

SPANISH GOVERNMENT "CLARIFIES" THAT THE TEMPORARY REDUCTION OF THE REMUNERATION PAID TO POWER PRODUCERS EXCLUDES ENERGY COVERED BY CERTAIN PPAS

On 20 September the Ministry replied to REE, clarifying the reduction of the remuneration passed by Royal Decree-Law 17/2021 ("RD-L 17/2021").

Aim of the clarification

To clarify that the reduction must apply "*by an amount proportional to the increased income obtained by those plants due to the internalization of the cost of natural gas in the electricity pool price*". For this reason, it is necessary to exclude from the reduction mechanism totally or partially the energy from plants that do not obtain that increased income, provided that they have a PPA in force by 15 September 2021 (unless it is an intragroup PPA) that has a price totally or partially fixed (in the sense of not being indexed to pool price).

Is the scope of RD-L 17/2021 modified? Does this change which plants are subject to the reduction of remuneration mechanism?

No, the scope is the same, the power plants subject to the mechanism and those excluded remain the same.

However, this clarification allows plants that are subject to the reduction mechanism to exclude from it the energy covered by a PPA when the following requirements are met.

What energy is excluded from the mechanism and what aspects of the PPA need to be proved?

Energy from power plants whose owners prove, either directly or through their representative, that they meet each one of the following conditions, will not be subject to the reduction mechanism:

- The electricity produced that would be affected by the reduction mechanism is covered by a PPA entered into prior to 15 September 2021 (entry into force of RD-L 17/2021).
- The PPA establishes a fixed price, totally or partially, without being indexed to the electricity spot market price. Where the price is only partially fixed, the reduction will not apply to the part of the price that is not indexed to pool price.

Key issues

- It excludes energy covered by PPAs that are not indexed to the pool price, provided it was signed before 16 September 2021.
- It applies to physical as well as financial PPAs.
- It does not apply to PPAs with suppliers that belong to the same group.

- The PPA are not agreements signed by the producer and a company in its corporate group for the sale of the energy generated by the company ultimately to a supplier belonging to the same group.

Does it discriminate between PPAs with physical delivery and financial PPAs?

No, both types of PPAs can benefit from this exception:

- For PPAs with **physical delivery**, the non-application of the reduction mechanism will be limited to that part of the energy that, not having been matched on the daily electricity market managed by the Iberian Electricity Market Operator (OMIE), is subject to the PPA;
- For **financial PPAs**, the scope of the non-reduction will correspond to that part of the energy that is actually covered by such financial PPAs during the term considered by the reduction mechanism, taking into consideration the net selling position of the company subject to the mechanism.

Furthermore:

- i. The scope of the non-applicability will correspond to that part of the energy that is actually covered by the PPA, and this will be determined taking into account all the requirements established in the foregoing sections as well.
- ii. In the case of **partial indexation** to the spot market price, the energy linked to the non-indexed part of the contract will benefit from the exception and not be subject to the reduction mechanism.
- iii. In the event that PPA cover is **not associated with a specific plant**, the energy actually covered by the PPA at a given power plant will be that derived from dividing the net selling position of the company on a pro rata basis between the installed capacity of the plants that it owns, adjusted by the percentage availability of the technology of each one, unless the company provides documentary justification for the application of another allocation rule.

Who, how and before what entity must these requirements be proven?

Conditions will have to be proven by the plants' owners, either directly or through their representatives.

The Ministry clarifies which documents must be filed for this purpose:

- Affidavit declaring the monthly energy covered by the PPA, including at least the volume, price and term of delivery or settlement, previously declared (as the case may be) to compensation schemes or bodies where the hedging has been registered;
- information that proves the contract executed (with a third party, or through markets or intermediary agencies);
- evidence of the notification of these transactions to the relevant bodies (under REMIT or EMIR), contracts and other acceptable evidence.

This information will be submitted to the System Operator (REE) who will pass it on to the CNMC for verification.

Does this change the formula?

No, but it clarifies the following aspects of it, amongst others:

- The percentage of hours (expressed on a per unit basis) where the pool price was determined by plants that emit CO₂ will be applied, weighing the energy matched each hour. This term (PHOUR) will be divided by the 0.55 factor previously established by RD-L 17/2021 to obtain the FMIGt figure:

$$\text{FMIGt} = 0.55/\text{PHOUR}$$

- During September 2021 the formula will be applied, considering the value of its elements exclusively as from 15 September onwards.

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