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CfD Allocation: First Come First Served and Allocation Rounds

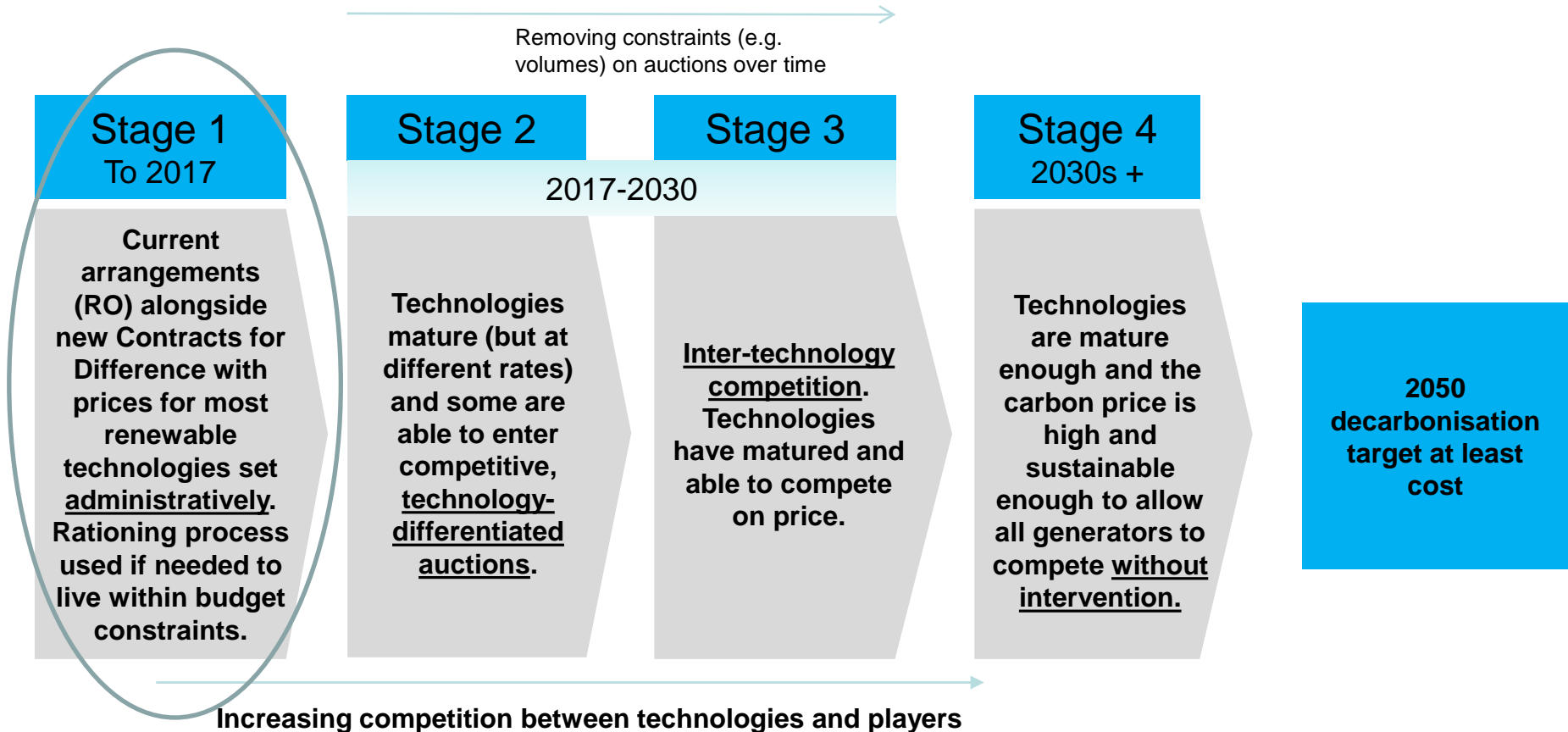
CfD Workshop

21 August 2013

The “generic” allocation process is designed to support the longer-term transition to competitive allocation



