ESB Customer Supply's

Response to CER Consultation Paper

CER/03/230,

"Market Arrangements for Electricity –

Margadh Aibhléise na hÉireann (MAE)"

1 Executive Summary

In this document, ESB Customer Supply provides its comments on the recent consultation paper CER/03/230 of 12 September 2003, covering the Market Arrangements for Electricity – Margadh Aibhléise na hÉireann (MAE).

While anticipating further consultation on details of the proposed market, we include some general comment and we have responded to four of the five specific issues raised in Appendices A to E of the consultation paper. These responses are summarised in the Table below:

	Summary of response
Appendix A: Demand Participation	o ESB Customer Supply welcomes the encouragement for supplier – customer demand incentives. o We also note that both the options proposed are inconsistent with the concept of a common national tariff. o We believe that Demand Participation need further consideration
Appendix B: Access to information	o ESB Customer Supply supports the open release of all information that supports the efficient operation of the power market without placing any party at an undue disadvantage.
Appendix D: Pumped storage	o ESB Customer Supply agree that additional rules are required to allow pumped storage plant to submit both generation and demand offers.
Appendix E: Charging for reserve costs	o ESB Customer Supply believes that as reserves are an essential part of an electricity system and its production/demand characteristics, the cost of reserves should be levied on all energy sold in the pool

2 Introduction

ESB Customer Supply welcomes the start of this consultation process. This consultation paper CER/03/230 raises a number of issues and we have provided comments on the document in its entirety as well as responding to the specific questions raised. However, we note that whilst this consultation paper provides significant detail in a number of areas, in other areas we require far more detail. We look forward to the opportunity to comment on all aspects of the new market in future consultations. Salient points arising from the current document are :

2.1 Regulatory processes and procedures

In a number of areas, the current proposals allow CER intervention to proceed unchecked without ex ante determination of the circumstances under which such intervention will occur or industry consultation on the methodology that will be applied. We support measures to prevent unnecessary price spikes, however, we are concerned by the unnecessary increase in regulatory risk generated by the application of ad hoc CER penalties, fines or suspension of the market.

Examples include the following:

- the ability of the CER to suspend the market; and
- determination of the frequency and scope of market audits by the CER, when such audits should occur to assure market participants.

In these cases, a clear and transparent framework for CER intervention should be developed supported by detailed principles, procedures and methodologies that are determined ex ante and have been subject to full industry consultation.

2.2 Global Aggregation

In footnote 10 reference is made to the fact that currently PES demand is deemed to be the residual and that this is under review. ESB Customer Supply is of the opinion that the implementation of global aggregation is an essential prerequisite to a successful market arrangement.

2.3 Reserve Offers

It is not clear how Reserve Offers will be made by the SMO applying to interruptible load as the current structure of the Interruptible tariff to customers is very different to that of the reserve offers. Is it intended to modify the interruptible tariff to customers?

2.4 Consistencies in drafting

On a number of occasions, the drafting of the consultation paper allows varying interpretation or is internally inconsistent. These include the following areas:

- Structure of supplier offers
  In Section 2.2.2, the consultation paper states that 'a supplier **may** make demand offers if they have a customer with dispatchable demand'. However, later in the same paragraph, it is stated that 'all suppliers that have dispatchable demand are required to offer that demand'. The use of the word 'may' in the first sentence is not consistent with this latter statement and the drafting should be amended accordingly to avoid confusion.

Throughout the document various terms seem to be used interchangeably. As this is a very complex subject, the use of a single consistent terminology would be preferable. Examples include;

- Nodal prices - Generation nodal prices - LMP - ex ante prices- market clearing price – spot market price
- Reserve price - reserve premium - reserve payment

3 Response to consultation questions

In the following section, we respond to the specific issues raised by the CER in the consultation paper.

3.1 Demand Participation

Supplier – Customer Demand Incentives

ESB Customer Supply welcomes the encouragement for supplier – customer demand incentives. However, these should not be restricted to Quarter Hour Metered customers

Dispatchable Demand

The proposals are not very clear as described in sect.2.2.2, "Structure of Suppliers Offer" and in Appendix A.

It appears that, if a customer with a total site demand which varied between say, 15MW and 20MW could reduce by 10MW, then the 10MW of dispatchable demand would be treated as negative generation and charged at its LMP. Let us say that the customer is willing to drop 10MW of demand if the price is ≥ €100/MW and he bids accordingly.

