AURES II - AUCTIONS FOR RENEWABLE ENERGY SUPPORT

Vasilios Anatolitis
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About AURES II

- AURES II – a research project under the Horizon2020 framework of the European Commission
- 11 research institutions and policy consultancies
- Support the implementation of auctions in EU MS and (newly) in Energy Community contracting parties
- Evaluation and analysis of auctions for renewables and direct support to interested parties
AURES II – Objectives

- Generate and communicate new insights on the applicability, performance, and effects of specific auction designs
- Provide tailor-made policy support for different types of auction applications
- Facilitate knowledge exchange between stakeholders
AURES II – Work packages

- WP 1: Project management
- WP 2: Monitoring of auction implementation
- WP 3: Auction database and empirical insights
- WP 4: Effects of auctions on the RES sector
- WP 5: Impact of auctions on cost of capital
- WP 6: International auctions
- WP 7: The future of auctions
- WP 8: Modelling
- WP 9: Recommendations
- WP 10: Communication and dissemination
AURES II – Work packages

- WP 1: Project management
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- WP 10: Communication and dissemination
Updates – WP2 Monitoring of auction implementation

- Case studies on
  - already implemented auction schemes
  - implementation plans
  - specific case cooperations

Case cooperation with Ukraine
- Invitation by Energy Community Secretariat
- Recommendations on Draft Law with DixiGroup and Berlin Economics
- Joint Expert Letter
- Presented results at IRENA workshop in Kiev
Ukraine – Auction design elements in the Law – simple design (at least until 2025)

- One-stage price bidding
- Sealed-bid
- Pay-as-bid award
- Bidders offering the lowest price will be awarded the subsidy (price only)
- Fixed support period
- PPA for the whole support period with fixed strike price (= auctioned level of support)
- Technology-specific
- Location-neutral (except Chernobyl) / no wind-offshore auctions yet
- Ceiling prices
- Penalties for delays/ infringements
- Pre-qualification requirements for participation
- Qualification stage of the projects after bids are opened
- Support should be stated in EUR
Ukraine – Medium-sized auctions

- No participation for RES projects under the thresholds
- Heterogenous bidding groups ➔ higher cost!
- Medium-sized auctions to introduce competition in the segments
  - Solar PV: 1-5 MW
  - Wind onshore: 1-20 MW
Updates – WP 5: Impact of auctions on cost of capital

- Identifying the effects of auction implementation and auction design elements on financing conditions

- Currently conducting interdisciplinary analysis:
  - In-depth literature review
  - Interviews with various stakeholders (e.g. EBRD)

- Financing workshop at Wind Europe Conference in Bilbao, 3 April 2019

Energy Community countries:

- Insights based on survey (involves Energy Community stakeholders)
- Identification of appropriate (auction) design elements to decrease cost of capital, and thus electricity costs
- Ensure bankability of projects (PPA design)
Updates – WP 6: International auctions

- Identification of possible designs for cross-border auctions and their theoretic properties
  - Unilaterally opened auctions
  - Mutually opened auctions
  - Joint auctions with separate support scheme
  - Joint auctions with joint support scheme
- Empirical analysis of German-Danish cross-border auctions

Energy Community countries:

- Case studies of cross-border auctions between EU MS and/or Energy Community contracting parties in cooperation with national stakeholders (incl. impact assessment)
Local content requirements

- Local Content Requirements (LCR) can influence both (static and dynamic) efficiency as well as effectiveness of auctions
- Instrument to foster local manufacturing, implement local supply chains and innovative industries ➔ “sharing the green business pie”
- Trade-off:

<table>
<thead>
<tr>
<th>LCOE</th>
<th>LCR</th>
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</thead>
<tbody>
<tr>
<td>• Efficient auction results</td>
<td>• Increase local manufacturing/industries</td>
</tr>
<tr>
<td>• In general higher competition</td>
<td>• Local supply chains and innovative industries</td>
</tr>
<tr>
<td>• Savings in subsidies/lower cost for consumers</td>
<td>• Distinction between job-creation and manufacturing</td>
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</tbody>
</table>
## Local content requirements

<table>
<thead>
<tr>
<th>Design</th>
<th>Countries</th>
<th>Achieving LCR</th>
<th>Target specific components</th>
<th>Implementation by country</th>
<th>Implementation by bidder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum requirement to participate</td>
<td>🇲🇦 🇮🇳</td>
<td>+</td>
<td>0</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Benefits during/after the auction process</td>
<td>🇹🇷 🇧🇷</td>
<td>0</td>
<td>+</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Multi-criteria (point system)</td>
<td>🇨🇳 🇿🇦</td>
<td>-</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
</tbody>
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Local content requirements – international experience

**China**
- 50%-70% LCR in accounting for 20-30% in a point system
- Favourable local conditions (market demand)
- Effective in establishing global PV and wind manufacturers
- Success due to financial incentives and existing infrastructure

**Brazil**
- 60% of equipment and 90% of services locally procured (loan from BNDES/FINAME)
- Delays in commissioning
- Increase in FDIs
- Local manufacturers not internationally competitive

**South Africa**
- 25-35% to 40-45% over time (effective 7.5% in scoring methodology)
- Multi-criteria auction (70% price, 30% socio-economic)
- Creating rather short-term employment effects and no sustainable industry
Local content requirements – but...

- Increased cost (e.g. in India awarded prices increased by around 7-10%)
- Delays and non-realization of projects
- Lack of successful examples in terms of economically sustainable industry creation
- LCR alone not enough to boost industry development
- Legal issues with the WTO/EU
- Difficulties to observe compliance

Therefore:

- Significant number of jobs are going to be locally created anyway
- Direct financial support to manufacturers more efficient
- Combine PPAs and obligation to create manufacturing facilities (India)/innovation clusters (Portugal)
Opportunities and next steps

- End of April 2019:
  - Report on auction design elements affecting financing
  - Report on design options for cross-border auctions
- Invitations of our experts to speak at workshops/events (we have budget)
- Specific questions regarding auction design elements
- Ideas for case cooperation studies can be communicated
  - Scientific and technical support in auction design and implementation process (e.g. Ukraine, Kosovo)
- Auction legislation is in place, but no auctions are being held
- Analysis of possible cross-border auctions
How to get in contact with us?

- Newsletter (http://eepurl.com/gd42zz)
- Linkedin page (AURESII)
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- Website (forthcoming – End of April 2019)
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