



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

***REVIEW OF THE SPILL PRICE MECHANISM UNDER THE
TRADING AND SETTLEMENT CODE***

***A DECISION BY THE COMMISSION FOR ENERGY
REGULATION***

**MARCH 2004
CER/04/112**

Introduction

This document contains a decision by the Commission for Energy Regulation under Regulation 3(4) of SI No. 49 of 2000 – Electricity Regulation Act, 1999 (Trading Arrangements in Electricity) Regulations, 2000.

Commission's Decision

The Commission hereby decides that:

1. The information presently available on ESB National Grid's (ESBNG's) website (www.eirgird.com) and detailed in Appendix 3 shall be used by ESB Power Generation (ESBPG) to assist it in providing more accurate nominations (ANOMS).

In addition, ESBNG shall update the aggregate expected unavailability data to reflect any change and/or probable change to scheduled and forced outages twice weekly every Monday and Thursday or the following day if these fall on a public holiday.

This information shall be published on the Eirgird website as and from 29th March 2004.

2. ESBPG shall submit revised incremental and decremental prices based on the indices (as detailed in CER/03/182) to the SSA for use in settlement from March 29th 2004 as per Appendix 1, excepting the coal and HFO indices detailed therein.

In this case the coal and HFO indices, the Evolution Carbon AP1 2 and the 1% S Cargoes FOB NWE plus an appropriate adder shall be used respectively. ESBPG will submit new prices on the fourth business day of each month. Where ESBPG proposes a change to the indices being used as a basis for incremental and decremental prices, ESBPG shall submit alternative proposed indices to the Commission for approval prior to implementation in the settlement systems.

3. The spill floor shall remain at its present level of €28/MWh until the Commission determines otherwise.
4. The current methodology for calculation of the spill price in EPUS shall remain in place until the Commission determines otherwise.

Background

Following representations to the Commission from a number parties, the Commission commenced a review of the spill pricing mechanism and the spill floor price. The Commission held a spill price forum on May 26th, 2003 and issued a consultation paper on July 21st 2003 (CER/03/182). Subsequently, the Commission received four submissions and these were published for consultation on July 31st, 2003 (CER/03/182). On completion of the consultation period, a second forum was held by the Commission where parties were given the opportunity to present their responses to the above paper. At this forum it was proposed that the Commission issue a

draft decision on the four matters consulted on prior to issuing its final decision.

The remainder of this paper details the reasoning behind the Commission's decision on the following matters:

1. Availability of expected daily load data and outage information to ESBPG.
2. Setting of incremental and decremental prices for ESBPG plant based on forward pricing mechanisms.
3. Methodology for determination of the spill price floor.
4. Change of methodology for calculation of the spill price.

Reasoning

1. Availability of expected daily load data and outage information to ESBPG

ESBPG has proposed that ESBNG provide it with expected daily load data a day ahead and updated load demand curves as appropriate during the trading day. ESBPG argued that this would allow it nominate its portfolio of plant in a manner which reflects more closely the demand ESBPG plant must meet. To this end and as an interim measure, from March of this year ESBPG has based its nominations on 850MW less than the System Demand Forecast as published by ESBNG.

In addition, ESBPG has proposed that ESBNG provide it with forward information regarding the aggregate expected unavailability of IPPs due to outages, be they forced or scheduled. ESBPG has also requested that the Committed Outage Program (COP) for plant scheduled outages and any updates be published on the ESBNG website.

The Commission is of the view that, in principle, improved access to information by the market serves to increase transparency and enables participants to act in a more informed manner. At the same time, the Commission is mindful of the additional costs and timescales associated the provision of this information. In addition, it would not be possible to provide the above information on a day ahead basis without moving gate closure and, under the present rules, re-bidding within day is not facilitated.

Against this background, the Commission has decided that ESBPG should not be provided with updated load demand curves within day. The Commission notes that information presently published as detailed in Appendix 3 of this decision has not been factored into the nominations process by ESBPG to date. The Commission is of the view that use of said information to inform nomination decisions will serve to improve on present market outcomes.

