



To : European Commission DG Ener

From : TotalEnergies

Date : March 1, 2024

Subject : Design elements of renewable energy auctions

1. When seeking about criteria harmonization, price only auctions are the solution

a. Energy transition cannot afford further roadblocks induced by national individuality regarding auction requirements

- **Today, not two auctions resemble each other**, sometimes not even in the same country in the same year. This is maximum inefficient.

b. Huge potential for harmonizing the auction design through price only auctions

- **Price is the smallest common denominator, not hampered by different national views on beauty criteria and their respective weight.** This would massively simplify and thus speed up award process for States and developers and cater for more comparability in future.

2. Price auction and fully merchant offtake ease awards and therefore offshore wind deployment

- **The definition of “auction design” contains two dimensions:**

- Award criteria
- Award: site, permit, grid connection, tariff...

- **For these both dimensions, advantages in:**

- Criteria: uncapped bid price auctions without beauty criteria
- Tariff: fully merchant offtake without guarantees/support by state

3. Uncapped price auctions are the ideal for bottom-fixed offshore farms

- **Unsubsidized Offshore wind (OFW) is a big European success story:** amongst others, EU support helped to continuously lowering of LCoE, now technology at grid parity (apart from floating). Rather than asking for subsidies, OFW now ready to pay for the lease. No

need to now fall behind what has been achieved in the past and to again (via CfD floors) subsidize an industry that does not need these subsidies anymore.

- **Given the alternatives, pure bid price auctions are still the most efficient award scheme** for mature, subsidy-free technologies.
- **The state should maximize the value of the rare good that offshore wind sites are** The so generated revenues (lease fees) can then be used for lowering the impact for the rate payer (as already happening in Germany where the lease fees are being re-invested into the offshore wind grid, making this a zero-sum game for the rate payer). Thus, the argument that lease fees make energy more expensive for the rate payer doesn't hold true per se. Also, investments in environment/sustainability can be done in a more targeted manner by the state.
- **Beauty criteria typically cost money** (NL: bid preparation costs for environmental bid between 6-9 m€, up to 1GW electrolyzers to be committed to, costing around 2,5bn€), **are latently discriminating** (always more geared towards one bidder than another, depending on company background and activities, or simply because they require massive financial means) **and tend to ask the developer to engage in activities he's not necessary the most suitable party for** (NL: asking OFW developers to engage in floating PV, thus making a criterion that is NOT OFW-related potentially the decisive criterion for who gets to build the offshore wind farm).
- **In the worst-case beauty criteria cost money even without doing what they are supposed to do: providing for distinction between the bidders.** Effectively so far, no undisputed beauty criteria have been established in the industry.
- **If compliance with certain criteria** (sustainability/environment-related/system integration-related) **is important to the state/regulator then rather than making these aspects a beauty criterion** (thus leaving their fulfillment to the appetite of the bidders by making them subject to competition), **such criteria should better be 'tick the box'-requirements with competition still taking place on a bid price only basis.**
- **In bid price only auctions, the winner can be determined easily at the end of the auction:** unambiguously and with legal certainty. The regulatory, bureaucratic, and monetary effort of beauty contests instead are quite a burden for both administration and bidder (month-long preparation and evaluation processes).
- **Unclear how later non-compliance with beauty criteria commitments will be dealt with.** Withdrawing awards doesn't help the energy transition, penalties again are nothing else than an additional monetary component and don't help ensuring what the regulator had in mind when coming up with this criterion in the first place.
- **Plurality of bidders is not endangered:** future build-out volumes significant and if lease fees are payable after COD (i.e., from the revenues) then ability to pay lease fees is not a function of financial strength pre-COD. Also, in multi-site tenders' awards could be limited per bidder.

- **Project realization not endangered by lease fees as successful bidders need to provide significant securities and front material development costs that would be sunk in case of withdrawal.** Also, no bidder is forced to bid beyond his valuation. Finally, it were entirely projects that were awarded in CfD(like) auctions that have been halted/abandoned lately. **The winner's curse is not a result of the auction design (CfD strike price vs. negative bidding) but merely a matter of wrong judgement of costs and revenues at the time of the bidding.**
- **Passing on of the lease fees to the rate payer is also not an automatism:** as in Europe power prices are market prices determined at the power exchange as result of demand and supply, developers cannot simply ask higher prices for their produced power. **The same goes for CPPAs:** their prices are very much linked to market prices as determined by the power exchange.

4. Merchant offtake rather than guaranteed offtake via CfDs

- **With the floor they provide at periods of low power prices, CfDs work effectively like a subsidy, but it's hard to see why the market volatility risk should be borne by the rate payer or state (i.e., the taxpayer) for a mature technology at grid parity.** It is rather the developer who - with the respective asset portfolio - is in a much better position to manage said risk.
- **The call for more CfD surprises in the light of the obvious problems created by them:** de facto all lately stalled or canceled OFW projects have been projects trying to secure safe offtake via CfDs and stumbled upon the timing issue (i.e., at the time of bidding for the CfD, costs and interest rates for financing are not known. If then between award and FID costs and interest rate develop unfavorably, taking FID is not possible).
- **This problem will not be automatically solved by generically adjusting CfDs to inflation,** as commodity prices behave quite arbitrary and macroeconomic developments are hard to predict. Merchant offtake seems still to be the best insurance against cost/interest volatility as power prices behave like a communicating vessel to commodity prices (other than an inflexibly locked-in CfD).
- **CfDs attract developers who require the guarantee that CfDs provide to raise considerable amounts of debt while providing little equity. Such models are not necessarily very robust** as when interest rates for debt increase, such developers are inclined/forced to abandon the project due to a lack of rentability. **The state should thus rather focus on bidders who are intrinsically motivated to generate power** (because it is part of their business model) **rather than transforming renewable energy projects via CfDs into pure financial instruments,** thus becoming subject to speculation.