



Department  
of Energy &  
Climate Change

# Electricity Demand Reduction Pilot Scheme Phase II

## Participant Handbook update: Chapter 10

This update supersedes chapter 10 contained in the Participant Handbook.

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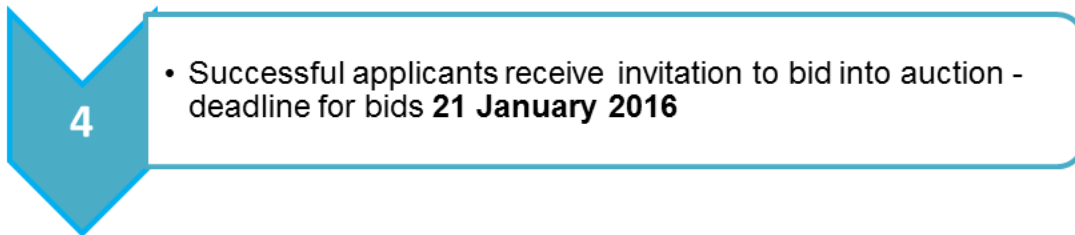
## **Chapter 10 of the Participant Handbook has been withdrawn and is superseded by this updated chapter**

The updated sections concern the auction format change from 'pay-as-clear' to 'pay-as-bid'.

Please see page 7 for full details

# Bid into the EDR Auction – Deadline for bids 10am 21 January 2016

Log onto the EDR portal and submit your final kW savings level and Auction price.



1. You have received notification via the EDR portal of the outcome of your application.
2. If you have been successful in your application and have been accepted for auction, you will receive an invitation to submit a bid into the EDR Pilot auction.
3. Now, you have until 21 January 2016 at 10am to bid.
4. Your letter will confirm the maximum amount of capacity savings that you are able to bid in the Auction in the specified delivery winter. Please note that you cannot exceed this amount in your bid. However you may, if you wish, bid a lower volume of capacity savings into the Auction as long as the 50kW eligibility threshold is met. Given that, if successful in the Auction, you will have agreed to deliver this level of savings, and that under the Participant Agreement you face reductions in your payments for under-delivery of savings (Chapters 5, 14 and 15), you may wish to exercise this option to increase your chances of your project ultimately delivering the full level of savings bid into the Auction.

### **Bidding less than the quantity approved in your application: an example**

Cacao Ltd has received a letter from DECC confirming that it has 120kW of recognised capacity savings from its initial application for pump replacements in its Lincolnshire Plant. The letter invites Cacao to bid.

**Scenario 1:** Cacao is concerned that it may not deliver all the savings it envisages and is aware that for each 1% of savings not delivered it will lose 2% of its EDR Funding. Cacao therefore chooses to bid 100kW at £80 per kW into the Auction, meaning it has greater confidence that it will secure its full funding and not face reductions for not quite managing to reach the full 120kW. Cacao receives a Participant Agreement for £8000 to deliver 100kW of savings.

Cacao installs its savings as originally planned and passes Operational Verification by providing suitable evidence on a scheme that it anticipates is likely to deliver 120kW – far more than the 100kW required. As a result it receives £1,600 (20% of its £8,000) as a consequence of installing measures expected to meet (and probably exceed) its 100kW agreed capacity savings.

After the Winter Peak Cacao reports on its capacity savings showing that, because its time of operation had decreased, it only actually delivered 108kW. However, as this figure exceeds the 100kW that Cacao bid into the Auction and was included in its Participant Agreement, it has met its requirements and receives its next payment in full, namely £4,800 (60% of its £8,000).

**Scenario 2:** If Cacao was less conservative the situation would have been as follows: Cacao bids the full 120kW into the auction at £80 per kW. Cacao receives a Participant Agreement for £9,600 to deliver savings of 120kW. It installs measures expected to deliver the full savings but because of the reduction in the hours of use, it only delivered 108kW, an under-delivery of 10% - meaning the overall payment would be reduced by 20% (double 10%). This means that all payments would be calculated on a base of £7,680 (£9,600 x 80%).

In both scenarios Cacao delivered the same amount of capacity savings. By under-bidding in **scenario 1**, Cacao took a cautious approach that meant its overall payments were not reduced and it received £8,000. In **scenario 2**, Cacao could have received greater funding, but it was hit for under-delivery and only receives £7,680.

**Figure 1**

### **Entering a bid**

5. When you are ready to bid, please log onto the EDR portal. In your workbasket screen click on 'enter bids' and enter both:
  - Your kW capacity savings offered. Remember - this must be at least 50 kW, but can be any amount up to that which has been set out in DECC's letter inviting you to bid; and

- Your £.pence per kW price. This cannot exceed £300 per kW and should be the minimum amount that you are willing to accept for each kW of capacity savings offered into the Auction.

