

Proposal for Reporting on Enabling Environment for Promoting Energy Investments

**Joint CTF-SCF
Trust Fund Committee Meeting**

May 2013

Objectives

- Assist in creating framework for assessing enabling environment for investments in clean energy and access
- Contribute to domestic policy debate
- Comparison and benchmarking
- Monitoring progress over time
- Contribute to achieving objectives under SREP/CTF

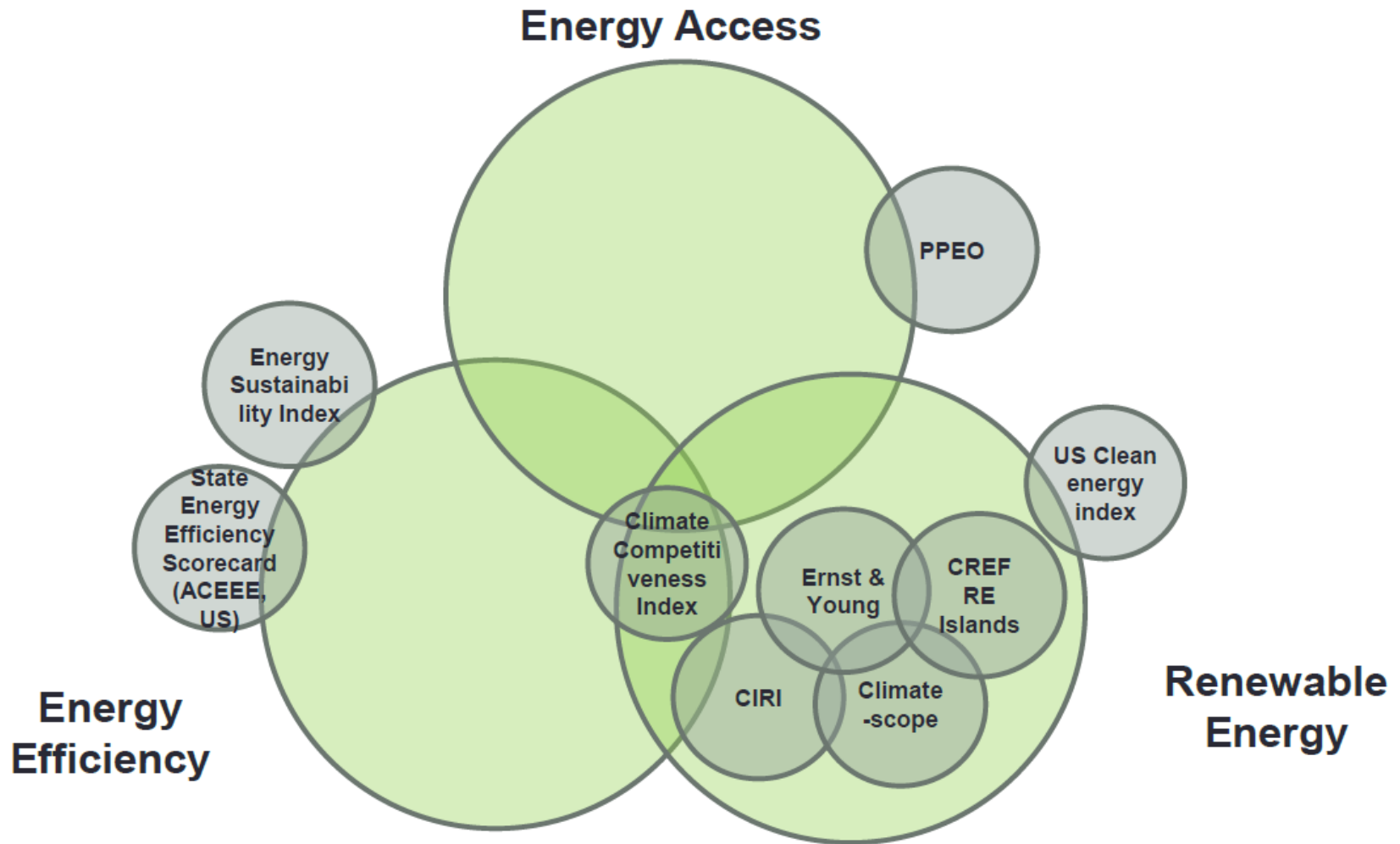
Relevance to SREP/CTF

- Support public sector to set policy framework for catalyzing investments in clean energy and access
- Assess transformative impact on business-friendly environment
- Mobilize resources through increased private sector participation

