



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**PROPOSALS FOR A GREEN VIRTUAL INDEPENDENT POWER PRODUCER
("GVIPP") AUCTION 2006**

Draft Principles Paper

CER/06/025

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1 Introduction and Consultation Process

1.1 Introduction

In accordance with the Minister's Directive of 26th July 1999 ESB may enter into voluntary commercial contracts with licensed electricity suppliers ("voluntary contracts"). The Commission has requested that ESB enter in to contracts for the sale of green energy and the Commission and ESB are currently in discussions on the development of a voluntary arrangement for the sale of green electricity to suppliers in the electricity market. The Commission and ESB are proposing the auction by ESB of green electricity to licensed green suppliers through standard form Green Virtual Independent Power Producer contracts ("GVIPP Agreements").

The electricity to be offered will be sourced from generators, which use renewable sustainable or alternative sources of energy, contracted to ESB under Alternative Energy Requirement (AER) type contracts. ESB Customer Supply (ESB CS) has been required by Government over successive years to contract with alternative renewable energy producers such as wind and hydro. These contracts were awarded after competition either administered by Department of Communications, Marine and Natural Resources (the DCMNR). A Public Service Obligation (PSO) (see section 2.4) has been imposed on ESB in relation to the above contracts, following Notification to the European Commission regarding same.

This auction of green electricity will have a total capacity of up to 183 MW. Any reduction in GVIPP capacity (i.e., AER plant whose capacity was included in the auction, but subsequently becomes unavailable to ESB CS) will be considered a reduction in the total MW offered. The percentage won in the auction process will continue to apply (see section 2.1 below).

This auction will enable licensed green suppliers to increase their sources of green generation by successfully bidding to purchase electricity on the standard terms set out in the GVIPP agreements.

The Commission will further discuss with ESB the details of this approach in order to progress both the auction and the subsequent implementation of the GVIPP Agreements under the current electricity trading arrangements. The Commission is conscious that licensed green suppliers will require time to gain further understanding of the operation of the trading arrangements in conjunction with the operation of the GVIPP Agreements. The Commission has therefore requested that an outline of the principles of the proposed GVIPP auction should be published for comment (see section 3).

This statement is published as an indicative statement of a proposal and neither the Commission nor ESB accept any responsibility whatsoever for loss or damage

occasioned or claimed to have been occasioned, in part or in full, as a consequence of any person acting, or refraining from acting, as a result of this indicative statement of a proposal.

1.2 Request for Comment

Interested Parties are invited to comment on the principles outlined in this paper by 5pm on Monday, March 20th 2006. The Commission requests that respondents structure their comments to address the specific proposals outlined in the document. Where possible, reference to the section number should be made with specific comments. The Commission regrets that it cannot undertake to provide individual responses to submissions on this paper.

Responses may be published in full on the Commission's website. Therefore, respondents should clearly identify any confidential information in a separate annex.

Submissions on this paper should be forwarded, preferably in electronic format, to:

Sean Mac an Bhaird,
Commission for Energy Regulation,
Plaza House,
Belgard Road,
Tallaght,
Dublin 24.

E-mail: Smacanbhaird@cer.ie

1.3 Next Steps

The Commission and ESB CS, following consideration by the Commission of comments received, will issue the Final Principles Paper by March 31st 2006. Any modifications to the Trading and Settlement Code that are necessary as a result of this GVIPP will be published with the Final Principles Paper. The final date for the submission of bids for the GVIPP 2006 will be provided in the Final Principles Paper. The Commission will then evaluate the bids. Following this evaluation, the Commission will then request ESB CS to accept the bids to buy in accordance with that allocation and to enter into GVIPP Agreements with the successful bidders. Successful bidders will be notified and GVIPP 2006 Agreements will be signed. Following signing the GVIPP 2006 Supply Period will commence. Currently it is estimated that the supply period will commence in early June 2006.¹

¹ These timelines are dependent on the timelines for the required changes to settlement systems by the SSA and ESB.

