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### *Renewable Energy Report*

#### FEATURES

**In Italy, renewable energy seeks to clear political, investment hurdles; Italy, which boasts a variety of abundant clean energy sources ranging from wind and solar to biomass and geothermal power, has the potential to develop one of Europe's most balanced renewable energy sectors. Yet the country's unstable political system, confusion over the investment climate and the national government's doubt about the wisdom of tackling climate change at a time of global financial uncertainty could combine to stymie investment, Neil Ford reports**

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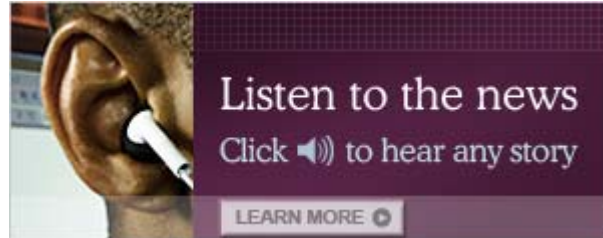
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A gathering last month of top European Union leaders illustrates why renewable energy in Italy is developing in fits and starts despite enormous potential.

At a meeting in mid-October, the Italian government agreed with other EU governments to stick to an existing agreement to boost the proportion of renewable energy in the EU's total energy consumption to 20% by 2020 (RER 166/1).

EU member states agreed to cut total carbon emissions by 20% below 1990 levels by 2020. Italy is required to boost the proportion of renewable energy in its energy mix from 5.2% in 2005 to 17% by 2020.

The Italian government, however, voiced concern about the economic cost of implementing the agreement, particularly during a period of likely economic recession. Prime Minister Silvio Berlusconi argued that the EU should not bank everything on setting a good example for the United States and China.

"We don't think this is the moment to push forward on our own like Don Quixote. We have time," he said.

While Berlusconi sees little urgency in shifting to a low-carbon economy, much of Italy's renewable resources remain untapped. Certainly the potential is there. It already possesses significant geothermal generating capacity and a string of wind power projects are planned for the south, while the country could be on the verge of an explosion in solar power capacity, thanks to new feed-in tariffs.

Although the government has introduced some measures to encourage renewable energy, these appear insufficient to reach the country's 2020 renewables goal. In the past, the private sector as a whole might have been able to prosper in spite of the country's legendary political instability, but achieving long-term energy goals requires the kind of long-term vision that is hampered by constant changes in government.

In addition, potential renewable energy investors have been forced to jump through a series of local, regional and national administrative hoops to secure consents needed to begin commercial operations. On some occasions, regional governments in the south in particular have ordered their own environmental impact assessments even after national bodies have already sanctioned particular projects.

This paperwork morass might soon be cleared, though, as laws have been enacted in recent years specifically to speed up the application process for renewable power projects. Article 12 of law 387/03 states: "The construction and the operation of plants for the production of electricity fuelled by renewable sources, their modification, upgrading, partial or total revamping and the restarting of their commercial operation, as well as any connected facility and infrastructures necessary for their construction and operation are subject to a single permit to be released by the region or by the provincial authorities delegated to do so by the region."

As a result, the entire administrative process now must take no longer than six months, although there is evidence that some applications are still taking longer.

#### Parallel incentives

Successive national administrations have introduced a variety of mechanisms to provide financial support for renewable power producers, but the frequent changes in government mean that each scheme has little time to take hold before it is altered or a parallel mechanism is introduced.

Different generation projects qualify for different schemes depending on when they came on stream. One consistent element in the national government's approach, however, has been to give renewable power producers priority access to the national grid, although the cost of connecting to the grid is relatively high.

Through mid-2007, the basis of the government's strategy was a renewable energy quota system for power suppliers, with the minimum purchase of renewables increasing each year to 2020. Tradable green certificates are awarded for power produced by renewable energy schemes, so suppliers facing a quota shortfall are forced to pay the market rate for certificates. All projects that benefit from the system sell their electricity to the government owned Gestore dei Servizi Elettrici, or GSE, the state agency for electricity services, at a subsidized rate. GSE then sells on the power at a market rate.

