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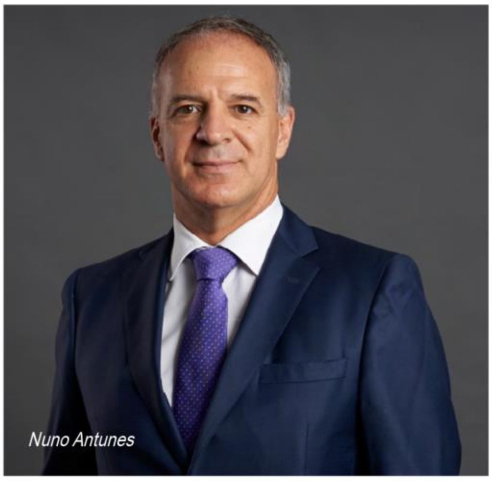
RENEWABLES IN PORTUGAL: some developments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Over the years, Portugal has become known for its renewables sector. Publicity of days in which all electricity consumed came from renewable sources, or perhaps more impressively of a monthly average renewable generation in excess of 100% of consumption (March 2018), made sure of that. Revisiting in brief the renewables sector in Portugal, focusing on wind and solar developments, spotlights certain features that should be of interest for potential investors.

In economic terms, the days of feed-in tariffs are over. At present, no direct financial support mechanism is in use for new projects. The guaranteed remuneration mechanism, while available subject to tender terms, has lacked implementation. No tender has recently been launched. Nor have rules therefor been set forth.

Portugal's approach to investment stability is one aspect. In spite of the crisis that scourged the country since the early 2010s, Portugal opted for maintaining the subsidies to renewables projects. At the political level, signs are admittedly not always clear. Late last year, for example, the Government decided to extend the CESE (Special Contribution on the Energy Sector) to subsidised renewables. Further, only a few weeks ago a Parliamentary report on 'excessive rents' touched on the possibility of repealing a statute extending the period of guaranteed remuneration. But renewables seem to continue beyond the grasp of attempts to substantially cut guaranteed rents. Shortly after disclosure of said report, the Secretary of State for Energy publicly reassured producers that no forceful position would be adopted. Changes to the applicable regime will in principle only be made through negotiations. In a nutshell, when it comes to investment in renewables, Portugal appears to tread a path of stability. The fact that the country has a strong, longstanding penetration into the renewables sector, together with the emphasis placed by various stakeholders on energy transition issues, renders it improbable that the situation is altered.

The issues around repowering and over-equipment of wind farms, as well as hybrid (wind-solar) farms, have drawn attention. A notable investor-friendly development in relation to the former was the enactment in January 2019 of a regulation clearing the way for an almost automatic renewal of pending applications in respect of licenses for cases of over-equipment in wind projects with guaranteed remuneration. Contingent upon the express acceptance by producers of a 45€/MWh fixed tariff (for a 15-year period) the prior opinion of the regulator as to such renewals was waived. Whether a general regime dealing with repowering, over-equipment and hybrid parks will be put in place, remains to be seen.

On the solar front, much hype has surrounded the announcement of an auction for a total of 1.35 GW. Expressions of interest seem to have reached 5 GW, with Government envisioning a nine-fold increase of solar power generation in the next decade. For 2019, the 20-odd projects expected to be concluded will generate just under 500 MW, with a target of 1,500 MW by 2021. Against a backdrop of non-existence of recent auctions and no enacted legal regime therefor, some stakeholders see the upcoming solar auction with anticipation given the perceived uncertainty of the regulatory and tax regimes.

Bankability is a critical issue, and certainly a source of apprehension. This is no minor issue, as the recent example of the *Ourika* solar plant (46 MW) illustrates. It was only after a long-term (20 years) PPA (Power Purchase Agreement) was concluded (i.e. with fixed price, reportedly below current wholesale electricity market price) that the fund *Allianz Capital Partners* decided to invest. Planned for completion by Q3 of 2019, the *Solara4* solar plant (220 MW) was the following acquisition. Reduction of volatility of prices was attained through long-term PPAs with private buyers. No subsidies were granted in either case.

If the flattening of renewable power capacity growth recently announced by the IEA (International Energy Agency) is to be countered, investment in renewable projects (new or refitted) need be bolstered. Portugal is contributing by showing no signs of taking the foot off the renewables throttle. With assurances of investment stability and certainty of economic terms, a new wave of investment in renewables (wind and solar) could be in the making. Interesting here might be whether, and if so how, the judgment of the Court of Justice of the European Union in Case C-405/16 P (Germany v Commission) could pave the way for a mechanism supporting investment in renewable projects.