

Summary – GGGI High Level Session NDCFI Investment Forum



Background and Context

As part of the 2nd NDCFI Investment Forum, GGGI held a session on July 6, 2022, titled “Advancing the Renewable Energy Transition in the OECS: The Role of Policymakers in Attracting Investment in Renewable Energy”. The main aim of this session was to communicate to leaders and decision makers in the energy/ electricity sectors across the OECS region the importance of having the appropriate regulatory frameworks in place in order to meet renewable energy targets.

This session included a panel discussion with experts in the operations of electricity markets providing regulatory perspectives on the increased use of renewable energy in electricity generation across the OECS region; and a presentation on work being done by GGGI to support the development of regulatory frameworks across the OECS region to facilitate the increased use of renewable energy in electricity generation. However, due to time constraints, only the panel discussion was held.

Overview and Key Talking Points from Panel Discussion

The panel discussion involved participants being asked to respond to prepared questions, and also being asked to respond to questions from the audience. The participants in the panel discussion were:

1. Allison Jean (moderator) – Chief Executive Officer, National Utilities Regulatory Commission (Saint Lucia)
2. Glenn Khan – Executive Director, Regulated Industries Commission (Republic of Trinidad and Tobago)
3. Dr. Ted Kury – Director of Energy Studies, Public Utility Research Center, University of Florida
4. Cheryl Lewis – Deputy Director General, Office of Utilities Regulation (Jamaica)
5. Thomas Mitschke – Advisor for Energy Solutions, Caribbean Electric Utility Services Corporation

Questions raised during the discussion required panelists to address the following issues:

- The role of policy makers in driving integration of renewable energy power generation in electricity networks.
- The importance and the role of independent electric utility regulators in helping to guide renewable energy policy decisions, and in facilitating countries achieving their renewable energy goals.
- The different modalities for addition of renewable energy, and the advantages and disadvantages of each.
- Cost recovery and tariff issues that may arise due to fast-tracked integration of renewable energy displacing electricity generated by conventional generation assets.
- Financing of projects from local sources, and the potential for the use of a pooled approach in procurement of renewable energy generation assets for use across the OECS region.

Transitioning electricity sectors to greater use of renewable energy requires consideration of a number of issues, some of which may not be immediately evident. These include the structure of the electricity sector and the technical and operational characteristics of the renewable energy technologies being considered, as compared to conventional power generation technologies. Individually, each of the points raised in the panel discussion are important and complex topics which could each be the subject of their own forum. Nevertheless, the panelists raised some very important points which are worth further consideration by all stakeholders in electricity sectors across the OECS region, particularly decision makers and technical leads.

The main points put forward by the panelists, on the issues described are summarized below.

1

As the primary drivers of change in the electricity sector, policy makers are integral to the transition from fossil fuel power generation to greater use of renewables, being aware of the unique characteristics of the country/territory in which they reside, and its vulnerabilities to natural disasters and other threats. In crafting policy to encourage greater use of renewable energy, policy makers should:

- a. Craft policy which responds to changes in the operating environment, including climate change.
- b. Give clear consideration to societal demands, the current market structure, along with the rights and responsibilities of all the current stakeholders in the sector.
- c. Consider the most effective and appropriate institutional framework for the sector. For example, having an independent electricity regulator is seen by investors as a positive. If on the other hand, the energy ministry, or department, is in complete control of the sector, this can be seen as a risk and could hinder investment. Investors are aware that political pressures may not dictate the most economic and reasonable decisions.

2

Defining a clear role for independent regulators in the electricity sector governance framework is viewed positively by investors. Independent regulators usually have a better view of the needs of all stakeholders, including consumers, and can therefore guide policy making, ensuring rights are protected. Regulators can provide guidance to policy makers on several issues including the development of power purchase agreements, advice on the expansion of distributed generation schemes, while ensuring the off taker remains viable. Nevertheless, one of the most important aspects of the regulator's involvement in renewable energy policy making is to ensure that consumers are not disadvantaged.

3

While policy makers and regulators may set targets and create the necessary frameworks, the central and most visible aspect of a renewable energy transition is the addition of new generation capacity which utilize renewable energy sources. This can be done via different modalities; however, two typical classifications are utility scale generation and distributed generation. Each of these options has advantages and disadvantages but both can be used in a complementary manner in order for a country or territory to achieve its renewable energy goals. The main advantages of distributed generation schemes include faster rollout and allowing electricity consumers to have a direct way in participating in the renewable energy transition, supplying a portion or even all of their own energy needs. On the other hand, utility scale projects can bring advantages of lower energy prices for all, and leveraging the capabilities of large investors, who have multiple references around the world and can bring technical and financial capacity to the implementation of the project.

4

As indicated above, utility scale renewable energy power generation projects have their benefits. In trying to leverage these benefits, however, policy makers need to be cognizant of some of the implications of funding strategies chosen. Opening up project development and financing to international investors will typically lead to a higher likelihood of projects being funded and developed, however, in such instances policy makers will have to be comfortable with the fact that this may mean payments are going outside the region. On the other hand, if project financing is restricted to regional investors, policy makers will have to be comfortable with the idea that they may not be able to fund everything they want to fund. Policy makers need to be comfortable with money flows and that this is helping to accomplish their objectives.

5

In addition to the costs involved in developing new renewable energy projects, policy makers and other key decision makers must be aware of other potential cost implications of such projects. New renewable energy resources have the potential of displacing costs of existing resources. However, in the short term, costs displaced are typically variable costs, with fixed costs remaining. In other words, assets could remain on the system that generate little or no energy but are still imposing a cost. This could lead to stranded asset costs, which still need to be recovered. Lenders who finance construction of these plants which are now seen as stranded assets, are only interested in getting their money back, regardless of whether the asset is generating energy or not. Such stranded asset costs may not be recoverable through normal mechanisms, but they still exist, and mechanisms will need to be developed and put in place to facilitate their recovery. Any mechanism chosen for dealing with these costs will not change how much is paid, but it can alter when and how costs are recovered. Rate payers or taxpayers will, however, still pay for it all.

Next Steps

The COVID-19 pandemic, as well as volatilities in energy prices have reiterated the need for small island developing states to have productive and efficient alternative energy sources in order to achieve and maintain economic competitiveness. In developing policies and frameworks to facilitate the increased use of renewable energy, policy makers need to give due consideration to different approaches and potential implications.

Through its project titled “Support for a Renewable Energy Transition in OECS Countries” GGGI is providing tailored, embedded technical support and capacity building to Member States at the national level for strengthening regulatory and policy frameworks for renewable energy, as well as offering general guidance at the regional level.

In light of the above, GGGI and the OECS Commission conducted a virtual interactive session for regional electricity sector stakeholders on the interconnection of customer-owned renewable energy facilities to the grid. This session was held on November 2, 2022 and involved a presentation from GGGI on [Regulatory Guidelines on the Interconnection of Customer-Owned Renewable Energy Facilities to the Grid](#), and case study presentations from representatives of the Independent Regulatory Commission (Dominica) and the Fair Trading Commission (Barbados) on their existing frameworks for interconnection of distributed renewable energy facilities. Over 30 persons took part in the event. Further sessions are planned for 2023, to cover related topics such as the procurement of utility-scale renewable energy facilities. Information on these events will be circulated in due course.