The renewables quota for power suppliers stands at 4.55% for 2008 and will increase 0.75% each year until 2012, so the market for green certificates should grow.

Doubts were raised, though, over the legal status of sanctions against companies with insufficient certificates and so the conto energia, or energy account, system was introduced during the second half of last year as an alternative to green certificates.

The conto energia introduced feed-in tariffs for solar photovoltaics and more recently for wind power. A maximum of 1,200 MW PV generating capacity nationwide can benefit from the tariffs, which are guaranteed for 20 years for projects developed while the scheme is in force.

Unlike most EU member states, Italy's tariffs are set annually at a fixed premium above the market price for electricity rather than at fixed rates.

Whether this proves to be advantageous depends on the future direction of feedstock prices for the gas-fired power plants that provide the bulk of Italian generating capacity. In addition, the tariff level is influenced by other factors, including whether or not PV equipment is located on buildings or on the ground. It might take time, then, to determine the attractiveness of the scheme. Electricity can still be sold through the GSE, directly to a power supplier or under a bilateral contract.

### Joint ventures for wind power

Despite the complicated mesh of financial support, investment in renewables is increasing, particularly in the wind power sector. Italy's wind industry had 2,726 MW of installed generating capacity at end-2007, fourth highest in the EU.

Current and planned onshore wind power projects are overwhelmingly located in the southern third of the country, particularly in Puglia and Sicily. Some are being developed solely by Italian companies, but most new capacity is being added by joint ventures of Italian and foreign developers

Iberdrola Renovables of Spain, for instance, reported in July that it had secured a €604 million loan from a consortium of European banks to fund renewable energy projects in Italy. Much of the money will be used to finance the development of wind farms by Societa Energie Rinnovabili, which Iberdrola jointly owns with Italian partner API Holding. Six wind farms on Sicily and one in Puglia with combined generating capacity of 350 MW are planned. Iberdrola Renovables already operates 200 MW of installed wind power capacity in Italy and has options for 100 MW more.

M & A Rinnovabili bought the 58-MW Rocca Rossa wind project from German firm WKN Windkraft Nord and Aero Sol in September. This completed the divestiture of WKN's southern Italian wind power interests. M & A Rinnovabili, which was set up in August as a joint venture between Swiss company Atel and Italian company Moncada Energy, plans to develop wind, solar and biomass power plants. The Rocca Rossa purchase should take the company's installed wind power generating capacity to 163 MW.

GE Energy in October received the first order for its new 2.5-MW model turbine from Italian firm Brullii Energia. Under the deal for 12 of the new turbines, profits from the project will be shared equally between the project developer and the municipality of Girifalco, where the turbines are to be located.

The Italian government is looking for this initiative to be copied elsewhere in the country, thereby encouraging local communities to accept wind power schemes. More foreign investment has come from Airtricity, a subsidiary of Scottish and Southern Energy, which has set up a joint venture with Italian firm Entropy. Wind power projects totaling 2 GW are planned in Basilicata, Calabria, Puglia and Sicily.

In the same month, Italian Vento Power Corp ordered 51 V90 turbines from Vestas, with combined generating capacity of 101.8 MW. The turbines will be installed in the Puglia and Molise regions of southeast Italy from early 2009 and are expected to provide 326 GWh/year. The president of Vestas Mediterranean, Juan Araluze, commented: "The Italian market is the seventh largest market in the world as regards installed wind power capacity in 2007...and we hope to continue contributing to this sustainable growth."

German turbine manufacturer REpower Systems, a subsidiary of Suzlon of Italy, has secured a contract to supply Enel with 105 MW of turbines for Italian wind farms. The 2-MW turbines will be delivered between 2009 and 2011, while the same manufacturer will also supply Enertad with 2 MW turbines for 100 MW of new capacity during the course of 2009.

