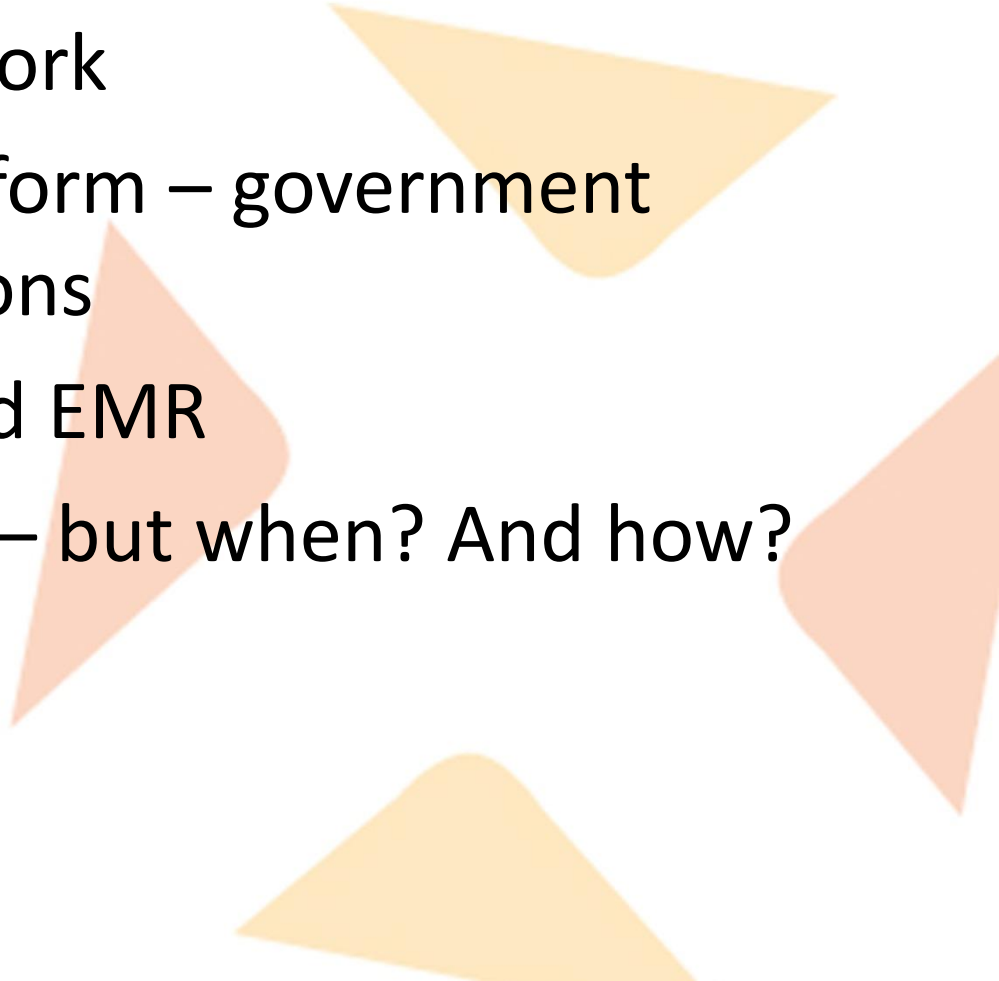





Going, Going, Gone


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
- 

Original EMR Plans

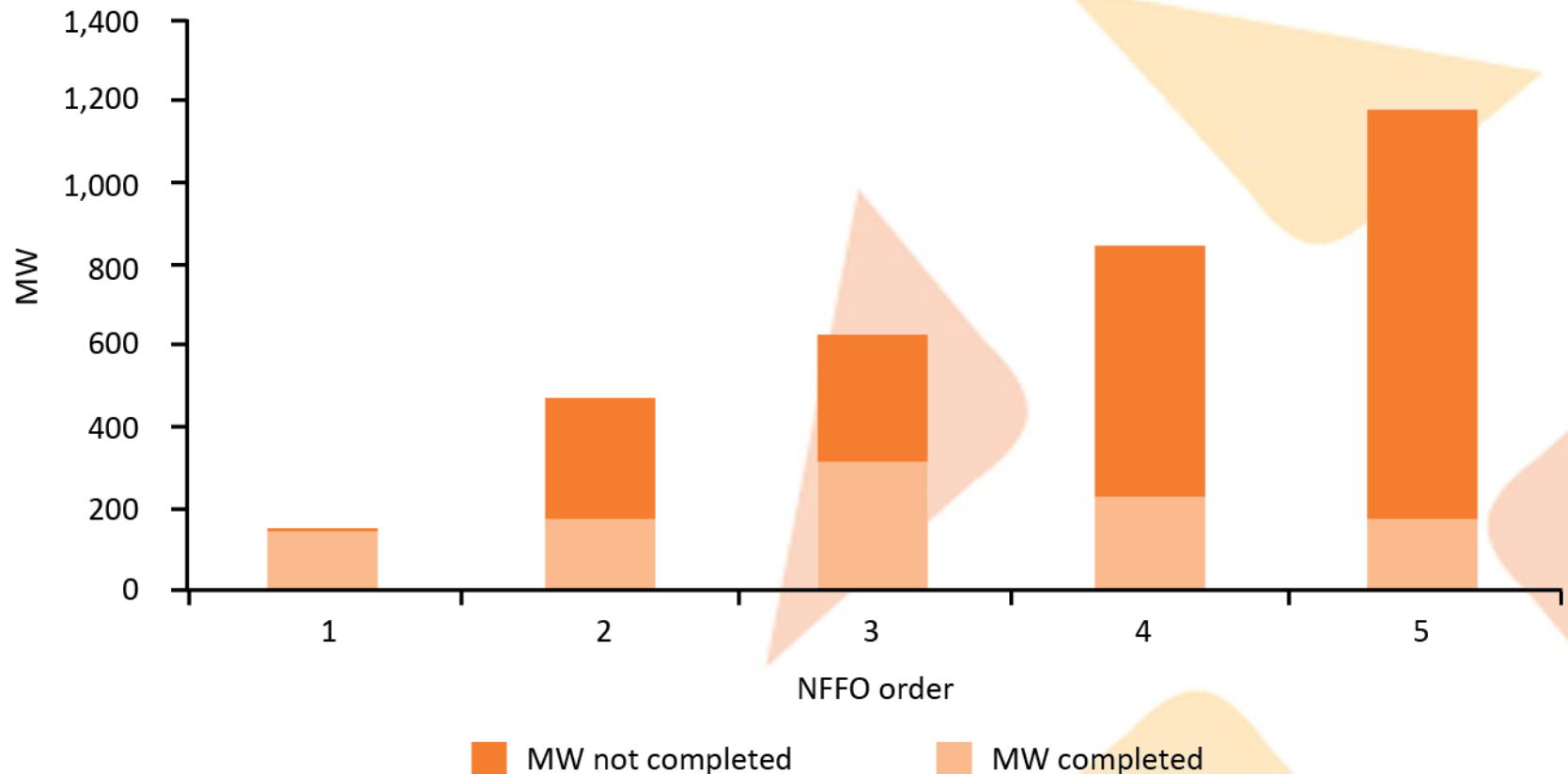
- ~~1. Administrative price setting for all~~
 2. Auctions for mature technologies, prices still set for immature techs
 3. Auctions for all technologies
 4. Return to market
- 
- The bottom right corner of the slide features several abstract, overlapping shapes in shades of orange and yellow, resembling stylized triangles or polygons.

