



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**GREEN VIRTUAL INDEPENDENT POWER PRODUCER (“GVIPP”) AUCTION
2006/2007**

Final Principles Paper

CER/06/041

7th April 2006

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Executive Summary

On March 6th 2006 the Commission for Energy Regulation (the Commission) published a consultation paper (CER/06/025) regarding the proposed high level principles governing the Green Virtual Independent Power Producer (GVIPP) auction process for the making available to independent licensed green suppliers of electricity from existing generators which use renewable, sustainable or alternative sources of energy, contracted to ESB under the Alternative Energy Requirement (AER) scheme.

The Commission received seven comments on this paper from seven respondents. The following six respondents have given permission to publish these comments:

- Airtricity
- Viridian Energy Ltd.
- Soargas
- Bord Gáis Eireann Supply
- ESB Independent Energy
- Dan Twomey Waterpower Engineering Ltd.

These comments, along with the Commission's response to those comments, are available on the Commission's website. Following review of these comments, the Commission now publishes the final principles which will govern the auction process for GVIPP 2006/2007.

The final principles are set out in the remainder of this document. A number of these differ from those published in the Draft Principles Paper (CER/06/025) as follows:

- The GVIPP auction process will be a two stage process. A total of 191MW will be auctioned. 40MW of this will be made available in Auction 1 for supply by successful bidders to domestic customers, i.e., customers in categories DG1 and/ or DG2. Auction 2 will be for the remaining MW out of the total available for auction (151MW) plus any that is unsold in Auction 1. The output from the MW available in Auction 2 may be used to supply customers from all customer categories.
- The GVIPP supply period will commence on June 23rd 2006 and will finish on June 23rd 2007.
- Due to the fact that the GVIPP supply period will be for the above duration, bidders will bid Best New Entrant (BNE) at the trading point plus a €/MWh price (greater than or equal to zero). Here, the *term* BNE is used and not its numerical value to provide for revisions to the BNE figure.
- In the absence of over subscription no cap will apply in the Auction 1. In the event that Auction 1 is over subscribed, a cap of 40% of the MW lots available will apply and pro-rating will occur. In the event that Auction 2 is over subscribed, a cap of 40% of the total MW lots available in both auctions, i.e. 191MW will apply and pro-rating will occur. In the absence of over subscription no cap will apply in the Auction 2.
- The prices paid by successful bidders in Auction 1 and Auction 2 for electricity will be based on the relevant clearing price in the relevant Auction for the

energy on-sold to them. The clearing price will be the prevailing BNE price plus a €/MWh figure as appropriate.

- The price paid will be profiled into a weekday price (8am to 9pm, Monday to Friday, inclusive of bank holidays) and a weekend/night price (9pm to 8am each night Monday to Sunday *and* 8am to 9pm Saturday and Sunday). (Please refer to section 2.1 below).
- The prices paid will change over the GVIPP supply period with changes in the BNE price as determined by the Commission.

Readers are referred to the remainder of this document for the complete set of GVIPP 2006/2007 governing principles.

1 Introduction

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 earlier this year the ESB and the Commission for Energy Regulation (the Commission) entered into discussions on the development of a voluntary arrangement for the sale of green electricity to suppliers in the electricity market. Following these discussions, the publication of the Draft Principles Paper (CER/06/025) and review of the comments received, the final principles governing GVIPP 2006/2007 are now published.

Under GVIPP 2006/2007, ESB will auction green electricity to licensed green suppliers through standard form Green Virtual Independent Power Producer contracts ("GVIPP Agreements").

This auction will enable licensed green suppliers to increase their sources of green generation by successfully bidding for the right to purchase electricity on the standard terms set out in the GVIPP agreements. The electricity made available for supply by this auction will be sourced from existing generators, which use renewable, sustainable or alternative sources of energy, contracted to ESB under the Alternative Energy Requirement (AER) scheme. This paper sets out the principles governing the GVIPP 2006/2007 auction process. Comments received and a paper outlining the Commission's response to those comments are being published in conjunction with this paper. Revisions to the draft principles as set out in the draft principles paper (CER/06/025) are as a result of consideration of responses received to that paper.

For the avoidance of doubt, ESB confirms that the contractual arrangements between ESB and the AER generators are intact and are unaffected by the GVIPP auctions. ESB is and will remain the purchasing counterparty for AER power purchase agreements (PPAs). The AER generators will continue to supply ESB and ESB will continue to purchase and pay for the full generation output of AER generators under the AER PPAs.

Under grounds allowed by the EU PSO Notification, ESB will auction renewable or "green" generation capacity, under request from the CER. ESB will on-sell part of the energy it has already purchased from AER generators to the successful bidders under the GVIPP auctions.

