

Spanish Electricity Sector

Assessing the Impact of the Iran War on Power Market Dynamics and Ratings.

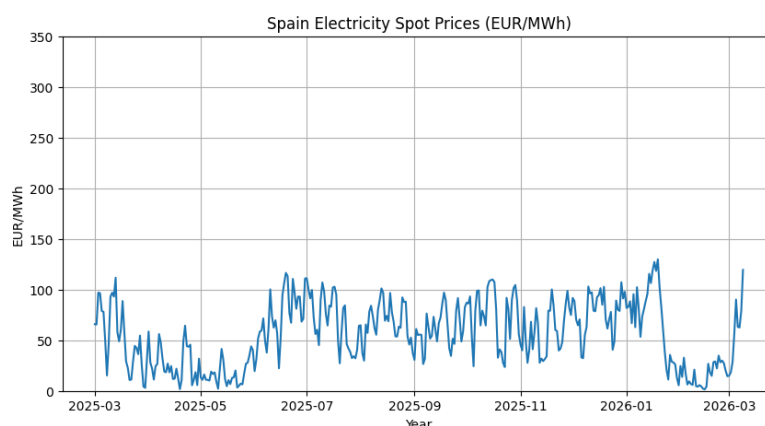
Executive summary

1. **Geopolitical shock in 2026:** The armed conflict in Iran (March 2026) has triggered an immediate increase in the Spanish wholesale electricity price (pool), driven by higher natural gas prices and rising risk premia across international energy markets.
2. **Transmission through the marginal pricing mechanism:** The impact is explained by the fact that gas-fired generation continues to act as the marginal technology during a significant number of hours, directly transmitting higher gas costs to wholesale electricity prices.
3. **Limited expected impact over the medium term:** Despite the volatility observed in the spot market, electricity futures remain at relatively moderate levels, reflecting the market's view that the conflict could be temporary.
4. **Mitigating effect of the Spanish generation mix:** The increasing penetration of renewables—particularly solar photovoltaic—and the declining dependence on gas-fired generation reduce the number of hours in which gas sets the marginal price, thereby limiting the structural impact of the energy shock.
5. **Asymmetric credit implications:** The price increase temporarily improves revenues for merchant renewable generators, while industrial consumers with pool-indexed contracts and retailers with open positions face greater exposure to energy price volatility.

2025: Downward price trend and downward revaluation of operating assets.

The Spanish wholesale electricity market closed 2025 with a 4% increase in the average pool price compared with the previous year. However, price dynamics over the course of the year displayed two clearly differentiated phases.

During the first half of the year, the pool price rose by around 60% year-on-year, reflecting tighter market conditions. By contrast, the second half of the year was characterized by a marked downward trend comparing with the previous year, driven primarily by structural supply-side factors, which pointed to the persistence of a lower electricity price environment over the coming years.



More specifically, the price decline observed up to March 2025 was primarily driven by two factors:

- First, the **significant increase in precipitation**, which boosted hydroelectric generation and reduced the need to dispatch higher marginal cost technologies.
- Second, the rapid **expansion of installed photovoltaic capacity** in Spain, which continued to intensify the occurrence of zero or negative prices during midday hours. This phenomenon tends to compress the overall average price in the wholesale market.

This environment created a structurally challenging context for merchant renewable generation projects, whose economic viability depends on market prices that were progressively diverging from the levels assumed in the financial projections underpinning traditional business models.

In addition, this dynamic was compounded by the persistent erosion of the capture rate—an indicator that measures the price effectively captured by a given technology relative to the average market price.

