

# **INNOVATION FUND**

**9th IFEG meeting**

**28 April 2022 10:00 – 12:00 CEST**

# CCfD study

DG CLIMA

## **CCfD study: outline**

1. Background
2. Competitive Bidding Mechanism – short introduction
3. Supporting service contract – setup
4. Supporting service contract – objectives
5. Supporting service contract – work packages

# 1. Background

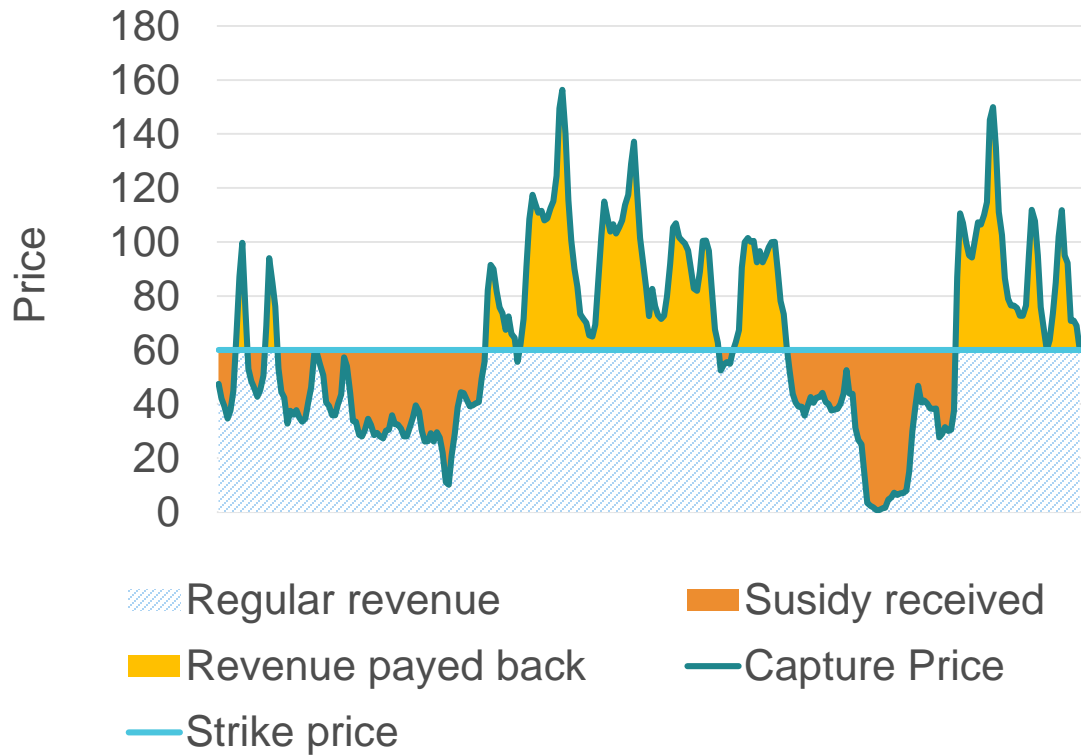
- Introduction of Competitive Bidding Mechanism (CBM) as a complementary tool under IF was proposed under ETS revision.
- Once ETS revision is adopted, Innovation Fund Delegated Regulation has to be revised to operationalise CBM, dedicated calls for proposals and their terms & conditions will have to be developed.
- A supporting service contract (study + advisory service) is currently being launched.
- Engagement of MS is of key importance.

## 2. CBM – short introduction (1)

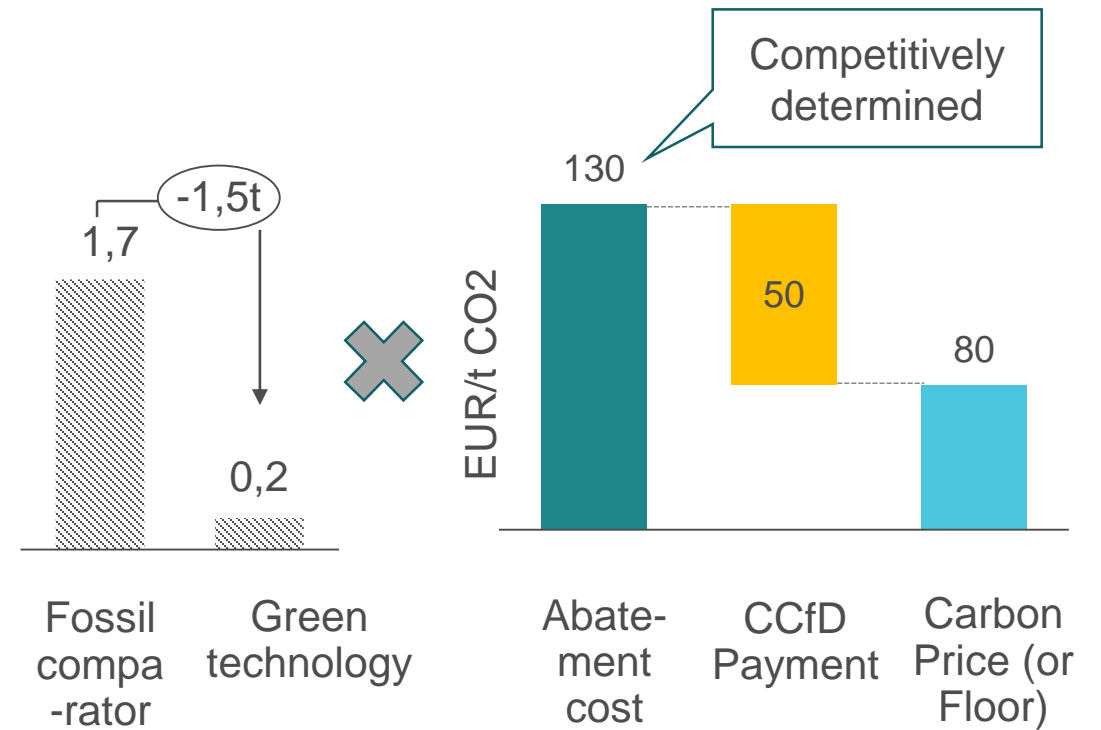
- **Way to allocate the support:** auction/competitive bidding
- **What kind of support is allocated:** contract for difference (CfD) or specifically carbon contract for difference (CCfD)
- As a result of successful auction a **C(C)fD is signed** between public body and project promoter (private party)
- **Auction determines the winners** by ranking the bidding prices
- From **strike price** amount of funding is calculated for a given **implementation period**
- It is a very similar approach as for **current renewable auctions in MS**
- CCfD are already run in NL (SDE++) and are being prepared in DE, FR, DK

