Recommendations on the role of auctions in a new renewable energy directive

During the work in the AURES project, we have found evidence that auctions can be a suitable instrument for allocating support under budget and volume limitations and can achieve significant short-term efficiency gains, but it has not been proven that auctions in general are better suited to support renewable energy than other support instruments. The use of auctions entails several new implications that often policy makers have not had to deal with before: ensuring sufficient competition for a well-functioning price formation, avoiding undesired strategic incentives, collusion and other market distortions, and importantly dealing with risk of low realisation rates, e.g. caused by underbidding or the existence of non-cost barriers. Often, the specific design solutions for these issues are highly context-specific and what works in one market is not necessarily applicable to another. In addition, different design elements might mitigate some issues but affect other factors, e.g. pre-qualification rules and penalties can increase realisation rates but can also increase the risk and thus the costs for bidders. In addition, policy makers often pursue other policy goals (secondary objectives) with energy support policy, e.g. increasing security of supply or encouraging actor diversity. Finding a compromise between encouraging different policy goals without compromising on well-functioning price formation, proves to be a challenging task. Overall, auctions are only just emerging as instrument for allocating support of renewables and experiences so far are rather limited and mixed.

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