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The Polish lower house recently postponed its Renewable Energy Sources Act for six months, meaning the first green energy auctions are now due to be held by the end of September 2016, instead of the planned April 2016.

Major change in Polish incentives

Poland: When the long-prepared Renewable Energy Sources bill was passed by Poland's lower house, the Sejm, and then signed into law by the Polish president in spring 2015, it seemed that the dispute over incentives for renewable energy in Poland was finally over. Poland was due to switch from the quota regime to the auction system on January 1, 2016. Yet shortly before the end of 2015 the government postponed the introduction of the auction system for another six months. This is likely the first step towards a complete overhaul of the incentive system before auctions are introduced. Rödl & Partner's Piotr Mrowiec reports.

On December 22, 2015, the Polish Sejm amended the Renewable Energy Sources Act (the "RES Act") so that the effective date of Section IV was postponed for six months. The amendment was signed by the President on December 30, two days before the regulations introducing the incentive mechanism for renewables in form of the so-called "auction system"

were supposed to come into force. Given the current legislation and the amended RES Act, the first green energy auctions will be delayed for six months.

In accordance with the road map laid out in the RES Act version from before the amendment, the first auctions were to be held in April 2016 because – as per Article 210 of the RES Act – the auctions

should be held within 90 days of the effective date of Section 4 of the RES Act. Because this date was postponed until July 1, 2016, the first auctions are now due to be held by the end of September 2016.

Admittedly, the postponement of the auction system launch was necessary. Despite many years of legislating and preparing the RES Act, there is still no

regulation that specifies the exact conditions, deadlines and the auction process itself. In this regard, the RES Act provides only the legal framework for the auction system and a general framework for the auction process.

In addition, there is still no online auctioning platform in place even though the tender procedure was conducted and the preferred bidder was selected last year. The six month postponement is not bad news for renewable energy project developers either. The planned ceiling prices are not very attractive. If a bid exceeds the ceiling price, it is automatically voided. Neither is the current support in form of green certificates and the officially set price of “green” electricity.

The current revenue from the production of green energy is €0.0648/kWh (\$0.072). This price is generated from the fixed cost of energy as measured by the average price of electricity on a competitive market in 2015, which is PLN 163.58/MWh (\$42.46) + the price of green certificates, which (as of March 2016) is PLN 115/MWh (\$29.85).

Some investors will choose, however, to stick to the old system, which they see as tried-and-tested. This is because green certificates are no longer issued to owners of larger-scale hydro-power plants composed of hydroelectric stations built mainly in the 1970s (most of which have been fully depreciated by now) and generating electricity at price levels close to those for conventional electricity. In addition, 50% cuts were introduced on this type of support for cogeneration plants, with the combined heat and power (CHP) plants having been the greatest beneficiaries of this form of support so far. This aimed to reduce the pressure on the green certificates’ price, which has been at a record low for a long time anyway. Some energy market analysts forecast that the price of green certificates may rise to the level of PLN 200–210 (\$52–\$54) in the coming years.

This price level and the 15 year period of support prescribed in the RES Act seems to be a reasonable alternative to the auction system, the abandonment of which is expected to most severely affect variable energy sources such as PV and wind power, according to the Ministry of Energy. The 15 year payment period is calculated from the date energy is first fed into the grid. An answer to the question as to whether this alternative is economically viable depends on the technology applied to generate electricity. For wind power, the current level of support seems sufficient. This is clearly reflected in the fact that new generating capacity installed in 2015 reached a record high level of 1,285 MW. Wind power investors clearly prefer the quota system.

The situation is entirely different for PV. The current support system does not facilitate its development in Poland. Combined support schemes such as green certificates + EU funding is the way solar is developed at present. Nonetheless, many investors want to see the auction system introduced because the level of support they would get would be much higher and offer stability.

Incentive system adjustment

The six month postponement of the auction system launch is not just a technical move to allow institutions more time to prepare the first auctions. The Minister of Energy has clearly said that the remainder of the time will be used mainly to radically overhaul the incentive system. The Polish government wants to focus on the development of dispatchable renewable energy



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Distributed projects, such as this 3 kWp system at an amusement park, are the most likely to be developed under the current system.

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PV arrays up to 40 kW, such as this array in Bojszow, are largely free from regulations, empowering the prosumer.

sources covered by the RES Act, mainly cogeneration and biomass. According to the Minister of Energy, the market has been overwhelmingly dominated by wind power, which is non-dispatchable.

The current renewables bill introduces a rule where as much as 25% of electrical power purchased at auctions must be derived from variable renewable energy sources. This would increase the chances of success for the wind in the competition with the incredibly cheap cogeneration

technology and create growth opportunities for PV in the area of installations of up to 1 MW.

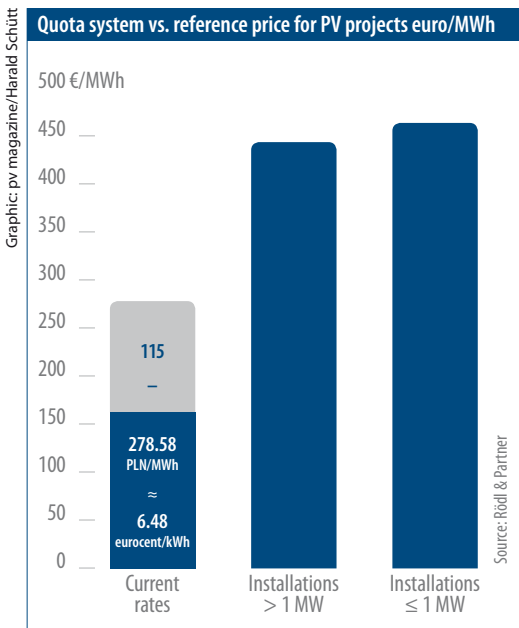
It remains to be seen whether this rule will be deleted from the bill. Importantly, the Ministry is able to easily increase or reduce the attractiveness of the auction system to individual technologies by simply raising or lowering the rates of reference prices binding on such technologies. The reference prices will be surely increased for biogas, which is reasonably dispatchable and would be promoted in Poland instead of variable PV. While the better promoted biogas plants in the range of over 1 MW cannot pose a threat to wind farms, the higher incentives for biogas, at the expense of PV, might make a participation in solar auctions economically pointless in the future.

The development of solar PV was supposed to be boosted by the concept of prosumer power systems, where consumers generate electricity for their own usage and any surplus is fed into the grid. PV power stations would be a perfect fit for implementing the concept of prosumer power systems because they are easy to install and free from any administrative restrictions, for installations of up to 40 kWp. It should be also mentioned that the postponement of the effective date for regulations on energy auctions has

also halted the enactment of the laws on incentives for prosumers in form of guaranteed tariffs. The Ministry of Energy has announced that they plan adjustments in this area, which will most likely boil down to cuts in tariffs and will reduce the attractiveness of this branch of the power industry.

Thus, it stands to reason that the development of the Polish power industry may now only rely on Poland's firm commitment to meeting the climate policy objective, where at least 15% of gross domestic energy consumption should be covered by renewable energy sources.

If Poland fails to achieve the EU's 2020 renewable energy production target, the country will have to cover the deficit under the EU statistical transfer cooperation mechanism and buy green energy from countries which generate surplus, such as Germany, which would cost Poland billions of zloty – a cost the government will surely want to avoid. Thus, it is likely that the adjustment of the energy policy will not be as strong as one might expect. Because the communication from the Ministry of Energy is very general in this respect, we will not be able to say more about the further changes in the Polish incentive system until the next bill amending the RES Act is announced. ♦



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