Renewable Energy Auctions
Trends, design and best practices

Policy workshop, 17 October 2018

Auctions Strengths and weaknesses - Keeping pace with rapidly decreasing costs

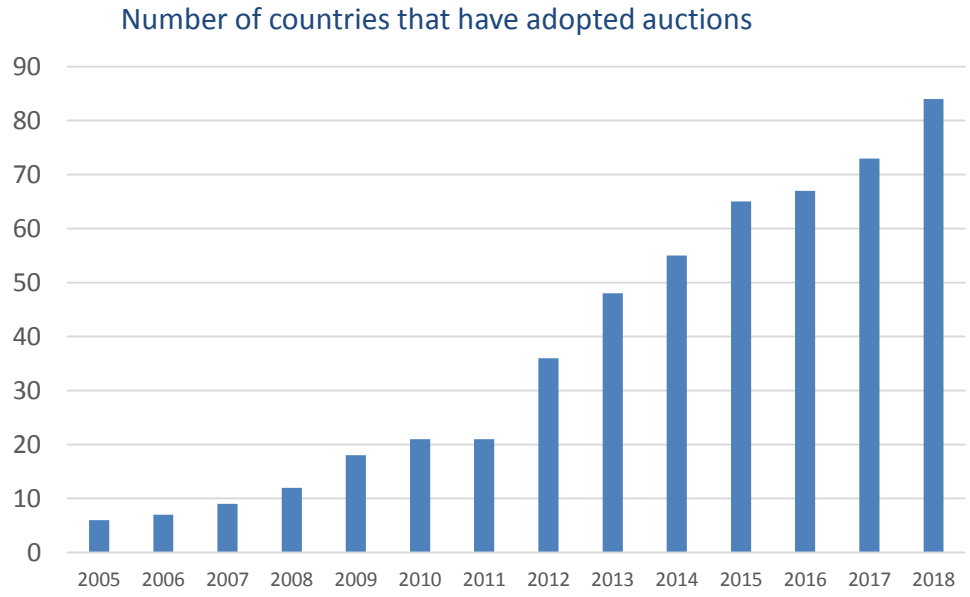
Auctions

Strengths

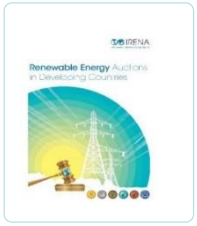
- Flexibility in the design according to conditions and objectives
- Permit real price discovery
- Provide greater certainty regarding prices and quantities
- Enable commitments and transparency

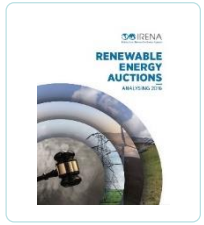
Weaknesses

- Are associated with relatively high transaction costs for both developer and auctioneer
- Risk of underbuilding and delays



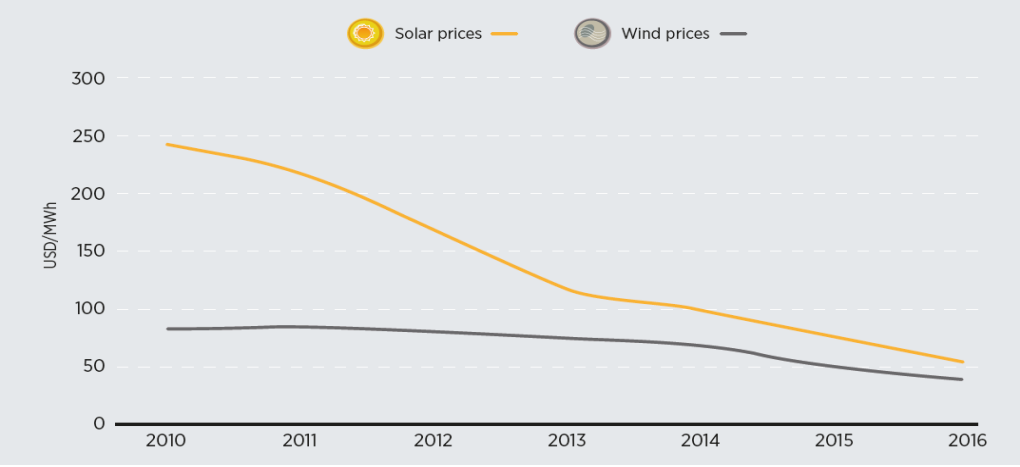
Based on REN21 Global Status Report (2005 to 2016)





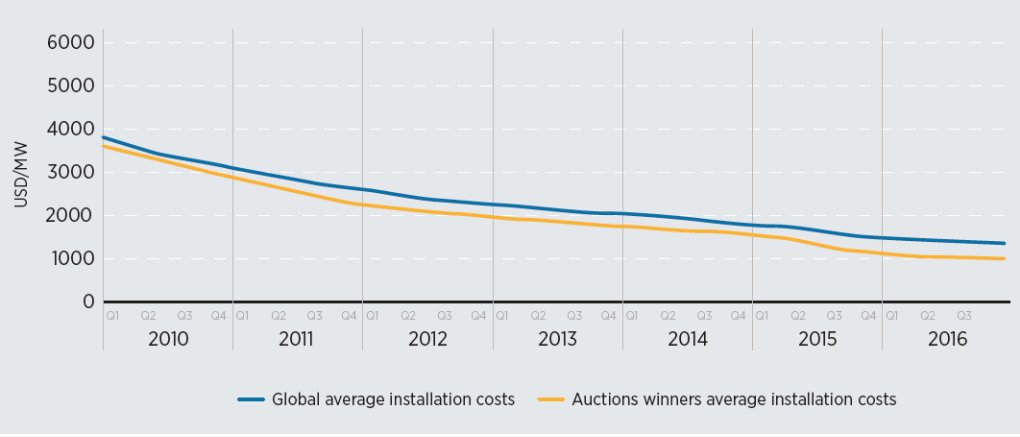
Auctions Strengths – Potential for real price discovery

Average prices resulting from auctions, 2010-2016



- Solar energy was contracted at a global average price of almost USD 250/MWh in 2010, compared with the average price of USD 50/MWh in 2016.
- Wind average prices have also fallen from USD 80/MWh in 2010 down to USD 40/MWh in 2016.

