

BEST PRACTICES FOR THE TRANSITION TOWARDS RE AUCTIONS

MEDREG – ECRB WORKSHOP

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Part of

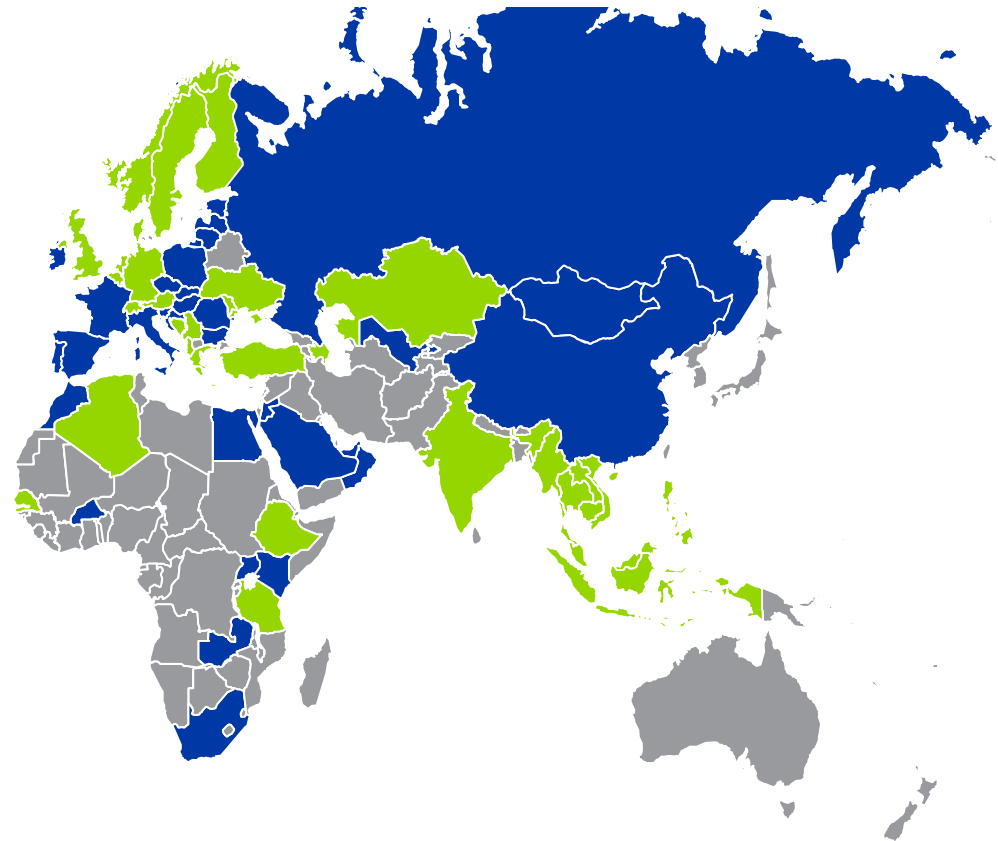


RECOMMENDATIONS BASED ON 20 YEARS OF EXPERIENCE IN AUCTION ANALYSIS & DESIGN

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



Source: Bloomberg NEF. Note: In the U.S., we classify as auction the offshore wind tenders organised at a state level.

