



Position Paper

Non-price Criteria in Renewables Auctions

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Executive Summary



- Use of non-price criteria (NPC) in auctions is important to deliver renewables projects which are deliverable, on time and on budget, and provide long term value to society and the environment.
- NPC must be well-designed, carefully implemented, with transparent assessment and monitoring of commitments to avoid overcomplication and risk of legal challenges.
- Seabed leasing auctions for offshore wind are best suited for use of NPC, as it is early enough in the development stage for commitments to be delivered; and avoids having to rely on purely financial bidding which risks adding to the cost of offshore wind.
- The most appropriate NPC are track record and deliverability of projects. Beyond that, criteria related to sustainability (circularity; workforce and skills); ecological protection and enhancement; and supply chain development.
- NPC in new offshore wind markets should be focused on deliverability and track record, and included as a pre-requisite to participate, rather than a point of competition.
- More diverse non-price criteria are best suited to mature offshore wind markets where there will generally be more competition from developers to build a project.
- It is more complicated to apply non-price criteria into offtake (CfD) auctions, with re-ranking of bidders the best approach to properly incentivise the right behaviour.
- It is important that there is transparency of how successful bidders were scored against NPC; what commitments have been made and how they will be held accountable for delivery at different milestones.

Introduction

Historically, renewables auctions have been based on lowest price bids win, so that competition can lead to price discovery for different technologies. The downside of that approach in more recent times has been unsustainable pricing levels felt through the supply chain and lack of progress in gaining the wider benefits associated with renewable energy deployment, such as delivering wider local supply chain benefits.

Therefore, the use of non-price criteria (NPC) in auctioning of seabed rights for offshore wind, and support mechanisms for renewables more broadly, is gaining more traction in Europe and globally. SSE Renewables has extensive experience of such NPC internationally having participated in auctions including ScotWind, the Polish offshore license tender; the Gippsland feasibility license tender in Australia, and the Hollandse Kust West tenders in the Netherlands.

Whilst the principles in this paper should apply to all renewables auctions, it primarily focuses on offshore wind, where auctions for seabed leasing and CfDs are more common.

Pros and Cons of Non-Price Criteria

SSE Renewables broadly supports the use of NPC in renewables auctions, so that they focus on rewarding the developers and project which can deliver long term best value to society and the environment, rather than simply lowest cost projects, or which bidder is willing to pay the most for a site.

However, if not well designed, implemented, assessed and commitments monitored, NPC risk simply making auctions overcomplicated, untransparent, at risk of legal challenge, and lead to bidders making commitments which they cannot or will not deliver on. There is also a risk that use of NPC leads to a proliferation of additionalities being required of bidders e.g. building an electrolysis of floating solar project, which increases overall costs and loses the focus on offshore wind deliverability to meet increasingly ambitious targets.

SSE Renewables believes that different types of NPC are best suited for different types of auctions and dependent on the maturity of the market. These different situations are taken in turn below.

Seabed auctions

SSE Renewables believes that seabed leasing auctions for offshore wind projects are best suited for use of NPC. There are three main reasons – firstly, auctions that essentially focus on awarding to the highest financial bidders results in making the cost of offshore wind much higher than it needs to be because leasing costs will need to be recovered, ultimately from billpayers. Secondly, NPC can incentivise developers to make commitments, whether it be on innovation or supply chain, which are at an early enough stage for them to be fulfilled. However, unless the criteria are carefully defined, have clear guidance and assessed on their deliverability (with penalties for non-delivery against milestones), it risks bidders simply making commitments they cannot or do not intend to fulfil. Thirdly, applying NPC at seabed leasing stage will ensure that it applies to all offshore wind projects, whereas if done at CfD/offtake stage, they wouldn't apply to projects which choose a PPA or merchant route to market.

A system could also be developed in which NPC are part of both the seabed lease and CfD process with the same factors monitored which become more defined as the project progresses through its development cycle. CfD award, in effect, becomes an important milestone for the NPC.

