



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**TOP UP and SECONDARY TOP UP PRICES IN 2006**

**A DECISION PAPER**

**BY THE  
COMMISSION FOR ENERGY REGULATION**

**CER/05/199**

**7<sup>th</sup> October 2005**

## **Introduction**

On 9<sup>th</sup> September 2005, the Commission for Energy Regulation (“the Commission”) published its consultation paper “Top Up and Secondary Top Up Prices in 2006” (reference: CER/05/163).

The Consultation Paper outlined the following:

- The methodology for calculating the Top Up prices that was proposed to apply in the energy balancing market during 2006; and,
- The methodology for calculating the Secondary Top Up prices that was proposed to apply in the energy balancing market during 2006.

With that paper, the Commission also published tables providing the detailed profiles for Top Up and Secondary Top Up in 2006 (reference: CER/05/163a and CER/05/163b).

The Commission sought comment from interested parties on its proposals. Having considered all of the responses received, the Commission is now publishing its decision on Top Up and Secondary Top Up prices for 2006.

## **Commission’s Decision**

### *Top Up*

The Commission has decided to maintain the profile for Top Up in 2006 as it was in 2005 and in line with the proposals set out in its consultation paper.

In setting top-up prices for 2006, the Commission has decided to remove the distinction in the 2005 top-up price between January/February and November/December prices, by taking the weighted average of each weekday/weekend price in each hourly period (weighted by the number of days). This resulted in 144 top up prices in 2006 (compared with 192 in 2005). The Commission scaled each of those 144 prices by the ratio of the increase in the BNE price (at the trading point) in 2006 (i.e. €67.45/MWh) to the BNE price in 2005 (i.e. €54.65/MWh).

While the average Top Up price (time weighted) is derived from the assumed average BNE price, time of day / week/ season top up prices vary depending upon the input assumptions. The Commission will monitor these assumptions and may review top up prices if appropriate.

### *Secondary Top Up*

For 2006, the Commission has decided that the methodology specified in February 2001 (CER/01/39) should continue to apply for the calculation of secondary top up prices, as follows:

- The availability of Top Up priced supplies to Independent Power Producers and Suppliers, shall remain in place as detailed in the Trading and Settlement Code; and,
- Prices for purchases over and above these top up priced supplies will be set as a multiple of the relevant top up prices in operation. This multiple is related to the demand weighted price at which ESBPG sells to ESB PES from January 1<sup>st</sup> 2006.

For 2006, a secondary top up multiplier of 1.23 has been decided upon. This will be applicable from 1<sup>st</sup> January 2006. This multiplier was calculated as follows:

1. The factor was derived by comparing the revenue which the Commission is allowing ESB PG to recover from ESB PES in 2006 (€775 million) with what it would recover from ESB PES at the 2006 top-up price, given ESB PES's expected load profile across the 144 separate hours for which top-up prices are being set;
2. The secondary top up prices were derived by scaling each of these 144 2006 top up prices by the constant factor as derived above (1.23);

The Tables, attached in document CER/05/199a, show the Top Up prices and Secondary Top Up prices for 2006 in €/MWh at the trading point, applicable from 1<sup>st</sup> January 2006.

## **Background**

### *Top Up*

The then Minister for Public Enterprise issued a Policy Direction to the Commission on 26<sup>th</sup> July 1999, which provided the framework for trading electricity in the balancing market. The Direction set out the features of the electricity trading arrangements based on a bilateral contracts market supported by a top up and spill regime. Under these arrangements, the independent sector is able to purchase power shortfalls (top up) and sell surpluses (spill) to ESB Power Generation whenever the production of the independent sector does not exactly match the aggregate demand of their customers.

Paragraph 5 of the Minister's Direction indicates a method for the calculation of the top up price. It states that the level of prices should:

*“average out over the year to the established full cost of a best new entrant (BNE). These prices will be profiled according to published ex ante estimates of ESB’s avoidable fuel cost, plus an extra capacity element weighed according to the expected loss of load probability (LOLP), at the appropriate time of day, week and season.”*

A Decision on the estimated full cost of the BNE plant in 2006, to which the Minister’s Direction refers, has been published by the Commission following public consultation<sup>1</sup>. This Decision paper estimates the average annual cost of the BNE operating at base-load to be **€66.1/MWh** (exported). The BNE cost increased from €53.1/MWh in 2005 due to increases in gas and carbon costs.

The assumed annual transmission loss factor for 2006 is 0.98, resulting in a BNE price of €67.45/MWh at the trading point in 2006. The BNE plant was assumed to be located in the South-East of Ireland as referred to in ESB NG’s latest Forecast Statement.

#### *Secondary Top Up*

In February 2001 the Commission issued a decision under Regulation 3(4) of Statutory Instrument No. 49 of 2000 (Electricity Regulation Act 1999 (Trading Arrangements in Electricity) Regulations 2000) regarding Secondary Top Up prices (CER/01/39). This decision set out the methodology for calculating secondary top up prices that would apply in the energy balancing market.