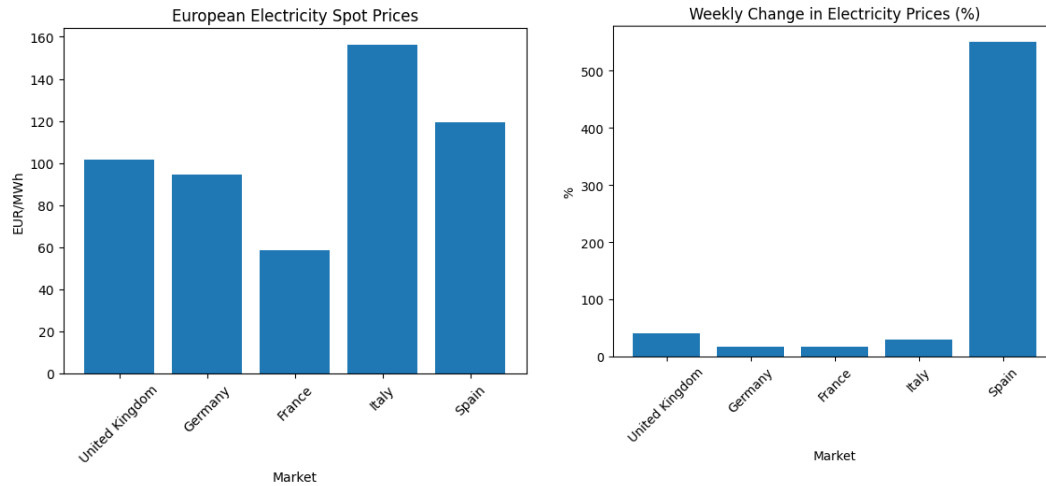
As a result, merchant projects—that is, those without contractual hedging and fully exposed to the spot market—have become largely unfinanceable under traditional Project Finance structures. This situation creates a particularly favourable window for capital markets to play a more prominent role in financing the sector.

In particular, we highlight the challenges facing the solar photovoltaic segment, which currently exhibits an estimated capture rate of around 57% (source: CNMC). This development has significant implications in at least two key areas:

- **Ready-to-Build (RTB) projects:** Projects with permits secured but still pending construction have experienced a sharp decline in valuations, falling from a range of €150,000–190,000/MW to approximately €50,000–90,000/MW.
- **Long-term photovoltaic PPAs:** Prices for long-term solar PPAs have declined to levels close to €30/MWh, a level that makes it difficult to justify new investments without regulatory support or innovative financing structures.

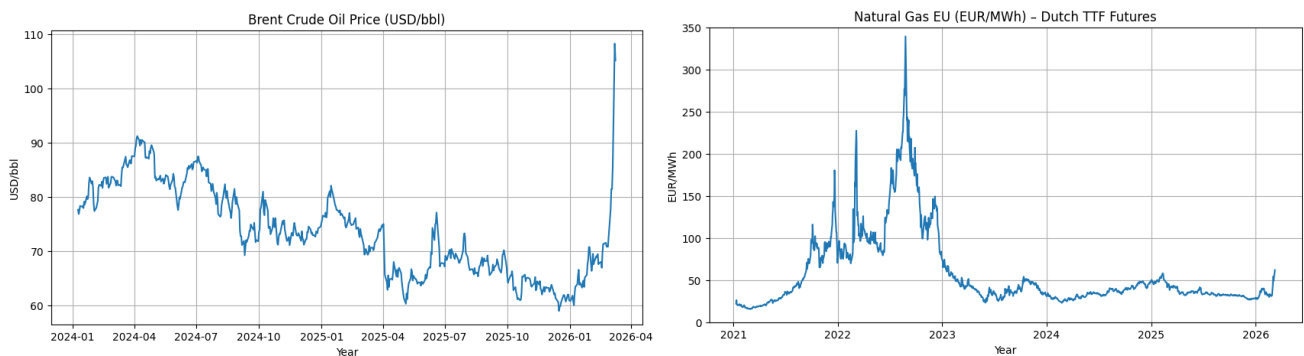
2026: Impact of the war in Iran on the Spanish electricity sector

The outbreak of the armed conflict in Iran in March 2026 has abruptly altered this trajectory. Unlike the 2022 gas crisis—which was triggered by a structural disruption to supply with far-reaching implications for European energy security—the current situation is being interpreted by markets, as reflected in the electricity futures curve, as a more contained and potentially transitory shock.



In this context, Ethifinance Ratings considers that the war in Iran has reintroduced a major geopolitical variable into the analysis of the European and Spanish electricity markets, although its impact differs depending on the time horizon:

- In the **short term**, the escalation in natural gas prices, amplified by uncertainty surrounding supply flows through the Strait of Hormuz and the higher risk premia incorporated by commodity markets, has pushed the Spanish wholesale electricity price (pool) sharply upward. In practice, it is sufficient for gas-fired generation to act as the marginal technology during a significant number of hours for gas prices to effectively determine the cost of electricity for the system as a whole.



