



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

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

**Response to Comments Received
CER/06/040**

7th April, 2006

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Executive Summary

The Commission has requested that ESB enter into contracts for the sale of green energy and the Commission and ESB have been jointly developing a voluntary arrangement for the sale of green electricity to suppliers in the electricity market through a green virtual independent power producer (GVIPP) Auction. The Commission published on the 6th March 2006 a draft principles paper (CER/06/025) detailing the proposals for such a GVIPP Auction. The Commission invited comment on the matters contained in that paper and received responses from seven interested parties. The Commission has reviewed the responses received and any alternative approaches suggested. In light of the comments received the proposal put forth in the draft principles paper has been amended. All amendments are highlighted in the Commission's response to comments outlined in this document. The full details of the decision on this matter are specified in the final principles paper that is being published in parallel with this response document [insert hyperlink](#).

1 Background

1.1 Consultation Background

The Commission has requested that ESB enter into contracts for the sale of green energy and the Commission and ESB have been jointly developing a voluntary arrangement for the sale of green electricity to suppliers in the electricity market through a green virtual independent power producer (GVIPP) Auction. The Commission published on the 6th March 2006 a draft principles paper (CER/06/025) detailing the Commission's proposals for a green virtual independent power producer ("GVIPP) Auction.

The consultation paper proposed that:

1. ESB make available green electricity to licensed green suppliers through standard form Green Virtual Independent Power Producer contracts ("GVIPP Agreements").
2. the electricity to be offered be sourced from generators, which use renewable sustainable or alternative sources of energy, contracted to ESB under Alternative Energy Requirement (AER) type contracts.
3. the auction of green electricity have a total capacity of up to 183 MW, with this capacity to be auctioned in lots of 1 MW.
4. any reduction in GVIPP capacity (i.e., AER plant whose capacity was included in the auction, but subsequently becomes unavailable to ESB CS) be considered a reduction in the total MW offered. The percentage won in the auction process will continue to apply.
5. 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 2006/2007.
6. either a profiled price or flat price be charged to the buyers of this green energy.
7. a reserve price of Best New Entrant (BNE) price would be applied.
8. bidders must submit a price and quantity bid into the auction.
9. either of two possible durations for the auction process for GVIPP 2006/2007 be implemented. Specifically:
 - a. two supply periods, with a separate auction for both, with the first finishing on 31st December 2006 and second commencing immediately thereafter and running for twelve months; or,

- b. one supply period running for twelve months, with one associated auction.

The Commission invited comment on the matters contained in the consultation paper and received comment from seven (7) interested parties. Six of these responses are been made available on the Commission's website [\[insert hyperlink\]](#) from the following respondents:

- Airtricity
- Bord Gáis Energy Supply (BGES)
- Saorgus Energy Ltd.
- ESB Independent Energy (ESB IE)
- Dan Twomey Waterpower Engineering Ltd
- Viridian Energy Limited

This paper sets out the Commission's responses to the comments received on the draft principles paper, (CER/06/025) published on the 6th March 2006, detailing the proposals jointly developed by the Commission and ESB for a green virtual independent power producer ("GVIPP) Auction. Section 2 of this paper provides a summary of all comments received together with the Commission's response to said comments.

2 Response to Comments Received

This section summarises the comments received from interested parties and the Commission's responses to those comments.

2.1 Method for the Making Available of GVIPP Output

Two respondents did not favour an auction approach to facilitate suppliers licensed under Section 14(c) of the Electricity Regulation Act, 1999 gaining access to AER power contracted to ESB Customer Supply (ESB CS). One of these respondents would favour such energy being allocated on a market share basis while the other indicated that it would be preferable if the Commission allowed suppliers to contract directly with the AER projects, that is, without the involvement of ESB CS.

The Commission has considered the former proposed approach for the making available of GVIPP output to licensed green suppliers. The Commission considers that this may result in serving to reinforce the positions of existing licensed green suppliers in the market and as such may be seen as anti-competitive and foreclosing the green market. The Commission has received legal advice on this matter which concurs with the above and therefore, does not favour allocation of GVIPP output based on market shares.

Regarding the Commission allowing licensed green suppliers to contract directly with AER generators, the Commission has no role in relation to the making available of AER contracts or the terms of such contracts. This is a matter for the Department of Communications, Marine and Natural Resources (the DCMNR).