Auction Choices

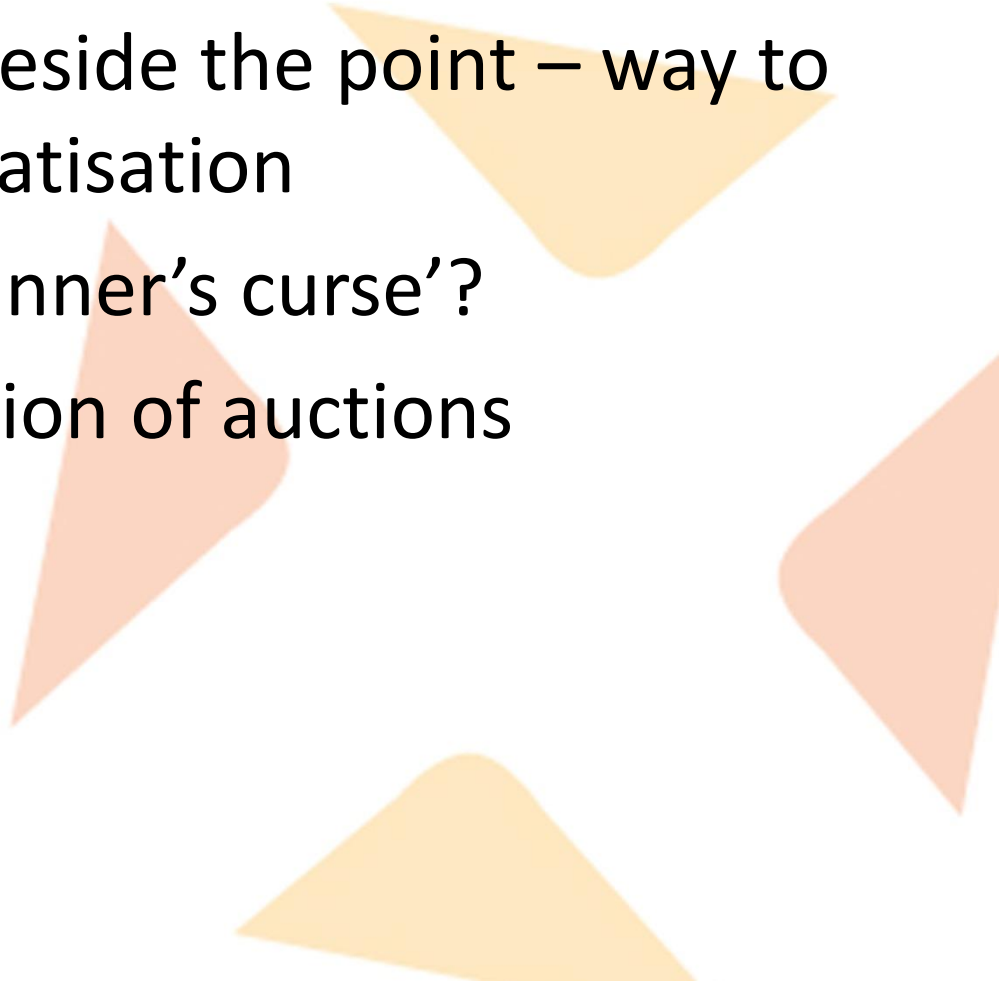
- Sealed bid vs clock (vs hybrids)
 - Technology choices
 - Separate budgets
 - Defined quantities
 - Deposits and non-performance penalties
- 

NFFO Experience

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



