

The Parliament approves final changes to the re-modulation of the feed-in tariff for photovoltaic plants and introduces new options for assignment of incentives to financial institutions

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In the process of conversion into law of law-decree No. 91 dated 24 June 2014 (the “**Law-Decree**”) reshaping the Italian feed-in tariff for photovoltaic plants above 200 kW (the “**FIT**”), a new version of the FIT re-modulation mechanism has been approved. The draft law approved by the Chamber of Deputies (the “**Draft Law**”) will be finally approved by the Senate within 24 August 2014 in order to become law. However, no further changes are expected to be introduced.

In particular, three options are now available to the producers instead of the two originally contemplated in Law-Decree (please see paragraph 1 below for further details).

In addition to such three options for PV producers, the Draft-Law introduces the possibility for all operators that benefit from long-term incentives (therefore not limited to photovoltaic plants above 200 kW) to assign a portion of such incentives to financial institutions (please see paragraph 3 below for further details).

1. The three options for the re-modulation of the FIT for photovoltaic plants above 200 kW

The Draft-Law proposes the following three options for PV producers, all effective from 1 January 2015.

1.1. Option A

Option A provides for a solution that was already contemplated by the Law-Decree: *i.e.*, a reduction of the FIT by a ratio ranging from 17% to 25% depending on the residual incentivised period (please see Chart A below) compensated by an extension of the incentivised period to 24 years starting from the date of entry into operation of the relevant plant (instead of the current 20 years).

Chart A

Residual Incentivised Period (years)	Reduction Ratio
12	25%
13	24%
14	22%
15	21%
16	20%
17	19%
18	18%
more than 19	17%

1.2. Option B

Option B provides that, without modifying the duration of the incentivised period (*i.e.*, 20 years), during a first part of the remaining incentivised period, the FIT will be reduced and that, during a second part of the remaining incentivised period, the FIT will be increased.

The re-modulation ratios will be established by the Italian Ministry for Economic Development, after having consulted with the Italian Authority for Electricity, Gas and Water (the "AEEGSI"), within 1 October 2014 in order to obtain, in case of adhesion by all producers, an annual saving of at least Euro 600 million for the period 2015 – 2019 (compared to the current impact of the FIT).

1.3. Option C

Option C (similar to one of the solutions already provided by the Law-Decree) provides for a flat reduction of the FIT ranging from 6% to 8%, depending on the power capacity of the plant (as shown in Chart B below) for the remaining incentivised period without modifying the duration of the same (*i.e.*, 20 years).

Chart B

Power capacity of the plant (kW)	Reduction Ratio
200 - 500	6%
500 - 900	7%
Above 900	8%

Please note that PV producers shall communicate to the GSE their choice among the three Options above no later than 30 November 2014. In case no communication is sent to the GSE, Option C will automatically apply to the relevant photovoltaic plants.

2. Provisions of the Law-Decree regarding PV plants that have not been changed by the Draft-Law

2.1. All inclusive tariffs

For PV plants receiving all-inclusive tariffs (instead of the combination of FIT and sale of electricity), the reduction will apply only to the FIT-related component of the tariffs.

2.2. Extension of the authorisations

Where applicable, the Regions and the other local authorities shall extend the validity of the authorisations and permits for the construction and operation of the plants by a period corresponding to the extended incentivised period.

2.3. Subsidised financings

Producers affected by the FIT re-modulation will be entitled to access bank financing up to a maximum amount equal to the difference between: (i) the original value of the FIT as at 31 December 2014; and (ii) the value of the FIT resulting from the re-modulation. Through specific framework agreements that shall be entered into with bank institutions, the above described financings will benefit from funding and/or guarantees to be made available by the Cassa Depositi e Prestiti S.p.A.. The obligations of Cassa Depositi e Prestiti S.p.A. will be guaranteed by the Republic of Italy in accordance with the terms that will be detailed under a decree to be issued by the Ministry for Economic and Finance.

2.4. Re-scheduling of the payment terms of the FIT

Starting from the second semester of 2014, the GSE will pay the FIT as follows:

- (a) in part, through fixed monthly instalments, calculated on the basis of 90% of the average estimated production of the relevant photovoltaic plant during the relevant year; and
- (b) the balance, by 30 June of the following year, on the basis of the actual production of the relevant plant.

The GSE will define the operating details for implementing this mechanism, and such terms will then have to be approved by the Ministry for the Economic Development.

3. Assignment of incentives to financial institutions

The Draft-Law also provides that all operators that benefit from long-term incentives for the production of electricity from any renewable sources (therefore not limited to photovoltaic plants above 200 kW) are entitled to sell up to 80% of the future incentives to a purchaser that will be selected among primary European financial institutions (the "**Purchaser**").

In particular, producers shall be entitled to participate to auctions arranged by the AEEGESI which will be awarded to those that will offer the higher discount on the future incentives.

The Draft-Law further provides that the AEEGESI will in turn have the right to acquire from the Purchaser, on an annual basis, the future incentives that the Purchaser has acquired by the producers, by paying a predetermined price.

To further implement the assignment and securitisation mechanism contemplated in the Draft-Law the AEEGESI will issue implementing resolutions within 90 days following the enactment of the Draft-Law whereby it will, amongst others:

- (a) establish the modalities for the selection of the Purchaser by means of an auction procedure which will be awarded on the basis of the discount rate "T" offered by the financial institutions, as primary criterion of selection;
- (b) establish the minimum amount to be made available by the Purchaser, in any case at least equal to Euro 30 billion, to purchase portions of incentives by the producers;
- (c) establish the criteria and procedures to define the annual constant quota of incentives that may be assigned by the producers taking into consideration the location of the plants;
- (d) define the terms and conditions regulating the auctions whereby the producers will assign their rights to the future incentives to the Purchaser; such auctions will be awarded on the basis of the discount rate offered by the producer (which cannot be lower than the value "T" offered by the Purchaser); and
- (e) establish the minimum discount rate that can be offered by the producers.

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Finally, regarding PV producers, the Draft-Law provides that the portion of FIT that will be assigned to the Purchaser will not suffer any re-modulation: therefore, such producers will be allowed to combine this solution in relation to a portion of their incentives (up to 80%) with one of the three mentioned in paragraph 1 above for the remaining part.

It must be noted that the Draft-Law outlines the mechanism at issue in very general terms. Therefore, only with the issuance by the AEEGESI of the aforesaid implementing measures it will be possible to gauge the actual risks and opportunities for producers brought by this new mechanism.

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