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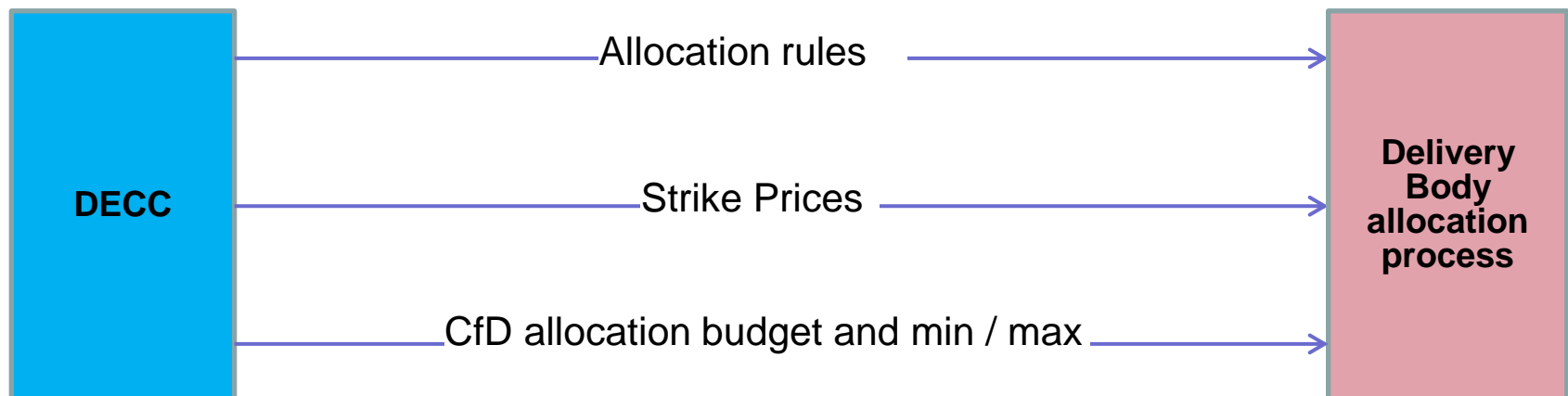
Note: The dates above are indicative. We have said we will move to competitive processes when the conditions are met.

Government will specify a “CfD allocation budget” available to the Delivery Body



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- Government will define a “CfD allocation budget” to be made available to the Delivery Body for the “generic” allocation process
 - Decisions on the level of the CfD allocation budget will be made in the context of wider Levy Control Framework spend, and will have regard to (amongst other factors):
 - Spend on other policies (e.g. Renewables Obligation, small-scale Feed-in-Tariffs)
 - Other spend on CfDs / Investment Contracts under FID-enabling (e.g. renewables falling outside “generic” process, CCS, nuclear)



The proposed process for the shift to allocation rounds is designed to avoid “hair triggers”