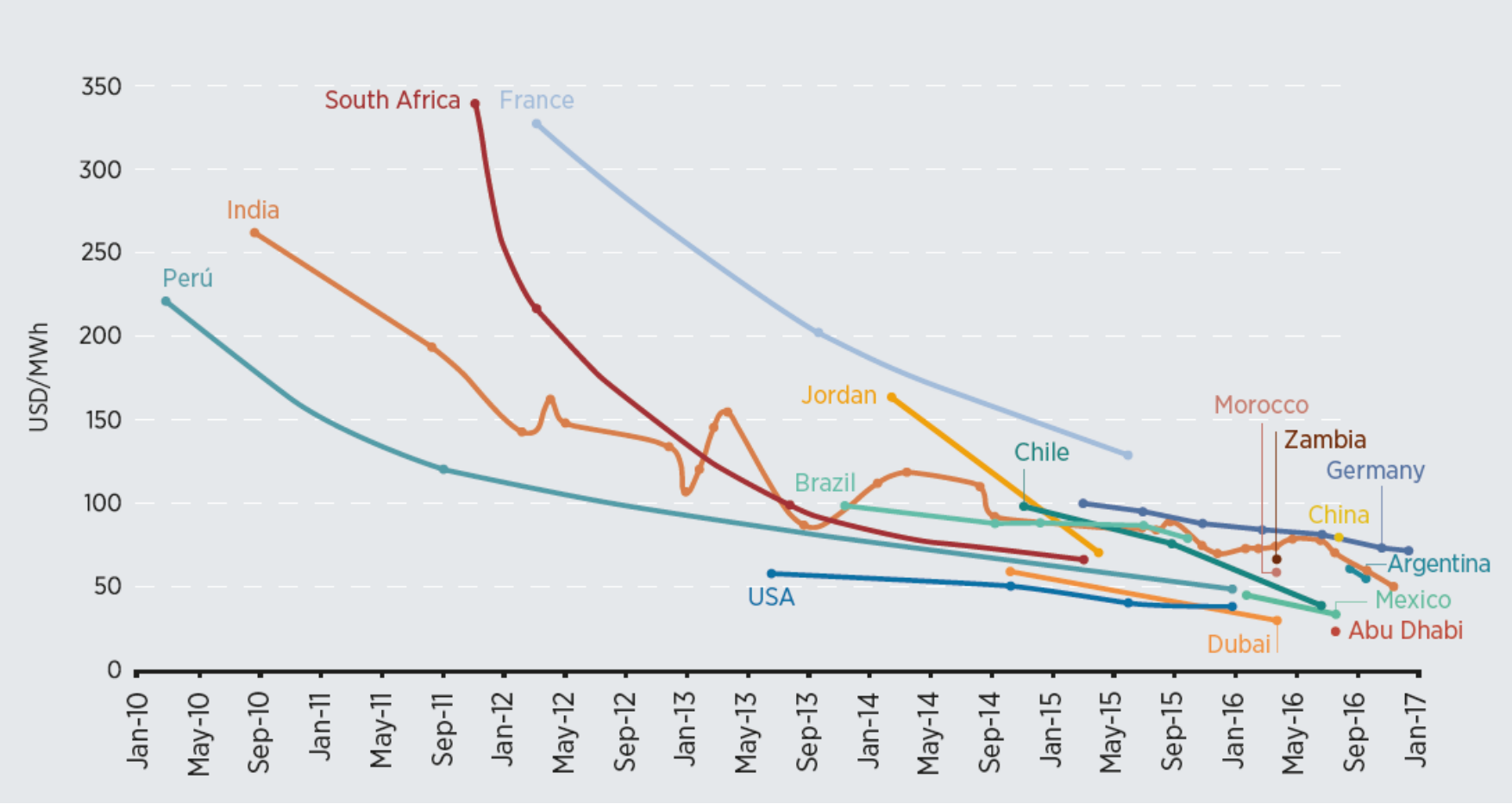
Estimated installation costs of utility-scale PV projects: global versus auction winners, 2010-2016



- The average installation costs of projects awarded from auctions are consistently lower than global average installation costs.

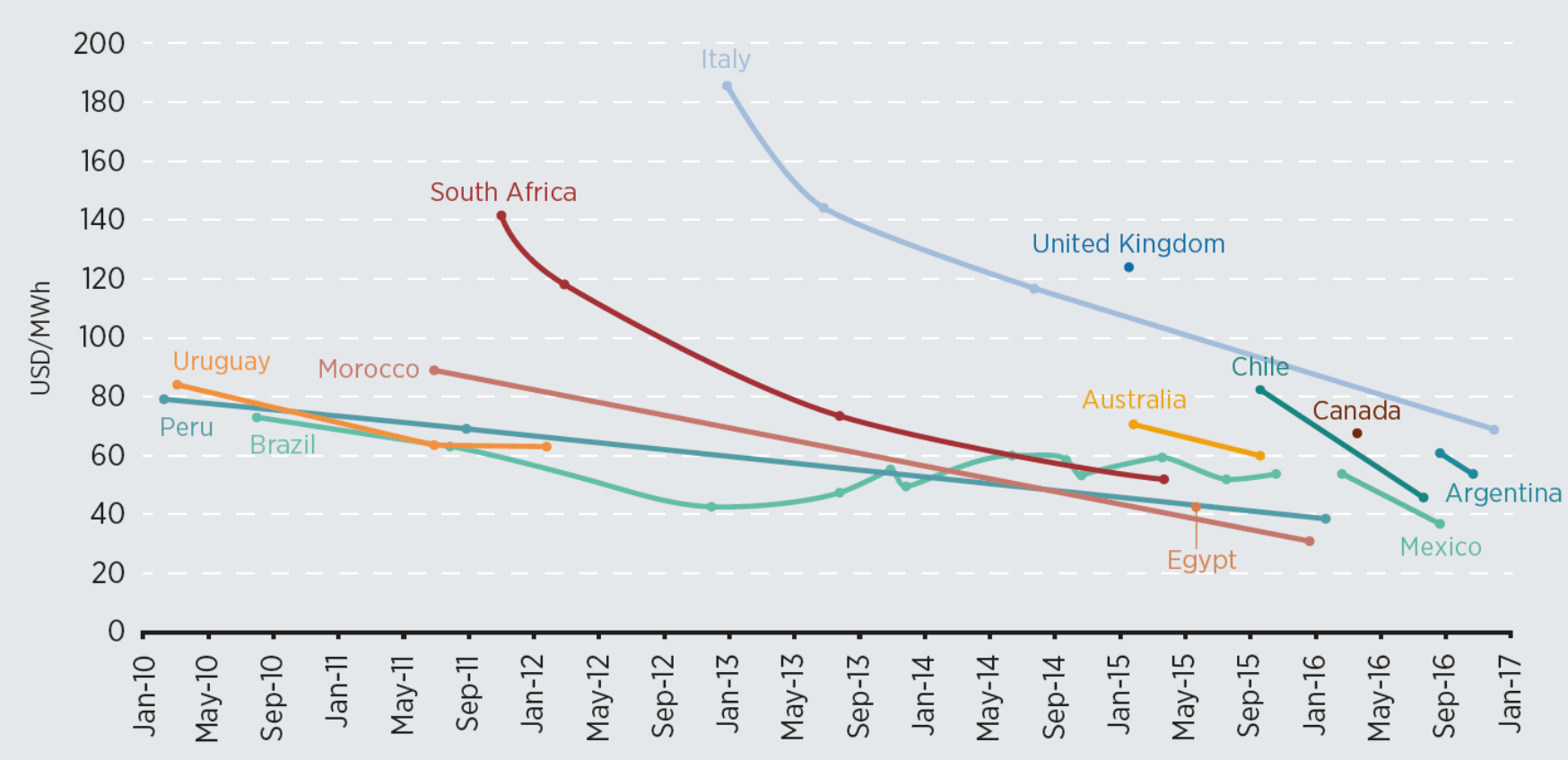
Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

