

GETTING RENEWABLES AUCTIONS RIGHT

7TH VIENNA FORUM ON EUROPEAN
ENERGY LAW

CORINNA KLESSMANN

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NAVIGANT

OUR TRACK RECORD ON RENEWABLES AUCTIONS

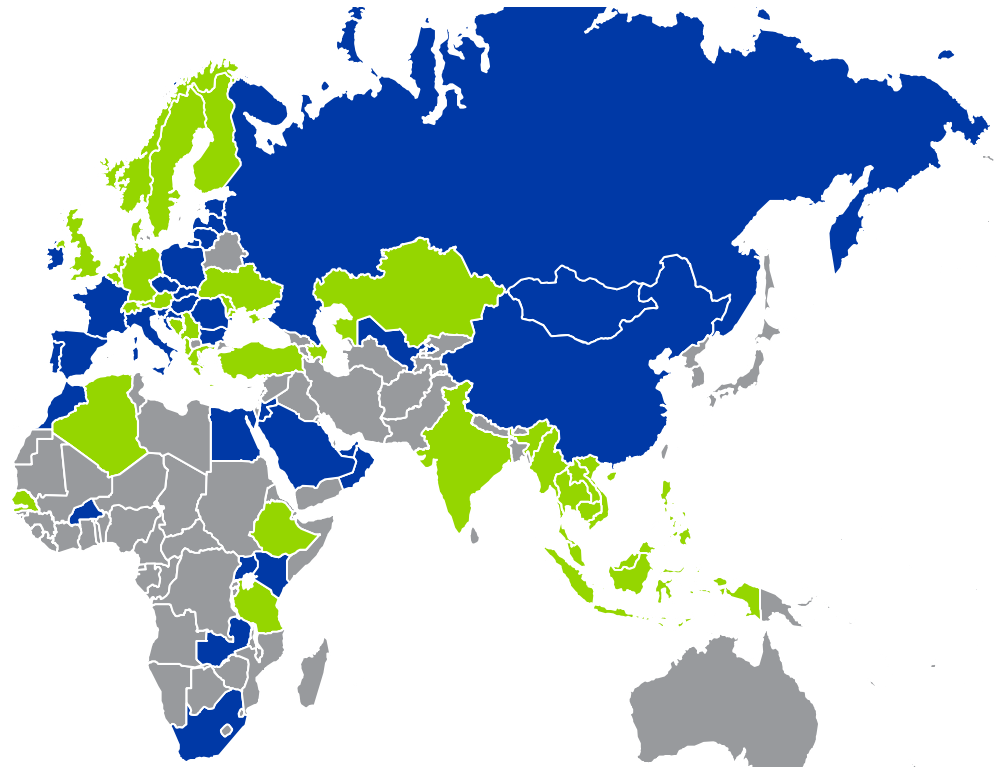
Navigant (incl. former Ecofys)

