



# The Portuguese 2020 Solar Auction

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# Foreword

In recent years, Portuguese solar market has witnessed a growing dynamism. In 2015, Portugal generated 799 GWh using this source, while on 2018, Portugal generated 1.005 GWh, representing an increase around 26% in just three years.

This increase is remarkable since, in early 2017, the Portuguese Government suspended the feed-in tariff for new projects which leveraged part of this development.

The progress was blocked by two main limitations:

- The lack of stability on promoters' remuneration and, therefore the tightening of the financing conditions, which led several licensed projects were never being built or operated; and
- The lack of capacity in the Public Grid ("RESP").

To solve these challenges and reach the goal of an annual generation of 6.600 GWh by 2030, the Portuguese Government approved [Decree-law 96/2019, of 3 June](#) ("**New Energy Law**"), which amends Decree-Law n.172/2006, of 23 August by making structural modifications to the licensing procedures and thus changing significantly the Portuguese solar production ecosystem.

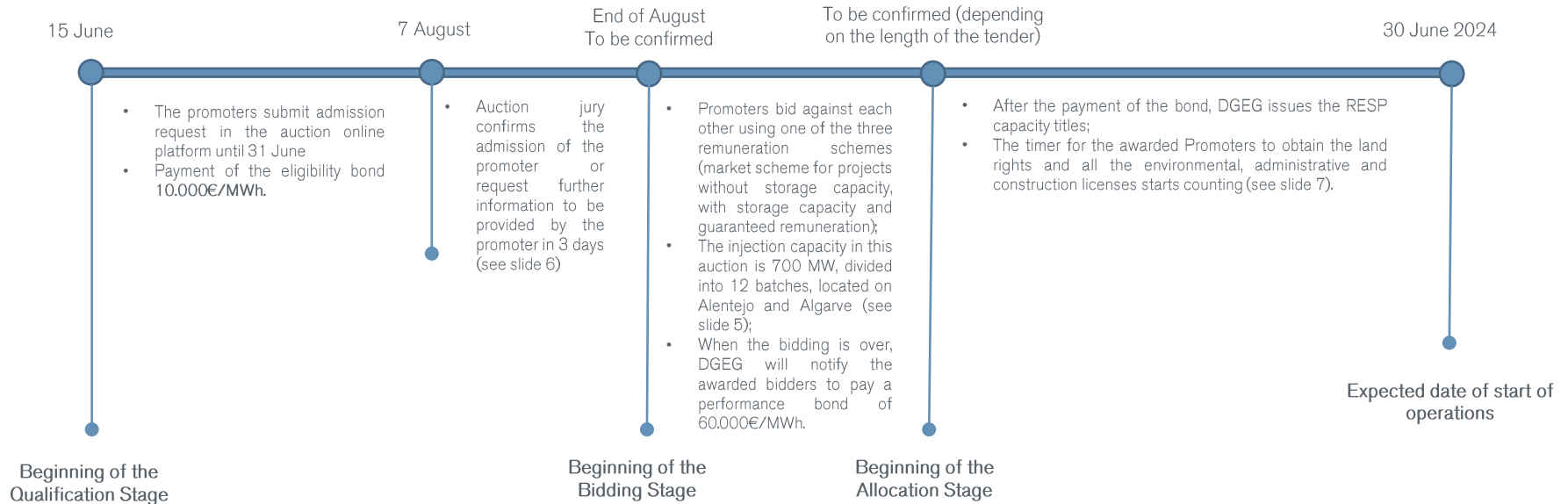
Under the New Energy Law, the first step, and the most important to license a power plant is now the obtaining of a title granting grid capacity in the RESP:

- (i) by request directly to the Portuguese Energy Agency ("DGEG"),
- (ii) by entering into a capacity agreement with the Grid Operator (EDP Distribuição, S.A. or REN, S.A), where the promoter bears the costs of the RESP expansion, or
- (iii) by award in an auction organized by DGEG.

In the 2019 Auction, over 50 eligible promoters applied for 24 different grid connection points. Most promoters (15 out of 24, equivalent to 75% of the awarded MWs) have chosen a guaranteed remuneration scheme. The average guaranteed remuneration tariff was 22,22 € p/MWh, while on the market scheme the average tariff offered was 18.36€ p/MWh.

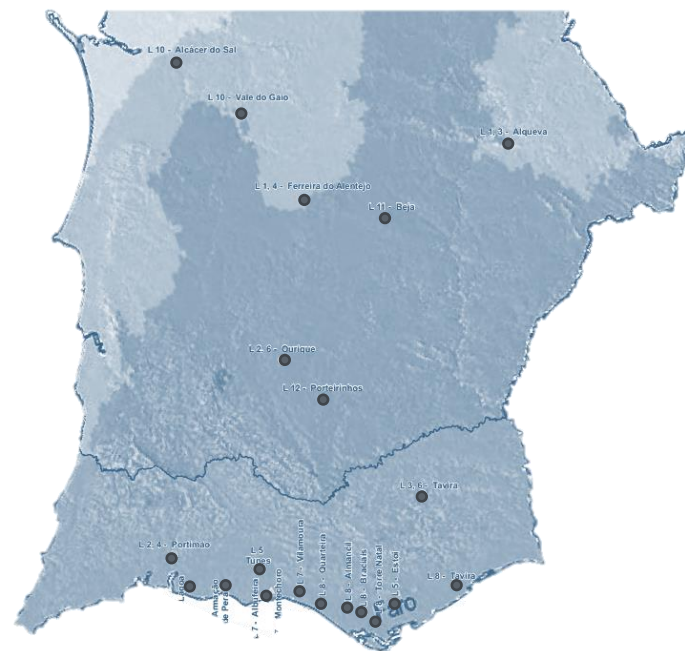
The 2020 Portuguese solar auction began on 15 June 2020 and will be completed by the end of the summer. This paper provides a guide through its stages and rules.

