

# Guide to the third auction

**This short guide is only applicable to the third WCaG auction to be held on 26 October – 1 November 2020.**

## Overview

Your application must be submitted to [wcag@forestrycommission.gov.uk](mailto:wcag@forestrycommission.gov.uk) by midnight on Sunday 11 October 2020. Once your WCaG application has been accepted by the Forestry Commission (FC), you will be invited to participate in the online auction, which is used to agree the price at which your Woodland Carbon Units (WCUs) can be sold to the government.

The auction will operate on a simple single-shot, sealed bid process. You will therefore be asked to provide your best offer of the price that you require in order to make your woodland creation project viable and worthwhile. Bids are in Pounds Sterling per Woodland Carbon Unit (£/tCO<sub>2</sub>).

- **Auction Budget**: The budget for the auction is £10 million.
- **Reserve Price**: In advance of the auction the FC will set a reserve price which is the maximum that it is willing to pay for each WCU; the reserve price will not be published.
- **Maximum WCUs**: In addition the number of WCUs that the Forestry Commission is willing to buy will be limited to 90% of the total number that are entered into the auction at or below the reserve price.

The average successful bid price for WCUs in the first WCaG auction was £24.11 and 18 of 31 bids were successful. In the second auction, the average successful bid price was £19.71 and 27 out of 77 bids were successful. However, this should not be taken as a firm indicator of acceptable bids and it should be born in mind that the auction is a competitive process and lower bids are more likely to be successful.

Once the auction closes, the bids will be accepted on the basis of price (below the reserve) until the available budget has been committed and the limit of 90% WCUs is reached.

For successful bids, the price agreed at auction will be index-linked on an annual basis based on the Consumer Price Index 12-month rate in April of each year, as published by the Office of National Statistics. Index-linking begins from the Woodland Carbon Code project start date, which is the last date that trees are planted for the project, and runs until the agreed verification date for each vintage of carbon.

## How the auction works

### Reverse auctions

Typically, auctions are held in order to sell items to the highest bidder, so bidding starts at a low price and increases until the auction closes or only one bidder remains. However in WCaG, where the Government is looking to buy items (in this case sequestered carbon) rather than sell them, it is the lower bids rather than the higher ones that will be successful. This is known as a reverse auction.

### Reserve price

In order to ensure that the FC doesn't over-pay for the WCUs that it buys, it will set a reserve price for the auction, which is the maximum price that it is willing to pay. The reserve price will not be published as this will help to ensure that participants only bid for the amount of money that they require in order to make their projects financially viable.

### Ensuring competition

In order to be effective an auction has to generate competition between the participants. This is usually achieved by limiting the supply of the item(s) that are in the auction; so, for example there might only be one item for sale and all of the participants are competing to buy it.

For the third WCaG auction the Forestry Commission will be limiting both the total money that is available (the budget) as well as the maximum number of WCUs that it is willing to buy. This will ensure that there is genuine competition between participants whilst still allowing for different types of woodland project to bid for the amount of support that they require. The budget for the auction is £10 million and the number of WCUs that the Forestry Commission is willing to buy is limited to 90% of the total number that are entered into the auction below the reserve price.

### Third auction design

To provide balance between the planting of native and other woodland types supporting through the offer of contracts over the life of the Woodland Carbon Guarantee, up to 75% of the available budget for the third auction will be ring-fenced for 'predominantly native woodland' projects. Applicants will be asked to confirm whether their proposal complies with the following definition of 'predominantly native woodland':

- At least 60% of the net area proposed for planting comprises 'native woodland' as defined by the Ancient and Native Woodland Practice Guide, which requires that:

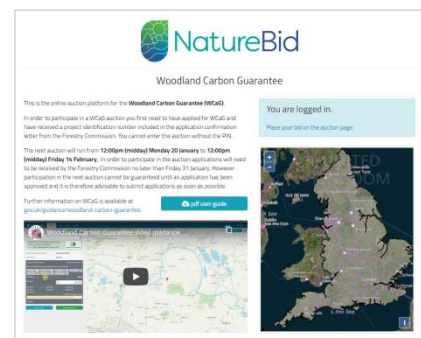
- a minimum of 80% of the canopy comprises native species, of which up to 20% may be 'near native' or naturalised species, planted in a design that is sympathetic to native woodland.
- Up to 20% other species planted in a design that is sympathetic to native woodland.
- Up to 40% other woodland types.