2.2 Capacity Available for GVIPP 2006/2007 Auction

The draft principles paper proposed that in the GVIPP 2006/2007 auction ESB would offer up to a maximum of 183 MW of GVIPP capacity for auction. It was indicated that the exact capacity figure may be reduced from this maximum threshold in the interest of an efficient settlement system. It was also stated that the exact GVIPP capacity to be offered ESB in the GVIPP 2006/2007 auction would be agreed upon with the Commission and explicitly stated in the final principles paper. The possibility of capacity that was included within a GVIPP 2006/2007 auction being subsequently withdrawn was also highlighted. Here, such a reduction would affect the total capacity MW figure offered but not the percentage of which a successful bidder had obtained.

2.2.1 Respondents Comments

One respondent acknowledged the necessity for the timely release of AER power to independent suppliers and as such concurs with the release of a maximum of 183 MW at this time. However the respondent in question does not deem this

183 MW of AER capacity as being the maximum available for release to independent suppliers through future GVIPP auctions.

Said respondent noted the rules regarding accession to the Trading and Settlement Code and stated that there was no reason why AER generation should be treated any differently in this regard than independent generators. This respondent requested that all AER projects having currently not acceded to the Trading and Settlement Code, but whom are required to do such under the Commission's decision, be forced to accede. Reference was also made to the fact that output from all AER projects must be metered and, as such, there is no reason why all such generation could not be incorporated into ESB National Grid's settlement systems. Furthermore it was requested that all AER projects commissioned prior to the running of any GVIPP auction should be made available for such.

Concern was aired over the uncertainty associated with the possibility of the capacity that a successful bidder had acquired being reduced due to the withdrawal of capacity offered post auction. Furthermore it was requested that in the case of such a reduction occurring that all purchasers of the AER power be informed in a timely manner. Finally two respondents queried the requirement to exclude certain capacity from the GVIPP 2006/2007 auction as *'required to ensure an efficient settlement process'* and looked for explanation thereon.

2.2.2 Response

With regard to the total capacity available under the GVIPP 2006/2007 auction, the Commission is of the opinion that the auction should be held as soon as practicably possible in order to facilitate the making available of GVIPP capacity to licensed green suppliers in a timely fashion. This will serve to assist suppliers licensed under Section 14(c) of the Electricity Regulation Act, 1999 in the development of their green businesses under the current trading arrangements. To facilitate this timely release of capacity, the capacity being auctioned is that which is currently available and operational within settlement. The Commission assesses that the total capacity contracted with ESB CS under AER contracts at the time of the publication of the Draft Principles Paper that fulfils the above requirements stood at 183 MW. Since that publication date, additional capacity contracted to ESB CS under the AER scheme that fulfils the above requirements has been commissioned. This has been added to the 183MW figure to give a figure of 191MW. Therefore, up to a maximum of 191MW will now be auctioned in the GVIPP 2006/2007 auction process. This figure is included in the Final Principles Paper.

The exclusion of certain GVIPP capacity in order to ensure an efficient settlement process is deemed necessary to facilitate the making available of the GVIPP capacity in a timely fashion. Here, a minimum output from AER capacity will remain with ESB CS the capacity being auctioned so that alterations to IT systems are minimised to accommodate the GVIPP 2006/2007 auction process. Any significant alterations could require relatively lengthy time periods and

result in relatively higher associated costs to complete. This may serve to increase the implementation cost of the GVIPP, while delaying the commencement date of the supply period.

In the event that capacity offered in the auction becomes unavailable post auction, the Commission will inform all successful bidders of this in a timely manner.

2.2.3 Decision

It is the Commission's intent that a maximum of 191 MW of GVIPP capacity will be made available in the GVIPP 2006/2007 auction. If the capacity offered in the auction becomes unavailable to ESBCS post auction, the Commission will inform all successful bidders of the withdrawal in a timely manner.

2.3 GVIPP 2006/2007 Supply Period

The envisaged commencement date of the supply period for the GVIPP 2006/2007 auction is June 13th 2006. Two possible durations for said supply period were put forth in the draft principles paper. Specifically:

- two supply periods, with a separate auction for both, with the first finishing on 31st December 2006 and second commencing immediately thereafter and running for twelve months; or,
- one supply period with one associated auction process.

The auction processes associated with both these proposals incorporate a reserve price (i.e. BNE) with bidders bidding a € / MWh price at or above this price. Said bid prices pertain to the energy available at the trading point with the reserve set as the Best New Entrant Price (BNE). It was proposed in the draft principles paper that the price that bidders will pay for GVIPP output will be based on the sum of the prevailing BNE + € / MWh price, given the successful bidders bid.¹

2.3.1 Respondents Comments

Two respondents indicated preference towards one supply period running for 12 months and a single auction, with another leaning towards the second proposal of two supply periods and two associated auctions. It was also suggested that the supply period be extended, in line with their preferences, past the commencement date of the Single Electricity Market (the SEM).

