



Department  
of Energy &  
Climate Change

# CfD Allocation Process Overview

9 April 2014



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of Energy &  
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# Housekeeping



# Objectives

Published the Draft Allocation Framework on 8 April. We want to:

Explain how the Allocation Framework interacts with the Regulations:

- Regulations cover key principles and features that where stability is particularly important; whereas
- The AF provides the detail that sits beneath the Regs and also preserves flexibility.

Highlight some of the key features of the AF;

- Little new policy here but more detail on the mechanics and timings and on policy concepts that have not been fully fleshed out previously.

Discuss the recent publication of the Consultation on directions to offer CfDs and provide an update on CfD budget setting process.

Not proposing to discuss capacity adjustment, TCWs, Payment Start, Termination and other post-signature features.



# Agenda

Time	Topic
09.30	Introduction and Objectives
09.35	CfD Budget Process Update
10.00	Eligibility checking, Application and Appeals
10.40	Auction Audit, Withdrawals, non-signature and Allocation delays
11.25	Tea/Coffee break
11.35	Consultation on directions to offer CfD
12.25	Auction Process
13.15	Close and lunch

# Next Steps After Today

DECC has just published CfD Implementation Plan – some of the dates the CfD programme is working to:

Stakeholder Feedback on the draft of the allocation Framework until 22 April

Responses to the Consultation on directions to offer CfDs by 23 April

DECC to consider feedback and revise the AF and Regs drafting

Joint Committee on Statutory Instruments Informal scrutiny of the Allocation Regulations (sometime in May)

Laying of Regulations before summer recess

Publish Final Allocation Framework in advance of 1<sup>st</sup> Allocation Round – currently aiming for 1<sup>st</sup> round on 14 October



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# Competitive Allocation and Budget Management



# Competitive Allocation and Budget Management

The consultation on competitive allocation closed on 12 February. It set out the following proposals:

- Government intends to divide the CfD budget between two groupings: of more established technologies and a group of less established technologies,
- That a period of First Come First Served will not apply; we would commence with allocation rounds for both groups.
- The size of the budget in the CfD allocation rounds for more established technologies grouping would be set to ensure competition from the start of the CfD regime. **Therefore at least the more established technologies would be subject to an auction process from the beginning of CfD allocation.**
- We also set out our rationale for which technologies should be considered **established and less established.**



# Next steps

- Completed careful analysis of consultation responses
- Recognise stakeholders wish to see the whole picture
- Policy update in late April will
  - Set out Government response on technology groupings and competition
  - Consult on our approach to biomass conversions, Scottish Islands and any technology specific minima or maxima
  - Provide the timetable for CfD budgets





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# Eligibility checking, Application and Appeals



The Eligible Generator Regulations define an Eligible Generator. Only an eligible generator may be awarded a CfD.

## Eligible Generator

Someone *intending to carry out a generating activity* in respect of an Eligible Generating Station

or

Someone *intending to operate or participate in the operation* of an Eligible Generating Station and another person *intends to carry out the generating activity*

Then must be *associated - significant interest (20% shareholding/ voting rights)* as defined in the Energy Act

## Eligible Generating Station

Technology specific definitions of each technology are set out in Regs.



Delivery Body will determine whether an eligible generator can take part in the allocation process in accordance with the Allocation Regulations.

Excluded Applications:

- CCS, Nuclear or Hydro (unless they generate >5MW)
- Technologies generating < 5MW - eligible for SSFiT
- Existing accreditation (RO or NFFO)

The Delivery Body is to carry out eligibility checks.

Verification checks set out in the Allocation Framework.



# Eligibility & Qualification

## General Qualification Requirements

Planning Consent

Connection Agreement

## Additional Qualification Requirements

Low Carbon Generation / Supply Chain Plan for CfD Units which have a generating capacity of 300 MW or more. Certification letter from government.

Offshore Generating Stations.

## Supplemental Requirements

May be set out in the Allocation Framework



# Application

The Regulations state that certain information is to be submitted in support of a CfD Application. This includes:

- Applicant name, company registration number
- Project name and location of CfD unit
- Capacity (MW) for each delivery year
- Target Commissioning Date and Target Commissioning Window
- A self-certification declaration that existing accreditation does not apply in respect of the relevant CfD Unit.



# Application

## Application

10 days

- Budget Notice
- Framework Notice

10 days

- Application Window

10 days

- Determinations
- Qualifying/Non-Qualifying



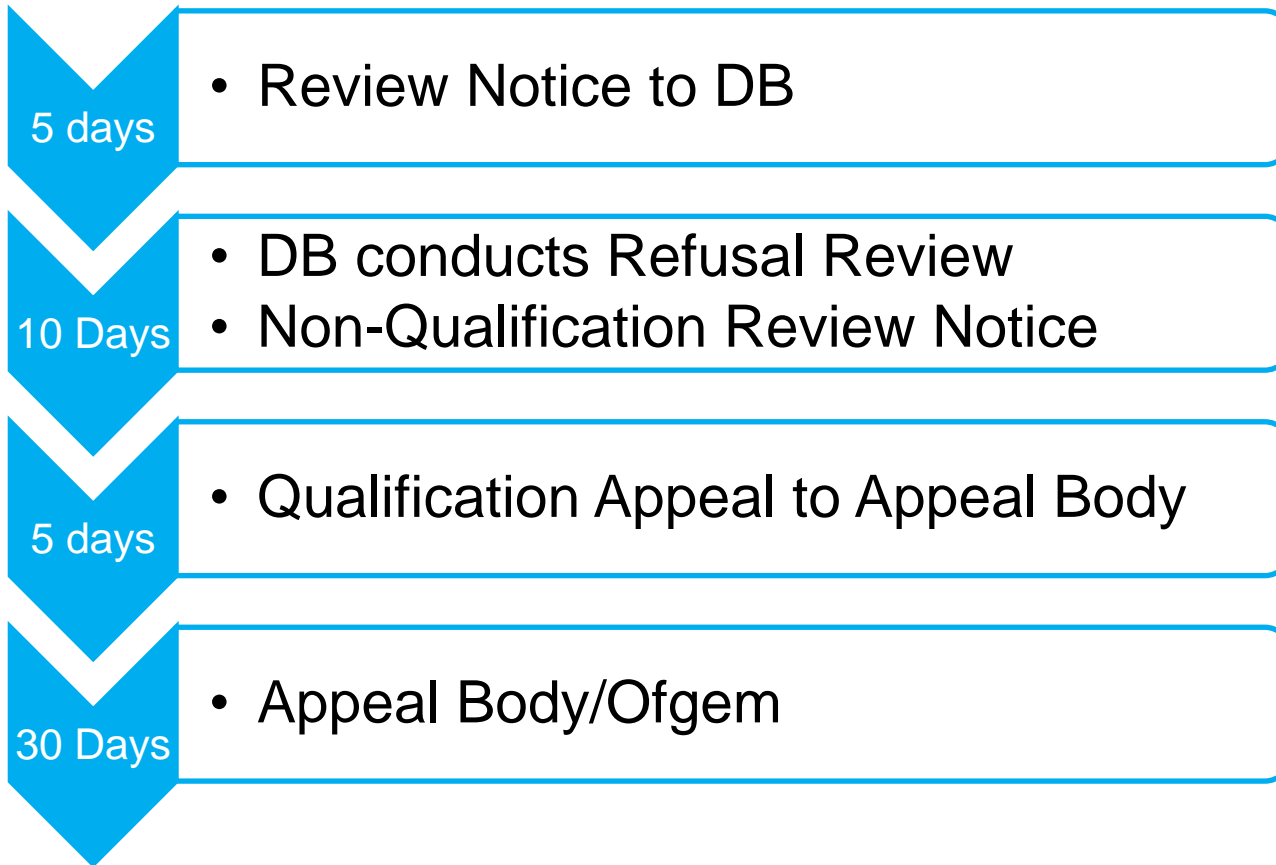
# Eligibility Appeals

Three tier Appeals process relating only to **eligibility** decisions:

1. Request Grid to review a non-qualification determination
2. Ofgem (30 days)
3. High Court



# Non-Qualifying Applicants







## Information to be submitted

No new evidence to be submitted in respect of Review or Appeal

New information relating directly to that supplied at application may be allowed  
e.g. legal submissions

## Complex Appeals

If Tier 2 appeals are not resolved within 30 days, the SoS can give direction for the auction to commence.

An appellant will be required to submit a sealed bid so that if an appeal is successful, bids can be considered and checked against the clearing price of the auction.

If a bid is equal to or lower than the clearing price, the applicant will be awarded a CfD.



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# Auction Audit, Withdrawals, non-signature and Allocation delays

April 2014



# Audit

The audit is a process that, as specified in the Regulations, will be carried out immediately following an auction.

It is designed to check:

- a) Delivery Body calculations are accurate; and
- b) the auction has been carried out in accordance with the Allocation Framework.

It is not designed to address gaming or anti-competitive behaviour.

Following an audit, the SoS will have 2 working days in which to decide to rerun the calculations, cancel the round, or approve the Delivery Body to proceed to contract notification.

The audit details will then be published, keeping bid data confidential and isolated from DECC and SoS.



# Allocation Delays

Allocation delays will be addressed by a mechanic which applies pre-contract signature, with key principles set out in the Regulations as follows:

An applicant will be provided opportunity to alter their target commissioning date and target commissioning window specified in its application where there is a delay that affects qualifying applicants.

This includes delays to:

- 1) the process prior to the auction commencing;
- 2) the process post auction, but prior to CfD notification; and
- 3) individual applicants involved in successful appeals.

Target dates will be extendable based on a day for day calculation for each day of delay.

In order to maintain flexibility, the Allocation Framework will set out a series of trigger dates from which such delay will be calculated.

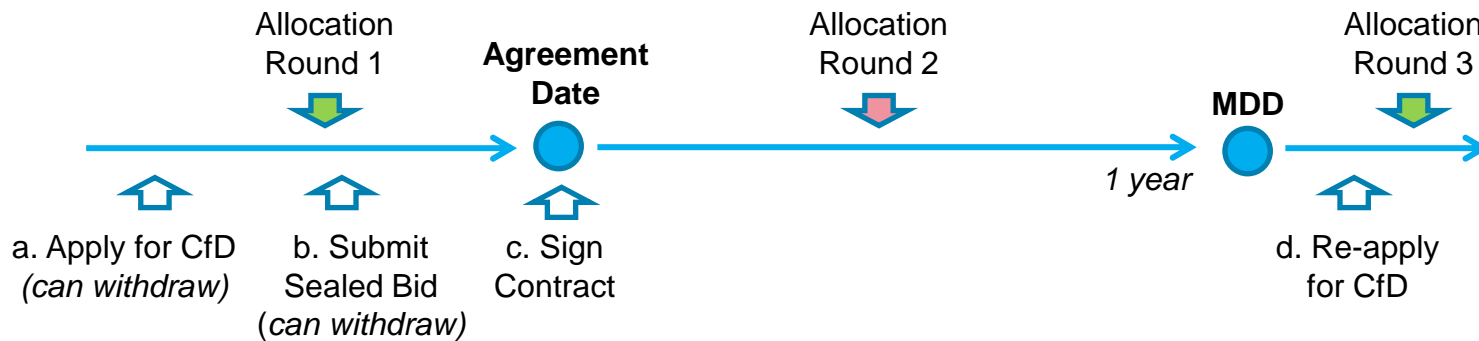


# Withdrawal & CfD Signature

We have continued to refine our policy to incentivise contract signature and milestone delivery (1 year post-signature).

The Allocation Framework and Regulations define that an applicant may validly withdraw their application during the application window or at the stage of submitting a sealed bid (where an allocation round is constrained).

The Regulations specify where an applicant fails to sign a CfD, or fails to deliver Milestone requirements (i.e. early drop out), the generating site attached to the original CfD application will be prevented from being considered in any allocation rounds occurring up until the (actual or theoretical) MDD.





# Questions

## **Withdrawal & CfD Signature**

Would this act as a suitable disincentive?

Is there a strong rationale for an exemption to these rules?

If so, what kind of situation would that be?

## **Any Other Considerations**

Audits?

Appeals?

Allocation Delays?



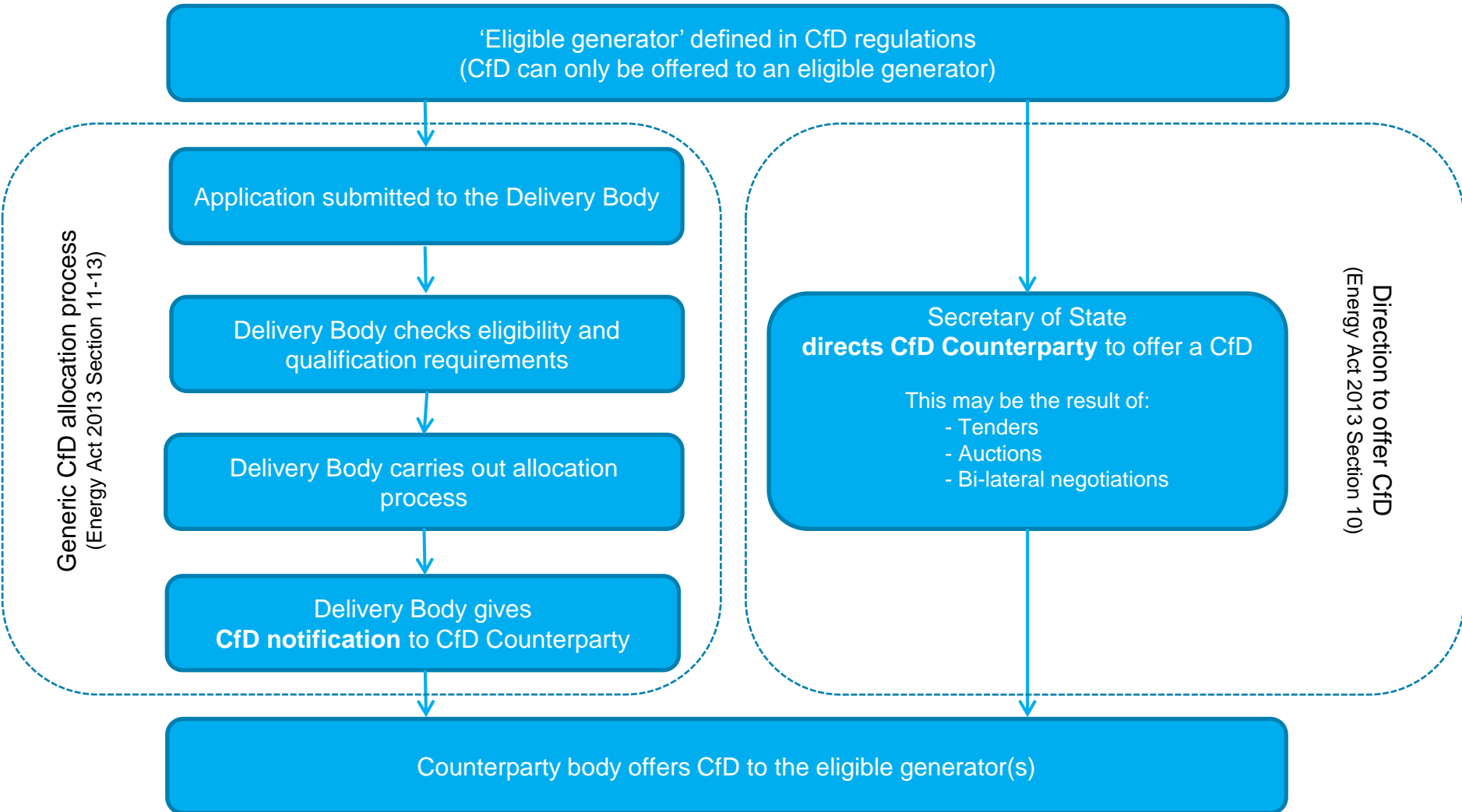
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# Consultation on Directions to Offer Contracts for Difference

April 2014



# Steps leading up to a CfD offer







# Proposed regulations

A direction made by the Secretary of State under section 10(1) of the Energy Act 2014 must specify:

- The deadline for the Counterparty to offer the CfD
- The deadline for the eligible generator(s) to sign the offered CfD
- The offer is no longer valid after the deadline to sign or if the offer is rejected

The requirements in section 10 of the Energy Act 2014 would also apply:

- Secretary of State can only direct the Counterparty to offer a CfD to an 'eligible generator'



# Eligible generator

## Previous consultation

An eligible generator is a person who:

- Intends to establish, operate or participate in the operation of an ‘eligible generating station’; or
- ‘Has an interest’ in a company that intends to establish, operate or participate in operation of an ‘eligible generating station’
- Where an ‘eligible generating station’ is one that uses one of the types of electricity generation listed in the regulations

*See ‘The Contracts for Difference (Allocation) Regulations 2014’ published for consultation in October 2013*

## Proposal

- ‘Has an interest’ to change to ‘associated with’
- ‘Associated’ has the same meaning as in the Energy Act 2008

*See ‘Consultation on Directions to Offer Contracts for Difference’ published in March 2014*



# How this power will be used

This does not replace the generic CfD allocation process

- The Government does not expect that Secretary of State will direct the CfD Counterparty to enter into a CfD with any generator that is within the scope of the generic CfD allocation regime as such a generator would be expected to apply for a CfD through the generic CfD allocation process.
- The Secretary of State would not consider a direction for any generator that has an on-going application in the generic CfD allocation process.

Situations where this power is likely to be used are very limited

- Large or unusual projects
- Where the standard terms are not suitable
- Where the generic CfD allocation process is not suitable

There is no obligation on the Secretary of State to use this power

Government may publish an updated policy position before the CfD regulations come into force



# Consultation questions

Consultation will be open until **23 April 2014**. The consultation asks:

1. Do you agree that the regulations contained in Annex A set out an appropriate process for the Secretary of State to direct the CfD Counterparty to offer a CfD to an eligible generator?
2. Do you have any other comments on the wording of the regulations contained in the Annex to the consultation?
3. Do you agree that the definition of an eligible generator should follow the principles set out in paragraphs 14 and 15 of the consultation?

## Additional point

We have received comments about the requirement to publish contracts. We are considering whether to include this in the regulations along the lines of the requirements in the generic CfD allocation process and the Investment Contract process. Further comments on this would be welcomed.

## Do you have any initial views or questions for clarification?



# Annex A – Draft Regulations

## Notes:

- these Regulations are to be made under the affirmative procedure, as per s.6(8)(b) of the Energy Act 2013;
- there is a statutory requirement for the Secretary of State to consult various parties before making these Regulations, as set out in s.24 of the Energy Act 2013;
- the Regulations are made under s.10(4) of the Energy Act 2013.

## Directions by the Secretary of State

1. —(1) A direction made by the Secretary of State under section 10(1) of the Energy Act 2014 (a “direction”) must—
  - (a) be in writing;
  - (b) specify a date by which the CfD counterparty must comply with the direction; and
  - (c) specify the period for which the offer of a contract for difference on the specified terms must remain open for acceptance unless it is rejected by any person specified in the direction.

(2) The date specified in accordance with paragraph (1)(b) above must fall no earlier than [30 days] from and including the date on which the direction is made.
2. —(1) No later than [7] days after the date on which a direction is made, the Secretary of State must give notice of the following to any person specified in the direction—
  - (a) the date on which the direction was made;
  - (b) the terms specified in the direction; and
  - (c) the period for which the offer to contract is to remain open for acceptance.
3. —(1) A direction will cease to have effect if any person specified in it:
  - (a) rejects the offer to contract on the specified terms;
  - (b) does not accept the offer to contract on the terms specified before the expiry of the period specified in the direction.