## Determining successful bids

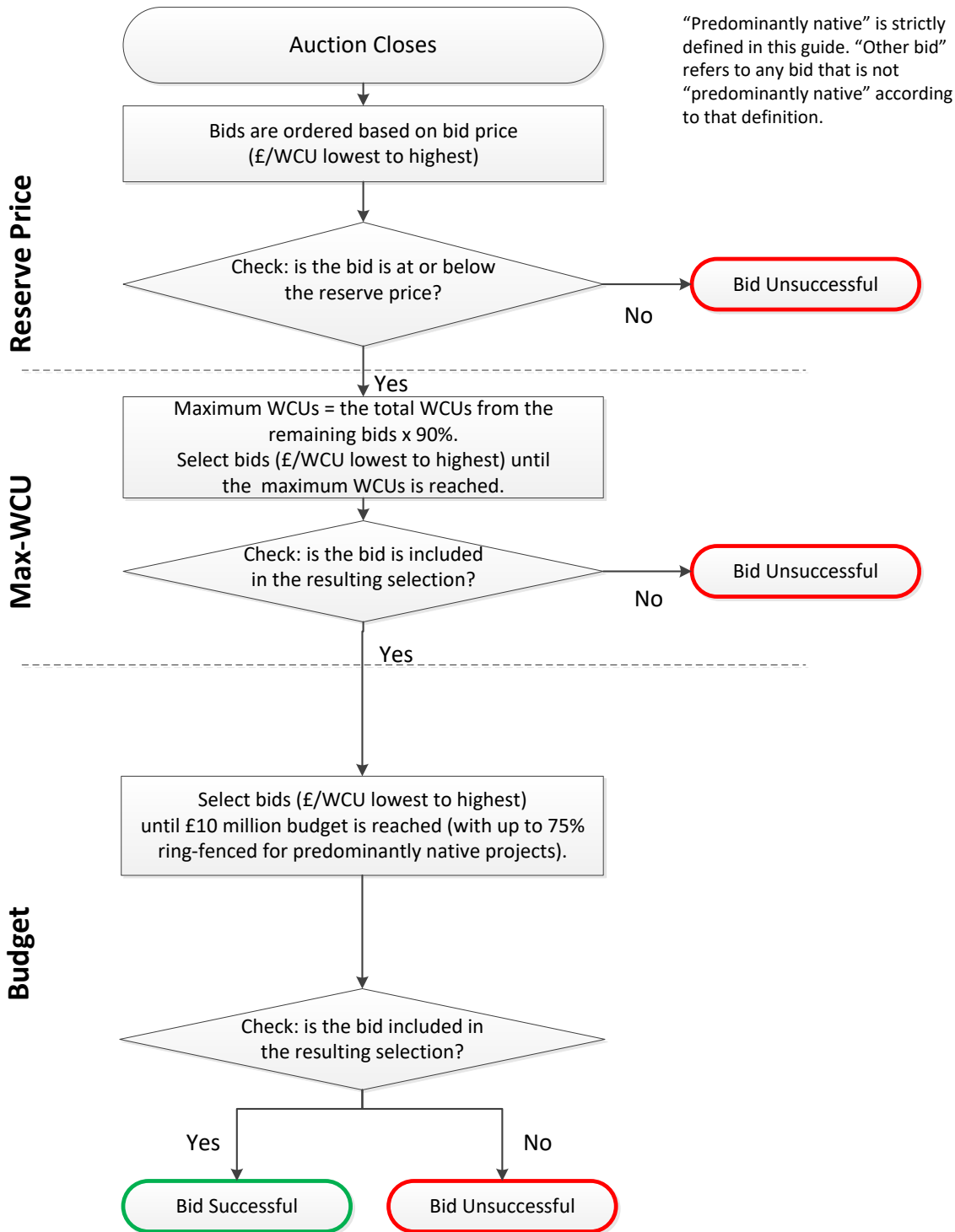
The diagram overleaf indicates how the reserve price, budget and the maximum number of WCUs are combined to determine which bids are successful.

## How to bid in the auction

Detailed information on how to place a bid in the auction, including a printable guide and an online video, are available from the auction site at: <https://wcag.naturebid.org.uk/>.



# Determining successful bids



\*If there is a final tie between bids, then the tied bids will be selected in order to maximise the number of WCUs that are successful in the auction.

Third Auction