



Department for
Business, Energy
& Industrial Strategy

THE INTERLEAVING RULE

How the interleaving rule applies to the
second Contracts for Difference Allocation
Round

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THE INTERLEAVING RULE

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Any enquiries regarding this publication should be sent to us at BEISContractsForDifference@beis.gov.uk.

The Interleaving Rule For The Second Contracts For Difference Allocation Round

Background

This document sets out the new rules applicable to interleaving bids in the second Contracts for Difference (CFD) Allocation Round. Readers not familiar with the subject matter are advised to read this document in conjunction with the Budget Notice and the CFD (Allocation) Regulations.

Once the Delivery Body has confirmed that a competitive allocation (auction) will take place qualifying applicants for Contracts for Difference (CFD) will be invited to submit one or more Sealed Bids for their application.

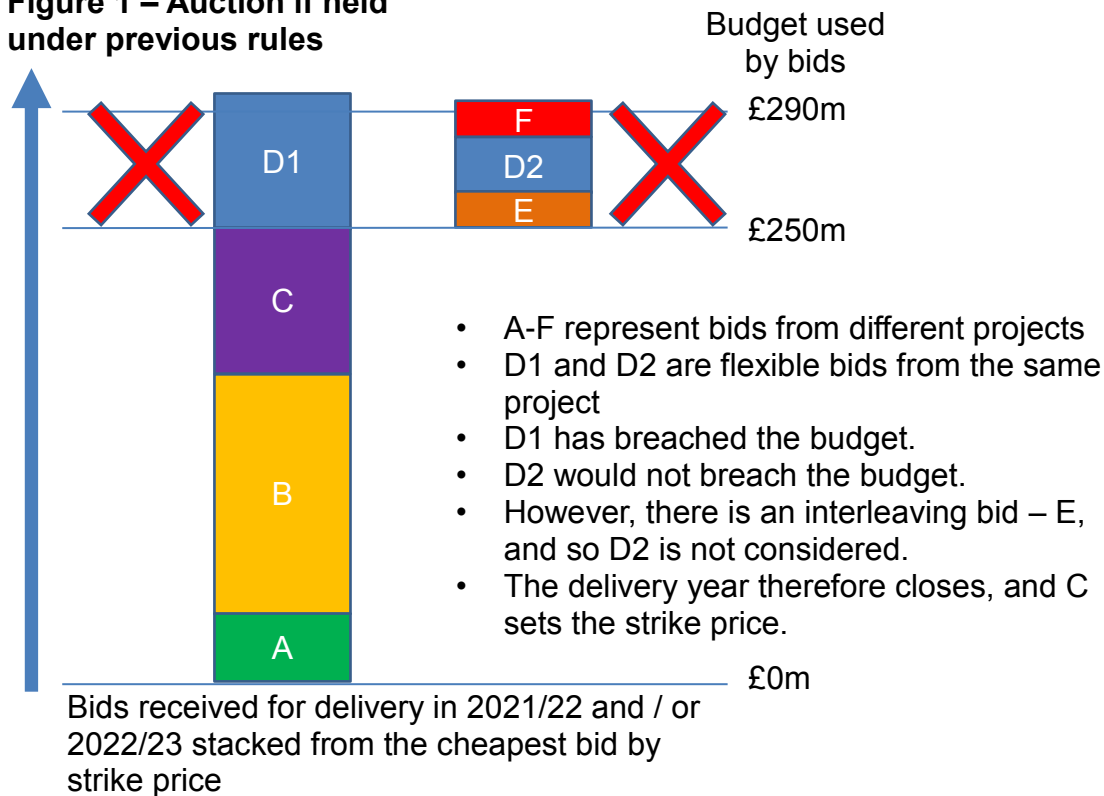
If they chose to submit more than one for an application, then these become known as Flexible Bids. Applicants may submit up to four Flexible Bids for each application with a maximum of 2 per delivery year. A flexible bid is essentially the same project submitted by the same company but must have a different strike price. It may also vary in capacity and/or Target Commissioning Date (TCD)¹. This gives companies a degree of flexibility to maximise the chances of their application being successful. If the Strike Price and/or the capacity are changed for the same application, this changes the amount of budget that a flexible bid can win.

In the first allocation round, when the auction was triggered, Flexible Bids could only be considered if they were immediately above the first bid for that application in the 'stack'² and that bid was unsuccessful (Figure 1).

¹ Only one bid can be made for a particular capacity and a particular TCD.

² All projects that bid into the auction are stacked from the cheapest to the most expensive in terms of bid price.

Figure 1 – Auction if held under previous rules



This meant that flexible bids that were separated from the first bid by others relating to a wholly different application/project ('interleaving bids') were also unsuccessful. This incentivised applicants to cluster the strike prices of their flexible bids tightly, rather than being able to use the process to put forward a range of different capacity, TCD or more variable strike price bids which might reflect potential cost savings.

This document sets out new rules for a CFD auction permitting interleaving bids. Under these new rules, the auction will consider a flexible bid for the same project if the first bid failed, even if these are separated by bids for other projects. This change is being introduced to enable developers to provide more cost-reflective bids by reducing the risk that this will cause them to lose out, increasing the chance of maximising the value delivered for the consumer.

New Rules for Flexible Bids in the 2017 allocation round

Flexible bids are considered in the same way as any other bid, from the cheapest to the most expensive. The budget impact of each flexible bid is valued using the valuation formula in the Allocation Framework. If accepted, the flexible bid sets the provisional clearing price³ for that delivery year, and all other bids for the same project are rejected since they are mutually

³ Because this is a pay as clear auction, every time a bid is accepted during the auction process, it sets a new provisional clearing price. The price is provisional because a further bid/bids may be accepted which would set a different clearing price

exclusive. The auction then continues until the budget is breached and the final clearing price is set by the last accepted project.

