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## Black forecast for renewables sector - Broseta



**Spain has once again reformed its feed-in tariff regime for renewable energy installations, part of the Government's effort to tackle a €4.5bn tariff deficit forecast this year.** [Print](#) [Email](#)

Since 2012, the Mariano Rajoy Government has taken several measures to reduce tariff deficit – the gap between the cost of producing electricity and what can be sold for. The debt has been growing for a decade because regulators cap tariffs at levels that are not high enough to reimburse services, such as power transmission and generating from more expensive renewable sources.

The measures adopted since 2012 consisted of, among others: the creation of new electricity taxes; an increase in the access tariff; the reduction of regulated compensation to distribution and transmission investments; and the freezing of new renewable energy investment or removal of renewable energy producers' option between compensation methods (tariff or feed-in premium).

Despite these measures, the tariff deficit is forecast to remain at around €4.5bn at the end of 2013. To solve this problem, on July 12<sup>th</sup>, 2013, the Spanish Council of Ministers approved a reform of the electricity system, consisting of a new Electricity Law (expecting to be approved last year) and a Royal Decree-law of urgent measures (Royal Decree-law 9/2013, dated July 12<sup>th</sup> currently in force,) to be completed by eight forthcoming decrees and three Ministerial Orders.

The main aims of this reform are to establish a regulatory framework to guarantee financial stability in the electricity sector and to remove the deficit once and for all. In this regard, probably the most relevant and

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controversial measure adopted is that the current feed-in-tariff support will be eliminated and replaced by a new investment support mechanism. This measure will be included in the new law but will enter into force with the Royal Decree-Law.

This new investment support is regulated as follows: renewable energy installations will receive the market price and, only when needed, a complementary retribution to cover their costs and attain a reasonable profitability. This retribution will not exceed the amount needed to allow competition with other technologies in a level playing field and a reasonable profitability. In order to determine the level of the complementary retribution, benchmark generation facilities will be considered for each technology. Moreover, the new regulation provides that, for the next six years, reasonable profitability will pivot around the State ten-year bond yield plus 300 basis points.

The new measures have infuriated the whole sector. Provided as a regime with retroactive effects, this new system will affect not only new installations but also current ones. Therefore, some companies will face problems servicing their debts. The country's main wind and solar energy associations (AEE and UNEF) said the payment reductions would prompt a wave of defaults across their industries. Specifically, solar companies are likely to be the most affected by reduced subsidies because they are the most heavily indebted in the renewable energy sector.

Industry Minister, José Manuel Soria was recently reported as saying that while the measures are not easy, they are absolutely necessary, and that the only other alternatives would be bankruptcy or a more than 40 percent increase of the price to consumers. Despite complaints by the entire sector, Government made its choice. With this reform, the AEE has stated that the Government is increasing the uncertainty affecting the industry.

Although a necessary measure to cut the shortfall, after repeated retroactive cuts, no one is willing to invest in renewable energy in Spain anymore. Moreover, these new measures, while retroactive, break a general principle enshrined in the Directive 2009/28/CE on fostering renewable measures, April 23<sup>rd</sup>, that the renewable regulation must provide investors security.

Actions challenging the legality of the new reform are already taken by the stakeholders at an internal and EU level. However, the regulatory implementation of the Royal Decree-Law will bring a new and important package of judicial actions.

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