It appears from the proposal that some of the total site demand would be treated as demand and charged at the uniform wholesale price, while some would be treated as negative generation and charged at the LMP.

If LMP is < €100/MWh then charging will be as follows:

Total Demand MW	MW Charged @ LMP	MW Charged @ Uniform Price
20	10	10
17	10	7
15	10	5

If LMP is ≥ €100/MWh and the customer drops 10MW, the charging will be as follows:

Total Demand MW	MW charged @ LMP	MW charged @ uniform price
10	0	10
7	0	7
5	0	5

There are 3 problems with this proposal:

a) The customer receives no payment for its demand reduction even though a reduction in demand is equivalent to an increase in generation, for which a generator would be paid. In fact, the customer may have reduced their demand from the ESB network by starting up a standby generator for which it would require payment. Alternatively, it could have shut down part of its production facility, for which it would require compensation.

b) The customer/supplier is exposed to LMP for the first 10MW of its demand. This is in conflict with a uniform national tariff. Furthermore it would be a disincentive to a customer in an area where the LMP is likely to be higher than the average whereas these are the very areas where dispatchable demand should be encouraged.

c) Complexity is introduced because part of the demand is being settled in the wholesale market at the LMP and part at the uniform price. If the customer is not allowed to bid in the wholesale market but has to do so through the supplier and all charges are applied to the supplier, then the contract between the supplier and the customer becomes complex.
    - Either the supplier explicitly passes through the first 10MW at LMP and the remainder at the agreed contract price.
    - Or the supplier charges the customer the agreed contract price for the full demand but then is exposed to basis risk (i.e. the difference between LMP and average pool price) for the first 10 MW. The supplier would have to charge a premium for such a contract.

In summary, a customer who is willing to reduce demand is charged a premium and then receives no payment when he reduces load. Such a scheme is unlikely to be successful.

In considering Option 2, ESB PES proposes that the full demand is treated in the same way as any other demand and charged to the supplier at the uniform price. If the pool price rises above the "demand reduction" bid price, the demand reduction will be dispatched. Such demand reduction, having a similar effect to additional generation, will be paid the LMP i.e. a price possibly equal to its bid price (€100/MWh in this example), if it sets LMP at the node. This payment will be included in the calculation of the uniform price applicable to suppliers.

This proposal overcomes all of the problems associated with the earlier approach. The customer is incentivised to provide this service which benefits all customers by potentially reducing the pool price. Under this approach, the supplier can predict its purchase costs more easily as it is not exposed to basis risk and therefore can offer a standard contract price to the customer without a premium.

The consultation document states that customers require a supply licence to operate in the wholesale market. In practice, we suggest that it would be more appropriate for a dispatchable demand customer to bid in directly, rather than through a supplier. Such customers may need to change their bid at any time due to plant conditions. Suppliers are unlikely to have the facility to do so 24 hours per day, 7 days per week on their behalf.

We note that both the options proposed in the consultation paper are inconsistent with the concept of a common national tariff.

ESB Customer Supply believes that this demand participation proposal needs further consideration.

3.2 Access to information

We welcome CER proposals to create an open and transparent market through the provision of pre-dispatch projections and real time information. However, we request the confidentiality of detailed demand data.

Section 2.2.9 states that the SMO may over-ride a participant's offers as a result of a security constraint. In our view, the information surrounding such events should be released to the participants concerned so that the participant can understand these events and adjust its behaviour accordingly, and to act as a check on the behaviour of the SMO in performing such over-rides.

3.3 Treatment of pumped storage

We agree that it is appropriate to provide additional rules for pumped storage plant. Furthermore, we agree with the statements that:

- 'pumped storage will be required to maintain both generation offers and demand offers at all times'; and
- 'when in pumping up mode, the plant will be treated as negative generation and pay the price at the node it is located at for its demand'.

The consultation paper further states that 'the SMO may choose to contract, including long term contracts, with pumped storage to provide ancillary service and reserve contracts'. We acknowledge the importance of Pumped Storage in maintaining the security and quality of supply. As such we support the agreement of short term contracts between the SMO and Pumped Storage.

3.4 Charging for reserve costs

ESB Customer Supply believes that reserve requirements, both static and dynamic are an essential component of an electricity system determined by its generation/demand characteristics. The cost of reserves therefore should be levied on all energy sold in the pool.