Undertaking successful PPPs for Clean Technology Development in Azerbaijan

By Ana-Katarina Hajduka (ana-katarina.hajduka@trinityllp.com)
Clean technologies in Azerbaijan

- Azerbaijan is blessed with rich energy resources (both fossil fuels and renewable)

- Many fossil fuels rich countries are turning their energy strategies towards developing greater penetration of renewable energy (Qatar, UAE etc)

- Azerbaijan has an opportunity to create significant wealth by generating greater levels of renewable energy and exporting fossil fuels for revenue

- Azerbaijan can help diversify its economy away from fossil fuels via renewable energy development

- Azerbaijan can achieve further convergence with EU legislation by introducing EU standards on renewable energy
Current positive developments

- Since 2009, Azerbaijan has been signatory to the IRENA.
- Since 2009, Azerbaijan has created the State Agency on Alternative and Renewable Energy Sources (SAARES). As of June 2012, SAARES has become the State Company on Alternative and Renewable Energy Sources.
- The Ministry of Energy and Industry announced in January 2013 that Azerbaijan hopes to raise over 75 billion US dollars in alternative energy investments by 2020, and increase total renewables capacity to 2,000 MW – 20% of the nation’s overall power needs.

<table>
<thead>
<tr>
<th>Source</th>
<th>Achievable Potential in MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small hydropower stations</td>
<td>&gt;400</td>
</tr>
<tr>
<td>Wind energy</td>
<td>&gt;800</td>
</tr>
<tr>
<td>Solar energy</td>
<td>&gt;5000</td>
</tr>
<tr>
<td>Bioenergy</td>
<td>&gt;1500</td>
</tr>
<tr>
<td>Geothermal (thermal only)</td>
<td>&gt;800</td>
</tr>
</tbody>
</table>

(Source: SAARES, 2012)
Current positive developments

29 December 2011, Order of the President of Republic of Azerbaijan on preparation of National Strategy on the use of Alternative and RES for 2012-2020

Objectives:

- To create truly sustainable energy system for Azerbaijan
- To prepare and present national strategy for the use of alternative and renewable energy (not yet prepared)
- To determine key directions for the production of electrical and thermal energy from renewables
- To create the legal framework for the usage of renewable energy (not yet created)
- To establish optimal conditions for the promotion of renewable energy sector

<table>
<thead>
<tr>
<th>Project Name and Location</th>
<th>Capacity (MW)</th>
<th>Cost</th>
<th>Potential investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pirshakul wind farm</td>
<td>110</td>
<td>€165 mln</td>
<td>Government of Azerbaijan (10-25%) + KIW</td>
</tr>
<tr>
<td>Hovsan Sewage-Gas Station</td>
<td>50</td>
<td>€75 mln</td>
<td>Government of Azerbaijan (10-25%) + POSCO</td>
</tr>
<tr>
<td>Absheron Solar PV Park</td>
<td>25</td>
<td>€87.5 mln</td>
<td>Government of Azerbaijan (10-25%) + JICA</td>
</tr>
<tr>
<td>Offshore Wind Farm</td>
<td>100</td>
<td>€250 mln</td>
<td>Government of Azerbaijan (10-25%) + Private</td>
</tr>
<tr>
<td>1000 House / 1000 Power Stations</td>
<td>50</td>
<td>€80 mln</td>
<td>Government of Azerbaijan + Private Investor</td>
</tr>
</tbody>
</table>

Source: SAARES, 2012
Azerbaijan’s 2020 Renewable Energy Targets

In April 2012, the director of SAARES, Dr Akim Badalov, stated that Azerbaijan has set the following targets for the development of renewable energy by 2020:

- 20% share of renewable energy in electricity
- 9.7% share of renewable energy in all energy consumption
- 2,000 MW of installed renewable energy capacity by 2020
SAARES Initiatives

- Establishment of Experimental Polygon and Training
- Center in Gobustan for researches of local grid connections with global electricity networks
- Establishment of hi-tech parks for technology transfers in RE and energy efficiency infrastructures
Other Initiatives – Baku waste to energy plant
Other Initiatives – Baku waste to energy plant

- First large scale PPP
- Procured by the Ministry of Economic Development Azerbaijan
- A design, build and operation (DBO) 20-year contract was awarded to a French firm CINM
- Capacity of 500,000 tons of municipal solid waste per year, comprising two incineration lines; each line with 250,000 tons capacity.
- It is hoped over 231 million kWh/year of electricity will be produced from the facility
- The plant was built in the new Balakhani Eco Industrial Park
- Large scale 346 million Euro project
- Intended to reduce the need for future landfills and to make use of the energy released in the thermal treatment process to generate electricity and heat. The plant commissioning will create about 100 jobs.
General Problems for PPP development in Azerbaijan