## 2. CBM – short introduction (2)

Exemplary Contract for Difference



Exemplary Carbon Contract for Difference



### 3. Supporting service contract - setup

- **Title:** *"Assistance in the Analysis and Set-up of a Competitive Bidding Mechanism for Contracts for Difference, Carbon Contracts for Difference or Other Comparable Schemes under the Innovation Fund"*
- **Timeline**
  - Tendering ran from 11/03 to 13/04
  - Need for strong economic and legal expertise
  - Offers received and evaluation is on-going
  - Contract is expected to be signed in June
  - Contract is split in 2 parts and altogether will last 15 months
- **5 Work Packages**

## 4. Supporting service contract - objectives

### Objectives:

- **(in Part 1)** to assist in the **economic assessment** and of different competitive bidding mechanisms and mechanism design features, to be implemented under the IF.
  - Assessment the design features options
  - Preparation of DR revision, budget planning
  - Organisation workshop with Member States and stakeholders
- **(in Part 2)** to assist in **setting up a selected competitive bidding mechanism** by developing full legal terms and conditions for a pilot tender and in defining other aspects of governance and practical implementation.
  - preparation of the first auction(s),
  - preparation of legal Terms & Conditions for the calls,



## 5. Supporting service contract (1)

### Work Package 1

- **Assessing the current operation of the IF and rationale for moving a part of IF resources to a competitive bidding mechanism**
  - More **support to early deployment needed** (steep decarbonisation pathways for industry post-2030)
  - To cut the cost of decarbonisation, the best solution would be to provide investors with a **predictable carbon price** (corresponding to the envisaged decarbonisation pathway)
  - In this way a **broad portfolio** of low-carbon technologies can be put on an equal footing with carbon-intensive technologies presently in use. (difference to other policy tools, financial instruments)
  - **Carbon price in the EU** has so far been very volatile and is likely to remain insufficient for deep decarbonisation technologies
  - Tendering enables **price discovery** and cost-effective approach

# 5. Supporting service contract (2)

## Work Package 2

- Exploring and assessing types and design features of possible CBM + workshop with stakeholders
- Defining 2 specific, consistent options for CBM to be operated under the IF

### Targeted demand for the competitive bidding scheme

- Which technologies will be called
- Volume vs. project support
- Technology-neutral, technology-specific or multi-technology mechanism?
- Choice of auctioned volumes. Fixed volume vs. fixed budget?

### Contractual design features

- Selection and definition of reference price
- Selection and definition of strike price (indexation?)
- Volume protection
- Incentivisation to find an off-taker

### Auction design

- Procedure (e.g. sealed-bid, descending)
- Minimum level of competition
- Winner selection criteria
- Clearing mechanism,
- Winner remuneration (e.g. pay-as bid, pay as clear?...)

### Liabilities & Rights

- Commitment to contract signing (e.g. Bidding Bonds)
- Contract and payments schedule
- Penalties (e.g. non-execution, delay, underperformance...)
- Settlement mechanism



## 5. Supporting service contract (3)

### Work Package 3

- **Estimating and quantifying the impact of 2 possible mechanisms in terms of:**
  - Expected GHG abated
  - Expected impact of Innovation Fund budget
  - Reasonably expected impact on innovation/technology costs
  - Reasonably expected number of project/capacity/volume delivered
  - Administrative effort
- **Additional questions:**
  - Costs to be internalised in the bids
  - Possibility of cumulation with other support mechanisms
  - Interaction with ETS

## 5. Supporting service/study contract (5)

### Work Package 4

- **Development of selected competitive bidding mechanism into full pilot tender call and its legal terms and conditions**

#### **To be delivered:**

- The fully developed, detailed contractual set-up of all design features discussed and chosen upon completion of Part 1 of the contract.
- Specification of qualification requirements for bidders:
  - **Technological requirements** where an eligible technology already falls under the EU legislation requirements/certification/guidance (e.g. sustainability criteria for biomass, taxonomy requirements, conditions for low-carbon/renewable hydrogen)
  - Requirements concerning **legal status, financial health, past experience**
  - Other

# 5. Supporting service/study contract (5)

## Work Package 4



Source: *Guide for Designing Contracts for Renewable Energy Procured by Auctions*  
[www.idb.org](http://www.idb.org)

## 5. Supporting service/study contract (6)

### Work Package 5

- **Definition of additional aspects of implementation such as management of the mechanism, implementing bodies, IT infrastructure and budget management**