# Auction summary and timeline



# Auction map – batches and injection capacity

Batch	Connection point(s)	Capacity (MVA)
1	Alqueva and Ferreira do Alentejo	99
2	Portimão and Ourique	109
3	Alqueva, and Távira	99
4	Ferreira do Alentejo and Portimão	108
5	Estoi, and Tunes	99
6	Ourique and Távira	99
7	Albufeira, Montechoro, and Vilamoura	10
8	Almancil, Quarteira, Bracais, Torre Natal and Távira	10
9	Lagoa and Armação de Pêra	10
10	Alcácer do Sal and Vale do Gaio	19
11	Beja	19
12	Porteirinhos	19



# Qualification and bidding stages

In the qualification stage, Promoters shall first sign up in <https://leiloes-renovaveis.gov.pt/>. To complete the registration, Promoters need to provide basic corporate information regarding to the company bidding for the auction as well as its legal representatives.

Promoters must also provide a deposit to DGEG in the amount of 10.000€/MW, calculated in accordance with their bidding intentions. Once the qualifying conditions have been met, promoters gain access to the online platform where the auction is held.

In the bidding stage, promoters submit a bid through an online platform applying for one of the following remuneration schemes:

- a market scheme without storage where Promoters bid for a contribution to be paid to the National Electric System ("SEN"), in €/MWh;
- a fixed guaranteed tariff structure, where the bids express a discount to the reference feed (to be announced, in 2019 was set at 45€/MWh); and
- a market scheme for power plants incorporating a storage system, where the bids express a discount to an annual fee (to be announced) to be paid by the Promoters to the SEN.

These three methods of remuneration will compete among themselves for the same capacity, using different formulas to determine the Net Present Value ("NPV") in order to guarantee a fair procedure.

The auctions are going to be anonymous and each batch shall be comprised by a successive number of rounds.

In the first round, the Jury establishes a base value and a closing price. If there is more demand than capacity available upon reaching the closing price, the auction continues to another round.

In the next rounds, the base value price is equal to the closing price of the last round. The closing price of the new rounds is determined by the Jury.

When the demanded capacity at the closing price is equal or inferior to the available capacity the auction ends. If inferior, the remaining quantity is given to the best pair demanded/closing price of that round.

The Grid Operator issues the RESP capacity titles according with the outcome of the bidding, awarding the title to the winner of each batch in dispute.

# Allocation stage

Winning the auction and being awarded with the RESP capacity title, is the first step of a long procedure. Promoters must have the technical and financial capacity to carry out this activity, which includes bearing all the costs of construction and operation of the solar power plant.

After winning the auction, they must set the legal person/company which the RESP capacity title will be awarded to. The RESP capacity title will not be assignable until the relevant operation license has been obtained.

Promoters shall also provide a performance bond to DGEG in the amount of € 60.000/MWh according to the capacity awarded in the auction. In addition, promoters must comply with a strict calendar on this matter. The table that follows summarizes the different licensing obligations and its penalties which promoters may be subject to.

In most cases the deadline changes depending on whether an environmental impact assessment or a more complex environmental repercussions assessment is due. DGEG releases the percentages mentioned in Release/Penalty column of the table in the 5 days after each milestone is reached and the remaining amount is released in the 10 days after beginning of the operations.

If the Promotor does not timely comply with the licensing obligations, DGEG is entitled to enforce the performance bond.

Obligation	Term If the plant requires environmental analysis	Term If the plant does not require environmental analysis	Release / Penalty
Obtain land rights	9 months	9 months	25% of the bond
Obtain the production license	24 months	18 months	25% of the bond
Obtain the construction license	33 months	27 months	15% of the bond
Obtain the operation license	48 months	42 months	5% of the bond
Beginning of the operations	30 days After the emission of the operation license	30 days After the emission of the operation license	-

# What's next?

The 2019 solar auction was very participated and competitive, in which the country awarded 1150 MW, even though many Promoters were caught by surprise with the approval of the New Energy Law.

French renewable Akuo Energy was the big winner with 370 MW secured, all under the fixed tariff remuneration scheme. In second place, Iberdrola was granted 149 MW under the market scheme.

The outcome of the 2019 solar auction has shown how competitive the Portuguese solar market can be, as it settled the world record of € 14,8/MWh, less than half of the reference feed of that auction.

However, such prices may be the result of the New Energy Law, that forced Promoters to change their strategy, in order to avoid sunk costs, already incurred in previous licensing procedures. For that reason, it is expected that such prices do not repeat.

In back-office management and disclosure of information to the Promoters, this tender is an improved version of the 2019 Portuguese solar auction.

For example, promoters may now access the minutes of the contracts to be executed, if awarded in the tender in <https://leiloes-renovaveis.gov.pt/>.

Nevertheless, there is still some uncertainty regarding the role of the new method of remuneration for projects with storage capacity. It is not known if such projects, at this point, are efficient enough to compete with the projects applying for the other schemes of remuneration.

On the other hand, the full amount of injection capacity to be auctioned do not exist at this moment. This means that, to start operations in the announced schedule, the Portuguese Government needs to conclude successfully its expansion works. If that is not the case, then, certainly, the promoters will face difficulties.

The results of the auction are, at this moment, unpredictable due to the Covid-19 pandemic' effects. The economic depression may lead to lack of liquidity of the promoters and poorer credit conditions. Such conditions may catch some promoters off guard.





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