



Institutional Investors Group on Climate Change

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Spain

Copy to: D. José Enrique Serrano, Chief of Staff of the Presidency

23<sup>rd</sup> June 2010

Dear President

**Subject: Proposed retroactive reduction of 661 tariff for existing investments**

The Institutional Investors Group on Climate Change (IIGCC) is the European network for institutional investors to promote the assessment and active management of the investment risks and opportunities associated with climate change. The group represents around 60 investors, including many of the largest pension funds in Europe, and therefore millions of public sector pension fund beneficiaries.

Many of the IIGCC's members are leaders on climate investing and on climate finance, and many of them have sizeable investments in renewable energy facilities in Spain. We are long term investors and consider credible and effective climate change policy to be critical for protecting and enhancing the value of our investments on behalf of our clients and beneficiaries.

Spain has taken an important lead on climate change at national and international levels through its strong commitment to change its energy mix towards renewable energy sources. Encouraged by this commitment and supported by Spain's ambitious and cleverly designed public policies on renewable energy, our members and other investors have made substantial investments in Spanish solar photovoltaic (PV) projects in recent

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years. A key driver for these investments was the feed-in tariffs under the royal decree 661/2007 (“661 tariff”). The 661 tariff has been critical to providing a return comparable to other investments and has therefore made it possible for us to invest in these projects.

This policy initiative has been outstandingly successful and increased investment so that Spain has seen a rapid build-up of new capacity in the renewable energy space. Indeed, it is an excellent example of how well designed public policy can help to drive technological advancement as well as business development. Furthermore, it confirms that the move to a low carbon economy is only possible if supported by cleverly designed public policy and a strong credible, stable and long-term commitment by policymakers and governments.

The sizeable initial investments in solar PV projects in Spain have helped to bring technology costs down the cost curve, leading to rapidly declining costs of installing new capacity. The policy success clearly justifies changes to tariff structures for future investments. Tariffs offered as the basis for new investments should always reflect the costs involved.

However, while readily accepting such steps for new investments, we are deeply concerned about the indications that the Spanish government may also be considering a retroactive reduction of the 661 tariff for already existing investments (or equivalent such as a reduction in the hours of production). Changing the rules of the game retrospectively in this way is unprecedented and would have significant implications for investors.

We recognise that the Spanish government must address its budget deficit. However, retroactive changes to the 661 tariff for existing investments would lead investors to reassess policy risks. Such a step could seriously hamper the wider prospects of attracting large scale private investment to the renewable energy sector and foreign investment in Spain more generally. It could also have consequences for investment in renewable energy more widely in the EU as well as globally.

The 661 tariff was a key factor behind institutional investors’ decisions to invest in PV projects in Spain and similar policies play the same role in many other countries. Such investments are very long term and they are only possible if assisted by policies that support a relatively safe long term assessment of expected returns. If the credibility of such policies is called into question, it will seriously endanger private investments in this field.

Thus, increased uncertainty about policy frameworks and about their credibility will seriously hamper any national, regional or international ambitions to counter climate change.

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On behalf of the IIGCC membership, we therefore urge the Spanish government to consider such steps carefully and to be aware of the implications of making retrospective policy changes. We ask the Spanish government to publicly reconfirm its long-term commitment to the existing renewable energy support scheme.

Yours sincerely,

On behalf of the IIGCC,

**Ole Beier Sørensen**

Chairman, IIGCC, and Chief of Strategy and Analysis, ATP

#### **IIGCC Membership, June 2010**

Alfred Berg	Earth Capital Partners	London Pensions Fund Authority
Amundi	Environment Agency Pension Fund	Merseyside Pension Fund
APG Asset Management	Environmental Technologies Fund	Northern Trust
ATP	Ethos Foundation	PGGM Investments
Aviva Investors	Generation Investment Management LLP	PRUPIM
Baptist Union of Great Britain	Good Energies	Robeco
BBC Pension Trust	Greater Manchester Pension Fund	Schroders
Bedfordshire Pension Fund	Grosvenor Fund Management	South Yorkshire Pensions Authority
BlackRock	Henderson Global Investors	The Church of England Pensions Board
BMS World Mission	Hermes	The Church in Wales
BNP Paribas Investment Partners	HgCapital	The Roman Catholic Diocese of Plymouth
BTPS	HSBC Investments	The Roman Catholic Diocese of Portsmouth
CB Richard Ellis Investors	Impax Asset Management	The Roman Catholic Diocese of Salford
CCLA Investment Management	Insight Investment	United Reformed Church
Central Finance Board of the Methodist Church	Invicta Capital	Universities Superannuation Scheme
Church Commissioners for England	Joseph Rowntree Charitable Trust	West Midlands Metropolitan Authorities Pension Fund
Climate Change Capital	Kent County Council Pension Fund	West Yorkshire Pension Fund
Co-operative Asset Management	London Borough of Hounslow Pension Fund	William Leech Charitable Trust
Corporation of London Pension Fund	London Borough of Islington Pension Fund	
	London Borough of Newham Pension Fund	

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