

## 2. MARKET AND REGULATORY HIGHLIGHTS

This section includes a brief review of the main news and events with an impact on the electricity market that has become known or been published during the quarter under analysis.

### 2.1 Regulatory highlights

#### **Royal Decree-Law 6/2022**

The government has approved on 30 March the Royal Decree-Law 6/2022, which includes a package of measures that will be delivered to the European Commission.

Tax reductions on electricity for consumers under 10kW will be maintained until 30 June: reduction of IEE to 0.5% and VAT to 10%, suspension of IVPEE (7% of the energy sale), and limitation of the growth of TUR gas tariff, set at 15%. Electro-intensive consumers will get, until the end of the year, an 80% reduction in tolls and an increase in the compensation for CO<sub>2</sub>.

Furthermore, regarding the so-called windfall profits, the RD-L extends until 30 June the reduction of the infra-marginal energies going to pool. The funds collected will be used to reduce charges.

In addition, the reduction will be also applied to those who sign contracts from 30 March above 67 €/MWh (shall not be applied retroactively). In the case of vertically integrated groups, the final price charged to the consumer by the group's utility is the one that will be considered.

Moreover, high market prices are increasing RECORE's revenues, and its profitability is above 7.4%. For this reason, the government has moved forward the adjustment, from 2023 to 2022. The funds collected, around 1,800 million €, will be used to reduce charges by 55%. In addition, as of 1 January 2023, the adjustment mechanism will cease to apply, providing an incentive for power plants to close forward prices with bilateral contracts.

Also, a temporary plan (until 31 December 2024) is enabled, to accelerate the environmental impact determination processes and the approval of new

wind plants under 75 MW and PV plants under 150 MW. In addition, between 2023 and 2025, DSOs will increase their investments in electricity grids by at least 10% to facilitate DERs' integration into the system.

In parallel, the volume of natural gas reserves is increased from 20 to 27.5 days of consumption. In addition, utilities must have 7.5 days of operational reserves on 1 November to face the winter season.

Finally, the extraordinary discounts for vulnerable consumers (between 60% and 70% of the PVPC) are extended. Likewise, the number of beneficiaries increases by 600,000 to 1.9 million households.

#### **Special measures to mitigate the increase in energy prices**

The European Commission has made important communications in March to express its determination to reduce Europe's dependence on Russian gas while informing that natural gas remains crucial in the green transition process.

Thus, on 8 March, the EC outlined the main ideas for a package of measures called RePowerEU to be published in May. It will address the current energy crisis, encouraging member states to extend lower taxes, allowing them to mitigate retail prices and support the most exposed companies, as well as asking them to ensure sufficient gas storage for next winter (90% by November 2022). The two main lines of action of the package will be:

- Reduce dependence on Russian gas by diversifying LNG sources, increasing biomethane production, and accelerating H<sub>2</sub> production and use.
- Reduce dependence on fossil fuels by increasing the deployment of solar, wind, and heat pumps, decarbonizing industry, and speeding up permissions.

On the other hand, on the 23rd, the EC made a communication that addresses two main areas.

First, how to deal with high electricity prices. In the retail market, it advises that member states should directly help vulnerable consumers and the most affected companies. In the wholesale market, it suggests the option of creating a model in which an aggregator entity buys electricity under favorable conditions and sells it below the market price. Other options focus on directly intervening in the functioning of the market, compensating fossil generators to bid lower, or even limiting the wholesale market price. Even on the table is the possibility of setting a regulatory cap on the maximum price that can be charged by certain baseload generators.

Secondly, how to guarantee gas supply at a reasonable price for the coming winter. The option is, as a last resort, capping the price of gas, which would have a direct impact on price levels.

### **Special treatment for the Iberian Peninsula**

On 25 March, European leaders agreed on an 'Iberian exception', to allow Spain and Portugal to deviate from other member states' rules on energy pricing to ease the impact of energy prices on consumers. The main reason given by these two governments is the low interconnection with France, which means that the Iberian Peninsula could be considered an 'electricity island' at certain times.

A week later, the Spain and Portugal governments sent a joint proposal to the EU that involves capping the price of gas used for the generation of electricity to 30 €/MWh, so the electricity price would be around 90 €/MWh.

## **2.2 Other regulatory events**

### **Biogas Road Map**

The government approved in March the Biogas Road Map, which identifies the main challenges and opportunities of this gas of renewable origin and proposes multiplying its production by 3.8 by 2030, exceeding 10.4 TWh.

It proposes the creation of GOs for renewable gas, and the possibility of setting targets and supply/use quotas to developing the market. In addition, a 150 million € aid line has been activated for unique biogas projects.

### **CNMC about contracts between utilities and consumers**

The CNMC has clarified several aspects of Royal Decree-Law 23/2021 to utilities and consumers.

First, the RDL establishes that price revisions must be communicated at least one month in advance, transparently and understandably.

Secondly, it reports that utilities have to inform consumers of their right to terminate the contract without cost or penalty when they are notified of a modification of their contract conditions.

Finally, it clarifies that when a utility finishes the contract as agreed, it should compensate the consumer with at least the same penalty criteria as in the reverse case.

### **Electricity grid planning**

On 22 March, the Council of Ministers approved the electricity grid planning until 2026 proposed by REE ("Red Eléctrica de España"). 6,964 million € will be invested, creating almost 80,000 jobs, and pursuing among others, the goal of 67% penetration by renewable energies (37,000MW of new renewable installed capacity).