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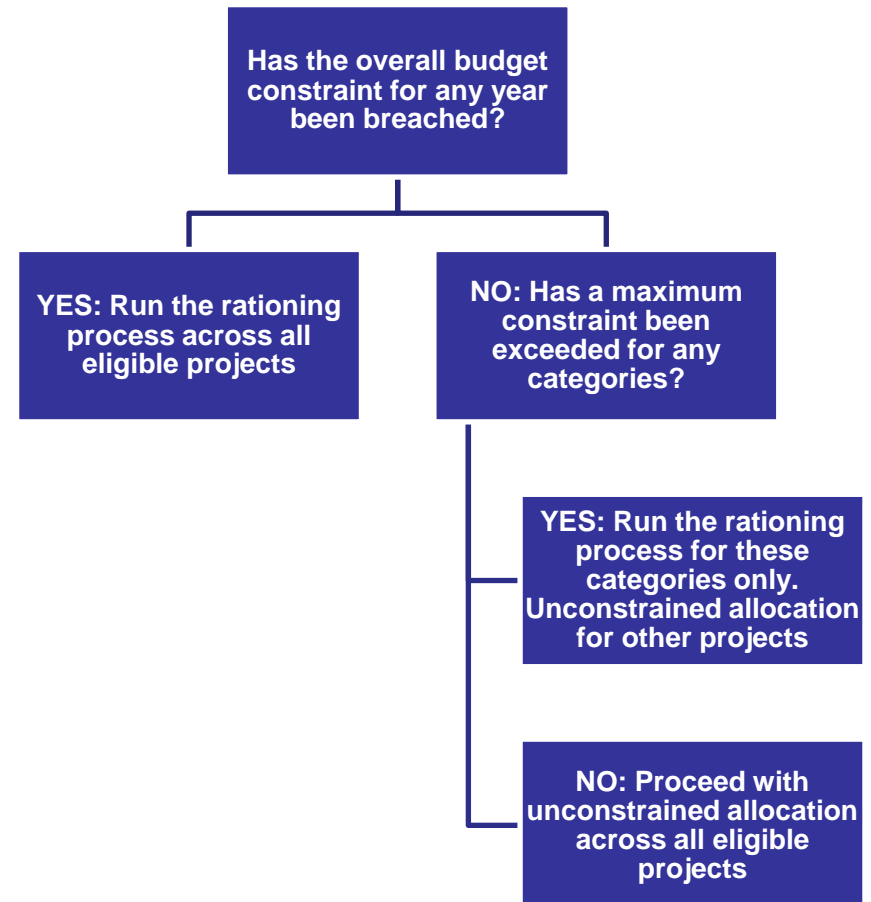
- If eligible and there is sufficient budget the Delivery Body will direct the CfD Counterparty to offer a contract
- Delivery Body would move to Allocation Rounds once 50% of the CfD Budget for a Delivery Year has been committed
- Delivery Body will approach DECC before moving to rounds
- DECC may release additional budget for the allocation of CfDs, and otherwise ensure that First-Come First-Served (FCFS) continues, in part depending on wider budgetary pressures on the Levy Control Framework
- Information on the budget available will be updated frequently, with an appropriate level of financial data made public via a website
- The project which activates the 50% trigger will not be allocated a CfD through FCFS
- Any projects that have applied for CfDs after the project that has activated the trigger would also be prevented from receiving a CfD through FCFS

The mechanics of allocation rounds work much like FCFS if no constraints are triggered



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- Contracts allocated twice a year
 1. Eligibility verification
 2. Valuation of eligible projects
 3. Comparison to budget available (see diagram at right)
 4. If constraint triggered, Delivery Body to check whether there is any additional budget for the allocation of CfDs which would relieve the budget constraint
- If appeals on either eligibility or allocation outcome, the round will pause while appeals are addressed
- Rationing will apply if overall budget constraints or individual technology maxima would otherwise be exceeded



Under constrained allocation, CfDs will be allocated to the cheapest projects, subject to any constraints



