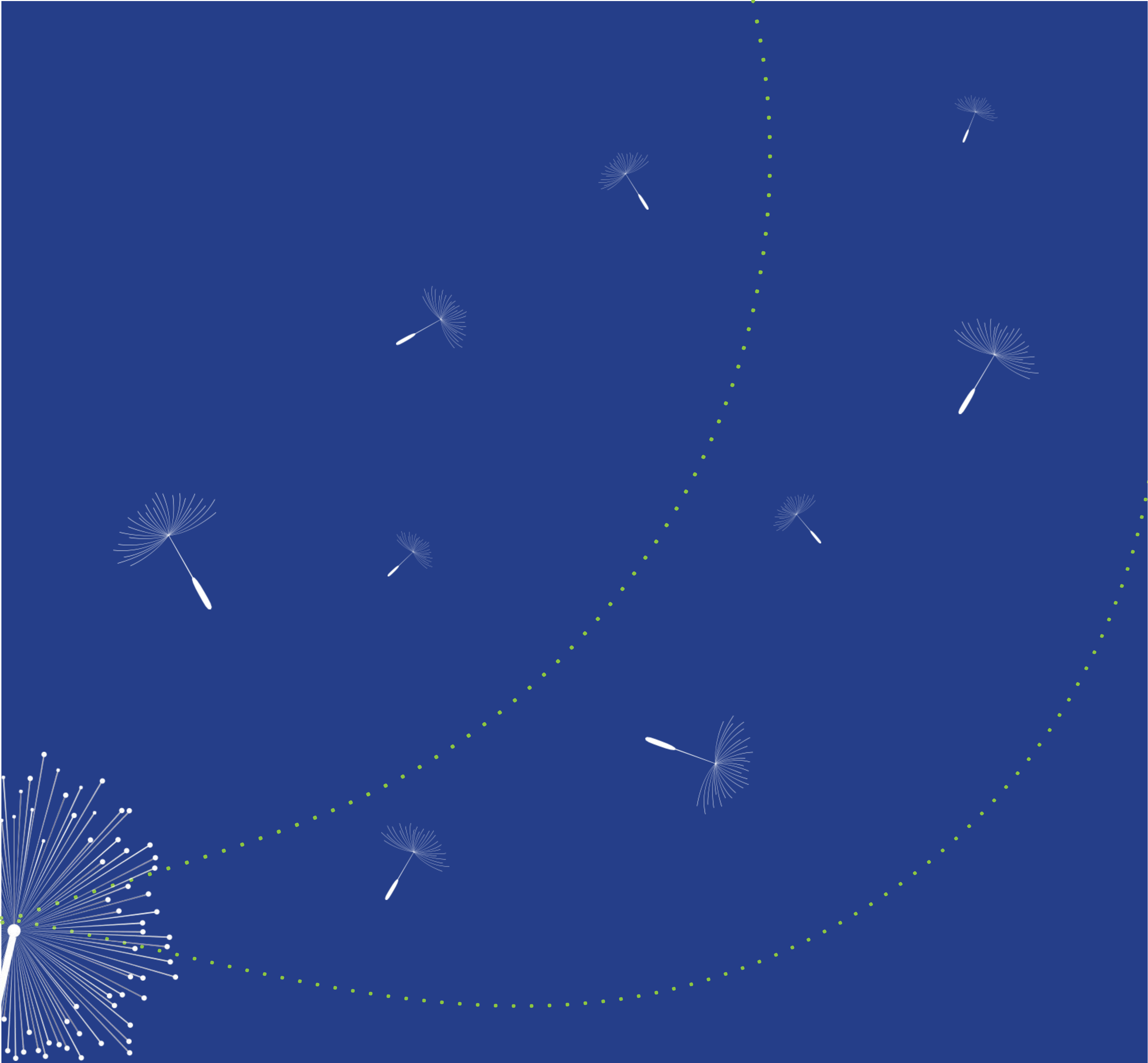

Plan +Seguridad Energética

GOBIERNO DE ESPAÑA

Gobernamos Contigo.

