



CfD AR4 Launch Event Breakout Room

Valuation and Allocation Process

This breakout will be a deep dive into the Valuation and Allocation Processes for Allocation Round 4, covering:

- the basic principles of how the allocation process works; and
- technical changes introduced for AR4

Any questions you may have can be raised either in one of the question breaks or via the chat feature on MS Teams.

Disclaimer: These slides are for information purposes only, applicants should refer to the Allocation framework for the Allocation Round

For any further queries, you can contact the EMR Delivery Body by:

Telephone: 01926 655300

OR

Email: .box.emr.cfd@nationalgrideso.com

Auction Types

Minimum only Auction(s)	Auction in relation to Pots or Overall Budget	Maximum only Auction(s)
<p>The Allocation Regulations allow BEIS to set a minimum amount of capacity guaranteed to be contracted, for a given technology or technologies.</p> <p>Where the Budget Notice states that a minimum applies to a technology(s), then the minima only auction will run prior to any other auctions that are required. (Rule 15.1)</p> <p>Any unconsidered minima bids are subsequently considered in the general auction that follows.</p>	<p>This auction is triggered under two scenarios:</p> <ol style="list-style-type: none"> Summed monetary value and/or capacity value of all relevant Applications would exceed the Monetary Pot Budget in any Delivery Year and/or any applicable Pot Capacity Cap; OR Summed monetary value and/or capacity value of all relevant Applications would exceed the overall Monetary Budget and/or any applicable Overall Capacity Cap (i.e. no Pot budget). <p>Where a maxima only auction is not required, maxima bids participate in the Pot or Overall Budget auction and are subject to the designated maxima.</p>	<p>The Allocation Regulations allow BEIS to set a maximum budget reservation (in MW or £s) to a specific technology or technologies.</p> <p>Pursuant to Rule 9.6, a maxima only auction is triggered when the capacity sum or cost in £ would exceed the maxima but the cumulative Monetary Pot or Budget and/or any applicable Pot or Overall Capacity Cap is not exceeded.</p> <p>Note: This ONLY occurs when applicants within this auction, exceed the maximum but the sum of ALL applications does NOT exceed and pot or overall cap.</p>

The Budget Notice, published by BEIS, will specify whether a Pot budget applies and whether any minima and/or maxima apply for the Allocation Round.

Valuation

All qualifying applications must be valued by the Delivery Body in respect of each Delivery Year set out in the Budget Notice.

Where a Pot Capacity Cap or Overall Capacity Cap is stated in the Budget Notice, the method for the Applications Valuations of capacity will be the sum of the capacity of all relevant Applications

The method of calculation for determining the monetary Applications Valuations is set out in Schedule 2; this combines the following four components to calculate the overall budget impact

Administrative Strike Price minus the Reference Price	Capacity	Technology Specific Factors	General Conversion Factors
<ul style="list-style-type: none">• ASP: Maximum Strike Price (£/MWh) that applies to an Application.• Reference Price: Market Electricity Price (£/MWh) in a given time period.• Estimated Average Market Price	<ul style="list-style-type: none">• MW value provided by Applicants	<ul style="list-style-type: none">• i.e. Load Factors and other multipliers	<ul style="list-style-type: none">• i.e. Transmission Losses, hours to days etc.

BUDGET IMPACT CALCULATION

ACT	ASP (2012) £/MWh	RP £/MWh	LOAD FACTORS	DAYS	TLM	RQM	CHPQM
2023/24	-	48.85	80.4%	365	0.9%	0.5	1
2024/25	-	49.71	80.4%	365	0.9%	0.5	1
2025/26	190	48.36	80.4%	366	0.9%	0.5	1
2026/27	190	45.35	80.4%	365	0.9%	0.5	1

