

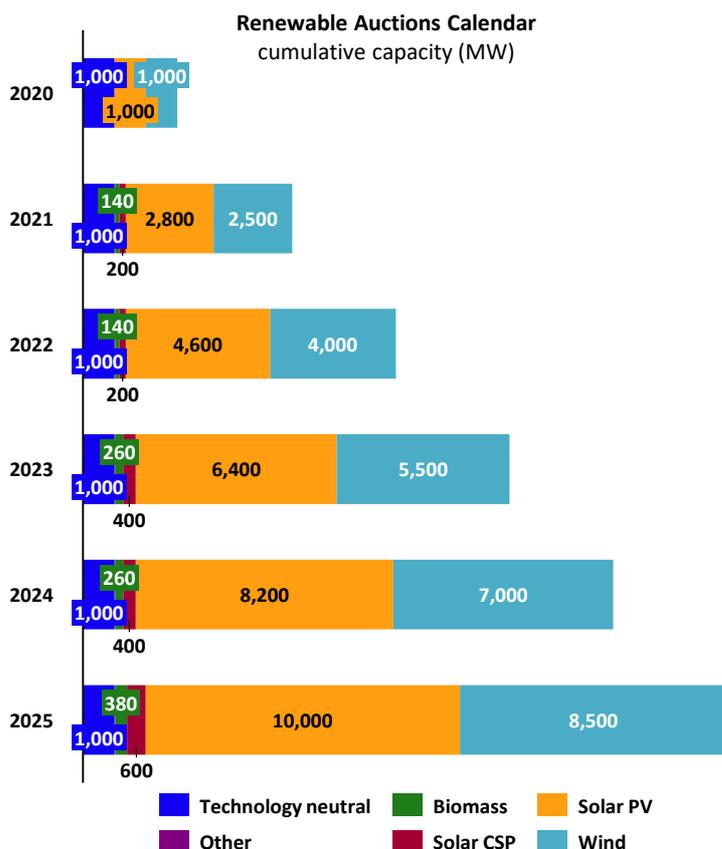
# Spain REER Auctions

## Our market-leading auction insights



### Paving the way to net zero

Spain has set highly ambitious renewable energy targets as part of its National Energy and Climate Plan 2030 (NECP 2030), which would increase its renewable capacity by almost 60 GW by 2030. Spain has also committed to sourcing 100% of its electricity from renewable sources by 2050. To support this necessary growth in renewable capacity, the Spanish government has announced via Royal Decree 960/2020 that it will hold auctions to award renewable capacity in the country. The auctions, named Economic Regime of Renewable Energy (REER), will enable financing new renewable projects, reduce energy costs for Spanish consumers and drive the country's green recovery.



The RD has set out the minimum expected annual capacity to be contracted by these auctions, expected to reach over 20 GW by 2025. The 2020 auctions in particular, which will be held on the 26th of January 2021, will award at least 3 GW of capacity and will be split evenly between solar PV, onshore wind and technology neutral solutions. The remaining annual targets may be revised annually to ensure they remain aligned with the country's NECP 2030 targets.

### Auction design mechanism

The REER has been designed to promote new renewable capacity and will allow hybrid technologies, enhancement and modification of existing installations ("re-powering") and is also compatible with energy storage. It will award both capacity and/or energy, and this will be specified ahead of each annual auction. Furthermore, it allows to differentiate between technologies based on its technical features, size, ability to manage dispatch, location and technological maturity. The key points regarding the 2020 auctions are summarised below:

#### Product being auctioned

- ▶ In 2020, the auctioned product will be the installed capacity and the participants will bid on the energy delivered
- ▶ Bids will be provided in a "sealed envelope" based on the required price for the energy produced, and will assign the auction product to the lowest offer on a pay-as-bid basis
- ▶ Contracts will be awarded for a duration of 15 years for biomass, biogas, biofuels, and 12 years for all other technologies

