



## Client Briefing Poland 2009

# Renewable Energy

- Wind energy
- Biogas
- Financial incentives

Excerpt

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## Market overview and forecast



Both of the first waves of investment in renewable energy production—one at the beginning of the decade and the other immediately following EU accession—brought limited success. On one hand, Poland could not provide sufficient financial means to support renewable energy endeavors, and on the other hand, the powerful coal lobby in Poland displayed, and for the most part continues to display, a negative approach to the sector, especially with regard to wind energy.

With regard to renewable energy successes, state-owned energy producers and especially the state-owned energy distributors have become the most notable buyers of such projects. Meanwhile, biomass and wind energy will become significant sources of renewable energy, and the domestic energy industry, which at this time is more than 90 percent dependent on hard coal and lignite as primary energy carriers, now favors biomass co-firing technology. Developments are also expected in biogas segment, although the fragmentation of agricultural land should warrant cautious optimism.

According to meteorologists, the regions with the highest wind energy potential in Poland are East Pomerania; West Pomerania; the area between Gorzow Wielkopolski and Szczecin; the Suwalki region; the Giant Mountains (Karkonosze); and finally the eastern parts of the Beskidy mountain range.

Since late 2007 a new wave of investors has appeared in the wind energy segment, including investors from Germany and Spain. Increased interest has also been noted among investors from Denmark, the USA and Japan. The difference—compared to the previous waves of investment—is that now there is much greater potential for EU financial support through the bloc's anti-climate change funds. The greater part of these funds will be invested in the development of grids, which are indispensable for wind energy generation on a notable scale. Another factor is growing political pressure from the European Union, which is pushing Poland to reduce its energy dependence on hard coal and lignite. With less than 7.5 percent of total energy production coming from renewable energy as of

2006, Poland is still far from the goal set for 2020, which would see renewable energy make up 15 percent of the total energy balance. (This would be broken down into 35 percent in power generation; 25 percent generation and 10 percent in bio-fuels.) In power generation, the current share of renewable energy in the total balance is at just over 3 percent, mostly through pumped-storage hydroelectricity.

A final and very important factor driving investor interest is that Poland has recently become an importer of coal, which weakens the strength of the coal lobby. In all probability, those three aforementioned factors are of a lasting nature, which means that investment in wind energy and other renewable energy resources in Poland will be profitable in the medium and long term. Additionally, a National Action Plan, which respective member states and the European Commission are expected to approve by June 2010, will provide for a more secure planning environment. The first drafts should be submitted to the commission by member states already in December 2009.

The second wave of investment in wind energy resulted in the launch of many projects, in particular projects involving land acquisitions, but also the assignment of grid connectivity technical specifications. This has led to a marked difference between the number of actual projects in the pipeline and the total number of projects that have been granted technical specifications.

As of end-March 2009, 459 MW of power generated by wind turbines were connected to the grid, and by this time contracts had been signed for a total of 1,213 MW of power connections and supply, with technical specifications issued for a total of 10,739 MW (including 2.6 GW for the medium-voltage grid, 6.1 GW for the 110kV grid and 2.0 GW for the 220/400kV grid). At this time, specifications equaling a total of 59,854 MW were being prepared.

Of this, 33 GW were for the 110kV grid and 27 GW were for the 220/400kV grid). It should thus be noted that the aforementioned figures come to a grand total of 70 GW.

Due to planned changes in energy regulations, the government is now trying to introduce some sense of order, as in the future pre-payments will be required for the assignment of technical connection specifications. On the other hand, a development plan or specifications will be required together with technical connection specifications assignment applications.

Likewise, it is believed that up to 80 percent of submitted applications do not meet the necessary requirements. It also remains to be decided whether new requirements will be retroactively applied to the less than 10 GW of specifications, which have already been assigned.

As a whole, the nation's power industry is expected to absorb total investments of considerable value. According to current estimates by the Economy Ministry, if long-term growth rate is sustained, the demand for electric energy will almost double by 2030, assuming that the average growth rate is at nearly 5 percent. Additionally, obsolete power generation capacities will also need to be disconnected from the grid for reasons resulting from the environmental protection laws.

These simple facts mean, according to publicly available estimates, that between 800 and 1,000 MW in new capacity should be connected to the power grid every year. Likewise, by 2020—out of a total demand of 170 TWh-25 TWh (15 percent of output) needs to come from renewable sources, according to Economy Ministry estimates. In other words, in the case of onshore wind parks, 400 MW corresponds to one TWh of output—i.e. the current total of installed capacities of the Polish wind energy sector—and

in the case of offshore parks, 250 MW corresponds to one TWh. It thus appears, according to specialists, that by the year 2020 between seven and 10 GW of total wind energy capacity should be installed, compared to the currently available 0.5 GW available.

Wind force is very good or good, especially on the Baltic Coast, but also north of Poznan in the direction of Szczecin. It is also good or very good north of the Mazury region and in the Karkonosze Mountains. However, in the Karkonosze Mountain region the power grid is obsolete and there are far too few possibilities for the adjustment of system-inherent voltage fluctuations through other energy sources. In the coming years, investments of considerable volume—ranging from investments in the grid and modern substations to the construction of new generation capacities (the construction of a nuclear power plant in the north of Poland has even been discussed by politicians)—will be necessary in order to meet EU requirements regarding the share of power generation from renewable sources within the total energy balance.

On this note, an important hurdle for investors for the time being is the ability to connect to the grid. An additional hurdle is the assignment of connection specifications by mostly state-owned distributors, which are the necessary conditions when applying for construction permits.

Projects developed in recent years—mostly with relatively modest funds—have often come in stages that are less than satisfactory when it comes to leases, construction planning and regulations and grid connections. Taking into consideration the current situation, a forward purchase is the transaction structure recommended for investors. This means that first the investor must gain participation in a project company from the developer, with the remaining shares to be acquired at an earlier-

agreed price once the construction permit for the project becomes valid.

Alternatively, the investor can acquire all shares in the project immediately and later enter into a contract for the further development of the project, with the contract providing for success fees after certain milestones are achieved. This leads to the appropriate distribution of risks and motivates both parties to pursue a common goal.

The development of offshore investment is still a distant prospect, with an adjustment of current maritime law necessary before this happens. Current environmental regulations are also very restrictive in this respect. Finally, the construction of and Poland's connection to the so-called supergrid on the Baltic Sea is necessary to ensure grid connectivity.

The time horizon for the development of wind parks is currently estimated at five years, of which the planning phase will demand three years with the construction phase consuming two.

This investment guide is designed to help identify general risks for investments in renewable energy and to make success of such projects more probable. The investment guide cannot, however, be considered a substitute for individual consulting.

Furthermore we are proud to inform you about a research regarding the readiness to invest in wind energy in Poland, conducted in spring 2009 in cooperation with the BPCC Clean Technologies Policy Group. The report is available under: [anna.czerniak@bsjp.pl](mailto:anna.czerniak@bsjp.pl).

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## Practice Groups

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Advisory does not just include enterprises, strategies and facts. It also includes the individual and his/her problems, goals and visions. It is obvious to us that taking part in an individual's vision for business requires greater effort and participation, which is why we have created our service to focus on eight key specialized areas that are both linked together and which fulfill such an individual's needs. On this note, however, our advisory services are not limited to specific legal fields—and this flexibility ensures winning solutions, no matter how sophisticated or technically challenging the problem.

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