

Contracts for Difference AR4 Allocation Process Webinar Q&A Document

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Pot 1 Specific

1. Pot 1, Scenario 1 - What would happen if the budget is breached after the ASP is awarded to each technology, but the budget isn't initially breached when applying the last successful price?

In an unconstrained allocation all projects are valued using the technology specific ASP, in line with Rule 9.3(a) of the Allocation Framework. The intention of valuation is to sum the monetary and capacity value of all relevant Qualifying Applications in a given Pot to determine whether, or not, the sum would exceed the Monetary Pot and any applicable Capacity Cap; the outcome of which determines if unconstrained or constrained allocation is required.

2. What happens if 3500MW of solar PV has a lower bid price than all of offshore wind? Will the 3500MW of solar be successful, with only 1500MW of space left for offshore wind?

The case for two maximum only auctions to occur is impossible, as the cumulative total for the maxima capacity caps would equal 7GW and exceed the 5GW Pot Budget. Where an auction in relation to Pots or the Overall Budget is held, there would be a single bid stack, inclusive of maximum bids. In this scenario, the running order for maximum only auctions (detailed in the Budget Notice) is not applicable. Starting with the lowest Strike Price bid, each Qualifying Application is assessed against the Monetary Pot or Monetary Budget and/or any applicable Pot Capacity Cap or Overall Capacity Cap, or any applicable maximum. The operation of the bid stack is covered under Rule 17.4 of the Allocation Framework.

3. Pot 1, Scenario 4 - Does the whole auction close when only one maximum auction is breached? For example, if solar breaches their maxima first would the remaining 1.5GW not be available for other technologies?

The relevant maximum will close (e.g. solar) will close and all qualifying applications subject to that maximum and which haven't been determined to be successful will be removed. The auction will continue for all other bids. This is detailed in Rule 17.4(d)(i).

4. Pot 1, Scenario 4 - It is stated that - 'In the event that maximum only auctions need to be run for both technologies, the Delivery Body will run the solar PV auction first'. So, in the scenario that 3500MW of offshore wind and 3500MW of solar have applied, and if all of the 3500MW of offshore wind has a lower bid price than the 3500MW of solar, will the 3500MW of offshore wind be successful? Or will solar PV be given priority, as its auction is run first?

The relevant maximum will close (e.g. solar) will close and all qualifying applications subject to that maximum and which haven't been determined to be successful will be removed. The auction will continue for all other bids. This is detailed in Rule 17.4(d)(i).

5. Pot 1 scenario 4 example the whole auction closed when only the solar maximum was breached - but the answer to an earlier question advised that the auction would continue if only one maximum has ended. Could you clarify?

This slide has been updated within the slide deck which can be viewed now on our EMR Portal or the CfD AR4 Microsite. There was an animation missing from this slide so I apologise for any inconveniences/confusion it may have caused.

6. For Pot 1, if a Maximum only auction doesn't occur: the Clearing Price of the wind is still different from the Clearing Price of the solar?

There are two scenarios to consider for Pot 1 if a maximum auction doesn't occur - unconstrained allocation and an auction in relation to the Pots or Budget. If the outcome of the valuation process determines that the Pot 1 budget notice constraints would not be exceeded, then allocation will be unconstrained, and all successful applicants will be awarded a CFD contract at the relevant Administrative Strike Price (ASP). If the outcome of the valuation process determines that an auction in relation to the Pots or Budget is required, then

any successful solar and/or onshore wind applications would clear to the clearing price of the applicable Maximum, capped at the relevant ASP.

7. Can you confirm that per rule 17.4 D i) and ii) that the general pot price cannot be pulled up by a maximum technology? And for Scenario 4 we'd end up with three clearing prices - maximum 1, maximum 2 and general pot?

Correct. As per Rule 17.4 (d), Maximum bids are cleared to a separate Maximum clearing price for each Maximum, rather than the provisional clearing price of the bid under consideration, unless that bid is subject to the same Maximum.

8. In Scenario 4 why wasn't a flexible bid for the breaching bidder considered?

Where a bid would cause the maximum to be exceeded, this is unsuccessful and it will be removed from the bid-stack, along with all other unconsidered bids subject to the maximum (including flexible bids). The maximum will be closed. This is referenced in rule 17.4 e(i)

Pot 2 Specific

1. Pot2, Scenario 2 - What does flexible bids mean? How many bids a bidder can submit?

During the sealed bid window, the applicant has the opportunity to submit up to four flexible bids. The sealed bids can have varying target dates, capacity, and strike prices. More information on sealed bids can be found in the Delivery Body's published [guidance document](#) and Rule 11 of the Allocation Framework.