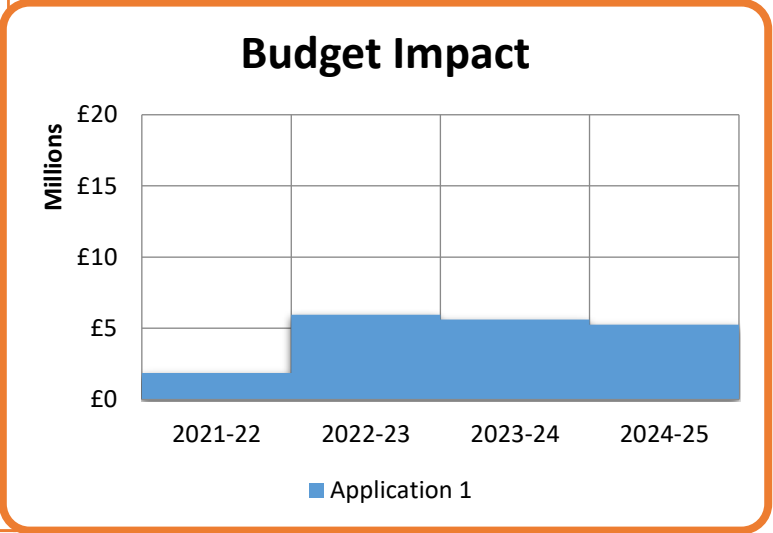
Application 1
 Technology: ACT
 Capacity: 20MW
 TCWSD: 12-12-23

$$Y1F = 1 - \frac{\text{NO.OF DAYS TO TCWSD}}{\text{TOTAL NO.OF DAYS}}$$



$$Y1F = 1 - \frac{255}{365} = 0.30136986$$

Budget Impact 2023/24	=	(	190	-	48.85	)	X	0.804	X	0.30136	X	20	X			
		(	365	X	24	)	X	(	1	-	0.009	)	X	0.5	X	1
Budget Impact 2024/25	=	(	190	-	49.71	)	X	0.804	X	1						
		(	365	X	24	)	X	(	1	-	0.009	)	X	0.5	X	1
Budget Impact 2025/26	=	(	190	-	48.36	)	X	0.804	X	1						
		(	365	X	24	)	X	(	1	-	0.009	)	X	0.5	X	1
Budget Impact 2026/27	=	(	190	-	45.35	)	X	0.804	X	1						
		(	365	X	24	)	X	(	1	-	0.009	)	X	0.5	X	1
													=	£8,991,419.54		



Sealed Bids

Where valuation of all qualifying applications determines that an auction is necessary, applicants will be invited to submit sealed bids via the EMR Delivery Body Portal.

Each sealed bid must contain:

- the Applicant's proposed Strike Price in £ (using 2012 prices)
- the Applicant's Target Dates
- the capacity of the CFD Unit

Full details about the submission of sealed bids can be found in Rule 11 of the Allocation Framework.

The sealed bid window will be 15 working days and you will be required to submit your bids within this timeframe.

If sealed bids are not submitted then the applicant will be assigned a single bid at the relevant Administrative Strike Price for its technology type and the Target Dates and capacity, as specified in the Original Application (in accordance with the Allocation Framework).

