Summary:

Latest national assessments reveal that cogeneration in Spain risks becoming a casualty of current changes in electricity legislation, with an estimated 6GW at risk. COGEN Spain is pressing for proportionate legislation for cogeneration.

Impact of recent changes in electricity legislation on cogeneration in Spain:

On 31 January the Spanish government published a proposal¹ for changes to the Energy Law that would sharply change the current tariffs received for electricity sent to the grid from a range of low-carbon sources, including cogeneration. The proposed new tariff reduction is the second since July 2013 and part of a process initiated in 2012. COGEN Spain’s analysis of the effect this will have on cogeneration in Spain is that roughly half the capacity will be forced out of economic operation in the very near term and the remainder will stop operating within a five-year timeframe, as reinvestment will be unattractive. This will remove most of Spain’s total of 6 GWe of high-efficiency cogeneration from the energy network (currently 32 TWh, representing 12% of the total electricity production) by 2020.

The impact of the tariff changes has been assessed by COGEN Spain² as driving roughly 3 GWe of high-efficiency cogeneration into negative gross margins immediately the tariff becomes effective, which will rapidly lead these commercial operators to shut down their plants. The remaining 3 GWe of the 6 GWe of high-efficiency cogeneration currently installed in Spain is more modern plants averaging 20% primary energy savings and hence theoretically able to continue operating under the proposed tariff system based on amortised capital and low but positive margins. However these more modern plants, which have been in operation for 10-15 years, are also close to requiring refurbishment and reinvestment. Under the proposed new tariff regime this investment will be unattractive: very high risk and extremely hard to finance. COGEN Spain concludes that by 2020, today’s 6 GWe high-efficiency cogeneration base will be catastrophically reduced. Primary energy savings will be lost and as industry ramps up production through the later part of this decade, the decarbonising opportunity of

¹ Propuesta de Orden por la que se aprueban los Parámetros Retributivos de las Instalaciones Tipo aplicables a determinadas Instalaciones de Producción de Energía Eléctrica a partir de Fuentes de Energía Renovables, Cogeneración y Residuos.
² Efecto de la Reforma Energética en una muestra de plantas del Grupo a.1.1. de Cogeneración sobre la Facturación y el Margen de Explotación desde el año 2012 hasta las previsiones del 2014.
Cogeneration will be missed – even though cogeneration is the best available technology in certain industries.

The main aim of the new tariff regime is to tackle Spain’s €30,000m electricity deficit. COGEN Spain supports the need to tackle the deficit but warns that the proposed new law has been largely designed with renewables in mind and, while providing a business solution for these investments, ignores the need for a similarly supportive solution for cogeneration. In the case of renewables, the increased tariff will affect total returns on original investments. Contracts may require refinancing, but will remain profitable in the long term. Cogeneration supplies two energy needs, one as heat and the other as electricity. The proposed changes fail to take into account that cogeneration is strongly linked to the industries it serves. A cogeneration plant requires provisions for the ongoing use of low-carbon fuel as well as sensible capital adjustment to be considered.

**COGEN Spain Policy Recommendations:**

COGEN Spain proposes taking the following essential policy action: the tariffs that were in force in July 2013 must be maintained to prevent the destruction of capital in the current asset base in industry. The sector has already absorbed new taxes for electricity production and for fuel consumption, while at the same time complementary payments previously existing for reactive energy compensation and energy efficiency bonus were cancelled.

In order to best position industry and to support the high level of renewables on the Spanish electricity network, COGEN Spain additionally calls for urgent consideration in the proposed new regime of facilitating the refurbishment of older cogeneration plants.

COGEN Spain stresses that both these actions are in line with the need for further measures on cogeneration introduced in the new Energy Efficiency Directive 2012/27/CE, which Spain is in the process of implementing and which should also be used as the main vehicle to guide new cogeneration developments.

**END**

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About cogeneration:

Cogeneration (also known as CHP or Combined Heat and Power) involves the simultaneous production of heat and electricity from a single plant which results in massive savings to the economy of primary energy and consequential reductions of GHG emissions.

Today, a significant 11.2% of Europe’s electricity is generated using a vast array of proven and cost effective techniques (cumulative capacity > 100 GWe). About half of the heat produced is used in district heating networks while the remaining half serves industrial needs.

Cogeneration units can be found in various sectors and sizes: in industries, households and tertiary buildings and in capacities ranging from a kilowatt to hundreds of MegaWatts of electricity output. CHP plants can draw upon a wide range of energy sources, from traditional fossil fuels to renewable energies (combustion-based units with biomass, biogases or bioliquids, or steam-based plant connected to geothermal or concentrated solar panel installations) that make them ready for the future energy system.

Realising the identified economic potential for cogeneration in Europe – estimated at 110-120 GWe additional – will be instrumental to reaching the EU’s strategic climate and energy goals, while underpinning job creation and being an engine to industrial competitiveness.

About COGEN Europe:

COGEN Europe is Europe’s umbrella organisation representing the interests of the cogeneration industry, users of the technology and promoting its benefits in the EU and the wider Europe. The association is backed by the key players in the industry including gas and electricity companies, ESCOs, equipment suppliers, consultancies, national promotion organisations, financial and other service companies. More information on www.cogeneurope.eu