

Auctions and renewable energy communities

Findings of the AURES II project

Online Seminar, January 25, 2021

#1 Energy communities can take many forms and strive for different objectives

No widely accepted definition

- Core elements identified, but do not apply to all energy community actors:
 - Local proximity
 - Local (financial) ownership vs. participation in project development
 - Focus on community benefits

Definitions are important in targeting measures to energy communities

- Definitions can reduce the potential for non-intended use, but implementation is challenging: compliance evaluation can be cumbersome
- Broader definitions can be alternative to defining specific actors/business models for community actors
 - If targeting specific business models is the right fit, an option is to support outside the auction

Actor-based (“business model”)

Community involvement criteria (independent of actor/business model)




Germany’s citizen energy companies in wind auctions (in 2017)

France’s bonus for participatory funding

#2 Auction-related risks pose a strong challenge to energy community project developers due to their limited project portfolio and size



- For RECs: **Risks are higher than for non-community actors** due to higher level of effort required to cope with challenges, which inter alia depends on:
 - Expertise of REC (new to the market / one-time actor vs. experienced actor)
 - Activity of REC in project lifecycle (development, operation, ownership)
 - Level of cooperation with professional project developers and/or financiers
- However,
 - this only applies if RECs are involved in project development and participate in auction.

Before the auction		After the auction
Pre-development 	Auction date 	Construction 
<p>Financial risk: challenge to directly fund or acquire financing for project development</p>	<p>Risk of not being awarded: challenge to spread impact of sunk costs</p>	<p>Penalty risk: challenge to spread impact of financial penalty in case of construction delay or project failure</p>
<p>Financial risk: challenge to directly pay or acquire financing for bid bond</p>	<p>New-bidder risk: challenge in dealing with formal mistakes</p>	
	<p>Price risk: challenge to calculate bid level</p>	

#3 Measures within the auction can facilitate participation but come at the compromise of market distortion



	Measures inside the auction		
	Other conditions for participation	Bonus or quota	Different pricing rule
Country example	Preferential auction rules in Germany	Citizen participation bonus in France	Uniform pricing rule in Germany
Financial risk			
Allocation risk	✓	✓	
Price risk			✓
New-bidder risk			
Non-compliance risk	✓		
Non-realization risk			

Challenges

Measures can have **adverse effects on auction outcomes**

Preferential auction rules in Germany → auctioning of projects in different development stages increases non-realization risk

Bonus or quota → auction price level higher

#4 Measures outside the auction interfere less with the auction but show limited impact against actor consolidation trend



	Measures outside the auction	
	Financing for project pre-development	"Market building" measures (open to all bidders)
Country example	Guarantee Fund in Denmark	Several countries introducing auctions
Financial risk	✓	
Allocation risk	✓	
Price risk		
New-bidder risk		✓
Non-compliance risk		
Non-realization risk		

Challenge

Limited effectiveness in reversing a trend towards overall actor consolidation

Guarantee Fund in Denmark

Community energy projects have not yet participated in past auction rounds (Caveat: limited experience due to few rounds)

Similar measures promoting community energy actors → "option-to-purchase" and "value-loss" scheme

#5 Exempting energy communities and coupling support to auction result can be a compromise, but should be done carefully



Exemptions from auction is at odds with overall transition to auction-based support schemes

→ “Accession mechanism” (granting access to the auction outcome) lowers risks of participating and winning an auction and increases compatibility with auction outcome

Spain: accession mechanism with quota, first-come, first-served allocation (in discussion)

Country examples

Greece: Since 2019, admin. tariff for solar projects: average of past 3 rounds * 1.05 (multiplied by 1.1 for energy community projects).

Finding an appropriate legal definition for RECs to qualify for the exemption is a challenge

Considerations

Project-based definitions (size) provide incentive to develop small projects, instead of larger, more cost-effective projects

Five things to remember

#1 Energy communities can take many forms and strive for different objectives.

#2 Auction-related risks pose a strong challenge to energy community project developers due to their limited project portfolio and size.

#3 Measures within the auction can facilitate participation but come at the compromise of market distortion.

#4 Measures outside the auction interfere less with the auction but show limited impact against actor consolidation trend.

#5 Exempting energy communities and coupling support to auction result can be a compromise, but should be done carefully.



Opening of community turbine – Fintry, Scotland (Source: Peter Skabara – Community Energy)


Thank you

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Download the report here:

[http://aures2project.eu/wp-content/uploads/2020/02/AURES II D4 2 energy communities.pdf](http://aures2project.eu/wp-content/uploads/2020/02/AURES_II_D4_2_energy_communities.pdf)

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