Statkraft

Electro-intensive Statute

STATKRAFT 2021

How to benefit from the Electro-intensive Statute as an energy intensive industrial?

Executive Summary

The **Electro-intensive Statute** was enacted in 2020 to compensate electro-intensive consumers facing high costs of electricity supply.

The Statute enables electro-intensive consumers to **save up to 85% of the regulated costs with regards to renewable energy costs (RECORE) and extra-peninsular costs (TNP)**.

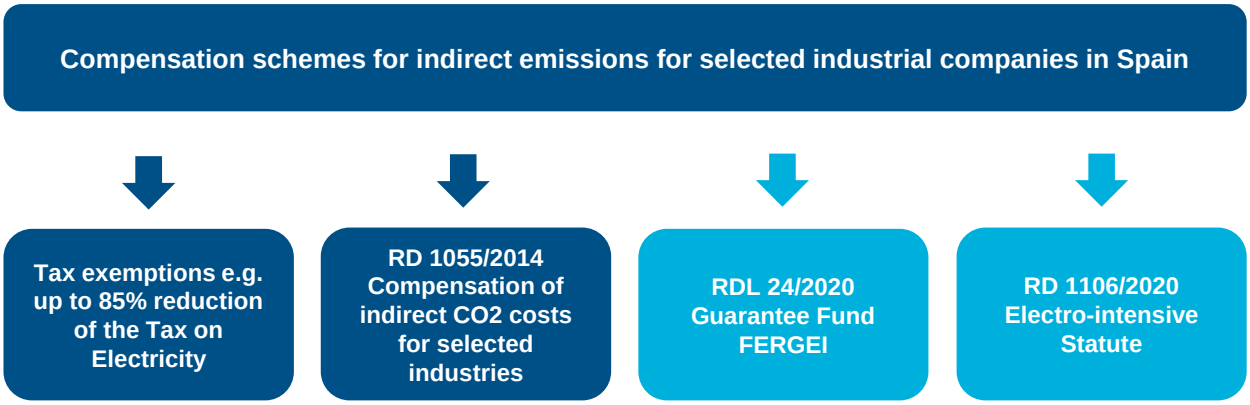
Electro-intensive consumers are incentivised to **buy renewable power medium to long-term in the form of a PPA.** Thereby, they can further reduce the costs of electricity procurement.

A **Guarantee scheme from the Spanish State (FERGEI) can cover the credit risk** of long-term transactions and facilitates the contracting of renewable power in the medium to long-term.

Both mechanisms – **the Electro-intensive Statute and the FERGEI Guarantee scheme** – complement two existing schemes – the **85% deduction of the Special Tax on the Electricity and the compensation of costs for indirect emissions** – with the objective of supporting the electro-intensive industry.

Content

In 2020, the Spanish Government released two new regulations – **a Guarantee scheme FERGEI and the Electro-intensive Statute**. The objective is to provide certain energy-intensive industrial companies with a legal and economic framework that offers security and certainty regarding energy costs and enhances their international competitiveness. These two schemes complement two other instruments already existing as depicted in the figure below.



Compensation schemes for indirect emissions in Spain

I. What is the Electro-intensive Statute?

The Electro-intensive Statute (RD 1106/2020) is a mechanism that provides certain energy-intensive industrial companies with a **compensation of two regulated charges up to a maximum of 85%**, concretely those for the financing of renewable energy costs and the costs of high efficiency co-generation (RECORE) as well as those corresponding to non-peninsular regions (TNP).

Requirements to qualify as an electro-intensive consumer per point of supply (CUPS):

- To have consumed, during at least two of the previous three years, an annual **volume of electricity greater than 1 GWh**, and, at the same time, for those same periods, to have consumed at least **50% of that energy in off-peak tariff hours**.
- Operate in a sector or sub-sector belonging to one of the **CNAE** (National Economic Activity Classification) codes included in the annex to RD 1106/2020.
- Have a **ratio between annual consumption and gross added value of the facility** corresponding to the supply point for which it qualifies as an electro-intensive consumer, **higher than 1.5 kWh/€** during at least two of the previous three years.