# Annex B – the associated test (Energy Act 2008)

## 67 Meaning of “associated”.

- (1) For the purposes of this Chapter, one body corporate is associated with another if one of them has a significant interest in the other or a third body corporate has a significant interest in both of them; and subsections (2) to (5) set out the circumstances in which one body corporate (“A”) has a significant interest in another (“B”). .
- (2) Where B is a company, A has a significant interest in B if A possesses or is entitled to acquire— .
- (a) 20% or more of the issued share capital of B, .
  - (b) such rights as would entitle A to exercise 20% or more of the votes exercisable in general meetings of B, .
  - (c) such part of the issued share capital of B as would entitle A to 20% or more of the amount distributed if the whole of the income of B were in fact distributed among the shareholders, or .
  - (d) such rights as would, in the event of the winding up of B or in any other circumstances, entitle it to receive 20% or more of the assets of B which would then be available for distribution among the shareholders. .
- (3) Where B is a limited liability partnership, A has a significant interest in B if A— .
- (a) holds 20% or more of the voting rights in B, .
  - (b) is a member of B and has a right to appoint or remove 20% or more of other members, or .
  - (c) is a member of B and controls alone, or pursuant to an agreement with other members, 20% or more of the voting rights in B. .
- (4) In subsection (3)(a) and (c) the references to “voting rights” are to the rights conferred on members in respect of their interest in a limited liability partnership to vote on those matters which are to be decided on by a vote of the members of the limited liability partnership. .
- (5) In any case, A has a significant interest in B if A has the power, directly or indirectly, to secure that the affairs of B are conducted in accordance with A's wishes. .
- (6) In determining whether, by virtue of this section, A has a significant interest in B, A shall be taken to possess— .
- (a) any rights and powers possessed by a person as nominee for A, and .
  - (b) any rights and powers possessed by a body corporate which A controls (including rights and powers which such a body corporate would be taken to possess by virtue of this paragraph). .
- (7) In order to determine whether one body corporate controls another for the purposes of subsection (6)(b), subsections (2) to (5) and (6)(a) are to be applied, but as if— .
- (a) for “has a significant interest in” in each place there were substituted “ controls ”, and .
  - (b) for “20%” in each place there were substituted “ 50% ”.



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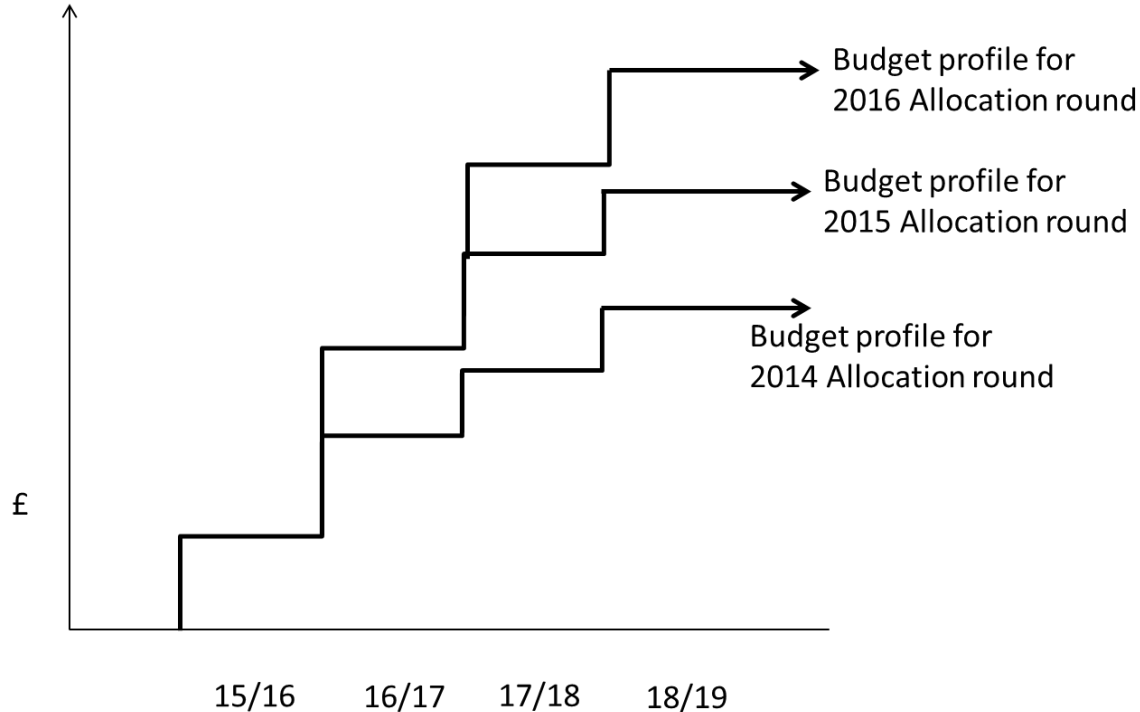
# Auction process

April 2014



# Assigning the budget

- DECC will provide National Grid with the available budget in advance of the allocation round.



This illustrates a possible budget release plan, whereby budget is released for annual allocation rounds.

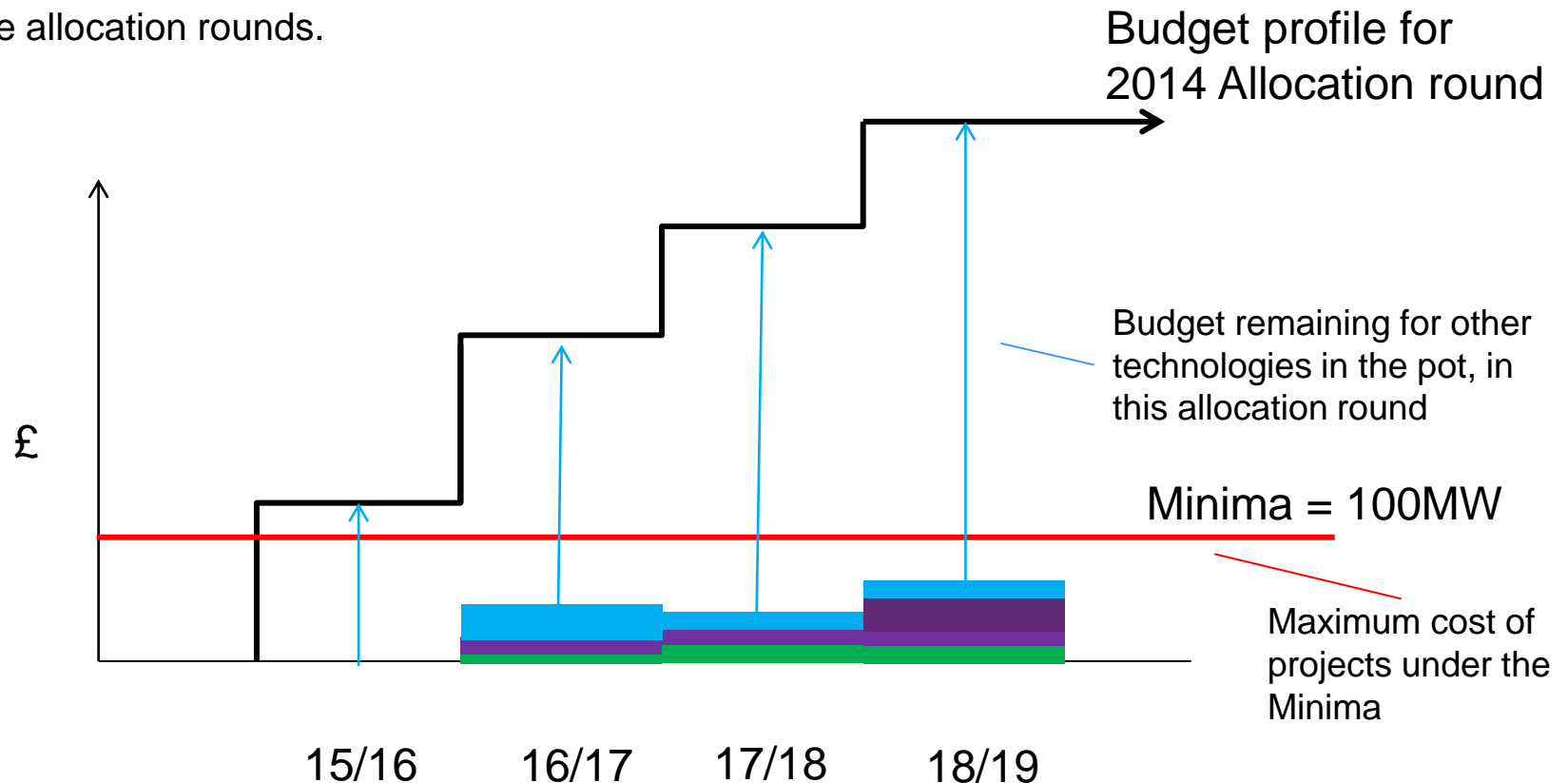




# Setting of Min/Max

Min/Max levels will be provided to the Delivery Body by DECC in advance of the auction.

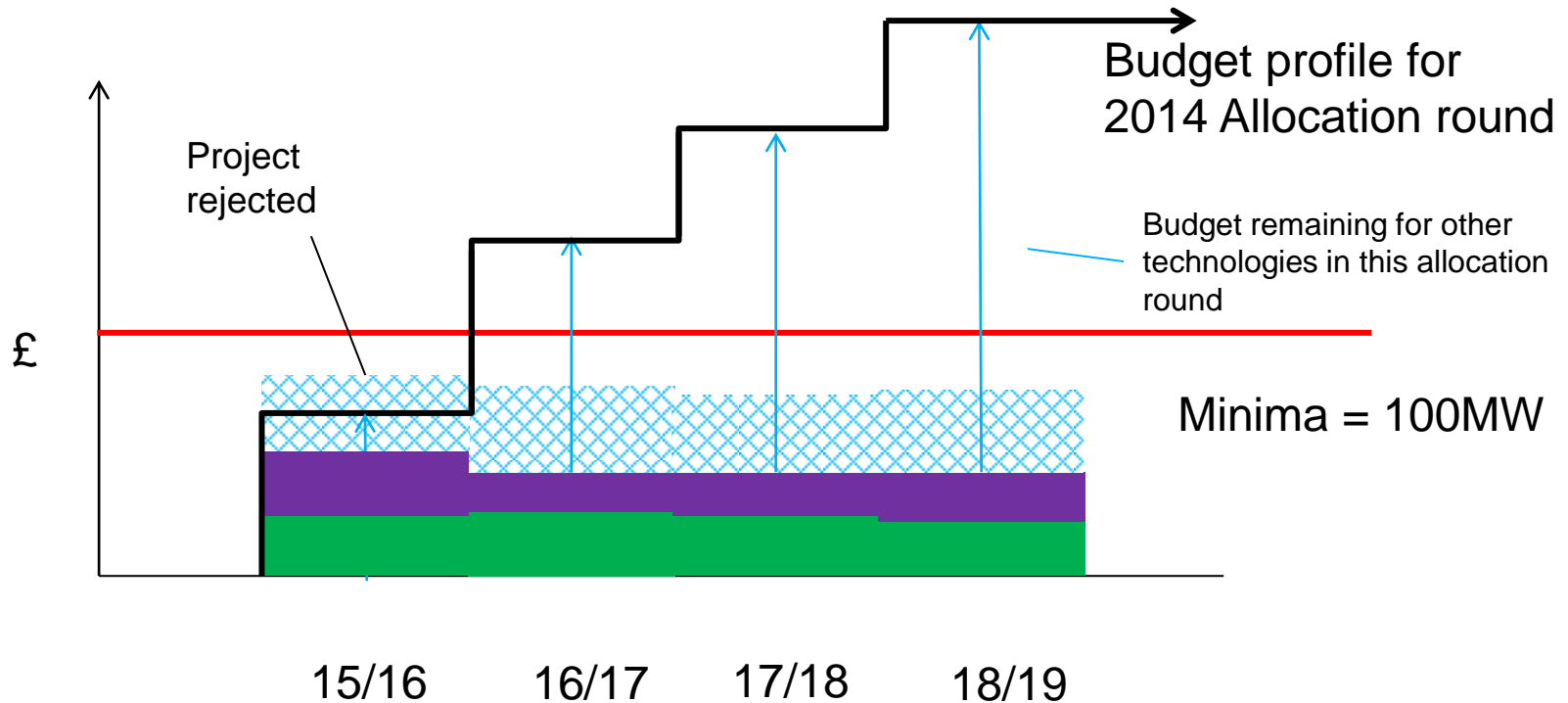
Any Minima not fulfilled will be available in future allocation rounds.





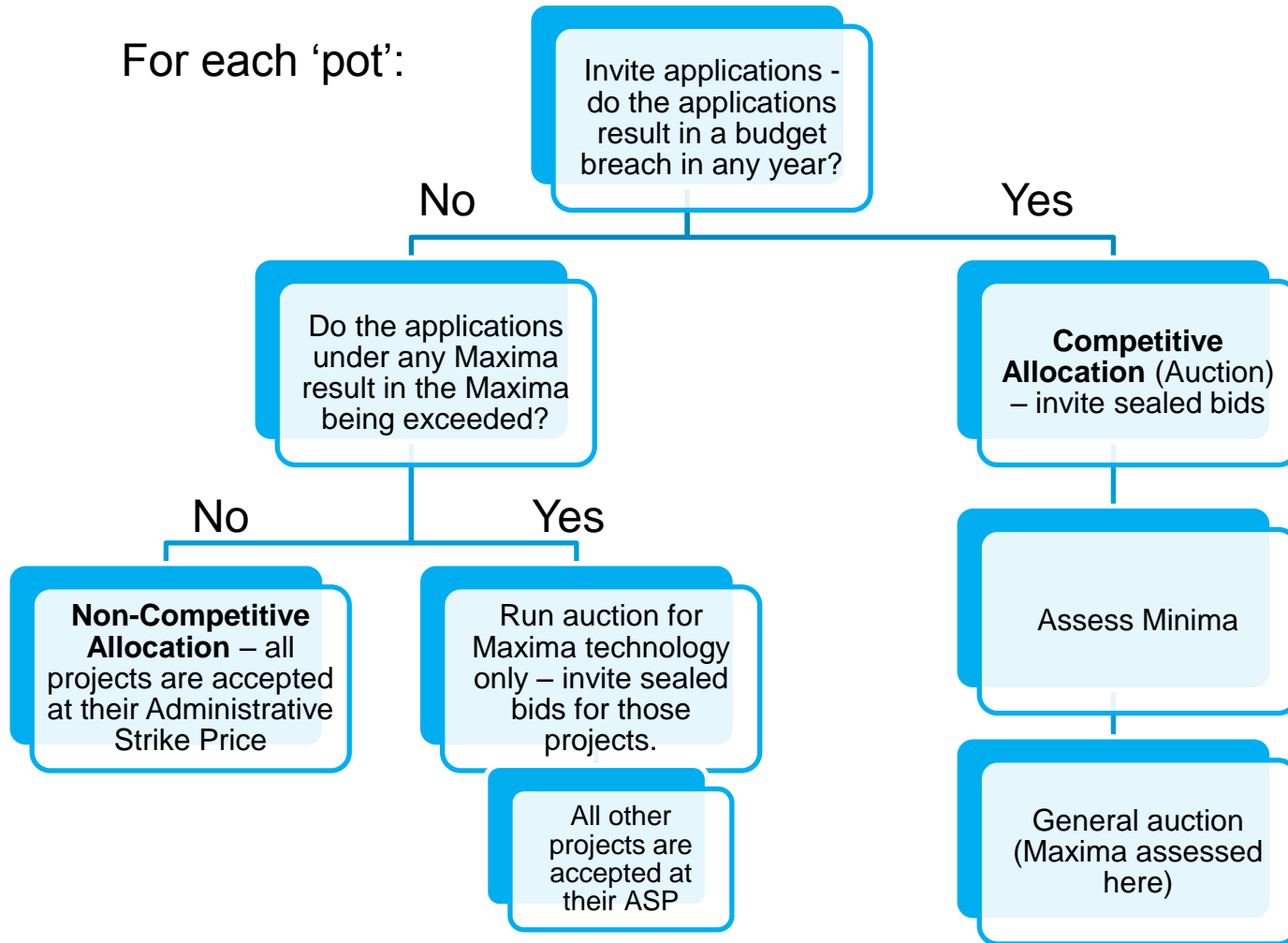
# Setting of Min/Max

- If the Minima is set above the budget profile for any year, a project which is below the Minima may be excluded.
- The remaining Minima would be available in the next allocation round.
- If more than one Minima is set, they will be set such that they are both/all affordable within the budget profile.





# High-Level Process





# If Allocation is constrained we will hold an auction

- If budget is exceeded for any delivery year in the budget profile, run auction for all delivery years
- If Maxima is exceeded but budget is not, run auction only for Maxima technologies.
- Sealed bids will only be requested once constrained allocation has been triggered, and then only for those projects to which constrained allocation applies.

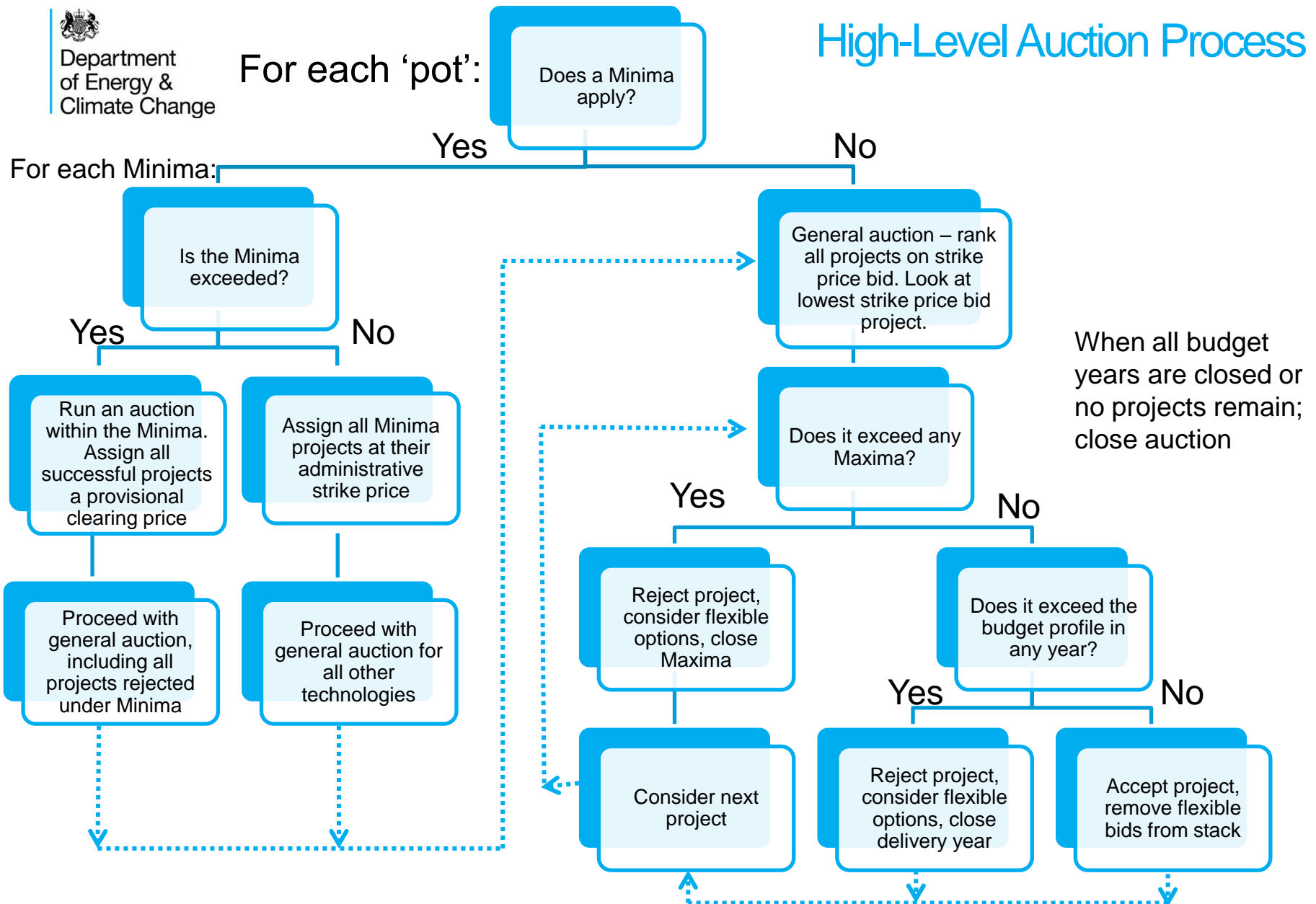


# Auction clearing rules

- This is a sealed bid system, where all bidders submit the lowest strike price they are willing to accept, and the auction system finds the cheapest projects affordable within the budget.
- The payment rule is pay-as-clear, where all projects are paid the relevant clearing price.
- Each delivery year has a separate clearing price.
- This auction process will be applied to any technology pot which triggered constrained allocation.
- This worked example shows the most complex case, with both maxima and minima.
- All numbers are purely illustrative.