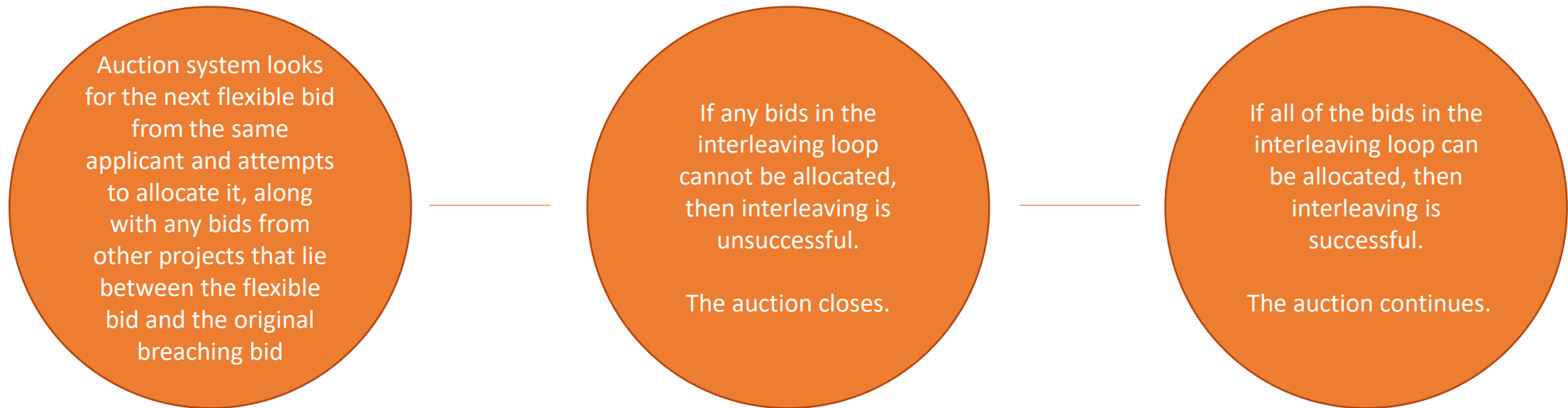
Up to four Flexible Bids may be submitted, of which no more than two bids may have a Target Commissioning Window Start Date in the same Delivery Year, with varying strike prices, capacity, Target Commissioning Date (TCD) and Target Commissioning Window Start Date (TCWSD).

*A video tutorial on how to submit sealed bids closer will be made available on the EMR Delivery Body website, closer to the submission window

Flexible bids and interleaving

If an applicant chooses to submit more than one sealed bid for an application, then these become known as Flexible bids. Applicants may submit up to four Flexible bids, with a maximum of 2 per delivery year.

Interleaving occurs when a bid breaches the budget and/or capacity cap (hard) and there are still bids from the same applicant (whose bid caused the breach) present in the bid stack.



