Renewable Energy Auctions:
An Overview of Design Options
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Renewable Energy Policies

Number of countries with renewable energy policies, by type

Moved from a feed-in tariff to auctions

Moved from auctions to a feed-in tariff

Implemented auctions and a feed-in tariff simultaneously
Renewable Energy Auctions

Auctions have increasingly been adopted to support renewable energy deployment

Based on REN21 Global Status Report (2005 to 2015)
Strengths and weaknesses of Auctions

**Strengths**
- Flexibility
- Real price discovery
- Greater certainty regarding prices and quantities
- Commitments and transparency

**Weaknesses**
- Relatively high transaction costs
- Risk of underbuilding and delays
Renewable Energy Auctions

Recent highlights


Spain awarded 500 MW of wind and 200 MW of biomass with no financial incentive

Morocco achieved a new low for wind with average bids of USD 30/MWh for 850 MW (the lowest at around USD 25/MWh)

Germany third round of solar PV 204 MW at 0.08 EUR/kWh (0.0849 EUR/kWh for the 2nd and 0.0917 EUR/kWh for the 1st with a cap of 150 MW) Among the winners 3 individual investors, 2 registered cooperatives and 3 small privately held businesses

Japan announces move to auction from FIT in 2017 to cap installations and reduce costs on consumers

Brazil mandates projects to secure guaranteed grid access prior to bidding

South Africa announces 5th auction to target 1.6 GW of new capacity

Dubai 200MW solar PV at USD 58.40/MWh
Auction design elements

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

Sets specific rules to ensure high implementation rate of awarded projects in a timely manner.

Sets minimum requirements for future participants in the auction.

Defines how the supply curve information is collected and based on what criteria the winner is selected.
Key considerations in designing and implementing auctions

Increasing competition for cost-efficiency

- Increased participation of bidders
- Prevention of collusion and price manipulation

Limiting participation to bidders who can meet goals

- Project delivery
- Deployment goals

Ensuring global and local socio-economic goals

- Qualification requirements
- Multi-criteria selection
Increasing competition for cost-efficiency

Diversity of technology

- Implementing a technology-neutral auction can enable the development of least-cost technologies

Volume auctioned

- Auctioning a large volume at once allows for rapid capacity addition but might result in lack of competition

- Implementing a technology-specific auction can fulfil deployment goals
Increasing competition for cost-efficiency (cont’d)

Level of participation of bidders

- Reducing entry barriers:
  - Requirements and compliance rules commensurate with market conditions
  - Resource assessments, feasibility studies and permits provided to bidders
  - Streamlined administrative procedure and one-stop-shop
  - Fair and transparent rules

- Reducing the perception of risk
  - Demand-side responsibilities
  - Increased certainty and regularity of auction rounds
  - Mitigated financial risk

Prevention of collusion and price manipulation

- Selecting an appropriate bidding procedure may prevent collusion
- Introducing a ceiling price can limit the price
Limiting participation to bidders who can deliver the project

Reputation requirements

- Proof that bidders have the financial, technical and legal capability to develop the project to prevent speculative bidding

- Proof that bidders have the past experience and proven track record to help ensure successful delivery

Compliance rules

- Bid bonds and project completion bonds to help ensure successful and timely delivery

- Penalties for delay and underbuilding to help ensure successful and timely delivery

- Penalties for under (or over) performance to help prevent under (or over) producing
### Limiting participation to bidders who can meet deployment goals

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>Technological requirements</strong></td>
<td>• Technologies that can compete to align with national energy policy</td>
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<td></td>
<td>• Equipment specifications to ensure quality</td>
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<td><strong>Project size requirements</strong></td>
<td>• Minimum size to enable economies of scale and reduce transaction costs</td>
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<td></td>
<td>• Maximum size to encourage small and/or new players</td>
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<td><strong>Location constraints</strong></td>
<td>• Achieve geographic diversification and avoid competition with other</td>
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<td>sectors</td>
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<td>• Ensure proximity to the grid</td>
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<td><strong>Grid access requirements</strong></td>
<td>• Ensure feasibility of integrating renewable electricity into the grid</td>
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<td>• Avoid delays due to grid expansion</td>
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Ensuring global and local goals

Socio-economic impacts

- Qualification requirements
- Multi criteria selection

Employment in Selected Countries

United States 724
Brazil 934
China 3,390
Japan 218
Germany 371
France 176
Rest of EU 653
India 437
Bangladesh 129
Indonesia 223

7.7 million jobs in 2014
Conclusion

**Experience in designing auctions has highlighted some broad lessons:**

- Different policy options to support deployment are not mutually exclusive.
- Potential to tailor the design of auctions to the specific context
- Importance to account for the trade-offs between different design elements
Thank you!