
Gabriela Cretu and Marie-Thèrese Richter

Energy Community Secretariat
1. Rationale – why auctions?

State Aid Guidelines on Environmental Protection and Energy 2014-2020

- to ensure cost-effective development of RES for the benefit of end-customers
  - support granted based on competitive process - clear, transparent, non-discriminatory criteria;
    (exceptions: small scale < 1 MW and wind <6 MW or 6 generation units)
- to integrate renewable energy into the market
  - feed-in premium (FIP) instead of feed-in tariff (FIT)
    (sliding) premium paid on top of electricity price (contract for difference)
  - standard balance responsibility unless no liquid intra-day market exists
1. Renewable energy frameworks

- **Maturity of renewable energy market:**
- **Plans for renewable energy development:**
  - NREAP, TYNDP, DSOs plans, local authorities
- **Status of the market development:**
  - day-ahead, intra-day, future, balancing
- **Integration of renewable energy into the grids:**
  - grid connection codes and tariffs (deep or shallow),
  - tariff methodologies for access to transmission and distribution networks,
  - methodology for imbalance settlement,
  - ability to use balancing agregators.
Outline

• **Draft of Joint Policy Guidelines of EBRD and ECS**
  
  *Building on European and International experience*  
  *(AURES project, IRENA)*

• **Recommendations on:**

  (i) broader context and  
  (ii) features of auctions

  related to:

  − Design of the auctions related to demand  
  − Design of the selection process

**Discussions...**
1. Design choices related to the demand

i. **When?** - the periodicity of auctions; 

ii. **Who?** - the body that administers the auction; 

iii. **How much?** - the quantity of RE to be supported; 

iv. **How?** - the support mechanism; 

v. **What?** - the type of RE projects and technologies to be supported; 

vi. **Where?** - the location of RE projects to be supported.

1. Design choices related to the demand

Renewable Energy Coordination Group, 21 November, Vienna
1. Adopt a plan for supporting renewable energy including a transparent and predictable auction schedule:

- certainty for the market participants, grid infrastructure development, understanding the renewable energy market, plan for success

2. Start with a pilot auction scheme to test the market:

- lessons learnt for future auctions – i.e. size restrictions
1. 2. Appointment of the institution to administer the auctions – Who?

- Appoint an institution to conduct the auctions
  - reputation, independent, human resources and skills
  - effective dispute settlement mechanism;
  - technical assistance if needed;
  - TSO, Regulator, market operator, policy unit in the ministry or an agency especially established;
    - To be at least secondarily involved in auction design
1.3. The auctioned volume(s) - How much?

- **Capacity limit (MW) initial, budget-based caps once more developed**
  - simple, easy to administer for technology specific auction;
  - cannot accurately predict the amount of electricity generated by RE projects supported through and the total costs of the scheme;
  - budgetary caps are more complex to administer
  - price cap: the generation offered in the bid could be inflated;
  - generation cap: subject to load factor uncertainty, guaranteeing the generation

- **Volumetric (MWh) using a price-sensitive demand curve**
  - fixed volumes for demand: in line with policy objectives and system capability to absorb the volumes, accepted if limits could be exceeded;
  - price sensitive demand curves – lower the price, higher the volume;
  - Difficult to administer, less transparent.
1. 4. The support granted – How?

➢ **Sliding feed-in premium**:  
  – is the difference between the strike price as result of the auction and the electricity market price;  
  – similar price stability to FiTs while allowing the generator to sell electricity in the DAM or to any market participant (PPA);  
  – contract for difference (CfD);  
  – furthering RE integration into electricity markets;  
  – the reference price must be calculated using a market that the RE producer can easily access and that resembles the spot market price.

➢ **Price ceiling**:  
  – useful to introduce to limit the risk of the auctioneer;  
  – disclosed before the auction;  
  – existing FIT could be used if there is no overcompensation
1. 5. Technologies and projects eligible: What?