Price trends: solar PV auctions



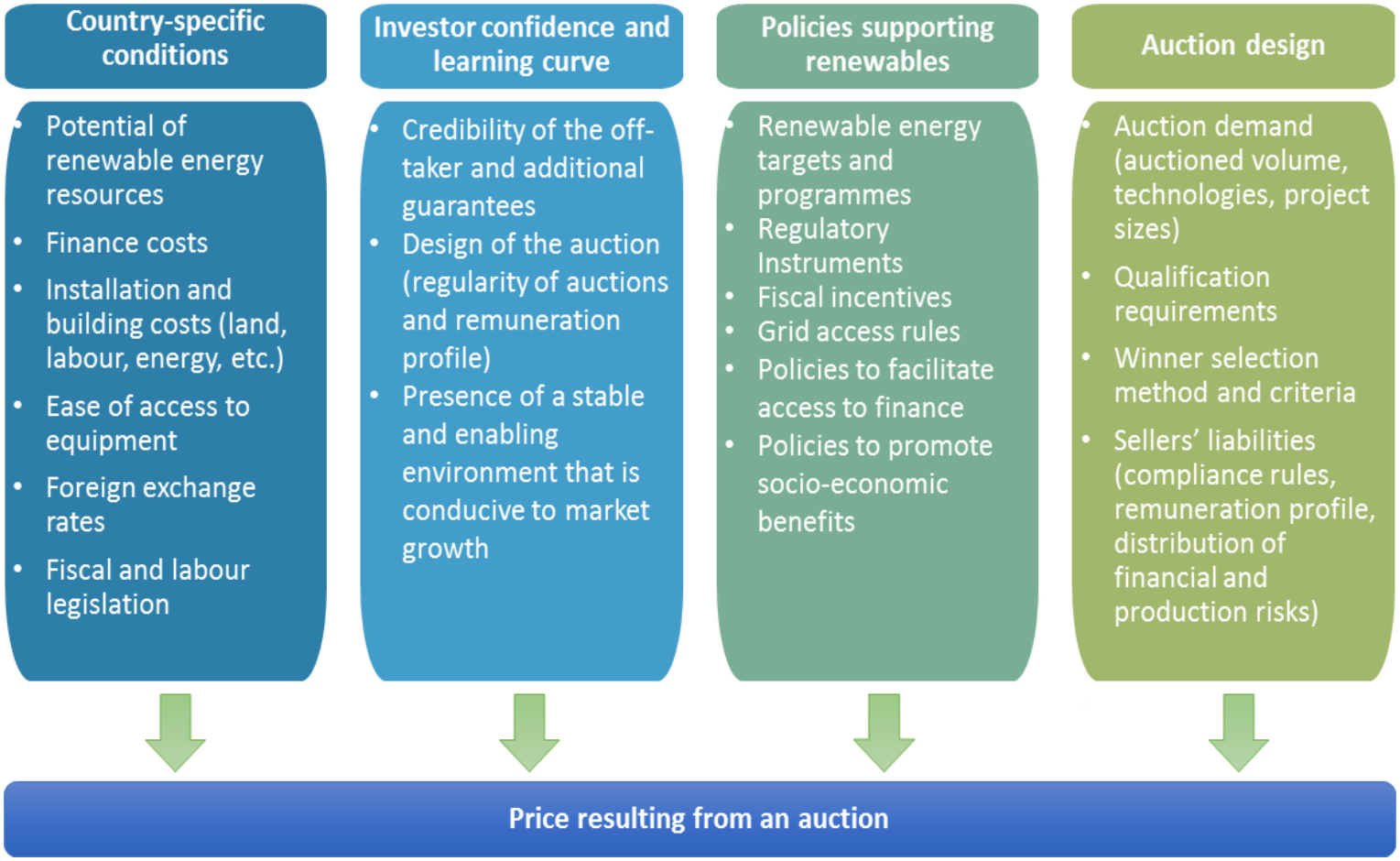
Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

