



SPANISH ELECTRICITY MARKET REPORT – WIND

Spanish wholesale price and Wind Capture Price projections (2019 – 2050)

Wind and PV are leading the new energy transition in Spain, with the Government's National Energy and Climate Plan (NECP) targeting 6 GW/year of new capacity. Will this additional capacity be deployed without Government intervention? Is there a point of saturation beyond which high levels of price cannibalization ensue? We expect pool prices to fall but prices to be contained by Wind and PV's LCOE.... Our report explains why we feel that drastic renewable cannibalization is for now a "storm in a teacup", as well as providing a one-stop shop for investors looking to understand the risks and opportunities of investing in operating or developing Wind assets.



In this report, EKON Strategy Consulting provides its independent price forecasts (wholesale price and Wind capture price forecasts under three scenarios, as well as our expert opinion on the Spanish energy market (regulatory and market risk analysis) and its likely future development.

This report has been prepared by a coordinated team of experts based in Madrid, with real on-the-ground knowledge of the Spanish Wind market.

Our reports and price projections have been used by leading Utilities, Infrastructure Funds, Lenders and Independent Promoters in investment decision processes, negotiating debt or re-financing as well as in commercial and investor/state arbitrations.

Regulatory to market risk transition

The last 10 years have seen the Spanish Wind industry transition from a scenario of full exposure to regulatory risk (receiving 100% regulated revenues), to one of market risk (receiving 100% revenues from the market (pool).

The key reason for the risk transition (from regulatory to market risk) has been the drop of the Renewables LCOE (Levelized Cost of Electricity) which in turn has been caused by the drop in CAPEX. All the while that the Wind LCOE has been above the Spanish pool price (prior to 2017), the Government has provided a FiT to incentivize new investments in Wind and other renewables, this is no longer the case. Reaching grid-parity means that developing projects are merchant assets.

The Capture Price Spread

We identify the difference between the base-load pool price and the actual hourly price realized by a specific technology, in this case Wind, from the energy sold into the wholesale electricity market (pool). The report provides our analysis of the impact of future development of Renewables on the Capture Price for Wind (cannibalization), which as we explain will be contained by the LCOE of Wind and PV and therefore we do not expect a drastic pool price drop.

PPA, the new financing tool

This transition has also led to the development of PPAs as tools to minimize price volatility. PPAs have served to facilitate the financing of Wind projects. The relevance of accurate price projections becomes essential to minimize the associated risks and ensure satisfactory agreements are reached.

Regulatory uncertainties

The regulatory measures that have been published recently (RDL 15/2018 as well as regulation in process (preliminary draft bill of RR for the 2nd. regulatory period) and expected regulatory developments (National Energy and Climate Plan and the draft Law on Climate Change and Energy Transition) are analyzed in the report.

Bespoke services

As regulation and market experts, we have a broad understanding of business requirements to deliver bankable reports and models, with the option of providing the following bespoke services:

- Tailored price sensitivities using Client's assumptions,
- Portfolio and plant specific assessments to determine capture price, and
- "Lenders case" analysis based on Low Risk market case.

Key Report take-aways

- Pool price projections / Wind Capture price, 3 scenarios,
- Analysis of key drivers (Market /Regulatory),
- Regulatory and Market risk analysis (economic as well as the energy sector indicators),
- Risk & Revenue analysis by asset type: operational, developing (auctions/merchant),
- >150 page report + xls spreadsheets and workshops.

