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Renewables Support Mechanisms Across Europe

A Comparative Study

April 2013

Introduction

I am delighted to present this latest update to the Comparative Study of Renewable Energy Support Mechanisms in Europe. Renewable energy remains a key sector for both Europe and CMS. As a leading legal advisor to the sector, with expertise right across Europe, we are ideally placed to guide our clients through the volatile and changing landscape for developers, investors, financiers, supply-chain providers and policy-makers.

Renewable energy has fired the imagination of industry to develop new technologies and approaches in order to meet our aspirations for a decarbonised electricity sector. It is a sector that depends heavily on a compact with government built on trust and stability. Its challenge is to address the triumvirate of issues that the modern industry must face: security of supply, affordability and environmental concerns. Based on our review of regimes across the region, we have reached the following conclusions that we would draw to the attention of policy makers in the renewable energy area:

— **Capitalise on the benefits of scale:** Projects are getting larger and more expensive. Governments expect to see cost reductions from scale benefits being passed back to customers and overall subsidy support requirements coming down. Meanwhile, investors and capital-constrained utilities are struggling to commit to larger equity contributions and to secure debt leverage. Subsidy regimes that add more risks to the sector are pushing up the cost of capital and equity and reducing the realisation of these benefits for consumers.

— **Implement change without creating an investment hiatus:** It is understandable that regimes need to change to ensure value for money for electricity consumers. However, governments are not sending out comforting signals to industry, leading to a "wait and see" attitude from investors, and an investment hiatus, as each cycle of change is initiated. "Grandfathering", (maintaining pre-existing rules for pre-existing investments), transition management and allowing project owners a period to choose between the old and new regimes can help maintain investment continuity.

— **Avoid creating arbitrage between jurisdictions:** The variety of regimes, and the different basis on which they assess their respective levels of support, has led to arbitraging by investors between jurisdictions as they search for the most attractive return. At the European level, some convergence of approach would benefit the achievement of European-level ambitions for the sector.

— **Have a vision and avoid a reactive, constantly changing regime:** Quickly-implemented regimes have led to temporary investment hot-spots by over-rewarding projects. While these have been a small overall part of the sector, they have led to negative press for the industry as 'hot money' chases quick returns across the continent. They have also had a negative impact on investment in jurisdictions that have reneged on commitments. Governments need to communicate their vision clearly to the industry and provide long-term stability to allow industry to plan investments.

The renewable energy experts at CMS remain at the very heart of the discussions across Europe, guiding the industry and investors as they rise to the opportunities and challenges presented by this dynamic sector.

Cornelius Brandi
Executive Chairman, CMS


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