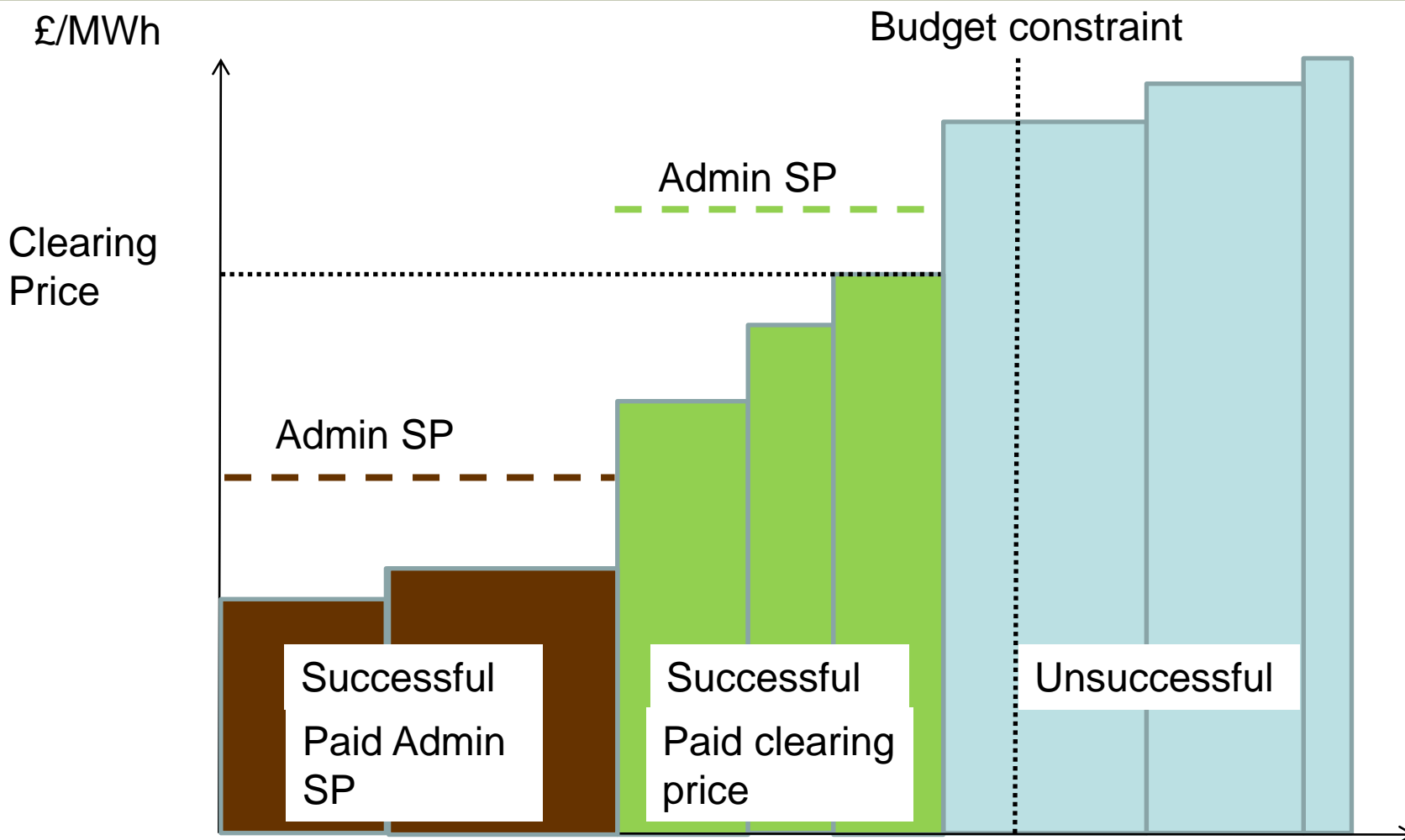
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- Projects will be ranked according to the strike prices they offer, with the cheapest projects securing CfDs
- Subject to overall budget and any other constraints
- Rationing process will operate on a “pay-as-clear” basis for each technology or technology group (“categories”) - could be different clearing prices for different categories if constraints bind
- Clearing prices are determined as follows:
 - For categories that are subject to binding minima or maxima, the clearing price will be the most expensive accepted bid in each category
 - For categories which are not subject to binding minima or maxima, the clearing price will be equivalent to the most expensive accepted bid before the overall budget constraint for that delivery year is reached
- The Strike Price paid to a project will be the lower of:
 - the administrative strike price for the technology; or
 - the clearing price established for the category

