EREF response to the public consultation of the European Commission on design elements of renewable energy auctions

March 2024

EREF and its Members repeat our strong criticism concerning auctioning systems. In the face of climate urgency and the tight achievement corridor to reach the 2030 climate goals of the European Union within the international context, we strongly call that auctioning can only be an exception and must be always technology specific.

To reach EU climate goals, a massive deployment of renewable energy is key. The planned provisions on endogenous rationing via auctioning put economic efficiency before the expansion of renewables. This contradicts the objectives of the Green Deal. Moreover, studies have shown that endogenous rationing causes a high level of uncertainty, further weakens the supply side, and generates unwanted market distortions. Instead of artificially creating competition, measures shall address the roots of the problem of supply shortage: slow permitting process, lack of acceptance and a lack of reliably designated (acceleration) areas for tenders and auctions.

Nevertheless, EREF offers the following recommendations for improving the design of renewable energy auctions.

1. Phasing out of mandatory bidding process

Results from auctioning have shown low realisation rates due to various reasons, including but not limited to, strategic/under-bidding and limited development of less mature technologies with Solar PV winning out in most technology-neutral auctions due to its low generation costs. However, Solar PV would not have become one of the cheapest energy forms if technology neutral auctions had been introduced ten years earlier. Solar PV also received considerable support through market development, in particular with the German feed in tariff system, which was modified and also adopted in many countries around the world.

To reach the renewable energy targets, every renewable energy project, with the requisite permission, will have to be utilised and developed. Therefore, there is a high risk that there are not enough projects to create the necessary competition for a cost-efficient auction, because many projects do not receive the necessary permits fast enough for participating in auctions or projects are abandoned before the planning phase, because potential investors cannot afford the upfront costs. Alternatively, by

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creating an artificial shortening of the auctioned amount of MW to obtain enough competition, the achievement of targets is endangered.

Therefore, Member States should be free to decide, just like in other policy areas, through which system they grant support in order to find the most efficient pathway to achieve the European renewable targets by 2030 and not be obliged to use an auctioning system.

If, however a Member State decides that auctioning is the most efficient and effective way to reach the targets, the bidding process has to be designed carefully:

It has become clear that the outcome of the auction depends heavily on the prevailing framework conditions such as the national renewables market, economic growth perspectives, and the existence of additional administrative and grid-related barriers. Auction design should be required to take these barriers and challenges into consideration in order to allow for the development of more innovative technologies with the potential for future cost reductions.

2. Technology-specific support must be the rule, not the exception

Insisting that state aid be granted, as a rule, on a technology-neutral basis has had, in many Member States, the effect of funnelling support to projects that are advantaged in presenting winning bids.

These projects, however, may not be the best adapted to the territory or to the specific system change needs of a specific locality and region. Each Member State has an energy mix, a specific grid and balancing situation, specific renewable energy roll-out and pathways, geographic and meteorological conditions, political and societal considerations and markets and regulatory frameworks which are unique to it.

The design of support schemes and regulatory frameworks must take these into account in order for each Member State to be able to play to its renewable strengths, including the option of close regional and/or transnational cooperation.

A balanced deployment of renewables because of technology-specific support schemes may, for many Member States, in fact be more cost effective. Technology-specific auctions and targeted tools like minimum prices, contracts-for-difference, feed-in-premiums or -tariffs etc. for distributed and community-based installations can adapt more easily to the specific needs and the actual costs of the technologies in the specific regions.

Member States should be free to choose appropriate technology specific remuneration mechanisms at their own discretion in order to accelerate the deployment of their

preferred mix of renewables in all sectors. Each technology has its own characteristic in terms of performance for the power system beyond the criteria of energy as system services and capacity guarantee. Technology neutral tenders are not able to deal with these requirements for power system stability.

3. Tracking the entire supply chain

The new auction rules should include the tracking of the entire supply chain of EU-made wind components as well as complete turbines, blades and towers, and create incentives for the European wind turbine manufacturers to retain and increase EU-made components under fair market conditions instead of resorting to non-European alternatives in response to operational losses. This requirement must of course be balanced by the inclusion of the origin criterion for individual wind components in the non-financial criteria of the EU auctions. This is to a certain extent addressed in the recently agreed NZIA, but it is important to actually implement this in respective auction designs, e.g. through prequalification requirements and/or non-price criteria.

The absence of such mechanisms in the current proposal poses significant challenges, as exemplified by the case of BOHEMIA RINGS, a Czech manufacturer of steel rings used in the production of bearings with significant international sales: despite being a major supplier to the wind power industry, they had to reduce their market share from 83% of their revenues in 2021 to 35% in 2023 due to the pricing pressure from costumers demanding Chinese rates.