2 Outline of GVIPP 2006 Principles

2.1 Auction Parameters

- The capacity to be auctioned, in 1 MW lots, in the GVIPP 2006 auction will be sourced from existing generators contracted under the Alternative Energy Requirement (AER) contracts to ESB which use renewable, sustainable or alternative sources of energy ('green electricity').
- Bidders in the auction must hold a green supply licence under Section 14 (1)(c) of the Electricity Regulation Act 1999, have signed the Framework Agreement, be a party to the Trading and Settlement Code, the Transmission and Distribution Use of System Agreements, and all other appropriate agreements. Bidders must also abide by the terms of the Invitation to Bid and satisfy the financial criteria attached to the bid. In addition, provision of the required security cover, i.e., an approved credit rating or security cover in accordance with the terms of the GVIPP Agreement is required.
- In the GVIPP 2006 auction ESB will offer a Total MW capacity (GVIPP capacity) as agreed with the Commission. This GVIPP capacity must be available and operational within settlement and contracted with ESB CS under the AER contracts at the time of the of the GVIPP 2006 auction. Up to a maximum of a total of 183MW GVIPP capacity will be auctioned. The GVIPP capacity will exclude those values that are required to ensure an efficient settlement process. The total MW for auction will be included in the Final Principles Paper. Any reduction in GVIPP capacity (i.e., AER plant whose capacity was included in the auction, but subsequently becomes unavailable to ESB CS) will be considered a reduction in the Total MW offered. The percentage won in the auction process will continue to apply.
- Successful bidders will have an obligation to purchase electricity generated by GVIPP capacity at the proportion of the output awarded to them at auction for every trading period within the GVIPP 2006 supply period.
- The green electricity will be auctioned in lots of 1MW of the GVIPP capacity as defined above.
- The auction will be based on competing Licensed Green Suppliers bidding for lots of 1 MW of the GVIPP capacity made up of defined AER contracted generators, as set out above, which obliges the successful bidder to purchase green electricity generated at the price bid during the GVIPP supply period as covered by the GVIPP Agreement.
- Allocation will be on the basis of the highest bid price submitted as a flat MWh price and will be expressed as a percentage "X%" where:

$$X_s \% = MW_s \text{ won} / \text{GVIPP capacity offered}$$

- The MWh generated will be determined ex-post and will be allocated to each bidder on the basis of the percentage of “GVIPP capacity offered” that was won by the bidder in the auction process.

For each trading period:

$$MWh_s \text{ allocated} = \frac{MWh \text{ produced by the GVIPP capacity}}{\text{GVIPP capacity}} * X_s \%$$

Where: $X_s \% = (MW \text{ won} / \text{GVIPP capacity offered})$
 $s = \text{GVIPP Supplier who has been awarded a MW allocation from the auction}$

- The output is subject to plant availability and to climatic conditions and neither the Commission nor ESB can warrant that any specific amount will be delivered in any one year or defined period.
- No person (defined to include all associations of companies, subsidiary or related undertakings) may secure more than 40% of the output of the defined AER contracted generators being auctioned under GVIPP 2006.
- In the event that a percentage of the output remains unsold after the auction, give the 40% cap as above, a second auction will be held under which no such cap will apply.
- There are two possible durations for the auction process for GVIPP 2006 as follows:
 - An auction for GVIPP energy for a defined supply period from the date of commencement of same to December 31st 2006. Here, bidders will bid a €/MWh price (greater than zero) above the reserve price (the Best New Entrant Price, BNE). Bid prices must be at the trading point. Over the course of the supply period the price bidders will pay for GVIPP energy awarded will be the sum of the prevailing BNE + €/MWh, where the prevailing BNE is that as defined and published by the Commission. A second auction will be held in the autumn of 2006 in relation to GVIPP 2007 for a supply period commencing on January 1st 2007 for a period of six months.

OR

- An auction for GVIPP energy for a continuous supply period from the date of commencement of same for a period of 12 months. Here, bidders will bid a €/MWh price (greater than zero) above the reserve price (BNE) to provide for a revised BNE figure from January 1st 2007. Bid prices must be at the trading point. The price bidders will pay for GVIPP energy awarded will be the sum of the prevailing BNE + €/MWh which will increase or decrease with increasing or decreasing BNE.

- There are two possible approaches to the pricing of energy under GVIPP 2006 as follows:
 - A profiled price will be charged to the buyers of this green energy. This profile will be based upon the profile which ESB purchases energy from AER facilities which make up GVIPP capacity and is composed of a separate weekday and night/weekend price. The profile will be included in the Final Principles paper and will be included in the GVIPP Invitation to Bid and GVIPP Agreement. Bids submitted will be a flat bid but this will then be adjusted to reflect the profile.

OR

- Energy being offered under GVIPP 2006 is offered at a flat price.
- The reserve price under the GVIPP Agreement for the green electricity will be set equal to the relevant Best New Entrant price at the trading point as determined and published by the Commission. This price does not include VAT.²
- Bidders must submit a price and quantity bid into the auction.

