

September 8, 2010

**Comments Received from Norway on SREP Financing Modalities
and SREP Programming Modalities and Operational Guidelines**

Dear all,

Due to the holiday season, we unfortunately were not able to be part of the earlier exchange of comments to the SREP Programming Modalities and Operational Guidelines, and Financial Modalities.

We however have the following comments (see the attachment for further explanation), with the main points summarized here:

1) There are real additional risks associated with renewable energy technologies that will not disappear, the main one being the intermittent nature of the source of energy: The available wind can never be well predicted, rainfall follows patterns but will always be stochastic, availability of fuel for bio-fueled power plants carry additional risks compared to fossil fuels, the sun shines at varying intensity that is hard to predict. In addition the capacity factor of all renewable energies is low. The document suffers from a lack of an understanding of these inherent additional real risks. A new item could be added to the list in 4:

The intermittency of production from renewable energy sources adds an uncertainty and thus a risk element that will most likely exist in the foreseeable future. The intermittent nature of renewable energy reduces its utilization value compared to energy from conventional technologies. It also adds costs to the total energy system if reliability of supply is desired. The need to subsidize renewable energy will thus most likely remain in the foreseeable future.

Thus, item 53s requirement “potential of being replicated in the future **without further subsidies**” is too strict and the first sentence should be modified to something along these lines:

*SREP will offer concessional finance and equity products to support private sector projects and programs investments and activities that are particularly promising.
(.....)*

2) In item 21 the funding for non renewable components of hybrid systems are excluded from SREP financing. This is contrary to the Norwegian position. To get the maximum use of stable and reliable renewable energy power supply, a hybrid component will in most cases be necessary. Renewable energies like sun and wind are dependent on the weather in the moment, having intermittent capacity. Thus one needs either storing capacity like batteries (which are very expensive for anything which is more than small amounts of energy), or back up in a form which can easily bridge the gap and give capacity when there is no or little wind, cloudy, night or when there is peak-time consumption higher than the production from the renewable system. The deliverables from renewable systems have to be stable and predictable to be seen as a viable alternative to more dirty options. Thus, by excluding financing non renewable components of hybrid systems, we are undermining the goal of expanding large scale use of renewable energy.

Thanks and regards,

Bente Weisser

Attachment:

Financing modalities

The changes made in the document may seem large at the first glance in the version with track changes. However, the main changes are connected to the cost recovery of the MDBs, which we understand will be elaborated in a new document applying to all the SCFs. Also the procedures for approval of appropriation for investment plans has been changed as was agreed in the subcommittee meeting in June, ie, approval by MDB committee and information to SREP subcommittee. The cap is changed from 25% to 375.000 USD. The Governments shall be free in choosing MDB with whom to cooperate.

Norway has the following comment to the approach of the document:

The very reason for establishing a mechanism such as SREP is that the cost of renewable energy in too many cases is higher than the alternative. The reasons for this are complex and connected to cost of the actual investments and also the risks associated. Risks are described as real and perceived. The perceived risks are elaborated at length, leaving an impression that change in perception will bring the risk level of renewable energy technologies at par with conventional technologies. This is a misunderstanding. There are real additional risks associated with renewable energy technologies that will never disappear, the main one being the intermittent nature of the source of energy: The available wind can never be well predicted, rainfall follows patterns but will always be stochastic, availability of fuel for bio-fueled power plants carry additional risks compared to fossil fuels, the sun shines at varying intensity that is hard to predict. In addition the capacity factor of all renewable energies is low. The document suffers from a lack of an understanding of these inherent additional real risks. A new item could be added to the list in 4:

The intermittency of production from renewable energy sources adds an uncertainty and thus a risk element that will always exist. The intermittent nature of renewable energy reduces its utilization value compared to energy from conventional technologies. It also adds costs to the total energy system if reliability of supply is desired. The need to subsidize renewable energy will thus most likely remain in the foreseeable future.

Thus, item 53s requirement “potential of being replicated in the future without further subsidies” is too strict and the first sentence should be modified to something along these lines:

SREP will offer concessional finance and equity products to support private sector projects and programs investments and activities that are particularly promising. (.....)

Programming modalities

There are few substantial changes made in the document. The choice of development partner is left to the receiving country, and modalities for appropriation of the investment planning funds are changed as described above. Civil society is mentioned explicitly. Major apparent changes in the document with track changes are due to the change from “project” or “program” to investment. A large part of the document has been deleted (para 20 to 30) since it is already covered in Annex B.

In 21 the funding for non renewable components of hybrid systems are excluded from SREP financing. This is contrary to the Norwegian position Renewable energies like sun and wind are dependent on the weather in the moment, so called “intermittent capacity”. Thus one needs either storing capacity like batteries (which are very expensive for anything which is more than small amounts of energy), or back up in a form which can easily start up and bridge the gap and give capacity when there is no or little wind, cloudy, night or when there is peak-time consumption higher than the production from renewable. **The deliverables from renewables have to be stable and predictable to be seen as a viable alternative to more dirty options. Thus, by excluding non renewable components of hybrid systems, we are undermining the goal of expanding large scale use of renewable energy.**