

Renewables Essential to Avoid Higher Electricity Prices

The 2022 proposal for Tariffs and Prices for Electricity published by ERSE underlines the positive contribution of renewables and their centrality in maintaining low electricity prices

It was recently communicated the *Proposal of Tariffs and Prices for Electricity in 2022* by the Energy Services Regulatory Entity (ERSE), where it was possible to verify a huge turn, in comparison to the latest versions of this proposal. Normal Low Voltage consumers will **benefit from a 3.4% reduction in prices** between December 2021 and January 2022, because of the **huge reduction in network access tariffs of 94%** in Very High, High and Medium Voltage; 65.6% in Special Low Voltage and 52.5 % in Normal Low Voltage.

This abrupt reduction in network access tariffs results not only from the reduction in tariffs for the use of transport and distribution networks, but above all from the reduction in the overall system use tariff, which includes energy policy and general economic interest costs.

In turn, this decrease in general economic interest costs comes from three factors, which are: a) the revenue resulting from CO₂ emission allowances, which prices per tonne have risen exponentially; b) the revenues of the Guarantees of Origin that return their contribution to the system; and c), the cost differential of Production in Special Regime, i.e., the production of electricity with fixed tariff, which has now brought an economic and financial benefit to the system.

This third factor is the result of the significant increase in electricity prices observed in the Iberian and European wholesale market in recent months, and the forecast that this scenario will continue during the year 2022, bringing a significant reduction in general economic interest costs for next year. In this scenario, the price of electricity planned for 2022 exceeds the average fixed tariff attributed to the Production in Special Regime, with the majority of renewable generation of wind, photovoltaic solar and small hydro.

In these market conditions, instead of generating overcost – i.e., a cost differential between the Production in Special Regime fixed tariff purchase price and market price – these renewable electricity producers start to contribute positively to an economic and financial overgain for the system, which is reflected in a significant reduction in the general economic interest cost.

Therefore, according to the forecast from ERSE, the **reduction in the value of the general economic interest cost, favorable to the national electricity system, will allow a significant reduction in the tariffs for access to networks for final consumers and also with an impact on the reduction of tariff debt by more than 1,000 million Euro, reducing it by about 38 %.**

It is important to note that the fact that tariffs and prices are estimated based on price forecasts for the following year. Therefore, only in 2022 we will have the real notion of the necessary adjustments depending on the actual prices charged. On the other hand, to consider that next year (as is already the case in 2021 as a result of the sharp increase in electricity prices), will there be a benefit of renewables to the tariff balance is reductive and misleading for the consumer, in view of the benefits they provide annually, both for the price of electricity, as well as other fundamental factors for the environmental and economic and financial sustainability of the country.

According to the study recently developed by Deloitte, [Impact of Electricity of Renewable Origin](#), renewables in Production in Special Regime saved €6.1 billion on consumer bills between 2016 and 2020. Translating to an average annual savings, renewable electricity in Production in Special Regime (excluding large hydro plants) generates annual savings on the bill up to 50 euros for a domestic consumer and 4,500 euros for a non-domestic consumer.

These savings result from the fact that the renewable Production in Special Regime has a marginal cost of virtually zero, contributing to the insertion of electricity offerings at a lower cost in the MIBEL, which reduces the price in the daily electricity market for a given time. Otherwise, between 2016 and 2020, the sale price of electricity without renewable Production in Special Regime would have been, on average, €24/MWh higher. In other words, in the last months of 2021 and in 2022, in addition to the direct induction of price reduction in the Iberian wholesale electricity market due to the merits of its non-marginalist nature, the production of renewable electricity generates a significant economic and financial overgain for the National Electricity System, because its price is substantially below the average market price.

In addition, it is important to reflect on the remaining benefits of the sector, for which the same study shows that renewable energy sources (RES) saved more than €1.8 billion on CO₂ allowances and around €4.1 billion in fossil fuel imports in the period 2016-2020. Finally, its contribution to GDP was an average of EUR 3.7 billion per year in the period 2016-2020, representing about 1.9% of this.

É também importante ressaltar que, sendo a proposta das tarifas e preços uma previsão, está sempre sujeita a ajustes face aos preços verificados ao longo do próximo ano, que se poderão traduzir em repercussões para o ano de 2023.

In short, it is imperative to consider that the benefits of renewables are many and significant for the socio-economic development of the country. It is also important to note that, since the proposal of tariffs and prices is a forecast, it is always subject to adjustments in relation to the prices verified over the next year, which could translate into repercussions for the year 2023.

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About APREN

The [Portuguese Renewable Energy Association \(APREN\)](#) is a non-profit association, established in October 1988, with the mission of coordinating and representing the common interests of its Members in the promotion of Renewable Energies in the electricity sector. APREN develops work together with official bodies and other similar entities, at national and international level, assuming itself as an instrument for participation in energy and environmental policies through the use and valorization of natural resources for electricity production, namely in the fields of water, wind, solar, geothermal, biomass, biogas and urban solid waste.