The CER's intention is that changes will be made in the reporting data received from the SSA as a direct result of the GVIPP auctions. The changes CER requires, will not, in any way, result in any change to ESB AER PPA contractual arrangements. It will merely facilitate, in the most efficient manner, the SSA's and ESB's ability to record the on-sales of this energy for the purposes of settlement. For the avoidance of doubt, the recording by the SSA on its settlement systems, of the energy transfer between the AER generators and the successful supplier(s), does not form a legal contract, and in no way negates and / or avoids the contractual arrangements, which currently exist

between the AER generators and ESB, together with the new contractual relationship between ESB and the successful supplier(s). This record of transfer is merely a record from a systems point of view and has no legal affect.

The PSO will continue to apply to the plant that make up the GVIPP capacity.

1.2 Next Steps

Following this the Final Principles Paper ESB will publish the Invitation to Bid and the GVIPP 2006/2007 Agreement on the 22nd of May 2006. These documents will apply to the two auctions proposed by the CER. The final date for the submission of bids and other required documentation (see section 2.2.1) for Auction 1 of the GVIPP 2006/2007 will be close of business (17.00) on May 24th 2006. The bids will then be evaluated in accordance with the process as set out in the Invitation to Bid. Following this evaluation, successful bidders will be notified. The final date for the submission of bids for Auction 2 of the GVIPP 2006/2007 will be close of business (17.00) on May 31st 2006. Following this evaluation, successful bidders will be notified and GVIPP 2006/2007 Agreements will be signed by ESB on June 6th2006. Following signing of GVIPP Agreements the GVIPP 2006/2007 Supply Period will commence on the 23rd of June 2006.

2 Outline of GVIPP 2006 Principles

2.1 Auction Parameters

- Two auctions will be held for the making available of GVIPP 2006/2007 power to bidders. The capacity secured by successful bidders in the first auction (Auction 1) must be used to supply customers in the domestic market, i.e., customers classed as DG1 and/or DG1 customers. The capacity secured by successful bidders in the second auction (Auction 2) may be used to supply customers from any customer category.
- The capacity to be auctioned, in 1MW lots in the GVIPP 2006/2007 auction will be obtained from existing generators contracted under AER contracts to ESB which use renewable, sustainable or alternative sources of energy ('green electricity').
- Bidders in the auctions 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. Additional requirements for bidders bidding in Auction 1 are outlined in section 2.2.1 below.
- 191MW in total will be offered under GVIPP 2006/2007. Any reduction in GVIPP capacity (i.e., AER plant whose capacity is included in the 191MW auctioned, but subsequently becomes unavailable to ESB CS) will be considered a reduction in the total MW offered. The aggregate percentage won by successful bidders in the auction process will continue to apply for the duration of the GVIPP supply period.
- Successful bidders will have an obligation under the GVIPP Agreement to purchase electricity generated by the GVIPP capacity at the proportion of the output awarded to them at auction for every trading period within the GVIPP supply period.
- The green electricity will be auctioned in lots of 1MW of the GVIPP capacity as defined above.
- The auction process will be based on competing Licensed Green Suppliers bidding for lots of 1MW of the total green capacity that will be made available

and will be made up of the defined AER contracted generators as set out above. Allocated MWs will oblige the successful bidder to purchase green electricity generated at the appropriate price during the GVIPP supply period as covered by the GVIPP Agreement.

- Allocation will be on the basis of the highest bid received at or above the reserve submitted as a flat MWh price and will be expressed as a percentage “X%” where:

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

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

For each trading period:

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

Where: $X_s \%$ = (MW won / GVIPP capacity offered)
s = 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.
- In the case that Auction 1 is oversubscribed, no person (defined to include all associations of companies, subsidiary or related undertakings) may secure more than 40% of the total capacity being auctioned in that auction round under GVIPP 2006/2007. In the case that Auction 2 is oversubscribed, no person (defined to include all associations of companies, subsidiary or related undertakings) may secure output which would result in that person securing in excess of 40% of the aggregate of the total GVIPP 2006/2007 capacity made available in all of the auction rounds in GVIPP 2006/2007 i.e., a cap of 40% of 191MW will apply.
- The duration of the GVIPP 2006/2007 supply period will be a continuous period from the date of commencement of same, i.e., 23rd of June 2006, for a period of 12 months to the 23rd of June 2007 but will cease at the commencement of the SEM whichever is earlier.
- For each MW lot, bidders will bid Best New Entrant (BNE) plus a €/MWh price (greater than or equal to zero) at the trading point. Here, the term BNE is used and not its numerical value to provide for revisions to the BNE. The BNE price is that determined and published by the Commission. Bid prices must be at the trading point. The precise form that bids must be submitted in will be set out in the Invitation to Bid.