Price trends: onshore wind auctions



Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

Factors that impact the price

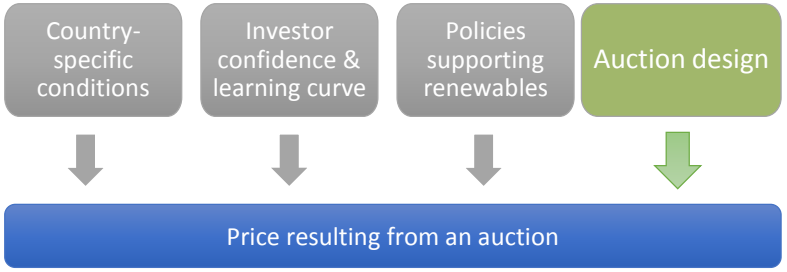


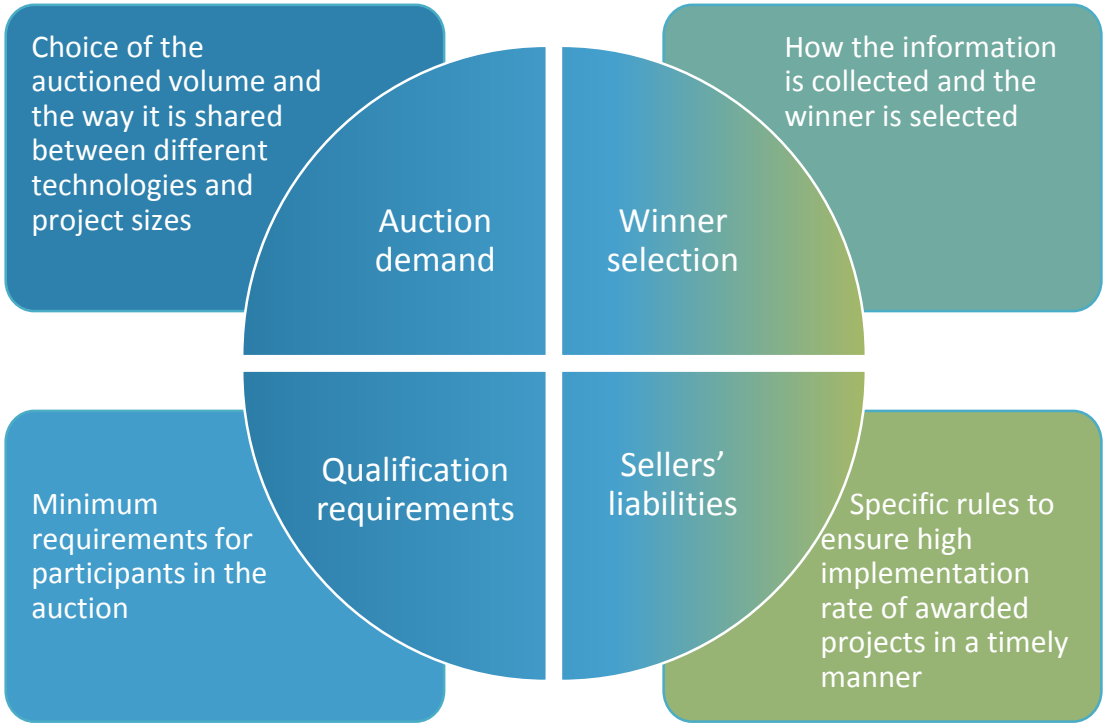
Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

Factors that impact the price

The design of the auction considering trade-offs:

- Ensuring project delivery and price
- Fulfilling development goals and price
- Encouraging small/new players and price





Auction Demand

Choice of the auctioned volume and the way it is shared between different technologies and project sizes

Auction demand

Specific demand bands

Related to the partitioning of renewable energy demand based on different criteria (technology, size, location, *etc.*):

- Exclusive demand bands
- Competitive demand bands
- Partially competitive demand bands

Volume auctioned

Key input in the auction process, consistent with the renewable energy policies and electricity system's technical capabilities:

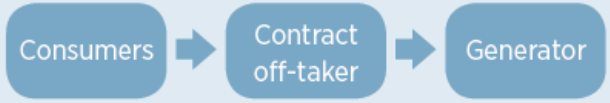
- Fixed auctioned volume
- Price-sensitive demand
- Multi-criteria volume setting

Periodicity and commitments

- Standalone auctions – used to achieve economies of scale, mainly in smaller countries with less mature technologies
- Systematic auctions – may attract a larger number of bidders, leading to gradual renewable energy penetration

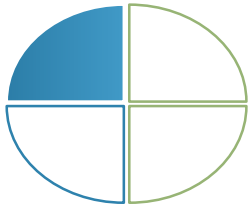
Demand-side responsibilities

- Allocation of costs
- Contract off-taker
- Contracting schemes



Source: IRENA, Renewable Energy Auctions: A Guide to Design, 2015

Key considerations in designing and implementing auctions
Trade-offs in Auction Demand



Technology development and cost-efficiency

- Introducing a technology in the electricity mix (technology-specific)
- Identifying most cost-efficient technology (technology-neutral)

Schedule of regular auction or standalone

- Increasing market confidence with a fixed schedule
- Adjusting designs or ensuring fast supply through standalone auctions

Guarantees to increase off-take credibility

- Increasing investor confidence with government guarantees
- Passing the risks on to the consumers

Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

Qualification requirements

Qualification requirements

Minimum requirements for participants in the auction

Reputation requirements

Usually based on the following information regarding the bidding company itself:

- Legal requirements
- Proof of financial health
- Agreements and partnerships
- Past experience requirements

Socio-economic development instrument

Maximising the socio-economic benefit through:

- Empowerment and employment requirements mainly focused on the local community
- Local content requirements - aimed to promote the local industry

Technological requirements

Supply-side constraints:

- Renewable energy generation source
- Equipment specifications
- Project size constraints

Production site selection

The following aspects must be defined

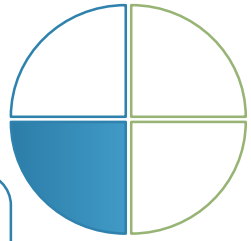
- Site selection responsibility
- Location constraints
- Site documentation requirements

Securing grid access

Defines how the physical access to the electric grid will be ensured

Source: IRENA, Renewable Energy Auctions: A Guide to Design, 2015

Key considerations in designing and implementing auctions
Trade-offs in Qualification Requirements



Permitting and documentation

- Demanding to ensure timely project completion and delivery
- Transaction costs result in higher prices

Extensive track record and financial capability

- Demanding to ensure project delivery as per the bid
- Limits participation to traditional and large players

Ensuring global socio-economic development goals

- Ambitious to maximize domestic benefits
- Higher prices on the short term

Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

Winner Selection

Winner selection

How the information is collected and the criteria for the winner selection

Bidding procedure

Collecting supply side information:

- Sealed bid process - all bid info is directly provided to the auctioneer
- Iterative process including descending clock auction - bid info is disclosed gradually during the auction
- Hybrid process

Requirements of minimal competition

- Maximum awarded capacity constraint- prevents a single player from becoming dominant in the auction
- Ceiling price mechanisms - "anti-monopoly" mechanism, preventing dominant players from bidding high
- Other mechamisms

Winner selection criteria

- Minimum-price auctions
- Adjusted minimum-price auctions - using a "correction factor"
- Multi-criteria auctions

Clearing mechanisms and marginal bids

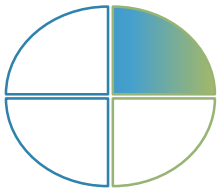
Clearing the auction's supply and demand through flexible demand schemes, price-quantity bidding or ex-post adjustments

Payment to the winner

- Pay-as-bid pricing - most common implementation, despite the dependence of one's bid on its remuneration
- Marginal pricing schemes - encourage disclosure of real project development costs
- Nonstandard pricing schemes

Source: IRENA, Renewable Energy Auctions: A Guide to Design, 2015

Key considerations in designing and implementing auctions
Trade-offs in Winner Selection



Winner selection criteria

- Based on price only results in cost-efficiency
- Based on other objectives (location, benefits, etc.) can result in higher price

Ceiling price

- Lower ceiling price can ensure low prices
- Suboptimal and can lead to rejection of reasonable bids

Project size

- No limits on the size can lead to low prices through economies of scale
- Size limits diversify portfolio of generators and reduce risks

Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

Sellers' liabilities

Sellers' liabilities

Specific rules to ensure high implementation rate of awarded projects in a timely manner

