

# Determining the optimal length of regulatory guarantee: A Length-of-Contract Auction

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**Abstract** One of the biggest challenges in the area of infrastructure investment is the provision of funding to finance activities. This paper presents an auction design which can reduce the financing cost of infrastructure investments by allowing the length of the regulatory funding period to be determined via an auction. The auction allows bidders to submit bids against a payment for periods of varying length. Thus instead of, for example, a fixed 20-year contract period, some bidders might want to bid for financing over a longer period, say 25 or 30 years. This can be desirable in terms of securing more favourable terms in the financial markets. Our auction design can secure efficiency and lower financing costs. Our auction is motivated by the auctions currently being undertaken by the UK energy regulator (Ofgem) for financing offshore transmission assets. Although the auction was designed with electricity transmission in mind, the auction could be used in other areas of infrastructure investments

**Keywords** Auctions, Contracts, Investments, Regulation

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