

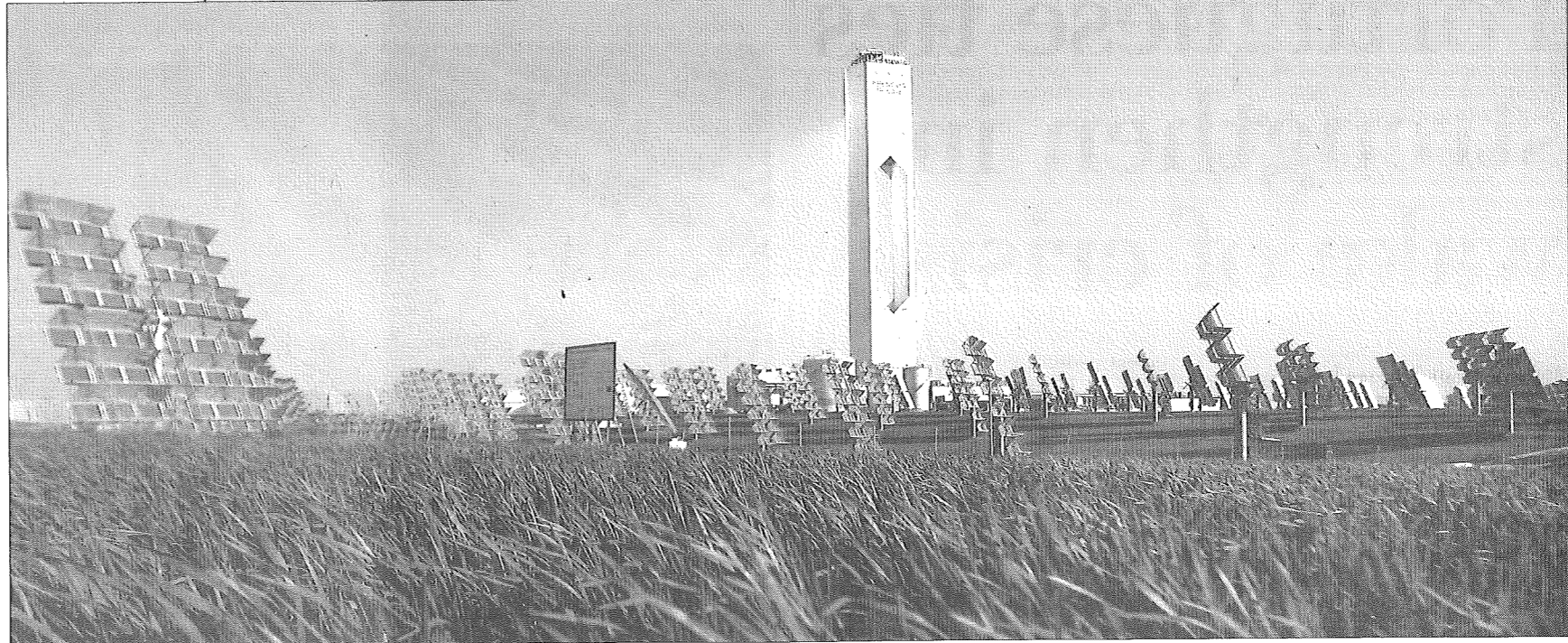
# Subsidy cuts cause crisis of confidence

## Renewable energy

Retroactive cuts to feed-in tariffs for solar power have made investors question Spain's commitment, writes Peter Wise

A winning combination of natural advantages, powerful utilities and public policy has made Spain a world leader in renewable energy. But a government decision to make retroactive cuts in one of the guaranteed subsidies that have helped drive this green revolution raises serious questions for the future of Spanish energy policy.

The retroactive cuts in the subsidies paid to producers of solar photovoltaic (PV) energy announced last December came "at the worst possible moment, given the severe economic crisis affecting Spain", says Miguel Salis, chief executive of N+1 Eolia, which manages Spain's largest independent wind and solar PV operator.



Policies to encourage investment, as well as natural advantages such as year-round sunshine, put Spain at the forefront of the green energy revolution

AFP/Getty

"The outlook for the sector [is still] uncertain and it is essential the new government coming out of the November elections rapidly articulates its views," he says. "This is a sector with long-term investment paybacks. Policy clarity and stability are crucial."

In 2010, when rainfall was above average, Spain produced more than a third of its electricity from renewable sources – making it one of the countries closest to achieving the European Union goal of generating 20 per cent of its total energy needs from non-polluting resources by 2020.

Spain became a pioneer in green energy partly as a result of natural conditions – mountainous terrain to ensure a continuous supply of wind, a relatively low population density that eases demand pressures, large rivers for hydro production and year-round sunshine. Thousands of miles of coast also offer the potential for large-scale offshore wind production and experimentation with wave energy.

A lack of any endogenous oil or gas resources have also been a driving factor behind the country's renewable energy boom of the past decade.

These natural advantages, however, would not have put Spain at the forefront of the green energy revolution without effective policies to encourage investment and compensate for the initially high cost of producing power from non-polluting resources.

Spain, along with countries including Germany and the Netherlands, opted for feed-in tariffs, which provide producers with a guaranteed price over a fixed number of years for energy supplied to the national grid from renewable sources.

These contracts give investors long-

term financial stability, enabling them to raise the necessary finance for their projects.

As technologies are developed and production costs fall, lower feed-in tariffs are introduced for successive waves of new projects. Gonzalo Escribano, an energy analyst with Real Instituto Elcano, a Madrid think-tank, says feed-in tariffs for new wind energy projects are now competitive in price with fossil fuels, especially when the cost of reducing CO<sub>2</sub> emissions is taken into account.

According to a series of annual reports by Deloitte on the economic impact of renewable energy in Spain, the savings derived from not having to import fossil fuels and not emitting greenhouse gases have been higher than the cost of feed-in tariffs paid to renewable energy producers. These subsidies are paid by consumers in their electricity bills and do not have an impact on the budget deficit.

Rodrigo Berasategui, a renewable energy specialist with Garrigues, a Spanish law firm, says the cut in the feed-in tariffs for existing PV contracts was meant to discourage non-specialist investors who wanted to cash in on a boom.

Carmen Becerril, president of Spain's Acciona Energy, the world's largest non-utility renewable energy developer, points out that the measure has caused a "crisis of confidence, not only in the renewable sector, but

the economy as a whole". She adds: "A commitment by politicians to create a stable economic framework was one of the main factors behind recent economic growth," she says. "Spain attracted foreign capital because... investors can trust the regulatory framework."

The solar PV tariff cut has shaken confidence in that commitment. "Investors keep asking if this is an isolated case or the beginning of a structural change," she says. This is "a sector where a stable environment is essential to realise all the economic, environmental and social benefits of renewable energy. But I feel certain that what happened with the PV retroactive cuts will not happen again."

Mr Escribano believes the tariff cut was a one-off decision to deal with an investment bubble in the sector and is confident there will be no other retroactive measures.

Contrary to the prevailing view, which sees investment focusing on other types of solar energy, Mr Salis sees further huge potential in solar PV. He believes this will lead relatively quickly to solar panels reaching the status of wind energy and having costs comparable with fossil fuels.

"We should achieve grid [tariff] parity for new installations, and therefore eliminate the need for subsidies, within the next three to four years. This will lead to a huge growth in new installations."

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