BEST PRACTICES FOR THE TRANSITION TOWARDS RE AUCTIONS

MEDREG – ECRB WORKSHOP

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RECOMMENDATIONS BASED ON 20 YEARS OF EXPERIENCE IN AUCTION ANALYSIS & DESIGN

Navigant/Ecofys
>600 energy experts
>60 offices worldwide
>20 years experience designing & implementing competitive procurement/auctions

Consultancy services on auctions performed
Analysis of auction schemes

Part of the EUH2020 research project on renewables auctions
AUCTIONS/COMPETITIVE PROCUREMENT ARE INCREASING WORLDWIDE

Countries that have held renewables auctions
Countries with an auction policy in place that are yet to hold an auction.

Source: Bloomberg NEF. Note: In the U.S., we classify as auction the offshore wind tenders organised at a state level.
NEW RULES, NEW RISKS - UNDERSTANDING THE TRANSITION TOWARDS AUCTIONS

Transition from feed-in tariffs to auctioned tariffs

- Increases volume control, increases price competition
- Increases new risks for bidders (pre-development costs and risk of sunk costs)
- Quickly reflects market price developments but require competition (more difficult if small markets with few participants)
- More difficult for some smaller bidders

**Administratively-set feed-in tariff**

- Government sets price
- Market sets volume

**Auctioned tariff**

- Government sets volume
- Market sets price
TAILOR AUCTIONS TO POLITICAL, MARKET & INSTITUTIONAL READINESS OF THE COUNTRY

Policy goals
- Price competition
- Volume control
- Other goals such as grid & system integration, local value creation etc.
- Be aware of trade-offs

Market readiness
- Market size & concentration, competition with other renumeration (e.g., FIT)
- Risk & duration of project development phases, ease of permitting
- Available funding (domestic/international, debt/equity), preparedness, risk

Institutional readiness
- Depends on type of auction, implementation timeline, scalability
- Alignment of relevant ministries, grid operators, permitting authorities, energy regulator
- Trust, transparency, independence
- Use international best-practices but tailor auction to individual case
THE AUCTION DESIGN PROCESS

Target definition
- Policy goals

Market & regulatory analysis
- Market size
- Pre-developed project
- Market players
- Technology cost
- Project development & operation
- Existing regulations & incentives

Auction design
- Institutional set-up
- General design elements
- Procurement procedure
- Conditions for participation
- Deadlines and penalties

Implementation
- Drafting of required documents
- Market building
- Procurement conduction
  - RfQ
  - RfP and awarding of bids
- Contracting
- Monitoring of realization

Evaluation
- Lessons learned
- Adjustment of procurement design
Understand bidders

• **Risks for bidders:**
  – Bid risks with sunk costs
  – Penalty risks if not realizing projects
  – Revenue risks, such as off-taker risk, political risks, currency risk
• **Avoiding collusion**
  – Collusion more likely if small, concentrated market

Prepare bidders

• Sufficient preparation time
• Pre-bidder conferences
• Trainings & auction simulations

Address concerns:

• Receive bidder feedback on design
• Guarantees
• Pot. exempt some sizes/technologies from auction
WHAT CAN REGULATORS DO TO PREPARE FOR AUCTIONS?

Learn & align
• Make sure that there is an alignment on political goals, be aware of trade-offs
• Involve relevant actors in government
• Build capabilities: Working groups, trainings, learn from international experiences
• Study the market, be aware of risks

Be engaged
• Prepare bidders, trials & simulations
• Offer opportunities for feedback

Be reliable
• Publish realistic timeline & stick to them
• Publish PPAs in advance

Be watchful
• Monitor & evaluate
• Track bidder concentration & collusion, be informed on regional auction volumes
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