



VIPP4 (non green) Principles Discussion Paper

Introduction:

This paper outlines the principles of the VIPP4 Auction. This is a discussion document and ESB welcomes comments from interested Suppliers. ESB expects to agree a final principles paper with CER over the coming months. Notable changes include: allowing Spill, replacing SST with STU, and removing longer-term options.

Allowing Spill and replacing SST with STU are a result of superpositioning being allowed on the Interconnector and the CER VIPP-mixing decision. These allow de-facto spill to occur so it will be allowed for, and modelled up-front.

VIPP4 – Main terms

1. In the VIPP4 auction of non-green capacity, ESB will offer 400 options, each option entitles the successful bidder to purchase 1MWh per hour.
2. Bids will be deemed to be eligible and awarded using the following criteria:
 - i) Limits as detailed in Point 2 will apply
 - ii) All Bids must be at or above the reserve price.
 - iii) Suppliers can bid for either firm or non-firm Options. Bids for firm Options will be evaluated before bids for non-firm Options.
 - iv) Higher price bids will be awarded first in each category.
3. Limits that apply during VIPP4
 - i) ESB Independent Energy Limited (ESBIE) are limited in that they are prohibited from exercising VIPP Options such that their cumulative volume of Synergen purchases and active VIPP Options will not exceed the lower of 400MW or the volume available to the next largest Independent Supplier from any combination of its own (or affiliated) generation sources, Active VIPP Options or Synergen purchases.
 - ii) The amount of VIPP4 options that any Supplier can hold will be limited such that the equivalent capacity that it could hold (either directly or through an affiliate in a group structure) from any combination of generation plant owned by itself, Synergen purchases and VIPP4 options would be no greater than 400MW. The Supplier must relinquish VIPP4 options to the extent that its Total Equivalent Capacity would exceed 400MW.
 - iii) No bidder may have more than 200 options of VIPP4

A Supplier's Total Equivalent Capacity will be calculated as the sum of VIPP4 options, Synergen purchases and generation plant owned by itself (either directly or through an affiliate in a group structure) but excluding inter-connector capacity, green energy and small (<15MW) CHP.
4. As in VIPP3, the energy price will continue to be a flat rather than profiled as a time-of-day price.
5. Fuel Indexation will apply in VIPP4. It will be indexed to hedgeable indices. Suggestions are welcome in relation to the specific fuel indices that may be used for VIPP4 and to the manner in which they could be incorporated into the overall fuel indexation formula.

6. The VIPP4 modelling will take account of any DSM and PES WDRI schemes as appropriate.
7. The ramp-up and ramp-down arrangements will be similar to VIPP3
8. All successful bids for options will be charged at the price of the lowest successful bid, the "Auction Clearing Price". If the Auction is under-subscribed the Auction Clearing Price will be the reserve price.
9. As in VIPP3, ESB shall publish the energy price 2 days before the start of the month to which it applies.
10. The energy and reserve prices are calculated as trading point prices.
11. The reserve price for options is to be set as a €/option/ calendar month payable at the same time as the energy
12. The VIPP Supplementary Supply tariff (SST) will be replaced by the Secondary Top-Up price for 2004, which will be published by CER prior to the commencement of the VIPP4 auction.
13. ESB will offer an average discount of not greater than 10% on the generation and supply components of the existing eligible customer tariffs (assuming that under the VIPP scheme, suppliers efficiently optimise their portfolio of contracts and inter-supplier trading occurs.)
14. VIPP suppliers will be responsible for the payment of appropriate TUoS, DUoS, PSO and Capacity Margin charges.
15. Secondary trading in VIPP Options is allowed. Option holders will not have any entitlement to top-up based on their VIPP Options.
16. Spill will be allowed in VIPP4. This is a change from previous VIPP auctions.
17. Eligible customers that leave and return to PES will be entitled to revert to published PES tariffs.
18. The VIPP contracts last from 1st January 2004 to 31st December 2004, longer-term options will not be offered.