# High-Level Auction Process





# Auction Step 1: Request sealed bids

If Constrained Allocation is triggered:

Project	SP bid	ASP cap	Delivery year	Tech type
A	125	130	18/19	5
B	95	100	17/18	3
C	130	130	18/19	5
D	110	110	18/19	2
E	85	90	16/17	1
F	105	130	16/17	5
G	100	110	17/18	2
H	95	120	16/17	4
I	92	100	15/16	3
J	91	110	15/16	2
K	122	130	16/17	5

The following bids are submitted.  
NB: Capacity of bids will also be known, and used to calculate impact on the budget, but is not shown in this example for ease.

NB: Flexibility is not included in this work-through, and will be explained separately, at the end.

SP = Strike Price

ASP = Administrative Strike Price for year of delivery, for that technology



# Auction Step 2: Assess 'Minima'

First assess any Minima

Project	SP bid	ASP cap	Delivery year	Tech type
A	125	130	18/19	5
B	95	100	17/18	3
C	130	130	18/19	5
D	110	110	18/19	2
E	85	90	16/17	1
F	105	130	16/17	5
G	100	110	17/18	2
H	95	120	16/17	4
I	92	100	15/16	3
J	91	110	15/16	2
K	122	130	16/17	5

In this case, tech type 5 is subject to a Minimum

SP = Strike Price  
ASP = Administrative Strike Price for year of delivery, for that technology





# The following projects have submitted bids in the 'Minima' category

If Minima are assessed by Capacity:

	SP bid	ASP cap	D yr	Tech type	Capacity (MW)
A	125	130	18/19	5	20
C	130	130	18/19	5	30
F	105	130	16/17	5	30
K	122	130	16/17	5	40
Sum capacity of bids					120

Available Min Capacity in this case = 100MW

Sum the Capacity of the projects of that technology type. If less than or equal to available Min Capacity and affordable within the budget profile, accept all at ASP.

120MW > 100MW minimum.  
Minimum is exceeded.



# These are ranked by strike price bid, and accepted up to the 'Minima'

	SP bid	ASP cap	D yr	Tech type	Capacity	Cumulative Capacity
C	130	130	18/19	5	30	120
A	125	130	18/19	5	20	90
K	122	130	16/17	5	40	70
F	105	130	16/17	5	30	30

Accept projects up to but not including the first project which exceeds the Minimum at a provisional clearing price of highest SP for year of delivery.

Minima = 100

---

Provisional clearing price for Min tech:  
With delivery year 16/17 – 122  
With delivery year 18/19 - 125

Any projects not accepted will now be considered along with all projects in the pot not subject to a Minima.



Repeat this process for  
each technology subject to  
a Minimum

Then proceed to the  
general auction...



# Auction Step 3: Assess bids in general auction

Strike  
price bid

Project	SP bid	ASP cap	D yr	Tech type
C	130	130	18/19	5
D	110	110	18/19	2
G	100	110	17/18	2
H	95	120	16/17	4
B	95	100	17/18	3
I	92	100	15/16	3
J	91	110	15/16	2
E	85	90	16/17	1

Rank all bids in order of SP, including those of the technology type subject to a Minima, which weren't accepted within the reserved Minima.

Note the inclusion of project C, which was not accepted under the Minima



# Consider the lowest strike price bid

Bids ranked in order of SP

Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			

15/16


16/17

17/18

18/19

Consider lowest SP bid.  
Check against any  
Maxima, and reject if  
exceeds.

SP = 85



Not set

85  
(122)

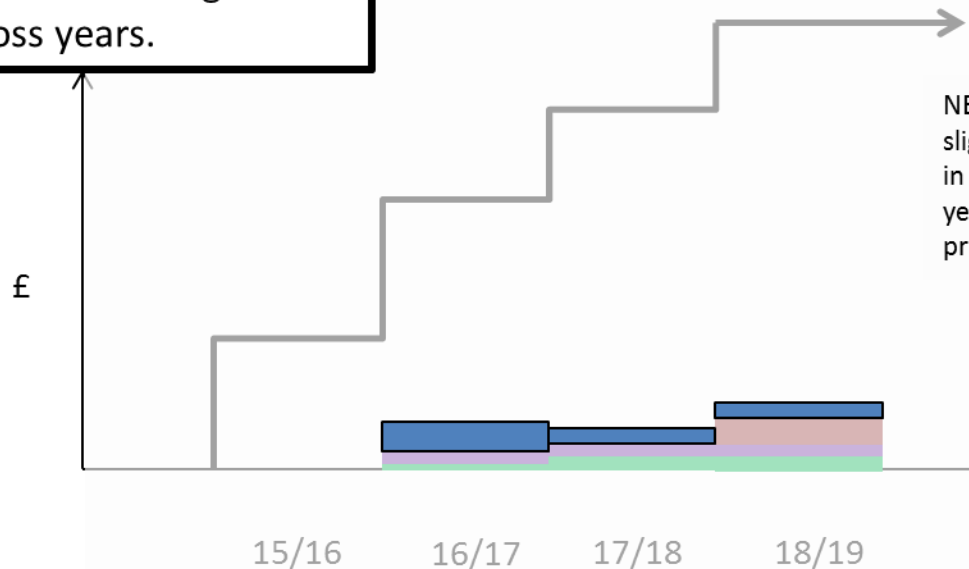
Not set

Not set  
(125)



# Assess impact on the remaining budget

Look at impact on budget across years for which budget has been provided using valuation formula, factoring in impact of projects already assigned under the Minima. Check if fits under budget profile across years.



NB: faded blocks represent the projects accepted under the Minima

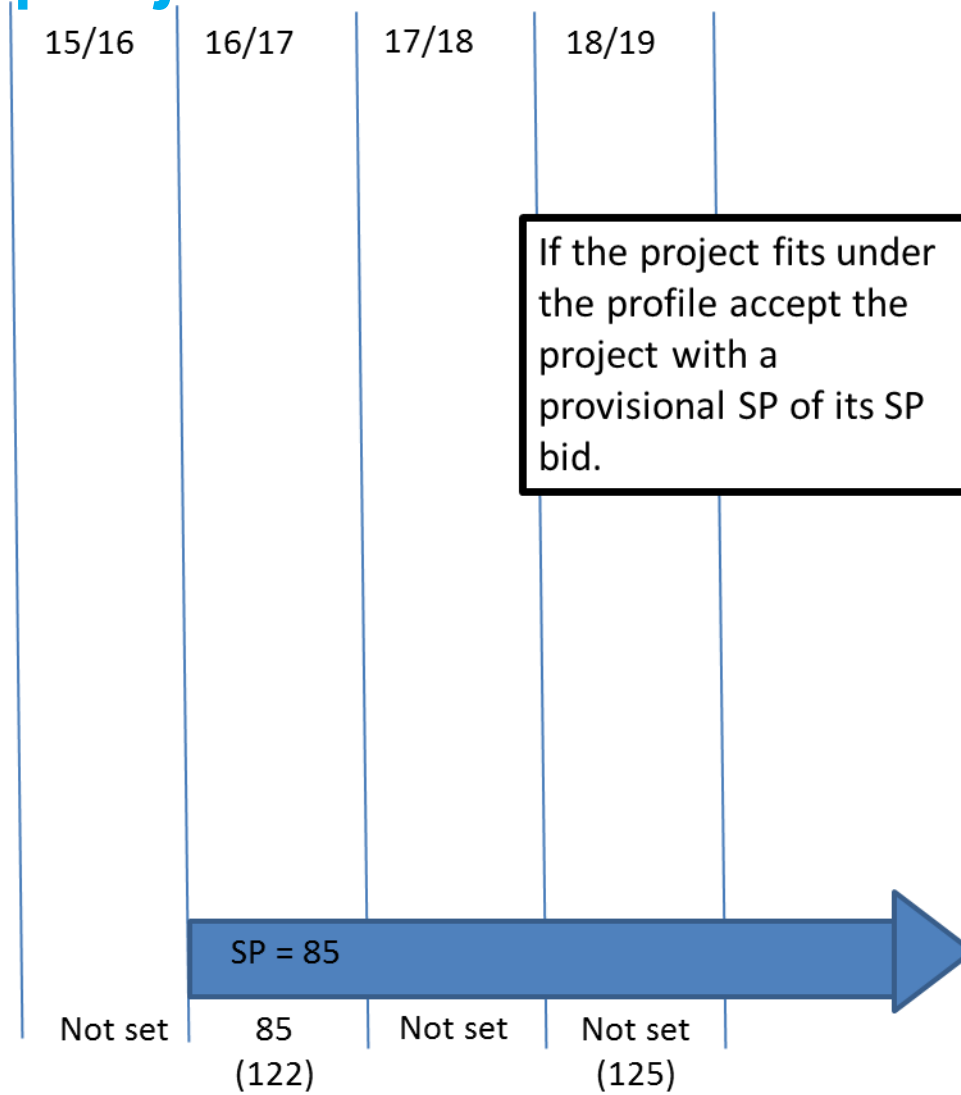
NB – project may have slightly different impact in different years, due to year specific reference prices etc

Budget not exceeded



# Accept project

Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			

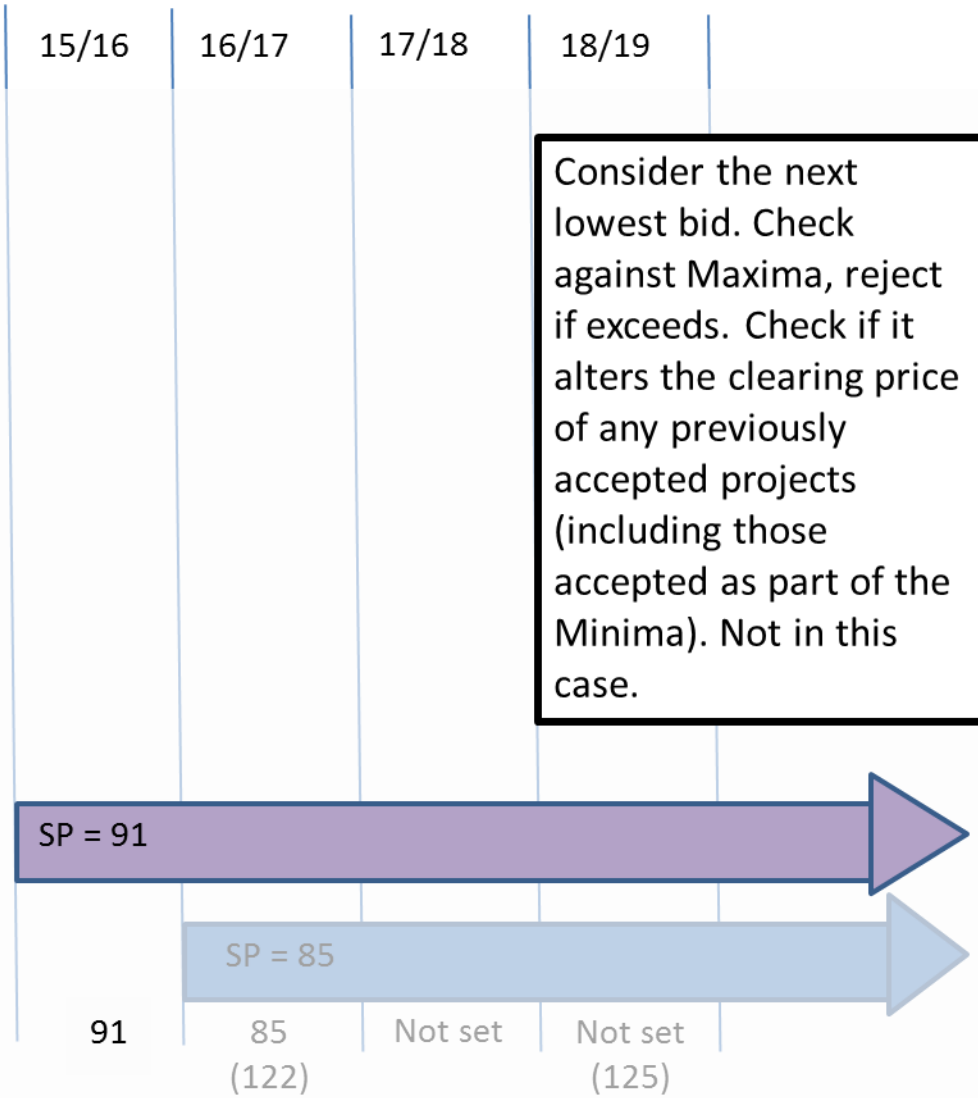




# Consider the next lowest strike price

bid

Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			

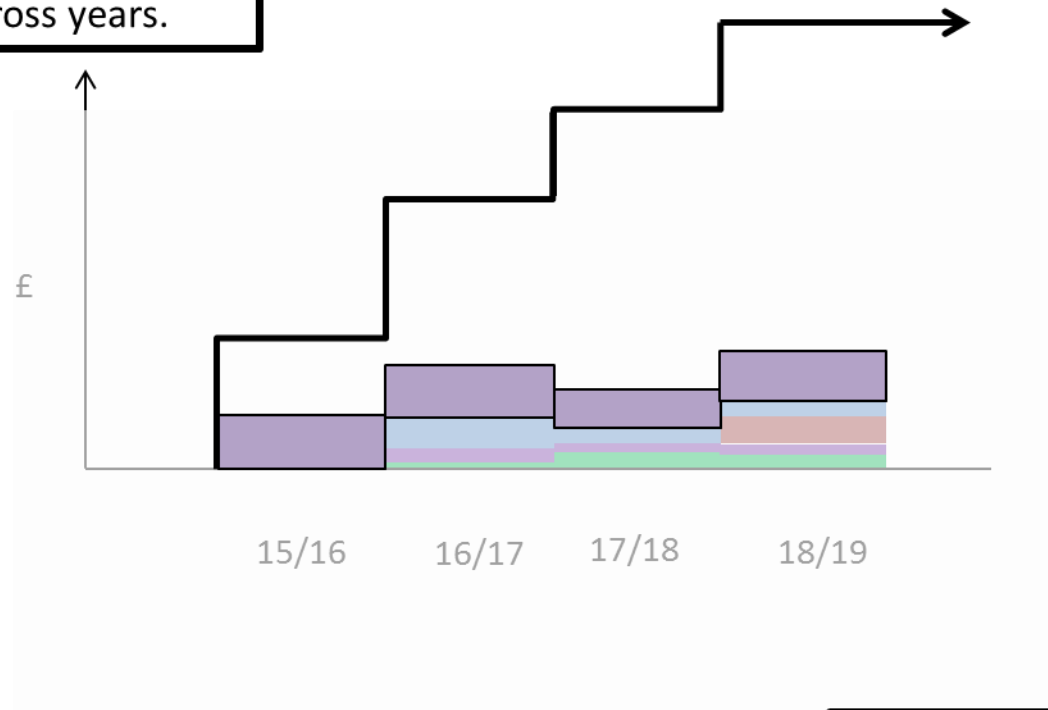






# Assess impact on the remaining budget

Look at impact on budget across years of this and all projects accepted so far. Check if fits under budget profile across years.

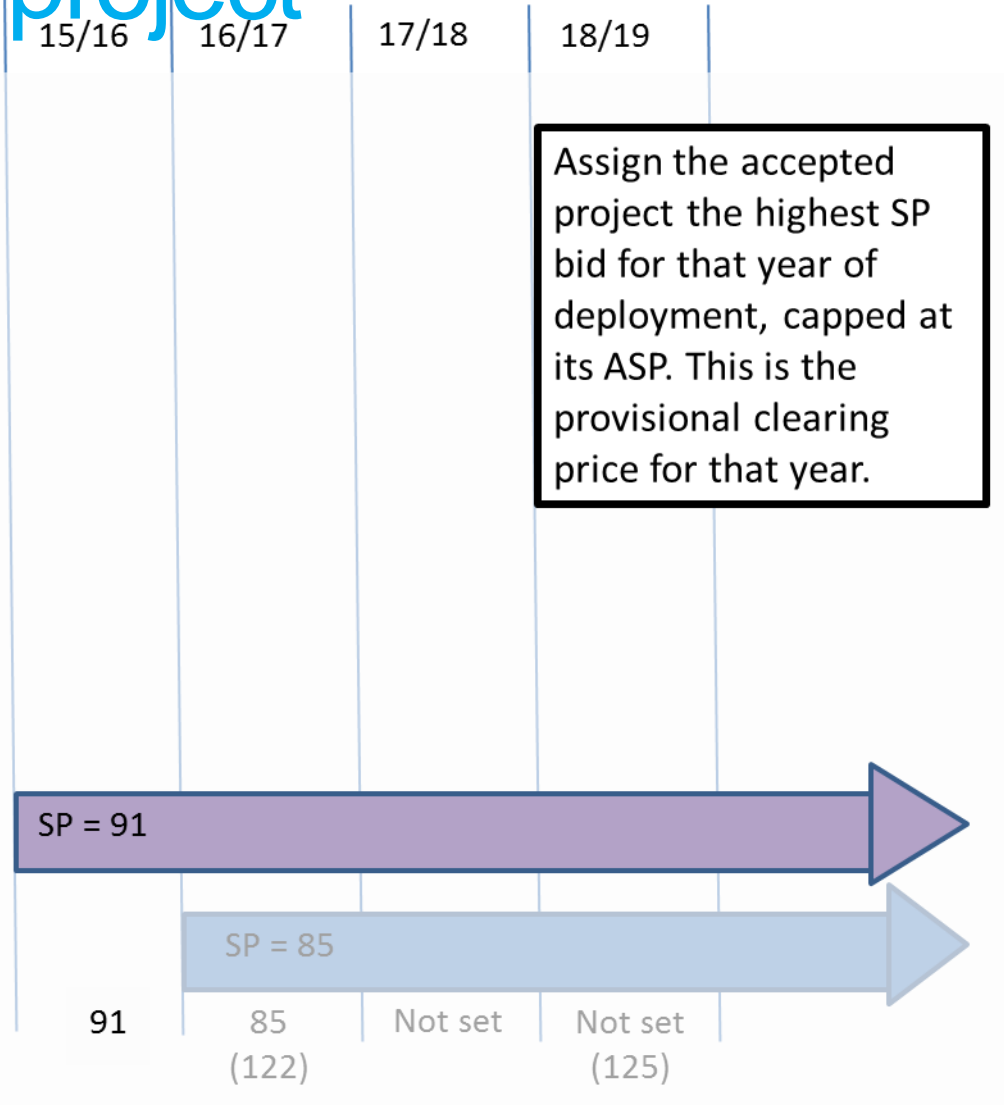


Budget not exceeded



# Accept project

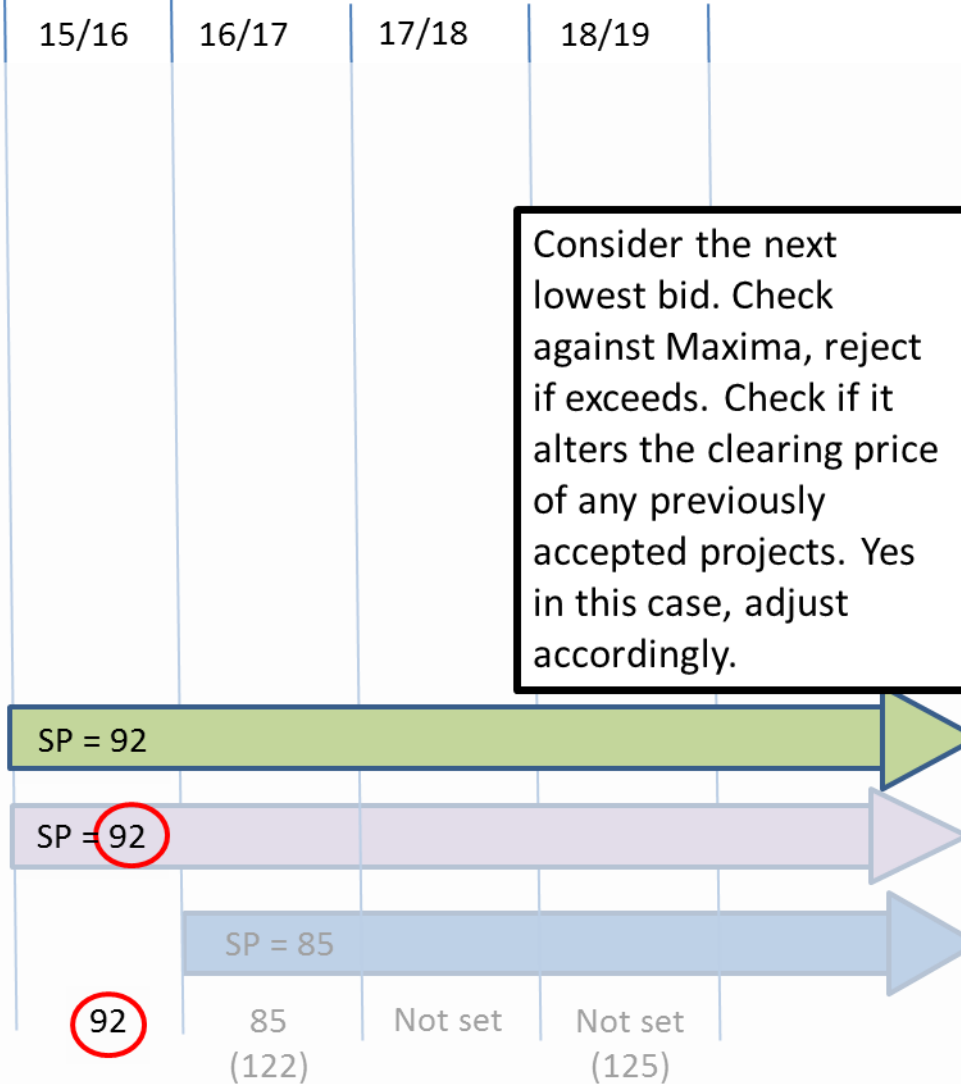
Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			





