



Auctions create buzz around Spain's renewables future

Webinar
Key takeouts

With panel contributions from

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FCC Environment



Market Insight

Webinar: Auctions create buzz around Spain's renewables future



On Wednesday 1 February, senior industry experts offered their insight on upcoming opportunities in Spanish renewables, discussing the country's 3GW auction programme, the next wave of big M&A deals and waste-to-energy development needs. Despite the difficulties experienced in recent years, the interest in the country is now extremely high – and a survey conducted on the webinar's audience revealed surprising findings

The country's auctions and their specifics took centre stage at inspiratia's webinar on investing in Spanish renewables. The **results of the 2016 auction** were rather controversial, as the 100% discount on the initial investment's standard value led to zero remuneration on investment (RIInv).

Besides, Spain's more established market players did not receive any awards, and there are rumours about certain concerns on whether the winning bidders will actually manage to build the assets.

However, in the 2017 auctions there may be some new provisions, such as a maximum cap and floor on the reduction of the initial investment's standard value and an increase in the amount of the guarantees necessary for bidding from €20

(£17.2 US\$21.5) per kW to €60 (£51.8 US\$64.6) per kW. But renewables associations are asking for further improvements.

At the moment, there are only provisional documents concerning the auctions and their characteristics: a proposal of royal decree and ministerial order to regulate the auctions is currently subject to public consultation.

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María Pilar García Guijarro, Watson Farley & Williams

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"If we look at the 2016 auctions as a previous experience, we could envisage that it may take three months from the approval of the royal decree until the final allocation of the megawatts," says María Pilar García Guijarro, managing partner and head of the corporate department of Watson Farley & Williams (WFW), Spain.

The 3GW capacity could be allocated in one or more technologically neutral auctions, and projects will need to be operational by 31 December 2019, so as to comply with the 20-20-20 EU objectives. The capacity allocated needs to derive from new projects, and not from repowering or extending existing assets.

Regulatory risk

Spain's perceived regulatory risk is still a cause of anxiety for the market. A remarkable 87% of the respondents to our survey conducted on the webinar's attendees think that the country's regulatory uncertainty is still a problem for investors.

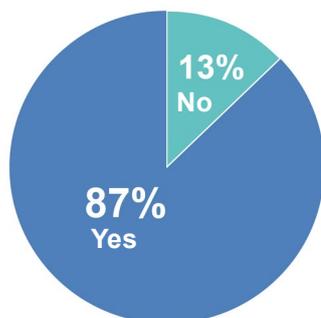
However, the controversial electricity reforms which included the subsidy cuts seem to have made further regulatory interventions less likely.

"The new regulatory regime is creating no tariff deficit. We all know that the main driver of the reform was a huge tariff deficit that was not sustainable. The changes in regulation, whether we like them more or less, have been effective in their results: no new deficit is created – in fact in some period we have surplus – and therefore this means that there is no need for another regulatory change, at least not deep regulatory changes.

The system foresees that some parameters can be modified, but not a reform," WFW's María Pilar García Guijarro added.

Hence, the main issue is the possibility of a change of regulatory parameters, which are adjusted at the end of a six-year period.

Figure 1: Do you think regulatory uncertainty is still a problem for investors looking at the Spanish market?



Source: inspiratia

"The government has got discretion to determine the reasonable return, but I do think that there is a risk that the 2020 revision will be downwards, because there is potential for some deficit to occur in the next couple of years because of the low Government forecast prices that have been used to set the return on investment," said David Smith, head of southern Europe at Cubico Sustainable Investments.

In case there is no revision, the current profitability – which amounts to 7.503% for auction projects – stays in place.

Revenue volatility can be affected by a number of factors; overall, it is expected to increase, triggered by higher discounts, which could end up in a more merchant profile for revenues in the short to medium term. This is going to have important consequences for both lenders and equity investors.

"The biggest risk to face now is that the market price tends to diverge downwards from the government forecast," Cubico's David Smith added.