¹ Two options were presented regarding the price paid for GVIPP output. One was a flat price approach, the alternative a profiled price. These are discussed in section 2.5 below.

2.3.2 Response

The Commission considers that one auction process for the auctioning of GVIPP capacity for a supply period of twelve months will give successful bidders in the GVIPP 2006/2007 auction certainty regarding the capacity secured under the GVIPP 2006/2007 auction process post December 31st 2006. The option to have two GVIPP supply periods with one ending on December 31st 2006 would serve to introduce uncertainty for licensed green suppliers. Given this, and the responses received, the Commission deems it appropriate that one supply period as above with one associated auction process, be adopted.

The extension of the GVIPP supply period past the commencement date of the SEM is not proposed, as the current trading mechanisms will not be available upon its commencement. The making available of AER contracted capacity post the commencement of the SEM is not the subject of this consultation process.

2.3.3 Decision

One supply period running for 12 months as set out in the Final Principles Paper, with one associated auction process, will be adopted.

2.4 Limits to Access of GVIPP 2006/2007 Auction Capacity

It was proposed within the draft principles paper that 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 2006/2007. Also in the event that a percentage of the output remains unsold after the auction, given the 40 % cap, a second auction will be held under which no such cap will apply

2.4.1 Respondents Comments

One respondent agreed with the proposal that within an auction situation all associations and subsidiaries should be considered as a single entity with respect to the 40 % cap. The respondent in question went on to state that ESB or any of its subsidiary should not be entitled to access any energy through the GVIPP auction. Another respondent also welcomed the proposed 40 % cap but deemed it appropriate to maintain a 40 % cap for each and every round or auction within the GVIPP 2006/2007 auction process, as was the case with all previous non-green VIPP auctions.

2.4.2 Response

The Commission deems a cap an effective tool to allow bidders a more equitable chance of securing a proportion of the GVIPP 2006/2007 auction capacity. However, the Commission notes that a cap could unnecessarily restrict access to such capacity if the auctions were under subscribed. As such the Commission intends to only apply a cap to each specific auction if the auction

in question is over subscribed. The cap will be implemented as below (section 2.4.3)

2.4.3 Decision

A 40% cap will only apply if the auction in question is over subscribed. In the event that Auction 1 is over subscribed a cap of 40% of the total MW lots on offer in Auction 1 will be applied to each person. In the event that Auction 2 is over subscribed a cap of 40% of the *total* GVIPP 2006/2007 capacity in MW lots will be applied to each person, i.e. taking into account successful bids from Auction 1.

2.5 Pricing of Energy

In the Draft Principles Paper it was proposed that a reserve price of the relevant BNE as determined by the Commission will apply and that the price paid for the output associated with the capacity secured will be based on the price bid. It was proposed that either a flat price or a profiled price be utilised to determine the price paid for energy under GVIPP 2006/2007. Such a profiled price would be based on the methodology used to determine the price paid by ESB when purchasing energy from AER facilities. Here, separate weekday and night / weekend prices are paid.

2.5.1 Respondents Comments

All respondents commenting on the pricing arrangements highlighted the inappropriateness, in their opinions, of the BNE being utilised as a base for the purchase cost of GVIPP energy awarded/reserve price. In this regard one respondent commented that there should be no reserve price and that the auction should follow a clearing price approach, in line with previous brown auctions. Another respondent also referred to a clearing price approach in the context of providing suppliers, who supply energy to the domestic market, an advantage over other bidders in the GVIPP 2006/2007 auction. In this regard it was suggested that such suppliers be given priority access to auctioned GVIPP volumes and that the price paid for GVIPP output be the clearing price.

Due to a respondents concern over ESBCS benefiting from the perceived elevated prices for AER power of the GVIPP auction it was suggested that the auction reserve price be set as the actual contract costs rather than the BNE. It was stated that the auction of product at BNE + €X/MWh price is too expensive and takes no account of the cost of imbalances due to intermittency of the product and as such should be decreased to below the prevailing BNE price as in previous VIPP auctions. Finally it was suggested that the indexation should be consistent with AER contracts and as such the reserve price should not be based on the BNE.

Two respondents indicated their preference to a profiled price approach. Respondents commented on a lack of clarity regarding the profile to be adopted, with a particular respondent requesting a description of said profile. Another

respondent followed on by stating that due to this lack of clarity it was difficult to assess whether a flat or profiled price would be preferable. Therefore they requested that the invitation to bid facilitate both approaches, with bidders expressing on submission of their bids, which approach they would like to adopt.