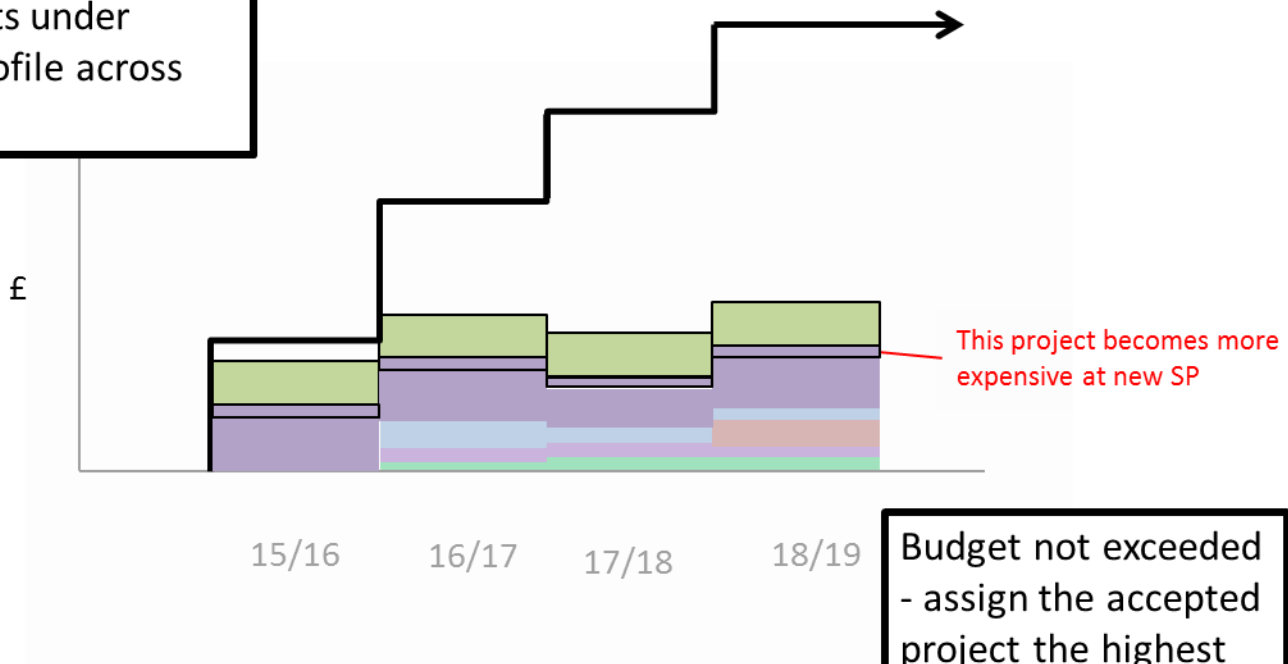
# And continue...

Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			





Look at impact on budget across years of this and all projects accepted so far, using the new clearing price. Check if fits under budget profile across years.

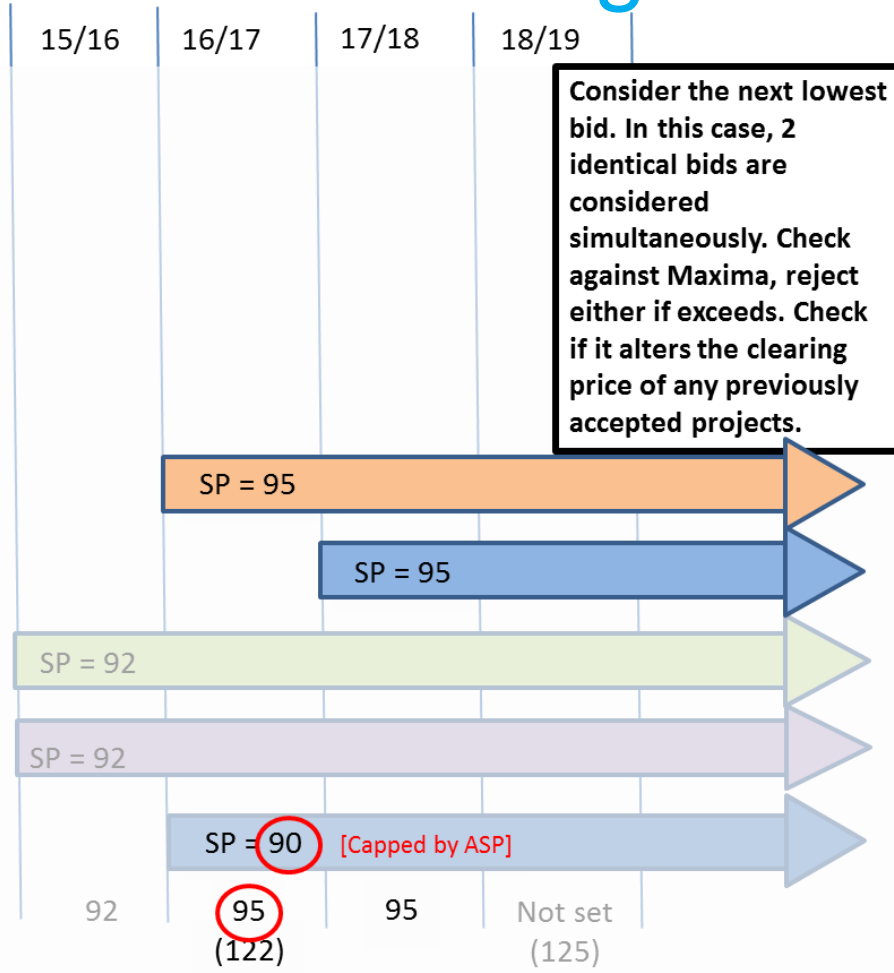


Budget not exceeded - assign the accepted project the highest SP bid for that year of deployment, capped at its ASP.



# If two projects have the same price bid, they are considered together

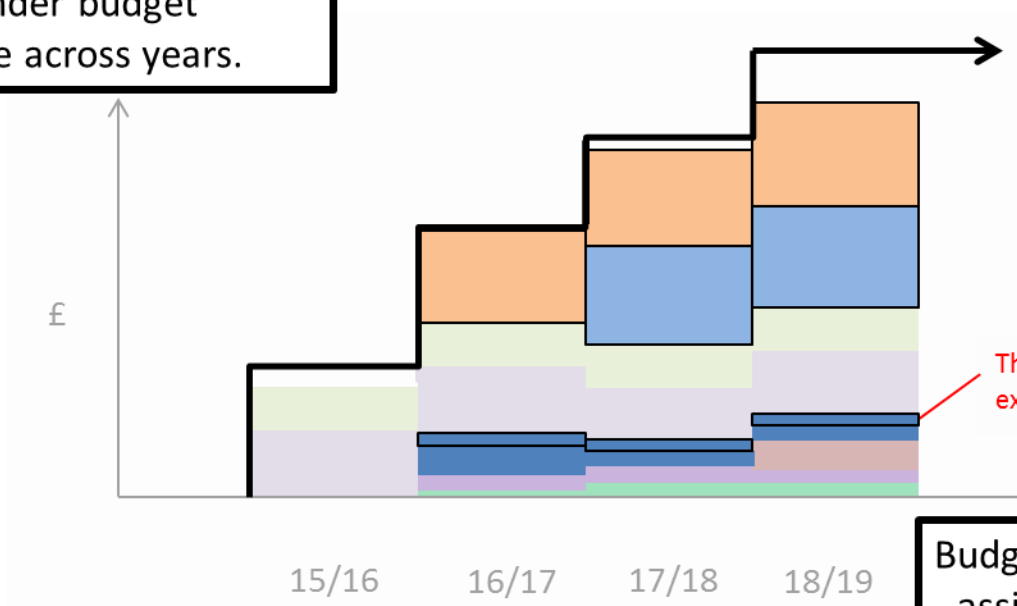
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C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			





Look at impact on budget across years of this and all projects accepted so far. Check if fits under budget profile across years.

If budget were exceeded in this case, Tiebreaker rules would apply.

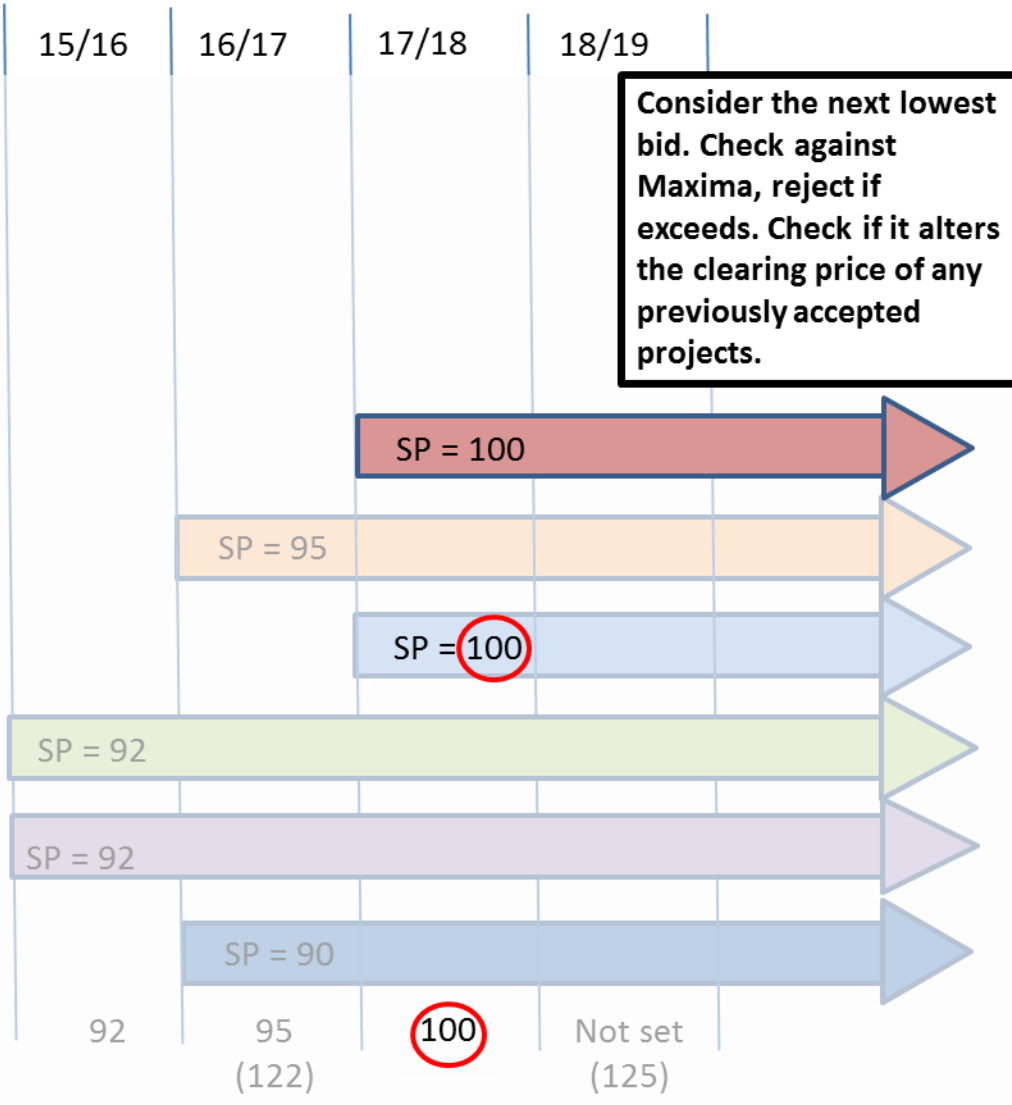


This project becomes more expensive at new SP

Budget not exceeded - assign the accepted projects the highest SP bid for that year of deployment, capped at its ASP.

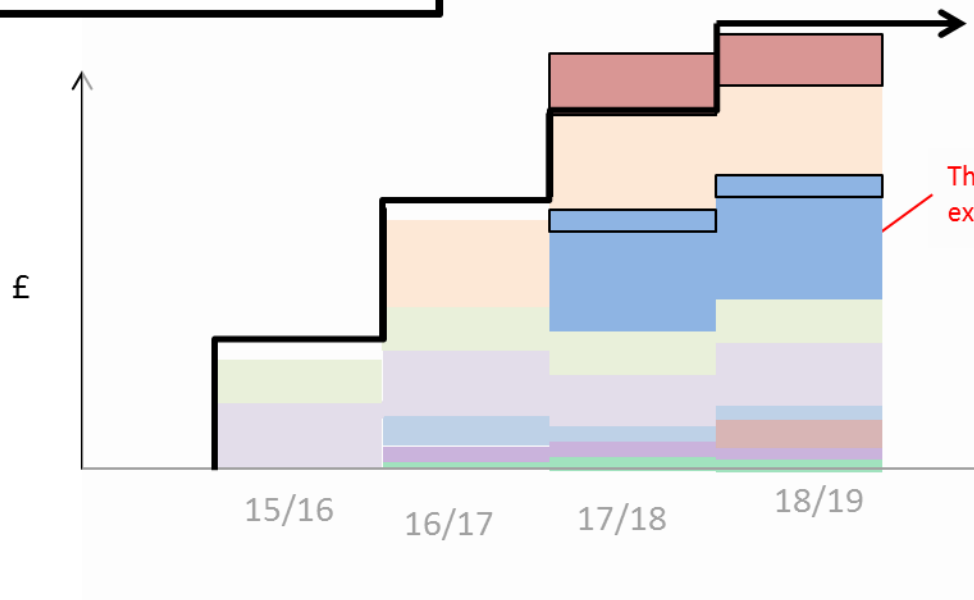


Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			





Look at impact on budget across years of this and all projects accepted so far. Check if fits under budget profile across years.



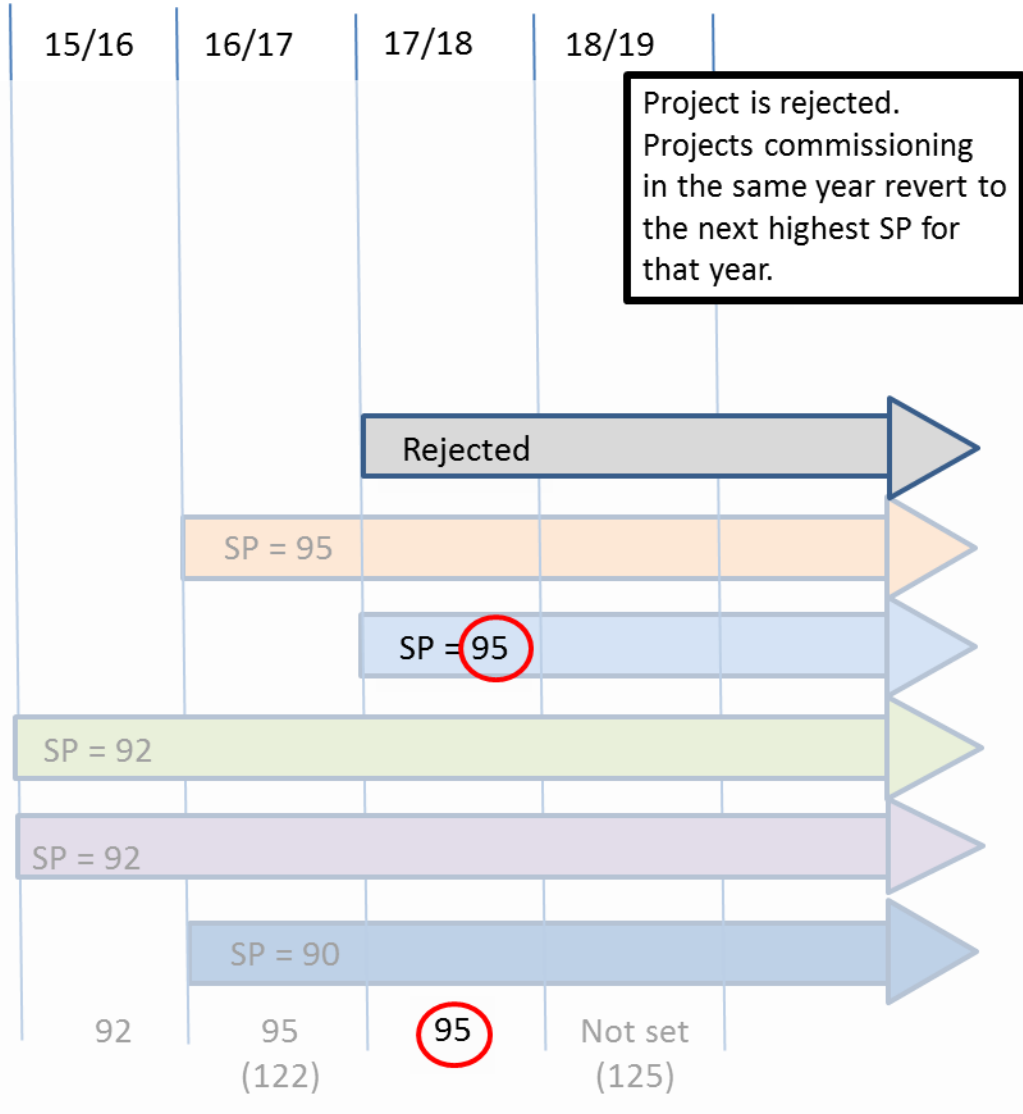
This project becomes more expensive at new SP