For new offshore wind markets, SSE Renewables believes that the non-price criteria are best focused on the track record of the developer and the deliverability of the project to ensure that the first projects in that market can be delivered efficiently, cost-effectively and on time. Newer markets will generally have more risks so adding in too many innovation or detailed local supply chain requirements will risk overcomplicating things. **Where wider non-price criteria are used, it should be as a pre-requisite to participate, rather than a point of competition e.g. committing to undertaking a full Life Cycle Assessment of the emissions from a project. Price criteria should be limited to a capped level, like in ScotWind and the Netherlands, and be a last resort where bidders score the same on NPC elements.**

More diverse non-price criteria are best suited to mature offshore wind markets where there will generally be more competition from developers to build a project, so use of NPC can be a good way of maximising wider benefits and differentiating between bidders without having to resort to who is willing to pay the most. In this case, non-price criteria should impact ranking of bidding alongside any pricing criteria, which itself should be capped.

CFD auctions

It is more complicated to apply non-price criteria into CfD auctions where bidders are usually ranked on the basis of lowest strike price bids. This will become more complicated as we see an increased trend of projects taking part CfD/part PPA routes to market.

There are two broad approaches to how NPC can be integrated into a CfD – either a strike price top up/bonus; or a re-ranking of bidders.

SSE Renewables believes that **the re-ranking of bidders is potentially the better approach**, as it is best placed to properly incentivise and reward the right behavioural change that maximises the wider economic and environmental benefits that renewable projects can deliver. This is because it incorporates NPC directly within the auction process as opposed to being an optional add-on under a “Top-up” model. The tradeoff is increased complexity of the auction methodology, but this could be addressed by using robust and quantifiable non-price factors and ensuring the right balance is struck between price discovery and non-price factors.

Preferred types of non-price criteria

There is a wider range of potential non-price criteria which could potentially be used in auctions and appropriateness will depend on several factors, such as maturity of the market; and the needs of a specific country or state. Overall, **SSE Renewables believes the most appropriate criteria to include across different types of auctions are related to track record and deliverability of projects. Beyond that, criteria related to sustainability (circularity; workforce and skills); ecological protection and enhancement; protection of human rights; and lower carbon supply chain development, are the most appropriate NPCs.**

Theoretically, NPC related to supply chain commitments are probably best suited to combined seabed and offtake auctions provided the auction and award needs happen early enough for developers to be able to execute future commitments.

Systems integration can also potentially be appropriate criteria, although better suited to seabed leasing auctions where there are specific grid congestion challenges in a given market and the TSO/government requires innovative ideas of how to deploy more offshore wind without putting the system under further pressure. Such criteria should not be developed in isolation from wider market design efforts related to how best to integrate renewable technologies and ensure resilience of the electricity system.

Assessment of non-price criteria and need for transparency

The main risks around the introduction of NPCs are **lack of objectivity and transparency in the assessment; and the need to hold bidders to account for the commitments they make**. Ideally, where non-price criteria are used, they should be easily measurable with specific actions that developers pledge to deliver against a binding timeline. This should be supported by clear guidance for bidders. Where criteria are more complicated, such as innovation, there should be an independent expert panel who assesses the bids.

Once the auction results are announced **it is important that there is transparency of how successful bidders were scored; what commitments have been made and how they will be held accountable for delivery at different milestones**. It is important that a robust penalty system is in place, managed by a regulator or authority with the powers to enforce them.

Conclusion

The use of NPC in auctions is not a straightforward task and it would be impossible task to try and standardise their use across very different countries and markets at different stages of their offshore wind and wider renewable energy transition. Nevertheless, it is a prize worth making the effort for – a sustainable renewable energy sector which delivers long term value for society. SSE Renewables looks forward to continuing to engage constructively in discussions on this topic at a UK, European and global level through organisations such as Wind Europe, GWEC, and the Global Offshore Wind Alliance; as well as directly with governments and regulators.

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