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Investigation into Bidding Practices of Certain Generators under SEM

The investigation into the bidding practices of a number of generators, which was instigated by the SEM Committee following complaints by Viridian Power and Premier Power Limited (PPL) has not, as far as I am aware, yet reached a formal conclusion. While the Power Procurement Business (PPB) did not raise a formal complaint, we had raised our concerns informally with the Market Monitor on 16 November, and by email dated 19 November 2007 (email attached for information). We did not take this forward to a formal complaint since we knew PPL had commissioned KEMA to produce an independent report and having seen a draft of that report, it had not omitted anything we would have identified as concerns.

PPB are continuing to monitor market pricing as we are continuing to experience unfavourable scheduling of the Ballylumford generating units in the market which we consider to be, in some measure, as a consequence of the bidding behaviour of others. While it could be deemed reasonable to adopt the interpretation of the bidding principles that has been employed by these other generators, PPL and PPB have sought to remain faithful to our interpretation of the bidding principles, pending the outcome of the investigation. However, this means that until the investigation is concluded, we continue to be disadvantaged in the market. It is therefore imperative that the investigation is concluded with some urgency to minimise the duration of the market distortion and to avoid ongoing revenue leakage and damage to confidence in the operation of the market.

Updated Analysis

I attach an update to our November analysis which uses the data for 16 January 2008. It clearly shows that there has been little change in the relative bidding behaviour and prices of the CCGT generating units and the coal fired units (i.e. those units competing for baseload).

Poolbeg

I would draw to your attention the Poolbeg bids. This plant is virtually identical to the large Ballylumford CCGT unit but is being bid into the market in a unique manner. In overall bid terms, the inferred efficiency is not out of line with what would be expected (without having visibility of the precise variable O&M costs). However, the structure of the Poolbeg commercial bids, comprising very high start-up costs of £93k (with no differentiation across heat states), with a high no-load cost, and with low incremental costs (relative to most of the other CCGT units) means that the Poolbeg unit is scheduled more favourably than would be reasonably expected for the overall efficiency of the unit.

The combination of high start-up and no-load costs means it is more economic for the unit commitment algorithm to keep the unit on-load. Once scheduled, the low incremental bid prices thereafter means it is scheduled at high loads pushing the burden of any load following onto the other CCGT units. This is relevant because the SEM bidding structure is unreflective of actual CCGT efficiency curves (i.e. bids must be monotonically increasing whereas CCGT costs generally decrease as load increases) and hence it is more beneficial to operate at full load than at part load.

A further feature is that while the unit is of the same design as the Ballylumford unit (2 Gas Turbines, 2 Heat Recovery Steam Generators, and 1 steam turbine) the Poolbeg unit is registered as a single c500MW unit under SEM whereas the equivalent Ballylumford CCGT is registered as two units. This is the more logical configuration given that each GT can be separately dispatched and the maximum load loss would normally be 1 GT plus half the Steam Turbine capacity (which I understand is how Eirgrid view the Poolbeg unit when scheduling reserve – i.e. Poolbeg is not deemed to be the largest infeed for reserve purposes). In our view, registration of Poolbeg as a single unit is not reflective of the true technical characteristics or capabilities of the unit, which can also be seen from the halving of the startup and no-load offers when one of the GT units is unavailable. It also creates an inflexibility and distorts the operation of the market, for example due to having higher minimum generation levels on the unit that is technically necessary.

Other Trends

We have also reviewed general price trends since November to track whether there is consistent movement of offer prices as fuel and CO₂ prices have changed. From this simple analysis, it is clear that a number of CCGT generators failed to recognise the change in CO₂ prices on 1 January 2008 although this appears to have been modified as the month progressed. (Dublin Bay prices increased from 10 January and while Tynagh's incremental costs changed on 1 January, their start-up and no – load costs were not modified until 16 January).

Comparing the coal units, the uplift applied to the Moneypoint prices was c€15.5/MWh whereas our offer price for Kilroot increased by more than €17/MWh. However, the KEMA validated data shows the incremental efficiency of Moneypoint to be lower than Kilroot and hence using the same CO₂ price, the cost uplift for Moneypoint should have exceeded the corresponding Kilroot uplift arising from the step increase in CO₂ prices between 31 December and 1 January. This underpricing is important as it has a bearing on unit loadings and two-shifting requirements. It also has a significant bearing on night-time SMPs since as a result of CCGT minimum generation inflexibilities the coal plants often set the overnight market prices.

Conclusion

I trust you find the attached update useful and again re-emphasise the need for a swift conclusion to the investigation on bidding principles such that all generators can operate on a similar basis and compete fairly and effectively. I would also urge you to include the CO₂ uplift applied by Moneypoint in your review.

I look forward to your early consideration.

Yours sincerely,



Roy Foreman

Power Procurement Manager