Photography: Biel Morro, Barcelona.

Executive summary

Context in Europe

Russia's invasion of Ukraine has led to terrible humanitarian consequences for the Ukrainian population, a profound economic impact on Europe as a whole, and worsening tensions in international commodity markets, especially energy markets.

Russia has historically been the EU's main supplierof natural gas, accounting for around 40 per cent of imports. Since 2021, in a premeditated strategy to use energy supply as a tool to blackmail Europe during the preparation and execution of the invasion, Russia has caused an artificial gas shortage: last winter it did not fill the gas storage facilities that guarantee supplies to several European countries, guaranteeing demand and high prices for their exports and undermining the EU's security of supply. Following the invasion, further reductions in gas flows have been seen, with total or partial interruptions to 14 European states: Austria, Bulgaria, Denmark, Estonia, Finland, France, Germany, Italy, Latvia, Lithuania, the Netherlands, Poland, Slovakia, and the Czech Republic.

The high dependence on Russian gas is aggravated by the EU's low capacity to import Liquefied Natural Gas (LNG): Only 30% of Member States have access to the global LNG market via regasification terminals,

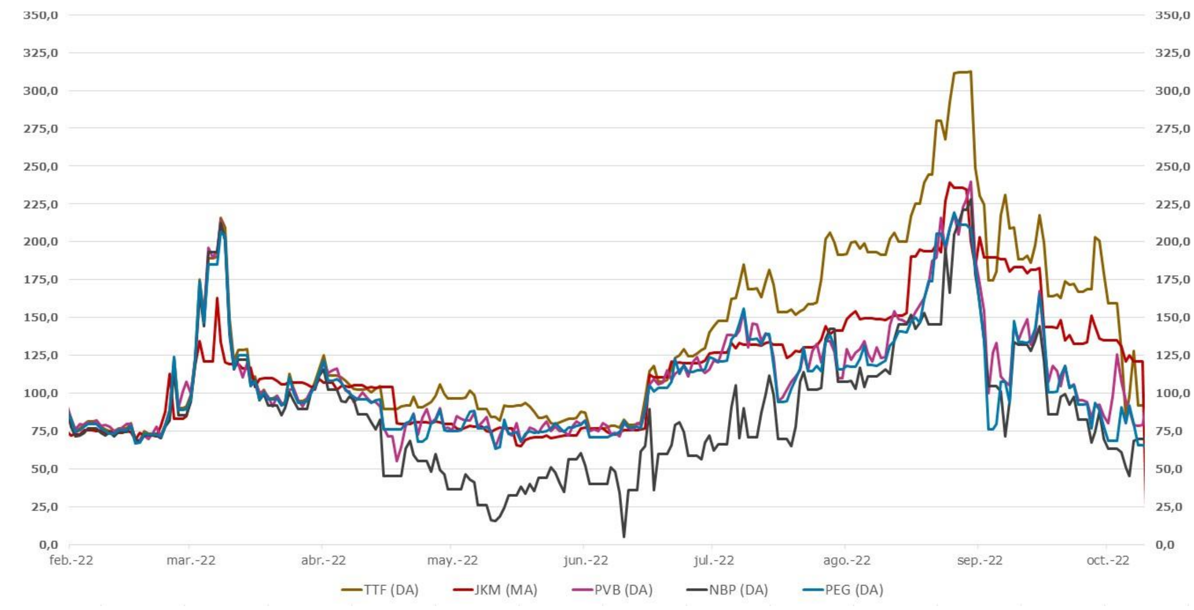

Illustration 1. Prices in wholesale gas markets.
Source: MITECO 2022.

which are not evenly distributed: Spain accounts for 34% of all regasification capacity in the EU. As a result, Europe's ability to obtain supplies from other sources in the very short term is highly limited, and Russian energy blackmail has put the security of supply of several EU countries at risk.

