The Spanish government has approved a system of auctions to implement a new remuneration scheme for renewable energy generation facilities, in order to promote investment and meet the targets of the Energy and Climate Plan (PNIEC) for 2030.

The new regulatory framework is articulated through Royal Decree 960/2020 (RD) and Order TED/1161/2020 (MO), which establish the financial scheme for renewable energy (régimen económico de las energías renovables –REER), consisting in a long-term price for the energy sold by renewable facilities awarded by means of an auction. The auctions will be called by means of a resolution of the Secretary of State for Energy (SSE Resolution). The first of the auctions has been convened by the SSE Resolution of December 10, 2020, of which fundamental aspects are included as an Annex to this note.

**New financial scheme - Q&A**

**Who can participate?**

Electricity generation facilities using non-fossil renewable energy. They must be the result of a new investment, made after the auction has taken place. Existing facilities will only receive the REER for the proportion corresponding to such new investment. Each new facility will require differentiated metering equipment.

The MO specifies that the facility may be either new (it does not involve the closure or reduction of capacity of another facility of the same technology in the same location), an expansion of an existing one (it increases capacity without removing previous generating equipment) or a modification of the existing one (significant modification with replacement of equipment with an age in the RAIPRE of at least 15 years). The new investment must start (start of work or initial order of equipment) after the date of the auction.

**What is obtained?**

Irrespective of whether the auctioned product is capacity (potencia) or power (energía), the facility will receive the same price (€/MWh) offered in the auction (awarding price) multiplied by the energy sold in the electricity market. This price is not updated during the term of the REER.

According to the MO, the specific remuneration of each facility will be obtained from its awarding price, the remuneration parameters corresponding to its technology, the characteristics of the facility itself and its participation in the market.

The MO establishes as remuneration parameters both the minimum and maximum number of equivalent hours of annual operation and the percentage of market adjustment.
Where is the energy sold?

In the day-ahead and intraday markets. It can also be sold in the adjustment services and balance (desvíos) markets. However, the energy remunerated by the REER cannot be sold in physical bilateral agreements (PPA).

How much volume must be sold?

At least the minimum auction energy and, as maximum, the maximum auction energy, calculated, for each facility, on the basis of (i) its registered capacity, (ii) the minimum and maximum number of equivalent hours of operation per year set in the MO (according to the facility’s technology) respectively, and (iii) the maximum delivery period. In other words, each facility must produce and sell a given volume of energy according to its technology. Any volume sold beyond the maximum auction energy is not entitled to REER’s remuneration. The MO establishes intermediate milestones for the delivery of proportions of the minimum auction energy as well as penalties if such minimum auction energy is not reached either at such milestones or at the end of the maximum delivery period.

A delivery milestone is set every three years from the start of the maximum delivery period and automatic penalties are imposed for the following reasons:

- not exceeding the minimum equivalent auction energy at each control milestone (intermediate delivery milestones);
- cancellation of registration in the REER register before the end of the maximum delivery period; and
- not exceeding the minimum equivalent auction energy at the end of the maximum delivery period.

The penalty shall consist of 5 €/MWh applied to each of the hours in which the awarding price is paid, until the total of the penalized energy is reached. In order to calculate the penalized energy, the energy actually sold during the considered period (not counting the energy sold below the exemption price), except for the lesser of the following two amounts: (i) the energy actually sold at the previous milestone and (ii) the energy that should have been sold at the previous milestone, is subtracted from the energy that should have been sold during that period (minimum auction energy, either at the corresponding delivery milestone or at the end of the maximum delivery period). As a result of the application of the penalty, the facility will receive lower remuneration than that awarded in the auction.

The penalty cannot exceed 40% of the collection right of each day-ahead/intraday market settlement.

The penalty is applied during the operation stage, therefore it affects the remuneration received by the facility, but not to the potential enforcement of the financial guarantees (which would take place in the development and construction stage, as the case may be).

How long does the REER last?

The auction energy must be sold during the maximum delivery period. According to the RD, this period will be set between 10 and 15 years (exceptionally 20 years if a high initial investment is needed or there is technological risk). It is calculated from the latest of the following dates: (i) when the maximum delivery period starts, according to the SSE Resolution; or (ii) when the facility is registered as ‘in operation’ in the digital register of the REER. This means that the period during which the auction energy is sold can be reduced – and therefore so is the volume of energy that the facility is able to produce – if the facility’s commissioning is delayed (so increasing the probability of receiving penalties too).