Commitment contract signing

The choice of requiring bid bonds or not

Contract schedule

- Lead time - lag for plant construction
- Contract duration - commitment length
- Post - contract provisions - plant's ownership at the contract's end

Settlement rules and underperformance penalties

Critical obligations with an effect on the plant's remuneration, addressed as:

- Temporal aggregation clauses
- Over-and underperformance penalties
- Revisions of contracted quantity

Remuneration and financial risks

Aims to avoid financial risks (usually inflation) that might affect the remuneration:

- Straightforward escalation
- Hybrid contract indexation
- Variable remuneration profile

Delay and underbulding penalties

Critical rules for a high implimentation rate of the awarded projects:

- Completion bon
- Delay specific penalties
- Contract resolution clauses

Nature of quantity liabilities

Defines the nature of commitment assumed by the project developer, which is directly related to the allocation if risk: capacity-, energy- or financial oriented agreements

Liabilities for transmission delays

The liabilities can be assigned to the project developer or to another agent (TSO, the central planning agency, *etc.*)

Source: IRENA, Renewable Energy Auctions: A Guide to Design, 2015

Key considerations in designing and implementing auctions
Trade-offs in Sellers' Liabilities

Currency, inflation and production risks

- Limit developer risks to reduce prices
- Risks would be passed on to the off-taker

Compliance rules

- Reduced to encourage participation and increase competition
- Risks of underbidding and delays

Source: : IRENA, Renewable Energy Auctions: Analysing 2016, 2017

The way forward in planning and designing auctions

- Understanding the reasons behind the low prices is important to make informed policy choices.
- Auctions may underestimate the true costs of renewable energy (e.g. balancing costs) or lead to overly aggressive bidding.
- Risks of underbuilding and delays can be reduced with solid contracts and penalties. Stringent compliance rules may deter the participation of small and new players.
- The extent to which the results are affected depends on choices regarding the design elements and how well adapted they are to the country's specific context (economic situation, maturity of the power market and level of deployment).
- The complex and dynamic environment of renewable energy auctions motivates constant innovation in the mechanisms' design.
- The value of renewable energy goes well beyond the energy services it provides. Therefore, trade-offs between cost competitiveness and other development objectives (such as jobs, industry development) should be carefully examined.

Download IRENA reports on Auctions

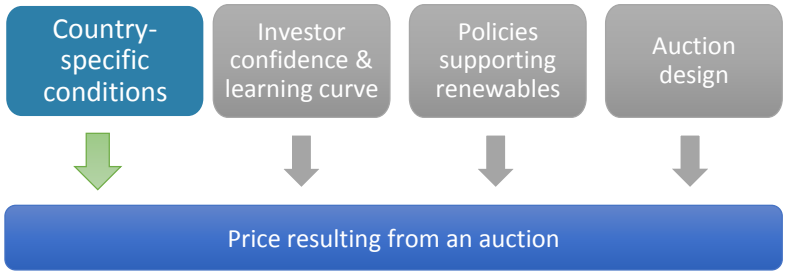
www.irena.org/REAuctions

Thank you!

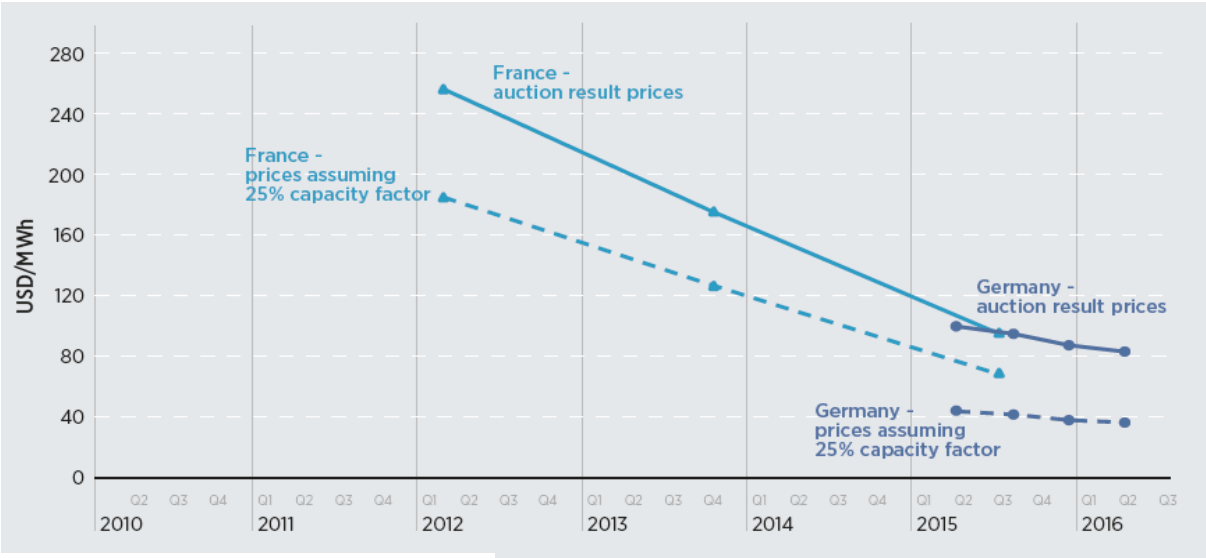
Factors that impact the price

Country-specific conditions:

- Cost of finance (access to finance, ease of doing business)
- Cost of labor, cost of land, etc.
- Renewable energy resource availability



Solar prices in France and Germany: actual results vs. adjusted result

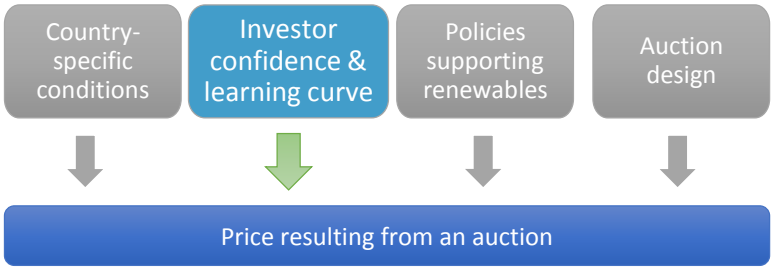


Source: based on data from BNEF, 2016.

