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**ORTECH Power Points™**

**WPPI – Is It Safe?**

by

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The Wind Power Production Incentive (WPPI) program has been an important cornerstone of the overwhelming success of the wind industry in Canada in recent years. At minimum, it has helped to make the price of renewable electricity more acceptable to rate payers. Perhaps it is even the engine behind the large provincial power purchasing programs now underway. With a change in the federal government, could WPPI be at risk?

WPPI is financed through federal budget process; hence, it requires support of parliament to ensure its continued funding. But more importantly, WPPI is (only) a program, and as such it can be slowed down, changed or cancelled at any time by the Minister responsible. To do so does not require a motion in parliament. Whenever a change in administration or a change in government occurs, the future of a program like WPPI becomes uncertain.

The WPPI program had an initial scope of 1,000MW. Based on an election promise, the program was expanded after the 2004 election to 4,000MW. Much of this generation capacity is already in planning as a result of recent contract awards and upcoming renewable energy procurements in Quebec and Ontario. As the result, environmental organizations and the wind industry have suggested further expansion of the program. The Canadian Wind Energy Association (CanWEA) has proposed an expansion to 8,500MW by 2014 (see [www.canwea.ca](http://www.canwea.ca)).

In the federal policy framework, the WPPI program funding has been closely linked to the Kyoto Protocol on Climate Change, and indeed is regarded by many supporters as a notable success story thereof. This could heighten the vulnerability of the program since the new government has indicated in its election policy document, Stand Up for Canada, that it will “address the issue of greenhouse gas emissions ... with a made-in-Canada plan, emphasizing new technologies...”. This appears to imply withdrawal from the Kyoto Protocol, creation of a whole new policy framework and review of current initiatives such as WPPI.

The momentum of the wind industry seems formidable. Alberta, Ontario and Quebec have recently made fundamental changes to the electricity system to allow integration of wind generation. Significant political capital has been expended, especially at provincial levels to realign the mindsets of reluctant electric utilities and permitting agencies. In most cases, the public has rewarded politicians with solid policy support.

During this federal election, the policy platforms of three out of five major parties made reference to renewable energy targets. This ratio is down from four out of five during the 2004 federal election where renewable energy even became a topic during the leaders' debates. It will be interesting to see if this broad political support will be sufficient to keep WPPI and the momentum of the industry alive.

Electricity prices, particularly in Ontario, have been under significant upward pressure for various reasons, including rising natural gas prices. While the increases reduce the premiums paid for wind energy, WPPI remains instrumental to making the strike price palatable to politicians. After all, the provinces have to justify the electricity price increases and the purchasing programs to their rate payers. It would be detrimental to the industry if wind, instead of natural gas were to become the new scapegoat of such a debate.

The financial risk to projects that are under construction should be examined closely. If a project has applied for WPPI, but it is not yet operational (i.e. if it has not signed a contract), a program change could put the application at risk. Since most projects under construction have committed to irrevocable long term provincial power purchase agreements under the assumption of WPPI availability, and since such tenders are highly competitive, these projects could be under water before they are operational. However, it is the harsh economic consequence of a sudden curtailment of the program that will be the key negotiating strength for the industry, as it tries to mitigate damages from any pending policy changes. Nevertheless, policy uncertainty of any kind is an all too familiar and unwelcome guest of the wind industry.

Since WPPI is just a government program, it is inherently at risk of policy changes. Potential outcomes could range from the status quo to an elimination of all further funding. On balance the political risk appears slight; however, the economic consequences would be very material. Careful tracking of this policy issue is critical.

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