How is it paid?
The owner of the facility initially receives the amount resulting from the energy sold on the day-ahead/intraday market valued at the sale price of the energy on the day-ahead/intraday market. Later, it will receive a settlement (liquidación) for such energy sold in the day-ahead/intraday market valued at the difference between the day-ahead/intraday market price and the awarding price. Therefore, the facility is receiving only the awarding price.

The RD entitles the MO to establish an adjustment coefficient to be added to the price to be received for the sale of energy in the day-ahead/intraday market, as a mechanism to mitigate the exposure of the facility to market price risk. According to the RD, this percentage, which can be between 0% and 0.5%, is applied to the difference between the day-ahead/intraday market price and the awarding price. The price to be received may also be adapted when the facilities included in the REER have storage capacity.

For photovoltaic and wind technology, the MO establishes an adjustment percentage of 0.25 when the facilities are capable of being managed and 0.05 when they are not.

A so-called 'price of exemption' is set at 0 €/MWh. If the day-ahead/intraday market price is lower than this one, the market price will be charged and the energy traded will not be counted as auction energy.

As to the sales made on the adjustment services and balance markets, the facility receives the remuneration resulting from the price set out in those markets. The net value of the net energy traded on these markets will later be settled, valued at the difference between the awarding price and the price of these markets (adjustment services or balance markets).

**To whom is the auction energy sold?**

To the market operator (OMIE), which monitors the auction energy sold by each facility and settles the difference between the day-ahead/intraday market price (or, where applicable, the net value of energy traded in balancing and adjustment services) and the awarding price of each facility.

The positive or negative excess of that difference is distributed among, or passed onto, respectively, all the buyers in proportion to the volume programmed in the final hourly schedule (programa horario final) of each purchasing unit (unidad de adquisición) after the continuous market. Thus consumers will benefit from a lower price (discount) when the pool price is high and, as the pool price decreases due to the entry of more renewable capacity (what is expected in the long term), they will bear the additional cost of more CO2-free electricity production.

The guarantees of origin associated with the auction energy are assigned to the electricity system.

**When will the auctions be called?**

In accordance with a calendar approved by the MO, which will include indicative deadlines, frequency of calls, expected capacity and technologies foreseen in a minimum horizon of five years. The calendar will be updated on at least an annual basis.

The MO establishes an auction calendar until 2025, foreseeing minimum increases in the volume of capacity to be installed which, for wind and photovoltaic technologies, are 1,000 MW in 2020 and 1,500 MW and 1,800 MW per year respectively from 2021. The SSE Resolution of December 10, 2020, has called the first auction for the granting of the REER in 2020.

**Award of the REER-auctions**

In accordance with the provisions of the RD, the MO regulates the auction mechanism and specifies the REER conditions regarding technology, participation conditions, guarantees to be deposited (both for participation and for
the awarding), the product to be auctioned (capacity/energy), the remuneration parameters (e.g. number of equivalent hours of operation per year for each technology), and other element that help specify the REER. The specific call is made by means of the SSE Resolution published in the Official State Gazette.

The MO establishes three stages: (i) prequalification (information to potential bidders); (ii) qualification (qualification to participate in the auction for a certain capacity); (iii) auction. The first auction called by the SSE Resolution of December 10, 2020, will be held on December 26, and the prequalification and qualification process will begin on December 15, 2020, and will end on January 19, 2021.

Participation in the auction requires the prior presentation of a financial guarantee (Participation Guarantee) to the auction manager (OMIE).

According to the MO, the Participation Guarantee will be of 60 €/kW for the capacity for which the operator is intended to bid.

The auction system is a sealed-bid auction with a pay-as-bid mechanism. In accordance with the RD, the product to be auctioned can be either capacity (MW) or energy (MWh), or a combination of both, and the bidding variable will be the price per unit of energy (€/MWh).

According to the MO, the product to be auctioned will be installed capacity. The auction called by the SSE Resolution of December 10, 2020, intends to award a minimum of 3,000 MW (that is, 1,000 MW more than the total minimum volume indicated in the calendar for this year).

Capacity bids may be submitted by either divisible or indivisible sections (in 1kW blocks, maximum 100 sections).

Price limits are defined (maximum – reserve price – and minimum – risk price) beyond which no bids will be accepted. These limits may be declared confidential. A bid level of at least 20% above the auctioned product is required.