“The government has got discretion to determine the reasonable return, but I do think that there is a risk that the 2020 revision will be downwards

David Smith, Cubico Sustainable Investments

Overall, a prerequisite for investing in Spanish renewables is the knowledge of the specific features of the country's retribution scheme, which was analysed in detail during our webinar.

"The retribution scheme in Spain is very peculiar: it's well known by the audience that the subsidies are not proportionate to production but to the installed power. The result of this is that the focus is not any longer on maximising production, but in ensuring the long-term durability of the plants. However, these incentives are only possible if some production floors or thresholds are met, and these have to be met for each of the sub-plants that form the projects," said Matías Gallego, technical director (asset management) at green energy consulting Vector Cuatro.

A bullish outlook

The survey conducted among the attendees of inspiratia's webinar on Spanish renewables revealed bullish expectations on the market: 83% of the participants have an optimistic outlook on Spain's renewables market in the next 12 months.

“The focus is not any longer on maximising production, but in ensuring the long-term durability of the plants

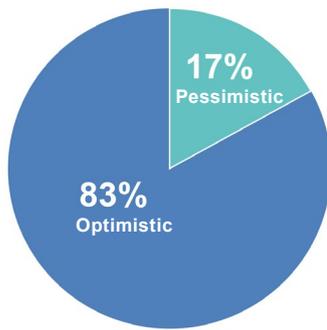
Matías Gallego, Vector Cuatro

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However, when specifically asked about the upcoming renewables auctions, the percentage of those who expressed optimism dropped significantly to 48%. This could be due to auction's design issues that emerged in the January 2016 *subasta*, whose outcomes were received with scepticism, as already mentioned.

It is therefore interesting to notice that, according to 57% of the participants in our webinar, Spain's most attractive

Figure 2: What's your overall outlook on the Spanish renewables market in the next 12 months?



Source: inspiratia

investment propositions of 2017 will be in the secondary market, while for only the remaining 43% they will be in the primary.

To further confirm our findings, 67% of our respondents think that opportunities in Spain's secondary renewables market are due to increase, 30% think they will stay the same and a mere 3% expect it to decrease.

As figure 3 below shows, Spain witnessed a wave of M&A deals after the electricity reform, which peaked in Q4 2015, when it reached approximately €6 billion.

There was considerable dynamism also in 2016, especially in the first two quarters. Among the many deals that reached financial close, it is worth mentioning Cerberus' acquisition by Renovalia.

In 2017, the M&A market is expected to remain active, thanks to the political stability provided by the new government and the ongoing economic recovery. Financing is available in the Spanish market for acquisitions, and the interest of international investors is growing.

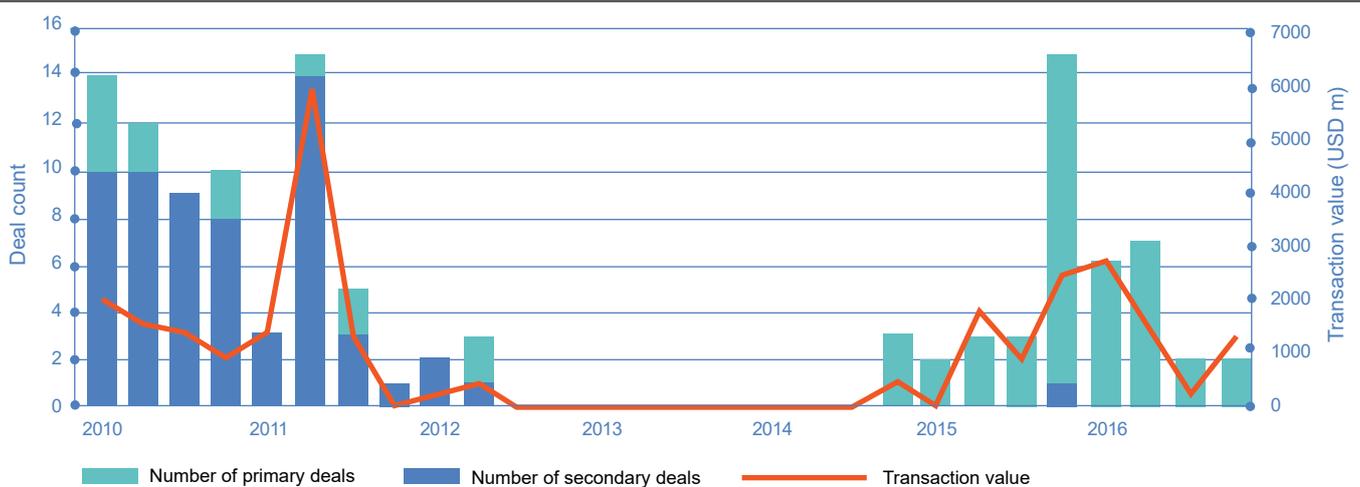
"We see that players which had been buying assets over the past few years and building portfolios in a build-up strategy are putting those sometimes on sale, but at the same time they keep on buying and building up portfolios.