2.5.2 Response

The Commission has decided to apply a profiled price approach. This has been decided upon due to the preference for such aired in the comments received and also due to the fact that a profiled approach is in line with the pricing approach adopted in AER contracts. This will result in a weekday price and a weekend/night price being paid, based on the prevailing BNE plus /MWh bid. The €cent values to be applied to get the weekday prices and the weekend/night prices to apply are published in the final principles paper for clarity. These will apply for the total duration of the GVIPP 2006/2007 supply period.

Regarding the reserve price being set as BNE, this is in order to ensure that the Public Service Obligation (PSO) Levy, which is charged to all final electricity customers, is not adversely affected by the GVIPP 2006/2007 auction process. This is due to the fact that all capacity being auctioned in the GVIPP 2006/2007 auction falls under the PSO governing legislation. The PSO Levy is designed to recoup the additional cost incurred by ESB CS in meeting its obligations under PSO governing legislation, and the benchmark price against which such additional costs are currently determined is the BNE price as determined by the Commission. Therefore, the reserve price to apply in both auctions that will occur under the GVIPP 2006/2007 process will be the BNE price.

The Commission notes the merit associated with the provision of preferential access to capacity being auctioned under the GVIPP 2006/2007 auction to suppliers of the domestic market. The Commission in order to support competition in the supply of green electricity to the domestic market intends to implement a preliminary auction. The output from the capacity auctioned here must only be used to serve domestic customers where such customers are defined as customers classed as DG1 and/or DG2 customers. A maximum of 40 MW of capacity will be made available in Auction 1 of GVIPP 2006/2007. This equates to ca. 20 percent of the total GVIPP 2006/2007 auction capacity. The Commission is of the view that this is sufficient to provide for continued growth in the supply of the domestic market (as defined) by licensed green suppliers.

2.5.3 Decision

The Commission has decided to implement profiled pricing approach. A profiled price is to be adopted. This price profile will be based on the pricing methodology for payment for output from AER contracted projects. This profile has two distinct prices, that is one applied from 8am to 9 pm Monday to Friday and another from 9pm to 8 am Monday to Friday and all weekend. The same

profiled price (please refer to the Final Principles paper) is to be utilised for the entire GVIPP agreement term /GVIPP supply period.

A reserve price of BNE will be applied in the GVIPP 2006/2007 auction in conjunction with a clearing price approach. The Commission will conduct a preliminary auction, i.e. Auction 1. 40MW will be available in Auction 1. The capacity awarded under Auction 1 must only be used to serve domestic customers where such customers are defined as customers classed as DG1 or DG2 customers. A subsequent auction (Auction 2) will be held, which will be for 151 MW plus any MW lots not awarded in Auction 1. Green suppliers bidding in Auction 2 are not restricted in the customer category they may supply with energy which is the output of MW lots awarded under Auction 2. This energy may be supplied to any customer category.

2.6 Top Up and Spill Arrangements

The Draft Principles Paper stated that successful bidders may top up and spill in accordance with the relevant Trading and Settlement Code rules. The Commission, having reviewed the comments received, and discussed this matter further internally, is of the view that this is appropriate to provide for flexibility to successful bidders in relation to the need to balance energy purchased with demand, given the variable nature of the majority of the output that is to be auctioned under the GVIPP 2006/2007 process.

2.6.1 Decision

Successful bidders may top up and spill in accordance with the relevant Trading and Settlement Code rules that apply during the duration of the GVIPP 2006/2007 supply period.

2.7 Additional Comments

These comments pertain to issues other than the merit of the core proposals as set out in the consultation paper.

2.7.1 Respondents Comments

Respondents requested a breakdown of the capacity to be auctioned per technology prior to the auction, with one respondent also requesting a breakdown per AER competition.

A respondent commented that successful bidders should be able to use the GVIPP product in their existing portfolios without having to maintain a separate GVIPP portfolio.

With respect to the issue of security cover it was indicated by a respondent that any requirement for such should not be onerous as this would prevent smaller independent suppliers from bidding in the auction. The respondent in question suggested that the security cover required should be set as 4-5 weeks of

charges and also requested information regarding the availability / down time of plant associated with the capacity to be included in the GVIPP 2006/2007 auction(s).

Another respondent requested that a '*realistic checklist of documentary requirements*' be included in the invitation to bid, such as the requirement of a supply licence.