The main supply risk at the European level relates to natural gas. However, tensions in the gas system have an effect on other energy vectors, such as electricity or oil products. A significant portion of natural gas in Europe is used to generate electricity, so electricity demand has a direct impact on natural gas demand, and a secure electricity supply depends in turn on a secure gas supply. Furthermore, some Member States have proposed to partially substitute natural gas in electricity generation and industry with coal and oil products ("fuel switching"), which has led to tensions in these markets. It is essential that all the energy carriers concerned be assessed together, as the various carriers are interrelated both in terms of security of supply and prices.

In economic terms, the price of natural gas on EU wholesale markets has reached record highs, peaking at over 300 €/MWh; five times higher than a year ago, and 15 times higher than the historical average (see Illustration 1).

In the electricity market, on the other hand, the increase in the price of natural gas has led to the so-called "contagion effect", due to the price formation system applied throughout the EU, in which all electricity generated is paid for at the price set by the last plant needed to cover demand, normally a gas-fired thermal plant. In other words, the price of electricity on the wholesale market has been "infected" by high natural gas prices, pushing electricity prices to record highs across Europe, reaching over €700/MWh in some countries.

In this context, the European Union is responding in a coordinated manner and with an unprecedented pace of legislative proposals. In recent months, there has been a succession of European Commission Communications and legislative proposals aimed at providing a coordinated response to the common challenge facing the Union:

In March, the Commission published *REPowerEU* as a strategy to accelerate the reduction of energy dependence. In May, it fleshed out this proposal in the REPowerEU Plan, with strategic and regulatory

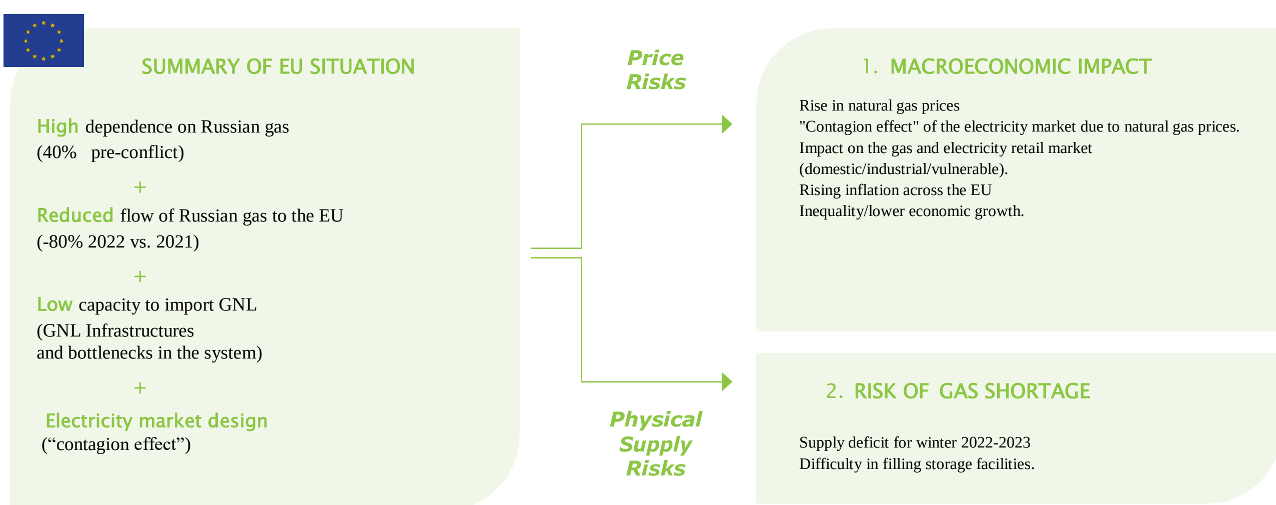

Illustration 2. Impact of the energy crisis in the EU.
Source: MITECO 2022.

measures to save energy, diversify sources of supply, strengthen coordination at European level for the purchase of gas and an accelerated deployment of renewables, economically reinforcing the Recovery and Resilience Framework to accelerate the necessary transition. In July, it published "Saving gas for a safe winter", with a proposal that has now been turned into a Regulation, which is binding and immediately applicable throughout the UE.[1] This Regulation includes a voluntary commitment by all Member States to reduce EU natural gas consumption by 15%[2]. In the event that a "Union Alert" on security of supply is declared, this target becomes mandatory. In the case of Spain, while maintaining gas exports at maximum capacity and meeting other specific conditions, the mandatory demand reduction target would be around 6-7%.

