

SPEEDLETTER

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Changes in Solar Funding: Turkey implements a FIT, Spain cuts back.

While Turkey tries to catch up with the international RE industry by introducing its first, well thought-out FIT, Spain has reduced solar funding on the quiet. The precarious budgetary situation has forced the Spanish government to slash solar subsidies. The impact this "breach of trust" is likely to have is unpredictable.

Madrid, Spain / Istanbul, Turkey. The turn of the year saw international PV markets in vivid motion. While an increasing number of countries such as India or more recently Turkey are on the verge of successfully introducing solar subsidies to strengthen their domestic industry and simultaneously meet their climate objectives, the Spanish government has become the new "Solar Grinch" of 2011.

It was on Christmas Eve that the Spanish administration decided to make significant cut backs to subsidies for PV plants installed on the Iberian Peninsular. The precarious budgetary situation has forced the government to make dramatic cutbacks entailing an additional reduction over the next three years, even for existing installations. The government is proposing a cap be placed on the number of hours of subsidized generation that solar plants can sell to the grid.

Whereas up to 1,753 hours could have been fed to the grid by fixed PV systems in the past, now a maximum of 1,250 processing hours will be remunerated over the next three years. Systems mounted on single axis trackers will now only be funded for the first 1,644 hours; systems with double axis trackers will see payments for the first 1,707 hours only. An adjustment that will apply to all PV plants connected to the grid by September 2008. As compensation, PV plants will receive the FITs for three more years in the future – an extension from 25 to 28 subsidized years.

Unforeseeable Impact not only for the Industry but also for Millions of Fund Investors

According to Spain's Deputy Industry Minister, Pedro Marin, these reductions are necessary to grant the government "some leeway" in keeping consumer energy prices at a moderate level while Spain navigates its way through tough times of economic uncertainty. "Au contraire" is to be heard from the side of investors and analysts. Such hasty changes are considered a breach of trust and increase uncertainty throughout the whole renewable energies industry in Spain.

Exactly how the latest cut backs to solar funding will be felt throughout the industry cannot as yet be foreseen. However, analysts at EuPD Research believe that the impact will be significant. "But not only the PV industry and its directly or indirectly related spin off industries will suffer from the decision made in Madrid – millions of Spanish senior citizens and pensioners, as well as fund investors all over the world will

feel the impact of this decision”, says Markus A.W. Hoehner, CEO of the branch’s leading market researcher EuPD Research, based in Bonn, Germany. Over the last years countless pension funds invested significant amounts of money in Spanish solar funds, hoping for a stable return.

While Spain cuts Solar Funding, Turkey introduces a FIT System

Renewable energy has played a minor role in Turkish energy generation thus far as the main sources have been gas, coal, as well as hydropower. However, the Turkish government intends to further diversify its energy mix and renewable energy generated by domestic production will be of particular importance. It should, according to government plans, make up a total of 30 percent of the Turkish energy supply by the year 2023. Both wind energy and geothermal are expected to play a major role here. In addition, other renewable sources such as photovoltaic should also become of greater significance.

Turkey has had a renewable energy law since 2004 which also funds photovoltaic. However, very few investments were actually made in the technology as a result of comparably low feed-in-tariffs of only 5.5 €Cent/ kWh. As demand for energy increases and in line with adjustments to developments in Europe, renewable energy is now set to be pushed even more. The Turkish Ministry for Energy has decided that remuneration for PV systems should be extended to 13.3 \$Cent/ kWh in a base tariff.

Complex Approval Procedure, Market Cap and Local Content Requirements

Furthermore, an additional bonus of up to 6.7 \$Cent/ kWh will be paid for PV systems consisting of locally produced components whereas 9.2 \$Cent/ kWh will be paid for all CSP systems built with local equipment. However, the downside is that these tariffs will only apply to “licensed energy producers”, meaning that each plant owner has to obtain an authorization before feeding energy to the grid. This might be tolerable for commercial suppliers but could also be seen as bureaucratic barriers that might deter investment in private, small-scale systems. At the same time, the law also limits the total production capacity of these “licensed solar energy companies” to 600 MW up to December 31, 2013.

However, Taner Yıldız, the Turkish Energy and Natural Resources Minister, does not consider this a hindrance to investment. “I am sure that our investors will do business at these prices”, Yıldız said in Hürriyet Daily News.

EuPD Research

Adenauerallee 134

D-53113 Bonn

Fon +49 (0)228 97143-74

Fax +49 (0)228 97143-11

press@eupd-research.com

www.eupd-research.com