- 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.¹
- The price bidders will pay for GVIPP energy will be based on the sum of the prevailing BNE + €/MWh that corresponds with the lowest clearing price in the relevant auction. This price will be profiled based on the profile which ESB CS purchases energy from AER generators. The profile of the price will result in a weekday price (8am to 9pm, Monday to Friday, inclusive of bank holidays) and a weekend/night price (9pm to 8am each night Monday to Sunday *and* 8am to 9pm Saturday and Sunday). The priced differential between the weekday and weekend/night prices is calculated using actual market balancing prices for 2005. This results in the following:
 - The price to be paid by successful bidders for GVIPP output secured during the GVIPP 2006/2007 auction process for weekday as defined above will be the prevailing BNE + €/MWh price that equates to the lowest clearing price in the relevant auction plus 14.71€/MWh; *and*
 - The price to be paid by successful bidders for GVIPP output secured during the GVIPP 2006/2007 auction process for weekend/night as defined above will be the prevailing BNE + €/MWh price that equates to the lowest clearing price in the relevant auction minus 9.29€/MWh.
- The above prices will apply for the duration of the GVIPP 2006/2007 supply period.

2.2 Auction Process

- The process for the making available of the GVIPP 2006/2007 capacity will involve two sequential auctions.
- The auctions will be conducted by the Commission to ensure non-discrimination, fairness and transparency.
- The Commission will advise ESB of the outcome of its evaluation of bids received and give details of recommended successful bidders. In addition, the clearing price will be made known to ESB at this stage. ESB will confirm the above and, following this, the Commission will notify bidders of the outcome of their bids. The above process will occur after Auction 1 and Auction 2.
- The Commission will notify all bidders of the auction clearing prices. The Commission reserves the right to publish the outcome of the GVIPP auction at a

¹ Please refer to Best New Entrant 2006: A Decision and Response Paper by the Commission for Energy Regulation, CER/05/110, 26th July 2005

later date, including the names of successful bidders, the number of options allocated to them and the auction clearing prices.

- 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 regarding the auction process. In addition, the Commission will be responsible for the conduct of the auctions 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 where applicable, once bidders fulfil the defined bid criteria and the bid is valid. Where the auction is oversubscribed and demand for capacity units is at the same price, i.e. the price, and exceeds the number of lots remaining the remaining units will be allocated on a pro-rata basis.
- 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 auctions 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.

2.2.1 Auction 1

- Auction 1 will be for 40MW of the total GVIPP 2006/2007 capacity available on the date of the auction (191MW). Output from this 40MW purchased in Auction 1 must only be used to serve domestic customers where such customers are defined as customers classed as DG1 and/or DG2 customers.
- Bidders bidding in Auction 1 shall provide a written and signed statement to the Commission with their bids confirming that the energy purchased from the capacity awarded in Auction 1 will be used solely to serve the above class of customers for the duration of the GVIPP 2006/2007 supply period as defined above. This is a condition precedent of Auction 1. Bids submitted in relation to

Auction 1 will be deemed invalid if unaccompanied by this statement. In addition, the Commission will require successful bidders in Auction 1 to provide written evidence to the Commission regarding on going compliance with the above every three months from the date of the commencement of the GVIPP 2006/2007 supply period to the end of the GVIPP 2006/2007 supply period. The Commission may require additional information to that provided here and/or may require that the information be provided in a different form for verification purposes from time to time. Suppliers who fail to provide these written statements to the Commission as above, and/or whom the Commission deems are not supplying domestic customers as required with energy purchased under Auction 1 will be deemed to be non-compliant with terms of Auction 1 and appropriate action will be taken.

- Bids in Auction 1 will be deemed to be valid and awarded, subject to the application of a cap as outlined below, based on the following criteria:
 - Bidders bidding in Auction 1 shall provide a written and signed statement to the Commission with their bids confirming that the energy purchased from the capacity awarded in Auction 1 will be used solely to serve the above class of customers for the duration of the GVIPP 2006/2007 supply period as defined above.
 - All bids must be as outlined in section 2.1 and in the format provided for in the GVIPP Invitation to Bid.
 - Higher bids will be awarded first.
- All valid bids will be ranked in order of €/MWh bid from highest to lowest.
- The lowest clearing price above or at the reserve will be determined and MW lots awarded.
- In the event that Auction 1 is under subscribed, i.e., where all valid bids have been awarded and MW lots remain that have not been awarded under the above process, the price paid for output associated with MW lots awarded will be the lowest bid price associated with valid and awarded bid(s).
- In the event that Auction 1 is under subscribed as above, the remaining MW lots will be added to the 151MW available in Auction 2.
- In the event that Auction 1 is over subscribed, i.e., the demand for MW lots at the same price (the lowest clearing price at or above the reserve price) exceeds the number of lots available, a cap of 40% of the total MW lots on offer in Auction 1 will be applied to each person. Valid bids that, if awarded, would result in a person being awarded in excess of 40% of the total MW lots on offer in Auction 1 will be disqualified. The price paid for output associated with MW lots awarded will be the lowest bid price associated with a valid and awarded bid(s).
- In the event that Auction 1 is oversubscribed as above, the remaining MW lots will be allocated on a pro-rata basis among bidders with valid bids that have

not been disqualified as a result of the application of the cap at the clearing price in Auction 1.