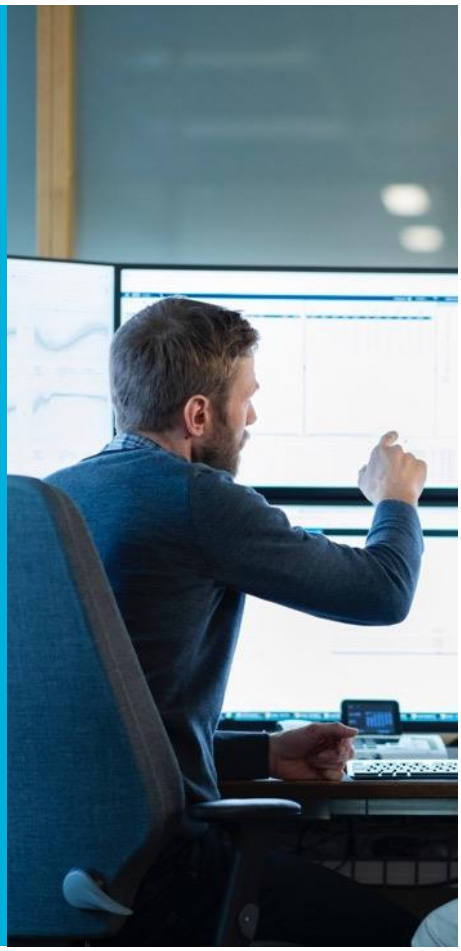
Obligations derived from the Electro-intensive Statute:

- Contract **10% of the annual power consumption of the specific delivery point for a minimum period of 5 years from a renewable energy source.**
- Implement **ISO 50001** on Energy Management.
- Carry out an **energy audit** every 4 years incl. implementation of energy management measures.
- **Report on indicators** including power consumption, fuel use and energy efficiency measures.
- Commit to **maintain productive activity** in the factory according to RDL 20/2018.

The status as an electro-intensive consumer must be certified by the Ministry of Industry, Trade and Tourism.
This certification is valid for the year in which it is requested until 30 April of the following year. Renewal of the certification should be applied for annually, before 30 April by accessing this link.[1]

PPA requirements for the Electro-intensive Statute in short

- It is compulsory to buy power from a renewable energy source for a period of at least 5 years.
- It can be a direct agreement with a developer using a physical or financial PPA; or an indirect agreement via a retailer using standard products in OMIP/EEX/MEFF and adding Guarantees of Origin.
- Guarantees of Origin from unsubsidised renewable plants are required (together with the purchase of power) to prove the renewable origin of the electricity.
- Buying long-term and benefitting from reduced regulated costs will have a positive effect on procurement costs. It needs to be assessed on an individual basis if the tax exemption regulation is affected.



For FAQs on the Electro-intensive Statute, you can consult the webpage of the Ministry of industry, trade and tourism which is dedicated to this topic.[2]

[1] Sede electrónica del Ministerio de Industria, Comercio y Turismo – Detalle de Procedimientos Electrónicos (serviciosmin.gob.es)

[2] Ministerio de Industria, Comercio y Turismo – Preguntas Frecuentes

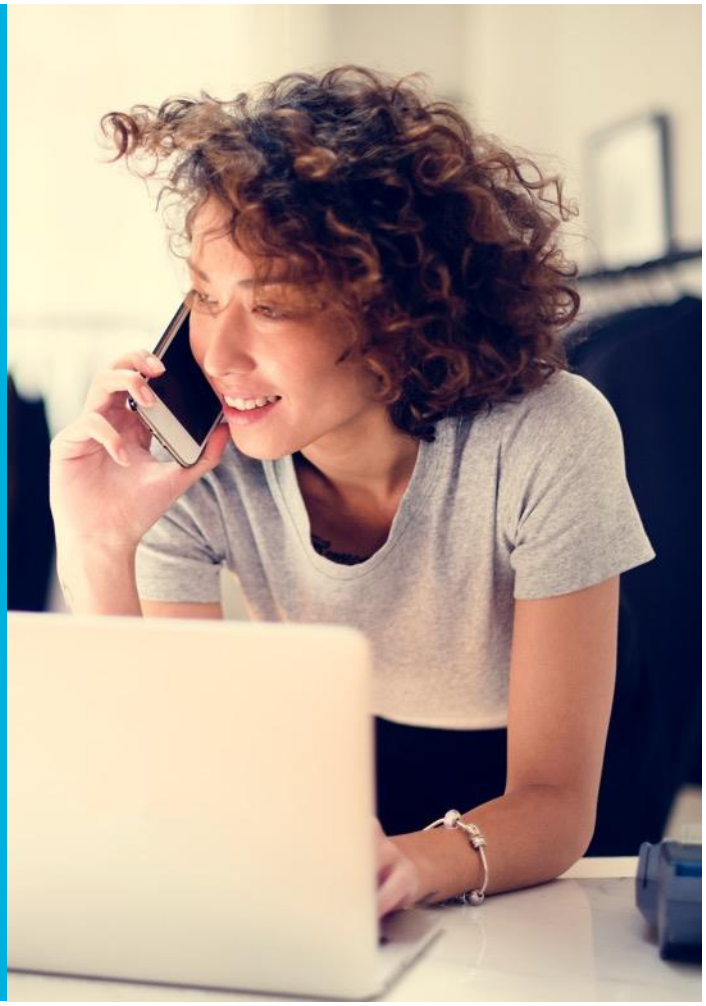
II. What is the Guarantee Fund (FERGEI) and why is it relevant for closing a PPA?

