

S U C C E S S S T O R Y

How MEDREG Helped Algeria's Energy Regulator to Launch its Renewable Energy Auctions Scheme



MEDREG



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ABOUT CREG

CREG is the **Algerian Commission for Electricity and Gas Regulation** and one of MEDREG's 27 members. It is an independent body with a legal status and financial autonomy. It has three main missions:

- Realisation and control of the public service of electricity and distribution of gas by pipe
- Advising of public authorities on matters related to the organisation of the electricity market and the functioning of the electricity market and the national gas market
- Supervision and control over relevant laws and regulations



CHALLENGE

In 2018, Algeria implemented a new strategy for renewable energy development – introducing tenders as a method to determine their renewable energy selling price.

The progressive decline in the cost of renewable energy technologies and the integration of variable renewable energy into the grids have led to the adoption of renewable incentive public policies. Among

these policies, auction schemes have become increasingly popular, with a growing number of countries adopting them over the past decade, including countries in the Mediterranean region.

In this framework, the Algerian regulator CREG had to contribute to the process of validating renewable energy selling prices resulting from investors' responses to tenders and from auctions. As a first step of

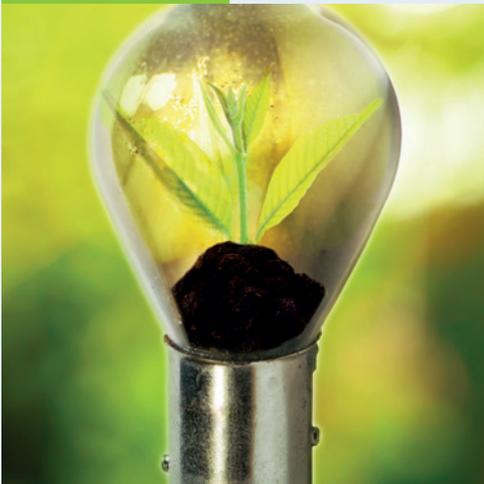
this implementation, **in November 2018, CREG launched an auction for the production of 150 MW of photovoltaics (PV).**

CREG had never undertaken such an auctioning mechanism to determine energy prices. Consequently, it felt that it was **lacking some technical knowledge and points of reference to effectively**

- **handle the process;**
- **define appropriate requirements for applicants to participate in the auction;**
- and
- **select the most appropriate bidder.**

At the beginning of October 2018, CREG requested MEDREG's technical assistance to receive practical information on the validation of electricity prices issued from the upcoming tenders.

In particular, CREG was interested in increasing its knowledge from other countries' experiences in determining selling prices and learning about the calculation models and evaluation tools that it could also adopt.





INITIATIVE

In order to support CREG in this process, MEDREG organised a two-day **technical workshop on “Factors influencing prices in renewable energy auctions – Lessons for Algeria”**, on 2 and 3 October 2018 in Algiers. This tailor-made activity involved experts from organisations at the forefront of the analysis of renewable energy auctions who have developed expertise on

diverse auctioning experiences throughout the world. Taking into account the Algerian legislative framework, the workshop looked at **ways to include stakeholders’ views in the design of auctions, define appropriate requirements to participate in the auction and select a winner that would effectively implement the project.**



KEY RESULT

The MEDREG workshop presented to CREG the perspectives of different stakeholders on RES auctions mechanisms, including the industry, international financial institutions, policy makers and research projects, in order to give CREG a complete overview of the different positions to be considered when developing a tender procedure based on auction mechanisms.

In particular, representatives from Enel Green Power and RES4MED underlined

the importance of developing **consultation processes** to attract international Independent Power Producers as well as financial institutions, agreeing on the terms and conditions with potentially interested counterparts in advance. In addition, the industry recommended **including targets related to the project construction**, not only to the tender process, as part of the evaluation criteria.

