Going, Going, Gone
Political Backdrop

• Pressure over energy costs
• Levy Control Framework
• Electricity Market Reform – government making lots of decisions
• Price setting – RO and EMR
• Competition desired – but when? And how?
Original EMR Plans

1. Administrative price setting for all
2. Auctions for mature technologies, prices still set for immature techs
3. Auctions for all technologies
4. Return to market
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Auction Choices

• Sealed bid vs clock (vs hybrids)
• Technology choices
  – Separate budgets
  – Defined quantities
• Deposits and non-performance penalties
NFFO Experience

Figure 2.2: Completion rate of NFFO renewable energy projects, by NFFO Round (MW)
NFFO Experience

• No penalties for non-compliance
• Renewables mostly beside the point – way to pay nuclear post-privatisation
• High failure rate – ‘winner’s curse’?
• Damaged UK perception of auctions
Brazil experience

• Began auctions in 2007 after collapse of FIT (PROINFA)
  – High costs of PROINFA
  – Corruption problems – black market in environmental permits
• Since auctions, onshore wind beating gas and hydro – world record low costs
• Lower costs – relative to GB and over time
Brazil experience

Figure ES1.1: Prices for wind power in Brazil, UK
Brazil experience

• But other factors
  – Load factors
  – ‘Dumping’
  – Grid charge exemptions

• Auctions can deliver
What does this tell us?

• Can get stuff built under auction system
  – Enables price discovery
• Possible to see costs reduced
• Need many bidders
• But need to guard against ‘winner’s curse’ and non-delivery
  – Deposits and penalties
• Within EMR context, an improvement. But not perfect.
DECC choices

• Has brought forward auctions for mature techs
• Has gone for sealed bid system
  – Loses common value revelation
  – Worries about collusion risk
Where next in EMR?

• Even with auctions, gov’t still making lots of decisions
  – Volumes of different technologies
  – Administratively set prices
• Need to bring more technologies into competition
• Need to move back toward open competition
  – but when? How?