When closing a 5 to 10-year Power Purchase Agreement between an electro-intensive consumer and a provider of such a PPA, there is a credit risk with regards to non-payment. In a worst-case scenario, one party may stop paying during the delivery period and the other party would have to find a substitute product to buy/sell the contracted volume. If the market price has changed, this might result in increased costs for the non-defaulting party. Therefore, **every PPA needs to be protected against events that reduce the credit quality**. The market standard is that both parties provide **credit support documents to the other party e.g. a bank guarantee, which entails a cost**. By implementing the **FERGEI Fund, the Spanish Government puts the guarantee instead and therefore the costs for Electro-intensive consumers will be minimised**. This constitutes an incentive and removes an important barrier for consumers to close long-term PPAs.

The Guarantee Fund FERGEI is regulated under RDL 24/2020 with a provision of €200 million per annum (a total of **€600 million for three years**). The FERGEI is a fund without legal personality, which is attached to the Ministry of Industry, Trade and Tourism and whose funds are allocated in the General State Budget Laws. **The FERGEI Fund will be managed by the Compañía Española de Seguros de Crédito a la Exportación, S.A. (CESCE)**. CESCE is a state-owned corporation and the guarantees will be granted on behalf of the Spanish State, therefore the rating of the Kingdom of Spain will apply.

FERGEI in short:

- The regulation doesn´t state any prioritisation of how the guarantee fund will be allocated amongst electro-intensive consumers. Therefore, it is to be assumed that a “first come, first serve” approach applies.
- The FERGEI scheme will be provided by the Electro-intensive Market Risk Commission. It is unclear when the guarantees will be available.
- If a consumer breaches their obligations derived from the electricity supply contract and the FERGEI guarantee is enforced, they will lose their status as an electro-intensive consumer.



III. Potential savings for electro-intensive consumers under the Electro-intensive Statute

The potential savings to be achieved depends on the tariff the consumer is in (6.1–6.4) and the specific profile of consumption according to the different periods of the day (1-6). Assuming a flat consumption during all periods of the day (1–6), the following savings (€ per MWh) for the “Capacity” and for the “Energy” consumption can be applied for every tariff.

Tariff	Savings in terms of capacity € / MWh	Savings in terms of energy € / MWh	Total savings € / MWh
6.1 A/B: Voltage 1-36 kV	2,37	5,82	8,19
6.2: Voltage 36-72,5 kV	1,39	2,73	4,12
6.3: Voltage 72,5-145 kV	1,11	2,24	3,35
6.4: ≥ 145 kV	0,54	0,85	1,39

Potential savings of regulated costs under the Electro-intensive Statute

Business case of a Baseload Fixed Price PPA

At Statkraft, we developed a tool that allows you to estimate the savings by simply entering the yearly consumption and the tariff you are in. We present you below a real business case example:

Situation:

- **Industrial company** in tariff 6.2
- **Annual Consumption:** 500 GWh
- **Stable consumption** across all periods

