

Call for applications for ‘specific remuneration’ (subsidy payments) to renewable energy (wind and biomass) facilities

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Publication of Order IET/2212/2015 of 23 October regulating the procedure conferring the specific remuneration (subsidy payment) scheme in the call for applications from new facilities producing electricity from biomass on the mainland grid and to wind-technology facilities, made under Royal Decree 947/2015, of 16 October, and approving its remuneration parameters. Interested parties must still await publication of the notice of auction by resolution of the Department for Energy.

Having a week elapsed since the publication of Royal Decree 947/2015 of 16 October, setting out a call designed to confer the specific remuneration scheme to new facilities producing electricity from biomass on the mainland grid and to wind-technology facilities¹, the Official Journal of Spain of 24 October publishes Order IET/2212/2015 of 23 October regulating the procedure conferring the specific remuneration (subsidy payment) scheme in the call for applications from new facilities producing electricity from biomass on the mainland grid and to wind-technology facilities, made under Royal Decree 947/2015, of 16 October, and approving its remuneration parameters. Under this order, the allocation mechanism for specific remuneration shall be conducted by an auction.

1. Recipient facilities: new biomass and new or modified wind facilities

The order shall apply to the following facilities:

- a) *New biomass facilities under b.6, b.8 or type-1 hybrid groups, provided that the latter do not use c.2 group black liquor*

as fuel, located on the *mainland grid*. According to the definition in arts. 2 and 4 of Royal Decree 413/2014 of 6 June regulating the production of electricity from renewable energy sources, cogeneration and waste, the following facilities are involved:

- *B.6 group*: electric power or cogeneration plants using biomass as primary fuel from energy crops and agriculture, livestock, gardening, forestry and other related operations in forests and green spaces under the terms listed in annex I of RD 413/2014.
- *B.8 group*: electric power or cogeneration plants using biomass as primary fuel from industrial plants in the agricultural or forestry sector under the terms listed in annex I of RD 413/2014. In both cases, primary fuel means that fuel involving at least 90 percent of the primary energy used, measured by the lower heating value.

¹ See “Imminent call for applications for ‘specific remuneration’ (subsidy payments) to renewable energy (wind and biomass) facilities”, <http://www.gomezacebo-pombo.com/index.php/es/conocimiento/analisis/item/2085-inminente-nueva-convocatoria-de-retribuci%c3%b3n-espec%c3%adfica-para-instalaciones-de-energa%c3%adas-renovables-e%c3%b3lica-y-biomasa>

- *Type-1 hybrid facilities*: facilities incorporating two or more of the primary fuels indicated for groups b.6, b.8 (not c.2 group black liquor), and which together mean on a yearly basis, at least 90 percent of the primary energy used, measured by the lower heating values.
- b) *B.2.1 group (inland wind) facilities, whether new or alterations to existing facilities*. Regarding these facilities, it must be noted that the specific remuneration scheme cannot be offered to wind facilities on non-mainland grids that are owned by a company or group of companies where the share of electricity production on the grid held by such company or group of companies is higher than 40 per cent (art. 1(3) and second additional provision of the Mainland and Non-Mainland Grids (Guarantee of Supply and Increase of Competition) Act 17/2013 of 29 October).

The order defines both the concept of “new facilities” and “alteration” entitled to the specific remuneration scheme. It will be deemed that a *facility is new* when it is formed by new and unused main equipment and has not been definitively registered with the administrative register of electricity-production facilities prior to 18 October 2015 (date of entry into force of the new royal decree). On the other hand, it will be deemed that an *alteration is carried out on an existing wind facility* when altering a facility that has been definitively registered with the administrative register of electricity-production facilities, provided that the alteration involves at least the replacement of the turbines for other new and unused ones, and that the alteration has not been definitively registered with the aforementioned register by the entry into force of Royal Decree 947/2015. The alteration may be partial.

2. Auction and registration

Pursuant to art. 14 of the Electricity Sector Act 24/2013, Order IET/2212/2015 regulates the mechanism for allocating the specific remuneration scheme, which will be an auction. Items for auction will be the power (kW) entitled to the specific remuneration scheme for new biomass and wind facilities, resulting in a percentage reduction of the standard value of the initial investment of the standard facility.

Up to 200 MW of power entitled to the specific remuneration scheme for new *biomass* facilities and up to 500 MW of power entitled to specific remuneration scheme for *wind* facilities will be auctioned.

