EnergyEconLab is an independent research centre based at CEMFI, committed to pushing out the research frontier in Energy and Environmental Economics and to bringing the findings of our research into the public sphere, where they can contribute to better energy and climate policies. In this spirit, we launch EEL Research for Policy*, a series of briefs that put our expertise as researchers at the service of today's policy debates.*[*]

Bringing Back the Iberian Solution:

What it would do for Spanish electricity consumers, and why Europe should do it together

Key findings

Our first *Research for Policy* issue examines the effects of a wholesale intervention in the Spanish electricity market (the so-called, Iberian solution) had it been implemented at the outset of the Iran war.

- We simulate the Spanish electricity market over 15 June–15 October 2026 under six scenarios: a no-intervention baseline, a national Iberian solution, an EU-wide Iberian solution, a 5% demand reduction, additional renewable investment of 1,000 MW per month, and the last two combined.
- An Iberian solution capping gas at €40/MWh would have reduced Spanish wholesale prices by 25%, from an average of €116/MWh to about €87/MWh.
- Consumers would have saved up to €1.8 bn (assuming all generation is exposed to market prices), with no cost to the public budget. The gain comes mostly at the expense of the extra profits of electricity firms. The Iberian solution leaves consumers better off as long as at least 22% of electricity generation is exposed to wholesale prices.
- An EU-wide solution would have done better: Spain would no longer subsidise exports and would import cheaper electricity from France. As a consequence, the average price would have fallen to about €84/MWh and the upper bound of consumer savings would have reached about €3.1 bn. Under the EU-wide solution, consumers would be better off as long as at least 9% of electricity generation is exposed to wholesale prices.
- Cutting electricity demand by 5% would have lowered prices by 11%, additional renewable investment by about 2%, and both combined by 12.5%. These policies complement the intervention; they do not replace it.

The policy issue

Since January 2026, the closure of the Strait of Hormuz has pushed European gas prices from around €30/MWh to above €100/MWh. Because gas-fired plants still set the electricity price in many hours, the shock passes through to wholesale prices and from there to consumer bills, inflation, and industrial competitiveness. To partially mitigate this, the European Commission has just given preliminary approval to a market intervention in Italy: a temporary cap of around €60/MWh on the price of gas used for power generation, with gas plants compensated for the difference, initially for one year plus a six-month phase-out, financed through charges on electricity bills.

Spain and Portugal applied a similar mechanism from June 2022 until mid-2023. Gas and coal plants were compensated for the gap between the market gas price and a reference price of €40/MWh (rising by €5/MWh per month after six months). This lowered the bids of the plants that set the price, and so the price paid for *all* price-exposed electricity, including the inframarginal nuclear, hydro and renewable output that does not burn gas. The cost was recovered from consumers exposed to wholesale prices and from half of the congestion rents on the interconnector with France, with no cost to the public budget. Our earlier analysis (Fabra, Leblanc and Souza, 2025) finds that it cut wholesale prices in the second half of 2022 from about €256/MWh to €120/MWh, saved consumers about €10.6 bn over the two years when it was in place, and delivered proportionally larger relief to lower-income households. It also had a cost: cheaper Iberian electricity raised exports to France, which meant more gas-fired generation in Spain (though, plausibly, also less gas-fired generation in France). The question today is how large the costs and benefits of a new Iberian solution would be, and whether a European version would do better.

The analysis

We simulate the Spanish wholesale market hour by hour for 15 June–15 October 2026 using energeia, EEL's electricity market simulation model. Simulations using actual parameter values closely reproduce observed prices, which gives us confidence that the model can replicate market outcomes under the counterfactual scenarios. We mainly focus on three scenarios: the no-intervention baseline; a national Iberian solution, with gas capped at €40/MWh in Spain and Portugal; and an EU-wide Iberian solution, with the same cap applied across the European market. We complement them with three scenarios without intervention: a 5% demand reduction, additional renewable investment of 1 GW per month, and the two combined.

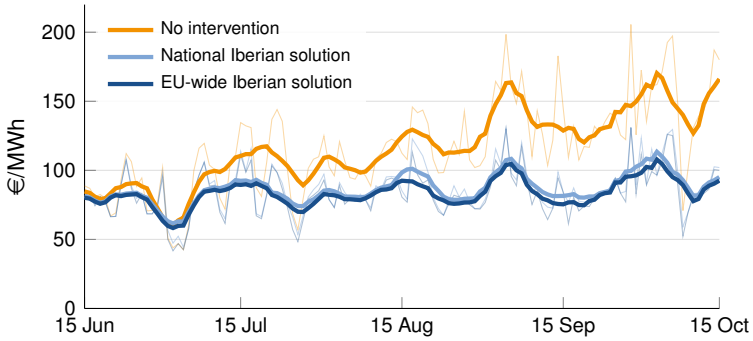


Figure 1: Daily average wholesale prices in the Spanish electricity market, 15 June–15 October 2026. Bold lines show 7-day centred moving averages; faint lines show daily prices.

An Iberian solution would have cut prices by 25%. Without intervention, the average wholesale price would have been €116/MWh from 15 June to 15 October 2026. With the €40 gas cap, it would have fallen to about €87/MWh (Figures 1 and 2). Even after paying for the compensation to gas plants net of the contribution from the congestion rents (about €490 M), consumer net payments would have fallen by 14%, a saving of up to €1.8 bn over the four-month period. The gain comes mostly at the expense of the extra profits of inframarginal nuclear, hydro, wind and solar generators. The effect on gas plants is negligible, since the compensation they receive roughly offsets the lower market price. Both the consumer savings and the profit losses would be smaller if a lower share of generation were exposed to wholesale prices. Consumer savings would be positive if at least 22% of electricity generation is exposed to wholesale prices.

