

# Why Did Spain's Electricity Prices Suddenly Increase?

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The second week in January 2021 marked a significant wave of cold weather, as well as an historic all-time high for energy prices in Spain. Predictably, many consumers were outraged at the sudden 27% price spike, especially when countless people have been out of work or with reduced income due to the global pandemic. Consumer protection bureaus were flooded with complaints.

How big a jump did energy costs make? On the night of January 2, the price went as high as €114.02 euros per megawatt-hour (MWh). On Christmas Day the previous year, the price was only €16.04 per MWh. Even the political party Podemos filed a formal complaint with the government as a result of the higher rates.

## How Are Energy Prices Determined?

Electricity prices are split into fixed and variable costs: the fixed costs include meter rental, power capacity (your contracted rate) and optional maintenance costs. The variable costs are determined by consumption and by the tax rate, which is applied both to your variable electricity consumption and to your fixed contracted rate.



Approximately half of the Spanish energy market is controlled by three companies: Endesa, Iberdrola and Natural Gas Fenosa. The market was deregulated in 1998, opening it up to more competition, but several of the larger companies—including the aforementioned “big three”—remain regulated. The hourly price of electricity for their customers is established through an agreed-upon wholesale market rate.

Apart from this pool of regulated companies, there are a number of open market providers. Their prices are not regulated by the wholesale rate, meaning they can charge whatever they like. Being unregulated means these companies can sometimes offer better prices than their regulated competitors. Also, they often don't require a fixed term for consumer contracts.

### **Why Did the Prices Go Up?**

“The price of energy has risen this month for all companies due to several factors. Because of the recent heavy storms and snowfall, there is less energy production from cheaper and renewable sources like wind and solar power. There is less supply. If you add that to the increased demand due to the colder temperatures, it causes the prices to increase.” (They were also careful to point out that they recently lowered their prices on natural gas.)