



# ***Draft Joint EBRD-EnC Policy Guidelines on Introducing Renewable Energy Auctions***

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.*



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

## **1.1. Periodicity - When?**

- 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

The background is a satellite-style image of the Earth at night, showing city lights. Overlaid on this are numerous glowing blue lines that represent energy transmission paths, connecting various points across the globe.

*Thank you  
for your attention!*

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