According to GWEC (Global Wind Energy Council), the global share of wind power industry shipments in 2023 from China was 60%, compared to 37% five years ago. This trend is exacerbated by wind industries like Siemens Gamesa, GE and Vestas facing substantial losses and seeking cost reductions, increasingly shifting their purchases to Asia. Other European manufacturers like Enercon or Nordex are facing similar challenges and striving to maintain their European manufacturing basis.

Consequently, European manufacturers like BOHEMIA RINGS are forced to diversify into other sectors like construction machinery, mining, rail transport and conventional power engineering to compensate for the losses in the wind power industry. Moreover, this shift has resulted in a decline in production volume, leading to a reduction in the number of employees, with 40 positions cut from the original 260 in 2023.

Another negative factor is that, due to financial losses, end customers are paying their suppliers later, who in turn pay their subcontractors later, and invoices payment are being extended from 60 days to 120 days.

4. Raising the exemption threshold

Where Member States choose a bidding process, EREF suggests raising the exemption threshold for smaller installations. In the past, (including in the EEAG 2014-2020) a capacity of 1 MW for most renewable technologies seemed to be a reasonable approximation, with the exemption of wind power, where 6 turbines of an average capacity (at that time 3 MW) were considered appropriate by the European Commission (DG COMP). In CEEAG we only have an 18 MW exception for Renewable Energy Communities, which is much more limited than the old 3*6 rule.

Due to the climate urgency and to the development of the technologies, these thresholds should be raised to 10 MW for most renewable technologies and for wind energy 10 turbines with a capacity of 6 MW each. This 6 MW size per turbine will be the standard within the period of the next five years. These projects are within the possible limit that medium sized companies can realise.

An alternative to raising the exemption thresholds could be a specific auction design for energy communities or other small and medium sized installations, where Members States would have the right to grant direct support (e.g. guaranteed minimum prices) to community based and/or (partly) locally owned installations, up to a clearly defined capacity, covering small and medium sized projects in general.

5. Support for small market players and energy communities

Europe's Green Deal aims to put citizens at the heart of the energy transition by ensuring fairness and inclusiveness. This follows the Clean Energy for All Europeans legislative package (CEP), which acknowledges 'active customers', 'renewables self-consumers', 'renewable energy communities' (RECs), and 'citizens energy communities' (CECs) as distinct market actors in the energy transition.

In addition to promoting equality and a level playing field in the Internal Energy Market (IEM), competition policy and State aid rules in particular need to contribute towards the delivery of the Green Deal, as well as to guide Member States so they can comply with their legal requirements under the CEP.

As far as renewables are capital intensive, the project cost of capital is a very significant parameter in auction competition. Energy Communities and SMEs do not have the same access to capital financing as companies. Therefore, auctions without specific measures for SMEs are a distortion between competitors. That is why winners of recent auctions are primarily big companies. This is an even bigger problem, when competing companies are (at least partly) state owned, which - compared to private SMEs - reduces their financial risk and resulting financing costs dramatically. Access

to finance for SMEs could be greatly enhanced with a chapter specifically on the types of aid for SMEs.

The European Union should contemplate exempting Citizen Energy Initiatives from auctions regardless of their scale. It is a misconception to assume that citizen communities solely operate small wind and solar plants. In Schleswig-Holstein, Germany, for instance, citizens are involved in the operation of large wind and PV farms. It is important to note that there has been a noticeable decrease in participation of Renewable Energy Communities due to the transition from feed in tariffs to competitive bidding; this has pushed them out of the market and made it more difficult to obtain investment. Specific rules should clarify that – and under which conditions – direct support via FIT/FIP, net-metering, self-consumption is allowed.

Moreover, national authorities and SMEs are already facing challenges posed by the current tender requirements. To avoid excessive complexity and bureaucratic red tape, it is crucial to adopt a judicious approach that streamlines complexity and reduces administrative overhead when establishing new criteria.

There should also be a specific chapter/sub-chapter on energy communities included, in order to provide much needed guidance on how Member States can provide direct support to energy communities, outside of the boundaries of the auction scheme. This chapter/sub-chapter will need to include provisions acknowledging the unique market position and challenges of RECs, provide clear guidance on how to develop and justify supportive measures for RECs in compliance with their RED III obligations, simplify the process for Member States to innovate new renewables support mechanisms for RECs and acknowledge the social impacts of renewables projects in local communities and provide stronger recognition of socio-economic objectives in the design of renewables support schemes.

6. Prioritizing support for industry on the supply side

Direct grants or tax incentives should primarily be directed towards manufacturing firms to facilitate targeted and manageable enhancements in production capacity. Implementing demand-side support mechanisms may be less effective and carries several risks, underscoring the need for thorough consideration of such initiatives.