In addition, at the Council of Energy Ministers on 30 September, it was agreed that Member States will voluntarily reduce their electricity consumption by 10%, and that a mandatory 5% reduction in electricity consumption during peak hours will be applied.

As well as adopting various instruments, Europe has been engaged in a debate over the last 12 months about the need to establish firewalls between the electricity and natural gas markets, i.e., to avoid this "contagion effect", and about how to redistribute to consumers the "windfall profits" generated in certain energy companies by the current price crisis and pricing system. In this respect, the Council of Energy Ministers of 30 September agreed on a capped income of 180€/MWh for infra-marginal technologies, so as to limit the income that these technologies receive through electricity generation, as well as other measures to address the windfall profits obtained by certain energy companies, with the aim of containing the price of bills paid by domestic consumers and companies. On 28 September last year, fourteen Member States, including Spain, asked the European Commission for a price cap on natural gas imports, and various measures to limit the price of natural gas on European markets are currently being discussed.

On both issues, Spain has led the debate at European level and the design and implementation of measures at national level. Most notably, the "gas reduction mechanism" was approved in September 2021[3], a concept similar to the windfall revenue recovery mechanisms recently proposed by the European Commission and by some Member States. Another important example is the «Iberian mechanism»[4], which limits the impact of natural gas prices on the wholesale electricity market price. This mechanism was authorised by the Commission last June on an exceptional basis for Spain and Portugal, although recently some Member States and the Commission have been in favour of extending it to the rest of the EU.

This mechanism has allowed Spain to benefit from wholesale prices that, although far higher than usual, are lower and more stable than those of other Member States: from 15 June 2022 to 22 September, the average electricity price on the Spanish wholesale market (including the "adjustment cost"[5]) was 24-40% lower than the prices recorded in Germany, France, or Italy.

1. Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated measures to reduce gas demand.
2. Reduction between August 1, 2022, and March 31, 2023, compared to the average of the same period over the last five years.
3. Royal Decree-Law 17/2021, of September 14, on urgent measures to mitigate the impact of the escalation of natural gas prices in the retail gas and electricity markets
4. Royal Decree-Law 10/2022, of May 13, which temporarily establishes a production cost adjustment mechanism to reduce the price of electricity in the wholesale market
5. The adjustment cost is the cost paid by consumers benefiting from the "Iberian mechanism" to cover the price differential between the price of natural gas in the Spanish organized market (MIBGAS) and the natural gas price limit established by Royal Decree-Law 17/2021.

As well as adopting emergency measures to contain prices, it has become imperative to review the design of the electricity market to ensure that it is suited to the electrification of the economy, an efficient distribution of income between consumers and producers in "stress" situations, and a massive deployment of renewable energies during this decade. In this debate, Spain will continue to analyse the structural reforms of the electricity market together with the Member States. This is set out in the recently approved Regulation (EU) 2022/1369: "*the Commission is also pursuing work on the optimisation of the functioning of the European electricity market, including the effect of gas prices on it, so that it is better prepared to withstand future excessive price volatility, delivers affordable electricity and fully fits a decarbonised energy system, while preserving the integrity of the single market, maintaining incentives for the green transition, preserving the security of supply and avoiding disproportionate budgetary costs".*

More recently, on 5 October, the European debate took a further step forward in these areas: the President of the European Commission planned a roadmap that includes negotiating with different natural gas suppliers, capping natural gas prices and introducing a limit on the price at which natural gas can be offered in the electricity system, while continuing work on a structural reform of the electricity market.