Relevance to Other Initiatives

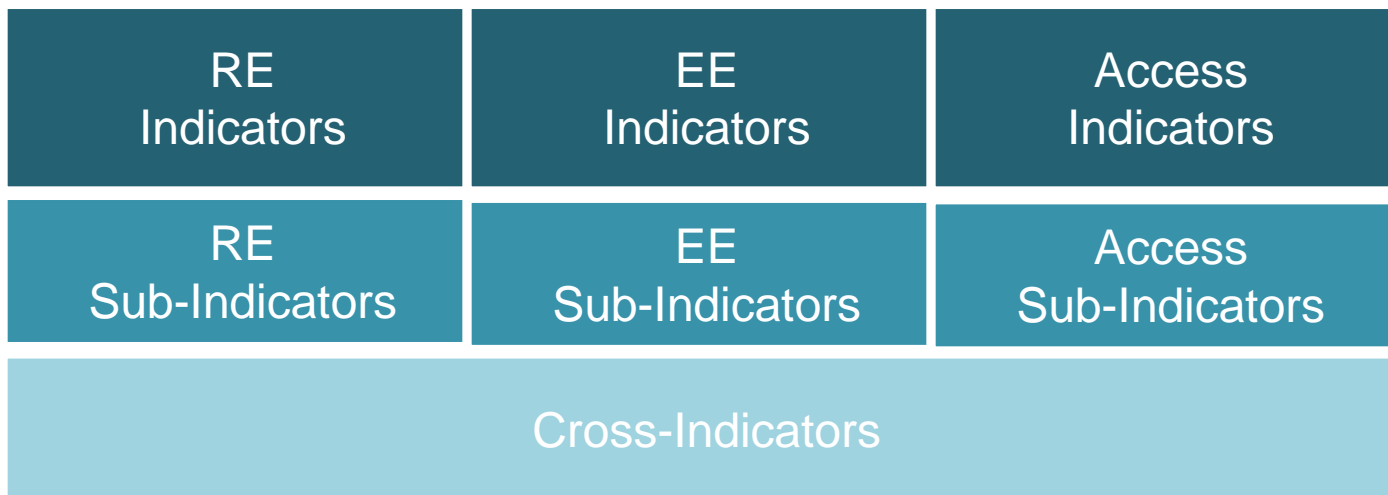
- Essential to create and monitor investment-friendly policy environment demanded by new level of Public and Private cooperation needed to achieve SE4ALL goals
- Complement Global Track Framework (GFT), which was created in collaboration with development partners and allows for tracking outcomes of all three SE4ALL goals

Existing Indicators and its Limitations



Approach

- **Policy focus** with **global** coverage in all three **RE**, **EE**, and **access**
- **Criteria**: objective, comparable, actionable, and context neutral
- **Sample** Indicators



Sample RE Indicator and Sub-Indicators (1/2)

