

CFD AUCTIONS: REVIEW AND RECOMMENDATIONS

UK Department for Business, Energy and Industrial Strategy (BEIS)

Copenhagen Economics assisted UK energy regulator BEIS to stress-test the auction regulations due to apply in the CfD AR3 and AR4 auction, identifying potential loopholes and risks, and suggesting potential mitigations. Furthermore, in the lead-up to AR3, we provided BEIS with a detailed report outlining broader auction design considerations for future CfD allocation rounds.



The Task

- Every second year, the UK Department for Business, Energy & Industrial Strategy (BEIS) awards new Contracts for Differences (CfDs) to low-carbon electricity generators.
- BEIS requested our assistance in relation to a review of the draft auction regulations due to apply in the 2019 CfD AR3 and the 2021 CfD AR4 auctions, with a focus on identifying potential gaming opportunities and assessing the likelihood and potential impact of risks.
- We were, in the lead-up to AR3, also requested to explore potential changes to the auction design to be deployed in 2021 and onwards to further advance BEIS' objectives.

Our Approach

- We drew upon our expertise in auction theory and practice to conduct a full investigation of the CfD auction design, from both a theoretical perspective, mapping out bidding strategy considerations, as well as an applied perspective, building a simulation tool that could stress-test various auction parameters.
- Our findings were summarised in concise reports for BEIS that contributed to internal decision-making leading up to AR3 and AR4. We suggested concrete rule tweaks to address potential risks.

Results

- With our assistance, BEIS obtained a thorough understanding of the potential gaming opportunities, the likelihood and potential impact of risks for the CfD auctions.
- BEIS also gained valuable input towards optimising auction design in future allocation rounds.

Hard facts

- Period of delivery: 2018-2019 and 2021
- Contact person: Neil Gallagher