

Renewable auctions: giving clients 'win-power'



Win power in wind power

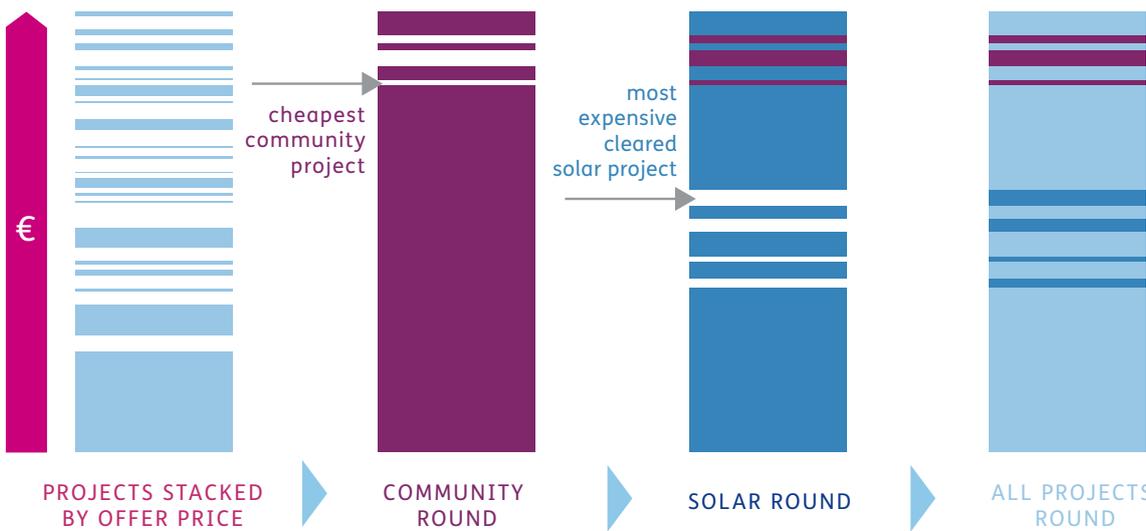
Successfully advising a range of clients on the recent Irish renewable power auction, RESS-1, is a further milestone in Baringa's market-leadership of competitive bidding strategies and insight.

The first of many Irish renewable power auctions, RESS-1, was held during the summer of 2020, awarding 1,275MW to 63 solar and 19 onshore wind energy projects.

Baringa's clients won a significant proportion of the total available volume¹ and they did so with a high degree of confidence that their bids would be accepted while maximizing revenues.

We were able to provide our clients with the necessary insight to inform their bidding strategies because of our knowledge of the Irish power market, our proprietary auction model (specifically adapted for RESS-1 rules) and our dedicated in-house power market modelling suite, covering additional ancillary and capacity market revenues and merchant-tail power revenues.

Winner selection through the merit order



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¹Baringa clients accounted for approximately 30% of the total cleared auction volume

What did we solve for our clients?

Our clients required insight on the merit-order of all projects in the market. The name of the game is not simply to win a contract, but to use sophisticated insight to inform optimal bidding strategies, unique for each client. This allowed them to judge the optimal bid-price 'headroom' so they could capture the maximum available margin while offering an acceptable market price that had a high likelihood of clearing.

How did our client's requirements differ?

- Newer entrants

These clients took advantage of our off-the-shelf analysis and auction modelling tool scenarios to gain an understanding of the market's dynamics.

- Seasoned developers

In addition to our off-the-shelf analysis, we worked in partnership with these clients to input their own knowledge and metrics into our analytical framework to develop bespoke scenarios.

- Large-scale developers

We provided our off-the-shelf analysis, and bespoke scenarios. In addition, we delivered our auction tool, with documentation and training, to allow their analysts to benchmark their internal tools and analysis.

What was Baringa's approach to mapping the market?

We firmly believe there are no shortcuts to a thorough, bottom-up market analysis. This is particularly the case in the Irish market, which suffers from areas of unusually high costs (for instance, the variation of losses and grid-connection costs) causing steep supply curves, whereby small variations in procured volume can have a dramatic impact on the highest cleared price. Understanding the characteristics of each and every project in the auction is key to maximizing revenues.

Our model is therefore based on a thorough and extensive data collection exercise from publicly available data sources, further informed by Baringa market intelligence, and client insight.

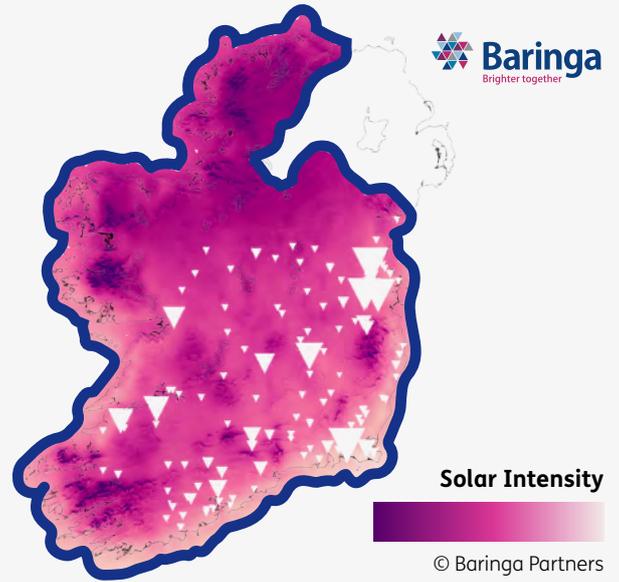
This effort proved invaluable when the process began.