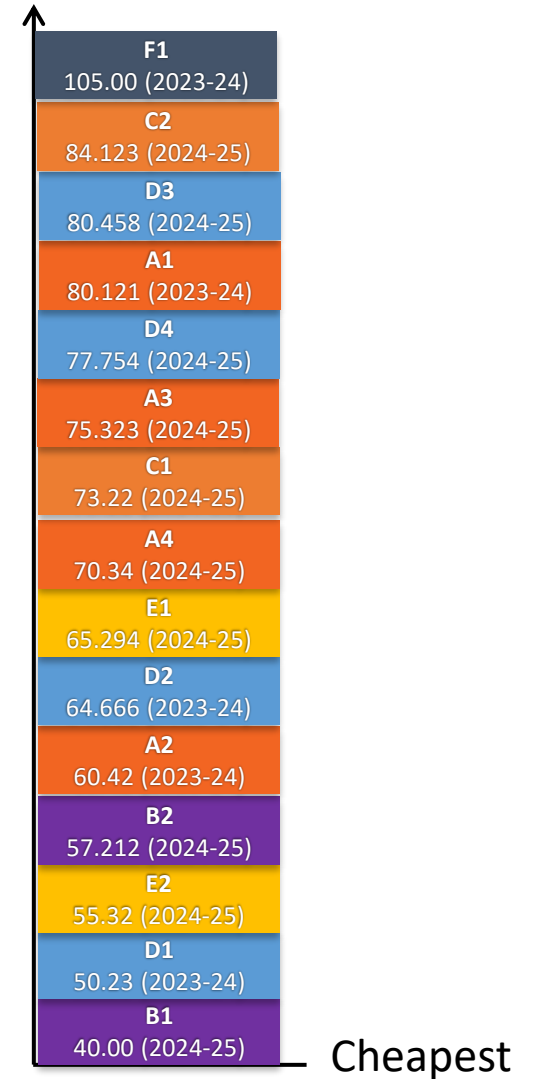
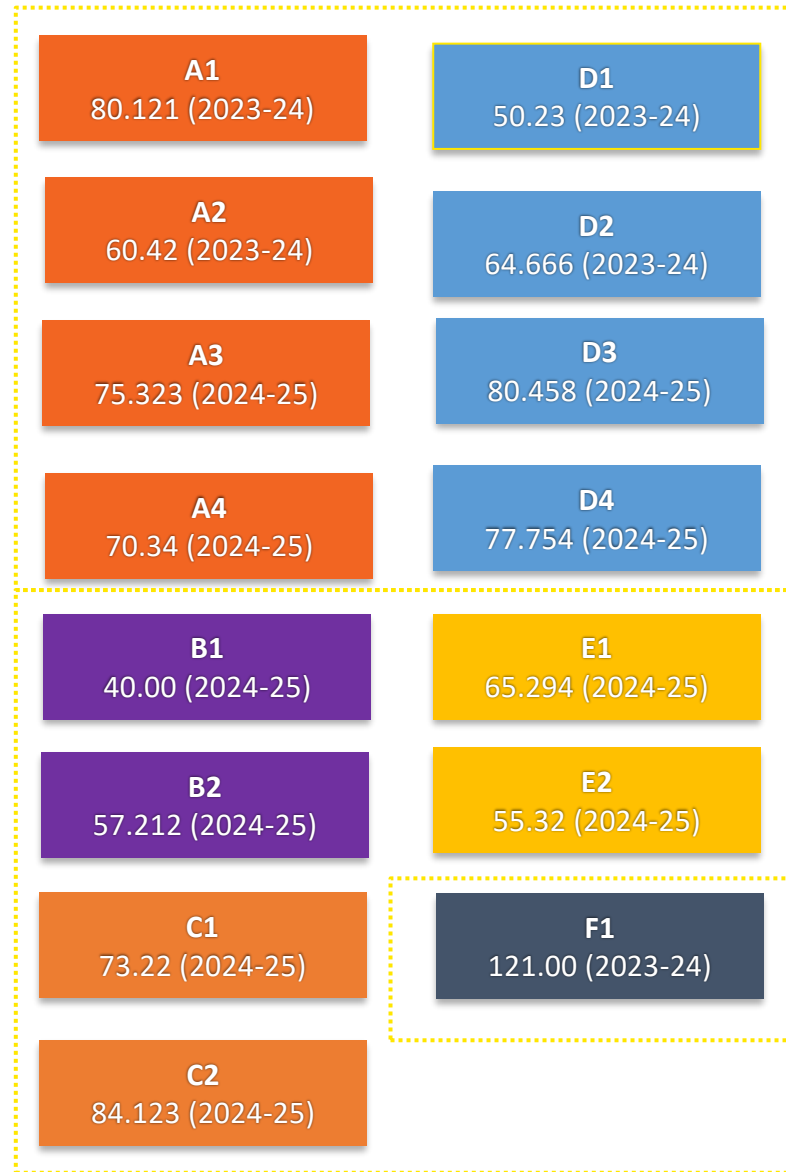
Any Questions ?