If a flexible bid is rejected because accepting it would mean that the budget would be breached, the auction continues until the next flexible bid for the same project is reached, and this is then considered. Each bid is considered on its budget cost. At this point a number of situations may arise:

1. **An interleaving bid is present and affordable.** As the auction climbs the stack looking for the next flexible bid, it finds an interleaving bid. If this is affordable (ie doesn't cause the budget to be breached) at the new clearing price, it is provisionally accepted, the auction continues and the next bid in the stack is considered.
2. **Interleaving bid(s) are present and unaffordable.** If the interleaving bid(s) are unaffordable (ie causes the budget to be breached), the original flexible bid is rejected and the delivery year of the original bid is closed.
3. **The next cheapest flexible bid is affordable.** After consideration of any interleaving bids, and assuming these were considered to be affordable, the auction comes across a flexible bid relating to the original bid which breached the budget. If this bid is affordable then it is accepted, it sets the new provisional clearing price, all remaining bids relating to the same project are removed from the stack, and all interleaving bids are confirmed accepted. The auction can continue and the next bid in the stack is considered. See Example 1 below.
4. **The next cheapest flexible bid is unaffordable.** If the next flexible bid is unaffordable, the provisionally accepted interleaving bids are confirmed rejected, and the delivery year of the original bid is closed. See Example 2 below.
5. **No other flexible bids in the stack.** If there are no other flexible bids relating to the original bid which breached the budget, the bid is rejected and the auction delivery year is closed.
6. **Tied bids.** If the next flexible bid is tied with another bid, then the delivery year is closed. This simplified rule is intended to reduce the excessive additional system requirements that would be incurred by applying the more complex tiebreaker rules that are applicable when the first flexible bids for different projects are tied and the interleaving process has not begun.
7. **Multiple tied bids.** Where two or more bids are unsuccessful after a tiebreaker, the next flexible bid for both projects must be successful for contracts to be awarded. If only one of the set is successful none of them will be awarded a CFD and the auction will close.

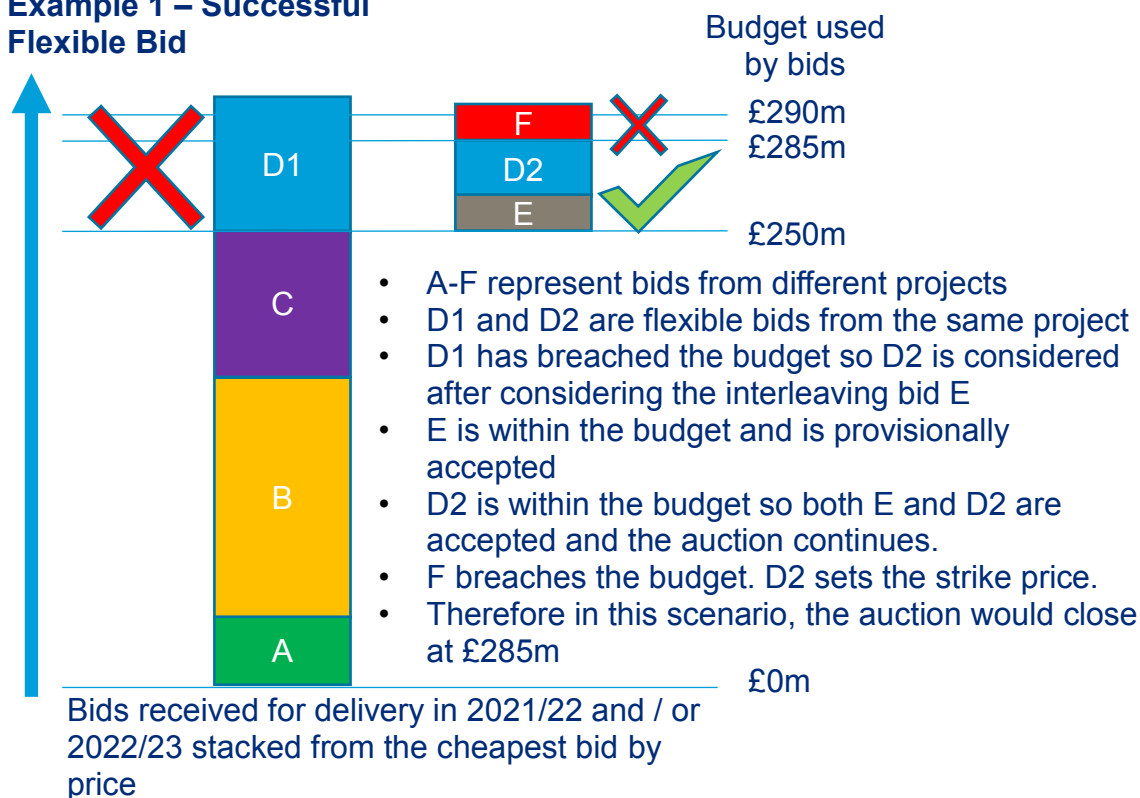
To summarise, the delivery year will close when:

The Interleaving Rule

1. An interleaving bid is unaffordable;
2. An unsuccessful bid has no flexible bid;
3. The flexible bid of an unsuccessful bid is also unsuccessful;
4. The flexible bid of a bid that has been found unsuccessful through a tie-breaker is also unsuccessful;
5. Multiple bids are found to be unsuccessful through a tie-breaker and at least one of their flexible bids is also unsuccessful; and
6. The flexible bid of an unsuccessful bid is tied.

The following examples illustrate both successful and unsuccessful flexible bids under the interleaving rule.

Example 1 – Successful Flexible Bid



Example 2 – Unsuccessful Flexible Bid