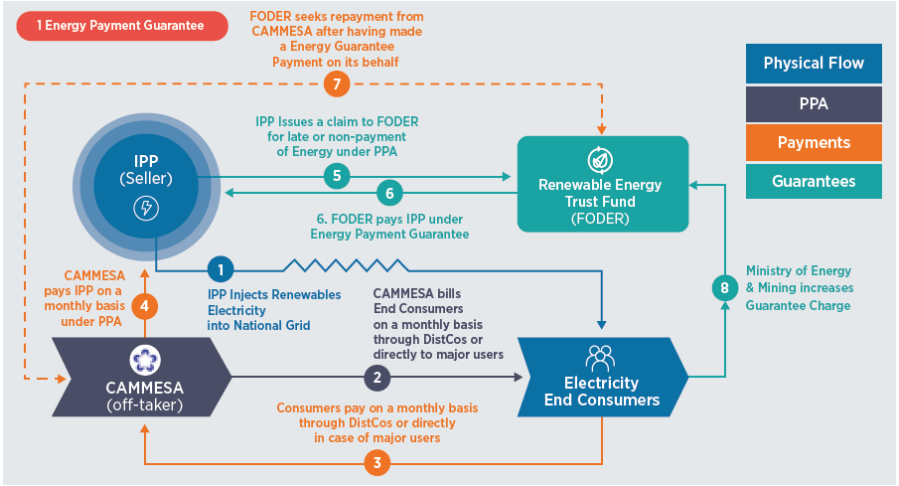
Factors that impact the price

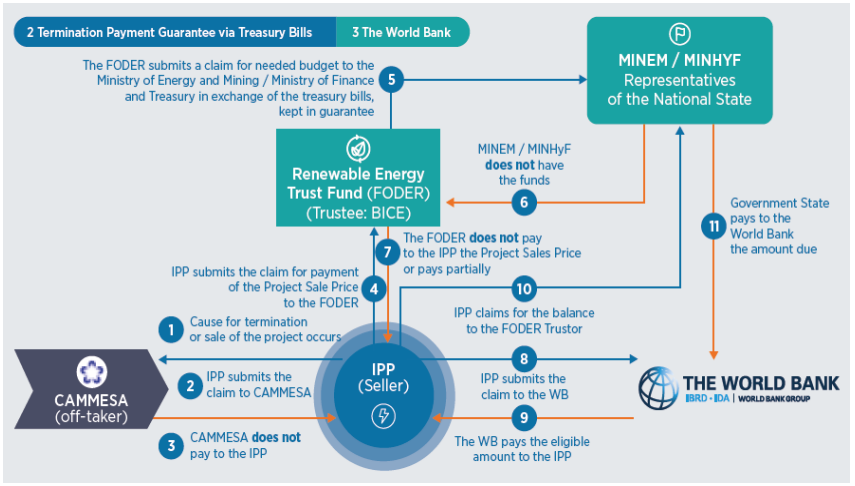
Investor confidence and learning curve:

- Credibility of off-taker and guarantees
- Periodicity of auctions (as part of a long-term plan)
- Confidence from past auctions
- Lessons learnt from past auctions (auctioneer and bidders)
- Reuse of documents/studies from past rounds



Energy payment and termination guarantees in Argentina's RenovAR programme



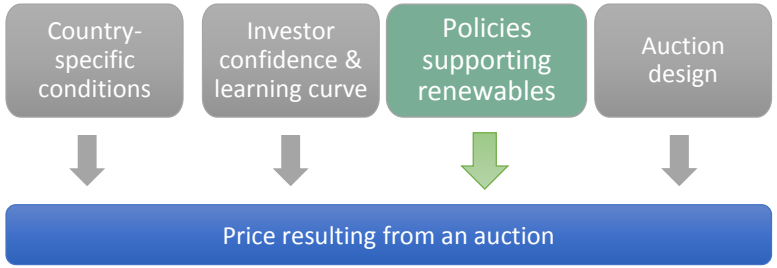


Source: MINEM, 2016.

Factors that impact the price

Policies and measures for RE development

- National plans and targets
- Fiscal incentives (tax credits, exemptions etc.)
- Grid access and priority dispatch
- Socio-economic benefits



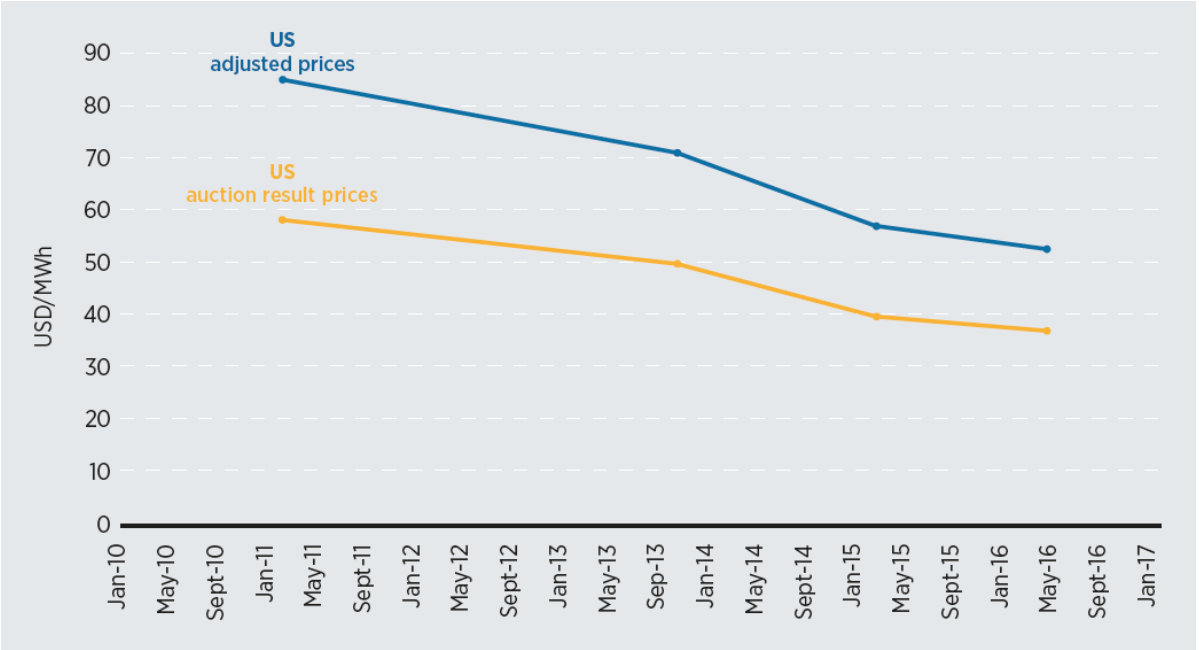
NATIONAL POLICY	REGULATORY INSTRUMENTS	FISCAL INCENTIVES	GRID ACCESS	ACCESS TO FINANCE[a]	SOCIO-ECONOMIC BENEFITS[b]
◆ Renewable energy target ◆ Renewable energy law/ strategy ◆ Technology-specific law/ programme	◆ Feed-in tariff ◆ Feed-in premium ◆ Auction ◆ Quota ◆ Certificate system ◆ Net metering ◆ Mandate (*e.g.*, blending mandate) ◆ Registry	◆ VAT/ fuel tax/ income tax exemption ◆ Import/export fiscal benefit ◆ National exemption of local taxes ◆ Carbon tax ◆ Accelerated depreciation ◆ Other fiscal benefits	◆ Transmission discount/ exemption ◆ Priority/ dedicated transmission ◆ Grid access ◆ Preferential dispatch ◆ Other grid benefits	◆ Currency hedging ◆ Dedicated fund ◆ Eligible fund ◆ Guarantees ◆ Pre-investment support ◆ Direct funding	◆ Renewable energy in rural access/cook stove programmes ◆ Local content requirements ◆ Special environmental regulations ◆ Food and water nexus policy ◆ Social requirements

Price trends: USA

Lower prices in the United States

- Investment tax credit, ***the federal solar tax credit***, reduces the cost of installation by about 30%.

