



– Feedback on Commission call for evidence –

Commission call for evidence on design elements of renewable energy auctions (guidance)

Brussels, 1 March 2024 | Europex welcomes the opportunity to provide feedback to the Commission call for evidence on design elements of renewable energy auctions. Overall, we support the Commission’s initiative aimed at improving and harmonising various auction design elements across the Member States. This said, we strongly believe that the price element should remain the main award criterion. Overall, cost efficiency, competition, non-discrimination, objectivity and transparency should be the main guiding principles for the design of these auctions.

Keeping in mind the wider objective of an energy transition at least cost, we would like to comment on the following design elements:

- **Prequalification criteria.** It is important to strike a balance between the different pre-qualification criteria to enable a diverse range of qualified developers to participate in the auctions.
- **Non-price award criteria.** While we acknowledge the importance of these criteria, the price should remain the main award criterion to preserve both short- and long-term price signals. Non-price award criteria should be treated as a prequalification step to avoid potential imbalances between quantitative and qualitative indicators in the final award phase.
- **Measures to incentivise full and timely project completion.** While we agree with the need to have appropriate incentives in place, we would like to emphasise that market parties have the possibility to hedge project execution risks, e.g., inflation, price volatility, volume, weather, etc., in existing forward markets.
- **Negative bidding.** We encourage the Commission to assess whether negative bidding could indicate that the current form of RES support by fixing prices and/or revenues may no longer be appropriate for given assets and geographic areas.
- **Bid ceilings.** We acknowledge that two-way Contracts for Difference (CfDs) may represent – within limits - a complementary tool for fostering new renewable generation. However, we would like to express caution regarding any extensive use of such instrument. The design of CfDs should always allow for a direct connection to the wholesale energy market which they

reference to and follow its volatility in order to preserve the price signal. Hence, market participants would have the incentive to trade on wholesale energy markets, avoiding potential distortions in dispatching and negative effects on liquidity.

Market participants have a natural incentive to hedge their price/volume risk on forward markets. This, in turn, provides liquidity and reliable forward price signals to suppliers, investors and consumers. However, in the case of CfDs, the state acts simultaneously as the central buyer and the central seller, thus undermining and replacing the function of an open market. In case of a significant use of CfDs, this further increases the difficulty for other market participants to hedge their long-term supply or procurement of electricity in competitive forward markets with shrinking liquidity.

Finally, the bid ceiling of CfDs should be carefully optimised and refer to wholesale energy market prices.

About

Europex is a not-for-profit association of European energy exchanges with 33 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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