If after the qualification process or during the matching (casación) of the auction, the volume of product qualified or offered, respectively, does not exceed 20% of the quota of product to be auctioned, the quota will be automatically reduced. The SSE Resolution may establish minimum product reserves for different technologies.

The auctioned product will be allocated from the lowest to the highest bid values (€/MWh) until the quota of the auctioned product is reached. The bid which makes the quota being exceeded is not selected. No more than 50% of the auctioned volume may be awarded to a single bidder.

**Digital register of the REER**

The RD creates the digital register of the REER to record the facilities awarded with capacity/energy in the auction and regulates the registration procedure as follows:

- After the auction, upon request, the facilities will be registered as pre-allocated, and a copy of the guarantee deposited in the Treasury (Caja General de Depósitos), in the amount specified in the MO which will be proportional to the capacity to be registered, must be attached to the application (Pre-allocation Guarantee).

- In order to receive the REER, the facilities shall be registered as in operation when they (i) are completed, (ii) are selling energy and (iii) meet the characteristics set out by the MO before a specific deadline (availability deadline), which shall be set out at least four months before the start of the maximum delivery period. Otherwise, the Pre-allocation Guarantee may be partially executed. The SSE Resolution may establish a final date (date of expulsion of the REER) from which the right to receive the REER is lost and the Pre-allocation Guarantee will be totally enforced (in the terms set out in the MO, as explained below).

In both cases, registration will be agreed upon by the Director General of Energy Policy and Mines (DGPEM) within a
According to the RD, the lack of compliance with the registration requirements will lead to the enforcement, in whole or in part, of the posted guarantees as follows:

- Of the Participation Guarantee, if the capacity registered in pre-allocation is different from the capacity awarded in the auction (if capacity is auctioned) or from the minimum capacity to be built (if energy is auctioned), in proportion to said difference.

In accordance with the SSE Resolution, the Participation Guarantee remains in force until the facility is registered in a pre-allocation status and secures the effective registration of the capacity awarded in the auction in the pre-allocation status. This guarantee overlaps with the Pre-allocation Guarantee, which must be constituted when the registration in pre-allocation is requested, during the time between this request and the effective registration (when only the Pre-allocation Guarantee will be required).

- Of the Pre-allocation Guarantee, the proportion to be cancelled or enforced will be calculated, as a general rule, according to the capacity registered in operation status (difference between the capacity registered both in pre-allocation and in operation status) and the time when the requirements for registration in operation status are met with respect to the availability deadline:
  - If the requirements are met before such availability deadline, the guarantee will be cancelled in proportion to the difference between the capacity registered in both pre-allocation and in operation status (with a margin of 5%).
  - If the requirements are met between the availability deadline and the date of expulsion of the REER, the guarantee will be executed in proportion to the number of days of delay in the fulfilment of the requirements with regard to the availability deadline, cancelling the rest of the guarantee. The right to receive the REER is not altered.
  - If the requirements are met after the date of expulsion from the REER, the Pre-allocation Guarantee is fully enforced (and the right to receive the REER is lost).

According to the MO, the Pre-allocation Guarantee will be 60 €/kW for the installed capacity requested to be registered. From this amount, the following value is allocated to certain milestones:

- 12 €/kW to the identification of the facility to be linked to the registered capacity. The application for the identification shall be submitted within six months from the publication in the Official Gazette of the registration in the pre-allocation register. It is possible to identify capacity up to 50% above the registered capacity. If the facility is identified, the Pre-allocation Guarantee is cancelled in the proportion of 12 €/kW. However, the lack of identification implies the total enforcement of the guarantee (i.e. 60 €/kW).

- 18 €/kW to the accreditation of the administrative authorization of the facility, including its connection facilities. The application for accreditation will be made within 12 months from the publication in the Official Gazette of the registration in the pre-allocation register. If the accreditation of the administrative authorization of the facility is made, the Pre-allocation Guarantee is cancelled in the proportion of 18 €/kW. The lack of accreditation implies the enforcement of the guarantee for 18 €/kW.

- 30 €/kW to the inscription of the facility identified in the previous milestone (i) in the REER's registry of operational status. The request for registration of operational status shall be made within one month from the application of the guarantee.
As the above milestones are met, the guarantee will be cancelled in the amounts allocated to each milestone. The
deadline for resolving requests by the DGPEM, in each of the milestones, will be three months, and lack of explicit
response is deemed as rejection of the relevant request.

The application of the REER shall not start before the day following the date on which the market operator is notified
of the resolution of registration in operation.

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