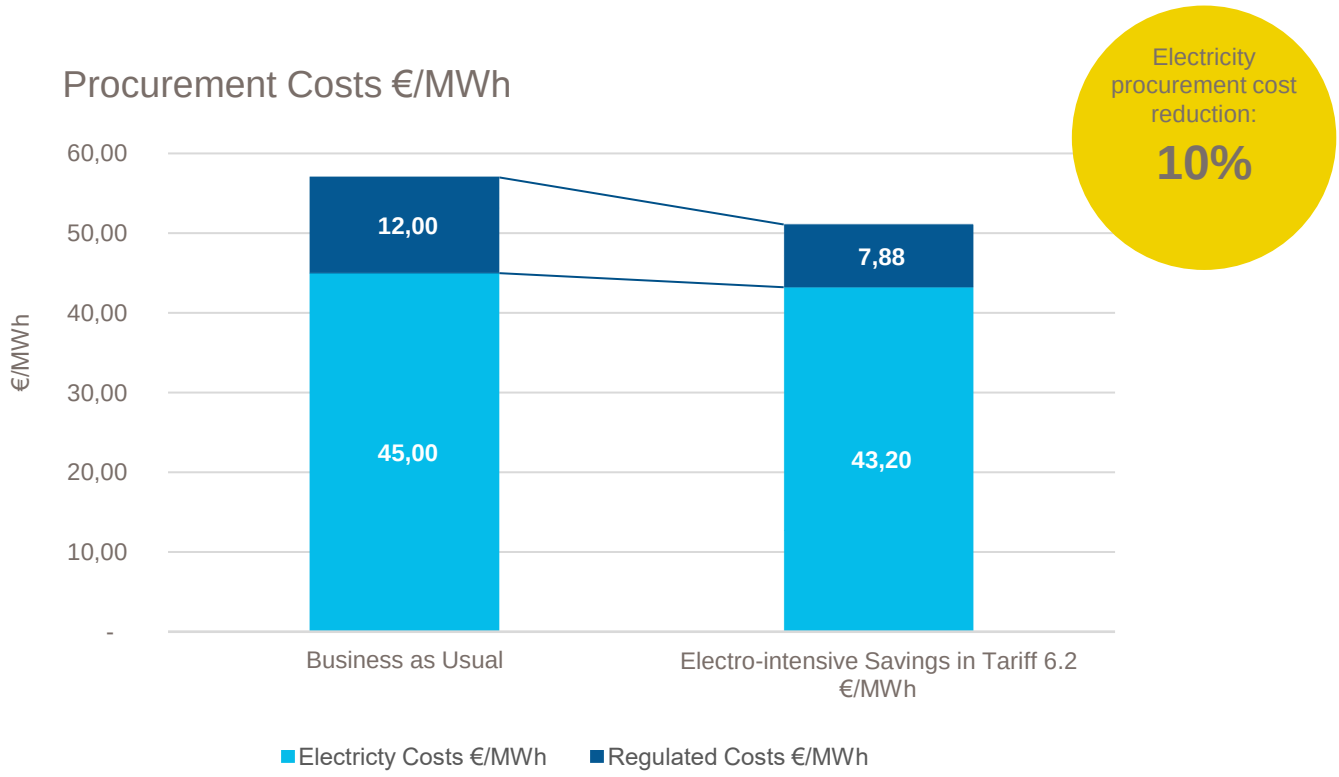
Assumptions **Business as Usual:**

- **Average electricity costs:** 45 € / MWh*
- **Regulated costs:** 12 € / MWh

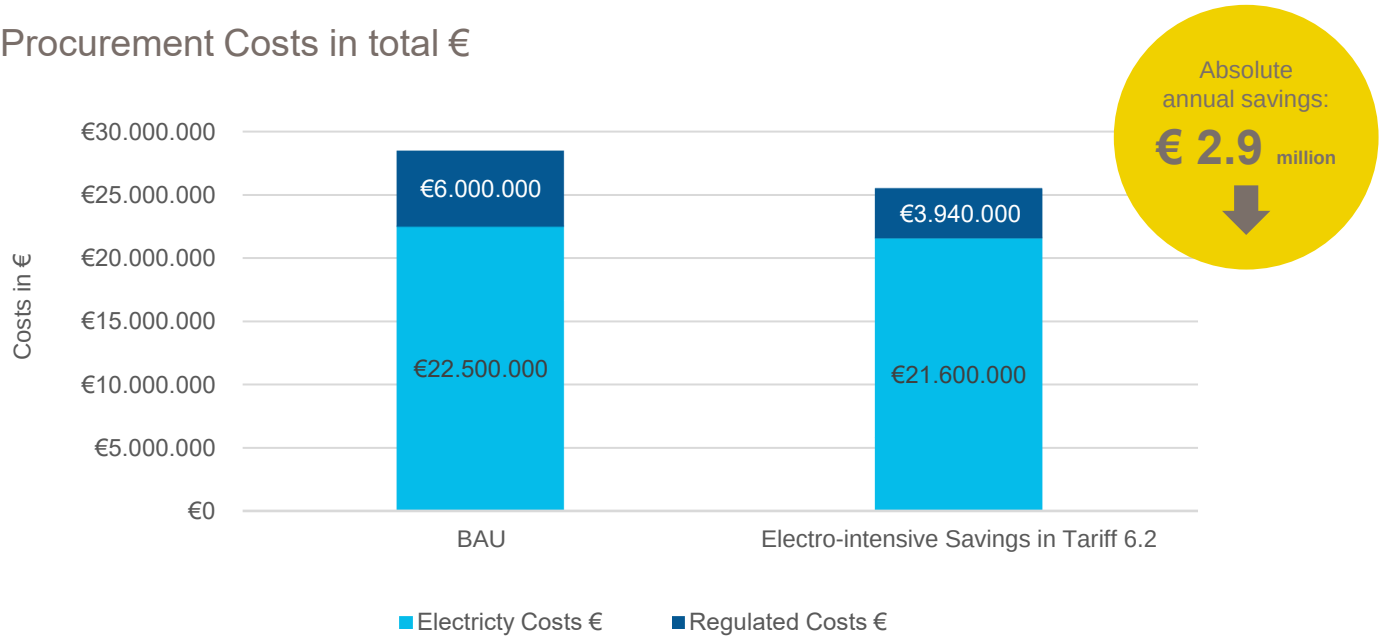
Assumptions **Electro-intensive Statute:**

- **Average electricity costs:** 43,20 € / MWh