Lack of private sector interest due to:

- No legal and regulatory framework for PPPs available
- Few demonstrated pilot projects in renewable energy
- Enormous administrative and legal impenetrability and lack of clarity
- Competition from a monolithic, monopolistic giant i.e. Azereenergy
- No ability to raise capital locally and the international banks are largely absent
- Low electricity tariffs that were set in 2007 and are still valid for 2013
- Lack of a legal basis for connection to the grid
Current Legal and Regulatory Framework in Azerbaijan

- **General Legislative and Institutional Framework**
  There is no clear legal and regulatory framework for PPPs in Azerbaijan.

- **Scope of Authority to award projects**
  There is no PPP legislation and the legal framework does not identify the public authorities of the host country that are empowered to award and/or enter into PPPs.

- **PPP Procurement**
  There are no rules and/or policies on PPP procurement in Azerbaijan.

- **Administrative Co-ordination**
  No adequate institutional mechanisms have been established to co-ordinate the activities of the public authorities responsible for issuing approvals, permits, licences and consents needed for the implementation of the renewable project.
How to amend current Legal and Regulatory Framework in Azerbaijan (1)

- **General Legislative and Institutional Framework**

  ✓ Private participation in PPP projects should have a clear basis in policy, with broad government support. The existing laws should be amended to comply with the EBRD requirements for a well defined PPP legal and regulatory framework.

- **Scope of Authority to award projects**

  ✓ Identify the agency, ministry or other procuring authority in charge of the procurement process and the entity that will execute the PPP agreement with the private sector.

**Make sure that:**

✓ That there is a clear route map for obtaining all of the necessary consents for a project;
✓ That a realistic timetable is set for the obtaining of these consents and that the timetable is delivered;
✓ That the number of “gateways” and consents is minimized to the maximum extent possible; and
✓ That the negotiating parties are clearly authorized to make the necessary decisions to drive the project forward and will not be overruled in an arbitrary fashion.
How to amend current Legal and Regulatory Framework in Azerbaijan (2)

- **Administrative Co-ordination**
  - Adequate institutional mechanisms should be established to co-ordinate the activities of the public authorities responsible for issuing approvals, permits, licences and consents.
  - Regulatory competence should be entrusted to functionally independent bodies sufficiently autonomous to ensure their decisions are taken without political interference.
  - Rules governing regulatory procedures should be publicly available.

- **Government Support**
  - The government should consider introducing feed-in tariffs for renewable energy development and other direct promotion through governmental support programme.
  - The government should consider introducing quota obligations and/or soft loans for renewable energy development.
  - The government should introduce fiscal incentives and/or grants and rebates for renewable energy development.
  - The government should adopt renewable energy targets.
  - Consider introducing a subsidy to the private sector on initial investment.
  - Unconditional guarantee that all produced energy by IPP’s is purchased.
Selection of the IPP developer

- Set out in the law clear procurement processes which are suitable for PPP structures.

- Design a procurement procedure which includes conditions that encourage competition between bidders so as to allow public authorities to achieve better value for money.

- Advertise projects appropriately, using accessible forms of media.

- Use award criteria that are objective and transparent.

- Publicly advertise contract award.

- Notify unsuccessful bidders of decisions and provide an opportunity to give a debrief of their bid, setting out the reasons for elimination.
How to amend current Legal and Regulatory Framework in Azerbaijan (4)

- **Finance**
  - Security of property rights is obviously essential for fostering private investment in any country.
  - There should be no restrictions on foreign or private ownership.

- **Security**

  The PPP legislation should specifically permit the following:
  - Mortgages over any land and property held by the project company;
  - Fixed and floating charges over shares of the project company and any plant and machinery, credit balances, book debts, intellectual property and other beneficial interests;
  - Assignment of insurance policies by way of security.
  - **Etc.**
Final Recommendations

- Renewable energy development should continue to be a priority for Azerbaijan.

- Part of the oil and gas revenues should be dedicated to renewable energy development and a renewable energy fund should be created.

- The Government can establish a Clean Energy Fund to co-finance the green projects.

- Grid connection rules, tariff methodology and incentives should be developed in order to attract investments in the renewable energy sector.

- Part of the resources of the State Oil Fund and State Oil Company can be directed to co-fund renewable and alternative energy projects.
Trinity International LLP

Ana-Katarina Hajduka