International investors such as the European Bank for Reconstruction and Development (EBRD) also shared their own perspective. They highlighted that since the selection process is at the core of the auction system, the **criteria for selection and features of the process of a tender pro-**

cedure could highly impact and influence the final price outcome. They added that a **clear specification of what should be procured** is another crucial factor in achieving a **competitive price**, which should be the **determining factor** for selecting the winner of the procedure.

Other suggestions were given by the IRENA representative, who pointed out that the price resulting from an auction should be based on

- **Country-specific conditions**, such as cost of finance, cost of labour, cost of land and renewable energy resource availability;
- **Investor confidence and learning curve**, which includes credibility of off-taker and guarantees, periodicity of auctions (as part of a long-term plan), confidence and lessons learnt from past auctions and reuse of documents/studies from past rounds;
- **Policies supporting renewables**, including national plans and targets, fiscal incentives (tax credits, exemptions etc.), grid access and priority dispatch; and
- **Auction design**, which should aim at ensuring project delivery, fulfilling development goals and encouraging new players to enter the market.

Finally, the AURES Project delegate described the **discounted cash-flow model** adopted in some European countries,



stressing that it proved helpful in giving policymakers an estimate of non-strategic bid prices, quantifying also the impact of different auction designs on the business case of a single project. Moreover, it was also emphasised that **higher penalties and pre-qualification requirements could ensure project realisation**, although they are likely to increase bid prices. Lastly, it was remarked that auction design is one of several bid price determinants, but its design features could reduce the incidence of under-/overbidding.

All the recommendations made by the different stakeholders were based on the results of the application of different tender procedures at the national level



IMPACT

In the framework of CREG's exhaustive capacity building process, **MEDREG's workshop provided effective tools to assess the offers made through auctions**, particularly with regards to the **tariffs** based on RES auctions.

During the workshop, the presentation of experiences and aspects of developing a tender procedure based on RES auction mechanisms was very useful, especially at this step of the launch of the auctions. The selection process is underway. More details are available on [CREG's website](#).

The success of this first call for tenders based on auction mechanisms is essential for the energy sector and for the devel-



“ Thanks to experiences of RES auction systems implemented in various developing regions of the world, shared in the MEDREG support framework, we gained a clear idea on the priorities to take into consideration in order to evaluate and

worldwide, providing CREG with a real comparison tool to adopt the most appropriate and feasible tender design for RES auction mechanisms in Algeria.

The presentations made by the different stakeholders are available on MEDREG's website under the [event section](#).

At the end of the workshop, **the majority of CREG participants qualified the training class as “excellent”**. In addition, 93% of the participants indicated that they would be “very likely” to attend another MEDREG training in future and expressed their satisfaction with regards to the relevance of the topic discussed in light of their jobs.

opment of renewable energies in Algeria. This is a “national interest” operation that will initiate the launch of other capacities while **promoting the creation and establishment of wealth and employment-creating industries** and which will allow the strengthening of national know-how in the field. This pilot phase will pave the way for the large-scale deployment of renewable energies in Algeria.

The expertise shared in the Algerian workshop also **served as a basis for a report that provides an analysis of auction mechanisms to promote RES**, to be issued by MEDREG in 2019.

endorse the fairest and most economical viable RES electricity prices in Algeria,

Mr. Hichem Rimouche
CREG Tariff Director





COMPLEMENTARY MATERIAL

More information on what steps energy regulators should take to run successful auctioning systems is available in this interview of Mr Fabian Wigand, Associate Director at Energy Navigant:

www.youtube.com/watch?v=RH5jZ80SmQI



PHOTOGRAPHIC TESTIMONIALS



Group photo on the first day of MEDREG's workshop for CREG, 2 October 2018



CREG's regulatory staff from the Tariffs and RES Units participating in the second day of the MEDREG's workshop, 3 October 2018



MORE INFORMATION ABOUT THIS SUCCESS STORY

For more information, visit MEDREG's website and read the news story about the workshop:
www.medreg-regulators.org

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