Context in Spain

Spain's situation is not equivalent to that of the EU as a whole. With a highly diversified and secure supply and no direct pipeline dependence on natural gas from Russian, there is currently no risk of a supply deficit.

The Spanish gas system is highly diversified, with Algeria suppling by pipeline from Algeria, and LNG imported by ship from various markets, thanks to the regasification plants in Spain. In recent months, Spain has been exporting 20% of the gas it receives, either by pipeline to France, by reloading methane tankers bound for other European countries, or by converting it into electricity which is exported to Portugal and France. At the same time, natural gas storage facilities in Spain continue to be filled for the winter: by 1 November, underground storage facilities will be 94% full, and tanks, which provide more flexibility, will be 85% full.

But despite this security of supply, Spain has still suffered from the rising international prices of energy raw materials, which has been felt across the EU.

Measures must therefore be taken to combat Russian energy blackmail, mitigate the impact on energy prices, protect consumers and make progress in reducing the structural external energy dependence that causes this vulnerability.

Measures already adopted

Since 2018, Spain has been adopting ambitious energy transition reforms: a strategic energy and climate framework that has brought the country back to a position of international leadership, and that reinforces security of supply and consumer protection by continuing to replace fossil fuels with cheap, indigenous renewable resources. This process has been accelerated by the Recovery, Transformation and Resilience Plan that has mobilised more than 5.2 billion in public funding in announcements specifically targeted at the energy transition, as summarised below.

Moreover, since June 2021 Spain has implemented more than 25 measures to mitigate the crisis of rising prices, protect vulnerable consumers,

COMPONENTE	PRESUPUESTO ACTIVADO	PROGRAMAS CENTRALIZADOS	PROGRAMAS TERRITORIALIZADOS
C1: MOVILIDAD	1.042 M€	Flotas moves; moves	moves II; moves III
C2: REHABILITACIÓN Y REGENERACIÓN	828 M€	DUS 5000	PREE 5000; PREE
C7: RENOVABLES	2.189 M€	BIO GAS; Redes de calor y frío; Comunidades energéticas	
C8: ALMACENAMIENTO E INFRAESTRUCTURAS	795 M€	ALMACENAMIENTO	
C9: HIDRÓGENO	400 M€	Cadena de valor; Proyectos singulares y pioneros	