NFFO Experience

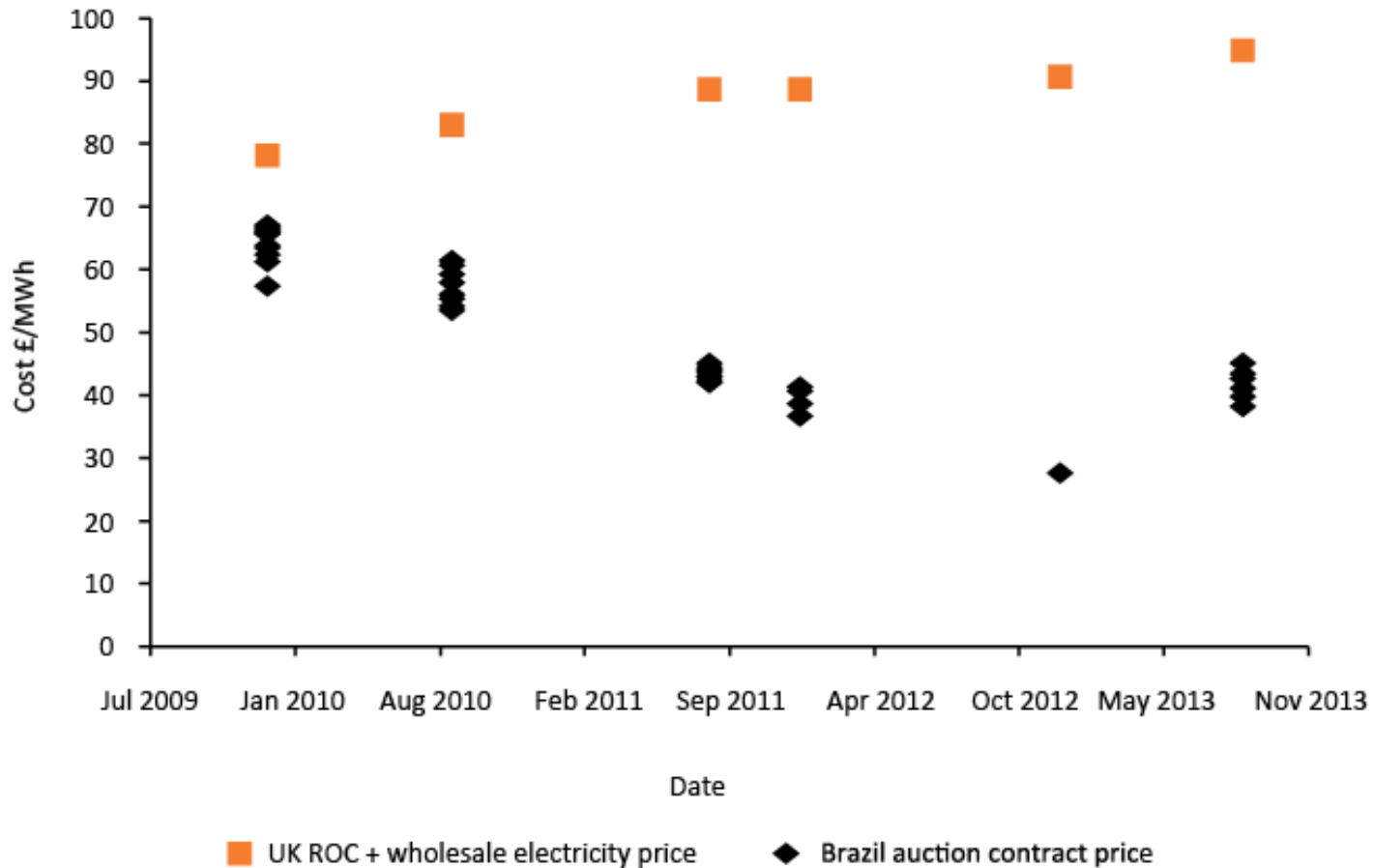
- No penalties for non-compliance
 - Renewables mostly beside the point – way to pay nuclear post-privatisation
 - High failure rate – ‘winner’s curse’?
 - Damaged UK perception of auctions
- 