While they sell, there are new players coming, maybe looking for a bit lower returns but in a lower risk environment, entering into the Spanish market. So, we see a very interesting future for renewables in Spain in the next few months," WFW's María Pilar García Guijarro said.

But the Spanish PV operational portfolio has some specific features, which is quite important to keep in mind.

"These specificities are the result of three main drivers: the age of the portfolio – around 80% of the plants are eight or more years old; the characteristics of the regulation when these plants were built has also shaped the market very much; and the recent changes that have occurred in the legal framework," said Vector Cuatro's Matías Gallego.

Figure 3: Renewables market activity, Spain 2010-16



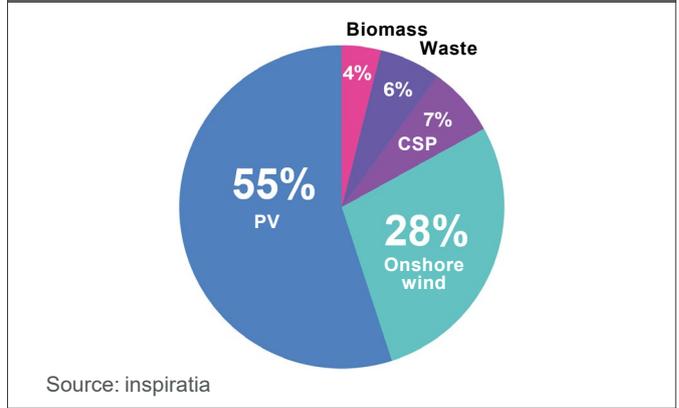
Source: inspiratia | datalive

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Figure 4: Renewables quarterly deal activity, Spain 2016



Figure 5: Renewables quarterly deal activity, Spain 2016



Interestingly, for 55% of our participants, PV is Spain's most promising sector, followed by onshore wind (28%), CSP (7%), waste (6%) and biomass (4%). It is not surprising that biomass is the last one, as the way the new auctions are designed could be hampering the development of biomass at the expense of solar and wind.

Waste-to-energy

The webinar also explored Spain's waste-to-energy landscape and opportunities. The sector is currently undergoing a profound transformation, as waste treatment is shifting from services to infrastructure.

"Waste is becoming more and more relevant in the infrastructure space, but it's a special case of infrastructure, because it sits between PPPs and renewables – it enjoys features of both," says Carlos Afonso, head of corporate development and concessions at FCC Environment, International.

Spain currently has a market size of approximately 25 million tons per annum (mtpa), but the potential is huge, with total required investments estimated between €3 billion and €7.5 billion.

"Because of the way the Spanish market is structured, there is a high likelihood that the investment is done by the private sector through PPPs, so there is an opportunity there for private companies like FCC to develop, finance and operate waste-to-energy facilities," Carlos Afonso added.

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Carlos Afonso, FCC Environment International

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The recording of inspiratia "Investing in Spanish renewables" webinar is available [here](#) and the webinar slides are available [here](#).



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