### **Fair transition nodes**

On 25 January the submission of documentation for developers wishing to use the 1,200 MW of capacity at Mudéjar 400 kV substation, thanks to the decommissioning of the Andorra (Teruel) thermal power plant. Eleven projects have been submitted to the Ministry.

On 28 February, the Secretary of State for Energy agreed to hold a tender for access capacity at the Salas 400 kV node (Asturias).

## **Nord Stream 2**

In February, after Russia invaded Ukraine, German Chancellor Olaf Scholz announced a halt to the approval of Nord Stream 2. At the end of the month, the pipeline's construction company declared bankruptcy.

## **Quarter-hourly granularity**

On March 17, CNMC (“Comisión Nacional de los Mercados y la Competencia”) approved the Operating Procedures adapted to the quarter-hourly programming of the operation of the Spanish electricity system.

## **Decommissioning plans**

The nuclear power plants owners shall submit a Preliminary Decommissioning Plan to the CSN (“Consejo de Seguridad Nuclear”), by the terms established in Instruction IS-45. For this purpose, a period of 18 months is given.

## **MIBGAS new products**

MIBGAS published in February that is working on the design of 3 new spread products: geographical, temporally, and between virtual point.

## **2.3 Market Outlook**

### **Fundamental (GAS, EUAs)**

At the beginning of the year, Gas and EUA prices remained at high levels, but in line with the previous quarter. However, a slight increase started to be noticed with Russia's operations near the Ukrainian border. Finally, with the start of the invasion on 24 February, gas prices started to rise sharply, reaching a record on 8 March, at 214.36 €/MWh.

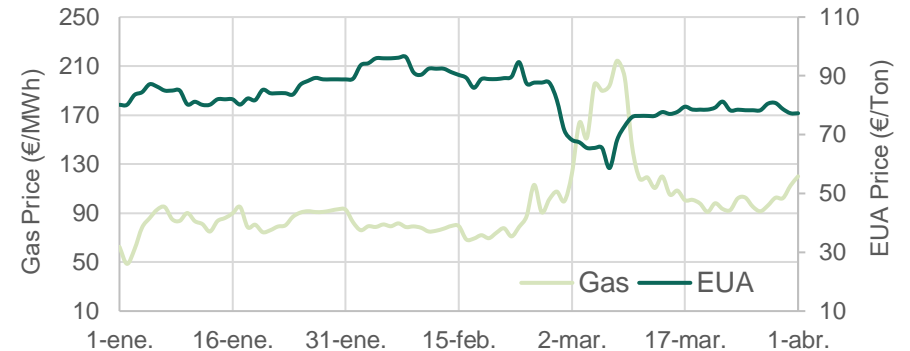


Figure 2.1: 2022-Q1 Gas and EUA price evolution.

Nevertheless, thanks to the first weeks of the year, Spain's PVB gas hub average price of 96.57 €/MWh has been only 2.07 €/MWh above the price of 2021-Q4 (94.50 €/MWh). In the last few weeks, prices have stabilized at around 100 €/MWh.

Forward MIBGAS products indicate that high prices may continue with 2022-Q2 at 112,50 €/MWh and Yr-2023 already at 73.20 €/MWh.

As for CO<sub>2</sub> prices, the quarter ends as it started at around 80 €/Ton. However, in February it was around 90 €/Ton, but after the huge rise in gas prices, it fell sharply back to 80 €/Ton.

It is believed that due to the high prices of gas and electricity, investors need liquidity and are trimming their EUA positions to cover losses in other asset classes and/or access liquidity for more expensive gas and electricity. Even they could anticipate a drop in demand and therefore, undo their positions. These are some of the reasons for the fall in the CO<sub>2</sub> price just at the time of the highest gas price (8 to 10 March).

### **Spot-Market price**

The spot price continued to rise and reached a new all-time high this quarter: 554.98 €/MWh on 8 March. The 2021-Q4 average price was 211 €/MWh (111.93 €/MWh in 2021) and the average price in 2022-Q1 is 229,30 €/MWh.

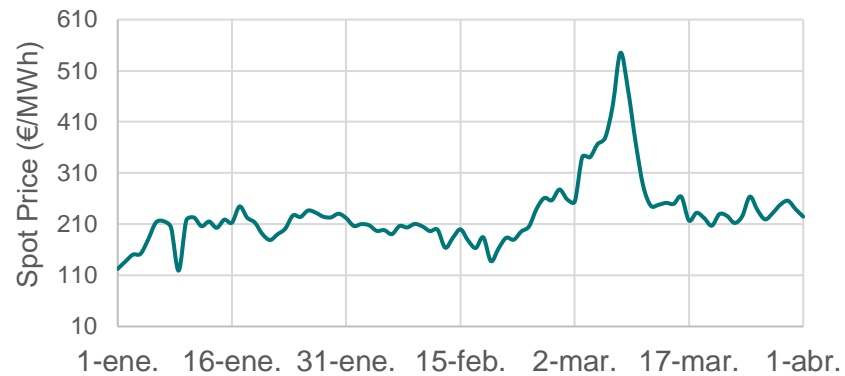


Figure 2.2: 2022-Q1 Electricity spot price evolution.

During 2022-Q1, although nuclear and CCGTs produced 21% each, the leading technology in the generation mix was wind generation (24% of total).

Regarding futures, it seems that prices will remain high. 2022-Q2 is at 229 €/MWh and Year-23 is at 136.50 €/MWh. The situation with the Russia-Ukraine war does not improve and the markets are less and less confident about a price decrease.