Budget for 2017/18 is exceeded. If flexibility exists, test budget with alternative capacity/delivery years. If budget still exceeded, reject this project and all further projects commissioning in this year



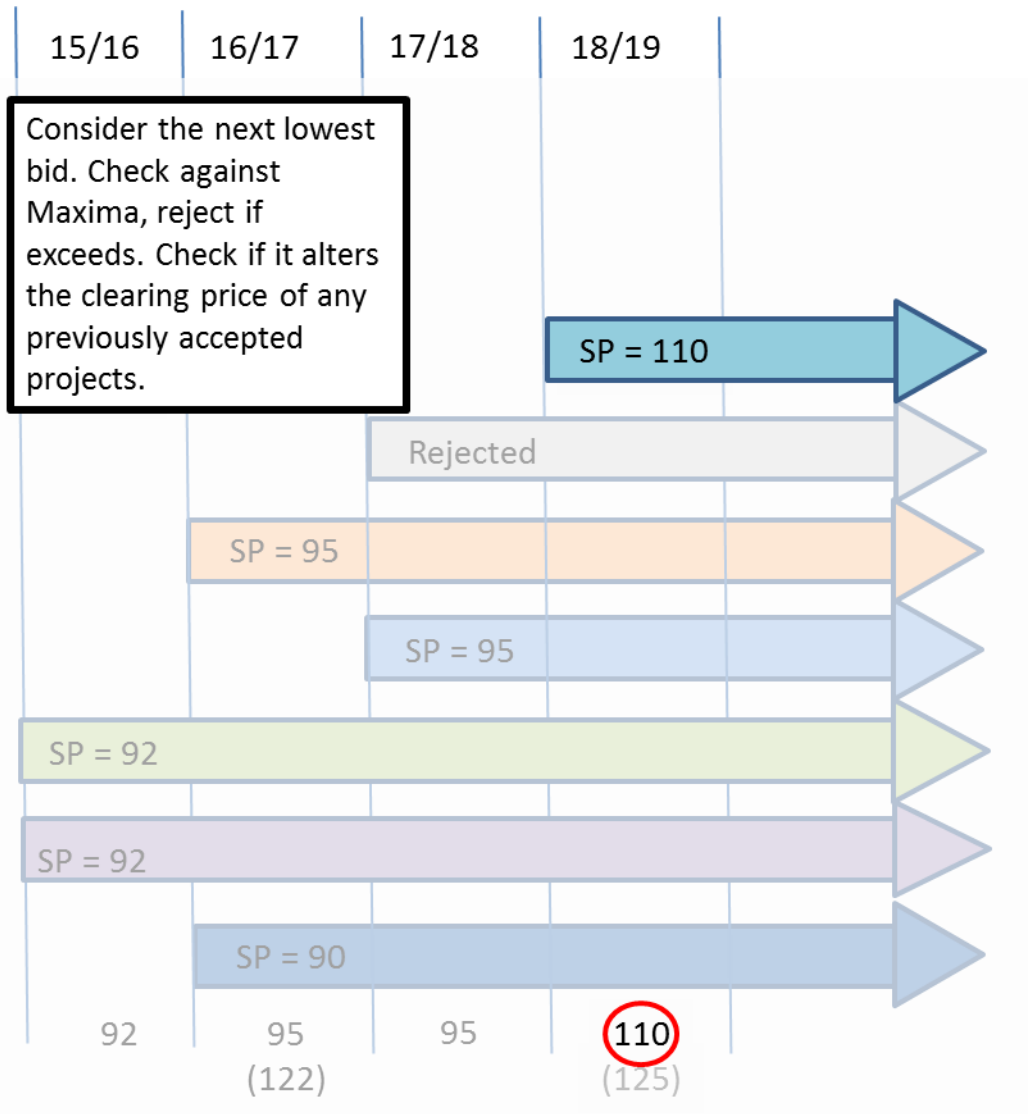


Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			



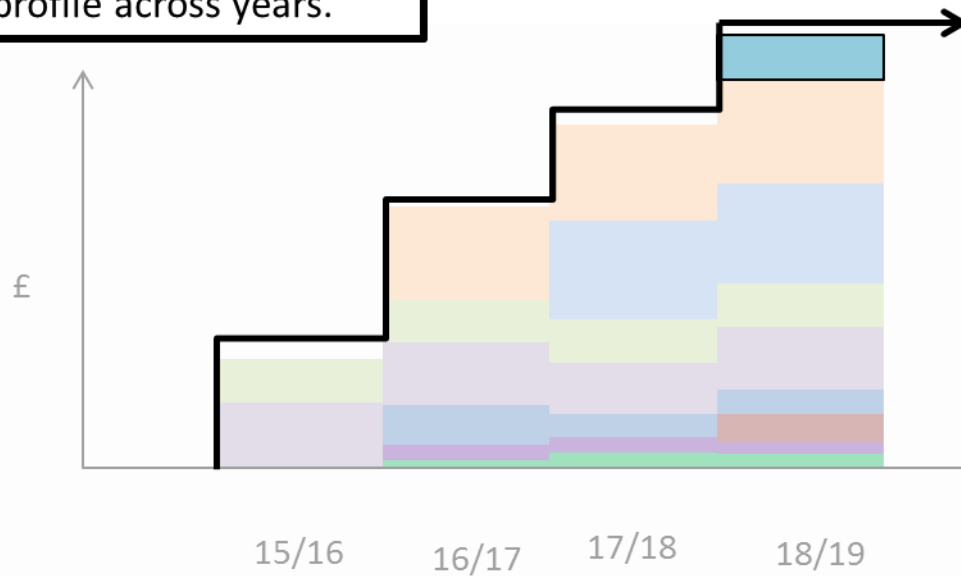


Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			





Look at impact on budget across years of this and all projects accepted so far. Check if fits under budget profile across years.

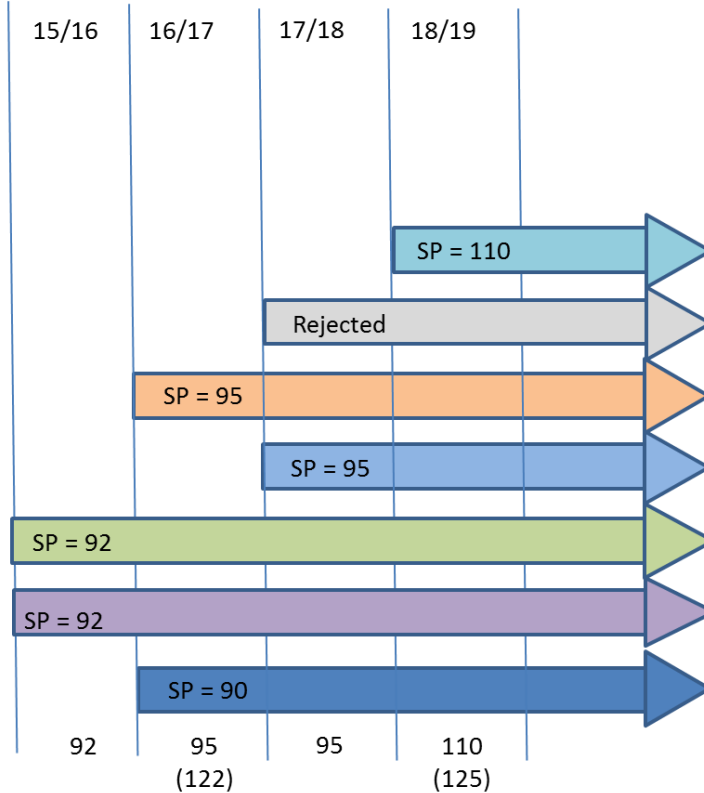


Bid accepted. Process continues until each year has closed. When the budget is breached, we close the year in which the project was commissioning, regardless of which year it breached the budget.



# Assuming the auction has now ended

Project	SP bid	ASP cap	D yr
C	130	130	18/19
D	110	110	18/19
G	100	110	17/18
H	95	120	16/17
B	95	100	17/18
I	92	100	15/16
J	91	110	15/16
E	85	90	16/17
Clearing price for delivery year:			
(Clearing price for Min):			



Final clearing prices:

15/16 – 92

16/17 – 95

17/18 – 95

18/19 – 110

For Minima tech:

16/17 – 122

18/19 – 125

All projects not subject to a Minima are paid the clearing price for their delivery year, capped by their administrative strike price

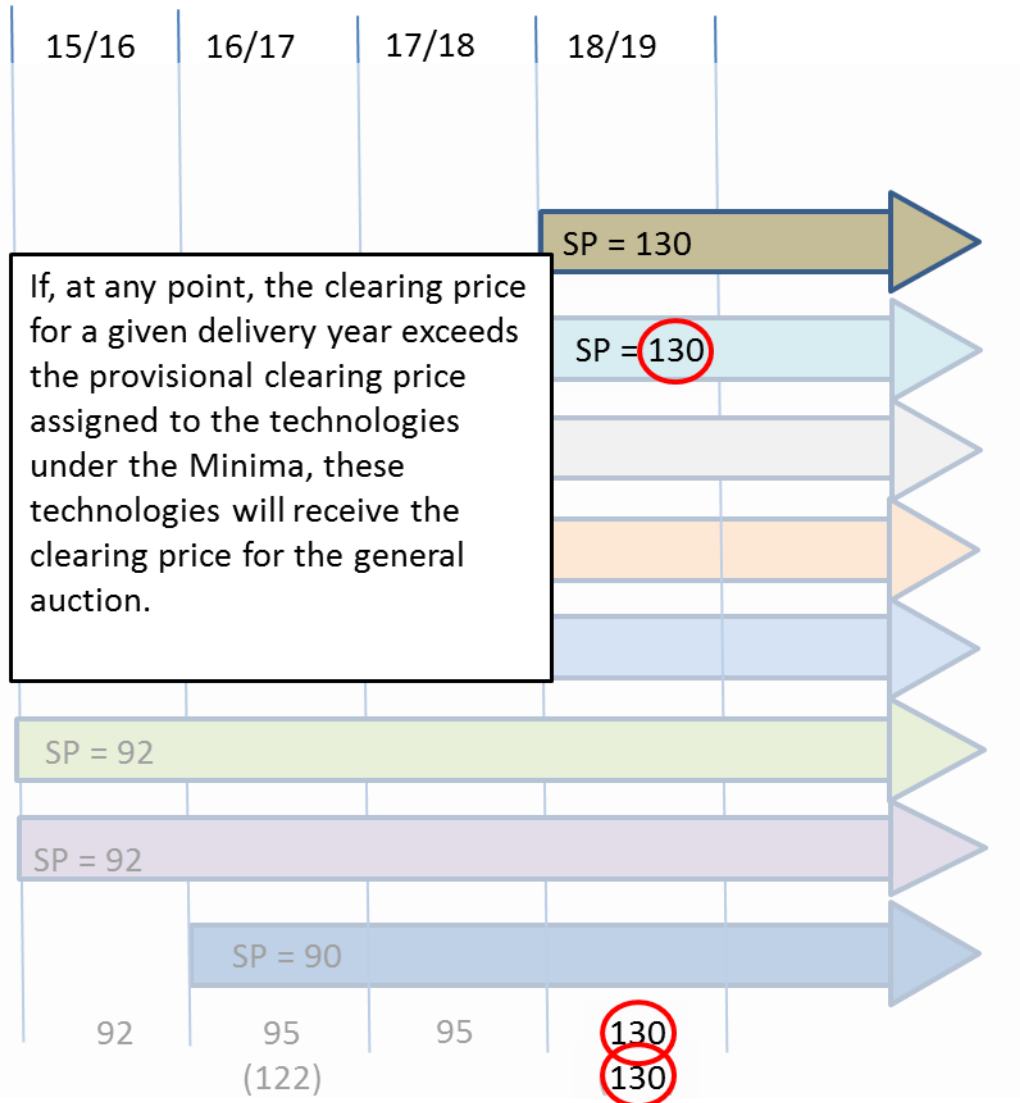


## Other considerations



# Minima clearing price

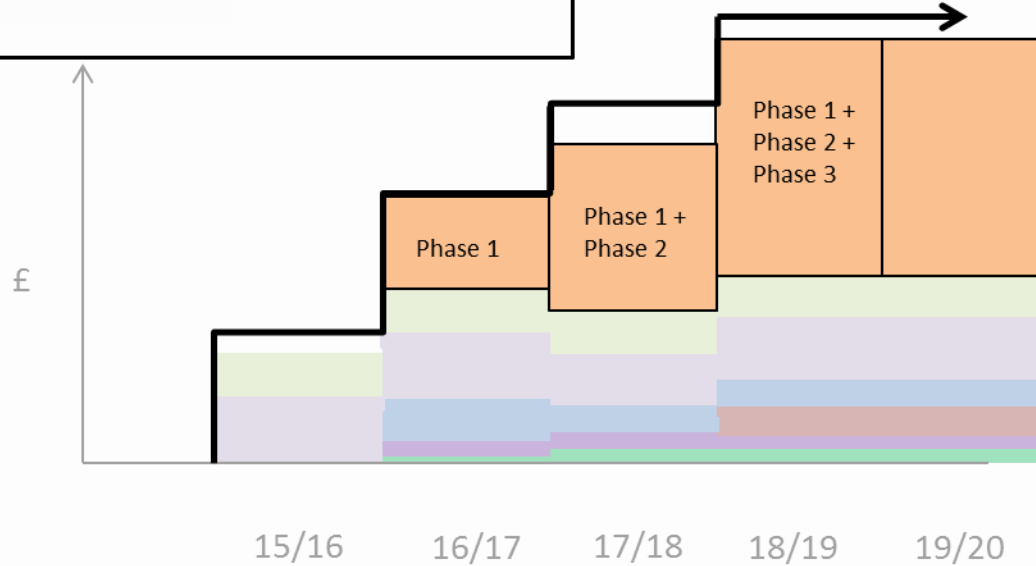
SP bid	ASP cap	Delivery year
130	130	18/19
110	110	18/19
100	110	17/18
95	120	16/17
95	100	17/18
92	100	15/16
91	110	15/16
85	90	16/17
Clearing price for year:		
(Clearing price for Min)		





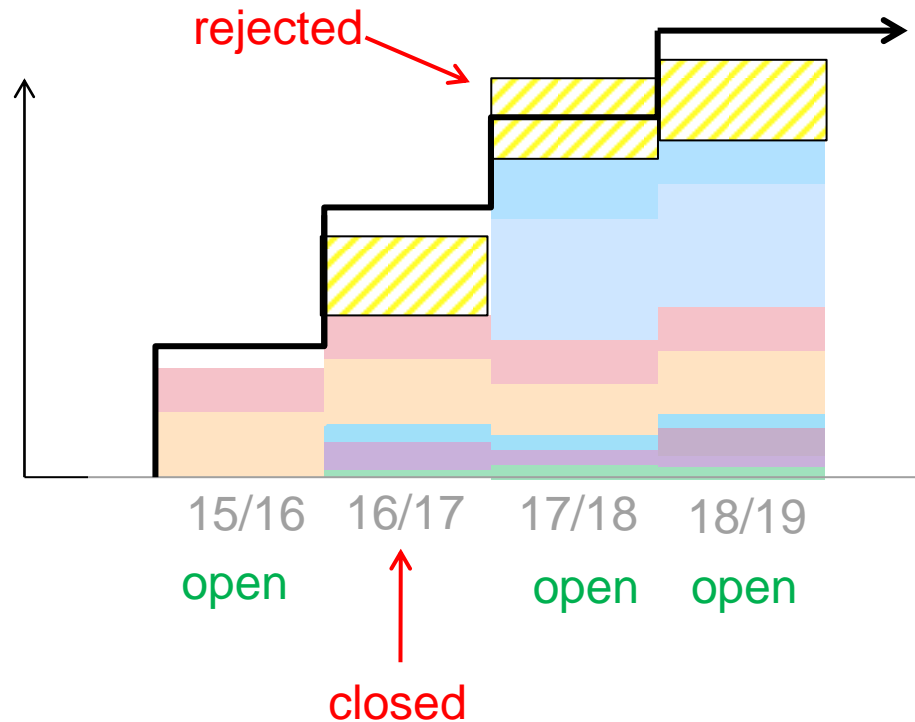
# Phased projects

Phased projects will be ranked on their SP bid for their commissioning year, but their entire impact profile will be considered when looking at affordability.





# Closing delivery years



- The project which breaches the budget is rejected.
- The year in which the project which breached the budget is commissioning is closed (regardless of which year the budget is breached).
- All other years are left open.





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# CfD Auction clearing – with flexibilities



# Flexibility

- The previous work-through did not include the provision of flexibilities.
- These rules will be used in addition to the auction clearing we have just seen.
- Whenever a project is accepted, all further sealed bids for that project will be removed from the stack.
- Whenever a project is rejected, we will consider if the next bid in the stack is a sealed bid from the same application. It must not be tied with any other project, and must be the sole application at that price.



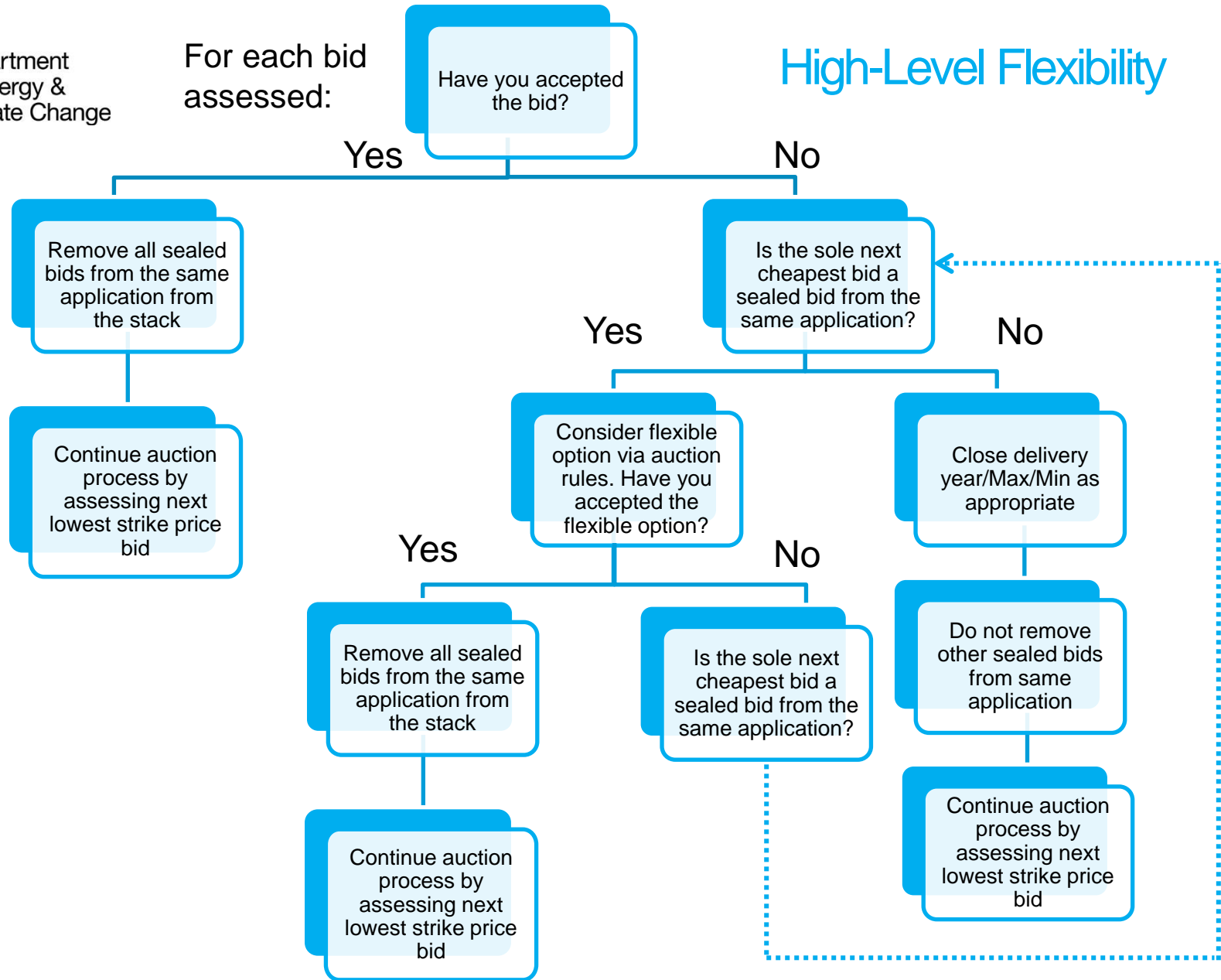
# Flexibility

Stakeholders have expressed a desire for flexibility in the auction system. As such, we have developed a number of ways in which flexibility can be incorporated:

- Bidders are allowed to enter multiple sealed bids for the same application
- Bidders are **not** allowed to enter multiple applications for the same project (same grid connection etc)
- Bids for the same project must be differentiated by price (even 1 p)
- The auction will be conducted as outlined – projects accepted in order of strike price bid
- The cheapest project will always be regarded as the first preference.
- When a project is accepted, all other bids for that application are removed from the auction
- If a project is rejected, other flexible bids continue to be assessed in order, as long as they are the next cheapest, where the delivery year would normally be closed. This means that, for projects in the same delivery year to be considered, it is likely they need to be only marginally more expensive.



