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# AURES II - AUCTIONS FOR RENEWABLE ENERGY SUPPORT

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7th Renewable Energy Coordination Group, Vienna 12 March 2019

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# About AURES II

- AURES II- a research project under the Horizon2020 framework of the European Commission
- 11 research institutions and policy consultancies
- Support the **implementation of auctions** in EU MS and (newly) in Energy Community contracting parties
- **Evaluation and analysis** of auctions for renewables and direct support to interested parties



# AURES II – Objectives

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- **Generate and communicate new insights** on the applicability, performance, and effects of specific auction designs
- **Provide tailor-made policy support** for different types of auction applications
- **Facilitate knowledge exchange** between stakeholders

# AURES II – Work packages

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- WP 1: Project management
- WP 2: Monitoring of auction implementation
- WP 3: Auction database and empirical insights
- WP 4: Effects of auctions on the RES sector
- WP 5: Impact of auctions on cost of capital
- WP 6: International auctions
- WP 7: The future of auctions
- WP 8: Modelling
- WP 9: Recommendations
- WP 10: Communication and dissemination

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# Updates – WP2 Monitoring of auction implementation

## ■ Casestudies on

- already implemented auction schemes
- implementation plans
- specific case cooperations

## Case cooperation with Ukraine

- Invitation by Energy Community Secretariat
- Recommendations on Draft Law with DixiGroup and Berlin Economics
- Joint Expert Letter
- Presented results at IRENAtworkshop in Kiev

Shared expert recommendations on main provisions of the Draft Law No. 8449-D registered on 05/12/2018 (Renewable Energy Auctions Law)

Provision	Provision of the Draft Law	European Commission, Energy Community Secretariat, EBRD, IFC, World Bank (19 October 2018 letter to the RaDA)	AURES II, Dixi Group, Low Carbon Ukraine - shared expert position
1) Date of new support scheme introduction	01 January 2020	The new support scheme should come into force as quickly as possible, with auctions introduced immediately following the entry into force of the amendments to the law. The first auction should be awarded no later than 31 December 2019, in order to allow for a transition period to ensure that all projects sufficiently advanced (see below) can still benefit from the tariff they were designed under.	<b>Recommendation:</b> New support scheme should be introduced as early as possible. <b>Reasoning:</b> Since the current system is associated with high support costs, a new support system should be introduced as soon as possible. Given that the implementation of the law will take time, 01.01.2020 seems to be a reasonable compromise to start the auctioning system.
2) Final date to sign a pre-PFA to complete the licensed RES projects (regardless of the project size)	By 31 December 2019. Terms and conditions for the pre-PFA conclusion: - confirmed right of land ownership; - confirmed grid connection (where permit is required). Terms and conditions to obtain the "green" tariff: commissioning of the SPP facility during 2 years and of facilities of all other RES types during 3 years. The "green" tariff rate is determined by the date of facility commissioning.	A 1 July 2019 cut-off to qualify for launching projects under the existing Green Tariff is reasonable, provided that the requirement to have a pre-PFA in place be complemented by more stringent criteria, such as having a grid connection and land secured in place.	<b>Recommendation:</b> We recommend to set the last date for signing a pre-PFA to the date of the law's adoption plus 6 months. <b>Reasoning:</b> This provision is a way to minimize the number of projects receiving FIT after 2020. This both helps to tackle financial risks for the system and to ensure an appropriate level of competition during the first auction.
3) Auction design	One-stage sealed-bid auction. The bidders shall submit closed bids containing the technical bid (capacity for which the bidder intends to obtain the right) and the price bid (electricity price per 1 kilowatt hour). The successful bidder is selected by the results of simultaneous opening of envelopes with and evaluation of technical and price	An auction design relying on pay-as-bid (one-stage sealed-bid) appears to be reasonable.	<b>Recommendation:</b> Choose a simple auctioning design at the beginning (until 2025). The following design elements should be stipulated in the Law and sufficient to allow for an efficient auctioning scheme for Ukraine: - One-stage price bidding - Sealed-bid - Pay-as-bid award - Bidders offering the lowest price will be awarded the subsidy (price only) - Fixed support period - PPA for the whole support period with fixed strike price (= auctioned level of support) (see contractual structure)

