

Solar wars: a new hope for the Spanish PV market

Market update | The Spanish photovoltaic market, once the darling of the global industry, has been ailing for almost a decade. But a new government finds itself with a mandate to build capacity, repeal taxes and redress the balance. James Blackman polls the market on its hopes for a new start



Credit: Fotowatio Renewable Ventures

The Spanish parliament's vote at the end of October to finally allow the conservative People's Party to form a minority government, after gaining tacit support from its socialist counterparts, might yet see the country's troubled solar market reborn.

Indeed, certain undertakings on energy and climate change appear to have emerged out of the political deadlock that preceded the new administration taking power. Principally, the government finds itself tasked with a wave of new energy tenders, as well as repeal of the country's controversial 'sun tax'.

However, for investors to take the plunge, and gamble anew on a market that has been so disrupted by retroactive policy, uncertainty needs to be stamped out, and fast, reckon market watchers.

"If Spain wants to attract new investment, the government has to restore legal certainty promptly, and develop a plan to foster renewable energy in the medium to long term," says José Donoso, general manager of UNEF, the country's photovoltaic union.

Regulatory stability is the key condition

for the Spanish solar market to regain its buoyancy and catch the eye of investors, it seems. The problem is investors have been burned already; the challenge to regain their confidence will be hard fought, reckons Patxi Otamendi, chief executive at solar panel manufacturer Tamesol.

"It won't be easy for either local or foreign investors to come back in," he says. "There have been continued violations by the Spanish state in the field of renewables. The positive side is that the good location and hours of sunshine make Spain a country with great opportunities for [solar] electricity generation."

Retroactive policy

It might appear simplistic to talk about the weather, in the context of such intrigue and disarray, but it is instructive when considering Spain's solar credentials and the repercussions of its regime change. It also allows us to consider briefly how the market has fallen.

Spain, with a raft of persuasive renewable energy subsidies, was one of the 'darlings' of the global photovoltaic market through the first part of the last decade.

Changes in Spain's government have raised hopes of a second coming for the country's once-flourishing PV industry

By 2008, it was responsible for half of the world's solar power facilities in terms of wattage. Its forecast looked sunny.

But the global financial collapse exposed the structural weakness of the country's economy, heavily reliant on domestic demand and property development. Its subsidy model for solar unravelled – the cost of generation went up, the cost of consumption went down, and, within five years, the government's energy deficit stood at €4.5 billion (US\$4.7 billion).

In response, it introduced a mess of legislation that forced individuals and enterprises with solar to connect to the main grid, and pay an inflated premium for energy they took from their own panels. In parallel with this so-called sun tax, the government also imposed a ceiling on the profit achievable from grid-scale solar projects, limiting returns to 7.4% before tax, and around 5.5% after tax.

"Trust has been totally destroyed," remarks Daniel Pérez, an attorney at legal firm Holtrop, which has joined together many of the local market's complaints against the country's retroactive solar cuts.

But new initiatives, mooted with the recent regime change, might just see the Spanish solar market heat up again. The new government indicated at the end of October a tender for renewable energy production will be finished before the year is out; two further auctions are expected in 2017. Details are hazy, but commentators expect up to 4GW of energy capacity across the three acts.

Meanwhile, a majority in the Spanish parliament voted in March, right in the middle of its constitutional stalemate, to remove the country's sun tax within 100 days of a new government being formed. The starting gun has now been fired, even if the conservative party, which authored the original measure, has returned to office, albeit in a somewhat reduced form.

Investment risk

UNEF will apply pressure on immediately. “We will get back to our conversations with all the political parties, and ask them to keep their word and put new ‘self-consumption’ regulation on the table,” says Donoso.

The market is primed, he reflects. Its local protagonists, productive during the sector’s salad days, and expansive ever since, have hardly been idle: “The Spanish solar market has important and valuable know-how because of the work it has done in research and development, and it has continued to bring expertise to other countries, where regulation is more favourable.”

The prospect of Spain hitting its 2022 target of 20% renewables had looked to be receding. But a late re-orientation of energy policy, which sets the market on a progressive course, will see home interest return. “If current regulation is changed, the market at home could flourish. The sector is alive. It is ready to contribute to the country’s clean energy targets and to the job market,” says Donoso.

The auction of new capacity and the repeal of old policy cannot come soon enough. “We are waiting for those modifications to be taken by congress – not just so we can reach 20% in 2022, but so we have a system that is generally less dependent on non-renewable energies,” says Otamendi.