- Information regarding successful bids under Auction 1 will be provided by the Commission to each person who has a successful bid in that auction. For the avoidance of doubt, no such person will receive information regarding the number of successful bids awarded to other persons at this stage in the auction process. Information provided will include the number of successful bids awarded to that person and the clearing price.

2.2.2 Auction 2

- Auction 2 will be for 151MW plus any MW not awarded in Auction 1 in accordance with section 2.2.1. The total MW lots not awarded in Auction 1 and the resulting total MW lots available in Auction 2 will be published by the Commission following completion of Auction 1 in advance of the date for submission of bids for Auction 2. The above calculation is based on successful bids and not dependent on the execution of GVIPP Agreements by successful bidders in Auction 1, those Agreements being taken to be binding.
- 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.
- Suppliers may bid into Auction 2 even if they did bid into Auction 1.
- Bids in Auction 2 will be deemed to be valid and awarded based on the following criteria:
 - All bids must be as outlined in section 2.1 and in the format provided for in the GVIPP Invitation to Bid
 - Higher bids will be awarded first
- All valid bids will be ranked in order of €/MWh bid from highest to lowest and awarded until all capacity is met.
- The lowest clearing price at or above the reserve will be determined and MW lots awarded.
- In the event that Auction 2 is under subscribed, i.e., where all valid bids have been awarded and MW lots remain that have not been awarded under the above process, the price paid for output associated with MW lots awarded will be the lowest bid price associated with a valid and awarded bid(s).

- In the event that Auction 2 is over subscribed, i.e., the demand for MW lots at the same price (the lowest clearing price at or above the reserve price) exceeds the number of lots remaining in Auction 2, a cap of 40% of the total GVIPP 2006/2007 capacity in MW lots as defined in section 2.1 will be applied to each person. Valid bids in Auction 2 that, if awarded, would result in a person being awarded in excess of 40% of the total GVIPP 2006/2007 capacity as defined in section 2.1 MW lots will be disqualified. The above calculation in relation to the cap takes into account successful bids awarded to each person in Auction 1. For the avoidance of doubt this is not dependent on the execution of GVIPP Agreements in relation to Auction 1, such Agreements being taken as binding. The price paid for output in Auction 2 associated with MW lots awarded will be the lowest clearing bid price associated with a valid and awarded bid(s) in Auction 2.
- In the event that Auction 2 is over subscribed as above, the remaining MW lots will be allocated on a pro-rata basis among bidders with valid bids that have not been disqualified as a result of the application of the cap at the clearing price in Auction 2.
- Information regard successful bids under Auction 2 will be provided by the Commission to each person who has a successful bid in that auction. For the avoidance of doubt, no such person will receive information regarding the number of successful bids awarded to other persons at this stage in the auction process. Information provided will include the number of successful bids awarded to that person and the clearing price.

2.3 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 of 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 Settlement System Administrator (the SSA) for the purposes of disclosure.
- Successful bidders in the GVIPP auction may include the GVIPP energy purchases in the calculation of their green balance.

- Settlement of GVIPP energy purchases will take place in accordance with the wholesale market settlement timelines as published by the SSA from time to time.

2.4 Auction Process Timelines

Below is a table outlining the key dates in the GVIPP 2006/2007 auction process:

6/03/06	Draft Principles Paper
7/04/06	Final Principles Paper/ CER Responses
22/05/06	ITB/GVIPP Agreements
24/05/06	Submission of Bids Auction 1
29/05/06	ESB confirm Bids Auction 1
29/05/06	Notification of successful parties Auction 1
31/05/06	Submission of Bids Auction 2
06/06/06	ESB confirm Bids Auction 2, GVIPP Agreements Signed by ESB
06/06/06	Notification of successful parties Auction 2
23/06/06	GVIPP Agreement Supply Period commences
23/06/07	GVIPP Agreement Supply Period ends

2.5
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2.5.1 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. 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 2006/2007 auction will be offset against the PSO levy. This is in accordance with paragraphs 3.20 and 5.4 of the Notification.²

2.5.2 GVIPP 2006/2007 Agreement

The GVIPP 2006/2007 Agreement will provide information on the following:

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

GVIPP 2006/2007 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 process.

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

²<http://www.dcmnr.gov.ie/NR/rdonlyres/7DFE9454-5D02-4DFA-92FF-AA8C279BEBE2/0/PSONotificationtoBxl201100publishedonwebMarch2002.doc>