- In the longer term, and despite the immediate volatility generated by the conflict in Iran, energy futures markets continue to reflect relatively moderate price levels across medium- and long-term horizons. This apparent contradiction between the turmoil observed in the spot market and the relative calm of futures pricing can be explained by a dual rationale: expectations regarding the duration of the conflict and the structural characteristics of the power generation mix. In this regard, three key considerations stand out:
 1. **Conflict perceived as temporary:** Markets largely assume that the war will have a relatively limited duration, without causing a permanent structural disruption to global gas supply chains.
 2. **Counterbalancing role of renewables:** The structural downward trend that preceded the conflict—driven by the expansion of photovoltaic capacity and stronger hydro output—acts as a counterweight, moderating long-term price expectations.
 3. **Lower dependence on gas:** The increasing penetration of renewables in Spain reduces the number of hours during which gas-fired generation sets the marginal price, thereby limiting its ability to exert sustained upward pressure on the annual average electricity price.

This transmission mechanism, although well understood by sector professionals, has an asymmetric impact across the different types of contracts and hedging structures currently in place, thereby determining the effective level of exposure of each consuming company to the geopolitical shock.

- **Renewable generators** with operating assets and no price hedging are—paradoxically—benefiting from the current situation in terms of short-term revenue performance, albeit at the cost of greater uncertainty in financial planning.
- **Industrial consumers** with variable-price contracts face a direct and immediate impact, as higher wholesale prices are rapidly transmitted to their electricity procurement costs.
- **Energy traders and retailers** with open positions are encountering a particularly complex risk management environment, as heightened market volatility significantly complicates price risk management and hedging strategies.

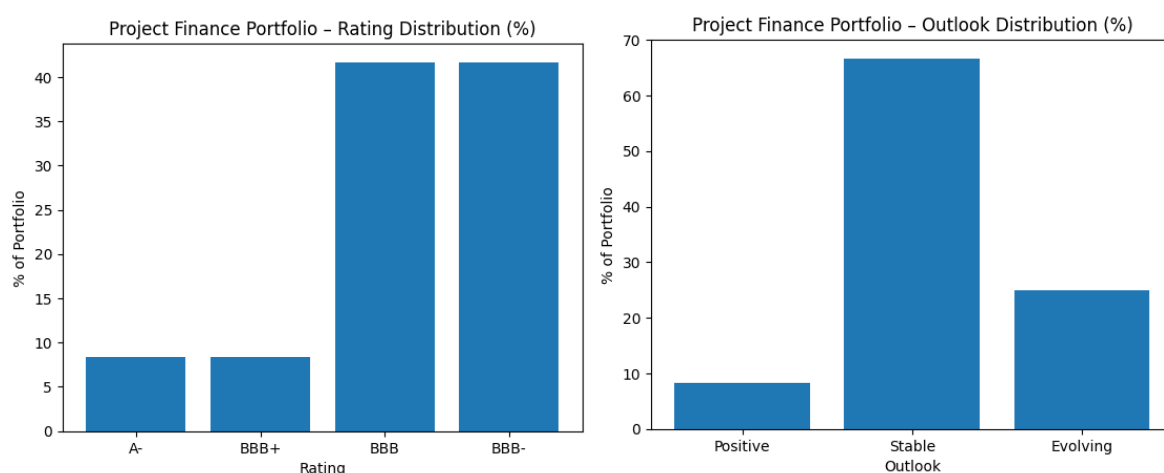
EthiFinance Ratings' project finance portfolio

The rating distribution of the project finance portfolio remains **highly stable** despite the volatility observed in energy markets as our ratings measure the creditworthiness through the cycle.

The portfolio is predominantly concentrated in the BBB and BBB- rating categories (around 83%), with a smaller share in the upper investment-grade range (A- and BBB+ representing approximately 17%). This concentration is typical of project finance structures, where long-term contracted revenues and conservative financial covenants tend to anchor ratings within the investment-grade spectrum.

From an outlook perspective, the portfolio also demonstrates a strong degree of credit stability, with roughly two-thirds of the projects carrying a Stable outlook. Around 25% of the assets are classified as Evolving, reflecting ongoing operational or market adjustments rather than material deterioration in credit quality, while only a limited portion of the portfolio shows a Positive outlook.

This stability is particularly noteworthy when considered against the recent volatility in underlying energy market fundamentals.





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