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

-  Consultancy services on auctions performed
-  Analysis of auction schemes



Part of the EUH2020 research project on RES auctions



AURES II: <http://aures2project.eu/>

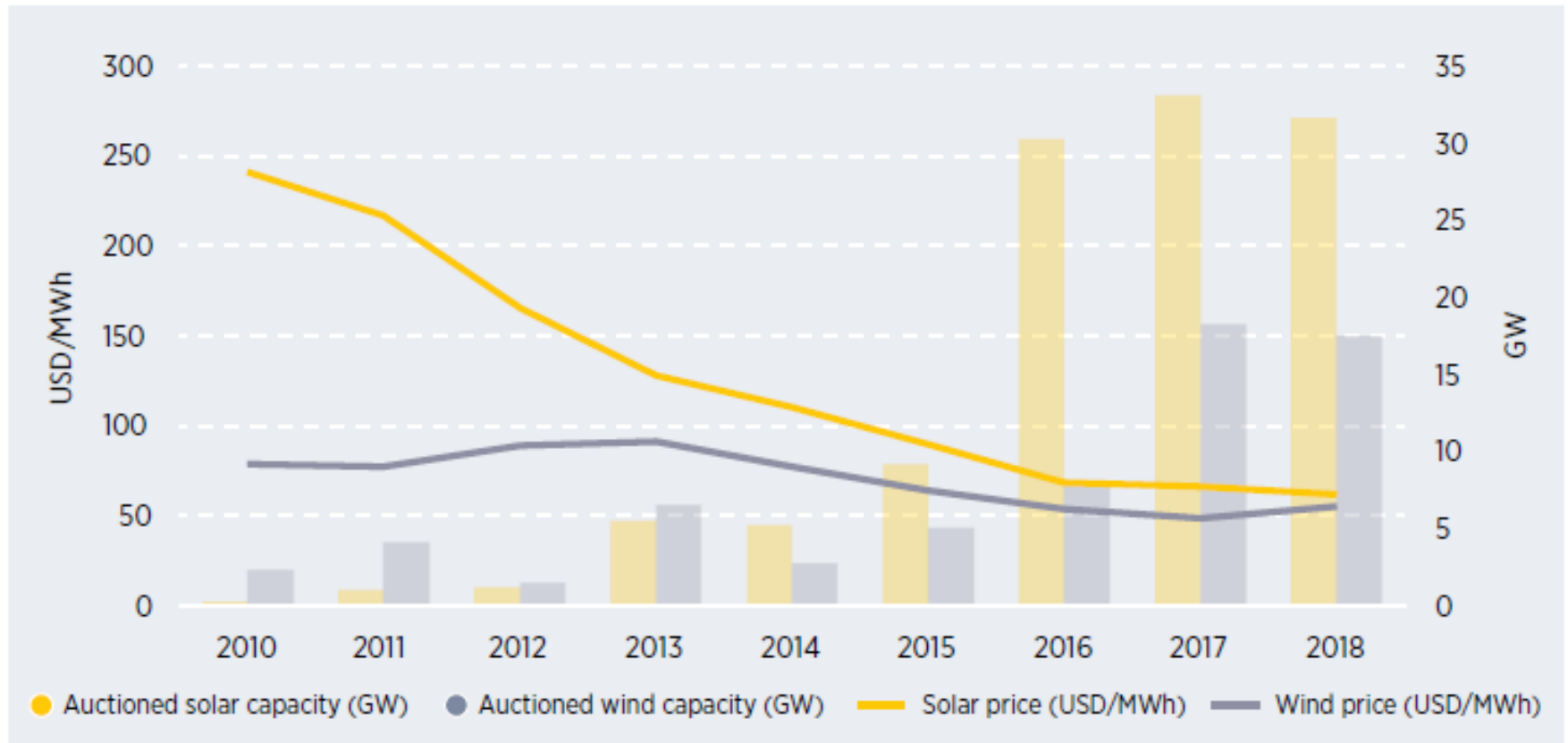
AURES I: <http://auresproject.eu/>



INTERNATIONAL
EXPERIENCE
WITH
RENEWALBES
AUCTIONS

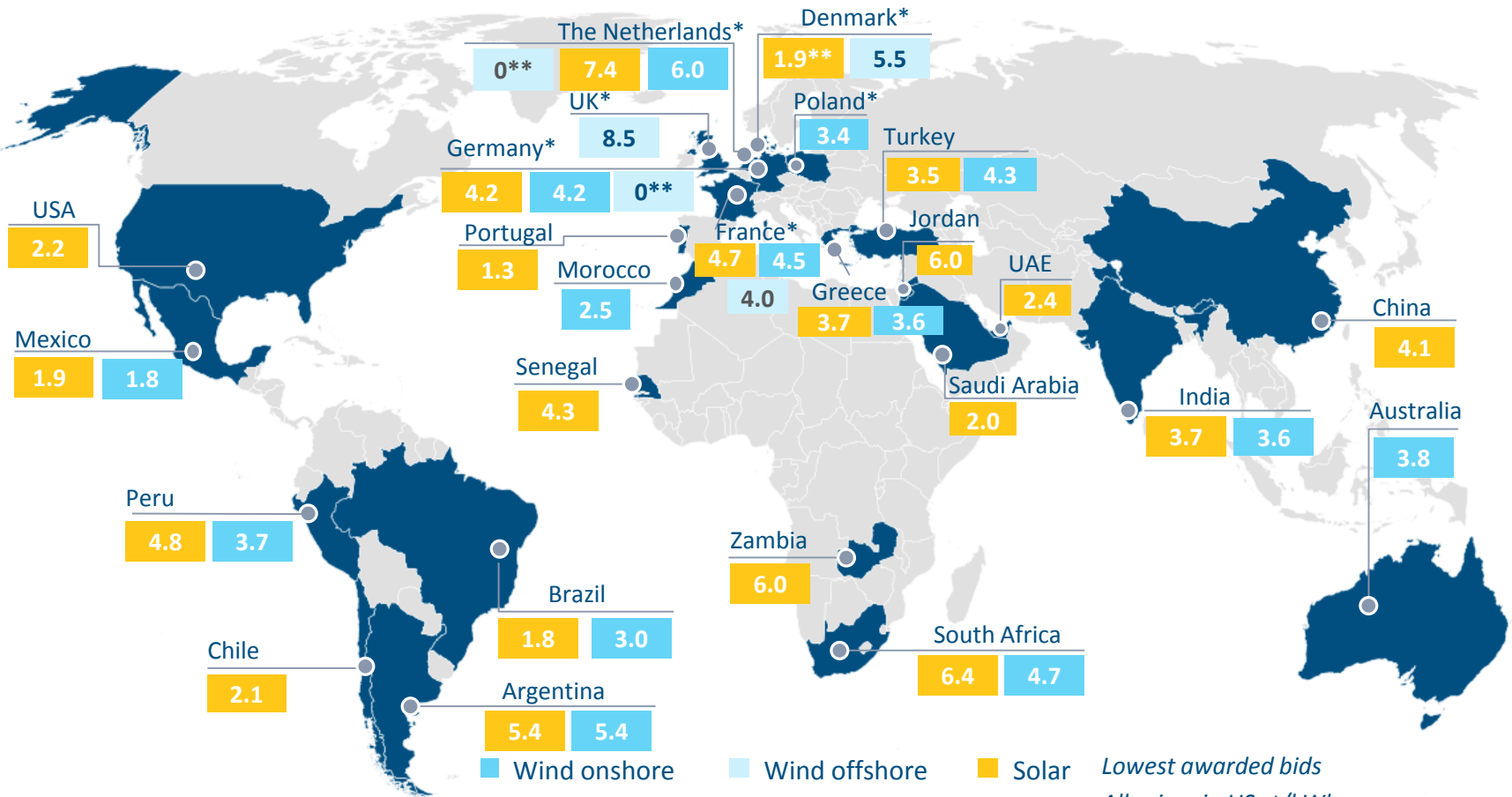
AUCTIONS HAVE HELPED TO DRIVE DOWN SUPPORT COSTS FOR RENEWABLES, ESPECIALLY FOR SOLAR PV