2. Setting of incremental and decremental prices for ESBPG plant based on forward pricing mechanisms

At present, ESBPG bases incremental and decremental prices on historic costs. ESBPG has proposed that it bases these prices on recognised and established forward pricing mechanisms. ESBPG has proposed that it submit revised incremental and decremental prices on a monthly basis or more frequently in exceptional circumstances, and may move to more frequent submissions at a later date. The proposed indices to be used have been provided by ESBNG and are detailed in Appendix 1.

Since ESBNG submitted these proposed indices, Morgan Stanley have ceased publishing an indication for 1% S Cargoes CIF NWE. It has been suggested that an appropriate replacement index is , Morgan Stanley's 1% S Cargoes FOB NWE with an addition of \$10/t for freight. The additional \$10/t approximates the average Platts published CIF/FOB differential in the period October 1st, 2002 to December 1st, 2003. This can be reviewed after six months operation and any change approved by the Commission.

In addition, the TFS AP1 2 index will not be used and the Evolution Carbon AP1 2 will be used instead. This is the same index but the provider of the report differs. Both of the above are deemed equally representative, however, the use of the former would result in additional expenditures on behalf of ESBPG.

The Commission deems the move to incremental and decremental prices based on established and recognised forward pricing indices as a positive one that will serve to increase transparency of pricing and confidence in inputs to the ex post unconstrained schedule (EPUS) and, therefore, in the resulting spill prices. Therefore the Commission has decided that ESBPG calculates its incremental and decremental bids using the Indices listed in Appendix 1 as amended above for coal and HFO.

3. Methodology for Determination of the Spill Price Floor

In its Review of Market Prices Decision (CER/02/113) the Commission stated that the spill price floor shall be set at the avoidable fuel price of the best new entrant and set the floor at €28/MWh. ESBPG has suggested that the present figure of €28/MWh is calculated on an average rather than a marginal basis.

The Commission notes that the spill price floor was set to assure new entrant plant that the minimum variable fuel costs of spilled energy will be covered. Having discussed this issue at both spill forums with participants and having reviewed the submissions received in relation to the Commission's consultation paper on this issue (Ref: CER/03/182), the Commission is satisfied that the present price of €28/MWh achieves this purpose. Furthermore, the Commission considers that moving from this figure at this point in time would introduce additional uncertainty for new entrants in relation to revenue streams and regulatory practices. Therefore, the Commission has decided that the spill floor will remain at its present level of €28/MWh.

4. Change of Methodology for Calculation of the Spill Price

Proposed Modification 163 details an alternative methodology for calculation of the spill price in EPUS. At present the spill price is set by the highest plant on in EPUS that can be decremented. Proposed Modification 163 states that this should be changed to the highest plant in EPUS, regardless of whether or not it can be decremented. This would effectively lead to the spill price being equal to the system marginal price. The Commission is of the view that the setting of the spill price in this manner would be contrary to the Ministers Policy Direction of June 1999 as it would not result in the setting of the spill price at ESB's avoidable fuel cost. Furthermore, the Commission considers that the implementation of Proposed Modification 163 could lead to perverse outcomes and serve to increase the cost of electricity to the franchise customer.

The Commission is of the view that the provision of additional information relating to demand and outages will serve to improve the accuracy of nominations by participants and this in turn will impact on the spill price. Therefore, the Commission rejects this proposal.

APPENDIX 1

Gas:

- The INC/DEC prices for all units except the Aghada CT's will be based on the forward market price (IPE Index as defined below)
- The INC/DEC price for Aghada CTs will be based upon the contract prices for gas arranged for these units and /or distillate as appropriate

The IPE Index is defined as:

'IPE Natural Gas Index for the Current Month' (where Month M is the Current Month) as published following expiry of "Month M", by PH Energy Analysis Limited in the publication 'European Spot Gas Markets'.

