SPAIN - POWERING THROUGH 2025:

Legal Hurdles
and Opportunities

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POWER SECTOR Q&A

WHAT ARE 4 KEY LEGAL CHALLENGES AND OPPORTUNITIES FOR THE NEXT 12 MONTHS IN SPAIN

1. FOR DEVELOPERS OF RENEWABLE GENERATION ASSETS?

While there is still significant potential for renewable energy assets in Spain -particularly as the country advances in decarbonising its economy through the increase of renewable generation- it is essential to expand and enhance both the transmission and distribution grids. This is necessary to evacuate all produced energy, avoid curtailments, and support the growth of Spain's renewable energy mix.

Developers face challenges such as: (i) the lack of access capacity tenders (concursos de capacidad); and (ii) the decline of energy prices for both RTB and COD projects, driven by the low electricity prices in Spain, which, in turn, have been caused by renewable technology cannibalisation, particularly in relation to solar production. These issues have resulted in lower-than-expected returns on investment, difficulties in project financing, and a decline in both M&A transactions involving renewable assets and their valuation, with solar energy production being more significantly impacted than wind energy projects.

Despite these obstacles, opportunities are emerging for renewable generation assets. These include: (i) the signing of PPAs, which provide price certainty for energy sales and purchases; (ii) the hybridisation of renewable generation assets with battery energy storage systems (BESS), which improves asset efficiency, manageability and investment attractiveness; and (iii) the potential to construct assets and procure equipment (such as solar panels) at reduced costs. Additionally, with the approval of the future Spanish capacity market, developers will obtain new revenue streams that could further increase investment efforts.

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2. FOR DEVELOPERS OF TRADITIONAL / BASELOAD GENERATION ASSETS?

The main challenge for developers of traditional / baseload generation assets is their gradual displacement by newer and less polluting technologies aligned with national and European climate change policies. These include green hydrogen, biomethane and BESS, among others. Particular attention has been given to the closure of coal-fired power plants. Additionally, the Spanish government has set a target to close all nuclear plants by 2035 and does not currently anticipate the construction of new combined cycle plants.

Moreover, the increase of the price of natural gas, higher costs for CO2 emission allowances and the increase of taxation on these assets are making energy production increasingly expensive, further hindering their operation. Furthermore, these rising costs result in higher electricity prices during the hours of the day when renewable energy generators supply less energy to the grid, potentially driving industrial offshoring.

However, the major black-out of 28 April 2025 in Spain could lead to a change in the Spanish government's stance on certain traditional technologies, particularly nuclear and combined cycle plants, which may find new opportunities. These technologies are expected to be regulated as backup solutions to ensure system stability, potentially benefiting from capacity market payments.

This shift highlights the evolving role of traditional generation assets in supporting the energy transition, ensuring reliability while complementing the growth of cleaner technologies.

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3. ... FOR POWER STORAGE?

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4. ... FOR OWNERS AND OPERATORS OF ELECTRICITY TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE?

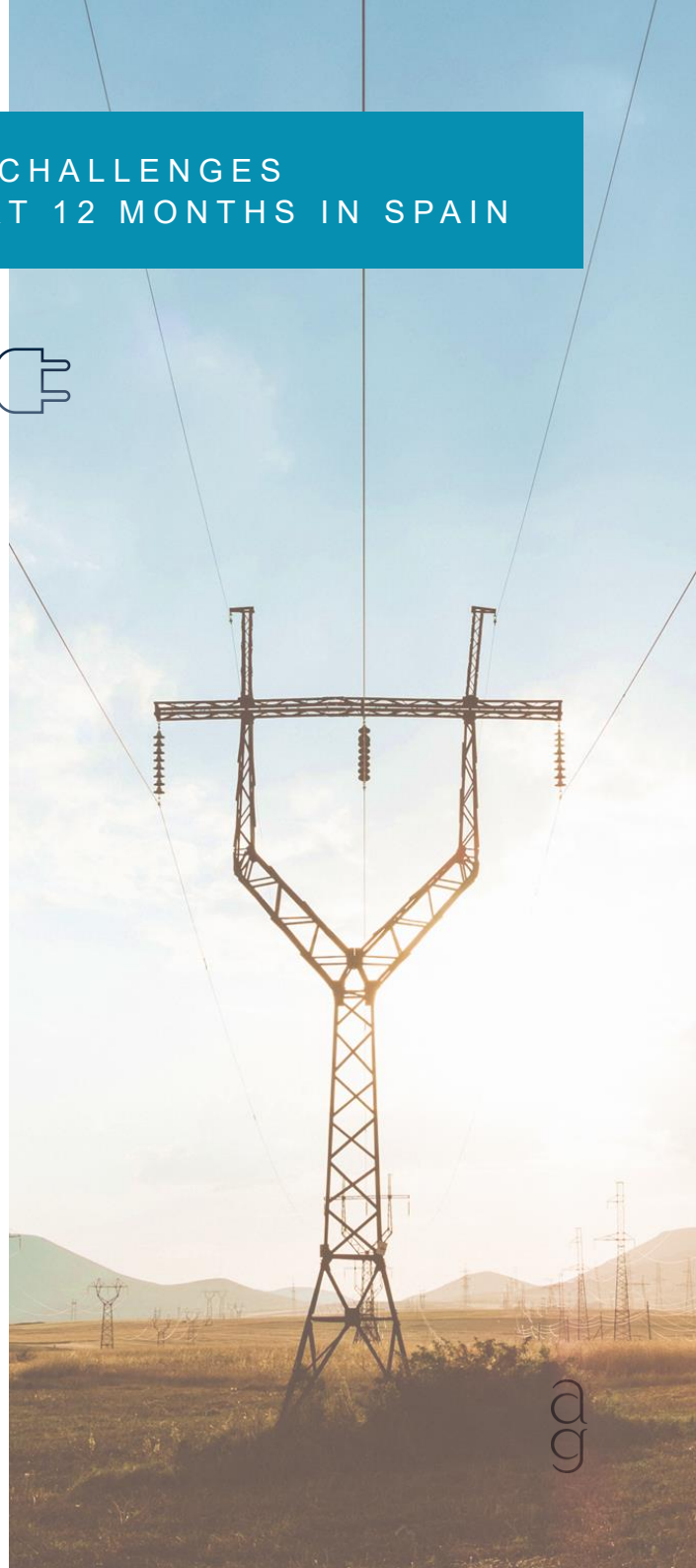
The need to accommodate the increasing integration of renewable energy and the growing demand for electricity, while ensuring the stability of the electricity system, necessitates the renovation of Spain's electricity transmission and distribution infrastructures.

In this context, the renovation of the electricity transmission infrastructure is subject to the Spanish government's planification, which, under the Spanish Electricity Sector Act, operates on a six-year horizon. This planification system is: (i) influenced by political factors; and (ii) unable to address emerging issues promptly.

Moreover, Spanish transmission and distribution grid operators receive regulated remuneration, which is insufficiently attractive to incentivise new infrastructure investments.

The Iberian electricity system also suffers from a low interconnection ratio with continental Europe (approximately, 2%, according to Spain's transmission grid operator). This isolation delayed re-energisation efforts during the black-out, underscoring the vulnerabilities of the so-called "electricity island" that is the Iberian Peninsula. Consequently, interconnection efforts must be implemented.

Encouragingly, Spain's industry is undergoing an electrification process, driven by the development of high-consumption industries such as data centres. This trend will increase demand for transmission and distribution grid infrastructure, creating opportunities for additional investment and revenue growth for operators.



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