6. Next you need to complete the declaration and then click 'submit'. Please note that once submitted your bid will remain sealed to you (and to DECC) until the auction date and you cannot amend it.

## EDR Bid Form

Your application has qualified to allow you to enter a bid into the Electricity Demand Reduction (EDR) auction. All bids must be submitted electronically through the EDR Portal. Once submitted a bid cannot be amended. Bids will only be opened after the closing date.

Please refer to the [EDR Participant Handbook](#) for more information in the first instance.

### Participant Details

Participant ID HREJ8722

### Bid Quantity

Application ID HREJ8722-162

Bid Quantity (kW)

### Bid Price

\*Bid Price in £/kW (Max 300.00)

### Declaration

The information contained within this form is the bid price and quantity I am entering into the EDR auction. I understand that I cannot amend this bid once submitted.

If this bid is successful in the EDR auction, I understand that my organisation must sign, and comply with, the Participant Agreement to be entitled to any payment. I am signing on behalf of my organisation.

\*Name

\*Position in organisation

\*Please type 'I AGREE' (in capitals) to confirm you have read and agree to the conditions above

**Your bid cannot be amended once submitted**

**Figure 2: EDR Portal bid entry form**

7. Please note that if you have submitted several applications, you will need to bid for each separately by opening up each application separately and repeating the process described above.
8. You may submit a different £.pence bid and amount of kW savings offered for each separate application should you wish to do so.
9. Please note that this is a competitive auction, and DECC cannot provide advice on what may constitute a successful bidding strategy.
10. The level of capacity savings that you bid into the Auction is the level that you will agree to deliver in the specified year (see chapter 9 step 12). DECC will not accept requests to change the level of capacity savings or the delivery period after the auction and signing of the Participant Agreement.

## IMPORTANT NOTICE: Changes to the auction format

Please note; the auction format has been changed from 'pay-as-clear' to 'pay-as-bid'. The decision to make this change has been taken in order to assist the State Aid approval process for the EDR Pilot. The details of the EDR State Aid approval process are outlined on page 7 and 56 of the Participant Handbook. Pay-as-bid is now the auction format we will be using for the auction, this will not be subject to change again.

### What does the change to 'pay-as-bid' mean for my application?

Now that the auction format has been changed to 'pay-as-bid', all successful bids will be paid at the £.pence per kW of capacity savings that they offer in the auction. This means that if you are successful in the auction, the price that you bid will be the price that you will be paid for the savings that you deliver

### Process of deciding auction winners

11. The auction process to be used for Phase II of the EDR Pilot is a sealed bid pay-as-bid auction. An example of how the auction process works is in Figure 28.
12. All the bids will be ranked first by price (£/kW), and then by size of kW savings offered. As this is a 'pay-as-bid' auction, all successful bids will be paid at the £.pence per kW of capacity savings offered in the auction. This means that the price you bid is the price that you will be paid for the savings delivered if you are successful in the auction.
13. We will fully fund bids up until we allocate the available budget for the Auction. As set out in paragraph 10 of the Participant Handbook this is £6M and has not changed despite the amended auction format.