#### **Comment**

Any queries on this Decision Paper should be forwarded in writing to:

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<sup>1</sup> Commission for Energy Regulation Best New Entrant Price Decision 2006, (CER/05/110) 26<sup>th</sup> July 2005.

## **Appendix: Comments from Consultation on Top Up and Secondary Top Up Prices in 2006**

In its consultation paper (reference CER/05/163), published on 9<sup>th</sup> September, the Commission consulted interested parties on the methodology for setting top up and secondary top up prices for 2006. The Commission was proposing:

- to keep the same *profile* of top up prices in 2006 as it was in 2005, while removing the split of winter prices between November/December and January/February;
- maintaining the same profile of prices was achieved by applying a common multiplier to all the 2005 top up prices. The multiplier was derived by taking the ratio of the 2006 time-weighted top up price (€67.45/MWh) to the 2005 time-weighted top up price (€54.65/MWh);
- in setting the *profile* of secondary top up prices, to use the same methodology as specified in CER/01/39. This involves setting secondary top up prices in each half hour as a multiple of the top up price. This multiple was determined by calculating what the top up price in each half hour would have to be scaled up by to yield an allowed revenues in 2006 (i.e. €775m) for ESB PG at the expected load profile of sales by ESB PG to PES.<sup>2</sup>

### **Comments by Interested Parties**

Four companies responded to the consultation paper:

- BGÉ – Energy Supply,
- ESB PG,
- Synergen, and
- Viridian.

#### *1. BGÉ – Energy Supply*

BGÉ were concerned that the load profile used did not reflect the changing nature of the ESB PES load profile expected to be met by ESB PG. BGÉ sought clarification on the load profile used by the Commission in setting the secondary top up price.

**Response:** The Commission can confirm that the load profile used does reflect the changing nature of the sales by ESB PG to PES.

BGÉ also sought an assurance that the Commission would not change the top up or secondary top up price in 2006, even if circumstances warranted it.

**Response:** The Commission cannot reasonably commit never to re-visit previous Commission decisions, whatever the circumstances.

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<sup>2</sup> In other words, PG-PES Load profile \* Top-Up profile \* Scaling factor(s) = €775m

## 2. *ESB PG*

ESB PG made two points:

1. that the Commission should revert to the methodology set out in the Minister's Policy Direction of 1999. The Commission was directed then to profile top up prices by using *ex ante* estimates of ESB PG's avoidable fuel costs plus an extra capacity element weighted according to the expected loss of load probability (LOLP), at the appropriate time of day, week and season.
2. that the Commission should revert to using different scaling factors for night and day secondary top prices, with no difference between night top up and secondary top up prices (i.e. a scaling factor of 1 at night).

**Response:** The Commission confirms its decision to adopt the proposal made in CER/05/163. The Commission did base its calculations for 2000 on a profile consistent with the Minter's Policy Direction of 1999. For subsequent years, the Commission based its calculations on that initial profile used. For the reason of providing certainty to the market, the Commission has decided to continue with this methodology for its calculations for top up and secondary Top Up prices for 2006.

Secondary top up prices in 2002 were set using multipliers of 1.00 at night across the whole year and during the weekend days in summer/spring/autumn. In all subsequent years, a single multiplier was used across all hours, days, weeks and seasons to set secondary top up prices. The Commission has decided to remain consistent with this methodology for 2006.

## 3. *Synergen*

Synergen responded to both the Commission's consultation on Trading Arrangements (reference CER/05/162) and top up/secondary top up papers (CER/05/163) in one submission on the grounds that they are inextricably linked.

Synergen did not state an objection to the profile of top up or secondary top up prices as proposed in CER/05/163. Rather, they commented on the widening differential between spill prices (more specifically the level of the spill floor price, as proposed in CER/05/162) and top up/secondary top up prices, which will be higher in 2006 than in 2005.

It is suggested that a widening differential will have an impact on independent generators and suppliers, because they tend to spill at times when demand is low (and the spill price is low) and top up when demand is high (and the top up/secondary top up price is high). Synergen state that customers will end up paying these increased costs – or will revert to ESB PES. They conclude that this will stifle the developing retail competition sector.

**Response:** The Commission has decided to use the profile of top up and secondary top up prices as set out in its consultation paper. The other matters,

relating to the Trading Arrangements, will be dealt with in the Commission's decision on those matters (decision paper pursuant to consultation CER/05/162).

4. *Viridian*

Viridian stated in its paper that "...it agrees with the secondary top price as proposed. If the top-up price was lowered below the figure set in the referenced paper, then ESB would be providing energy to the market below the price we consider reflects a current new entrant."

**Response:** The Commission has decided to use the profile of top up and secondary top up prices as set out in its consultation paper.