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Spain is a role model in weathering Iranian oil shocks

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Wind turbines and electricity power lines at sunset in Zaragoza © Bloomberg

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Political leaders in the UK and Spain are both trying to keep their distance from the complex war in Iran. But the impact of the conflict on the countries — specifically in terms of its effect on their energy prices — is not the same. Spain, through both luck and design, is less exposed. That gives it one less reason to wade in.

Most of Europe is affected by high prices of oil, gas and refined products that have resulted from the closure of the Strait of Hormuz. Where things diverge is the price of electricity. France and Spain both have the advantage of generating a big chunk of their electricity from sources other than natural gas, prices of which have doubled since the start of the year.

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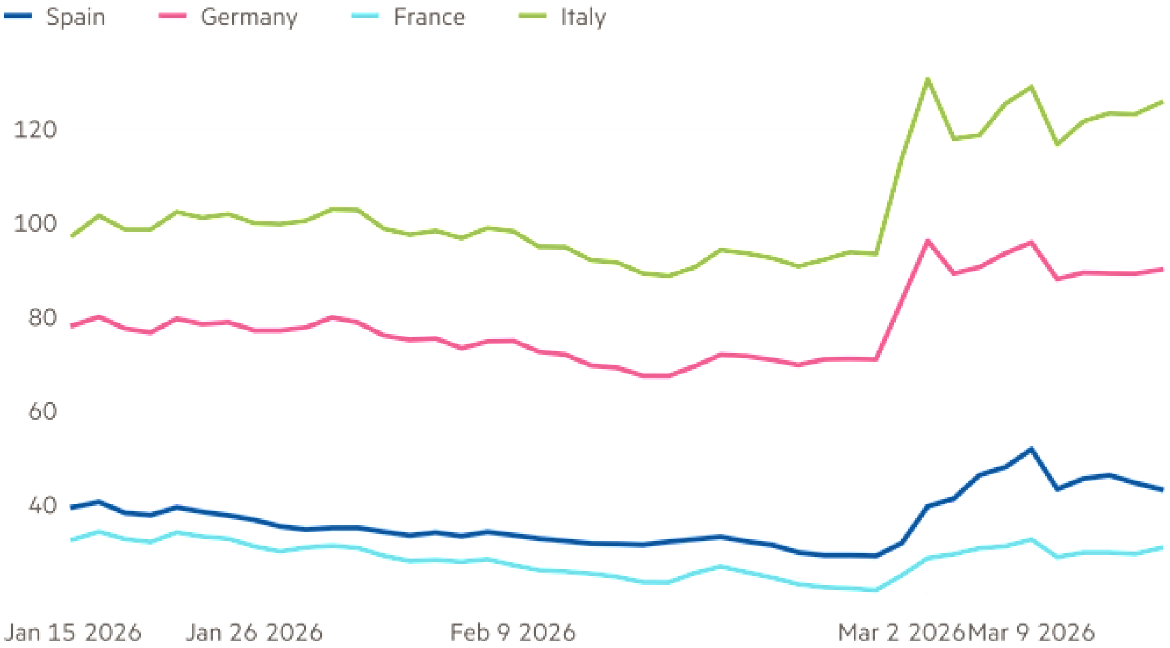
A place in the sun

Expected electricity prices for the second quarter of the year (€/MWh)