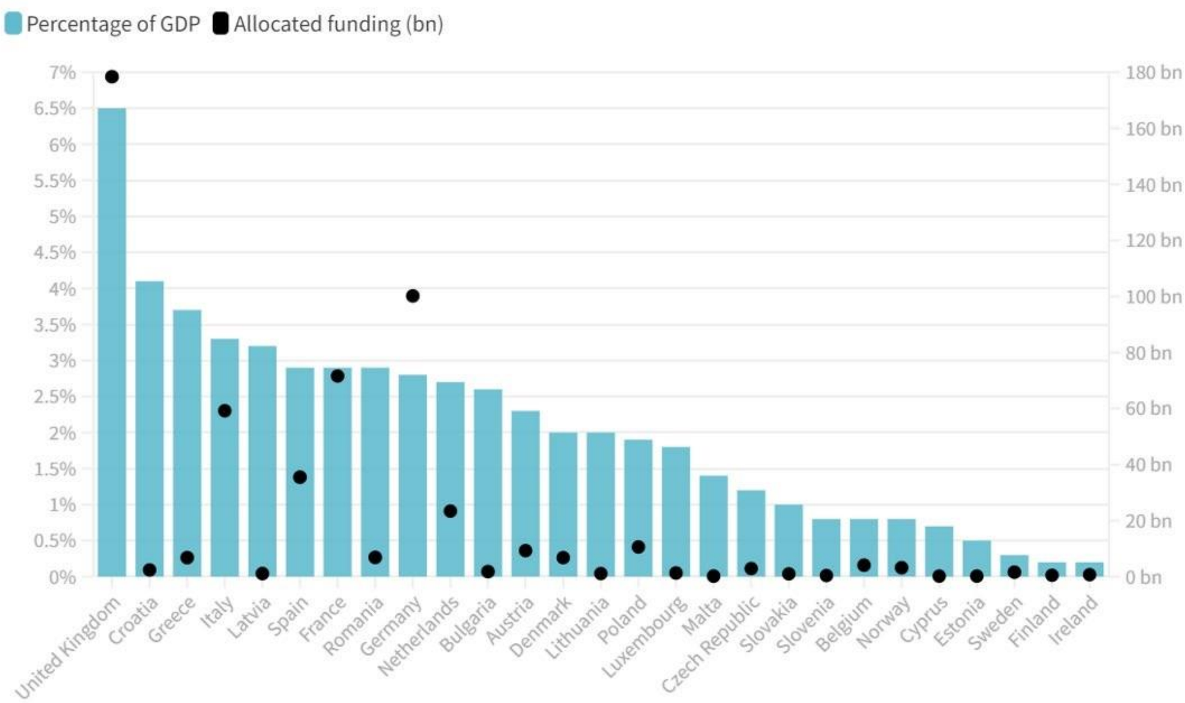

Illustration 3. Public spending to reduce consumers' energy bills.
Source: *Bruegel, September 2022: National policies to shield consumers from rising energy prices.*

support industryand reinforce security of supply, putting it in fourth place among EU economies in terms of the efforts already made to reduce consumers' bills in economic terms, and second in terms of the diversity of measures adopted[6]. In Spain, the economic effort since measures began to be adopted exceeds 35 billion euros, almost 3% of GDP, as shown in Illustration 3.

Protecting consumers, especially the most vulnerable, has been a priority from the outset. For this reason, all the measures implemented to reduce the energy bills of domestic consumers have targeted all components of the bill: taxation has been reduced by 80% and regulated costs by 56%, while applying the Iberian mechanism has contained the increase in the price of energy.

The package of measures adopted has enabled the electricity bill of an average domestic consumer on the regulated tariff to be reduced by 33% compared to the same bill in the absence of measures.[7]

Priority has been given to protecting vulnerable consumers, with an increase in electricity discounts (from 25% to 60% and from 40% to 70% for "vulnerable" and "severely vulnerable" consumers respectively) and the approval of a minimum subsistence supply that prohibits cut-offs in situations of vulnerability. As a result, the bills of vulnerable and severely vulnerable consumers are more than 60% cheaper than they would be had no measures been taken.

6. Source: Bruegel, September 2022: National policies to shield consumers from rising energy prices.

7. Figure calculated for August 2022 for a domestic consumer under the PVPC.

This has meant that the price crisis has not led to an increase in electricity bills for vulnerable consumers.

In other words, for vulnerable consumers covered by the discount, bills in August 2022 are priced the same as those registered between January and June 2021, before the energy price crisis.

In addition, the level of protection for consumers at risk of social exclusion, who do not have to pay their electricity bills, is maintained.

On the other hand, from the end of 2021, a maximum increase was established for the quarterly reviews of the Tariff of Last Resort (TUR) for natural gas.

This measure has reduced the gas bills of domestic consumers covered by the TUR, generating savings during the last quarter of 2022 of more than -45% compared to the same bills without this measure.

Finally, the productive sector – the self-employed, SMEs and large companies – has also benefited from the measures implemented to date.

The reduction in the wholesale electricity price due to the introduction of the Iberian mechanism has reduced the price at which companies buy electricity on the wholesale market.[8] Many companies and the self-employed have also benefited from reductions in taxes and charges.

Industry has not only benefitted from a reduction in the wholesale price of electricity; there has also been an extraordinary 80% reduction in access tolls for the electro-intensive industry.

The set of measures approved has led to a 23% reduction in bills for SMEs, an 18% reduction for the industrial sector, and a 20% reduction in the case of electro-intensive consumers.