US solar prices: actual vs. estimated effective prices, February 2013-May 2016



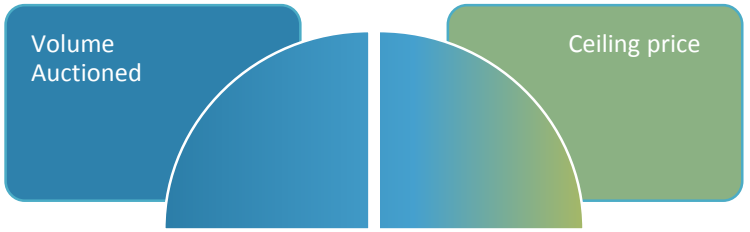
Source: based on data from Shahan, 2016.

Price trends: solar PV in South Africa

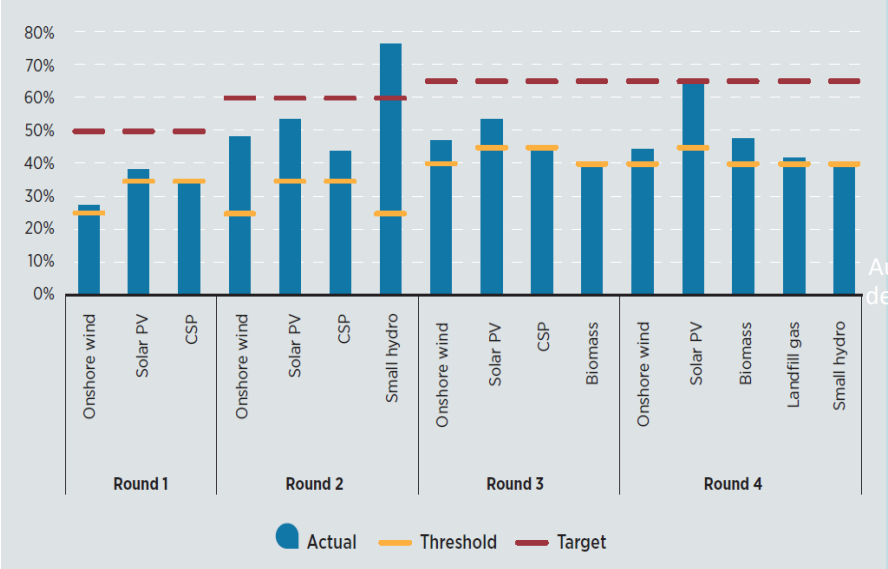
Downward trends in South Africa

- Investor confidence and learning curve
- Design of the auction
- Existing domestic solar industry

Auction Design



Local content requirements and achievements in South Africa



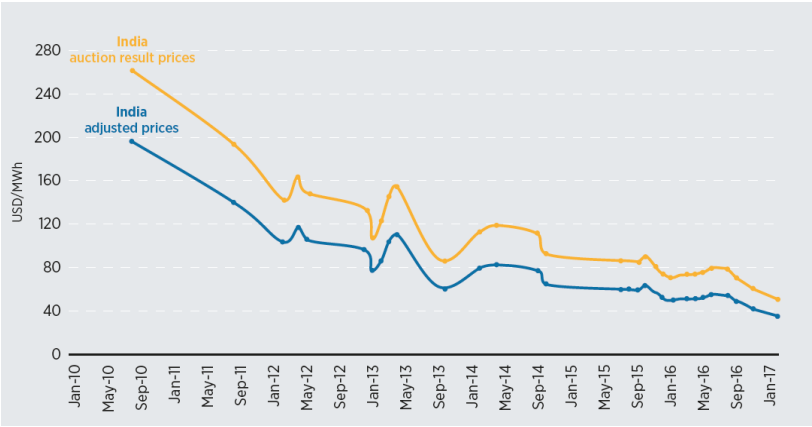
Source: Submitter, Montmasson-Clair, and Das Nair (2015).

Price trends: solar PV in India

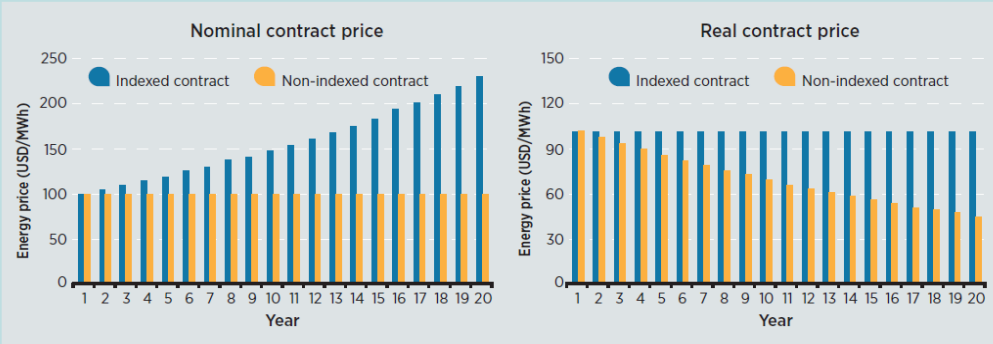
Ups and downs in India

- Auctions are decentralized (national and state level) with diverse conditions
- Domestic content requirements in some state auctions
- Relatively higher prices compared with Peru, the United States and South Africa