Global average prices resulting from RES auctions 2010-18



Source: IRENA 2019

AUCTION RESULTS ACROSS THE GLOBE



■ Wind onshore
 ■ Wind offshore
 ■ Solar

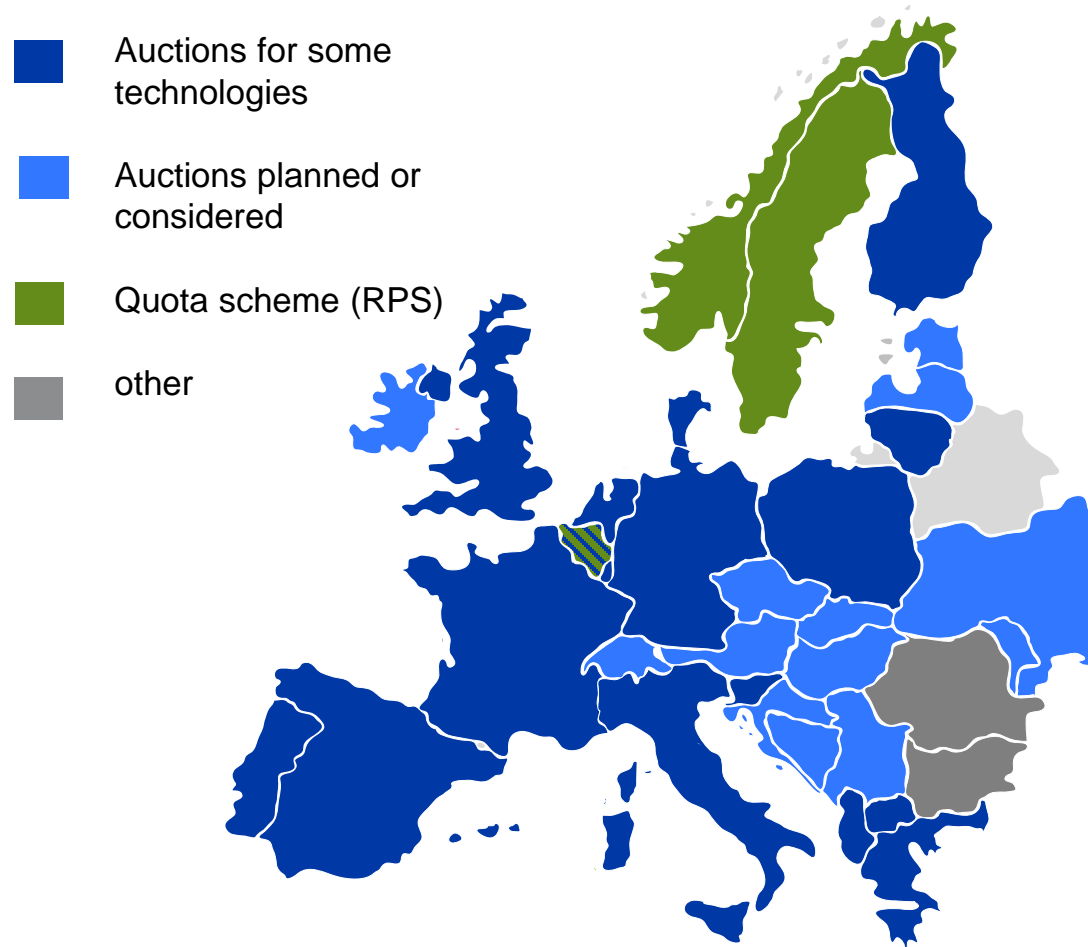
Lowest awarded bids
 All prices in US ct/kWh
 1 EUR = 1.1 USD

** Value corresponds to the subsidy paid on top of the market price

* Countries with a feed-in premium (instead of a feed-in tariff / PPA)

Navigant 2019 based on PV Magazin, Windeurope, Cleantechica, Bloomberg, windpowermonthly

MOST EUROPEAN COUNTRIES HAVE INTRODUCED RENEWABLES AUCTIONS, PARTLY DRIVEN BY EUROPEAN STATE AID GUIDELINES



Navigant 2019



AUCTION
DESIGN:
ENSURING
EFFECTIVENESS
AND EFFICIENCY

DESIGN ELEMENTS FOR ACHIEVING LOW AUCTION RESULTS

Adjust auction volume to market potential

- Competition is key → market potential needs to be larger than auction volume
- Auction volume should be high enough to attract interest and low enough to ensure competition among bidders
- Early notification and long-term auction schedule allow project developers to build up project pipeline

Limit bidder risks

- Combine auctions with risk hedging PPA or support scheme, e.g. CfD
- Avoid retroactive changes and legal uncertainty for auction winners
- Avoid excessive requirements (transaction costs) and unproportionate penalties

Ceiling prices

- Ceiling prices can hedge the risk of high support costs in case of limited competition
- Ceiling prices should be a safeguard but not the mechanism to drive down prices
- Strong competition will ensure minimisation of prices

DESIGN ELEMENTS TO ENSURE HIGH AUCTION EFFECTIVENESS AND AVOID NON-REALISATION

Material qualifications and bidder qualifications

- Material qualifications (e.g. permits) preselect RES projects in advanced development status with lower realisation risks
- High material qualifications lead to sunk costs for bidders and may discourage them from participation
- Bidder qualifications preselect experienced bidders but limit number of bidders and competition

Financial qualifications and penalties

- Bid/completion bonds ensure participation of „serious“ bidders and incentivise project realisation
- Financial qualifications provide more flexibility to bidders than material qualifications but do not avoid winner's curse
- High financial qualifications/penalties increase risk premiums and disadvantage smaller bidders



SUMMARY: BEST PRACTICE AUCTION DESIGN PRINCIPLES



No “one size fits all”

Consider political goals, market situation and technology maturity



Ensure competition

Consider how design elements promote or restrain competition

Safeguard against insufficient competition through auction volume and ceiling prices



Limit transaction costs

Reduce formalities in the process for high bidder participation and low support costs



Attract interest of investors

A credible long-term schedule of renewables auctions attracts interest and justifies transaction costs to enter market

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AURES II

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