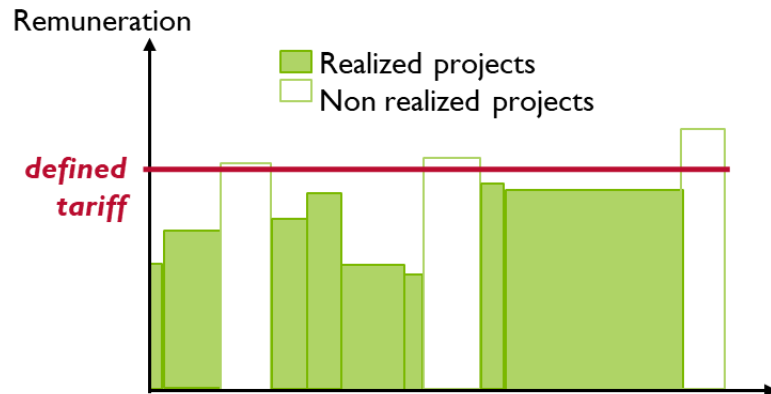
Source: BNEF

NEW RULES, NEW RISKS - UNDERSTANDING THE TRANSITION TOWARDS AUCTIONS

Transition from feed-in tariffs to auctioned tariffs

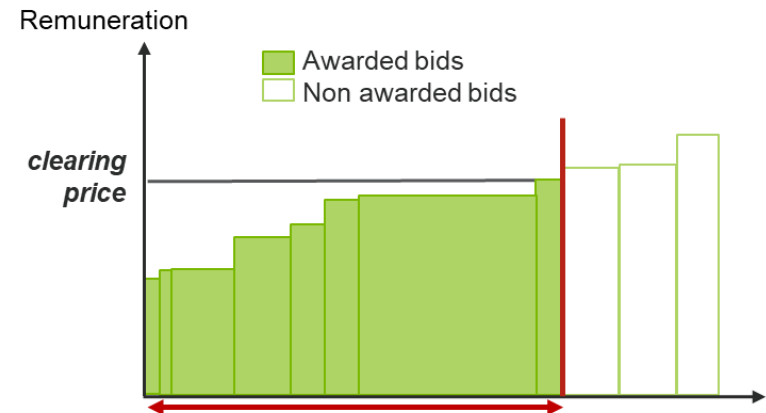
- Increases volume control, increases price competition
- Increases new risks for bidders (pre-development costs and risk of sunk costs)
- Quickly reflects market price developments but require competition (more difficult if small markets with few participants)
- More difficult for some smaller bidders

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

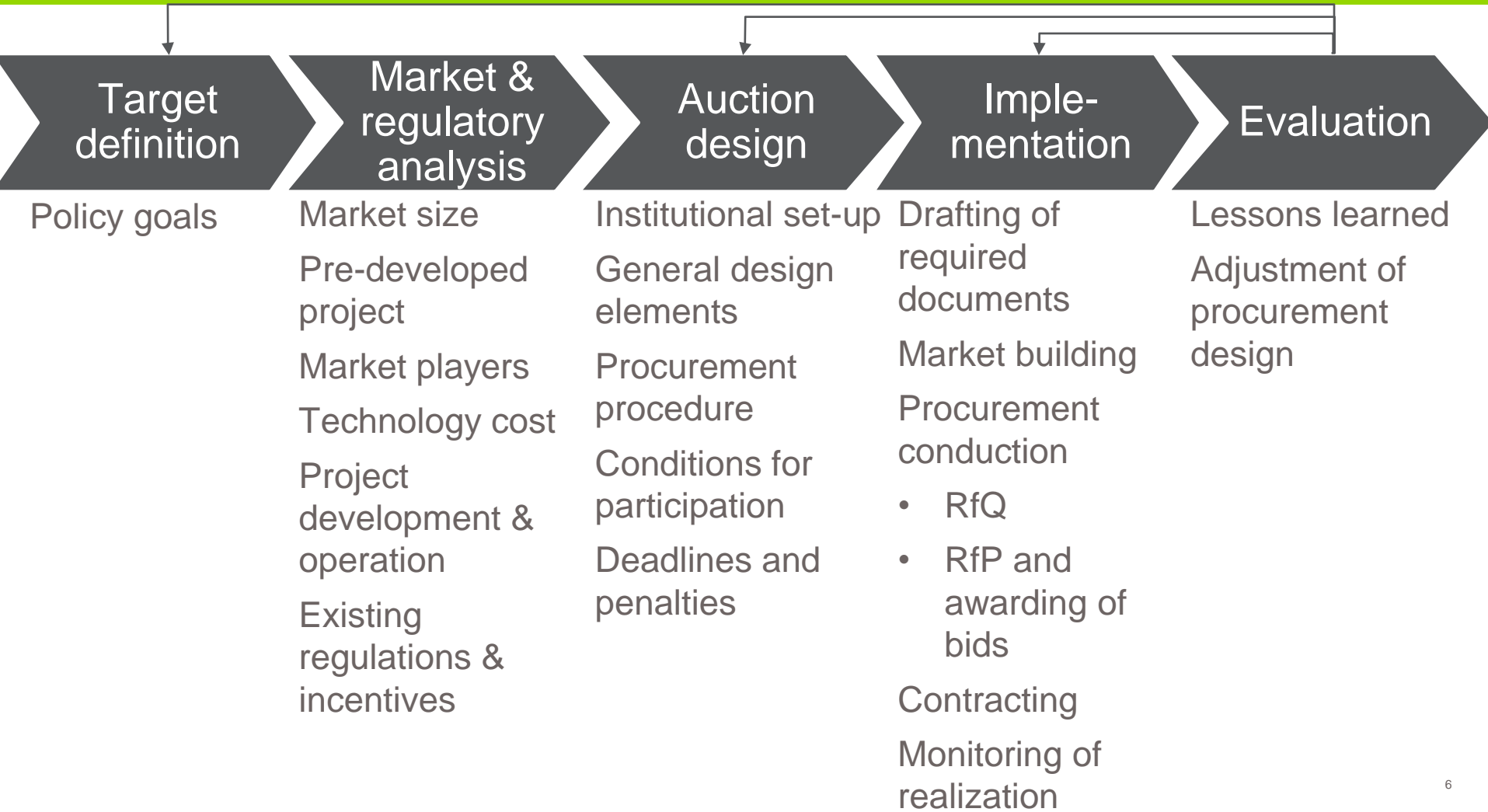
Market readiness

- Market size & concentration, competition with other remuneration (e.. 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



CREATE FAVORABLE CONDITIONS FOR INVESTMENT THROUGH UNDERSTANDING, PREPARING AND ADDRESSING BIDDERS

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

CONTACT

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