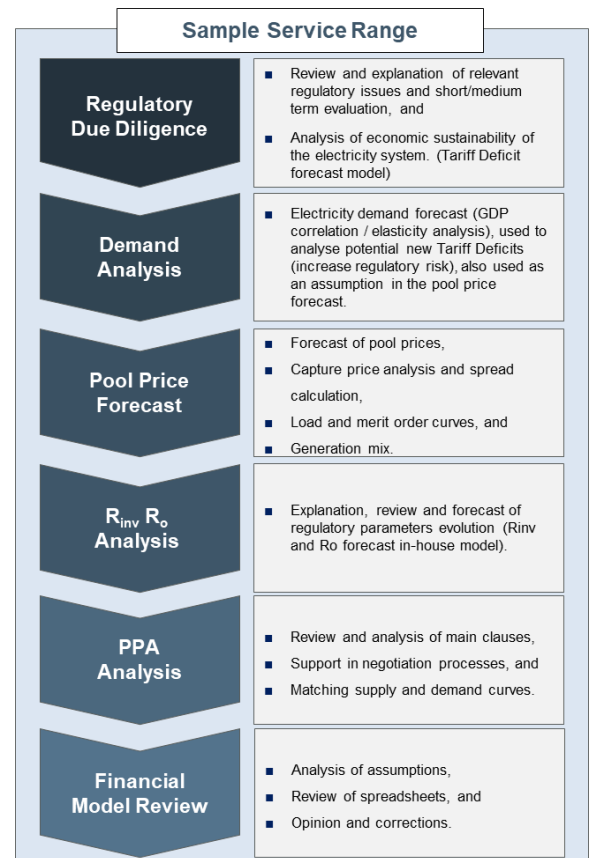
PMM Power Market Model

Our pool price / Wind capture price model is based on a deterministic dynamic linear programming approach with the objective of minimizing the present value of fuel, maintenance, and capital investment costs across the whole forecast horizon. Resulting prices, dispatch, fuel use, and capacity expansion are optimal for each set of input parameters.



Our Philosophy

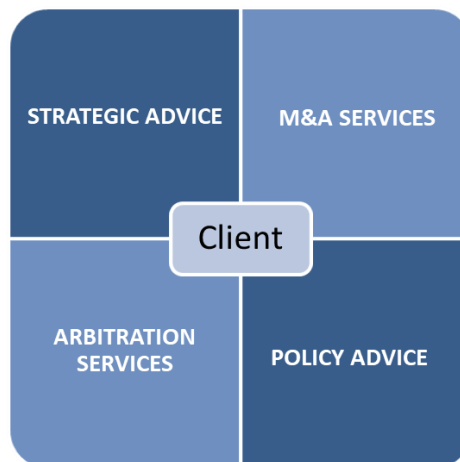
- Work on complex and large transactions, offering a full range of services from a high level red-flag report, all the way through to complete advisory services to buyers and sellers of assets or energy related businesses.
- Leverage on our experience in both conventional (coal, CCGT, cogeneration and nuclear) and RES (hydro, wind, solar) generation, electricity and gas infrastructure (electricity distribution, gas pipelines and regasification terminals), PPAs (power purchase agreements) and GSAs (gas supply agreements).
- Offer in-house models, internally developed, for long term (>25 years) pool price projections in order to be able to provide a full scope of services on an asset by asset or a portfolio basis, or an entire business.
- Provide robust and traceable financial models that can be easily audited but also allow for complex valuations.
- Work closely with the client and their financial, legal and technical advisors in preparing the deal or assisting in the negotiation phase.



Our Services

EKON carries out market assessment and screening as well as economic due diligence involving market price forecasts, review of fuel supply, O&M and other contracts, operating margins and financial loans contracts review.

EKON is specialized in arbitration at an international level. EKON, as an independent adviser and expert witness, has participated in some of the renewable arbitration claims from financial investors against the Spanish State.



EKON works on complex and large transactions, offering a full array of services that can range from a high level red-flag report, to complete advisory services to buyers and sellers of assets or energy related businesses.

EKON has provided advisory on understanding the regulatory framework of a number of European markets by assessing the impact on all players in such markets, (i.e., Incumbents, IPPs, End users and RES generators).

EKON Strategy Consulting is based in Madrid and provides key services in the Energy Sector that cover a broad range of Strategic and Operational Services for our Clients (Banks, Utilities, IPPs and Governmental Agencies and Authorities).

EKON's regulatory and market due diligence reports (including our price projections) have been relied upon by leading banks, utilities and infrastructure funds when investing and/or seeking finance for large energy investments. Our experts have participated in international arbitration and investor/state disputes.

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