In addition, direct aid has been provided to the sectors most affected by the energy price crisis: EUR 375 million for the gas-intensive industry, EUR 244 million for the electro-intensive industry, and EUR 250 million for other sectors particularly exposed to the increase in energy prices, such as freight and passenger transport, agriculture and livestock farming, and the fisheries sector.

Greater energy security

In view of the increase in geopolitical tensions and market tensions, the Plan + SE (hereinafter, "the Plan") has been drawn up to provide greater security in terms of energy prices for households and the Spanish economy as a whole, as well as greater security for the European Union by helping to increase its security of supply. It is a plan with quick impact measures aimed at the winter of 2022/2023, alongside measures that contribute to a structural reinforcement of this energy security.

To this end, the Plan sets out three key objectives:

1. Increasing protection for vulnerable consumers, households, and businesses, in addition to measures already adopted. Energy saving and renewable energy substitution measures contribute to this, as do specific consumer support measures.

2. Strengthening strategic and energy autonomy by implementing additional measures to accelerate the structural changes already underway in the context of the Strategic Energy and Climate Framework.

3. Solidarity with other Member States. Cooperation and solidarity are the foundations of the European project and make each of its members stronger. Maximising the use of existing infrastructure allows for an important exercise in energy solidarity with the EU as a whole. It must also be ensured that any new infrastructure is compatible with medium- and long-term decarbonisation objectives.

8. Either automatically, in those companies that are exposed to the wholesale price, or at the time of renegotiating contracts, in those companies that contract energy in instalments or at a fixed price.

To reinforce strategic and energy autonomy, the Plan is committed to promoting the energy transition, replacing natural gas and other fossil fuels with renewable energies, as a key axis in response to the current crisis. The European Commission and some countries are considering the option of waiving certain environmental and air quality standards by temporarily allowing natural gas to be substituted by more polluting fuels. For a country like Spain, this approach has serious drawbacks. It could lead to greater depreciation of industrial or electricity generation facilities, an increase in emissions, and require new investments to adapt processes with the risk that they become "stranded assets" as they are incompatible with the medium-term objectives of both the country and of individual companies. Indeed, Spain has an enormous potential for renewable resources and technological and industrial capacity in this field, which favours an accelerated substitution of renewables as a decisive measure to reduce foreign energy dependence and ensure the continuity of industrial activity.

The main impacts that can be achieved through a suitable deployment of the measures included in this Plan are summarised below:

- Natural gas savings between 5.1 and 13.5%.
- Greater protection for vulnerable consumers.
- Savings in the gas bill of residents' associations.
- Less volatile electricity tariffs.
- More competitive industry.
- Mobilisation an investment of 6 billion euros.
- Maximising natural gas export capacity to France and Italy.
- Meeting the targets for natural gas and electricity savings agreed at European level.

To achieve these impacts, the Plan enviages more than 70 measures structured in six blocks, which contribute to varying degrees to the three objectives set out in the Plan, and are summarised below:

Energy saving and efficiency, with measures that minimise the effort required and generate savings on consumers' bills.
Boosting the energy transition, accelerating the replacement of fossil fuels with renewables, and structurally reducing energy dependence.
Protection of vulnerable consumers, households, and businesses, in the face of rising energy prices.
Fiscal measures to cushion the impact of energy prices while encouraging consumers to commit to the transition.
Strategic autonomy, generating a more robust and flexible energy system with less external dependence.
Solidarity, contributing to security of supply and economic activity in Europe, thereby also reinforcing security in Spain.

Ten key measures of the PLAN +SE:

4. More protection for consumers. Although the measures adopted so far have protected vulnerable consumers from the impact of the war on their bills, the current situation and its uncertainties require taking a step further and reinforcing the discounted rates for electricity and heating.

5. More protection for neighbourhood communities. A protection mechanism will be approved for domestic gas consumers who belong to residents' associations with communal boilers. The State will adopt the necessary budgetary measures to finance it.