- EEAG 2014-2020 requires technology neutral auctions to procure renewable energy at lower costs – the ultimate goal;

- **Technology-specific auctions are more suited in early stages**
  - in particular the need to diversify;
  - network constraints and grid stability;
  - system integration costs;
  - the need to avoid distortions on the raw material markets from biomass support;

- **Maximum size restriction**
  - allow developers to take advantage of economies of scale;
  - attract interest from a broad pool of developers;
  - are consistent with policy target.
1. 6. The location(s): Where?

- For initial or test auctions, specifying the location(s) may reduce the upfront costs for bidders and generate results in the country’s interest.
  - specific locations or leave the choice to the market;

- Market selection leads to efficiencies:
  - expertise of developers,
  - avoiding political interference and local objective;

- Specifying the locations could be necessary:
  - projects clustering in an area with higher integration costs;
  - reducing the upfront costs;
  - increase the interest and competition among the participants;
  - comply with requirements of an environmental impact assessment;
2. Design choices related to the process

a) Timeline of the auction

b) Pre-qualification requirements and documentation
   - Financial capacity
   - Technical capacity
   - Integrity

c) Selection criteria

d) Selection process
   - Procedure
   - Level of support to winning bid(s)
   - Measures to incentivize compliance
2. Process

a) Time line of the auction

Main steps:
- Announcement of auction
- Publication of rules
- Q&A
- Opening of bid round
- Bid submission
- Closing of bid round
- Selection/evaluation
- Plant commissioning

→ clear, published before, binding
→ sufficient time for completion of each steps
→ communication platform, e.g. website
2. Process

b) Pre-qualification requirements and documentation

Need to be met by bidders before the bidding stage in order to be eligible to participate in an auction

- Discourage bidders that do not have the capability to deliver the project
- Not deter market participants because of the transaction costs associated with the procurement of documentation and thereby reducing competition at the auction
- Needs to be evaluated by the auction administrator, i.e. requires resources
  - Financial capacity
  - Technical capacity
  - Integrity
2. Process

Financial capacity

Ensure creditworthiness to raise financing

Options:

- Minimum credit rating
- Minimum turnover, assets, etc.
- Bid and completion bonds

→ bid bonds

→ relatively small
2. Process

Technical capacity

Ensure that bidder has the technical capacity to complete the project

Options:

- Past experience re specific types of previous development, financing, operation of RE project (in a specific country)

- Provision of energy licenses, land permits, grid connection plans and environmental permits (time consuming and costly! Administrative burden!)

→ past experience requirements not too specific

→ permits and licenses depend on administrative burden
2. Process

**Integrity**

Identify red flags related to conflicts of interest, corruption, tax and regulatory compliance

→ basic proof of integrity, i.e. ownership structure, shareholders, directors, disclosure of current or potential legal issues and court/arbitration cases

→ phased approach: further documents evaluated in case of selection of bid
2. Process

c) Selection criteria

Selection of the winner(s) of the auction – depends on complexity

Options:

- Price per unit of power
- Multiple criteria with weights
- Lowest price with adjustments

→ for simple and clear selection: PRICE ONLY
2. Process

d) Selection process

✓ Procedure

✓ Level of support to winning bid(s)

✓ Measures to incentivize compliance
2. Process

Procedure

Selection process options:

- Descending clock
- Single, blind (or sealed) bid
- Two-staged (hybrid)

→ single, sealed bid process
→ Acceptance of bids exceeding the limit
→ Pre-qualification of losing bidders in subsequent bidding rounds
2. Process

**Level of support to winning bid(s)**

Common options:

- Pay as bid
- Market clearing price
- Price bid with adjustments

→ pay-as-bid for simplicity
2. Process

**Measures to incentivize compliance**

Financial guarantees and penalties paid on delays and non-realization to

- Increase the likelihood of timely project realization
- Deter unqualified bidders and speculative bids
- Align bidder and government incentives and
- Increase the credibility and transparency of the bid evaluation process

→ monitoring milestones

→ structured penalties

→ completion bond
Thank you for your attention!

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