Notice of the auction will be given by order of the Department for Energy, which will set out the auction’s procedure and rules. The notice will be published in the Official Journal of Spain, setting, inter alia, the capacity quota for each type of standard facility, the pre-classification and classification period, the date of auction and the financial guarantees to bid in the auction.

The auction process will be done by sealed-bid with a marginal system, i.e. the percentage reduction applicable to each successful bid shall be the reduction percentage of last bid matched. The bidders can submit bids related to the percentage reduction of the standard value of the initial investment of the standard facility, in accordance with the rules determined by the Department for Energy’s notice resolution. As a result of the auction, the power allotted to each participant for each technology, as well as the percentage reduction of the standard value of the initial investment of the standard facility, will be obtained.

The auction will be administered by OMI-Polo Español S.A. (OMIE), either directly or through one of its subsidiaries.

All applications, including applications for registration with the specific remuneration scheme register under pre-allocation, written submissions, communications and notifications must be made exclusively electronically.

Within a maximum of 2 hours from the close of receiving bids for the auction, the administrator will present each bidder the value of the power awarded to it and the reduction percentage of the standard value of the initial investment of the standard facility resulting from the auction. Subsequently, the administrator shall forward the results of the auction to the supervisory body and the Department for Energy and in a maximum period of 24 hours from receipt of the aforementioned results, the supervisory body of the auction must validate them and the conduct of the auction. If the auction is held invalid by the supervisory body, the same will be without effect by order of the Department for Energy. Where held valid by

the supervisory body, the Directorate-General for Energy Policy and Mines shall issue a decision approving the auction, to be published in the Official Journal of Spain.

In accordance with art. 12(4) of Royal Decree 413/2014, the entry in the specific remuneration scheme register under pre-allocation is performed for a given value of power not associated with a particular facility. The characteristics of the facilities will be included in the application for registration with the specific remuneration scheme register under operation, by completing section 2 of annex V of Royal Decree 413/2014.

2.1. *Registration and guarantees*

The registration of a facility in the specific remuneration scheme register under operation and its allocation to a standard facility shall be necessary requirements to receive the appropriate specific remuneration. Within 45 business days from the date of publication of the Department for Energy's decision determining the auction, the successful bidders must submit the application for registration with the specific remuneration scheme register under pre-allocation, along with the required financial guarantee. The amount of the financial guarantee required as a prerequisite for registration with the specific remuneration scheme register under pre-allocation is 20 € / kW depending on the installed power. The successful bidder may request the passage from pre-allocation to operation in the specific remuneration scheme register for one or more facilities until the awarded capacity quota is covered.

The owners of the successful facilities have a maximum time limit of 48 months,

counting from the date of publication of the decision whereby the successful bids are registered with the specific remuneration scheme register under pre-allocation, to comply with the requirements of art. 46 of Royal Decree 413/2014 of 6 June regulating the production of electricity from renewable energy sources, cogeneration and waste.

3. **Features of the new specific remuneration scheme**

Items auctioned will be the power (kW) entitled to the specific remuneration scheme for new biomass and wind facilities, resulting in a percentage reduction of the standard value of the initial investment of the standard facility. The retributive parameters of the standard facility will be calculated based on the parameters of the standard facility and the results of the auction held in accordance with the provisions of the discussed order. On the basis of the latter value and other remuneration parameters of the standard facility, the remuneration for investment of the standard facility shall be obtained by applying the remuneration methodology in Title IV of Royal Decree 413/2014 of 6 June regulating the production of electricity from renewable energy sources, cogeneration and waste.

The facilities linked to successful bids shall be granted the specific remuneration scheme regulated by Royal Decree 413/2014. As explained in documents & Analysis of this royal decree² and Order IET/1045/2014 of 16 June approving the remuneration parameters for standard facilities applicable to certain facilities that produce electricity from renewable energy sources, cogeneration and waste³, the remuneration of the facility will be the result of applying the following formulas:

² <http://www.gomezacebo-pombo.com/index.php/es/conocimiento/analisis/item/1613-real-decreto-413-2014-de-6-de-junio-por-el-que-se-regula-la-actividad-de-produccion-de-energ%C3%ADa-el%C3%A9ctrica-a-partir-de-fuentes-de-energ%C3%ADa-renovables-cogeneraci%C3%B3n-y-residuos>