# High-Level Flexibility

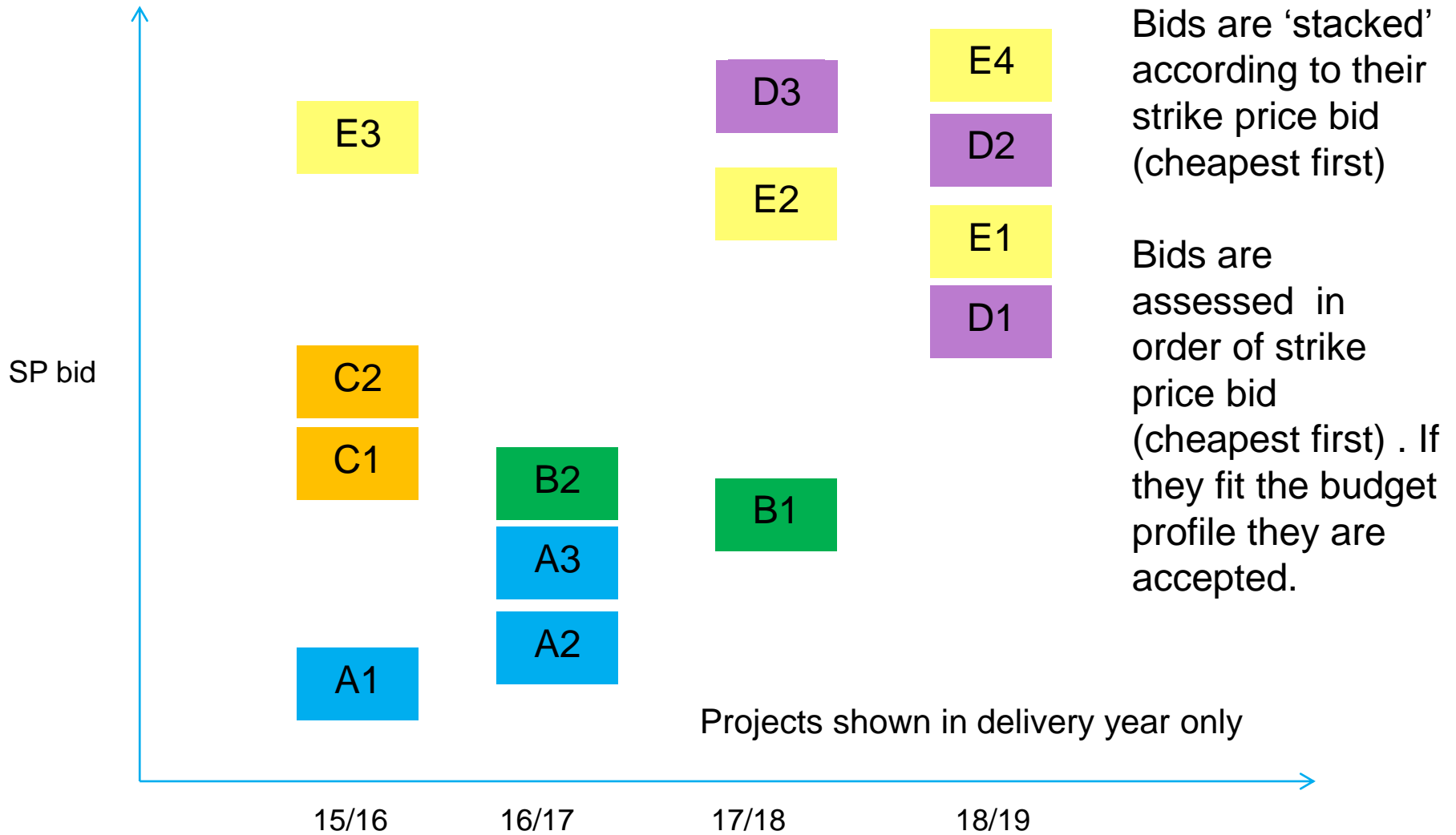


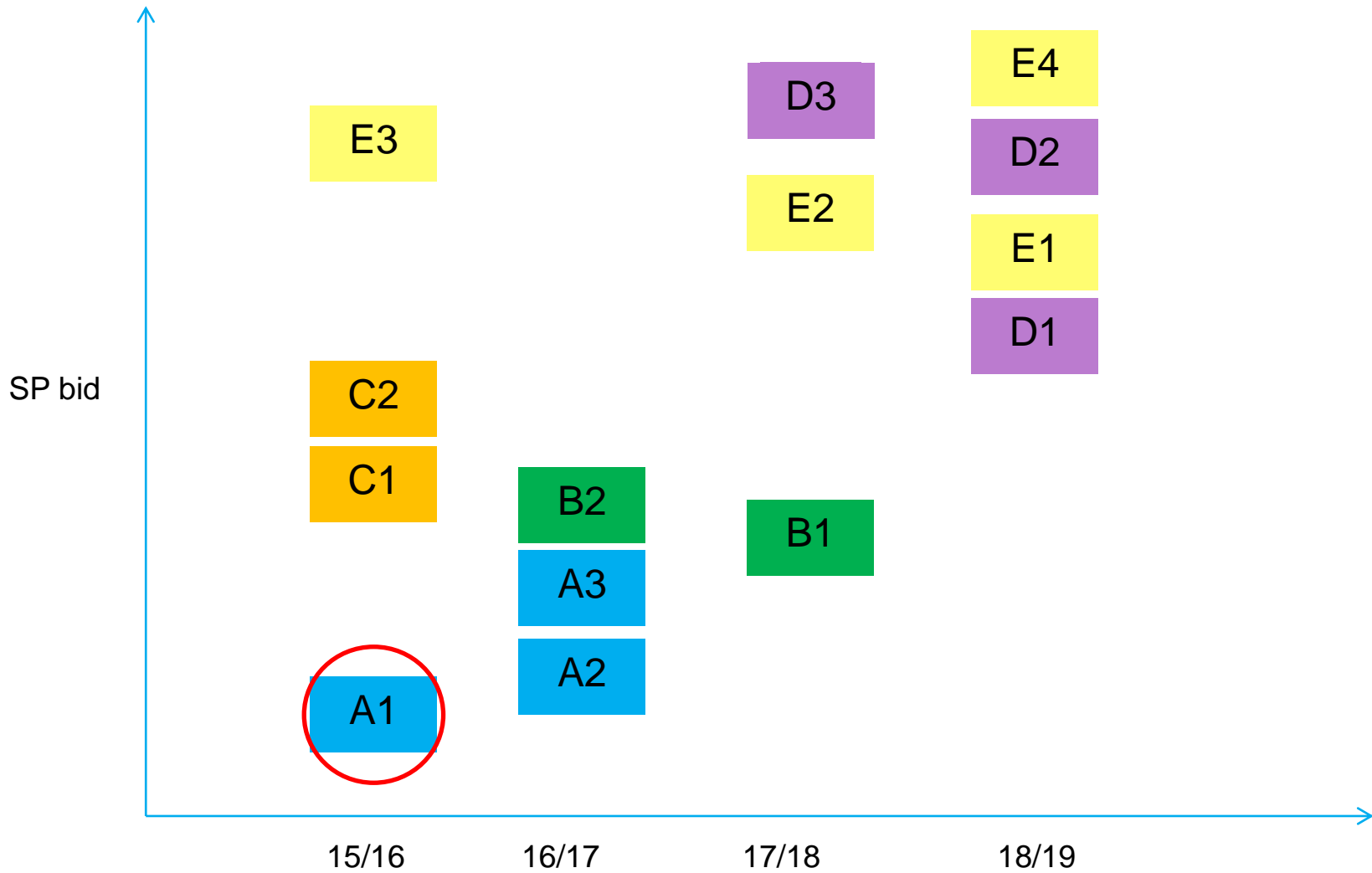


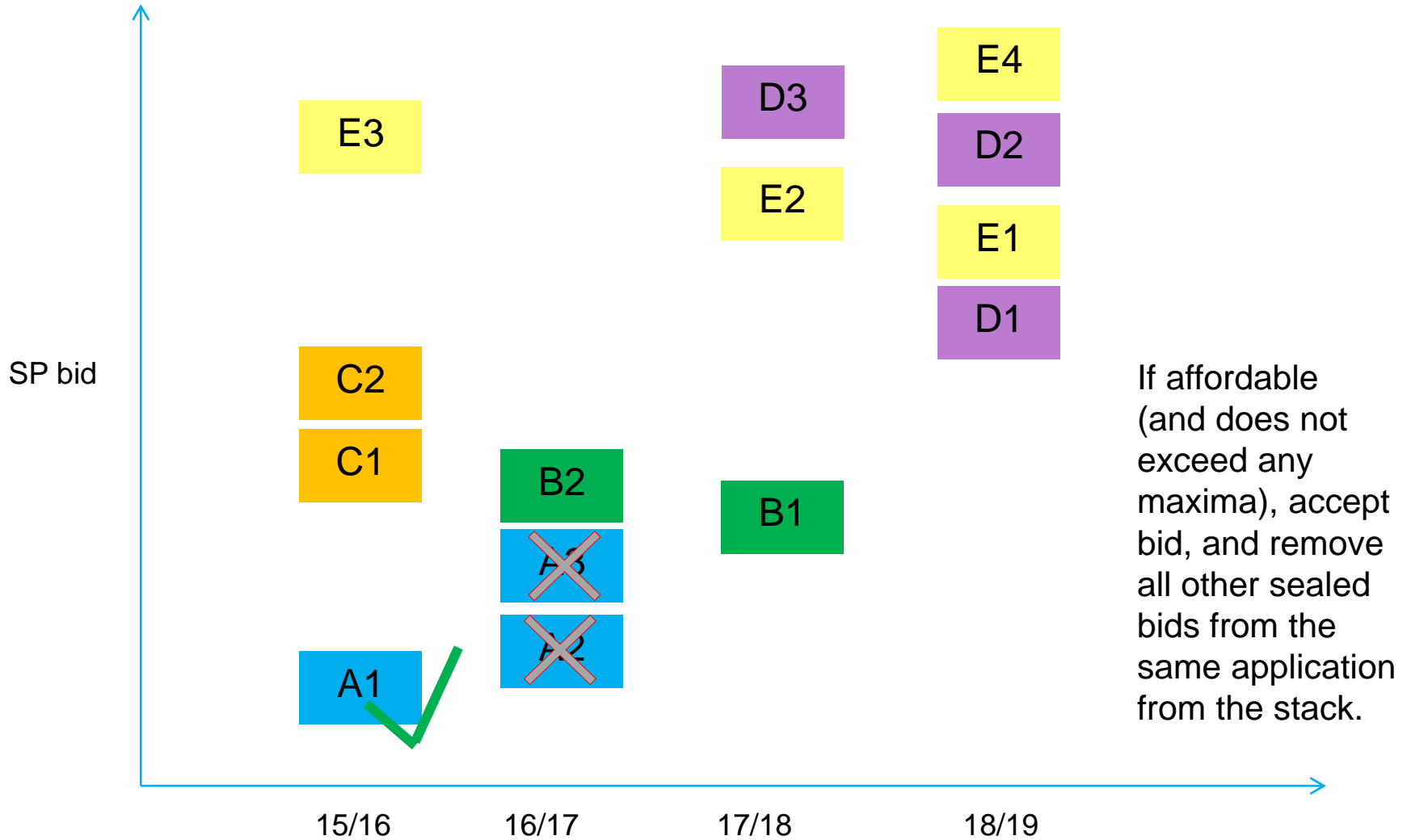
# Worked Example

1. Bidders are allowed to enter multiple bids for the same project
2. Bids for the same project must be differentiated by price (even 1 p)
3. This example is illustrated for a general auction, against a budgetary constraint. However, the same rules would apply against a Minima or Maxima.

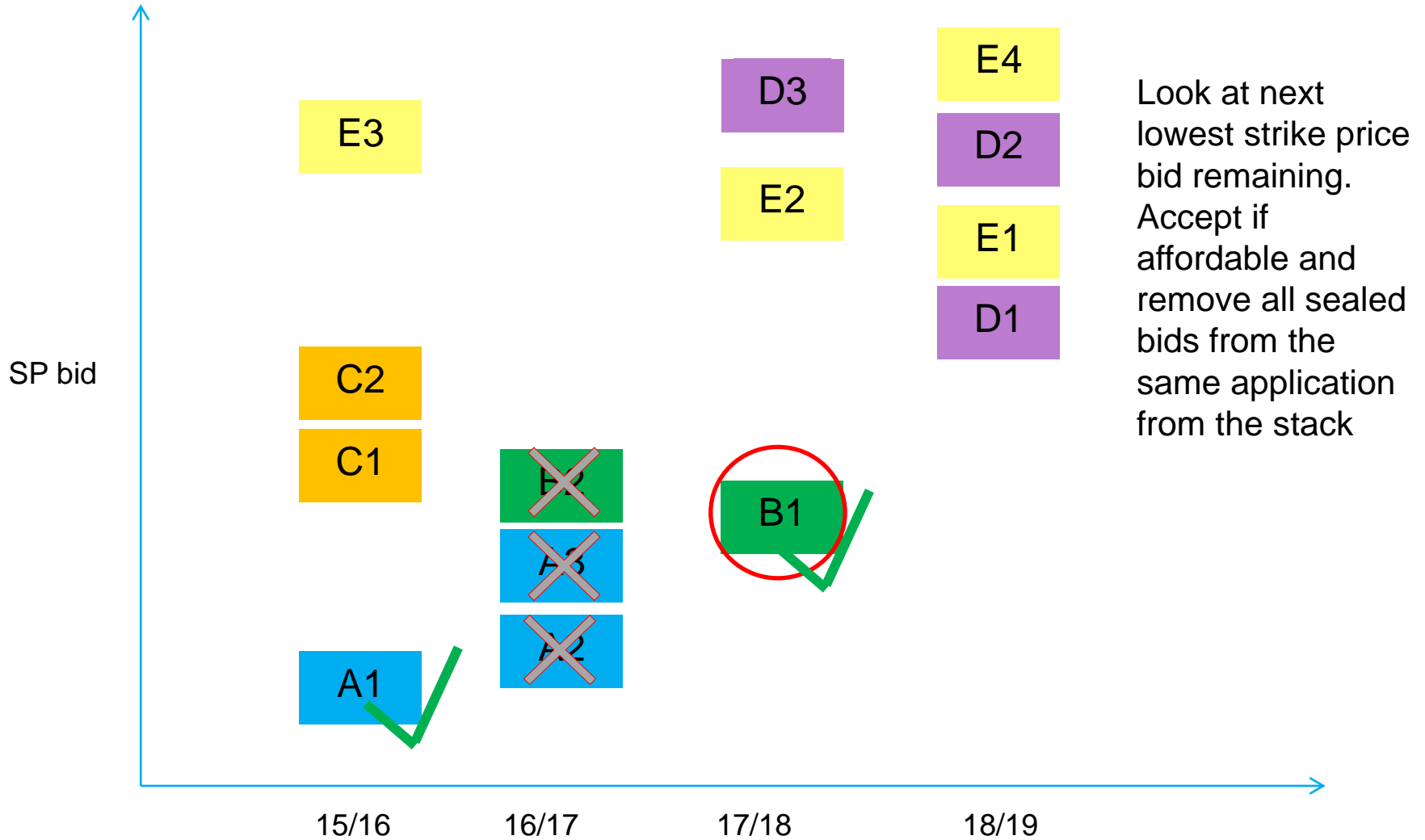
Project	Tag	SP bid	Capacity	Delivery Year	Notes
A	A1	80	10	15/16	Considered 1 <sup>st</sup>
	A2	81	10	16/17	
	A3	82	8	16/17	Only ever accepted if lower capacity
B	B1	83	20	17/18	
	B2	84	20	16/17	
C	C1	85	15	15/16	
	C2	85	10	15/16	Only ever accepted if lower capacity
D	D1	87	100	18/19	
	D2	90	90	18/19	
	D3	91	100	17/18	
E	E1	88	50	18/19	
	E2	89	50	17/18	
	E3	92	50	15/16	
	E4	93	40	18/19	