Financial interest in the Spanish solar market could hardly be less, observes Lourdes Álvarez, a lawyer at Spanish legal firm Evolutiza. “Investors are afraid,” she suggests, describing the last government’s retroactive policy changes as “so damaging”.

The fact the new regime has only just muddled through a long transition hardly helps, when stability is considered the only baseline to get the party jumping again. One-step advances may not be sufficient to sway cynicism, remarks Pérez at Holtrop. “Legislative changes have happened before. There is no guarantee they will not be changed in the future,” he says.

Improving hardware costs, bright sunshine and pent-up demand make Spanish photovoltaics as attractive as German solar, he suggests, but Brussels needs to set a precedent.

“Investors want higher returns in Spain because the risk is higher – high levels of [solar] radiation on one hand, are offset by mistrust. Spain is as attractive as Germany, which has less sun but higher investor

confidence. If the European Court declares the cutbacks contravene EU law, there is a chance their confidence will be restored,” says Pérez.

Capacity auctions

The forthcoming auctions for new capacity are expected to be technology neutral, and to spark competition between large wind farms in the windy north and solar projects in the sunny south. Will there be wariness, at all, about bidding for solar capacity and building utility-scale solar facilities?

“We will see, but no new capacity has been built in the past years, and Spanish photovoltaic companies are determined to make the most of the tender process. It is a valuable business opportunity, especially as solar costs have decreased significantly,” says Donoso.

“Investors want higher returns in Spain because the risk is higher – high levels of solar radiation are offset by mistrust”

Pérez agrees; business is business, after all, for well-heeled establishment providers, at least. “Those who bid will be those trying to build plants anyway – and I am talking here about big photovoltaic plants of over 100MW, developed by utilities,” he says.

Most market watchers fear smaller developers will be squeezed out of the process. Otamendi at Tamesol makes the point the tenders are “public and large-scale”, and “essential” for Spain to reach its 2022 targets, but worries for a lack of diversity in the mix-up. “We hope they are open and public, and aren’t ‘tailored’ to the large Spanish electricity companies,” he says.

The bidding is expected to follow the same structure as the January auction for wind and biomass capacity, where, alongside a lack of subsidies, offers were made on an ‘investment cost’, rather than a kWh tariff basis. “They’re based on the costs of the project and not, as has happened until 2012, on a Royal Decree,” says Otamendi.

He echoes the default prediction, about on-grid supply without subsidies. “From now on, most projects will be without aids [subsidies], and be connected to the grid, and without batteries,” he says.

Álvarez at Evolutiza reckons the government needs to put in place financial incen-

tives to reignite competition in the local market. “There aren’t any at the moment, but it is necessary for the development of the country, and I hope the government sees that and approves the subsidy,” she says. “Spain has a problem; the big electricity companies have a monopoly.”

For his part, Donoso says the solar market is mature enough to compete with fossil fuels, and stand on its own feet. “The photovoltaic sector doesn’t need subsidies to grow. It just needs a well-functioning electricity market,” he says.

‘Self-consumption’

Pérez brings it back to the theme of market stability, achieved through progressive legislation. The challenge for the solar industry in general is to navigate local fluctuations in electricity prices, which vacillate between €20/MWh and €60/MWh, depending on the availability of wind power.

“When there is wind, prices go down drastically,” he says. “It makes it difficult to invest in long-term projects. Even if subsidies are not needed, market reform to provide more stable and real prices to photovoltaic [supply] would be very useful.”

What is clear from the new government’s in-tray is that repeal of the country’s taxes on ‘self-consumption’ will give the residential and commercial sectors a shot in the arm. “If the sun tax is finally eliminated, the residential and commercial sector will go up,” remarks Otamendi.

Private solar generation stands to be the most resurgent sector. Beyond the nitty-gritty of long-term planning, removal of this single, well-hated regulatory device is the single chink of light the solar industry in Spain craves. “This will be the great opportunity we’ve waited so long for,” Otamendi adds.

Donoso rejoins, picking up a general point about opportunities in the commercial sector. “Companies would benefit from an increase in competitiveness as their electricity costs decrease. The public sector could also benefit from PV self-consumption, if collective installations are permitted, as they could be implemented in schools and council buildings,” he says

It is the kind of vision that is being made real in weekly news announcements in other countries, which once looked to Spain as the frontrunner in the global market. ■

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