³ «Guía breve para la aplicación de la Orden de Renovables», <http://www.gomezacebo-pombo.com/index.php/es/conocimiento/analisis/item/1620-gu%C3%ADa-breve-para-la-aplicaci%C3%B3n-de-la-orden-de-renovables>

$$\text{REMUNERATION}_{\text{facility}} = \text{Remuneration from sales}_{\text{market price}} + \text{Specific remuneration} + [\text{incentive to investment for facilities within non-peninsular electricity systems involving a global reduction of production costs}]$$

(Throughout the regulatory lifespan of a **standard facility**)

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|--------------------------------------|--|
| Remuneration _{specific} = | • Remuneration on investment + Remuneration on operation |
| Remuneration _{investment} = | • Limit per installed power capacity unit = Non-recovered investment costs of standard facility |
| Remuneration _{operation} = | • Operating costs of standard facility – Market revenue of standard facility |

Under Royal Decree 413/2014, each standard facility has a set of remuneration parameters that are calculated by reference to the activity carried out by an efficient and well-managed company. These parameters set the specific remuneration scheme to be applied to the facilities associated to such specific standard facility. The discussed order supplements these formulas defining the remuneration appropriate to each standard facility according to the terms resulting from the auction procedure.

The order establishes a classification of standard facilities according to year of final approval of operation, regulatory lifespan, standard value of initial investment valued in €/MW, equivalent number of annual operating hours, among other necessary parameters. To each group of facilities (biomass and wind) corresponds a standard facility, to which a code is individually assigned. The order's annex defines the standard facilities, the remuneration parameters considered and the remuneration appropriate to each of them, distinguishing standard facilities with a final operating license in 2015 and 2016 and 2017-2020.

The *regulatory lifespan* of the successful facilities is estimated at 25 years for biomass facilities (b.6 and b.8 groups) and 20 years for wind facilities (b.2 group).

The remuneration parameters of the standard facility shall be revised and updated in accordance with art. 14(4) of Act 24/2013 of 26 December, and Royal Decree 413/2014 of 6 June. Thus, neither the regulatory lifespan nor the standard value of the initial investment of the standard facility may be revised.

Pursuant to the second para. of the first additional provision of Royal Decree 413/2014, for the facilities to be conferred the specific remuneration scheme, the reasonable return of the standard facility during the first regulatory period will revolve, before taxes, around the average yield of ten-year Spanish government bonds, calculated as the average of prices in the secondary market for the months of April, May and June 2013, increased by 300 basis points.

3.1. *Wind facilities will not receive remuneration for the sale of energy*

As set out in the annex to the discussed order, successful wind facilities only receive remuneration for investment but not for the operation (sale of energy).

3.2. *Alteration to wind facilities: prior and definitive renunciation to pre-existing remuneration scheme*

As mentioned, it will be deemed that an alteration is carried out on an existing wind facility when altering a facility that has been definitively registered with the administrative register of electricity-production facilities, provided that the alteration involves at least the replacement of the turbines for other new and unused ones, and that the alteration has not been definitively registered with the aforementioned register by the entry into force of Royal Decree 947/2015.

The alteration may affect the entire facility or a part of the same. In the event that the existing alteration only affects part

of the facility, such part shall be deemed for remuneration purposes a new remuneration unit, keeping unchanged the remuneration scheme of the unaltered part.

It should be noted that the regulated procedures and requirements to recognize the right to the specific remuneration scheme to altered facilities can generate uncertainty and discourage the renewal of facilities as it requires prior and definitive renunciation of the already recognized scheme, regardless of the recognition (or not) of entitlement to the new scheme. Thus, according to the second para. of art. 3(7) of the analysed order, "within a maximum time limit of one month from the date of unavailability of the part of the original facility to be altered, the interested party must request renunciation to the specific remuneration scheme, corresponding to the power removed from said part of the original facility, from the Directorate-General for Energy Policy and Mines [...]. Renunciation of the specific remuneration scheme is effective from said date of unavailability and shall be

final, without prejudice to the specific remuneration scheme recognised to the altered facility, where appropriate."

3.3. *Remuneration scheme incompatible with other schemes*

The specific remuneration scheme regulated in the referred order may not be granted to new facilities or alterations to existing facilities that have been awarded prior to 18 October 2015, effective date of Royal Decree 947/2015, entitlement to the premium remuneration (feed-in premium) scheme, the specific remuneration scheme or any other financial scheme related to renewable energy, cogeneration and waste.

If the facilities under a specific remuneration scheme, granted under the new order, are awarded some type of grant or subsidy derived from a call for proposals with EU funds, the specific remuneration scheme shall be reduced according to the terms established by ministerial order (single additional provision of Order IET/2212/2015).