6. More renewables. The Recovery Plan will increase its aid programme by 500 million euros to promote self-consumption; the current limit of 500 metres between the generation facility and the point of consumption will be increased to facilitate the development of new shared self-consumption models; and other support measures will be adopted for shared applications in energy communities and industrial areas.

7. More leadership in government and large companies. The Central Government Savings Plan approved in May will be reinforced, further emphasising energy efficiency - such as in public procurement - and self-consumption systems. Moreover, before 1 December, the autonomous communities and local authorities will publish their respective plans for energy savings, deployment of self-consumption and savings and efficiency measures. A new Plan to reduce consumption in outdoor lighting will replace existing systems with more efficient ones and interest-free loans will cover up to 100% of the renovation cost. Large companies will be able to present energy saving contribution plans, based on the results of the energy audits they were already required to carry out in 2016.

8. More transparency in electricity and gas bills. Working with consumer protection organisations, additional information will be included on bills to provide consumers with additional tools for making savings decisions. Thus, consumers with less than 15 kW of power and a consumption of less than 50,000 kWh per year respectively, will receive electricity and gas bills that include a comparison of their consumption with that of similar customers with the same postcode. They will also receive advice on smart and efficient consumption, and information on how the Iberian Mechanism is applied.

9. More tax rebates for solutions to replace fossil fuels with renewable energies.

10. Green Kit for SMEs. The Instituto de Crédito Oficial (ICO) will create a "Green Kit" to finance energy efficiency and renewable measures in SMEs.

11. More support for the energy transition value chain. The implementation of the PERTE for Renewable Energies, Renewable Hydrogen and Storage (PERTE ERHA) will be accelerated, and its current financial endowment of more than 3.5 billion will be increased by the Ministry for Ecological Transition and the Demographic Challenge, with an additional 1 billion to develop new industrial and technological capacities that reinforce the country's strategic autonomy. This will also allow Spain to promote an IPCEI for photovoltaic solar energy, and to lead this initiative at the European level. Finally, a new PERTE for industry decarbonisation will improve competitiveness and reduce energy costs in the manufacturing sector, which is responsible for 11.3% of GDP and 20% of CO2 emissions.

12. More flexibility in electricity planning. The electricity system must be more flexible, by anticipating and adapting to the challenges of the energy transition. To this end, specific modifications will be made to the current 2021-2026 Plan to make short-term strategic projects viable, and work will begin on a new Plan for the 2024-2029 period.

13. More solidarity with the EU. Spain is maximising the use of existing infrastructure to reinforce its export capacity: it has increased its gas export capacity to France by 18% via the Pyrenean interconnection, and is preparing to increase supplies sent by ship to Italy, which will receive a capacity equivalent to 3% of its gas consumption. The Gijón regasification plant will be operational in early 2023 as a logistics platform to support Member States.

Monitoring and governance

For this framework to be effective, all agents must be actively committed: each sector and each agent must articulate concrete and verifiable measures and actions based on the knowledge of their reality and their capacity to act.

In order to monitor what each sector, company and Administration contributes to the overall objective and to monitor their savings commitments - and thus the effectiveness of this Plan - a periodic public reporting system is established. This will include updated data on the evolution of energy consumption, as well as the measures and actions declared by the Autonomous Communities and large companies.

To this end, monthly bulletins will be published on gas consumption, electricity consumption and the impact of the Iberian mechanism, as well as the energy saving plans of the Autonomous Communities and large companies.

Finally, the frameworks for dialogue and cooperation that have enabled this plan to be drawn up will continue: the specific inter-ministerial working group as part of the General State Administration, and the Sectoral Energy Conference for coordination and collaboration with the Autonomous Communities and Local Authorities. Likewise, in continuity with the various rounds of meetings held over the last year and with greater intensity in recent months, meetings will be held with all the economic and social agents involved, in order to report on the energy situation and the progress of negotiations and measures at European level, the evolution of consumption and prices, and the application and impact of the measures envisaged in this Plan.

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