

Expert Opinion

X1500 MVA of wind energy – Portuguese steps towards Kyoto Protocol targets

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On 27 September 2001 Portugal implemented Directive 2001/77/CE on the promotion of electricity produced from renewable sources (RES) in the internal electricity market. As a result Portugal has an indicative target to generate 39% of total electricity capacity from RES, by 2010.

Directive 2001/77/CE encourages Member States to increase green electricity in the electricity market as a way of achieving Community targets and of complying with EU commitments under the Kyoto Protocol.

Since implementation, the Portuguese government has developed incentives to stimulate private investment in green electricity. These include the enactment of a new legal framework – a simplified licensing process and a set of feed-in tariffs for RES electricity. The tariffs are guaranteed for 15 years – considered sufficient for investors to achieve an adequate return.

The licensing process is ruled by Decree-Law 312/2001 of 10 December 2001 (as amended by Decree-Law 33-A/2005, of 16 February 2005) that covers the procedure for connection to the grid and subsequent permits. This begins with a preliminary information request to the General Directorate of Geology and Energy.

In addition to the licensing process initiated by private investors, Decree-Law 312/2001 also foresees the granting of connection points via public tender award. These will occur in particular when (i) priority goals of Portuguese (including EU) energy policy or (ii) the optimization of the available capacity of the public network, are at stake.

Until recently, all installed Windfarm capacity came from private investment. But on July 28, 2005, the Portuguese government launched a public tender for up to 1500 MVA of new energy capacity from wind generation plus respective grid connection points. This tender has two successive stages, Stage A (800 to 1000 MVA) and Stage B (400 to 500 MVA).

The tender is also unusual for being “tied” to the development of an industrial cluster.

This entails the development of a set of regional centres capable of supplying equipment and services for the manufacture and operation of the wind turbines and wind farms. The aim is to support a consolidated interplay between the various industrial activities relevant for wind generation.

Electricity generation bidders will be expected to bid in association with industrial developers in order to achieve the objectives of this two-fold project – to improve the production of green electricity in Portugal (as undertaken by the State under the Kyoto Protocol) and to carry out a sustained economic and social development of particular regions.

The evaluation of the bids will therefore take into consideration the impact of each project on the development of ancillary industries connected to the generation of energy, and relevant for the creation of employment

and the development of technology capabilities in development challenged regions.

This evaluation will have to consider the criteria and sub-criteria outlined below with the new capacities being awarded to the most “favourable bid.”

The deadline for bids is January 30, 2006.

There is a lot of enthusiasm and excitement surrounding the outcome of this tender from both industry players and financiers. It is worth bearing in mind that wind generation has provided a steady pipeline of project finance deals for market players. In addition, delays in setting up the liberalised Iberian electricity market have led to the postponement of the expected refinancing and/or securitisation transactions for Portuguese IPPs, associated with the termination of long term power purchase agreements.

This tender therefore, with its significant capacities and associated industrial investment, looks like a major opportunity for financiers. ■

Criteria	Sub-criteria	Consideration	
		Stage A	Stage B
A Economic Impact	A1 Discount in relation to the value of the tariff for the energy delivered to the grid (as against the tariff provided for in the law)	20%	17.5%
B Support to innovation	B1 Amount of investment in R&D B2 Amount of investment in training B3 Amount of investment in infrastructure B4 Amount of investment in other activities	10%	10%
C Technical Management of the System	C1 Technical management capacity for groups of wind farms C2 Management of energy generation C3 Solutions for reserve of energy C4 Additional control for the reactive capacity C5 Participation on the primary regulation of frequency	25%	25%