- **OMIE-Indexed Volume:** 350 GWh/a at 45 € / MWh*
- **Volume under PPA:** 150 GWh/a at 39 € / MWh for 10 years
- **Regulated costs:** 7,88 € / MWh

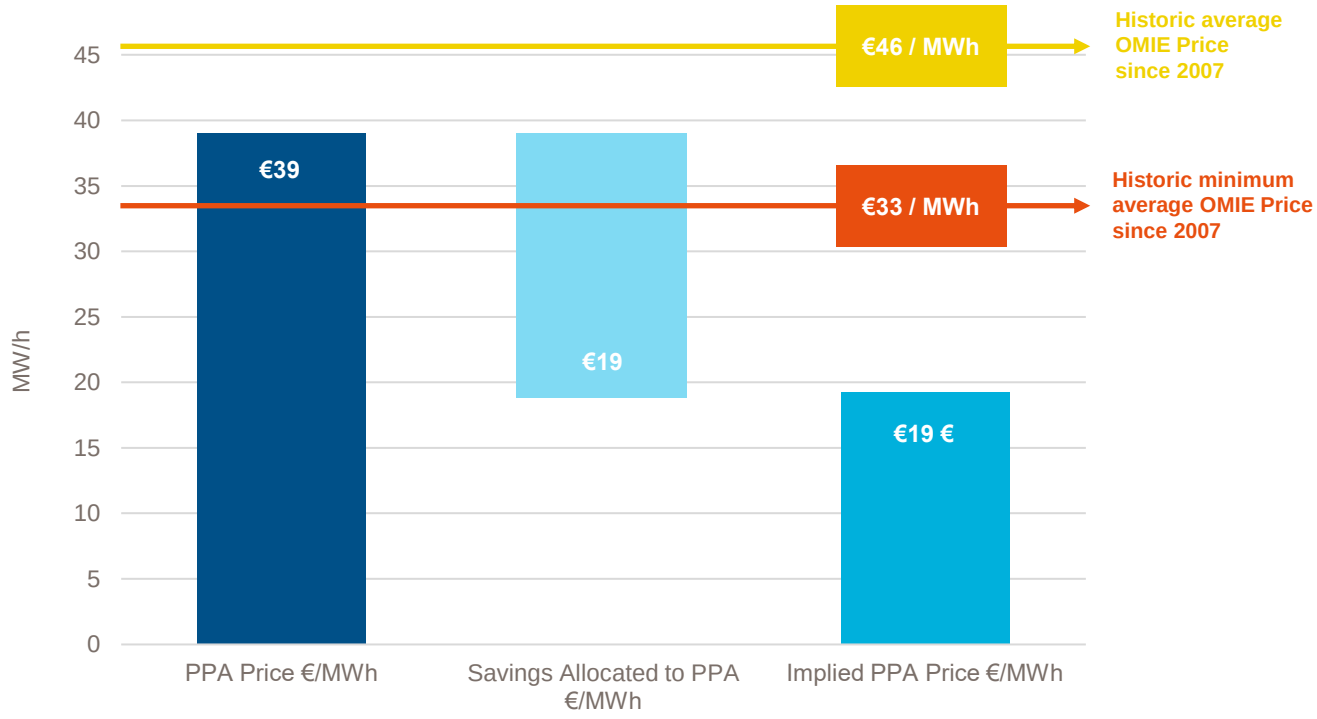
**Average electricity price based on historic data*