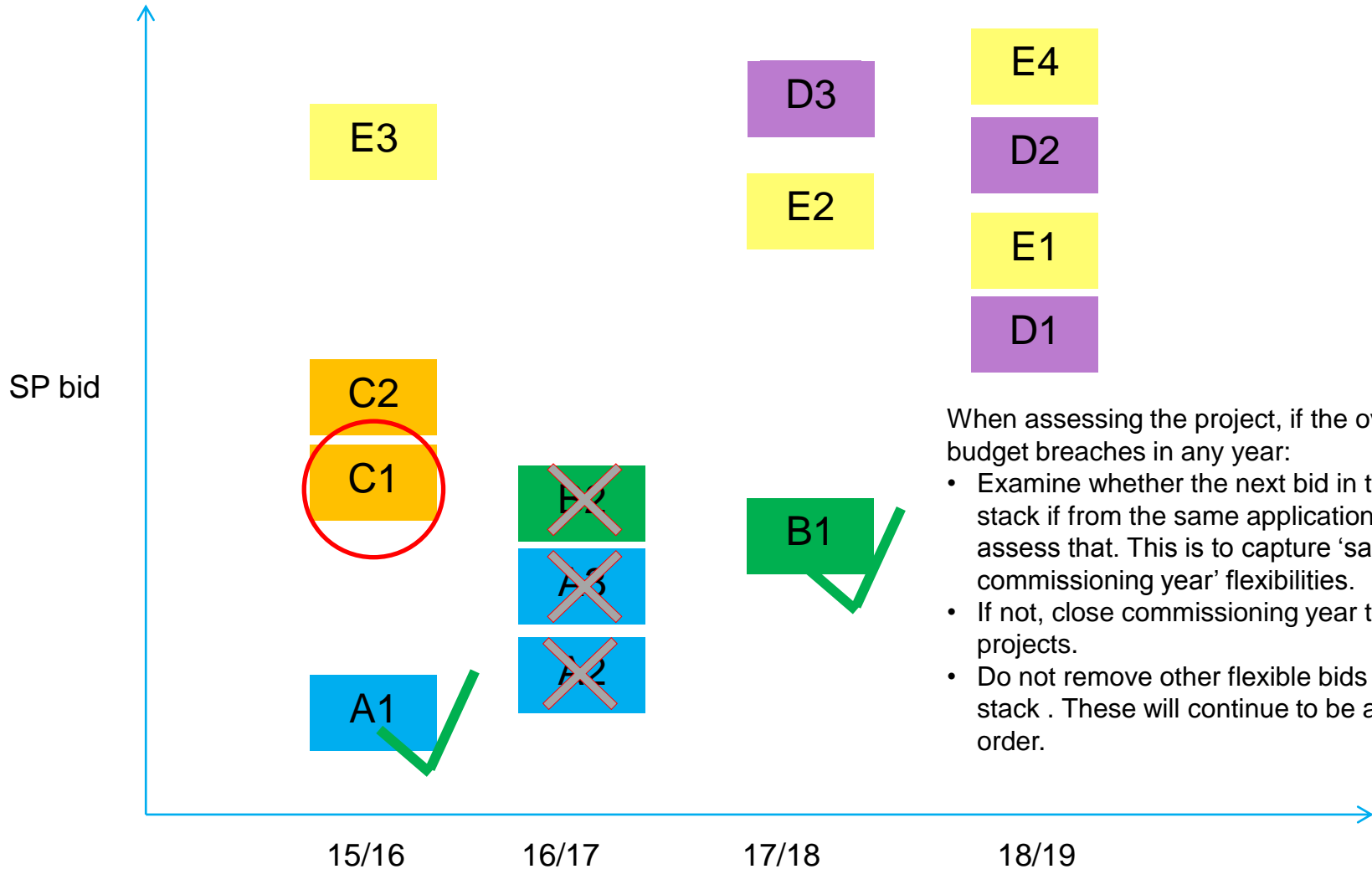






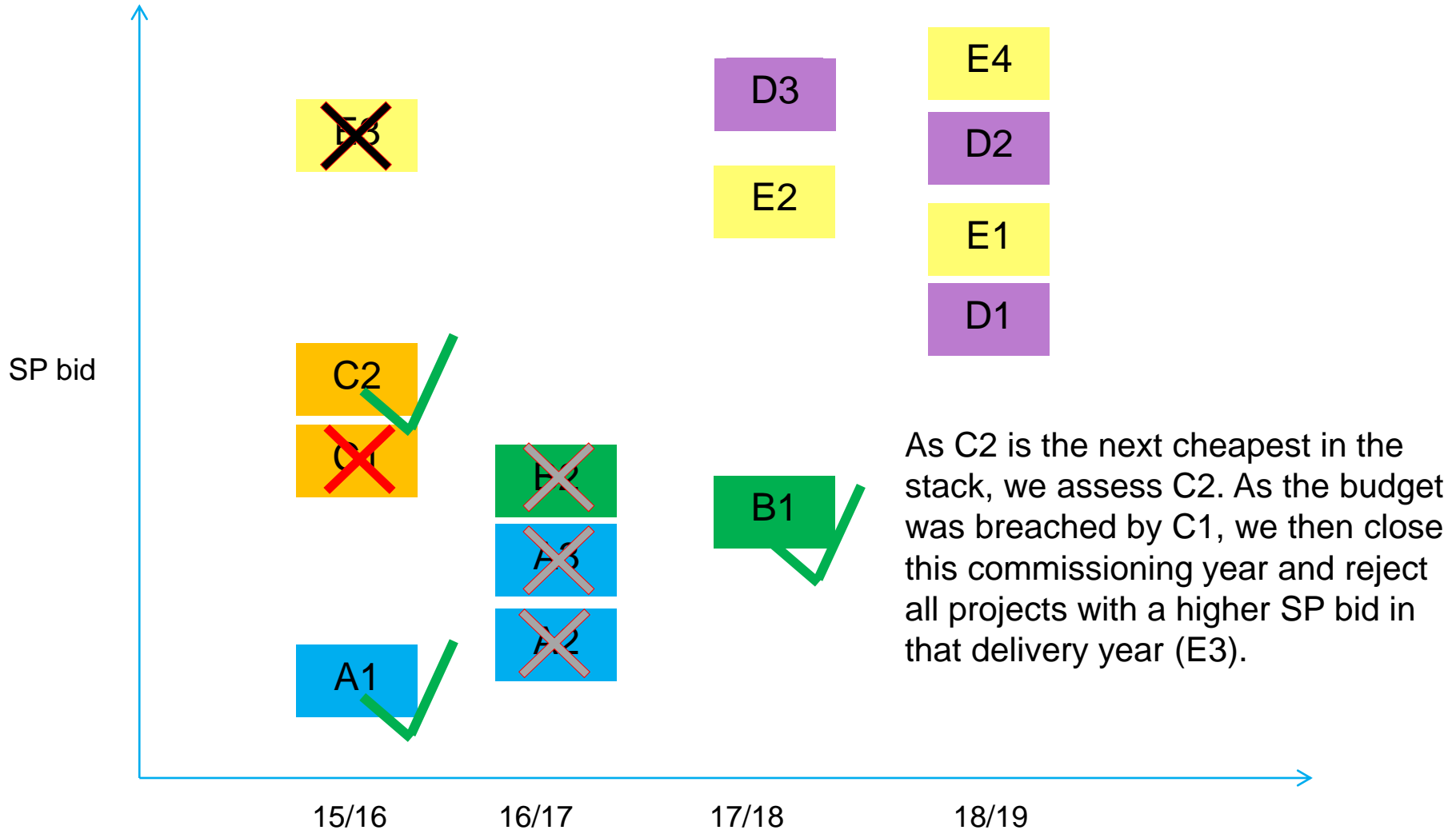


Look at next lowest strike price bid project. It is not affordable.



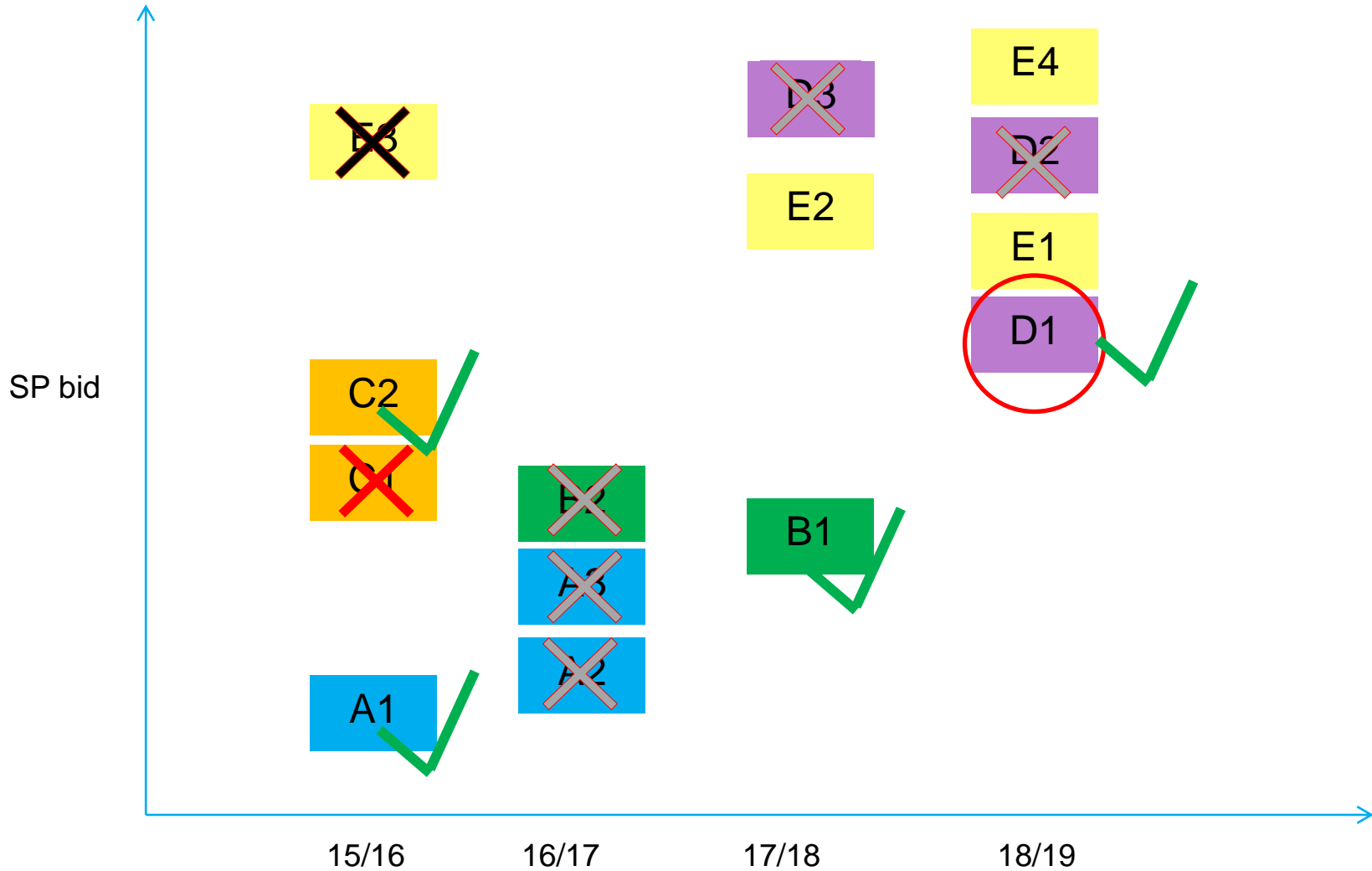
When assessing the project, if the overall budget breaches in any year:

- Examine whether the next bid in the total bid stack if from the same application, and if yes assess that. This is to capture 'same commissioning year' flexibilities.
- If not, close commissioning year to new projects.
- Do not remove other flexible bids from the stack. These will continue to be assessed in order.



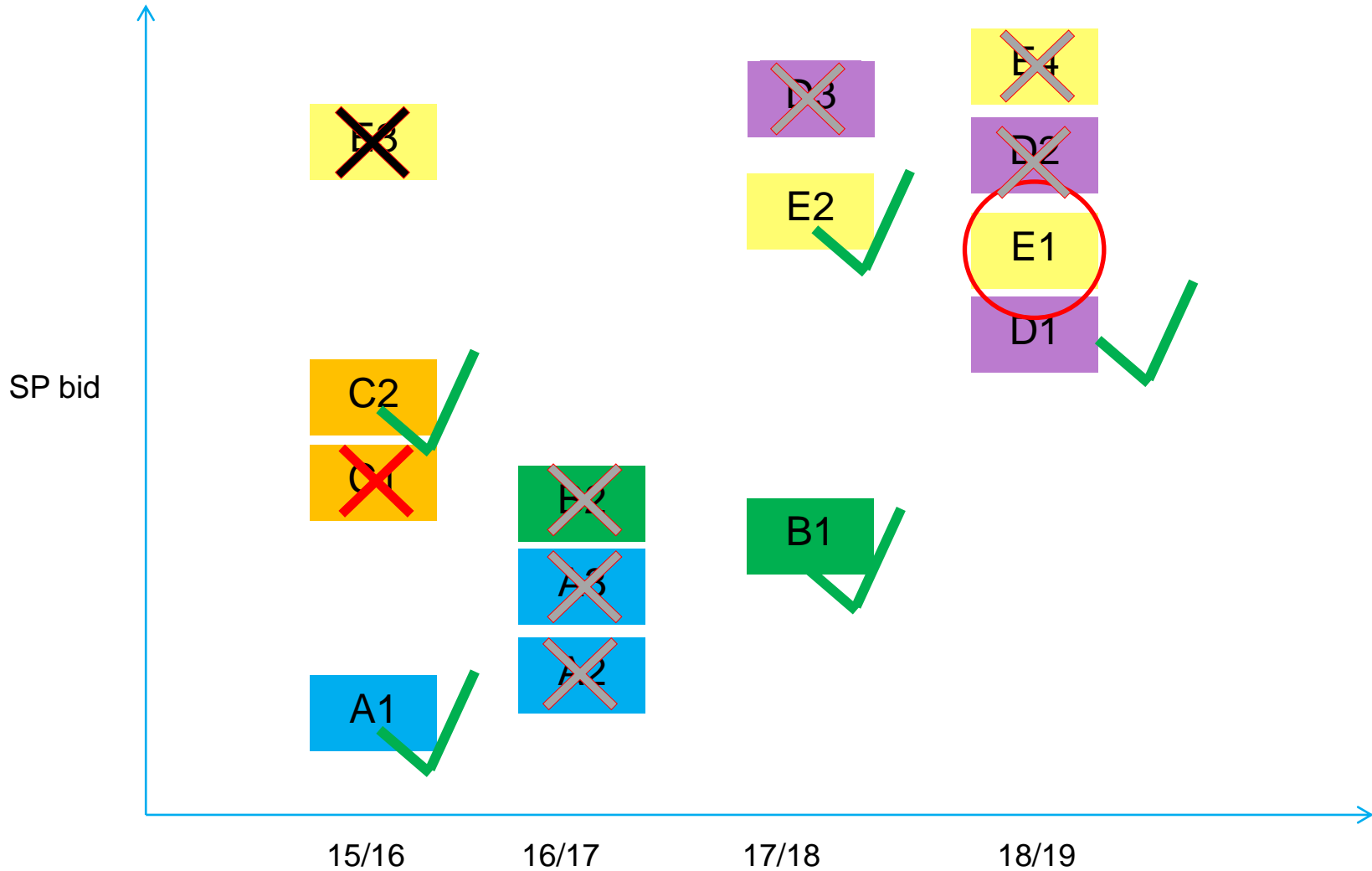


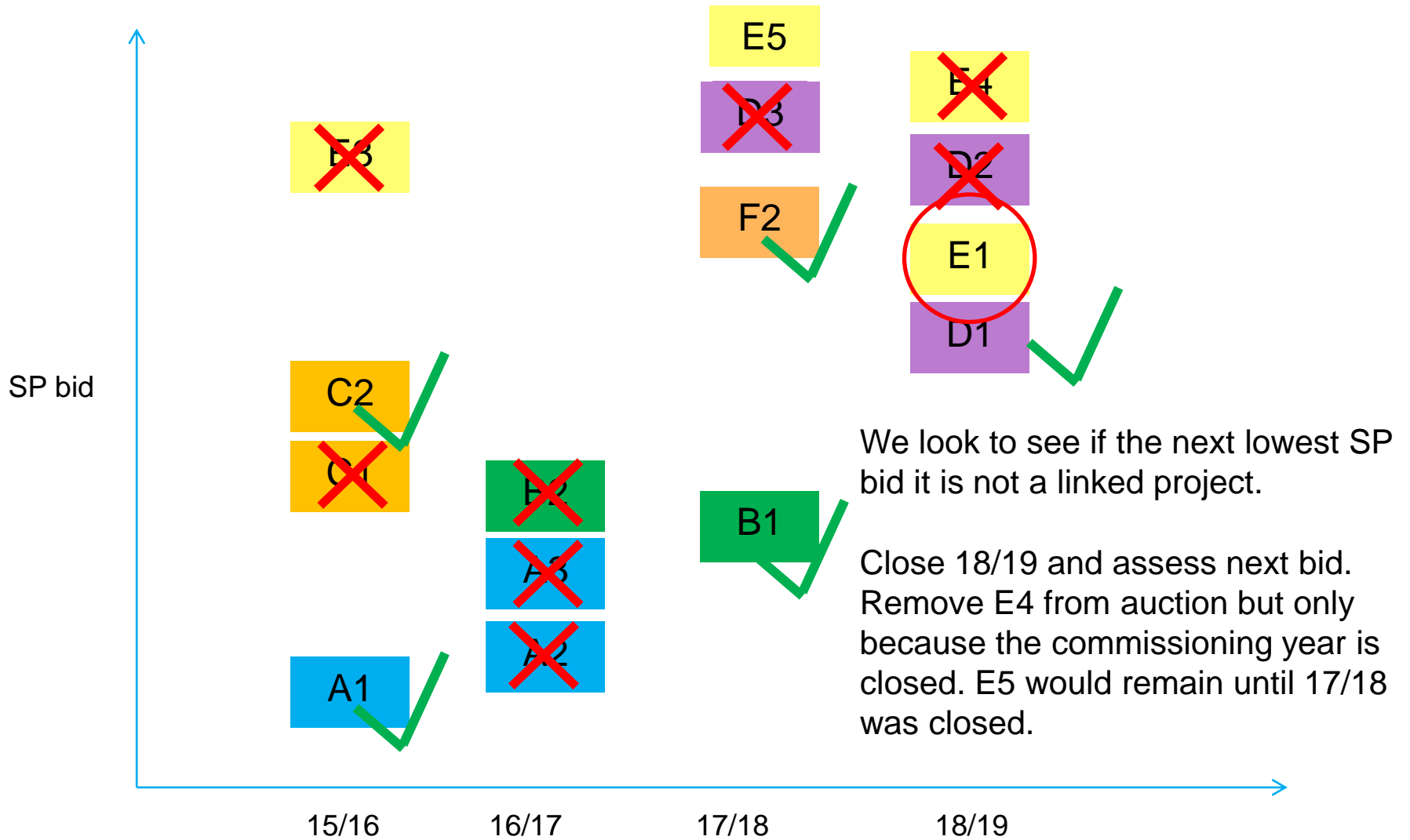
Looking at the next lowest SP bid. It is affordable.





Looking at the next lowest SP bid. It is not affordable.







# Flexibilities – outstanding questions

I

- How many bids should an applicant be allowed to submit?
- What level of checking needs to be performed to ensure that alternative sealed bids are still eligible (ie – they must be smaller than the original bid, and still within the planning permission window)?
- Do we wish to check the feasibility of flexible bids?
- Should flexible options within the same delivery year be reduced to 0.1p, in order that they are not tied with other bids, and are definitely considered if necessary?



# Tie-breaker Rules and Flexibilities

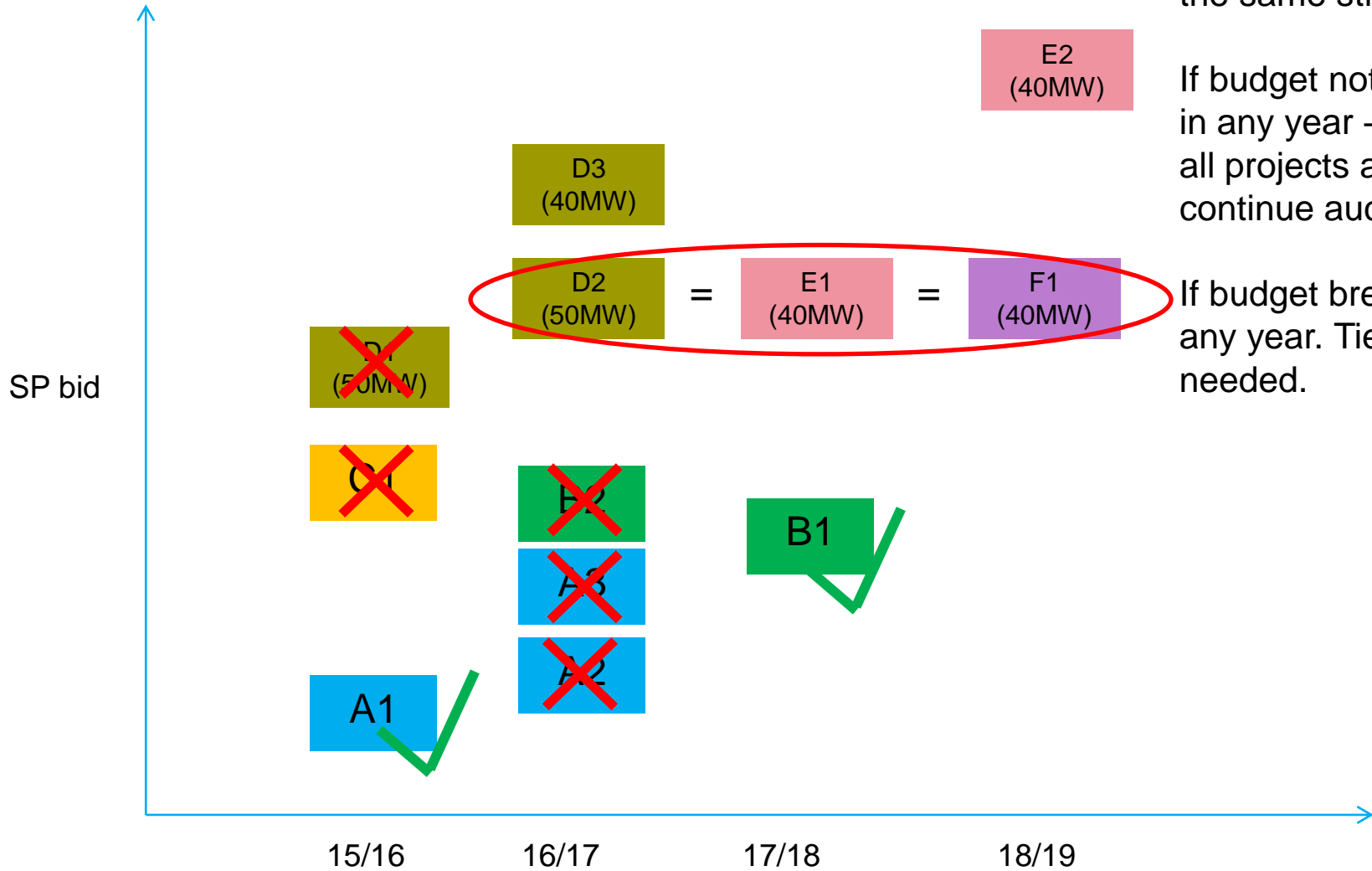
- All tied (in terms of strike price bid) projects are assessed at the same time:
- If all projects can be accepted – accept and move to next highest bid.
- If budget is breached. Apply tie-breaker rule.
- Tie-breaker rules apply only to the bids which have the same strike price, and not any related flexible options.
- If a project is rejected under a tie-breaker, its flexible options will be considered as usual (ie if they are the next project in the stack).





