

The new incentive scheme for renewable energy sources other than photovoltaic

Following clearance from the EU Commission, on 30 June 2016 the new decree for allocation of incentives to wind farms (on-shore and off-shore), hydro, biomass, biogas, CSP plants and other non-photovoltaic renewable energy sources for the year 2016 has been published on the Italian Official Gazette (the "**RES Decree**").

The RES Decree has maintained the overall structure for allocation of the incentives of the Ministerial Decree of 6 July 2012 ("**Decree 2012**"), which has allocated incentives to renewable source plants until 2015.

Competitive reverse auctions will allocate incentives to renewable plants of capacity higher than 5 MW, while registration procedure mechanisms will allocate incentives for plant below the 5 MW threshold.

The 5.8 billion cap on yearly costs for incentives has been confirmed, although new calculation procedures of the cap are likely to reduce the risk of this cap being reached.

The RES Decree has set one sole tender for auction and registration procedure, to be published by the GSE within the final term of **20 August 2016**.



The RES Decree

The RES Decree has maintained the overall structure for allocation of the incentives of the Ministerial Decree of 6 July 2012 ("**Decree 2012**"), which has allocated incentives until 2015. In particular the RES Decree has confirmed:

- The allocation of incentives via registration/auction procedures,
- The allocation of incentives to the construction of new power plants, as well as refitting and repowering of existing plants,
- The maximum amount of Euro 5.8 billion of cumulative yearly cost.

With reference to the Euro 5.8 billion threshold, which has often been very nearly reached under the Decree 2012, the new rules calculate the cost of the incentives starting from the expected date of commissioning of each incentivized plant, while under the Decree 2012, the cumulative cost of incentives used to be calculated at the date of the registration/auction procedure. With such a calculation mechanism, it is expected that the Euro 5.8 billion threshold will not be reached within the upcoming months.

Over 400 million Euros allocated each year

The RES Decree has unlocked incentives for more than 400 million Euros each year in favour of the new power plants which will be selected in 2016. The incentivization period will have a 20-year duration (25 years for CSP plants).

Specific incentives targeted for each source

The RES Decree grants specific incentives for each renewable source. In particular, "mature" and more efficient technologies (such as wind) are recognized around half of the available resources. The remaining part is equally distributed among technologies with high potential, with strong perspectives for development and penetration in foreign markets (i.e. concentrated solar power plants), and biologic sources, whose utilization is connected with the potentialities of the economy (please refer to the tables in the next page).

Reverse Auction/Registration procedure

According to the RES Decree, new plants with capacity higher than 5 MW will receive incentives pursuant to a reverse auction system, whereby incentives are allocated to the operator offering maximum discount to a strike price (discounts may neither be lower than 2% nor higher than 40%). On the other hand, plants

Insights

- Incentives to renewable power plants other than photovoltaic for the year 2016
- Over 400 million Euros incentives per year, for overall 9 billion Euros of incentives
- 20-25 year incentivization period.
- Incentives targeted on the type of renewable source
- Reverse auction/register procedure mechanisms for allocation of incentives
- GSE to publish tender for auction and registration within 20 August 2016.
- 60 days tender period for registration procedure
- 90 days tender period for reverse auction

with capacity lower than 5 MW will receive incentives following a registration procedure.

The GSE shall publish the tender for auction and registration procedure within 20 August 2016. 10 days after the publication of the tender, the tender period will commence. Operators will then have 60 days to submit their offers in the context of the registration procedure, and 90 days in the context of the reverse auction.



New contingencies and timing for commissioning

Contingencies

Since there will be only one registration procedure and one reverse auction, the entire contingencies will be allocated in the context of the relevant procedure.

- Contingencies for the registration procedure:

Source	MW
Onshore wind	60
Hydroelectric	80
Geo-thermoelectric	30
Biomass and biogas	90
Oceanic	6
Concentrated Solar Power (CSP)	20

- Contingencies for the reverse auction:

Source	MW
Onshore wind	800
Offshore wind	30
Geo-thermoelectric	20
Concentrated Solar Power (CSP)	100
Biomass	50

Timing for Commissioning

Incentivized power plants shall be commissioned within the following terms, which start from the date of notice of allocation of the incentive.

- Timing for commissioning under the registration procedure:

Source	Months
Onshore wind	19
Hydroelectric(*)	31
Geo-thermoelectric	51
Biomass and biogas	31
Oceanic	39
Concentrated Solar Power (CSP)	31

(*) For hydroelectric plants which also provide geological works in galleries aimed at improving the environmental impact, the term for commissioning is 39 months.

In case of failure to commission the plant within the relevant terms set out below, the allocated incentive will be reduced by 0.5% for each month of delay. Following this 6-month term, the plant will lose the right to receive incentives.

- Contingencies for the reverse auction:

Source	Months
Onshore wind	31
Offshore wind	43
Geo-thermoelectric	51
Concentrated Solar Power (CSP)	39
Biomass	51

In case of failure to commission the plant within the relevant terms set out below, the plant will lose title to the incentives.

Conclusions

With more than one year delay, the RES Decree has finally set out the discipline for allocation of incentives to renewable energy sources other than photovoltaic for the year 2016. Most Italian operators and associations have welcomed the RES Decree with satisfaction, as the decree is expected to end the legislative *impasse* which has characterized the Italian renewable energy sector.

The RES Decree however is only an intermediary measure to cover for the lack of incentives for the present year. Indeed, the RES Decree has generally followed the patterns and schemes of the Decree 2012. Nonetheless, certain important differences have been registered in comparison to the Decree 2012, such as the inclusion of concentrated solar power plants within the scope of the RES Decree.

At present, no official information is available on the new regime which will allocate incentives starting from the year 2017. It is important that the Italian government, and competent authorities commence discussions (also with the EU Commission) on the new incentive mechanisms for the upcoming years, in order to avoid future delays and obstructions to further incentives in the renewable energy sector.

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