INDICATOR	SUB-INDICATOR	WHY IS IT IMPORTANT?
<p>Revenue risk facing renewable energy projects</p>	<p>Existence and type of cost-recovery mechanism for RE financial supports</p>	<p>The existence of a cost-recovery mechanism for RE financial supports indicates that the government or utility is more likely to disburse these supports to an RE project investor than if no recovery mechanism exists, thereby reducing investors' revenue risk. Countries that enact tariff increases as a cost-recovery mechanism would score the highest. Countries utilizing direct fiscal transfers would score lower.</p>
	<p>Portion of compensation for renewable energy that is from subsidy</p>	<p>If a large portion of renewable energy project remuneration is from subsidies, then projects are more likely to become unviable if subsidies disappear unexpectedly (i.e. due to political change). This indicator will determine how much of total compensation for renewable energy is from subsidies and compare this to the amount of compensation that would be received from typical generation tariffs, if subsidies did not exist.</p>
	<p>Burden of renewable energy subsidies on government budgets</p>	<p>If this value is comparatively high, it will suggest that the level of renewable energy subsidies in place might not be sustainable or efficient for the government, taxpayers or ratepayers. The higher the burden of subsidies is, the more likely that these subsidies will be reduced or eliminated.</p>
	<p>Remuneration rates for renewable energy are predictable at the time of project financing</p>	<p>When remuneration levels (e.g. through FiTs or PPAs) are pegged to fuel prices or system costs without price floors, these remuneration levels are subject to unpredictable change when these prices change. This creates uncertainty about the level of remuneration renewable energy projects will receive in the future, thus increasing investors' risk.</p>

Sample RE Indicator and Sub-Indicators (2/2)

INDICATOR	SUB-INDICATOR	WHY IS IT IMPORTANT?
<p>Quality of the transmission framework for renewable energy</p>	<p>The entities that pay for each aspect of transmission interconnection for renewable energy are defined</p>	<p>Transparency into who will pay for different aspects of transmission interconnection and how much generators will be required to pay for transmission enables investors to more accurately forecast costs before beginning project development. This reduces investors' risk.</p>
	<p>The cost of transmission usage is clearly defined</p>	
	<p>Transmission pricing is based on the transmission expansion plan</p>	<p>By basing transmission pricing on a transmission expansion plan, costs for transmission expansion are minimized over time because transmission is planned in an integrated (rather than ad-hoc) fashion, in which synergies and efficiencies can be exploited.</p>
	<p>Rules exist that define how renewable energy sources will be operated on the power grid</p>	<p>The existence of rules that govern how RE resources will be operated on the power grid indicate that a country is prepared to integrate RE. This minimizes the risk that the grid will not be able to accept a project's energy because grid operators are not prepared to deal with intermittent generating sources.</p>

Sample EE Indicator and Sub-Indicators (1/2)

INDICATOR	SUB-INDICATOR	WHY IS IT IMPORTANT?
Existence of incentives for utilities to encourage energy efficiency	Presence of a mechanism to recover lost revenue from demand side efficiency improvements	<p>When a utility's revenues are based on sale of energy, it loses revenue as demand side energy efficiency increases. However, when a mechanism is in place to ensure a utility is not financially harmed by energy efficiency improvements, the utility will be more likely to invest in demand side energy efficiency programs. Relatedly, when a utility has a financial incentive to improve energy efficiency, it is more likely to do so.</p>
	Presence of financial incentives for utility investments in EE	
	Extent to which utilities are allowed to pass on the cost of losses to customers	<p>Utilities lack a financial incentive to invest in supply-side energy efficiency when they are allowed to pass the full cost of technical transmission and distribution losses on to customers. High technical losses can also reduce the ability of the utility to recover its costs, which, in turn, reduces the utility's ability to make investments to improve efficiency.</p>

Sample EE Indicator and Sub-Indicators (2/2)

INDICATOR	SUB-INDICATOR	WHY IS IT IMPORTANT?
<p>Labeling system for EE products</p>	<p>Mandatory domestic labeling system for common appliances</p>	<p>Residential and commercial customers are more likely to decide to invest in high-efficiency appliances when EE labeling systems exist, particularly when high-efficiency products come at a higher price than lower-efficiency products.</p>
	<p>Mandatory domestic labeling system for industrial equipment</p>	<p>Electric motors, and the systems they drive, are the single largest electrical end-use, accounting for an estimated 43% to 46% of all global electricity consumption. The second largest electrical end-use is lighting.</p>
	<p>Appliance/equipment labeling systems are updated regularly</p>	<p>Regularly updating of labeling schemes encourages innovation and advancement in appliance and equipment manufacturing, and thus improvements in appliance and equipment energy efficiency.</p>
	<p>Existence of a national laboratory to test efficiency claims of appliances and equipment</p>	<p>The existence of labs to test the claims of products bring commercial credibility to appliance and equipment labeling systems.</p>

