



## PROJECTS AND ENERGY

# Portugal's 700MW solar auction

Less than a year has passed since Portugal's first ever photovoltaic (PV) solar auction was launched.

The procedure gathered the interest of major international players with 64 bidders and a demand 9x higher than offer and was labelled as a success with circa 1.29 GW awarded (out of the available 1.4 GW split between 24 injection points), 13 different winners and an average value of €20.4 MW/h, i.e., less than half of the set maximum (45 MW/h), it being one of the lowest in Europe (having set a world record bid of €14.76/MWh).

The Portuguese Government has just announced that the second competitive procedure for allocation of grid capacity for energy injection is set to be launched as soon as the market so allows. Through a web video presentation on the 27<sup>th</sup> March 2020<sup>1</sup>, the Secretary of State for Energy matters laid down the basis for the new auction, which will grant over 700MW of grid reserve injection capacity for new batches, all to be located in the Alentejo and Algarve regions in southern Portugal.

Initially planned for March 2020, the current circumstances (COVID-19) forced a postponement and the auction is now expected to kick-off by end June. A third auction is expected to be scheduled before the end of 2020.

### Rules

The main features of the prior auction are set to remain unchanged, i.e., a competitive, simple, open, transparent, swift and electronic procedure, which will run under a *pay-as-bid* format with multiple sequential rounds.

The new competitive procedure will therefore run under a similar model and substantially in accordance with the same rules as the former one, yet with an additional scheme: energy storage.

The Government and organizing entities (DGEG and OMIP) have already unveiled the main terms and conditions which are set to be approved and published soon<sup>2</sup>.

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<sup>1</sup> Available [here](#).

<sup>2</sup> Please refer to presentation in footnote (1).

## Revenue schemes

Bidders may opt for three different revenue schemes (regime valid for 15 years) with a different discount factor for merchant and fixed tariff options.

The two first models are expected to be governed under similar rules as the ones in force under the former auction:

- i) **guaranteed remuneration (FiT):** based on a discount (%) to a reference tariff in €/MWh (yet to be determined<sup>3</sup>); winners will be those offering the highest discount (resulting in the lowest tariff) compared to the benchmark; all generated electricity is to be sold to last resort supplier;
- ii) **general remuneration (merchant route):** based on a variable tariff (€/MWh) set as contribution to the Portuguese electric system for each MWh injected in the public grid; winners will be those offering the highest contribution; production is sold at the wholesale power markets at market price.

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To the two remuneration options of 2019 a third revenue option is now added for storage facilities:

- iii) **energy storage (new scheme):** this new option aims at improving system's flexibility to cope with a fast-increasing penetration by renewables and will be structured on the basis of a calculation of the current net contribution to the system.

This mechanism entails a fixed payment per capacity determined as MW/year (as opposed to MWh, as under the other two schemes). The candidates will bid for the lowest fixed price per MW (discount in % to the reference capacity payment in €/MW/year).

Specific storage requirements apply: at least 20% of the total capacity of the injection point and minimum storage capacity of 1 hour.

The Government highlighted that no preference will be granted to bids for storage and therefore those are to be awarded to the extent it is shown to be more competitive than the two other schemes.

All bids for the three remuneration regimes will be converted into €/MW for comparability and evaluation.

## Capacity for batches

Same as with the former auction, each batch will have a different capacity level (between 10 and 100 MW) and promoters may bid for all capacity or part of the total. However, bids cannot not go lower than 10MW for distribution grid (EDP Distribuição) and 50MW for transport grid (REN) injection points and cannot be higher than a given capacity for each batch. Each bidder may only submit bids up to a total amount of 50% of the total capacity being auctioned.

<sup>3</sup> The FiT was set at 45€/MWh in the first auction.

## Bonds

At qualification stage a 10,000 €/MW bid bond will have to be submitted; upon award, injection capacity titles will be granted against the provision of a performance bond of 60,000 €/MW valid until operation. Such bond may be enforced in case of non-compliance with the licensing rules, obligations and deadlines.

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## Deadlines

The short deadlines for the projects to be constructed and enter into operation are also to remain a key feature of the new procedure and a taskforce of regulatory entities will be set up to support and closely monitor the several licensing steps.

The following deadlines will be set out: 6 months to obtain title over lands; 12 or 18 months to obtain production licence (depending on the need for environmental impact assessment); 18 or 24 months to obtain zoning/construction licence, and 30 or 36 months to obtain the operation licence. The power plants must start operation within 30 days as from operation licence issuance.

## Transfer of title/licences

No transfer of injection capacity titles and production licences is allowed from issuance until operation stage; nevertheless, upon award the successful bidder is entitled to incorporate a special purpose vehicle in Portugal to hold the title.

## Next chapters

The new procedure rules are expected to be published very soon. It remains to be seen how many batches and injection points will be made available and on which specific locations, as well as the reference tariff which will apply for guaranteed remuneration scheme.

With circa 830 MW of solar capacity installed, Portugal's solar auctions are part of the measures defined in the National Energy and Climate Plan to reach carbon neutrality by 2050, and in which the country aims for an ambitious target of 9 GW of solar installed capacity by 2030.

At a time where no new licensing requests are being accepted until at least end April 2020<sup>4</sup> and where REN (transport grid operator) is being flooded with applications to connect to grid through direct agreement (with connection costs borne by developers)<sup>5</sup>, the new auction is expected to gather the interest of international players, in a renewable market which is getting more and more under the radar of energy companies all over the world. ■

<sup>4</sup> See our Informative Note of 18.3.2020: "Coronavirus: Impacts on energy licensing and the energy market", available [here](#).

<sup>5</sup> In February 2020, REN had received a total of circa 400 grid connection requests for new power plants (mainly solar), totalling circa 80 GW