Rationing process – illustrative example 1 – no (binding) minima / maxima



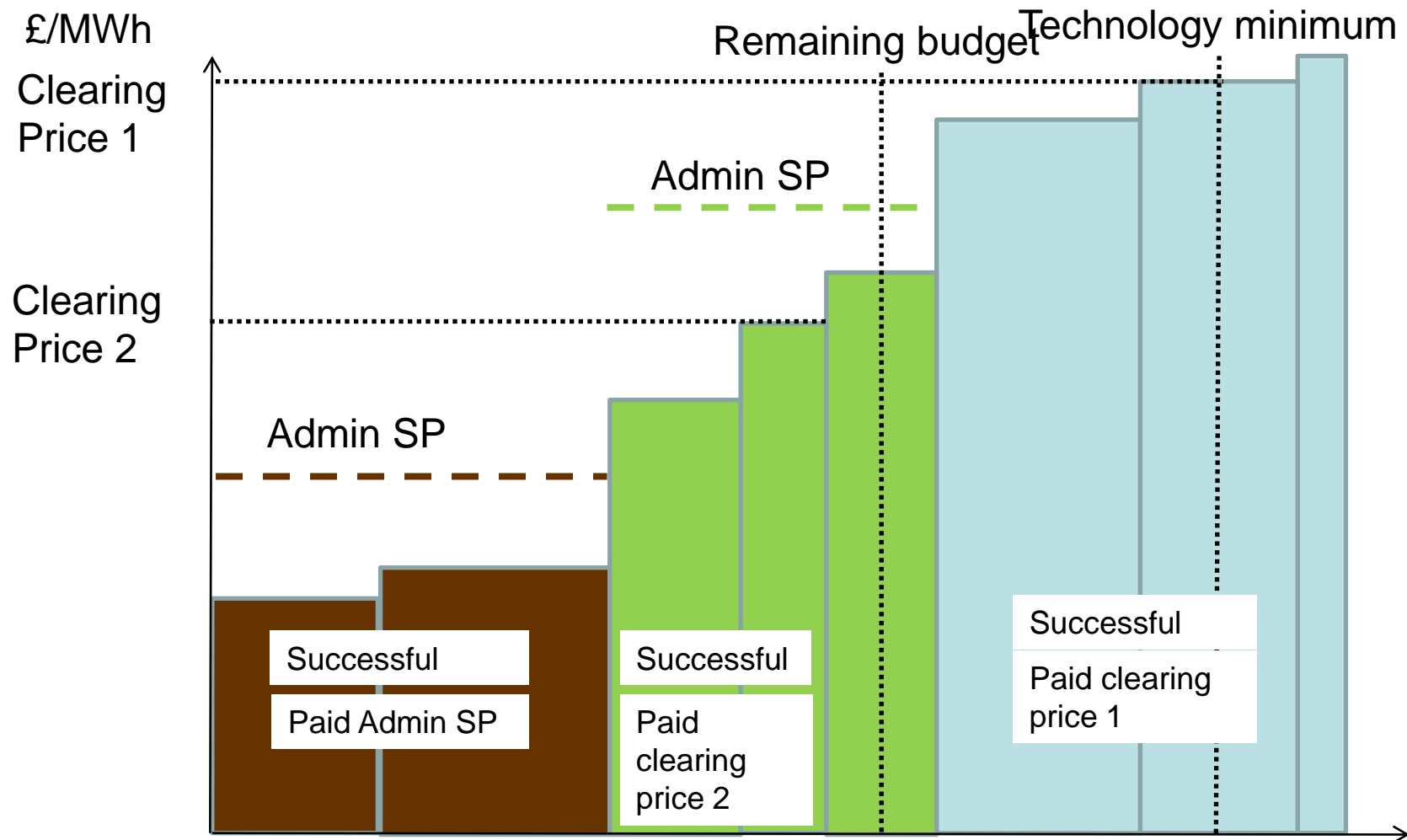
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Rationing process – illustrative example 2 – minimum