Procurement Costs in total €



Break Even Analysis



Dividing the annual savings of € 2.9 million, by the PPA volume of 150 GWh, would result **in savings of 19,73 €/MWh on the PPA volume**. This means that the annual average electricity prices would have to drop below 19,27 €/MWh in order for the PPA to make a loss. **As long as the average electricity stays above 19,27 €/MWh, the PPA would have a positive effect on electricity purchasing.** The business case for PPA and Electro-intensive Statute is therefore very strong.

IV. Guiding principles on how to succeed in your power purchase agreement (PPA) journey

As an electro-intensive consumer, the stability and predictability of the cost of power will determine your competitiveness in the market of your sector. We understand this and have created **a simple checklist of DOs and DON'Ts that can guide you in your PPA journey:**

Dos

Integration of third-party volumes

- If you want to contract a physical PPA, check whether your current supply contract allows you to integrate third-party volumes. If not, make sure you request it in your next retail contract tender.

Experienced partner

- Look for experienced and reputational PPA providers that will adapt to your needs and will ensure PPA transactability.
- Partner with companies that support and reflect your decarbonisation and sustainability commitments.

Price structure

Explore the PPA hedging structure that works best for your business:

a) Fixed price structure to fix part of your electricity costs and increase predictability of electricity purchasing.

b) Floor with spot discount which allows you to receive a discount on the hourly spot in exchange for a floor price.

c) Collars with a floor and caps in order to limit volatility.

Physical or financial PPA

- A financial PPA is an option which you can always consider independently from your retail contract.

Don`ts

Integration of third-party volumes

- The law doesn’t oblige you to be locked in a retail contract for 5-10 years with the same retailer just because they offer you a 5-10 year PPA. The integration of third-party volumes from PPA providers into retail contracts is your right and allows you to keep business flexibility.

Physical or financial PPA

- Be aware of market options that contribute to greenwashing e.g. buying Guarantees of Origin instead of closing a long-term PPA. This constitutes a regulatory and reputational risk and could jeopardise your company´s claim to decarbonation.

Non-subsidised Guarantees of Origin

- Some retailers are offering 5 year OMIP/MEFF/EEX products plus domestic Guarantees of Origin to comply with the Electro-intensive Statute. The majority of Guarantees of Origin cancelled in Spain are linked to subsidised renewable plants (related to RD 413/2014), however the Electro-intensive Statute requires the use of non-subsidised Guarantees of Origin (also called exportable). The rationale behind this is that the Statute wants to promote new renewable capacity rather than existing plants which are already receiving state subsidies and do not need further support.

Contact our PPA experts

If you want to obtain a tailor-made analysis of how much you can save by signing up to the Electro-intensive Statute, contact our experts to carry out a »live« analysis leveraging our specified tools. Send us an e-mail to: originacionespana@statkraft.com

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Statkraft is a leading company in hydropower internationally and Europe’s largest generator of renewable energy.

The Group produces hydropower, wind power, solar power, gas-fired power and supplies district heating. It is furthermore a global company in energy market operations.

Statkraft has

4.500

employees in 17 countries.

As a leading PPA provider, Statkraft offers tailor-made green solutions to corporate customers to make renewable power supply fit their individual consumption needs.

Since its arrival in the Iberian market in 2018, Statkraft has become one of the most active players in renewable energy growth in both Spain and Portugal.