

RENEWABLE ENERGY

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Renewable Energy

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Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in renewable energy.

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INTRODUCTION

Renewable energy is becoming a more prominent element of the global energy offering. Around the world, countries are awakening to the advantages of renewable sources of energy. In Canada, the sixth largest consumer of electricity in the world, renewable energy accounts for 65 percent of electricity generation.

Furthermore, as technological advancements in the renewables space continue to gain momentum, regulatory and legislative measures are evolving to reflect the changing landscape. Ratification of the Paris Agreement and the stance on carbon emissions has set the world on an inexorable journey toward clean energy.

The increased focus on renewable energy, and the difficulties experienced in the traditional energy sector over the last few years, has helped to drive M&A in the renewables space. Deals like General Electric's recently announced \$1.65bn acquisition of LM Wind Power, the manufacturer of wind-turbine blades, demonstrate this focus.

Cross-border deals are likely to be increasingly popular as hydro electric and solar projects come to market. As demand for renewable energy and cleantech grow and falling costs make renewable power more competitive with fossil fuels, the pace of dealmaking will pick up in the years to come.



PORTUGAL

RICARDO ANDRADE AMARO

MORAIS LEITÃO, GALVÃO TELES, SOARES DA SILVA & ASSOCIADOS

Q IN YOUR OPINION, WHAT KEY TRENDS HAVE DEFINED THE RENEWABLE ENERGY SPACE OVER THE PAST 12-18 MONTHS OR SO? WHAT IMPACT ARE MACROECONOMIC FACTORS, SUCH AS ENERGY PRICES, HAVING ON RENEWABLES?

AMARO: The renewable energy sector in Portugal is undergoing a period of transition. The last renewable energy projects with guaranteed remuneration, via feed-in-tariffs (FiTs), are now reaching completion and no new remuneration schemes have been approved thus far by the government. This state of play, coupled with a low interest rate environment and the need for deleveraging for many of the traditional players in the sector, has resulted in M&A and asset rotation transactions. On the origination side, on the other hand, there have been requests for capacity injection in projects with no guaranteed remuneration, perhaps signalling the economic feasibility of renewables generation without FiT even in current wholesale prices. Unlike other European countries, in Portugal, FiTs for existing projects have been kept almost intact since their inception. Nevertheless, a very recent Ministerial Order enacted by the Secretary of State for Energy affairs has determined that renewable public funds granted to existing projects shall be offset against future FiT payments, in a negative impact to the industry – if we include 'co-generation' projects – estimated, by the Ministerial Order, at €140m.

Q WHAT TYPES OF RENEWABLE ENERGY SEEM TO BE ATTRACTING THE MOST ATTENTION IN PORTUGAL?

AMARO: Discounting large hydroelectric plants, onshore wind has traditionally been the preferred type of renewable energy investment in Portugal, owing to geographical conditions and reasonable cost technology. Recently, however, photovoltaic technology has garnered some attention, due to high levels of sunlight in the country and increased competitiveness in the price of solar panels. Offshore wind is also in the spotlight, as recent pilot projects are being deployed to attempt to produce renewable energy in a medium scale and in deep waters.



Q IN WHAT WAYS ARE ENERGY POLICIES AND POLITICAL AGENDAS SHAPING THE RENEWABLE ENERGY DEBATE? HOW WOULD YOU DESCRIBE THE OUTLOOK FOR THE ENERGY MIX IN PORTUGAL, IN TERMS OF TRADITIONAL FOSSIL FUELS VERSUS CLEAN ENERGY?

AMARO: Recent energy policy has been attempting to balance the commitments undertaken before the EU and the international community on carbon emissions with fiscal prudence and the need to curb costs with the tariff deficit and overcosts payable to renewable energy producers that benefit from FiTs. Thus, the trend is to, while not directly reducing FiTs – which would raise issues of legality and imperil many projects which were made feasible through bank financing – work with other ways to diminish the burden of renewables to the Portuguese national electricity system and to the tariff deficit. This has been done through two main measures. Firstly, Decree-Law no. 35/2013 has reduced the tariff period for small hydro and wind power plants. For the latter, a solution was negotiated with wind energy promoters whereby an extension of the tariff period for an additional eight years was granted against the payment of an 'NPV neutral' contribution by said promoters to the national electricity system. The second measure was Ministerial Order 268-B/2016, which aims to offset FiT payments with amounts received from public support schemes. Finally, as Portuguese energy needs have been stagnant since the crisis, the energy mix has been trending further toward renewables and big hydro plants.

