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Setting your solar PV Project up for success in the large scale Italian Market

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Why Italy ?

Production of renewable energy from large-scale PV plants in Italy is one of the most competitive in Europe.

Italy combines:

- An exceptionally **high market price of energy** in 2018 (around 65 €/MWh in December for the average National Price «PUN»)
- One of the **highest irradiation values** in Europe.

Short summary

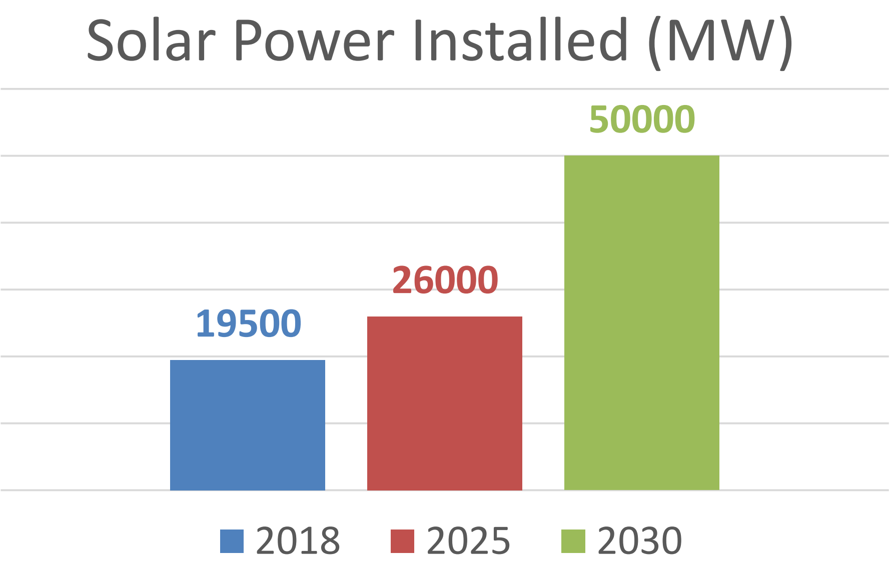
- How many new MWs?
- Why new incentives are not key for PV market?
- Regulatory risks/opportunities in the Italian energy market
- Technical risks to be allocated in the PPAs
- The future platform for PPAs in Italy

How many new MWs?

The medium long term persective

The draft of the Government of Energy – Climate plan provides for

- **50,000.00 MW by 2030**
- **26,000.00 MW by 2025**
- **starting from 19,500 MW**



Obtainment of the authorizations

ENVIRONMENTAL IMPACT ASSESSMENT IS THE KEY ISSUE

In many regions there is preferential path for PV plants in:

Industrial Areas

Areas where remediation of the soil has been performed

Former landfills

Mining or cave Areas

Authorization Process

Key elements to be checked:

- Absence of environmental liens and restrictions
- average duration of environmental impact assessment procedures in the relevant region;
- consistency of the project with the pending proposals of regional guidelines for the authorizations

New Incentives?

New incentives do not apply to PV Plants in agricultural areas (E Areas)

Large scale PV Plants in Industrial areas may obtain an incentive for 20 years

Baseline incentive tariff (not yet determined, initial proposal was 70 Euros/MWh) may be reduced up to 70 % in the tender

Incentive is equal to: **Tariff offered in the tender – Zonal Price of Energy**

What PPAs for plants in agricultural areas?

- New PV plants in agricultural areas are without incentives

- Long Term PPAs at least partially allocate to the trader, or to the final customer the market risks

- Duration of PPAs is related also to size of the portfolio

PPA contribute to secure cash flow

Price formulas are very variable and may include:

1. wholesale price with **floor price** or;
2. **fixed price** or;
3. mechanisms of s**haring of upwards and/or downwards** when are achieved minimum and maximum tresholds in the wholesale price or;
4. an open «**put» opti**on of the producer to sell the energy at a certain price to the trader or to a final customer or;
5. a combination of the above elements.

Main Risks to be contractually allocated in PPAs

- **Market Price of energy and relevant transportation costs**
- **Unbalancing fees**
- **Switch to other supplier/purchaser in breach of the agreement**
- **Match between forecast production and effective production in terms of quantity and of time of production**
- **Inflation**

Market price of the energy

- **<u>6 wholesale zones</u>** (North, North/Central, South/Central, South, Sicily, Sardinia).
- Most part of energy is consumed in the zones North and Central South (around 39 % in the North and 24 % in Central South).

- The sale of electrical energy in the wholesale market makes reference to the price in each of such areas (**<u>ZONAL PRICE</u>**).

- The purchase of electrical energy in the wholesale market is at price equal to the weighted average of the zonal prices (**<u>NATIONAL PRICE/PUN</u>**).

The fee for the transportation of energy

Transportation fee is equal to:

Zonal Price – National Price

This means that the transportation fee can be:

- an Additional revenue for the trader where Zonal Price is higher than National Price
- A Loss for the trader where Zonal Price is lower than National Price

Allocation of risk for transportation fee

- The risk/opportunity for the possible losses arising from the transportation fee must be contractually allocated in the PPAs.

- Currently there are not big differences between the prices of the different zones,

- The planning of the new infrastructure shall take into consideration the need to diversify installations in the different zones taking into consideration relevant consumption

unbalancing fees and allocation of the risk

- Any trader must deliver to the managers of the market and of the grid the forecast production for the due dispatching of the energy.
- In case of delivery of wrong programmes the trader is charged of an **unbalancing fee** that is based on the values of the dispatching market.
- This is another risk to be contractually allocated in the PPA between the trader and the producer.
- Usually the data on the basis of which is based the forecast are supplied by the producer or by its O & M provider.

Guarantees of origin

- PPAs agreement concern the energy itself and not necessarily the guarantees of origin

- Guarantees of origin may contribute to increase the revenues of the relevant producer and may be traded in the market

- Trader needs a number of guarantees of origin corresponding to the energy purchased by the ppa to declare that the energy is from renewable source

Balancing Service Provider (MSD market)

- The relevant PV Plant may also request to render services to the grid, in particular if they have available storage systems. This market is the so called (MSD market).

- The services to the grid for the relevant plant may be rendered also through an operator different from the trader to be appointed as balance service provider.

The platform for the incentives

- Specific measures are going to be approved by the Italian ministry of Economic Development
- The Manager of the Italian energy market shall create a platform for the negotiation of long term PPAs for the plants without incentives
- Form of long term PPAs will be drafted by the Italian Regulatory authority a not mandatory form of PPA
- Specific measures will be implemented for public bodies to promote the use of PPAS

Thanks for your attention

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