2. If overall Pot 2 overall budget is not exceeded, why is there an auction for the Minima sub-pot? it's a Minima, not a Maxima - seems counter-intuitive

As per Rule 9.3(a), where the capacity sum or cost in pounds sterling exceeds the Minimum, an auction must be held in relation to those (minimum) Qualifying Applications in accordance with Rules 15 and 16. In this scenario, a minimum only auction is held even if the Monetary Pot or Monetary Budget isn't exceeded but the minimum is.

3. Pot 2 scenario 3: Why was the secondary flexible bid for the unsuccessful project not considered in the minima auction.

Where a hard constraint applies to the minimum and a bid would cause the minimum to be exceeded (even if a capacity cap and/or the pot or monetary budget are simultaneously breached), the bid under consideration is unsuccessful and the auction will close, without consideration of flexible bids - see Rule 16.4 (d)(ii).

4. Pot 2, scenario 3. The clearing prices that apply after each application is awarded in the general pot auction do not seem to change the valuation in the monetary budget. Please confirm this is for simplicity in your example. Please also confirm that the general clearing price is also capped at the ASP for the relevant technologies taking part in the general pot auction scenario? ie in your example the general pot clearing price of £80 exceeds the ASP for certain technologies taking part

After each new application is awarded, all previously awarded applications will also be valued at the new strike price for their applied for capacity and Target Dates. In the Webinar examples previous valuations weren't upped for simplicity within the animations.

Where the ASP for a technology is lower than the auction clearing price, the relevant technology will be capped at the ASP.

5. This was in reference to pot 2 scenario 2 - If the project breaches the minima auction could it not be considered in the wider auction before other technologies are awarded their ASP?

In this scenario a Minimum only auction would be run in-lines with the rules set out in Rule 16 of the Allocation Framework.

This is because of rules 9.3(a) and 9.5(c), as the outcome of valuation has determined that, in this instance there is no requirement for general auction because no budget/capacity breach, but minimum is breached so minimum only auction must be held.

This means that the minimum auction will be run, and all other technologies will receive their ASP and not have to compete in a constrained allocation process. When the minimum auction is breached at the sealed bid stage, no other bids (including flexible bids) will be considered and the auction will close as of Rule 16.5(d) and 16.7 in the Allocation Framework.

Pot 3 Specific

1. Regarding Pot 3. My understanding is that the budget allocation calculation is based on comparing the strike price to the reference price. Is the current reference price guidance expected to be the same when or will it potentially be updated?

BEIS have published the methodology used to set Administrative Strike Prices for CfD Allocation Round 4. The document explains the methodology for determining the Contracts for Difference (CfD) Administrative Strike Prices (ASPs) for Allocation Round 4 (AR4).

Additionally, it states within this document "Schedule 2 Appendix 2 of the Allocation Framework sets out the reference price series used in the valuation formula, with Schedule 3 setting out which technologies each series is applied to"... "These reference prices are used for the purposes of informing ASPs, and in the valuation formula to estimate monetary budget during the Allocation Round. They do not influence or predicate the reference prices used by the Low Carbon Contracts Company (LCCC) to calculate payments in-life." This therefore means that the reference prices stated in the Allocation Framework will be the final ones used within the allocation process but the reference price at later stages are subject to change.

Please refer to the link for further information;

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1016681/cfd-ar4-asps.pdf

2. Regarding Pot 3, do bidders have to put forward the same strike price for all three reference years?

Applicants can submit a maximum of four sealed bids and up to two bids for the same Delivery Year. If the CFD unit has multiple phases, then the sealed bid must include a single Strike Price that shall apply to all phases. Only one sealed bid can have the same Target Dates (TCD and TCWSD) and Capacity as specified in the Original Application. Please refer to Rule 11 of the allocation framework for further information on the submission of sealed bids.

General

1. Once the first unsuccessful bid appears, the bids with higher price will not be considered at all?

Once the first unsuccessful bid occurs the auction can continue in 2 different ways.

The first scenario would mean would occur in a breach in a Maximum only auction. In this scenario no flexible bids would be considered and the bid breaching the constraint would be the first unsuccessful bid and the auction would close. This is set out in Rule 18.4(b)(ii)(ii) for a Maximum only and Rules 16.4(d)(iv) and 16.5(b) for Minimum only auctions of the Allocation Framework

The second scenario would occur for all other auctions. This would be when a breach occurs and other flexible bids are considered, allowing interleaving loops to occur, and is set out in Rule 17.9 in the Allocation Framework

2. Will you be including further details on the scenarios for different pots in the final CfD allocation guidance (draft guidance only shows a high level constrained / unconstrained allocation scenario) and / or can you please share slides from this session?

The Allocation Guidance document will not be updated with further details on the different auction / pot scenarios. The webinar slide-deck and associated Q&A document, which provide a detailed explanation of potential auction scenarios, will be made available via the CfD AR4 Microsite and EMR Delivery Body website.