

Renewable energy, cogeneration and waste: update of parameters for the regulatory half period 2017-2019

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The new remuneration model for facilities that produce electricity from renewable energy sources, cogeneration and waste – as laid down in the Electricity Sector Act 24/2013 of 26 December and Royal Decree 413/2014, of 6 June, regulating the production of electricity from renewable energy sources, cogeneration and waste – provides that the incentive scheme (specific remuneration, i.e. subsidy payments) must be updated at the end of each regulatory period, every six years. According to the foregoing pieces of legislation, the review could affect the different remuneration parameters of each standard facility, except for the regulatory lifespan and standard value of the initial investment, which would not be subject to review in any case.

At the end of each regulatory half period, lasting three years, the estimates of revenue from the sale of electricity will be reviewed for the remainder of the regulatory period¹. Thus, since the first regulatory half period ended on 31 December 2016, Order ETU/130/2017, dated 17 February and published in the Official Journal of Spain on 22 February, reviews, with effect from 1 January 2017, the estimates of standard revenue from the sale of electricity in the market and the parameters directly related to said sale of electricity for the second regulatory half period, which will end on 31 December 2019.

The following is a summary of some of the matters covered by the Order, without prejudice to the possibility of expanding on these in subsequent briefing notes.

The Ministerial Order refers to all standard facilities approved up to now (except those that at 1 January 2017 have exceeded their regulatory lifespan), which makes it possible to set out in a single

¹ At least annually, the remuneration for operation will be reviewed, in accordance with the methodology laid down by regulation (contained in Order IET/1345/2015 of 2 July), for those standard facilities to which such remuneration applies and whose operating costs essentially depend on the price of fuel. Said methodology – which takes into account the evolution of fuel prices and, in the case of technologies that mainly use natural gas, the variation in gas network 'access tolls' (connection charges) – provides that the updating of the remuneration for operation of such standard facilities will be executed semi-annually.

provision the remuneration parameters of all of them, recalculated according to the new estimate of revenue from the sale of electricity². For this reason, Schedule I to the Order includes, in its almost 840 pages, the remuneration parameters of all facilities included in previous ministerial orders, together with the applicable remuneration parameters.

Art. 22 of Royal Decree 413/2014 provides that the estimate of the market price for each year of the regulatory half period will be calculated as the arithmetic mean of the price on futures contracts negotiated within OMIP (the Iberian wholesale electricity market) during the six-month period prior to commencement of the half period for which the market price is estimated. In compliance with the provisions of the aforementioned article, the Order sets the following estimated market price value:

- Estimated market price for 2017 = €42.84/MW
- Estimated market price for 2018 = €41.54/MW
- Estimated market price for 2019 = €41.87/MW

In view of the above, the Order recalculates the remuneration parameters, taking into account in said calculation both the adjustment value for market price deviations in the previous regulatory half period and the fact that there is a change in operating costs as a result of the recalculation of the value of the tax on the value of electricity production associated with the new calculation of future revenue.

The Report that accompanied the ministerial bill pointed out that in relation to the estimated market price values for the remaining regulatory lifespan of the facilities (i.e., from 2020), the value of €52/MWh considered when determining the parameters of the regulatory half period that ended in 2016 holds, on the grounds that a literal reading of art. 14(4) of the Act means that the only future revenue estimates that the rule requires to review are those for each of the years in the regulatory half period.

Likewise, as a consequence of the review of the estimated market price values, the annual upper and lower limits of the annual average price of the daily and intraday market, regulated in art. 22 of Royal Decree 413/2014 (LS1, LS2, LI1 and LI2 values) are adjusted, thereby maintaining the same deviation percentage with respect to the estimated market price value:

² Likewise, the values of the incentive for investment in the reduction of the cost of generation, applicable to standard facilities associated with electricity systems isolated from non-mainland territories, are updated.

	2017	2018	2019	2020 onwards
Estimated market price (€/MWh)	42.84	41.54	41.87	52.00
LS2 (€/MWh)	49.81	48.30	48.68	60.00
LS1 (€/MWh)	46.33	44.92	45.28	56.00
LI1 (€/MWh)	39.35	38.16	38.46	48.00
LI2 (€/MWh)	35.87	34.78	35.06	44.00

Lastly, the first Additional Provision provides the methodology for updating the remuneration for operation for the first half of 2017 of the facilities that use biomass as primary fuel, with final operating authorization in 2017.

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