

Webinar: risks for renewable assets in Spain - FAQs

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Q: You mentioned that subsidies are not paid out directly based on the difference between the market basket price and the fair price. Can you please elaborate on this?

A: That is correct. The subsidy scheme under this Royal Decree guarantees a certain IRR to the asset owner. The price difference we discussed in this webinar is one of the main inputs to calculate the Net Asset Value, which contains the IRR in its formulation and ultimately affects the so-called investment component.

Q: The basket affects the remuneration for investment component. What are the risks associated to the remuneration for operation component?

A: The remuneration for operation component depends on: 1) the actual energy produced and 2) the difference between the standard operating cost of a given 'type' installation and a future estimated spot price. There are thus two potential risks: 1) operational (that the operating cost of the installation differs to that of the standard), 2) price (that the estimated spot price differs from the actual spot price).

Q: How do negative power prices affect the subsidy scheme?

A: The calculation of the basket deviation does not have any special condition for this price level. However, an important aspect to consider is that when prices are 0 EUR/MWh for at least 6 consecutive hours, the energy produced by the asset does not count towards the minimum number of equivalent hours required by the government. This could then impact the overall subsidy cashflows.

Q: You said that if the market basket price only consisted of the spot index, the loss in profit would be at most -5.86 EUR/MWh. Can you describe this a bit more?

A: The risk in profit comes from the fact that the price that an asset gets for its production is the spot price, but the basket deviation corrects the price based on the market basket price. If the basket deviation was simply = fair price – market basket price, and the market basket price was only the spot index (spot price), the spot price would be corrected to exactly match the fair price.

-- Answer continues on back --





However, the basket deviation is not a simple difference. Instead, the Spanish government has defined five different price regions in which the basket deviation will take different values. For example, if the market basket price (assumed to only being spot) drops too much compared to the fair price, the government will guarantee to correct the price to at most Fair price – 5.86 EUR/MWh, but it won't match the fair price exactly. The -5.86 EUR/MWh is inherent to the way in which the basket deviation is calculated (i.e. it is a formula risk).

The additional risk in the basket deviation comes from the mismatch between the spot index and the forward index, as it was covered during the webinar.

Q: Can you give more details on how KYOS can help we track this risk for my regulated assets?

A: KYOS offers software to build forward curves and to create a large number of price simulations using volatilities and correlations from the market. In this way, we report the risk that the market basket price significantly deviates from the fair price. When it comes to particular assets, we also offer the possibility to simulate volumes, and a very flexible platform that would allow you to insert asset characteristics (e.g. capture rates, number of operating hours, etc.) and obtain specific adjustments results, etc.

We can share more in a personal conversation or demo, so feel free to contact us: info@kyos.com

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