

Chile's Price Stabilization Fund NAMA Proposal

Renewable Energy Price Stabilization Fund

May 30, 2013

Chile's power sector is on a trajectory to add 8,000 – 10,000 megawatts of new capacity by 2020, from the current 16,000. If all of this new demand was met through additional coal-powered generation, carbon dioxide emissions could increase by 32 to 40 million tons over current levels. In an effort to make Chile's electricity supply less dependent on fossil fuels and to encourage the development of renewable energy sources, Chile is developing a NAMA to support the development of a price stabilization fund (PSF).

Chile currently has a Renewable Portfolio Standard Law, which requires 10 percent of the energy sold comes from renewable sources, by 2024. In addition, increasing the percent requirement is currently under consideration. The government has also developed several programs through its development agency (CORFO) to promote renewables, including soft loans, financing for pre-investment studies, and subsidies for the installation of a concentrated solar power plant in the north as a demonstrative project. None of these programs, however, fully address the financing barriers for renewable energy projects. This NAMA is intended to address the financing barriers in order to spur solar and wind power generation in Chile, and achieve significant greenhouse gas reductions, strong local health impacts, and significant leveraging of private investment at low cost to donors.

Catalyzing Investment in Renewables

The objective of the PSF is to catalyze commercial bank financing for renewable energy projects, excluding hydropower. Chile's energy sector is deregulated in such a manner that renewable power producers are not able to effectively obtain long-term power purchase agreements from investors. The deregulated Chilean power market is subject to wide fluctuations in its spot market price, ranging from as low as \$30/MWh to nearly 10 times that price. Intermittent renewable projects that cannot obtain power purchase agreements thus face particular risks given this wide variation in price, making banks reluctant to invest.



A PSF would address this barrier to investments in renewable energy by executing long-term (10-15 year), fixed-priced payment contracts with renewable project developers to overcome the price fluctuations. It would provide certainty to investors by guaranteeing a price for renewable energy and assuming the spot market price risk.

NAMA Description

The PSF would execute contracts with developers, committing to a set price for delivery of electricity into the spot market. The developer would then pledge the PSF contract as collateral for bank financing and would assign all payments from the spot market to the PSF.

Based on modeling studies under development, a ceiling will be established for PSF payments to developers to ensure that the PSF remains financially viable and solvent throughout the life of the PSF program. The number of projects and the quantity of megawatts supported by the PSF will be determined based on the funds available and the market projections.

Private investors have expressed interest in developing PSFs, and at least one is ready to fund a PSF. The NAMA funds will be used in conjunction with private funds to expand the scope and impact of the PSF model, increasing the number of renewable projects that can receive financing under this mechanism.

GHGs Reductions

It is estimated, on average, 555 tons of CO₂-equivalent can be avoided each year for each GWh generated with renewables. This means, for example, for every 100 MWs of wind installed capacity supported by a PSF, it can reduce 200,000 tons of CO₂-equivalent each year, or 4 million tons of CO₂-equivalent over a 20-year period.

Leveraging Private Funds

For every 100 MW a PSF can support, at least a \$10 million fund for its operation will be required, and the projects supported would require an investment of at least \$200 million, adding up to \$210 million of investment for a every 100 MWs supported by a PSF.

Support Requested

The Chilean Government is requesting \$10 - \$20 million to support the development of PSFs, expanding the delivery of PSF benefits to a larger pool of projects.

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