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

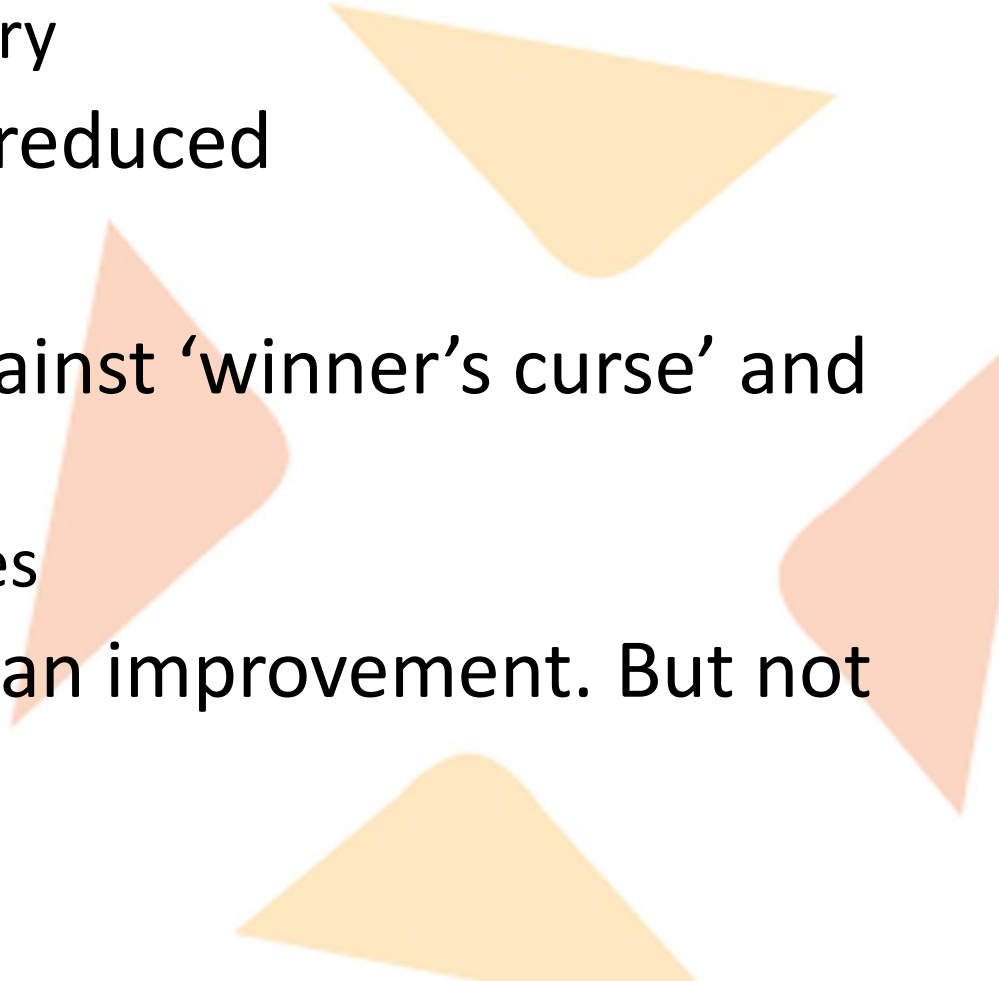
Figure ES1.1: Prices for wind power in Brazil, UK