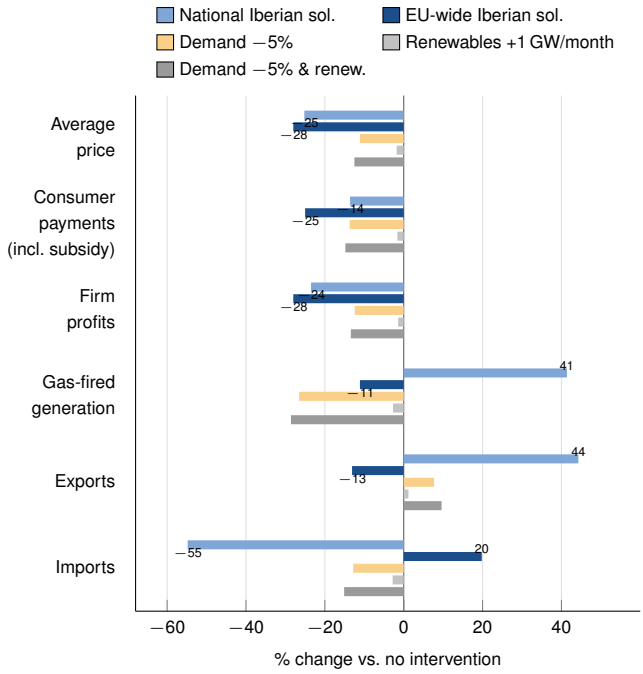


Figure 2: Changes relative to the no-intervention baseline, Spain, 15 June–15 October 2026. Consumer payments include the compensation paid to gas plants net of the contribution from congestion rents.

The national solution also comes with a drawback: it creates the cross-border spillovers we documented in 2022 (Fabra, Leblanc and Souza, 2025), as it makes Spanish electricity cheap relative to its neighbours. In our simulations, Spanish exports would rise by 44%, imports would fall by 55%, and gas-fired generation in Spain would rise by 41% to serve them. Spanish consumers would pay to subsidise electricity consumed abroad, and Spanish emissions rise. Under a common European cap, these distortions would disappear, which is why we have argued for a European version of the mechanism (Fabra, 2026).

An EU-wide solution would do better. If the gas cap applied across Europe, the Spanish electricity price would have fallen further, to about €84/MWh, and consumer payments would have fallen by 25%, a saving of up to €3.1 bn, significantly higher than under the national version. The reason is two-fold. First, the spillovers created by the national solution would disappear, and the compensation that Spanish consumers fund would be 40% lower than under the national cap. Second, Spanish consumers would also benefit from

cheaper imports from France. More broadly, a European solution avoids spillovers across countries and extends the relief across Europe, reducing EU inflation and thus the pressure to raise interest rates. Last, it avoids a patchwork of national measures fragmenting the single market.

Demand reduction and renewables help, but cannot replace the intervention. A 5% cut in electricity demand through efficiency and energy-saving measures would have lowered prices by about 11% (to €103/MWh), and adding 1,000 MW of renewable capacity per month would have lowered them by about 2%. New solar produces in hours when prices are already low and is largely curtailed; it does little in the evening hours when gas sets the price. Combined, the two policies would have lowered prices by 12.5%, half as much as the national Iberian solution. Importantly, beyond the price reduction, these policies would have reduced gas generation and thus emissions. They should therefore be seen as complements to the intervention, not substitutes. Saving energy and expanding renewables, storage and flexibility reduce gas use, the cost of compensating gas plants and the exposure to future shocks. The intervention addresses how a gas shock is transmitted into the price of electricity.

Limitations. These simulations provide orders of magnitude of the potential effects. Furthermore, our consumer savings assume that all electricity is bought at wholesale prices. In practice, a fraction is sold under fixed-price contracts that would not be affected by the intervention, at least in the short run. The savings reported here are therefore an upper bound. The fall in wholesale payments, which mostly comes at the expense of inframarginal profits, scales proportionally with the share of electricity exposed to wholesale prices, while the compensation to gas plants does not. If, say, only half of electricity were exposed, consumer savings would be about €0.64 bn under the national solution and €1.4 bn under the EU-wide one. The relative advantage of the EU-wide solution would therefore grow: its savings would be 2.2 times those of the national solution, compared with 1.7 times under full exposure.

Conclusions

Europe needs a structural reform of its electricity markets that shields consumers from the volatility of fossil fuel prices, built on long-term contracts for renewables, storage, grids and interconnection (see Fabra, 2023, and Decarolis et al., 2026). Emergency interventions in wholesale markets are not substitutes for that reform, and they have known drawbacks. But reform takes time, and Europe should not, in the meantime, let consumers and industry bear the full cost of high electricity prices. Our results suggest that a temporary Iberian solution would have reduced Spanish wholesale prices by 25% between mid-June and mid-October, with no cost to the public budget. Coordinating it at the EU level, as the Italian case now makes more pressing, would have at least nearly doubled consumer savings and avoided cross-border subsidies, distorted trade and higher Spanish emissions. The intervention should be temporary and coupled with a faster push for the reform that will make future interventions unnecessary.

[*] *This Research for Policy brief was written by Xènia Alemany and Natalia Fabra.*

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