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14th December 2010
Colin Broomfield &
Clive Bowers

Ref: Consultation Paper on Harmonised Ancillary Service Arrangements and the Bidding Code of Practice

Dear Sirs,

Please find attached ESB International's (ESBI) response to the above consultation

Kind regards

Andrew Burke
Operations Manager, Independent Generation, ESB International

ESBI RESPONSE TO

<u>Consultation Paper on Harmonised Ancillary Service Arrangements and the Bidding Code of Practice</u>

1.1 Introduction

ESBI appreciates the opportunity to comment on this consultation paper. We have no objection to all or part of it being published by the Regulatory Authorities (RAs). This response is submitted on behalf of ESBI's SEM generation business and its NI and RoI independent supply businesses.

ESBI has carefully reviewed the options contained in the Consultation Paper.

2.1 General Comments on Consultation Process.

In light of EU and domestic policy in relation to Renewable Energy Systems, coupled with the inherent challenges introduced due to increasing levels of wind, ESBI believes that there will be increasing requirements for Ancillary Services. In tandem, clear and unambiguous signals are required by generators providing these services. All changes ultimately affect the long term nature of investment and therefore all changes to bidding codes of practice need to be considered in a holistic manner, thoroughly assessing their impact.

Our comments on the options proposed in the paper are set out below.

3.1 Option 1 – Treat as Variable

ESBI agrees that deducting AS benefits from build of Short Run Marginal Cost in COD is administratively complex, which may create future issues for MMU with regard to monitoring and transparency.

ESBI feels that introducing a mechanism where generators are encouraged to deduct variable AS benefits from SRMC & COD would detract from the HAS objective to remove any distortion caused by different payment rates. Currently, the bid offer is calculated as an addition of variable "**cost**". We consider that the possibility of deducting variable incomes does not reflect accurately the High Principles of the SEM market. This introduces uncertainty in the ability to predict response of similar plants leading to difficulties in accurately predicting income. ESBI feels absence of a stable and transparent market does not serve interests of consumers, generators and potential investors. We predict this increased complexity in bidding will require enhanced software to determine an optimal MSQ solution, and therefore an additional cost to Market Operator.

ESBI feels that lessons should be learnt from the existing TLAF process, which clearly demonstrates the complexities involved in layering loss factors with the economic dispatch. Concern over additional complexity and lack of transparency should also be borne in mind when considering future changes to HAS payments.

It follows, that if these some AS feature in the SRMC bidding principles then associated AS penalties could be included in a generator's bid. To avoid this, and to implement option 1 effectively, participants would require a set of prescriptive rules, (an almost unbundling approach to costs.) This was not the intention of initial SEM principles.

3.2 Option 2 – Treat as Fixed

Option 2 proposes that AS benefits are "*not deducted or referred to in the build up of COD*".

ESBI agrees that bidding principles must give participants latitude in formulating bids. However, in relation to services provided, option 2 creates a more transparent environment for existing and potential entrants. ESBI sees the major advantage of Option 2 is that it affords market participants the ability to more accurately predict cost and revenue and it removes any additional volatility from the market.

Option 2 states that "*in compliment, the BNE will have its total AS revenue, including all aspects that vary with output deducted from the annual pot size.*"

All AS benefits are currently deducted from BNE costs in calculation capacity pot therefore we do not believe that this will case any material economic benefit or disadvantage. ESBI believes the role of incentivising any element of HAS should be limited to the remit of ancillary services arrangements. Additionally, since HAS provides support services to the System operator, payments should be provided for primarily through HAS arrangements and not via the capacity payment mechanism or the energy market.

Contrary to what is suggested in the paper, ESBI believes this option provides an improved energy and capacity signal than alternative options.

3.3 Option 3 – Do nothing.

ESBI does not support this option and agrees that Option 3 will lead to double payment for services provided to TSOs. Similarly to option 1, this option introduces potential for distortion and skewing of costs in the build up of short run marginal costs which results in increased difficulty in predicting future energy revenues.

4.0 Conclusions

ESBI believe that the security of supply and long term interest of customers is best served by a stable and transparent energy market. For this reason we support Option 2