# Tie-breaker Rules

1. In a tie-breaker situation (i.e multiple projects with the same strike price bid), we must assess all possible combinations of tied projects.
2. Remove all combinations of projects that breach the budget in the any delivery year being assessed.
3. Choose the combination of projects that best maximises (i.e uses the most of, without breach) the budget in the final year being allocated.
4. In the event a further tie, use random generation to determine which of the 'best maximised' projects is allocated.
5. Remove flexible bids for projects which are allocated.
6. For projects which are not allocated (do not win the tie), consider if the next project in the stack is a flexible option for the rejected project. If so, consider it.
7. If the project is affordable, accept it and remove all other flexible bids. If not, reject it. **Either way**, close that delivery year.
8. If possible, continue auction.



D2, E1 and F1 are all tied bids – i.e exactly the same strike price.

If budget not breached in any year – accept all projects and continue auction.

If budget breached in any year. Tie-breaker needed.

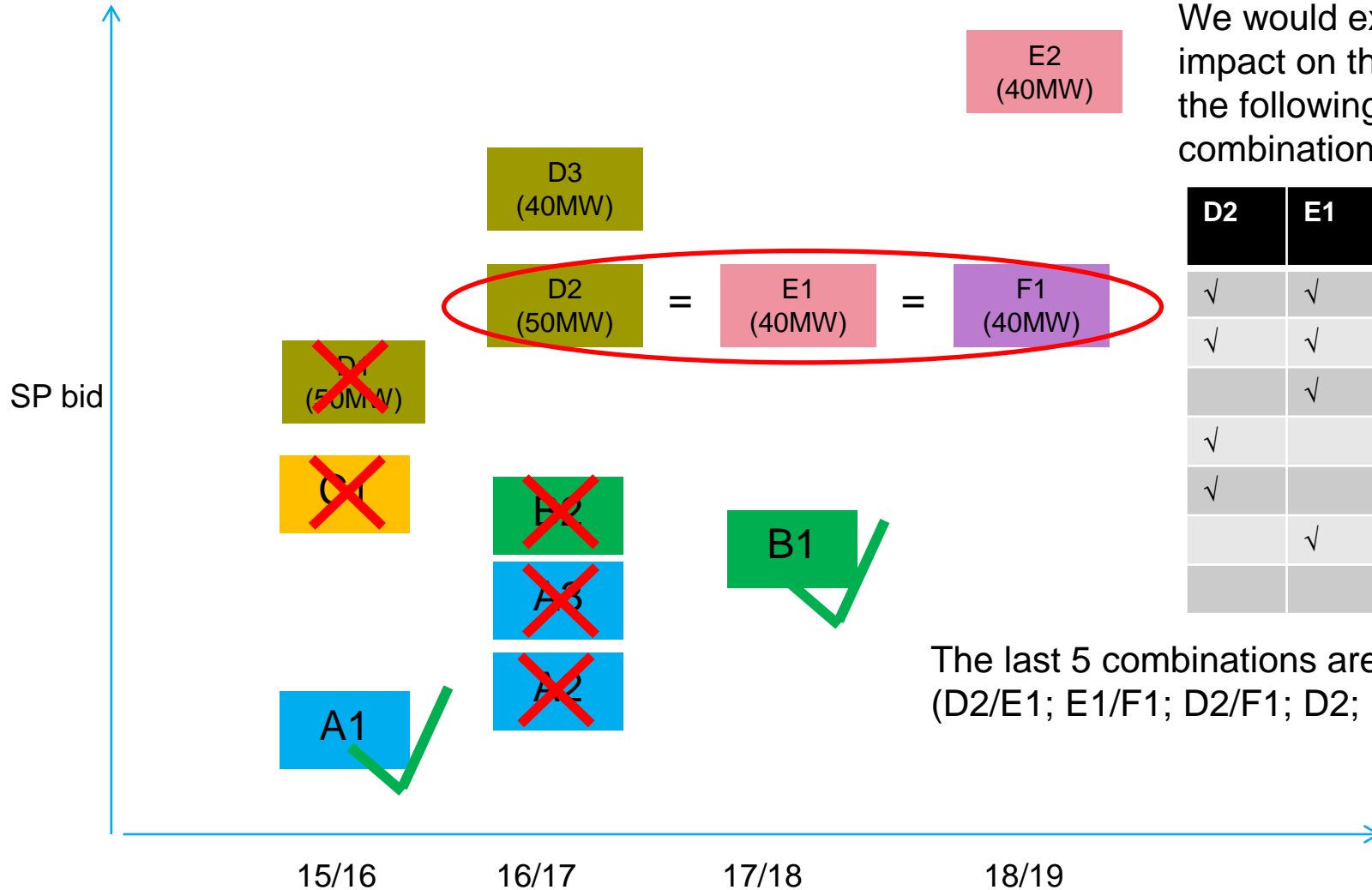


D2, E1 and F1 are all tied bids – i.e exactly the same strike price.

We would examine the impact on the budget of the following combinations:

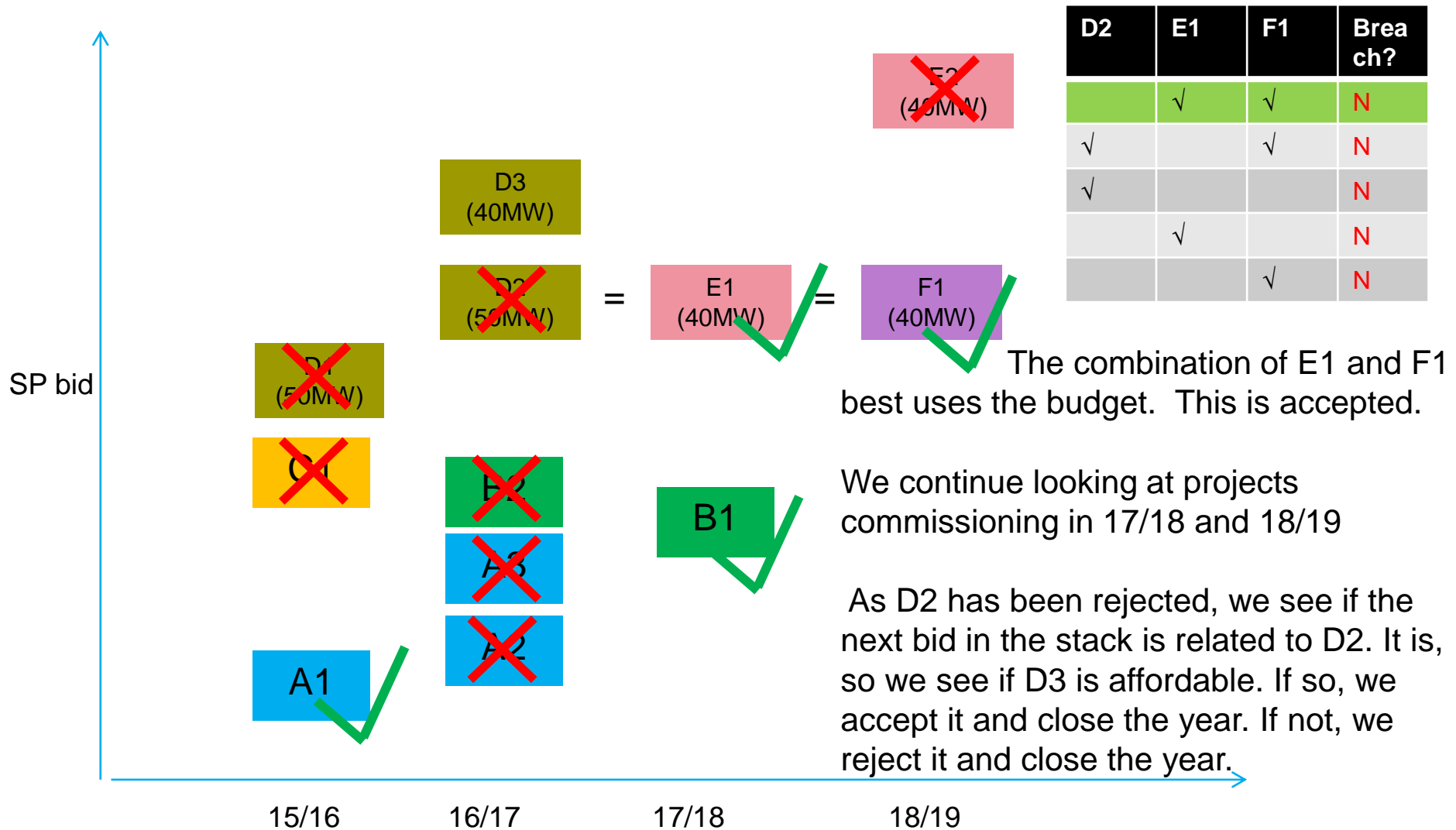
D2	E1	F1	Breach?
✓	✓	✓	Y
✓	✓		Y
	✓	✓	N
✓		✓	N
✓			N
	✓		N
		✓	N

The last 5 combinations are considered (D2/E1; E1/F1; D2/F1; D2; E1; F1)





# Scenario 1



D2	E1	F1	Breach?
	✓	✓	N
✓		✓	N
✓			N
	✓		N
		✓	N

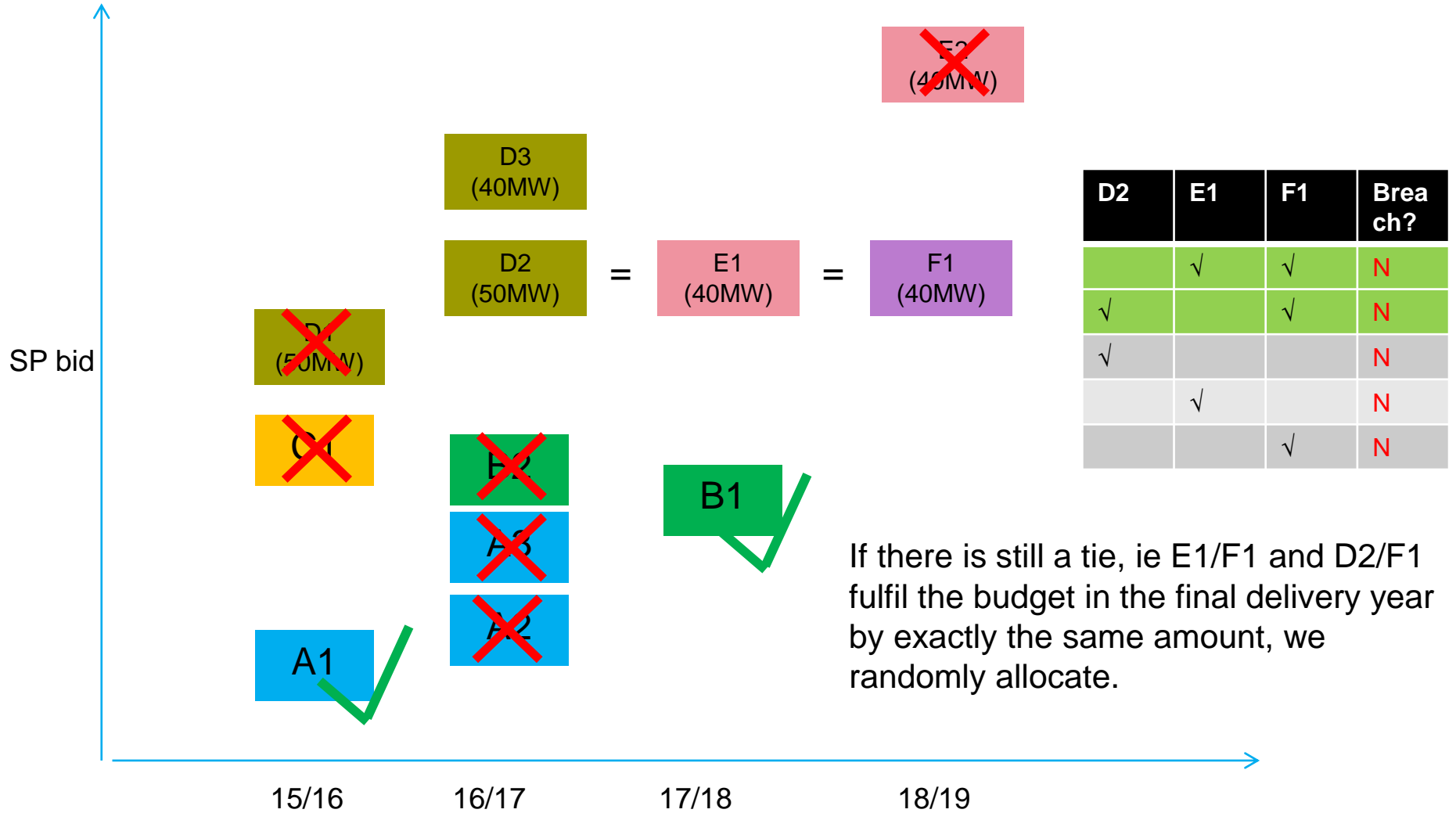
The combination of E1 and F1 best uses the budget. This is accepted.

We continue looking at projects commissioning in 17/18 and 18/19

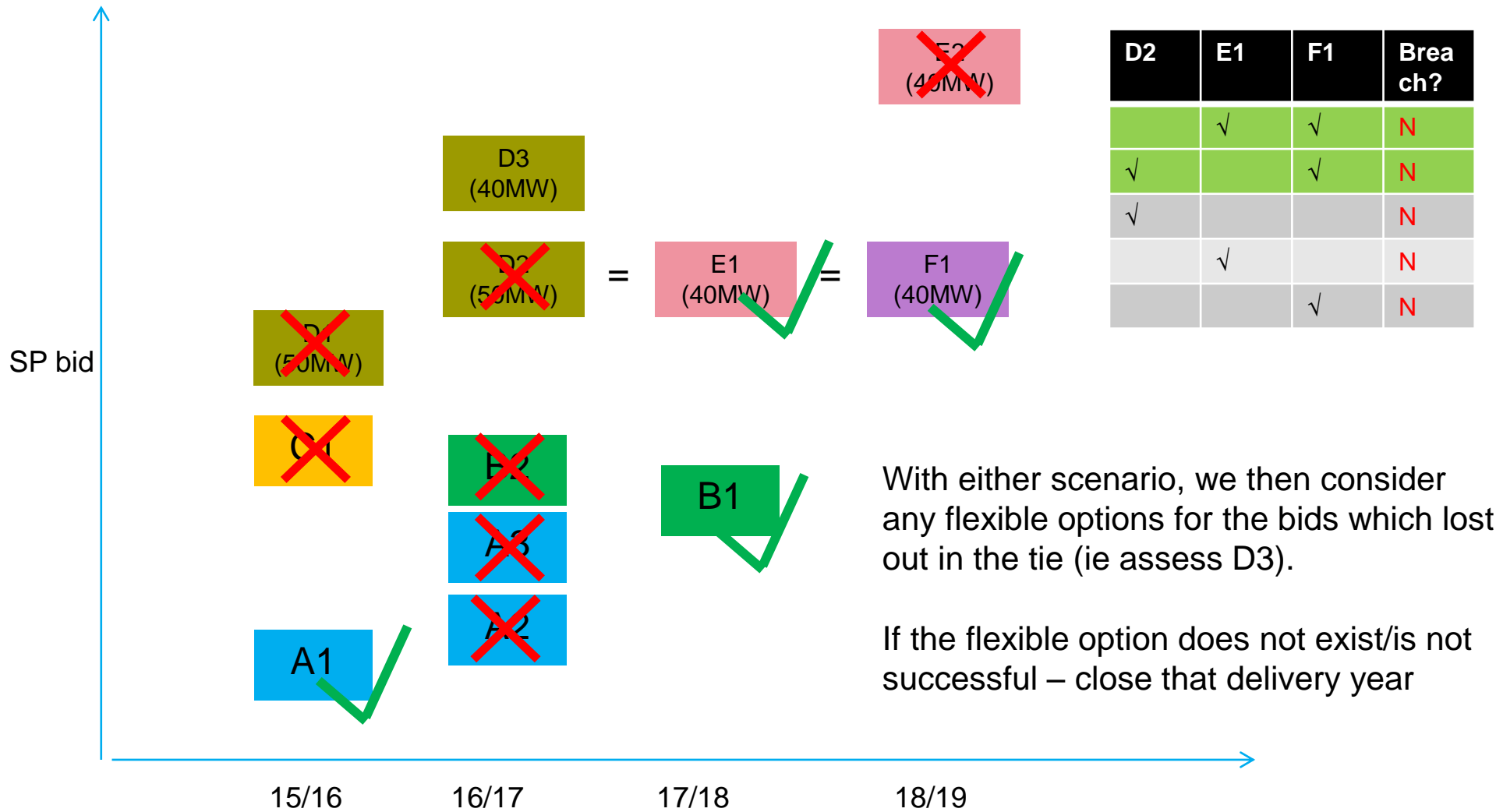
As D2 has been rejected, we see if the next bid in the stack is related to D2. It is, so we see if D3 is affordable. If so, we accept it and close the year. If not, we reject it and close the year.



# Scenario 2



If there is still a tie, ie E1/F1 and D2/F1 fulfil the budget in the final delivery year by exactly the same amount, we randomly allocate.





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# Next steps

April 2014



# Next Steps After Today

DECC has just published CfD Implementation Plan – some of the dates the CfD programme is working to:

Stakeholder Feedback on the draft of the allocation Framework until 22 April

Responses to the Consultation on directions to offer CfDs by 23 April

DECC to consider feedback and revise the AF and Regs drafting

Joint Committee on Statutory Instruments Informal scrutiny of the Allocation Regulations (sometime in May)

Laying of Regulations before summer recess (recess starts 22 July)

Publish Final Allocation Framework in advance of 1<sup>st</sup> Allocation Round – currently aiming for 1<sup>st</sup> round on 14 October





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# Close and Lunch

April 2014