



## **AUCTION SET TO START PORTUGAL'S SOLAR INDUSTRY BID**

### **MVConversations with João Macedo Vitorino**

**Recent changes to the law and an upcoming auction hope to take Portugal from Europe's lowest solar user to a being considerable presence in the market.**

The future may be getting brighter for Portugal's solar industry. The country's as yet unexploited sunny climate is being put to market next month with its first ever solar auction for 1.4 GW in four key regions - Portugal's largest ever solar energy auction. The auction comes on the back of recent reforms to the Energy Law addressing setting up the way forwards for increasing the energy grid capacity.

There has, however, been criticism and a worry that the longer-term costs are being compromise for hitting short-term goals, says João Macedo Vitorino. "While the auction system itself has been discussed at government level, it has never been discussed with the market itself. Certain issues such as the impact of reducing the return on investment in a very competitive European market, long-term costs to consumers and clarity on the actual capacity available on the grid remain unclear."

Until recently, solar project licences were sought directly from DGEG, the Portuguese Energy Authority. Without a clear view of the actual capacity available on the grid, investors would go down the road of working on obtaining the production licence, getting environmental and geology reports, etc, but in the end there was either no capacity or the authorities simply said 'no', he explains. "This risk just wasn't attractive for investors."

Up until recently the costs of implementation were high and wouldn't be feasible at market prices. "To sell energy at that price on the market wouldn't get a return on an investment," says João Macedo Vitorino, "but over the past two years, prices of solar panels has gone down, projects at market value are viable and the political will is there to get things moving with a new regime."

From now on, to apply for a licence you first need a grid connection reservation title. This can be done in one of three ways. First, enter into a direct contract with a grid operator where there is available capacity in the grid; second, where there's no such capacity, a direct contract with a grid operator but with the producer assuming the costs of connection to the grid; and finally through a Government auction, such as the one next month.

These positive changes to the regime have had a knock-on effect for current projects with licences or in the process obtaining them. "The Government has effectively cancelled these projects and they need to resubmit to the auction," explains João Macedo Vitorino, "which means running the risk of refusal, so we are likely to see some court cases cropping up in the future".

While next months' auction has the potential to increase the number of projects to be connected to the grid, one concern is that successful bids are to be awarded on the basis of the lowest tariffs. While an aggressive fixed tariff (starting at 20% below the market price as of today) means short-term savings for consumers, should energy prices go down the fixed tariffs granted in the auction will remain the same, adding a substantial advantage for the producers but imposing high invoices for the consumer.

Comparison can be drawn with what happened with the Portugal's small hydroelectric projects auction for capacity back in 2010. Bidders made offers for tariffs that couldn't sustain the investments that the projects needed, projects didn't go ahead, and no further auctions took place, he explains. "To hit the new



5GW to 6GW solar targets set by the Government, we would need at least 3 or 4 auctions to take place, which may not be feasible if conditions remain as they are as they may not be enough to attract investors.”

An alternative to this auction system would be a free market approach where all stakeholders have clarity on the grid capacity available today and in the near future. This would mean they could plan in advance where to invest, with a grid connection being granted on a simple principle of first-come first-served. While there are numerous viable locations for solar projects, such as in the Alentejo region, many do not have grid capacity access in their vicinity. To cover the distance needed to put these locations on the grid requires substantial investment, driving up the costs of the project itself, adds João Macedo Vitorino. “This is something that could deter investors when coupled with auction conditions designed to reduce project profitability. Although encouraging costs sharing between grid operators and developers could be one way to bridge this gap, as laid out in the revised Energy Law, investors will not be attracted to auctions in areas of low grid density.”

Ultimately, while elements of the new legislation and auction system do address difficulties brought up by market players, the overall solution and architecture has never been validated by those same market players. “While the potential is there to put Portugal on the solar map, the Government is trying to force the market players to share profit margins with consumers, which will most likely result in delaying the deployment of solar energy output in Portugal,” explains João Macedo Vitorino. Unless these conditions change for future auctions, we run the risk of history repeating itself and either failing to get the investors needed to increase grid capacity or see consumers bearing the costs in the long-term.

For anyone interested, the tender documents and maps of grid availability can be accessed online at <https://leiloes-renovaveis.gov.pt/> and bidders registration is open until 7<sup>th</sup> July.

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