Technical changes to the allocation process for AR4

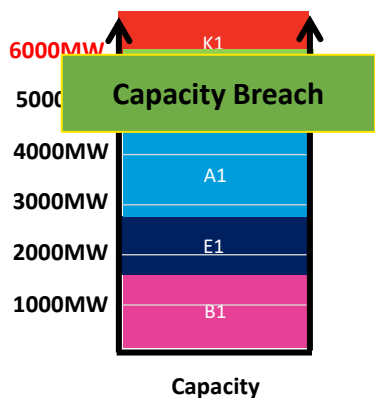
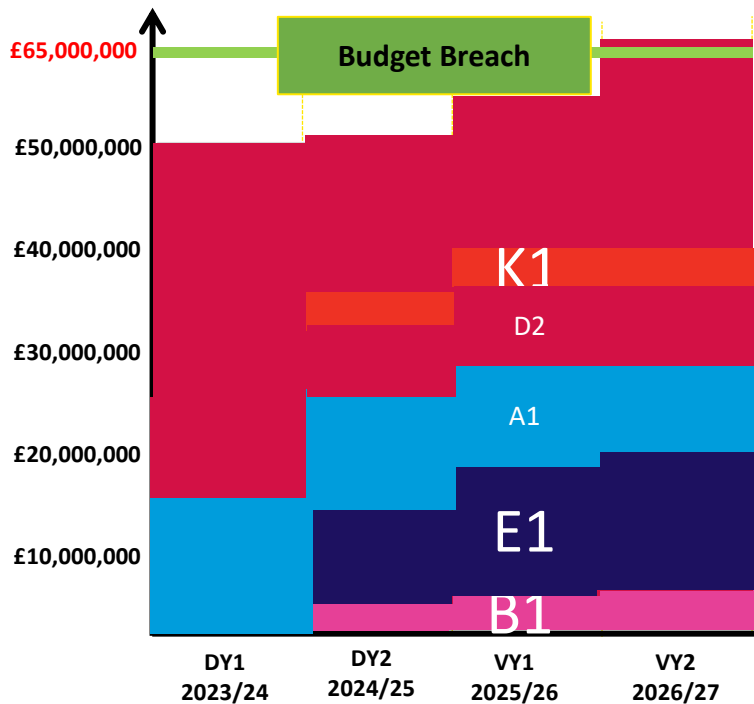
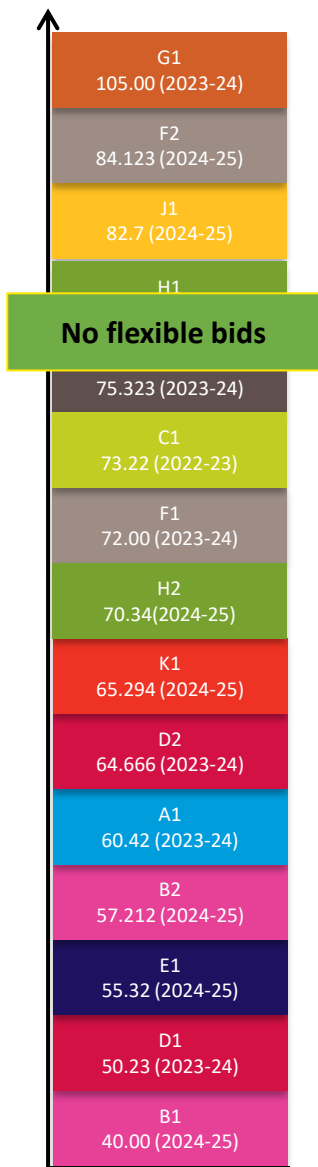
Change for AR4	What does this mean?
Amend existing Pot structure	Offshore wind projects compete in newly created Pot 3. Floating Offshore Wind projects compete in Pot 2 Coal-to-biomass conversion no longer eligible to compete in Pot 1
Simplifying the role of delivery years in auctions	If the monetary budget is breached in one delivery year, the whole auction will close. A single clearing price will apply across the auction (subject to ASPs). Qualifying Applicants will still bid into individual delivery years as before.
Change to YR1F factor (applied to each project / phase to account for partial year generation in the first year of operation) in the valuation formula	YR1F factor calculated differently to ensure the valuation formula considers the potential full budgetary impact of a project in the case that is commissions before the Target Commissioning Date. If the commissioning year is between the first applicable Delivery Year and the penultimate applicable valuation year, the first year of generation will be valued at: YR1F = 1 – Number of calendar days between start of financial year that Target Commissioning Window Start Date falls within and first day of Target Commissioning Window / Number of calendar days in the financial year that Target Commissioning Window Start Date falls within.
Operation of target dates amended to align with separate change to value budget impact from Target Commissioning Window Start Date (TCWSD) instead of Target Commissioning Date (TCD)	TCWSD now used to determine: <ul style="list-style-type: none">• the relevant delivery year for applications and bids• the relevant ASP, reference price, load factor, transmission loss multiplier and ‘days’ applicable in the valuation formula• the number and distribution of sealed bids across delivery years for a given application
Maximum Rule Change	<ul style="list-style-type: none">• Ensure maximum is closed when breached so that no further maximum bids are considered• Clear maximum bids to a separate clearing price for each maximum

