

## ***VIPP4 Principles Decision Paper (Non-Green)***

### ***Introduction***

The fourth annual VIPP auction (VIPP4) is launched on 8th October 2003. The principles underlining the VIPP4 auction were produced by agreement between CER and ESB Power Generation. The principles were published and consulted upon. This decision paper reflects the outcome of this consultation exercise and concludes on the approach to be used for VIPP4.

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 3 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) VIPP will now be treated as a bilateral contract of non-Green Energy. VIPP customers will not need to be separately registered from other non-Green customers. Settlement will be done using the timetable in the Trading and Settlement Code. A modification request will be sent to the Trading and Settlement Code modification panel. If this change is not agreed then ESB reserve the right to modify the price and terms of the contract to maintain the discount and general effect of the original contract.

- 5) As in VIPP3, the energy price will continue to be a flat rather than profiled as a time-of-day price.
- 6) Fuel Indexation will apply in VIPP4. It will be indexed to hedgeable indices. The same fuel indexation formula as VIPP3 will be used with different “b-factors” to reflect the 2004 weights and efficiencies. January 2004 will be the base month.
- 7) The VIPP4 modelling assumed that there was no advantage or disadvantage between WDRI and WPDRS. The WDRI discount that is given to PES customers was equally applied when calculating the VIPP price. There will be no WPMP in VIPP4. [*WDRI is the Winter peak demand reduction initiative offered by ESB PES to customers that reduce their consumption during 17:00 to 19:00 on Winter evenings. WPDRS is a similar scheme, which is newly being offered by ESB NG to eligible customers with independent suppliers<sup>1</sup>. WPMP was offered only to VIPP customers to provide an economic signal similar to WDRI.*]
- 8) The ramp-up and ramp-down arrangements will be similar to VIPP3. An additional month of non-firm is offered to allow for the market opening in February.
- 9) 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.
- 10) As in VIPP3, ESB shall publish the energy price 2 days before the start of the month to which it applies.
- 11) The energy and reserve prices are calculated as trading point prices. The initial energy price will be **37.60 €/MWh**.
- 12) The reserve price for options is to be set at €7,320/option/ calendar month payable at the same time as the energy. 2004 is a leap year so €7,320/ option/ calendar month equates to **€10.00/MW/h**.
- 13) The VIPP Supplementary Supply tariff (SST) will no longer be used. Because VIPP is now an “ordinary” bilateral contract over-nominations will not be allowed, Suppliers will settle their imbalances in the market. Suppliers will be entitled to Top-Up and Secondary Top-Up as specified in the Trading and Settlement Code.
- 14) ESB believes that the above pricing structure offers an average discount of about **9%** 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, receive Spill and inter-supplier market trading occurs.) This was modelled using over 900 load profiles, approximately 350 of which were low voltage customers (LVMD).
- 15) VIPP suppliers will be responsible for the payment of appropriate TUoS, DUoS, PSO and Capacity Margin charges.
- 16) Spill will be allowed in VIPP4. This is a change from previous VIPP auctions. Spill was modelled as the ESB marginal price published in the Top-Up paper CER/03/235 on 23<sup>rd</sup> September 2003.
- 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 31<sup>st</sup> December 2004, longer-term options will not be offered.

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<sup>1</sup> WPDRS does not apply to PES customers.