
Poland, Turkey and Bulgaria to lead the way for CEE renewable investment in 2011

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The wind sector in Poland and Turkey and the solar sector in Bulgaria are the three main growth areas for renewable energy in Central and Eastern Europe (CEE) for 2011, according to a leading figure at one of the region's most prominent corporate finance advisory firms.

Richard König, Associate Director of Raiffeisen Investment, told Clean Energy pipeline that the Polish market is attractive to investors for two main reasons. The first is the simple fact that Poland has the most need for renewable energy development of all EU countries. At present, close to 90% of its power is generated from coal, which means that its need for investment to diversify its power mix is more urgent than other CEE countries.

The second driving force in Poland is a reasonably attractive green certificate system that has become bankable for power distribution companies, allowing them to trade certificates created through renewable energy generation at a decent price. "This means that these companies are now willing to enter into 15-16 year power purchase agreements for renewable projects," said König. "This allows developers to secure project financing at an 80-20 debt-equity split."

König predicts that up to 1,500 MW per year of wind capacity will be financed and installed in Poland for the next three to four years. The country has numerous sites with the necessary wind power to support this. In 2010 Clean Energy pipeline tracked completed financing deals for 650 MW of capacity in Poland.

All four major classes of renewable investor are likely to enter the Polish wind sector, according to Koenig. It will prove attractive to utilities, local Polish investors, infrastructure funds and private equity investment firms.

After Poland, Turkey is potentially the strongest wind CEE wind market. However, it is a very different investment environment. "Turkey is probably the only market in Eastern Europe where grid parity has already been reached with wind," said König.

"This is due to a high wholesale power price and the best wind hours in Europe next to Ukraine. You can achieve grid parity there with wind turbine prices of Eur1.2 million per MW. You don't need any incentives."

As is to be expected, there is a catch. Despite this seemingly favourable state of affairs, fully tied up, non-recourse project financing for Turkish wind farms has not been available in the past because banks are not fully comfortable with taking merchant risk on the wholesale power price.

The Turkish government has introduced a new updated feed-in tariff for wind, but König believes it is too low for the seller of any electricity generated to support the investment. While the tariff ensures that banks are more comfortable with financing wind farms, investors are still being swayed by the much higher wholesale price.

The result of this situation is that Turkish investment holdings familiar with the market are likely to be the major players in this sector. While some international utilities such as EDF EN and EnBW are already involved, the bulk of investment will come from local Turkish investors like Enerjisa, Agaoglu, Sanko, IC or Zorlu.

"The Turkish market is not so attractive for a typical renewable developer that wants to have a guaranteed long-term off-take and a high level of non-recourse project finance," said König. In order to negotiate the financing barriers in Turkey a developer must access corporate loans or "Turkish project financing," which takes the form of limited recourse financing to the parent company. The other available option is support from multilateral finance institutions.

Raiffeisen anticipates the installation of new wind capacity to be "around 2,000 MW" per year in the short to mid-term. The Turkish Energy ministry targets 10 GW of installed wind capacity by 2015 and 20 GW by 2023. König pointed out that the Turkish economy's high energy requirement will be a significant driver of investment. Turkey's power demand has grown by an annual rate of c. 7% for the last decade.

In Bulgaria, the solar sector seems set to take over from the Czech Republic as the investment sweet spot of choice for the CEE region. Its relatively high solar irradiance and strong feed-in tariff are the usual signifiers for increased investment in photovoltaic assets. König expects to see "a couple of hundred" megawatts come online this year.

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