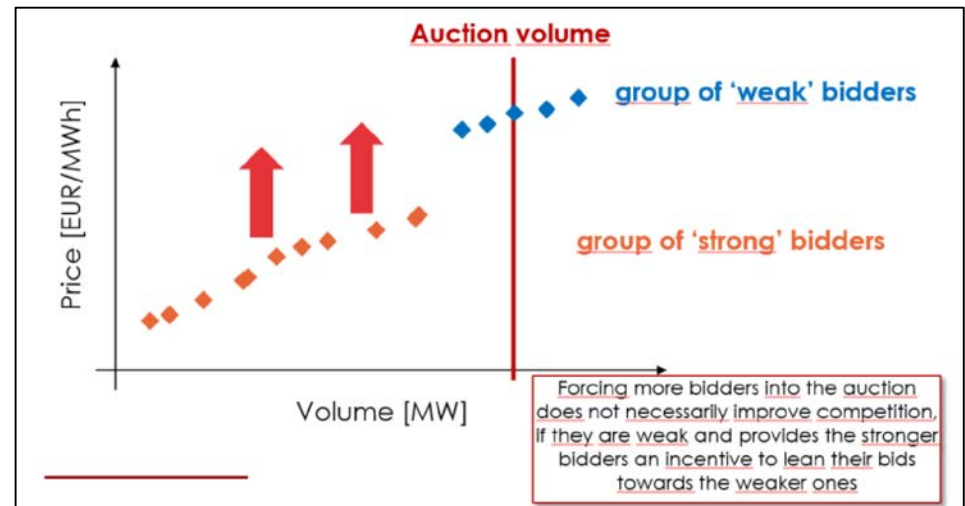
# Ukraine – Auction design elements in the Law – simple design (at least until 2025)

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- One-stage price bidding
- Sealedbid
- Pay-as-bid award
- Bidders offering the lowest price will be awarded the subsidy (price only)
- Fixed support period
- PPA for the whole support period with fixed strike price (= auctioned level of support)
- Technology-specific
- Location-neutral (except Chernobyl) / no wind-offshore auctions yet
- Ceiling prices
- Penalties for delays/ infringements
- Pre-qualification requirements for participation
- Qualification stage of the projects after bids are opened
- Support should be stated in EUR

# Ukraine – Medium-sized auctions

- No participation for RES projects under the thresholds
- Heterogenous bidding groups → higher cost!
- Medium-sized auctions to introduce competition in the segments
  - Solar PV: 1-5 MW
  - Wind onshore: 1-20 MW





# Updates – WP 5: Impact of auctions on cost of capital

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- Identifying the effects of auction implementation and auction design elements on financing conditions
- Currently conducting interdisciplinary analysis:
  - In-depth literature review
  - Interviews with various stakeholders (e.g. EBRD)
- **Financing workshop at Wind Europe Conference in Bilbao, 3 April 2019**

## EnergyCommunity countries:

- Insights based on survey (involves EnergyCommunity stakeholders)
- Identification of appropriate (auction) design elements to decrease cost of capital, and thus electricity costs
- Ensure bankability of projects (PPA design)

# Updates – WP 6: International auctions

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- Identification of possible **designs** for **cross-border auctions** and their theoretic properties
  - Unilaterally opened auctions
  - Mutually opened auctions
  - Joint auctions with separate support scheme
  - Joint auctions with joint support scheme
- Empirical analysis of **German-Danish** cross-border auctions

