

GREEN ENERGY GOES TOXIC - ARAOZ & RUEDA

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Spain's financial and capital city considers the disintegration of the renewable energy sector

During the boom era of the early-to-mid-2000s, the financing community in Madrid enjoyed a run of big deals in the green energy sector, says Francisco Solchaga, an Energy Partner at Araoz & Rueda in Madrid. And billions of Euros in project financings were secured for wind parks and solar power schemes.

But Solchaga says this boom is now over and renewable energy investments have ground to a halt. "The Government approved several regulatory tax and accounting measures provoking a substantial decrease in the returns of the plants and has now announced a new law that will reduce the energy tariffs even further as well as additional taxes on green projects," he explains. "All these have left the sector in something of a crisis."

Sponsors in some areas, such as photovoltaic solar, have seen their returns slashed by up to 40 percent in recent years off the back of tariff changes and tax. As such, most of them (but not all) are able to cover debt payments for the project financing but have no margin for profit themselves. "If

more changes come into effect, it is uncertain what will happen to the sector," Solchaga adds. "Sponsors will not want to run projects for nothing while banks will be cautious about the potential losses to their balance sheets."

There is now genuine market concern that the renewable energy sector could run into similar difficulties as the Spanish banks, which faced a meltdown after the collapse of the real estate market.

"There has been the suggestion of a 'toxic bank' for renewable assets but it is worth remembering the assets themselves are not toxic," Solchaga says. "They are operational and would be profitable if the Government reforms had not reduced returns so drastically."

There could instead, he adds, be some refinancing or restructuring of payments to boost margins. Unfortunately, it is not clear if this will be a long-term solution and sponsors, banks and lawyers in Madrid are preparing for a new potential crisis.