

COMMENTS ON THE DRAFT CONDITIONS FOR A PILOT TENDERING PROCEDURE FOR A PREMIUM FOR SOLAR PHOTOVOLTAIC INSTALLATIONS		
To	Danish Energy Agency	
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1 Pay-as-bid

We appreciate the choice of pay-as-bid pricing rule. It seems reasonable as we are likely to be dealing with a rather uncertain market, inexperienced bidders and bidders likely participating with multiple projects. In these circumstances, the uniform pricing rule poses higher risk in respect of achieving a meaningful auction result, because it could induce stronger strategic and seemingly irrational behaviour (such as zero price bids). On the other hand, in pay-as-bid pricing one should expect some mark-up on the bids as there is no potential upside of achieving a higher price than bid. However, since the support levels are differentiated rather than based on the same clearing price, it is not certain that overall support costs actually will be higher under the pay-as-bid rule. This depends on the structure of the project portfolio (i.e. if the supply curve is very flat or steep). Another advantage of pay-as-bid pricing is the straightforwardness and seeming fairness which could also help to increase public understanding and acceptance of the scheme.

2 Support duration of 20 years

We appreciate the choice of support duration of 20 years. A long term focus is good for stability and financing of the projects. A solution where support duration is determined based on years rather than on full load hours can help preventing sub-optimisation leading to the maximising of capacities rather than of production. However, there is a lower incentive to shut down operation at negative or zero market prices because support is lost and not transferred to later periods as it would have been the case with a full load hour solution.

3 Fixed premium

The decision between fixed and sliding premium is very closely related to the amount of risk allocated to investors. Also, it is decisive for the type of projects that are going to win in the auction. Under sliding premiums, projects with high resource potential do comparably better in the auction, whereas under fixed premiums projects with high market values do comparably better. Fixed premiums provide stronger market incentives for investors, but to the cost of higher risk and more expensive financing conditions. The design of sliding premium schemes is more complex, as it is necessary to define a methodology for reference price calculation and more. The complexity is increasing in case of opened support schemes with installations in different countries and price zones.

The chosen solution should be confirmed as soon as possible. The uncertainty about remuneration could be an obstacle for investors in preparing for bids.

4 Maximum limit of support paid out

We find it reasonable to limit the maximum duration of support to 23 years. This gives an additional incentive for project completion in case of delays.

5 Transferability of support rights

The described solution for transferability of support rights seems to give reasonable opportunity to transferring support rights together with a change of ownership. While there should be some openness regarding transferability, project-specific ownership transactions should be in focus and case-based approvals by a state authority may be implemented in order to avoid purely speculative or 'securing-rights' bids. This is especially important when auctions are conducted rather early in the project development process (i.e. with low material pre-qualification requirements) in order to avoid low realisation rates.

6 Bank declaration for guarantee

It is rather unusual in auction design to demand at time of bid time as financial prequalification not a bank guarantee itself but only a bank declaration that such guarantee can be obtained at time of signing the contract. This may contribute to reducing sunk costs of bidders, which is desirable. The magnitude of the benefit will, however, depend on the time available for negotiating conditions with the bank between having won and signing of the contract. On the other hand, a declaration is a weaker prequalification requirement than a guarantee, which may lead some less serious bidders to submitting bids without the intention of eventually signing the contract. If such bidders win, the auction might have to be repeated in order to be able to actually contracting the intended build-out volume.

7 No preferential treatment for small actors or projects

We note that there is envisaged no exemption or preferential treatment for small actors or small installation sizes. This seems acceptable as long as the current support schemes, especially the net metering scheme and the feed-in tariff scheme, remain in place. This will give ample opportunity for small actors to still carry out their own solar investments. In this sense, it is also of advantage not to differentiate and fragment the auction too much by size limits, especially for the small auction volume of 20 MW in total. A simple and transparent auction design is favourable.

8 Parallel applicability of the administratively set feed-in tariff and the auction

The parallel applicability of the administratively set feed-in tariff will affect the bidding behaviour in the auction. This is not necessarily problematic, but it should be taken into consideration when interpreting the auction results. It should be avoided to discourage participation in the auction in favour of the otherwise available scheme as this might hamper competition and thus affect the efficient outcome of the auction. Here, the timing and participation rules of the auction should be carefully aligned.

The administratively set feed-in tariff is only available to the projects located in Denmark and not the ones in Germany. This may distort competition as it affects the bidding behaviour of some but not of all bidders – we suggest that the effect and implications of that be further investigated.