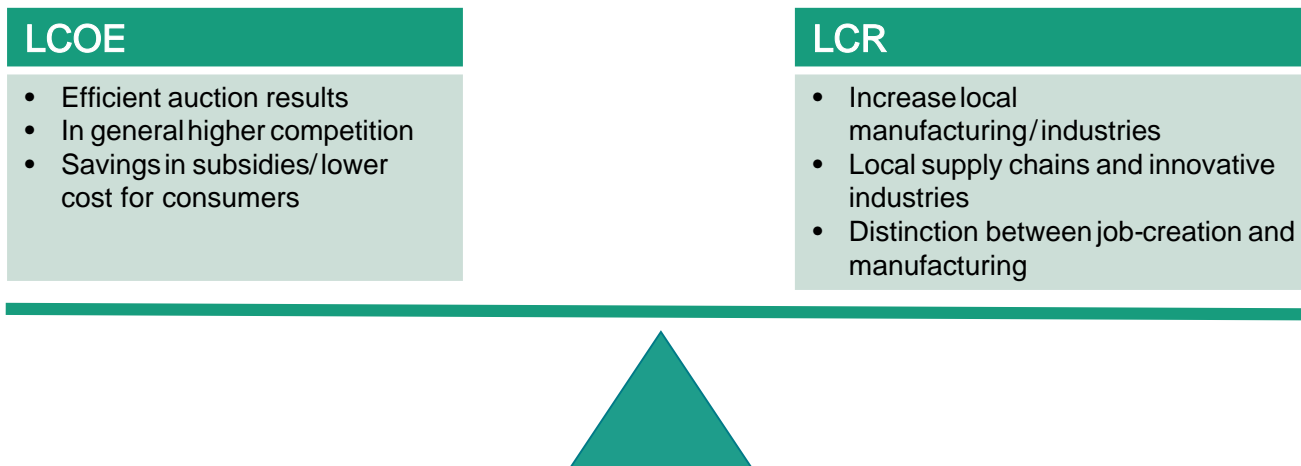
## Energy Community countries:

- **Casestudies of cross-border auctions** between EU MS and/or Energy Community contracting parties in cooperation with national stakeholders (incl. impact assessment)