Coal:

The Coal price to be basic forward price quoted on the 2nd last business day of the relevant previous month by TFS for API# 2 for the upcoming quarter adjusted for CV to Standard Tonne and including any duty or local costs and differentials as per the vesting contract.

For clarity:

2nd last business day, Jun/Jul/Aug forward price is Q4
2nd last business day, Sep/Oct/Nov forward price is Q1
2nd last business day, Dec/Jan/Feb forward price is Q2
2nd last business day, Mar/Apr/May forward price is Q3

HFO:

The HFO price for Month M to be the basic forward price quoted on 2nd last business day of month "M -1" by Morgan Stanley for 1% S cargoes CIF NWE for delivery Month "M+1", plus any duty or local costs and differentials as per the vesting contract.

Note: Platts is not a suitable reference as it gives historic prices only.

Gasoil:

The Gasoil price for Month M to be the basic forward price quoted on 2nd last business day of Month "M-1" by Morgan Stanley for Gasoil cargoes CIF NWE for delivery Month "M+1", plus any duty or local costs and differentials as per the ESB's most recent tender.

Exchange Rates:

The exchange rates used to convert all of the preceding prices to Euro are those quoted in the FT on the day the prices are set (2nd last business day of the month).

APPENDIX 2

Proposed Modification 163 (PM163)

MODIFICATION PROPOSAL – SUBMISSION FORM		
Modification Proposal submitted by:	Date of submitting Proposal:	Modification Proposal Number: (to be assigned by Mod. Panel Secretary)
GARRETT BLANEY	11TH JUNE 2003	163
Contact Details for Modification Proposal Originator (<i>if not a Modification Panel Member</i>)		
Modification Proposal Title:	Amendment to Appendix 7 to change Spill Price Calculation	
Trading and Settlement Code section(s) affected by Proposed Modification		
7.4.3 Spill Price, second and third paras.		
Modification Proposal Description		
<i>Clearly state the desired amendment and all text/formula changes to the Code and/or Appendix 7.</i>		
Modify spill price to be set by the highest decremental price without reference to whether the unit can be decremented. Text change would be to remove the words “and that can be decremented” and the following paragraph.		
Modification Proposal Justification		
<ol style="list-style-type: none"> 1. Internationally recognised method for calculating market prices, see attached CER note on the original intent of spill prices 2. Consistent with the principles set out by the CER in the new market structure to be implemented by 19 February 2005. Changing the current T&SC will reduce the differences between today’s and the coming market structure and allow a more seamless transfer between the markets 3. Allow efficient decisions about nominating higher price units to run at part load over the night valleys 4. Signal more accurately the need for greater or less capacity in the system 5. Encourage participants to be more accurate in setting nomination levels 		
Implication of not implementing the Modification		
<ol style="list-style-type: none"> 1. Increase the market instability in changing from the current to future market 2. Reduce the signals to attract new entry to the market 3. Exacerbate the difficulties experienced by new entrant CCGT and merchant green generators 4. Reduce the pressure for efficiency savings by the price setting generators 		
Please return this form to Modification Panel Secretary by e-mail to		
ModPanel@Eirgrid.com		

APPENDIX 3

Forecast Demand

The system demand displayed here represents the electricity production required to meet the national electrical consumption, including system losses and generators requirements. It includes power imported via the interconnector and an estimate of the power produced by wind generators but excludes some non-centrally monitored generation. This is published three days ahead.

Capacity Adequacy Indicator

The results for the Capacity Adequacy Indicator Studies are published every Friday and contain results for the forthcoming four weeks commencing the following Sunday. These results contain the following:

- Expected CDGU & Interconnector Availability

This is calculated as the sum of all CDGUs and the interconnector with NIE which are expected to be available for a given peak if the Forced Outage Probability of all CDGUs and the interconnector equals 0%.

- Expected Daily Peak Demand

The Expected Daily Peak Demand displayed represents the electricity production at the peak required to meet the national electrical consumption, including system losses and generators requirements. It also includes consumption met by power imported via the interconnector but excludes consumption met by some of the non-centrally monitored generation.