Harmonised Ancillary Service Arrangements and the Bidding Code of Practice

Synergen's response to SEM-10-075

1 Introduction

This paper is Synergen's response to the consultation paper SEM-10-075 published by the RAs on 12th November 2010. Synergen has no objection to this response being published.

Whilst at present ancillary service revenues are considered to be income for the BNE peaker (and are subtracted in the calculation of the €/kW/pa figure), the future nature of the CPM is presently under review by the RAs. There is thus considerable uncertainty around possible future arrangements. Some of the potential approaches outlined in SEM-10-068 would change the approach to valuing capacity away from the bottom up BNE approach (and thus the treatment of ancillary service revenues to the BNE peaker would no longer be a consideration). Other potential changes may be less central to the broad approach taken, but changes in the existing approach may require any decisions taken by the RAs regarding this consultation to be reviewed. Thus, Synergen's response is based upon the existing CPM arrangements.

2 Option 1 – Treat as variable so bids reduced to adjust for AS revenue

Synergen considers that Option 1 is most consistent with the existing market arrangements – although we do not believe that it would necessarily be efficient, given the separation regimes for energy, capacity and ancillary services in the SEM – notably the lack of energy / ancillary service co-optimisation. Further, we do not believe that generators could accurately net off assumed ancillary service revenues as, without a central co-optimisation, each generator would be required to make their own assessment of the co-optimisation decision. These separate assessments would be fiendishly complex in terms of compliance with the BCoP and could give rise to unintended consequences.

For example, consider a mid-merit generator ("GEN A") expecting to run part loaded and provide ancillary services. GEN A may legitimately envisage a material ancillary service payment, and would thus reduce their energy bid according. However, the consequence of discounting the bid could be for the plant to run more in a base load manner and thus an alternative generator ("GEN B") would be required to provide ancillary services. However, GEN B may not necessarily have factored this expectation of reward for ancillary services in their day ahead energy bid. Clearly separate bidding for ancillary services and energy within a central co-optimisation would address this problem, but this is not one of the options discussed in SEM-10-075.

In addition to the complexities set out above, we consider that the monitoring task facing the MMU would be complicated through the approach set out in Option 1.

Further, there would need to be a revision to the 2011 CPM pots – and this may also be problematic at this stage.

3 Option 2 – Treat as fixed so bids not adjusted

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

As noted earlier, Synergen does not consider that either Option 1 or Option 2 are "theoretically correct" as the SEM design is sub-optimal without the co-optimisation of energy and reserve provision.

4 Option 3 – do nothing

Synergen does not favour this option. The treatment of ancillary service revenues would be very uncertain (and non-transparent), with different parties potentially taking different approaches.