Sample EA Indicator and Sub-Indicators (1/2)

INDICATOR	SUB-INDICATOR	WHY IS IT IMPORTANT?
Quality of electrification plan or strategy	Timeframe of electrification plan	Long-term electrification planning can result in a more efficiently planned power grid because it allows planners to plan near-term electrification projects with future expansion in mind. It also allows off-grid mini-grid providers to position themselves strategically so they can be integrated into the grid when it arrives.
	Existence of funding/ financing plan for the electrification plan	The existence of a dedicated funding or financing plan indicates that the government is willing to allocate resources to actually implement the plan, which gives the plan a higher likelihood of being carried out.
	Ring-fencing of financing allocated for the electrification plan	Electrification plans with funding that is “ring-fenced” and protected from political change are more likely to be fully realized than plans with funding that lacks protections and could disappear as a result of political change.

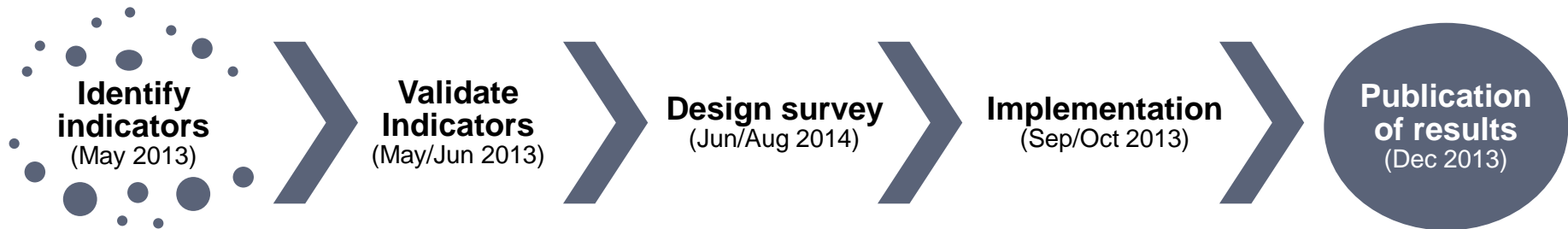
Sample EA Indicator and Sub-Indicators (2/2)

INDICATOR	SUB-INDICATOR	WHY IS IT IMPORTANT?
<p>Existence of enabling laws and regulations for RE mini-grids</p>	<p>Grid specifications and standards are published</p>	<p>For investors in mini-grids, there is always the threat that the grid will expand to their region and strand their assets or undermine their business. However, if mini-grid investors build their mini-grid with the same or similar specifications as the centralized grid, they can more easily be integrated. Thus, it is helpful for private investors in mini-grids when grid standards are clearly specified and public.</p>
	<p>Existence and enforcement of mini-grid safety regulations</p>	<p>Safety regulations are important for operating mini-grids as mini-grids can be dangerous for operators if built and operated incorrectly.</p>
	<p>Time and procedures required to permit RE mini-grids</p>	<p>Administrative efficiency for getting licenses to build and operate mini-grids reduces barriers for potential investors.</p>

Partnership

- WB Sustainable Energy Department in partnership with WB-IFC
Global Indicators and Analysis Team
- MDBs
- Client countries
- Donors
- Specialized agencies like IRENA, REN21, IEA, and others
- Advisory Board with experts in clean energy and access

Next Steps and Budget



Budget \$540k		
CIF \$350k	World Bank \$115k	USAID \$75k

THANK YOU