Q HAVE THERE BEEN ANY SPECIFIC LEGISLATIVE OR REGULATORY DEVELOPMENTS IN PORTUGAL LIKELY TO AFFECT THE RENEWABLE ENERGY SPACE?

AMARO: The most important recent legislative development impacting renewable energy has been the Ministerial Order. This measure approved a reduction in the amount of the public funds granted to electricity generation facilities in relation to the guaranteed amounts paid by the last resort supplier of the Portuguese National Electricity System to the respective promoters. The Ministerial Order provides that, no later than 30 days from the date of its enactment, the member of government responsible for energy affairs must publish an order identifying, for each electricity generation facility, the amounts received in excess that shall be recouped in favour of the National Electricity System. Such amounts shall be recovered, pursuant to the provisions of the Ministerial Order, based on a value in euros per MWh to

be deducted to FiT payments, also to be defined by an order of the member of government responsible for energy affairs, and "as soon as possible". Also worth mentioning is the Special Contribution for the Energy Sector, which has not, thus far, affected renewable energy generation facilities, despite rumours that it would be enacted. Furthermore, this is unlikely to change throughout 2017, pursuant to the most recent state budget.

Q COULD YOU PROVIDE AN INSIGHT INTO CURRENT ADVANCEMENTS IN RENEWABLE ENERGY? WHAT ISSUES ARE DRIVING THE FLOW OF INVESTMENT, R&D CAPITAL AND PROJECT DEVELOPMENT, FOR EXAMPLE? IS INNOVATIVE TECHNOLOGY HAVING AN IMPACT?

AMARO: Advancements in renewable energy in Portugal include the development of a pilot project named Demogravi3 by a consortium led by EDP – a lead energy player and utility in Portugal – consisting of an innovative hybrid concrete-steel, self-buoyant bottom standing gravity based foundation for offshore wind farms positioned in water depths between 35m and 60m. The objective of the technology is to take wind generation further offshore. This project has received funding from the European Union's Horizon 2020 Framework programme. Another hot topic for renewable energy concerns the promotion of self-consumption. Energy efficiency rules and the slow but steady rise of the electric vehicle in Portugal are fostering the development and installation of self-consumption units in businesses and homes, especially with PV technology.

Q HOW WOULD YOU CHARACTERISE M&A ACTIVITY IN THE RENEWABLE ENERGY SPACE IN PORTUGAL? WHAT ARE THE MAIN FACTORS DRIVING DEALS?

AMARO: M&A activity in Portuguese renewable energies has, in recent times, been very much driven by the search for yield by institutional investors. With low interest rates continuing indefinitely, nameplate investors are looking on with interest at assets with both stable cash flows and a stable regulatory environment and have recently acquired several important wind energy portfolios in the country. In this market, sellers are looking to deleverage their balance sheets either by 'cashing in' such assets, capitalising on their development capabilities and rotating their assets by selling a significant, but not controlling, stake in the latter, or, in the case of big players with large portfolios, both. On the other hand, transactions involving the acquisition of 'greenfield' or 'ready-to-build' projects are becoming scarcer due to the gradual expiration of the deadlines to apply for projects with FiTs.

“Renewable energies will still be the path forward for the implementation of new generation units in Portugal.”

Q LOOKING AHEAD, WHAT TRENDS DO YOU EXPECT TO SEE EMERGING IN RENEWABLE ENERGY? WHAT ISSUES ARE LIKELY TO INFLUENCE THE CONTINUED GROWTH OF THIS AREA?

AMARO: As the EU continues to seek a reduction in carbon emissions, renewable energies will still be the path forward for the implementation of new generation units in Portugal. We see two other trends contributing to this. Firstly, the development of energy storage technologies which will aid intermittency problems, further reducing the need for backup power from conventional generation sources. And secondly, increased interconnections with Europe and North Africa increasing opportunities for producers to sell energy during low consumption periods in Portugal. Alas, all of these changes require political will to divert resources into these projects and into maintaining or launching new incentives to renewable energy. This political will is lacking due to budget constraints in Portugal and the large tariff deficit which, however, is not caused exclusively by renewable energy over costs, and the current equilibria of power in the EU, now also averse to fiscal largesse. Time will tell how these opposing forces will shape renewable energy policy in the near future.

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