2.2 GVIPP and the Market

- Successful bidders will be entitled to purchase top up under the applicable rules under the Trading and Settlement Code.
- Successful bidders will be entitled to spill energy under the applicable rules under the Trading and Settlement Code
- The balancing rules that pertain to green and CHP suppliers licensed under Section 14 (1)(c) and 14(1)(d) of the Electricity Regulation act 1999 that apply at present and any decisions by the Commission regarding this matter will apply in relation to electricity purchased under the GVIPP 2006 Agreement.
- Successful bidders in the GVIPP auction will have the GVIPP energy purchases included in the calculation of their fuel mix by the SSA for the purposes of disclosure.
- Settlement of GVIPP energy purchases will take place in accordance with the wholesale market settlement timelines as published by ESB National Grid SSA from time to time.

² Please refer to Best New Entrant 2006: A Decision and Response Paper by the Commission for Energy Regulation, CER/05/110, 26th July 2005

2.3 Auction Process

- The auction will be conducted by the Commission for Electricity Regulation to ensure non-discrimination, fairness and transparency.
- The invitation to bid and auction procedures will be prepared by ESB subject to the agreement of the Commission.
- The GVIPP Agreement will be prepared by ESB for review and agreement by the Commission. The GVIPP Agreement agreed between the ESB and the Commission will be non-negotiable and in a standard form. Its terms and conditions will be binding on all successful bidders.
- The Commission will deal with all enquiries from interested bidders. In addition, the Commission will be responsible for the conduct of the auction which will include the opening of all of the bids.
- Bids for individual lots will be accepted on the basis of the bid price subject to the purchase limit once bidders fulfil the defined bid criteria and the bid is valid. If the demand for capacity units at a particular bid price exceeds the number of lots remaining the remaining units will be allocated on a pro-rata basis.
- Bids must be submitted prior to the closing date and time and must be correctly executed and be unqualified and unconditional.
- The successful bidder will be responsible for paying all network system charges and any other charges appropriate to a licensee (and any transitional or public service obligations if such are levied by the Minister at any time during the duration of the Green VIPP Agreement).
- There may be no collusion among bidders. Evidence of collusive behaviour will result in disqualification of bids.
- Bidders in the auction must hold a Supply Licence issued by the Commission pursuant to section 14(1)(c) of the Electricity Regulation Act 1999, must be a party to the Framework Agreement for the Trading and Settlement Code, the Transmission and Distribution Use of System Agreements, and all other appropriate agreements. Bidders must also abide by the terms of the Invitation to Bid and satisfy the financial criteria attached to the bid.

2.4 Associated Issues

2.4.1 Public Service Obligation

The electricity to be auctioned in the GVIPP 2006 auction will be obtained from existing generators contracted under the Alternative Energy Requirement (AER) contracts to ESB which use renewable, sustainable or alternative sources of energy ('green electricity'). Under Statutory Instrument No. 217 2002 – Electricity Regulation Act 1999 (Public Service Obligations Order 2002 as amended, and in accordance with the Notification of Public Service Obligations November 2000 (the Notification) the extra competitive costs associated with this energy is covered by the Public Service Obligation (PSO) levy and passed on to all final electricity customers. This Statutory Instrument as amended will continue to apply to plant forming the GVIPP capacity. Here, extra-competitive costs are defined as costs above the BNE. The effect of the above is that ESB purchases output from AER contracted generators at the BNE price as determined by the Commission. Any revenues above the BNE arising from the GVIPP 2006 auction above the BNE will be offset against the PSO levy. This is in accordance with paragraphs 3.20 and 5.4 of the Notification.³

2.4.2 GVIPP 2006 Agreement

The GVIPP 2006 Agreement will provide information on the following:

- security cover requirements;
- default and termination;
- liability;
- force majeure;
- disputes;
- confidentiality; and
- assignment of agreement.

GVIPP 2006 Bidders participate at their own cost. Neither the Commission nor ESB is liable for any costs or expense incurred by or on behalf of bidders in connection with this GVIPP Auction.

Bidders are notified that ESB Independent Energy which is a related entity of ESB will be free to participate in the GVIPP auction.

³<http://www.dcmnr.gov.ie/NR/rdonlyres/7DFE9454-5D02-4DFA-92FF-AA8C279BEBE2/0/PSONotificationtoBxl201100publishedonwebMarch2002.doc>