Source: Bloomberg

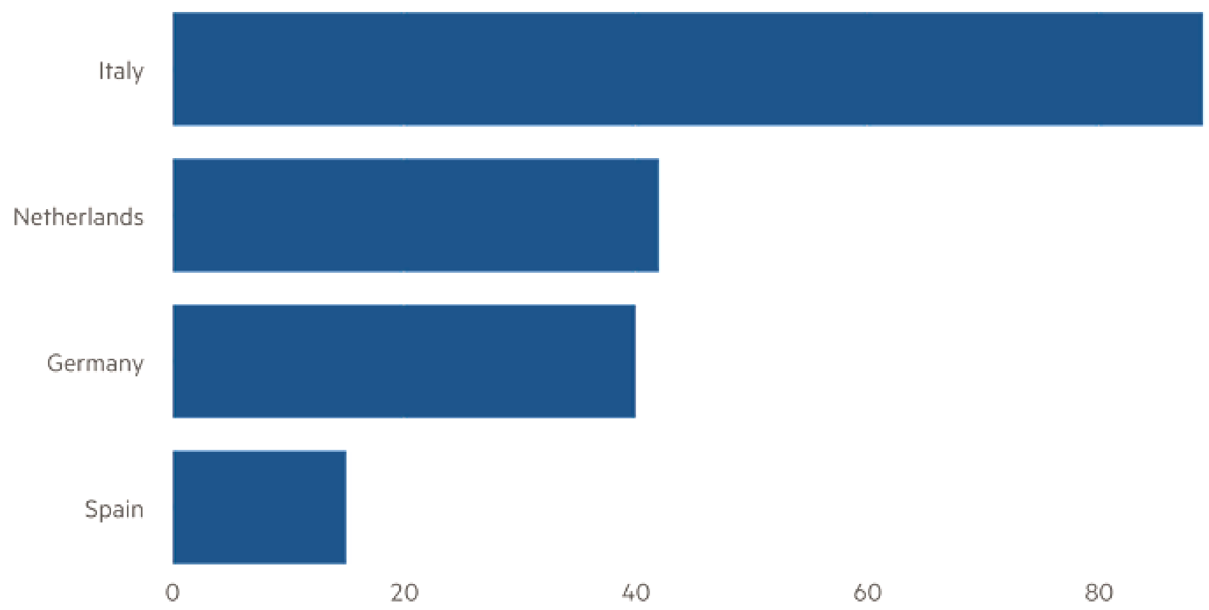
In France, the non-fossil fuel of choice is nuclear. Spain leans more on renewables. In both cases, what matters isn't just the share of overall electricity that comes from those inputs, but when it's generated. At any given time, if the preferred energy source can't supply all demand, gas-fired power plants must make up the slack, and those in effect set the price for all other power generators too.

That's easier to do if one is largely running on nuclear power, as France is, and much harder if one is trying to oust gas entirely through intermittent sources such as solar and wind.

Indeed, it is quite possible for a country to invest a lot in renewables without seeing much of a fall in the price of electricity. The UK generated well over half its power last year from renewables and nuclear, but gas-fired plants still set the price of electricity roughly two-thirds of the time, according to Aurora Energy, a consultancy. The country has one of the highest power prices in Europe.

Gasp

Hours where the price of electricity was set by gas in 2026 (%)



Source: Ember on Montel, GME, MIBGAS, ENTSO-E data • Data until March 10, 2026 (delivery day)

Spain has managed quite a feat. From the start of the year to last week, the country's electricity prices only reached or exceeded the average cost of gas-fired electricity 15 per cent of the time, according to analysis by Ember. In Italy, gas set the price of electricity 89 per cent of the time.

Weather being an important factor, some of Spain's success is fortuitous. The country has had a particularly blustery and rainy winter, generating lots of wind and hydropower. Its gas-fired plants kick in more often than stats would suggest, and get paid for providing services to the grid separately. Still, Spain's average electricity price for the remainder of this year is forecast at about €66 per megawatt hour, or half the level of Italy's.

Nuclear, as with France, provides a dependable base. While Spain may not have as much nuclear power as its neighbour, it still has a lot. Its fleet generated 20 per cent of electricity last year, roughly double the share in the UK. Italy has none. Meanwhile the combination of solar, wind and hydro gives cover at different times and seasons.

The result of this is that Spain looks well placed in two ways. Its speedy rollout of renewables has put a lid on electricity bills — but that should help bolster its political independence too. Good reason for Europe's green brigade to charge ahead.

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