

**SEM Committee**  
**Market Monitoring Unit**

**Harmonised Ancillary Service Arrangements and the  
Bidding Code of Practice**

**Decision Paper and Clarification to the  
Bidding Code of Practice**

**SEM-11-055**

**05/07/2011**

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## 1. Introduction

The Market Monitoring Unit (“**MMU**”) has been alerted to an overlap in the new Harmonised Ancillary Services (“**HAS**”)<sup>1</sup> which went ‘live’ on 1 February 2010 and the generator Bidding Code of Practice<sup>2</sup> (“**BCOP**”). This overlap has been explored by a number of participants who have sought clarification from the Unit regarding the interpretation of the BCOP in relation to certain elements of HAS revenue.

A Consultation Paper (see [AIP-SEM-10-075 Consultation Paper on Harmonised Ancillary Service Arrangements and the Bidding Code of Practice](#)) was published in December 2010 seeking views from interested parties. This paper explored this issue, offered three potential policy options (describing the advantages and disadvantages of each) as well as the SEM Committee’s preferred option. The options offered were:

### 1.1 Option 1 - Treat as Variable

Under this Option, the SEM Committee would issue a Clarification stating that Variable AS benefits *must* be deducted in the build-up of Short-Run Marginal Cost (SRMC) and in Commercial Offer Data (COD). In compliment, the BNE will have only its Fixed AS revenue deducted in the formation of the pot (Variable AS revenue will be ignored).

### 1.2 Option 2 - Treat as Fixed

Under this Option, the SEM Committee would issue a Clarification stating that AS benefits *must not* be deducted or referred to in the build-up of Commercial Offer Data. In compliment, the BNE will have its total AS revenue, including aspects that vary with output (i.e. Variable elements), deducted from the annual pot size.

### 1.3 Option 3 – Do Nothing

In this Option the SEM Committee would elect not to clarify the interpretation of the BCOP with regard to variable AS payments. Generators would be free to factor in these revenues to their COD as they see fit.

## 2. Consultation

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<sup>1</sup> See [AIP-SEM-10-001 ‘Harmonised All-Island Ancillary Services Rates and Other System Charges’](#)

<sup>2</sup> See [AIP-07-430 Bidding Code of Practice](#)

13 responses were received to the Consultation Paper from:

- AES
- Bord Gáis Energy
- Eirgrid
- Endesa Ireland
- ESBI
- ESB Power Generation
- IWEA
- NIE Energy PPB
- Northern Ireland Consumer Council
- SSE Renewables
- Synergen
- Tynagh Energy Limited
- Viridian Power & Energy

Of the responses received, **three** were in favour of option 1, **nine** were in favour of option 2 and **none** were in favour of option 3<sup>3</sup>. A selection of comments received is provided below. The responses have been published in full along with this decision paper.

**AES** considers that the variable elements of HAS payments should be included in a generator's Commercial Offer Data (Option 1) with a corresponding adjustment to the BNE revenues when calculating the Annual Capacity Payment Sum.

**BG Energy** does not believe that the RAs' stated objectives are best met by option 1. For consistency purposes (both for bids and for the spirit of the BCOP), option 2 is the most appropriate option and will ensure that all of the desired objectives are met in the most transparent manner.

**Eirgrid:** It is imperative that whichever Option is chosen it must be clear for Generators in formulating their bids and also for the MMU to monitor.

**Endesa Ireland** believes that Option 2 is the best practical solution and it meets the overall objective of ensuring that Ancillary services are not 'paid twice'.

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<sup>3</sup> One of the responses did not give a clear preference to one option over another.

**ESBI** believe that the security of supply and long term interest of customers is best served by a stable and transparent energy market, and therefore support option 2.

**ESB Power Generation:** The current arrangements are already aligned with the intent of the RAs' preferred option 2 and therefore no change is necessary either in calculations or systems. ESBPB believes that in the interest of market certainty, continuity and maintaining a pragmatic approach to market rule modifications that no change is necessary to the bid structure.

**IWEA** supports Option 2 in the proposal and this option provides more certainty and transparency.

**PPB** would recommend that Option 1 be adopted by the SEMC as it treats all HAS revenues correctly and that consideration of the options for consistent application of HAS revenues by all generators be consulted upon in due course.

The **Consumer Council** would like the SEM Committee to give consideration to Option 1 given that it will prevent double-payment of any Ancillary Service element and ensure the most economic efficient outcome.

**SSE Renewables** agrees with the SEM Committee's view that of the three options presented to address the treatment of Variable AS payments in light of provisions under the BCOP, Option 2 is preferable.

Whilst **Synergen** does not, in principle, favour treating variable costs as fixed costs, they believe that in this instance the complexities inherent in Option 1 outweigh this consideration. Synergen thus support Option 2, which has the benefits of simplicity and transparency.

**Tynagh Energy Limited** supports Option 2 which would see all HAS benefits continue to be treated as fixed costs and therefore be excluded from the formation of generator Commercial Offer Data

**Viridian Power & Energy** supports the RAs' preferred option (Option 2). It is their considered view that this is the only relevant policy option in relation to the treatment of new HAS arrangements in the Bidding Code of Practice.

### **3. Decision**

Having considered the responses received to the consultation, the terms of the relevant licence condition and the Bidding Code of Practice, and based on the present structure and characteristics of the Ancillary Service revenue, **the SEM Committee has decided to pursue its preferred option (Option 2).**

This Option meets the objectives of:

- Simplicity and transparency – *The Bidding Principles will not change so there will be no more complication for new entrants (or existing players) to understand what the MMU expects of them in formulating their Commercial Offer Data.*
- Regulatory certainty
- Preventing double-payment – *Variable AS will feature as a deduction to the BNE so will not notionally be being ‘paid twice’. It is recognised that in practice the quantum of the BNE deduction will not match the quantum of the reduction in SMP that would result from Option 1, though the relative magnitudes are not known.*

#### **4. Clarification to Bidding Code of Practice**

In line with this decision, the SEM Committee issues the following clarification to the Bidding Principles within Bidding Code of Practice:

*When submitting Commercial Offer Data, generators, or parties acting on their behalf, **must not** deduct or refer to Ancillary Service benefits. When determining the Annual Capacity Payment Sum, the Best New Entrant will have its total Ancillary Service revenue, including aspects that vary with output (i.e. Variable Elements), deducted from its annual recurring fixed costs.*

The SEM Committee will continue to review Ancillary Service arrangements in the future and should there be a material change to the current arrangements, the SEM Committee may review this decision.