### How will winners be notified?

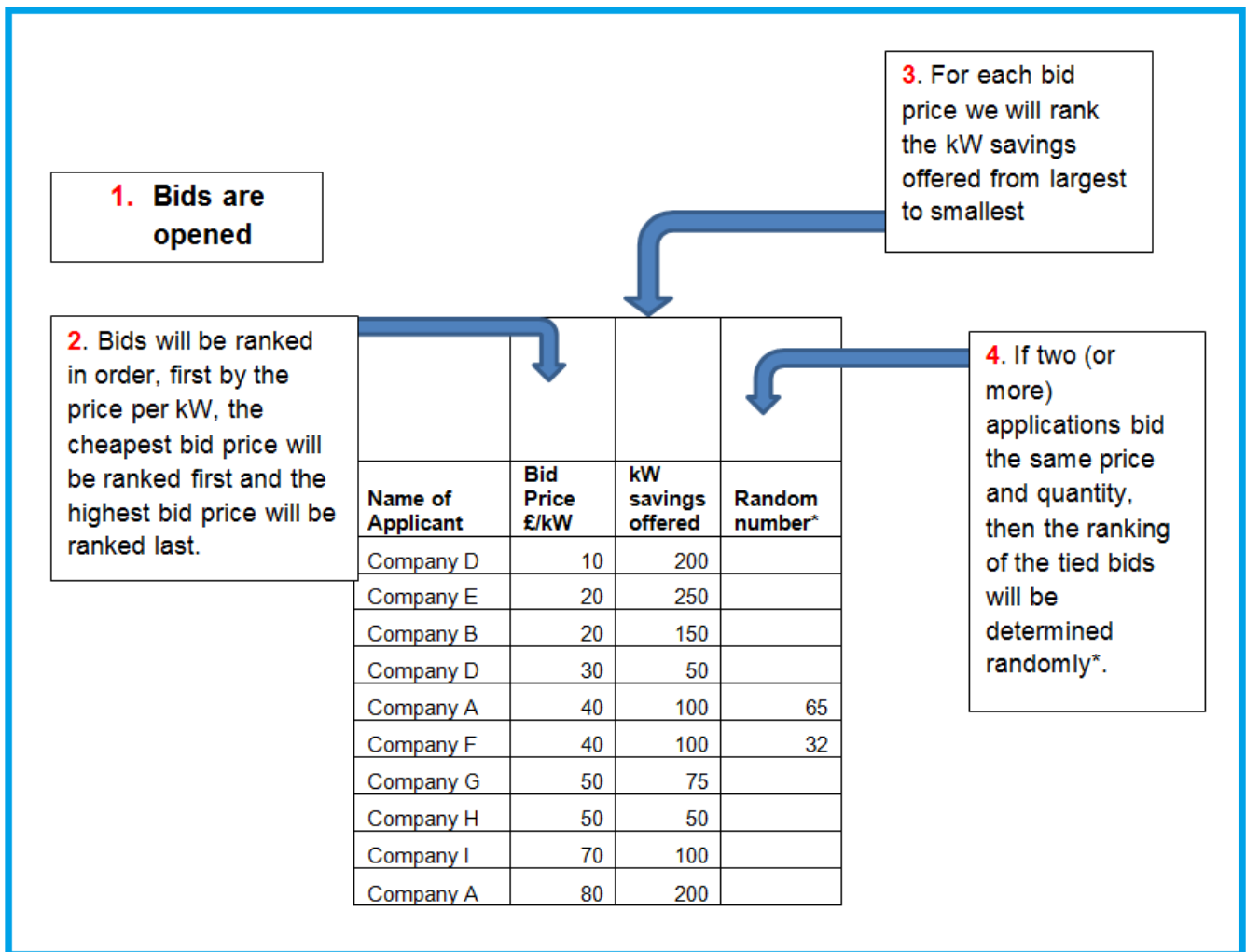
14. The Auction will be held shortly after 10am on 21 January 2016. All participants who entered a bid will be notified by e-mail of the outcome of the Auction afterwards; our expectation is that this would be within around 5 working days. The Secretary of State will make a public announcement of the Auction results. Successful bidders will be required to sign and return a Participant Agreement (see Chapter 11) by 11 March 2016.
15. There are some instances where the Secretary of State may wish to cancel or annul the Auction results. These include, but are not limited to, value for money issues. The circumstances in which the Secretary of State may wish to exercise her discretion to cancel an auction are likely to be highly unusual events. Bidders would be informed by e-mail if this were to happen.

### Bidding Checkbox

Have you:

- Completed the bidding template with
  - An amount of savings you wish to bid for (at least 50kW and up to the amount of the total capacity savings offered in your application)
  - a price in £/pence per kW
  - Your declaration
- Submitted the bid by 10am, 21 January 2016.

**Figure 3: How the auction will allocate funds: An example**



\*A random number will be given to bids using a random number generator. The bid with the highest random number will be ranked higher (above any other tied bid(s)) when allocating budget.

#### **Allocating the budget in the auction**

**5.** DECC will use a computer programme to find which bids it can afford to fund within the auction budget constraint. Each participant will be paid the price £/kW for each kW savings offered that they bid.

All those bids which can be funded within the auction budget will be winners in the auction.



				Amount awarded in the auction
Name of Applicant	Bid Price £/kW	kW savings offered	Random number	
Company D	10	200		$£10 \times 200 = 2000$
Company E	20	250		$£20 \times 250 = 5000$
Company B	20	150		$£20 \times 150 = 3000$
Company D	30	50		$£30 \times 50 = 1500$
Company A	40	100	65	$£40 \times 100 = 4000$
Company F	40	100	32	$£40 \times 100 = 4000$
Company G	50	75		$£50 \times 75 = 3750$
Company H	50	50		$£50 \times 50 = 2500$
Company I	70	100		$£70 \times 100 = 7000$
				$£80 \times 200 = 16000$
Company A	80	200		Not Funded

6. In this example, if we were to pay all bidders their auction bid price, it would cost more than the allocated auction budget. Therefore as we cannot fully fund Company A's bid of £80/kW for 200 kW savings this bid would not receive any funding and the amount allocated in the auction would be £32750.

7. If offering a large quantity of kW (like Company A), it might be advantageous to break up the project and submit more than one application to the pilot. This may improve the chances of some of kW savings offered in the auction receiving funding.

Company A offered a total of 300 kW of savings to the pilot but chose to divide into two applications. In this example, only 100 kW of savings offered is awarded funding in the auction.

Total amount of money required to fund the projects	48750
Auction Budget	40000
Budget Remaining	-8750

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