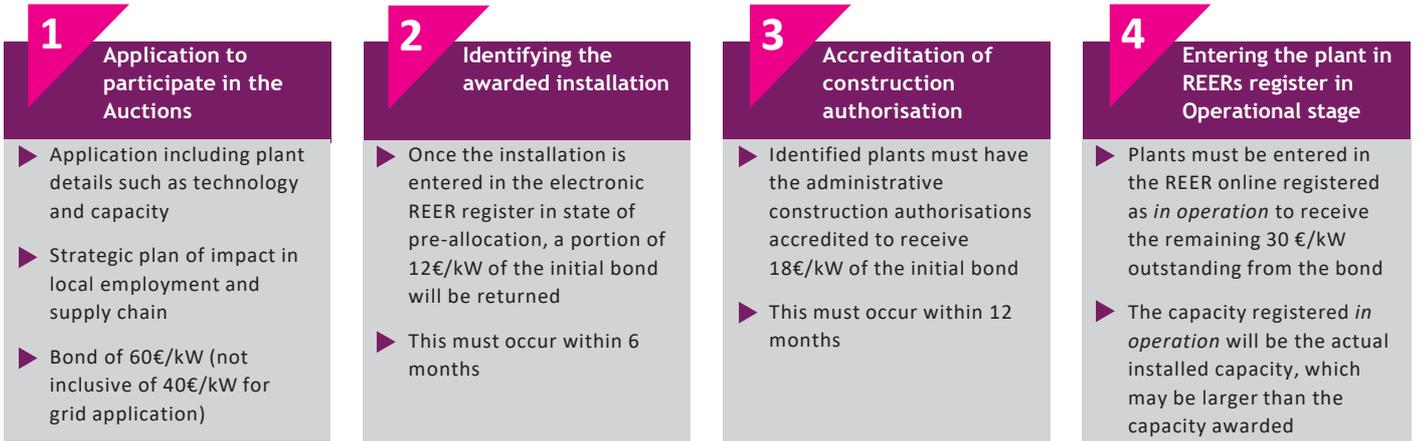
#### Allowed projects

- ▶ The 2020 auctions will award plants that produce electricity from renewable sources, located in mainland Spain only
- ▶ Both new-build plants or expansion of existing assets will be allowed to participate in these auctions, and can include more than one technology type (hybrid)
- ▶ For re-powering, the new plant should include an increase in existing capacity and should not entail removing existing generating equipment
- ▶ Storage systems will also be allowed, provided that they are used exclusively to store energy produced by the plant

#### Remuneration

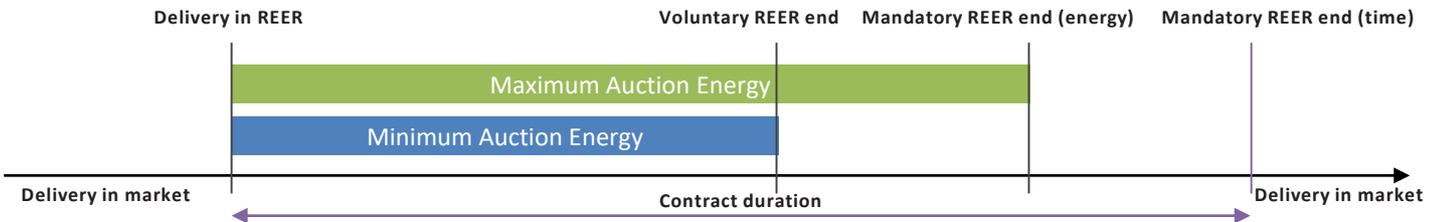
- ▶ Awarded plants will participate in day-ahead, intraday markets and will receive the price fixed in the auction for energy sold in those markets, adjusted in each case to the market exposition (see next page)
- ▶ The adjustment factors are specific for each technology, based on how well they can manage their dispatch. They are set at 5% for plants which cannot manage their dispatch, and 25% for those that can
- ▶ Furthermore, producers can also participate in the ancillary services market. However, bilateral agreements such as PPAs are not permitted and remuneration will not be paid in negative-priced hours

## Entering the REER



## Participating in the market

Awarded plants are required to deliver the *Minimum Auction Energy* during the contract term, which is a function of the *minimum annual hours*, the *awarded capacity* and the *contract duration*. The delivery must commence at the deadline for delivery in REER, which depends on the technology and it ranges from the 30<sup>th</sup> of September 2023 for PV to the 30<sup>th</sup> of September 2025 for offshore wind, hydro and biofuels, but plants can participate in the market beforehand if available. Once the *Minimum Auction Energy* is delivered, the plant may exit the REER and participate in the market, and once it reaches the *Maximum Auction Energy* it is automatically removed from the support mechanism. The energy delivered in REER will be measured every three years, and penalties are applied if the *Minimum Auction Energy* for that period has not been achieved.



Whilst delivering electricity in the REER, participants will sell electricity in the day-ahead and intraday markets, and the actual price received will be the price secured in the auction (*strike price*) adjusted by the delta between the *strike price* and the *market price*, multiplied by the adjustment factor, which is either 5% or 25%. The actual prices received for an awarded plant are summarized below for a range of market and strike prices. This mechanism is designed to reduce the government's exposure when prices are much lower than the awarded price in the auctions whilst also incentivising plants which can dispatch their output to generate during high-priced hours in order to help the grid in times of peak demand.

Non-dispatchable plants	Market price (€/MWh)					
	10	20	30	40	50	60
5% adjustment	19.5	20	20.5	21	21.5	22
Strike price (€/MWh)	20	29	29.5	30	30.5	31
	30	38.5	39	39.5	40	40.5
	40					

Dispatchable plants	Market price (€/MWh)					
	10	20	30	40	50	60
25% adjustment	17.5	20	22.5	25	27.5	30
Strike price (€/MWh)	20	25	27.5	30	32.5	35
	30	32.5	35	37.5	40	42.5
	40					

The government has estimated that the accumulated savings for the Spanish consumers can reach as much as €2bn by 2030, depending on the achieved strike price, which would be considered a very successful outcome from the government's point of view.

## Interested in finding out more? Contact us

If you would like to find out more on our Iberian Market offering, do not hesitate to get in touch! We will discuss how we might best support your organisation and provide input into your decisions, including through bespoke analysis.



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