India's actual and adjusted solar prices, 2010-2017



The effect of inflation indexing on contract price



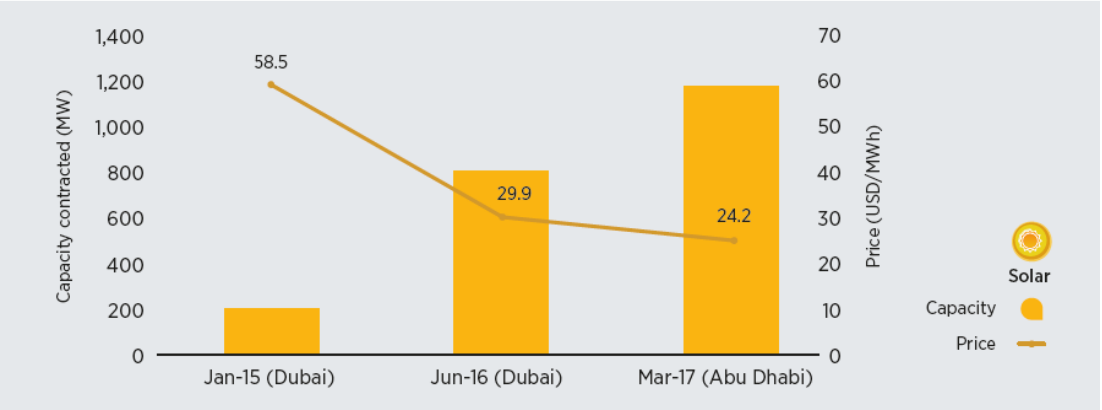
Note: the figure aims to show the remuneration of indexed/non-indexed contracts under nominal and real terms. A contract price of USD 100/MWh and 4% inflation were used in this example, for illustrative purposes.

Sources: Based on BNEF (2016); Bridge to India (2017); Elizondo-Azuela et al. (2014); MNRE (2010) and MNRE (2012).

Price trends: solar PV in the UAE

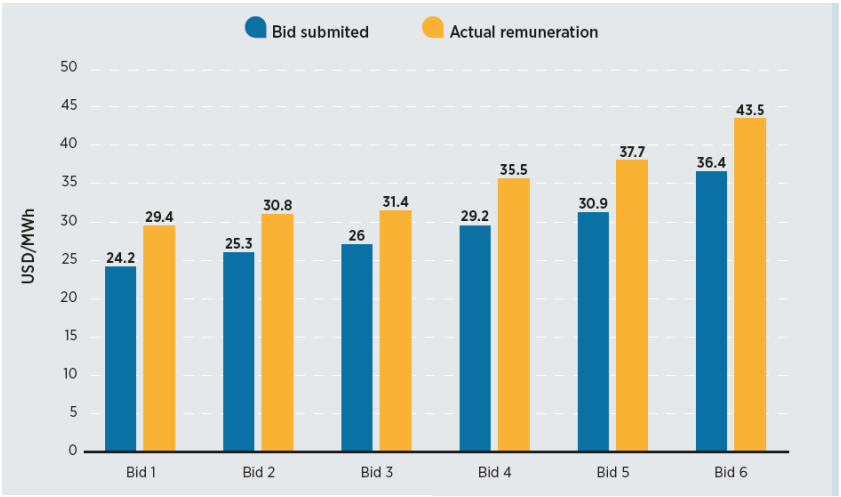
Price results in the United Arab Emirates

- Abundant solar resources and favorable economic conditions
- Ownership structure
- Auction design (project size, project specificity, grid connection)



Remuneration profile in Abu Dhabi

- Energy delivered from June to September counts for 1.6 times as much as energy delivered from October to May
- Therefore, the bids do not reflect the actual remuneration of the project.



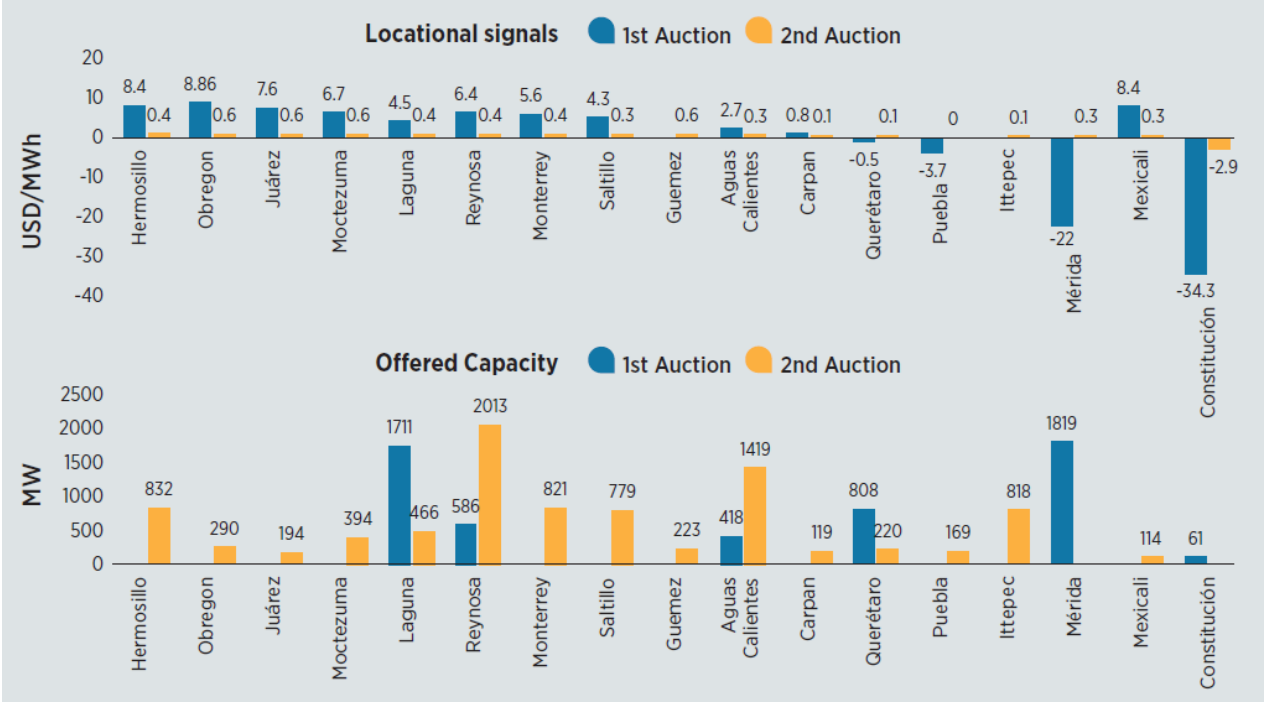
Source: based on data from BNEF, 2016.

Price trends: onshore wind in Mexico

A sharp decrease in Mexico

- Investor confidence and learning curve
- Economic signals for project location

Locational signals and offered capacity in each location: first vs. second Mexican auction



Source: based on Strategy &, 2016.

Price trends: onshore wind in Brazil

Fluctuating prices in Brazil

- Project lead times
- Intensified competition
- Availability of concessional financing
- Depreciation of the local currency
- Auction design

Source: based on ANEEL, 2016