Though offshore wind power is making far less impact in the Mediterranean than in northwest Europe, Enel and Moncada Costruzioni plan to install 115 turbines with combined generating capacity of up to 575 MW off the coast of Sicily.

This would be the country's first significant offshore scheme. Enel Chief Executive Fulvio Conti said the project would double Enel's installed wind capacity in Italy and showed how companies, local institutions and environmental associations could work together.

In addition, Netherlands-based **Blue H** Technologies is testing an 80-kW floating wind turbine 12 miles off the coast of southern Italy and is aiming to develop a 90-MW wind farm offshore Italy.

Some foreign-Italian joint ventures appear to have been set up to take advantage of the government's new financial incentives because they are targeting various renewable technologies. German company RWE set up a joint venture with Fri-El Green Power of Italy in June to develop wind farms and biomass projects in Italy. Each project will be created as an independent company, with RWE taking a 51% stake in each and Fri-El retaining the remaining equity.

The Italian company already has stakes in 332 MW of wind power generating capacity spread across 14 wind farms. Most recently, in September, the Campidano wind farm on Sardinia was brought on stream with 70 MW capacity, which is provided by Vestas V80 2-MW turbines.

Solar energy and more

Given the initial focus of the feed-in tariffs, the government is keen to promote solar technology. Italy had 100 MW of installed PV generating capacity at the end of 2007, up from just 50 MW the year before, but still well behind EU leader Germany with 3,846 MW.

The Italian government is working to boost this figure to 3 GW by 2016, and recent investment in new PV production capacity, which should increase by 78 MW annually by year's end, indicates the goal could be reached.

An even bigger increase is expected in January, when Solon completes construction on its 120 MW/year PV factory close to Padova. The company's total production capacity currently stands at just 30 MW/year. Further, this fall [Quantum Fuel Systems Technologies Worldwide](#) said it would set up a PV factory in southern Italy in conjunction with Asola of Germany, which will produce and distribute German solar technology. Initial production capacity will be 30 MW/year but could be increased.

"This deal gives us access to the Italian market, which is the third largest solar energy market in Europe with potential for 250 MW in 2009," said Asola Chief Executive Reinhard Wecker. "Our partner brings significant experience in this fast growing market. Their in-house project development and system-integration capabilities allow them to undertake large solar power projects. We are happy to bring our 20 years of German solar experience and global sourcing knowledge to this key market."

Big investors in PV generating capacity include EnergyMixx, which secured funding from [Deutsche Bank](#) in October for 105 MW of new capacity to be installed by 2011, and [SunPower Corp.](#), which has signed contracts to provide at least 25 MW by the end of 2009. Enfinity Management BVBA will receive €0.35/kWh over 20 years in feed-in tariffs under the conto energia for its €25.5 million, 4.3-MW PV plant in Foggia, which is expected to come on stream in July 2009. The European Photovoltaic Industry Association predicted this fall that PV will reach grid parity in Italy as early as 2010, providing the possibility for a real solar revolution in the country.

Some investment has also been made in the geothermal sector. Italy hosted the world's first commercial geothermal plant in 1913, but new generating capacity was added slowly until 2000. Ten new plants were brought on stream between 2000 and 2005 with combined capacity of 254 MW, taking total national geothermal generating capacity up to 791 MW at three sites in Tuscany: Larderello, Mount Amiata and Travale/Radicondoli.

The International Geothermal Association predicts that the green certification scheme will encourage further investment over the next decade, both in Tuscany and elsewhere in central-western Italy.

Once planned biomass and small hydropower projects are thrown into the mix, Italy has the potential to achieve its target of increasing the proportion of renewable energy in the total energy mix to 17% by 2020. Though the effects of the new feed-in tariffs have yet to be assessed, much greater investment in PV production capacity since the introduction of the conto energia suggests that the new scheme will spur additional renewables generation. The government has also set a target of securing 12 GW wind power generating capacity by 2020, underlining the wind power potential of the Mediterranean.

The question remains whether this enthusiasm for renewables can be sustained through both through difficult financial times and the many changes at the top of the Italian government.

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