One respondent is of the view that the AER is already used as a hidden PSO levy and that GVIPP will perpetuate this practice. In addition, this respondent states that GVIPP will introduce a second PSO levy and will increase subsidies to fossil fuel generation. This respondent also stated that as no green premium is being obtained for AER electricity by AER contracted generators, because AER 3 is silent in relation to the ownership of a 'green benefit' of the power from AER 3 projects and because of the cross subsidisation of other polluting forms of generation, ESB is not entitled to re-sell AER 3 power. Finally, this party requests that the Commission authorise ESB CS to cancel a certain AER 3 contract.

2.7.2 Response

In relation to the composition of the capacity being auctioned, the Commission would like to clarify that the majority, ca. 95%, of the capacity being made available through the GVIPP 2006/2007 auction is associated with wind generation.

In relation to suppliers using the GVIPP product in their existing portfolios, this was facilitated in the Commission's Draft Principles Paper and this remains the case under the principles set out in the final principles paper.

With respect to the level of security cover required (i.e. an approved credit rating or security cover to be provided) the Commission considers that this should be set at a level appropriate to the risks involved. The specific requirements for such will be included in the terms of the GVIPP Agreement.

Finally the requirements for qualification as a bidder for the GVIPP 2006/2007 auction will be included within the associated Invitation to Bid. The Commission will require that a person wishing to become a bidder submit before close of bids, evidence to the Commission's satisfaction accompanying their respective Bid Forms, that they adhere to the qualification criteria specified in the Invitation to Bid.

Regarding the comment that AER is already used as a hidden PSO levy and that GVIPP will perpetuate this practice, the Commission notes the following: the PSO is currently paid by all final customers in accordance with the relevant Notification and legislation. The Commission is the auditor of this scheme under the above, with policy on such issues being a matter for the DCMNR. Under the current wholesale trading arrangements for electricity, the

benchmark price against which the additional costs to ESB for purchasing energy as required under the legislation is calculated as the BNE price as determined by the Commission. The PSO levy covers these additional costs and is paid by all final customers.

There is no hidden PSO levy regarding AER contracted generation nor is there any cross subsidisation of polluting forms of electricity by AER contracted generation. The 2006 PSO levy contains a sum of € 209,504 to cover the additional costs to ESB for purchasing energy from AER contracted generators.² Therefore, as this is a net positive figure and it is included as above, there is no cross subsidy to fossil fuel generation. Also the amount of the levy that pertains to fossil fuel is not affected in any way by the amount that pertains to AER contracted generation. There are no other monies paid to ESB in relation to PSO covered output other than those detailed in the Commission's annual decisions on this matter.

The introduction of the GVIPP will not impact on AER contracts. AER contracted generators will continue to be paid by ESB in accordance with their AER contracts. The PSO levy will continue to apply in accordance with the Notification and the governing legislation. Under the GVIPP, bidders must be at or above the BNE price. Therefore, the reserve price of BNE ensures that there is no additional monies included in the PSO levy as a result of the GVIPP than would otherwise be required.

In relation to the absence of a green premium to AER contracted generators under the terms of the AER contracts in question, the Commission notes that the Commission is not a party to these contracts, the terms of which are a matter for the DCMNR. Therefore, the Commission has no role in relation to the inclusion or otherwise of provision regarding a green premium under the terms of such contracts. The Commission is unclear as to what 'green benefit' is being referred to in this context. However, the Commission notes that no green benefit pertains to green generators, including green generators contracted under the AER scheme, at present.

Finally, the Commission wishes to note that the Commission cannot legally authorise ESB CS to cancel any AER contracts as requested by the respondent.

2.7.3 Decision

Output secured by successful bidders in the GVIPP 2006/2007 auction process may include electricity purchased under the GVIPP 2006/2007 Agreement when calculating ehir green balance in accordance with the balancing rule that pertain to licensed green and CHP suppliers that apply at present and any decisions by the Commission regarding this matter to the conclusion of the GVIPP supply period. The requirements for qualification as a bidder for the GVIPP 2006/2007 auction will be included within the associated Invitation to

² Public Service Obligation Levy 2006: A Decision by the Commission for Energy Regulation CER/05/125, 1st August 2005

Bid. The level of security cover required (i.e. an approved credit rating or security cover to be provided) will be set at a level appropriate to the risks involved and will be specified in the terms of the GVIPP Agreement.

3 Conclusion

The Commission published on the 6th March 2006 a draft principles paper (CER/06/025) detailing the proposals for such a GVIPP Auction. The Commission has reviewed the responses received and any alternative approaches suggested. In light of the comments received the amended the proposal put forth for a green virtual independent power producer (“GVIPP) Auction draft principles paper have been amended. The full details of the decision on this matter are specified in the final principles paper that is being published in parallel with this response document [\[insert hyperlink\]](#).