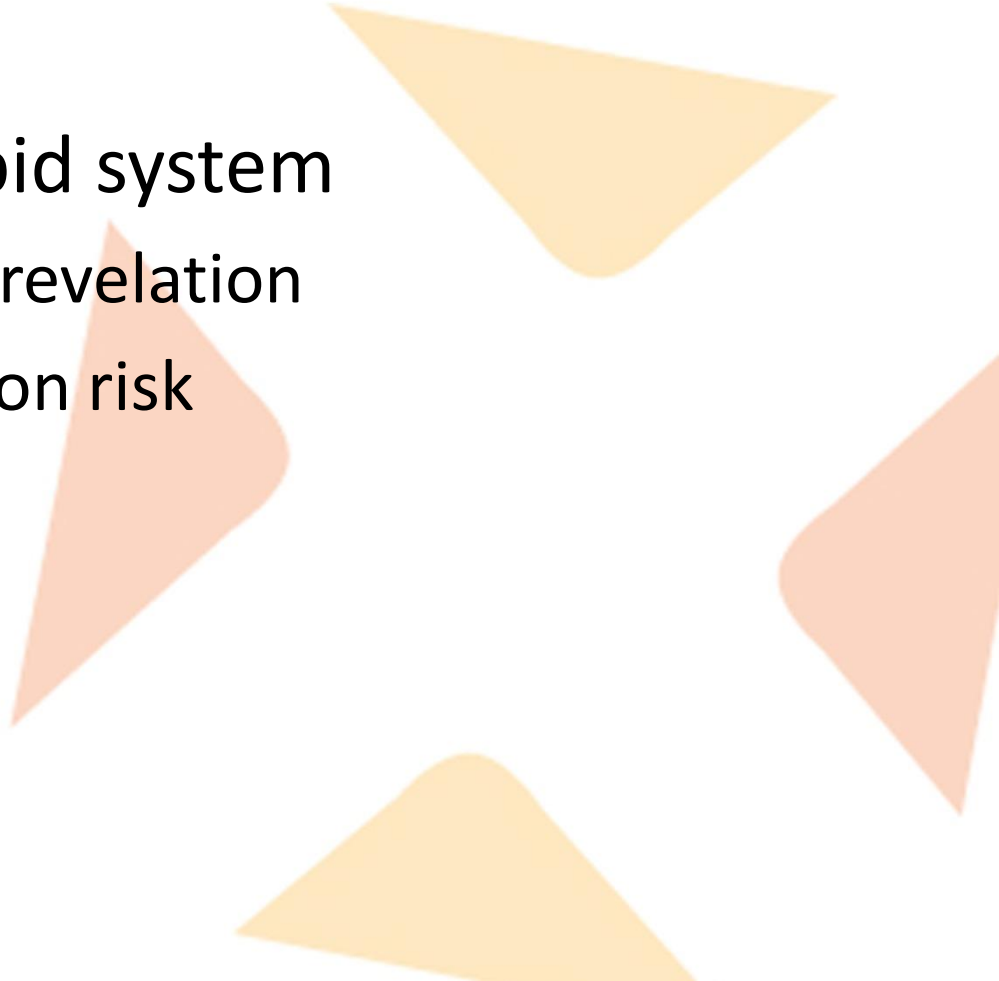
Brazil experience

- But other factors
 - Load factors
 - ‘Dumping’
 - Grid charge exemptions
 - Auctions can deliver
- 
- The bottom right corner of the slide features several abstract, overlapping shapes in shades of orange and yellow. These shapes are irregular polygons with rounded corners, creating a modern, geometric design element.


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?
- 
- The background features several large, semi-transparent, abstract shapes in shades of orange and yellow, scattered across the right side of the slide.