on the ground, including Czech utility CEZ, Italy's Enel, Portugal's EDP Renováveis (EDPR) and Spanish wind giant Iberdrola.

Big players

CEZ is set to complete its 600MW Fantanele-Cogeaalac wind farm later in 2012 while Enel is aiming at nearly doubling its installed wind capacity in the country to 500MW in 2016 from 269MW at end-2011. EDPR has 228MW of Romanian wind capacity and is constructing an additional 57MW.

Earlier this year, Iberdrola inaugurated its 80MW Mihai Viteazu wind farm, its first wind facility in the country. While the Spanish company has roughly 1.5GW of wind projects planned in the country, only the next 600MW of projects are certain. These have grid connection agreements and are set to be commissioned by 2016.

"All the big European players are either here or want to be," notes Christoph Kapp, chairman of developer Eolica Dobrogea, which is developing Iberdrola's Romanian pipeline and has received interest from other investors. They are clearly attracted by the revenue stream to be made from wind-energy production in Romania, which currently stands at about €150-160/MWh. This is the price of two green certificates at the top end of the trading range plus the price producers receive from the sale of energy. "If you have good wind resources, you can make a lot of money in Romania," says Kapp.

On the other hand, expectations that the incentive scheme could be changed again has meant that the investment environment for Romanian wind projects is still an uncertain one. Kapp says this has meant big utilities who don't require outside financing have continued to dominate the market, although there is also a growing niche of small- and mid-sized investors.

Phil Grant, director of Redpoint Energy, also points to the "huge regulatory risk" in Romania. "While the incentive scheme was finally approved, it is very generous and in any market that is so generous the risk of further intervention has to be material." Indeed, in order to receive European Commission approval for its



For dispatch
GE nacelles heading for the 347.5MW first stage of CEZ's Fantanele-Cogeaalac wind farm

incentive scheme, the Romanian government has agreed to monitor it to make sure wind and other renewable-energy producers are not receiving excess remuneration and to intervene if necessary.

The measuring stick is what the government believes is a reasonable internal rate of return (IRR) for the various renewable technologies. For wind, the IRR has been set at about 10.9%. "The government has been very transparent on the IRR figure but less transparent on how they came up with it," notes Grant.

The certificates are not expected to continue at such a high price. "We've done an internal analysis and the expectation is that they should continue to trade near the top for the next three or four years," notes Jardine.

Some producers are concerned about the relatively high number of green certificates being awarded for solar photovoltaic (PV) projects, which are expected to come onto the market in the near future. Solar PV projects are currently entitled to receive six green certificates per MWh injected into the grid, a factor that should drive a wave of investments into what has thus far been a relatively undeveloped technology in Romania.

Nonetheless, with the long-awaited approval of Romanian incentive legislation last year, banks are becoming more comfortable with financing Romanian wind projects. Multinational financial institutions like the European Bank for Reconstruction and Development and the International Finance Corporation have provided financial support to some of the country's biggest wind farms.

While non-recourse project-finance deals have not yet taken off, Wolf Theiss lawyer Andreea Poenaru believes that this could come in the future with a more established, stable legislative backdrop. Meanwhile, Poenaru points to a clear appetite on the part of banks for different types of financing for wind and other renewable energy projects. "In the last two years, the financing of renewable energy has become a good driver for banks to pour fresh money into the market," he says.

Romania's growing experience dealing with investors and banks should help to encourage that interest, at least until its current incentive scheme is phased out. "Developers have become a bit more experienced and sophisticated," says Poenaru. "Before, even with just a piece of land, some thought they had a renewable energy project." ■■W