# Local content requirements

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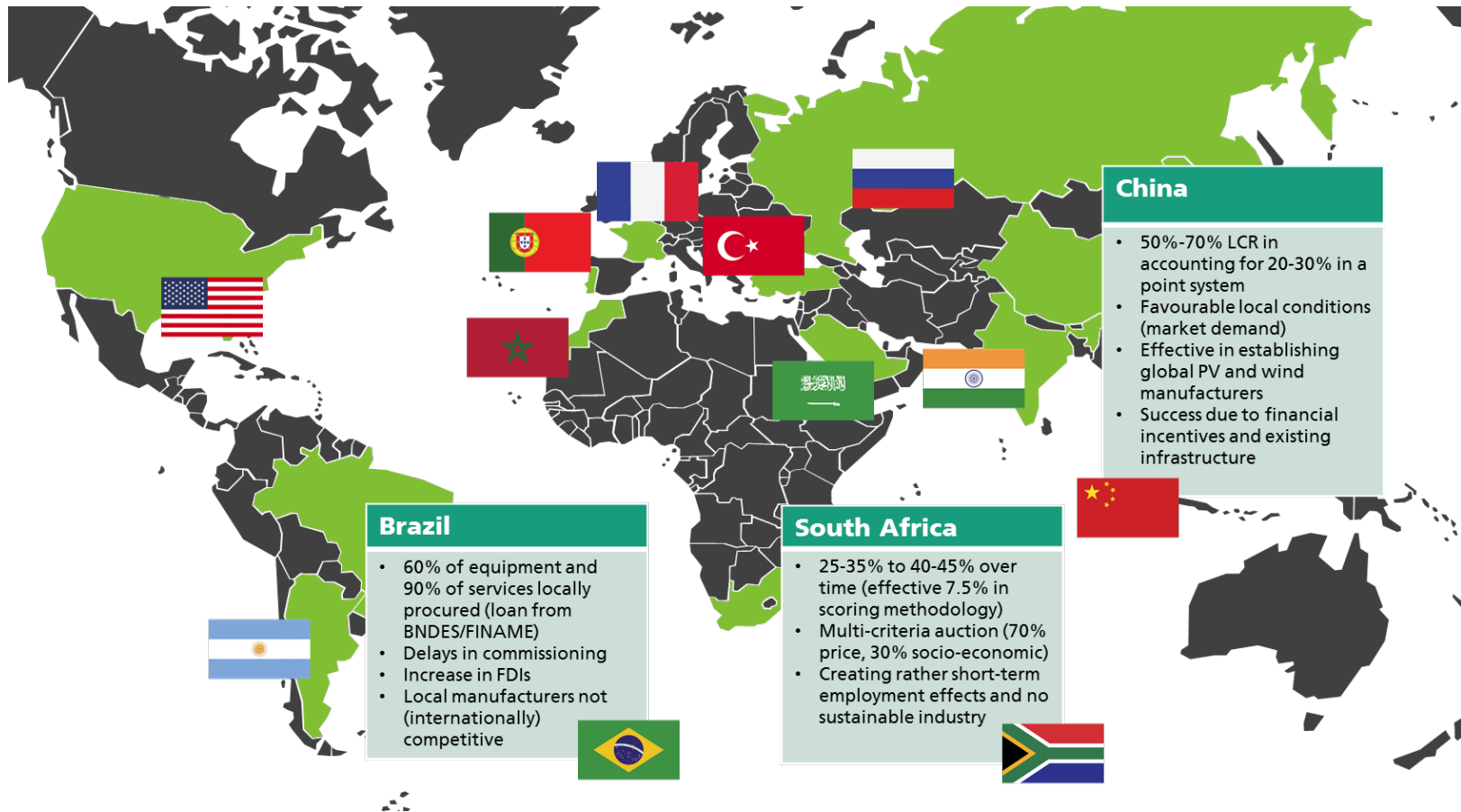
- Local Content Requirements (LCR) can influence both (static and dynamic) efficiency as well as effectiveness of auctions
- Instrument to foster local manufacturing, implement local supply chains and innovative industries → “sharing the green business pie”
- Trade-off:



# Local content requirements

Design	Countries	Achieving LCR	Target specific components	Implementation by country	Implementation by bidder
Minimum requirement to participate		+	0	+	-
Benefits during/ after the auction process		0	+	0	0
Multi-criteria (point system)		-	0	0	-

# Local content requirements – international experience



# Local content requirements – but...

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- Increased cost (e.g. in India awarded prices increased by around 7-10%)
- Delays and non-realization of projects
- Lack of successful examples in terms of economically sustainable industry creation
- LCR alone not enough to boost industry development
- Legal issues with the WTO/EU
- Difficulties to observe compliance

Therefore:

- Significant number of jobs are going to be locally created anyway
- Direct financial support to manufacturers more efficient
- Combine PPAs and obligation to create manufacturing facilities (India)/innovation clusters (Portugal)

# Opportunities and next steps

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- End of April 2019:
  - Report on auction design elements affecting financing
  - Report on design options for cross-border auctions
- Invitations of our experts to speak at workshops/ events (we have budget)
- Specific questions regarding auction design elements
- Ideas for **case cooperation** studies can be communicated
  - Scientific and technical support in **auction design and implementation** process (e.g. Ukraine, Kosovo)
  - Auction legislation is in place, but no auctions are being held
  - Analysis of possible **cross-border auctions**

# How to get in contact with us?

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- Newsletter ([http:// eepurl.com/gd42zz](http://eepurl.com/gd42zz))
- LinkedIn page (AURESII)
- Twitter (@auctions4res)
- E-Mail ([vasilios.anatolitis@isi.fraunhofer.de](mailto:vasilios.anatolitis@isi.fraunhofer.de))
- Website (forthcoming – End of April 2019)



# Contact details

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