

THE PORTUGUESE 2019-2020 PV AUCTIONS INFLATION HIKES

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The Portuguese Energy Secretary of State has recently announced an increase to the electricity FiT resulting from the 2019 and 2020 auctions. This increase will be linked to 2022 and 2023 inflation rates. The rationale of this measure is to save up to 700MW of PV projects awarded in those auctions that, due to their very low FiT, are not bankable and therefore are at risk of not being completed. The Portuguese government argues that the present exceptional inflationary circumstances justify this measure but only for those low-tariff very low projects (starting at the historical record low 11,14Eur /MWh!). This situation shows that, to some extent, the 2019-2022 auction model had its flaws as it has privileged bold pricing at the risk of having non-bankable projects. We understand that increasing benefits to renewables are now receiving “windfall benefits” from the electricity market it is not easy. But, by rescuing some of those PV projects failing to comply with their auction obligations due to the risky prices their promoters offered, the Portuguese government is absorbing the inflation risk for some but not for all of the PV projects awarded in those auctions.

So, the first question is “where do we draw the line to this rescue?”. It appears that the line will be drawn below a certain price to allow saving 700MWh worth of projects. What is the tipping price and what are the criteria for defining it? We know that bankability does not depend only on the price but also, among others, on development costs that are different from one project to the other. If the idea is to rescue all projects no matter other aspects (including the promoter’s own bankability) we are distorting the market and, more than that, we are twisting the auction terms and conditions as well as the public procurement rules. Under these, the terms and conditions of an auction can only be changed if those changes do not affect the competition between all bidders.

For that same reason, we can question why we exclude for any adjustment those who have chosen to pay compensation to the electricity system and paid a high amount to match the equivalent FiT offers. As a rule, especially after they have been awarded, it should not be permitted by the awarding entity to favour those bidders that made lower offers against those who prudently offered higher prices or have chosen the compensation mechanism (which is supposed to grant identical financial weight than the corresponding fixed price offerings). Other bidders, if they could have anticipated this inflation hike, might have made lower FiT offers themselves.

It seems therefore clear that, unless the bases for this measure are very clearly explained, those who will be left out may find themselves tempted to challenge the legality of the inflation increase the Portuguese government is offering to the same and excluding others.

But putting the legal issues aside, we ask ourselves to which extent this measure will be successful. Will an adjustment to the 2022 and 2023 inflation (something like 9% and 5% respectively) be enough to save projects with a commitment to sell each MWh as low as 11 euros? For some probably not. And for most, it will probably be not that significant boost. We wonder why the Portuguese government only considered the FiT inflationary update and did not take into consideration other measures such as reducing the 15 years of FiT commitment to 12 or even to 10 years. This would be more effective in facilitating the project financing at no immediate cost to the consumers. Of course, this

commitment reduction should apply to all including those bidders that have chosen to pay compensation to the system.

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