RES auctions in the EU state aid guidelines

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Content

Overview
Exemptions to auctioning
Alternatives to auctioning
Conclusion
What do EU texts say about RES auctions?

- **Renewables Directive (2009)**: N/a
- **State aid guidelines (2014)**: 2015/2016 = transition, 2017 = all, Exemptions apply
- **RED II**: ?
- **EEAG 2021-**: ?

**DG Competition / DG Energy**
Transition period: little experience to date
Why auctions?

1. Market based *price discovery*

2. Budget capping / planning

3. = no need to define mature vs non-mature

= avoid over- or under-compensation

= avoid uncontrolled open-ended support

Self-regulating phase-out mechanism
Definition of "competitive bidding process"

EEAG (43):

"Non-discriminatory bidding process that provides for the participation of a sufficient number of undertakings and where the aid is granted on the basis of either the initial bid submitted by the bidder or a clearing price. In addition, the budget or volume related to the bidding process is a binding constraint leading to a situation where not all bidders can receive aid."
Two general principles in the 2014 EEAG, fully applicable since 1 January 2017

• A) All aid should be granted in a competitive bidding process;

• B) the competitive bidding process should be open to all generators and not limited to certain technologies.

• But there are exceptions to those 2 rules (some flexibility)

➢ Exceptions to auctions and;

➢ Exceptions to tech neutrality:
Exemptions to auctioning (1/4)

Small-scale installations

"installations with an installed capacity of less than 1 MW [...] except for the electricity from wind energy, for installations with an installed electricity capacity of up to 6 MW or 6 generation units."

Demonstration projects

"means a project demonstrating a technology as a first of its kind in the Union and representing a significant innovation that goes well beyond the state of the art"
Exemptions to auctioning (2/4)

"only one or a very limited number of projects or sites could be eligible"

Possible cases:
- Will not attract sufficient number of bidders for effective price formation
- Disproportionate administrative costs

Examples
- Small country?
- Spatial planning / environmental constraints?
- Limited RES resources?
- Link with technology-neutrality!
Exemptions to auctioning (3/4)

"competitive bidding process would lead to higher support levels"

Examples:
- Strategic bidding / collusion
- High development risks translating into high bids

Examples
- Concentrated market?
- High development costs?

DESIGN OPTIONS to tackle those risks
- Cap price
- Maximum awarded capacity per participant
- Auction earlier in development process
- Development costs partially socialised
Exemptions to auctioning (4/4)

"competitive bidding process would result in low project realisation rates"

RISKS
- Underbidding => underdelivering

ARGUMENTS
- Past evidence of low realisation rates?

DESIGN OPTIONS to tackle those risks:
- Floor price
- Prequalification requirements (material and financial)
- Delivery penalties
- Pay as bid (instead of uniform pricing)
Exemptions from tech-neutrality

- A) "longer term potential of a given new and innovative technology"
- B) "need to achieve diversification"
- C) "network constraints and grid stability" and/or "system (integration) costs"
- D) "need to avoid distortions on the raw material markets from biomass support"
Alternatives to auctioning

**RO / Certificates**

*Technology neutrality* still required, with same exemptions

**Investment aid**

*General compatibility provisions* (cumulative):
- well-defined objective of common interest
- need for State intervention
- appropriateness
- incentive effect
- proportionality
- avoidance of undue negative effects on competition and trade
- transparency

**Support at EU-level**

*No state aid*
Conclusion

Auctioning as **default option**

Some **flexibility in the design** of the auctions

Limited **exemptions to auctioning**, but too early to draw general conclusions

**Case-by-case, evidence-based assessment** by DG COMP
Thank you for your attention!