

SPANISH GOVERNMENT TEMPORARILY REDUCES REMUNERATION PAID TO POWER PRODUCERS IN AN ATTEMPT TO LOWER THE PRICE OF ELECTRICITY

Spanish Royal Decree-Law 17/2021 ("RD-L 17/2021") entered into force on 15 September 2021; it temporarily reduces the remuneration paid to certain power producers

Aim of the Reduction

The aim of the reduction set out in RD-L 17/2021 is to lower the price of electricity for end users, as it is currently at all-time highs. These high prices are due to the effect that the increase in the price of natural gas has had on the marginalist system of the electricity market, which internalises that price of gas. The aim of RD-L 17/2021 is thus to have those energy producers who do not bear the costs of gas to generate electricity, to give back the "excess" remuneration to the electric system (when the price of gas exceeds €20/MWh), to apply it to reducing the charges on the electricity bill, thereby forcing distributors to pass that discount on to end users.

Which power plants are affected?

All power plants on the Spanish mainland that do not emit greenhouse gases, regardless of their technology (nuclear, hydraulic, wind, photovoltaic, etc.) and their start-up of operation date. The only ones not affected are:

- plants not on the Spanish mainland;
- plants applying a regulated economic remuneration regime (such as those applying the specific remuneration regime or the economic regime for renewable energies assigned by auction, although the latter are for the most part still under development);
- plants with a net capacity of 10 MW or less.

What if I have a PPA?

Yes, you will be affected even if you have a Power Purchase Agreement (PPA). The reduction applies regardless of the type of agreement in place.

When does this apply?

Beginning on 15 September 2021 and ending on 31 March 2022.

How is this reduction calculated and applied?

Red Eléctrica (REE), as system operator, will calculate the reduction to be liquidated for each plant on a monthly basis, and will notify the plant owner of

Key issues

- Affects all power plants on the Spanish mainland that do not emit greenhouse gases, unless they have regulated remuneration or a net capacity of 10 MW or less
- Applicable from September 2021 to March 2022
- Applies even if the electricity is sold outside of the regulated market through a PPA

the amount prior to the 15th day of each month. Plant owners will be required to pay this amount within one month of the date notified.

$$Y_i^t = \frac{Q_i^t x (P_{GN}^t - 20) x \alpha}{FMIG^t}$$

This formula considers:

- the energy produced each month by each plant;
- an alpha modulation parameter for the reduction of 0.9; and
- an average natural gas price internalisation factor of 0.55;

What if the price of gas drops?

No reduction will apply if the average price of natural gas during any one month drops below €20/MWh.

How will this reduction affect the one expected to be seen in the draft bill on the remuneration of non-emitted CO2 in the electricity market?

The two would be independent of one another. For now, the Draft Bill is still before the Spanish Parliament.

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C L I F F O R D C H A N C E

CONTACTS



Jaime Almenar
Partner

T +34 91 590 4148
E jaime.almenar@cliffordchance.com



José Luis Zamarro
Partner

T +34 91 590 7547
E joseluis.zamarro@cliffordchance.com



José Guardo
Partner

T +34 91 590 7595
E jose.guardo@cliffordchance.com

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www.cliffordchance.com

Clifford Chance, Paseo de la Castellana 110,
28046 Madrid, Spain

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