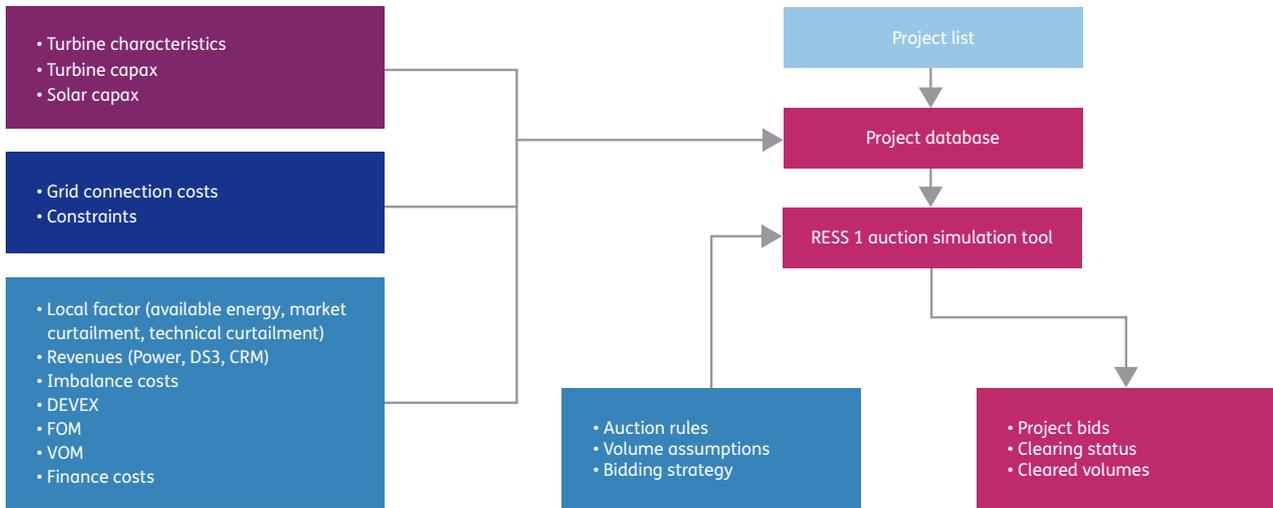
How were our model's key assumptions built?

We built the models' assumptions through bottom-up analysis where possible, with intelligent extrapolation where necessary. We assessed elements including load factor, revenues, imbalance cost, and finance costs, using industry-leading in-house methodologies.

In addition, we established partnerships with niche engineering consultants on-the-ground to further improve the quality of project-specific inputs, such as turbine characteristics, capex, connection costs and constraints.



Project level analysis



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What external factors were considered?

The RESS-1 support covers a period of 15-years, but the assets will be productive for longer than this. Merchant-tail revenue that occurs after support ends is likely to be particularly high for the Irish market, given the relatively isolated positioning of the Irish market as well as historically high production costs for power generation plants; Baringa was able to draw on its deep institutional knowledge around power price projections to provide clients with an informed longer-term view on pricing, which proved strategically decisive for success in the auction.

In addition, we factored in curtailment and constraints during the auction process using in-house models (considering both market and technical curtailment.)

How were the model's outputs used?

Given the inherent imprecision of assessing input costs, the model allowed clients to look at different scenario outcomes with the opportunity to fine-tune parameters, in order to form a truly strategic view of possible outcomes, and ensure their bids clear the market.

Different sensitivities modelled included accounting for a developer's economies of scale, strategic below-cost bids, as well as tail-end and ancillary-service revenues.

What were the outcomes?

Baringa's central projection for the auction proved to be very close to the where it ended up in reality. Our clients succeeded in clearing a very high percentage of their projects, and reported our analysis as being key to maximizing their revenues. Baringa analysis helped inform the bidding strategy of 30% of the successful auction volume.





Baringa Partners

Baringa Partners is an independent business and technology consultancy.

We help businesses run more effectively, navigate industry shifts and reach new markets. We use our industry insights, ideas and pragmatism to help each client improve their business. Collaboration is central to our strategy and culture ensuring we attract the brightest and the best. And it's why clients love working with us.

Baringa launched in 2000 and now has over 700 members of staff and more than 65 partners across our practice areas Energy & Resources, Financial Services, Products & Services, and Government & Public Sector. These practices are supported by cross-sector teams focused on Customer & Digital; Finance, Risk & Compliance; People Excellence; Supply Chain & Procurement; Data, Analytics & AI; Intelligent Automation & Operations Excellence; and Technology Transformation. We operate globally and have offices in the UK, Europe, Australia, US and Asia.

Baringa Partners has been voted as the leading management consulting firm in the Financial Times' UK Leading Management Consultants 2021 in the categories Energy, Utilities & the Environment, and Oil & Gas. We have been in the Top 10 for the last 14 years in the small, medium, as well as large category in the UK Best Workplaces™ list by Great Place to Work®. We are a Top 50 for Women employer, and are recognised by Best Employers for Race.

Baringa. Brighter Together

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