Bid Stack

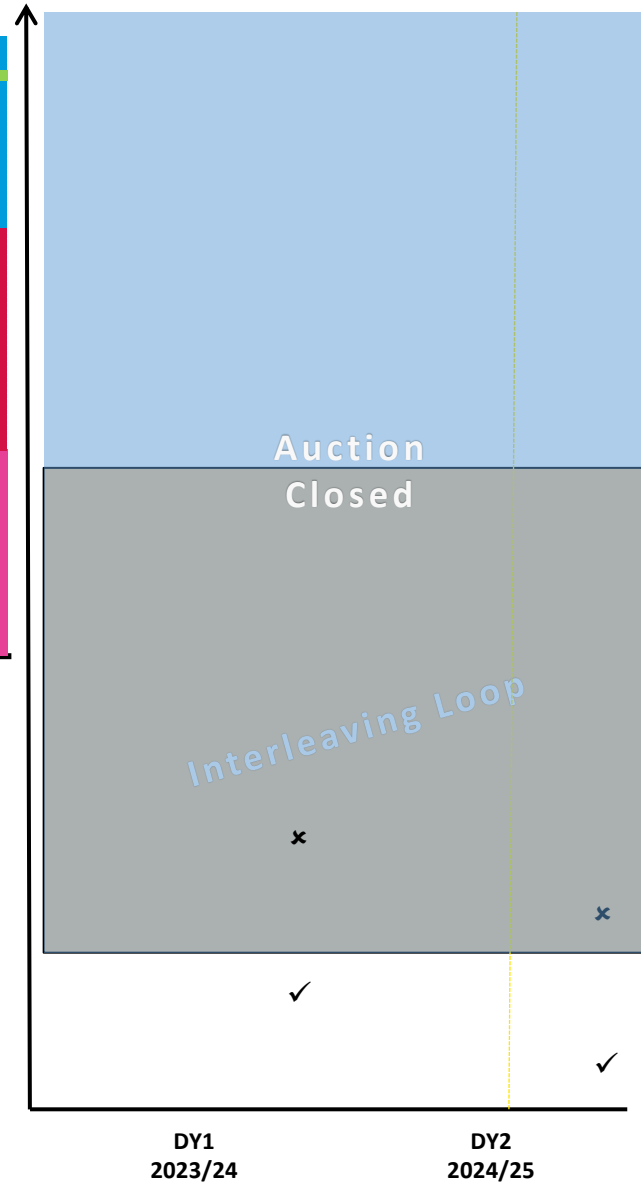
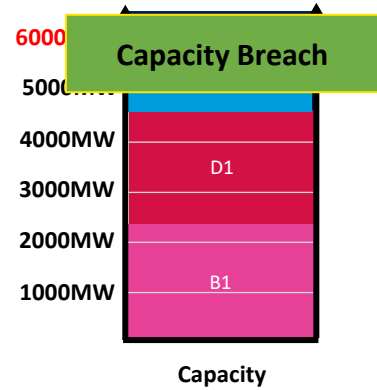
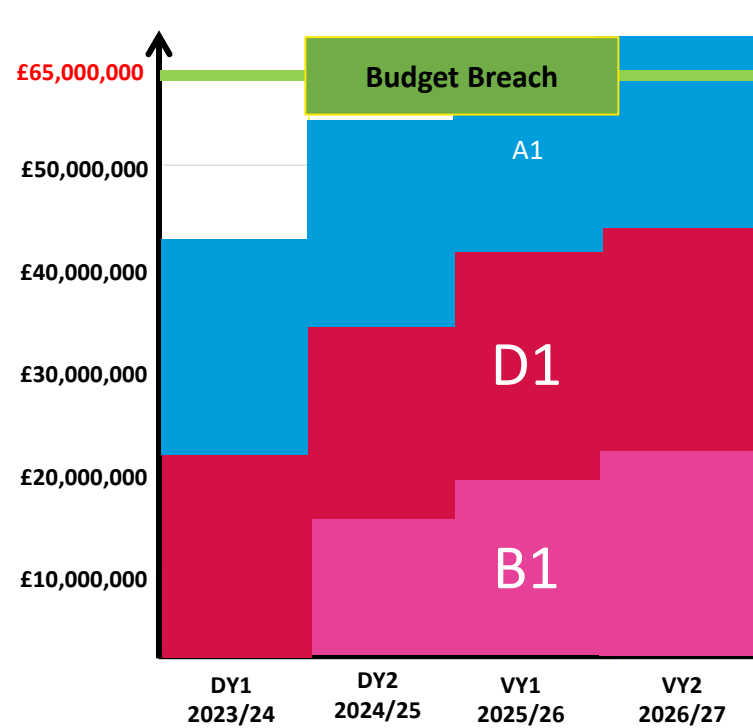
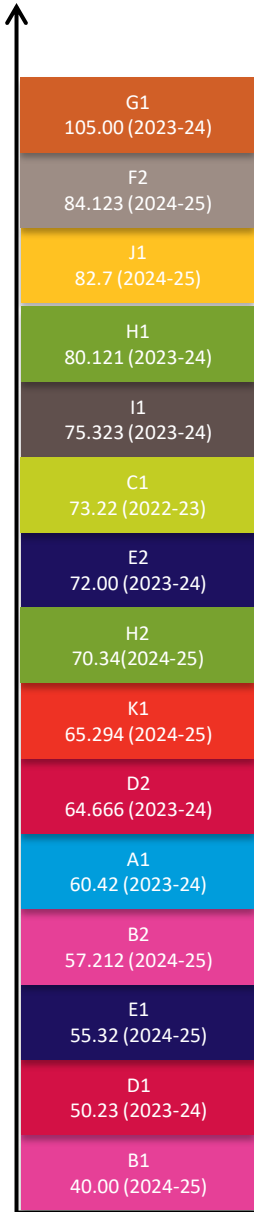
- Bids in this example have been **grouped by application** (colour of boxes denotes the same application).
- **Applications A and D have four Sealed bids** each as the TCWSD of the original applications were in the first Delivery Year (23/24)
- **Applications B, C and E have two Sealed bids** each as the TCWSD of the original applications were in the second Delivery Year (24/25)
- **Application F** did not submit sealed bids so was assigned a default sealed bid based on details supplied in the original application
- **Sealed bids** are initially 'stacked' from the cheapest to the most expensive regardless of Delivery Year, Capacity, TCD, TCW etc. Known as 'Bid Stack'.
- When a new bid is allocated, **all previous bids will be pushed up to the newly allocated strike price**; with the exception of technologies whose admin strike price (ASP) have already been reached and are subject to separate clearing price for maximum auctions



Scenario 1 – Successful Interleaving



Scenario 2 – Unsuccessful Interleaving



Thank You

In the event you have any questions regarding the CfD Company Registration and User management process, please contact us on:

Contracts for Difference team

Telephone: 01926 655300

Email: .box.emr.cfd@nationalgrideso.com