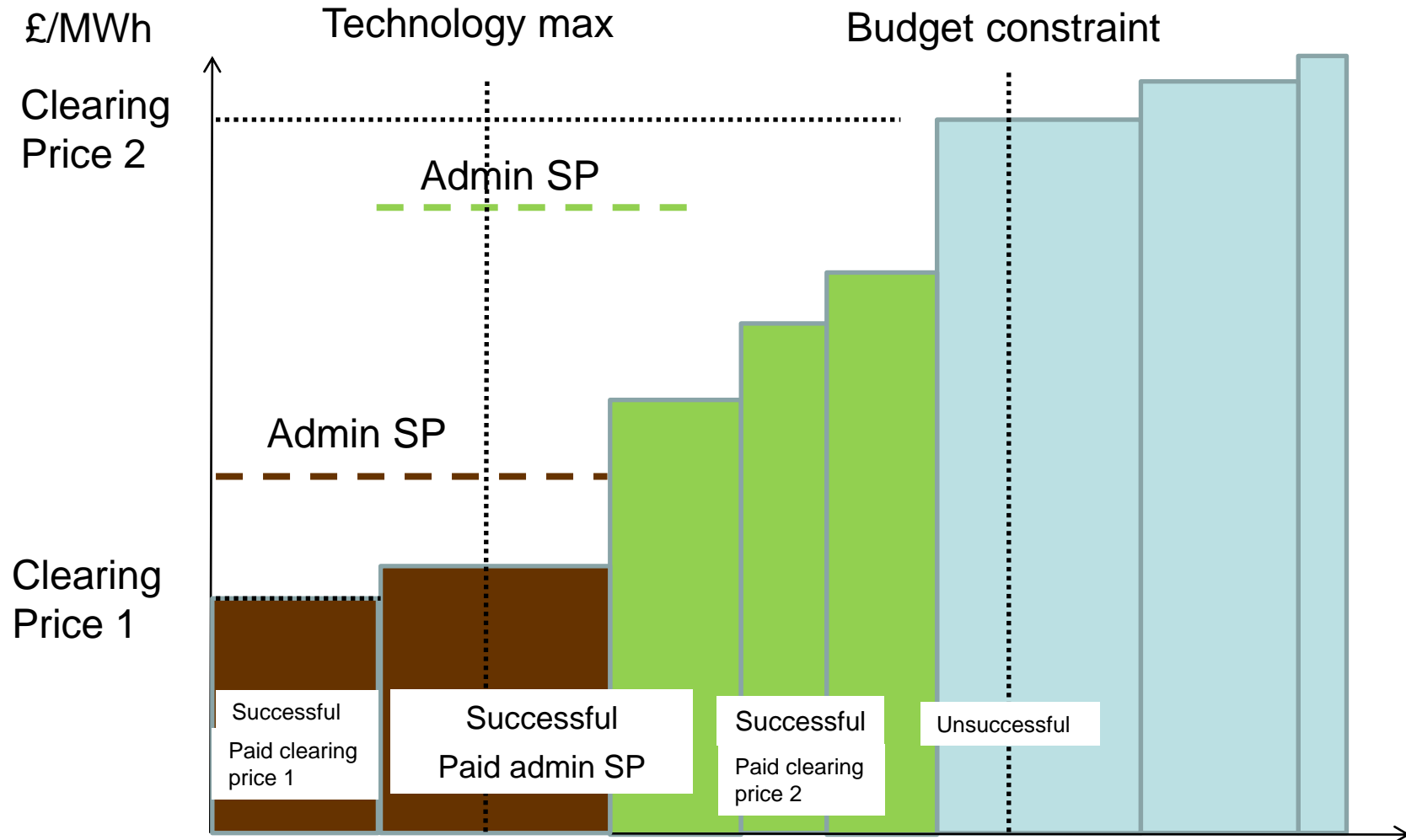
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Rationing process – illustrative example 3 – maximum



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- Sealed bids:
 - DECC will have access to individual bid information to inform Strike Price-setting
 - Projects that do not submit a bid will be treated as if they have bid at the previously published Strike Price
- Tiebreaker rules (in order):
 1. Preference to projects that minimise the “slack” in a binding constraint (for example, in the case of a minimum, select the smaller project that most closely satisfies the minimum constraint)
 2. Preference to projects submitting their application earliest
 3. Random allocation
- Phased projects – key principles:
 - Single strike price bid for all phases
 - Since a phased project is not divisible, whole project either receives or does not receive a CfD under constrained allocation
 - Strike price received will be the lowest price required to clear the market, having regard to the different budget constraints that will apply across different Delivery Years
- We will engage further with Expert Group and affected stakeholders on phasing issues

Questions: Transition from First-Come First Served to Allocation Rounds



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1. During FCFS and ahead of the transition to Rounds, what budget information would you want to be able to see?
 - Total CfD budget
 - Budget by delivery year
 - Budget remaining per delivery year against 50% target
 - Other information?
2. What notice period would be needed ahead of any changes to the budget?

Questions: Allocation Rounds and constrained allocation rounds



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1. During allocation rounds, what budget information would you want to be able to see?
2. What notice period ahead of a round would you need of any changes to the budget?
3. Does the right of HMG/Delivery Body to view sealed bids affect incentives and/or bidding behaviour? What alternatives are there?
4. What are your views on the tiebreaker rules?
5. How do we incentivise a project to enter into the CfD once it has been offered one through a constrained round – is it necessary to require a “bid bond” at that stage? Or are there alternatives?
 - A “bid bond” could be lodged with the Delivery Body (or agent) on trigger of a constrained allocation process
 - Would be returned to the bidder either if they are unsuccessful in constrained allocation, or if they are successful and fail to sign within the required period
6. How should constrained allocation apply to phased projects?