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Iain Osborne
NIAUR
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Dear Iain

Complaint Regarding the Bidding Practices of Certain SEM Generators

Premier Power Limited (PPL) wishes to make a formal complaint with regard to the apparent departure of certain generators from the principle of Cost Reflective Bidding as set out in electricity generating licences and the accompanying Bidding Code of Practice. The apparent departure is evident from inconsistency across generators, inconsistency across time and unusual bids which appear in some instances to be above actual costs and in other cases below actual costs.

The Decision paper *Market Monitoring in the SEM* (AIP/SEM/217/06) states that the Regulatory Authorities through the SEM regulatory arrangements will remain the enforcement authority with respect to transgressions in the market.

The apparent departure of certain generators from the generating licence requirement of Cost Reflective Bidding and the Bidding Code of Practice is adversely impacting the running regime of PPL's plant such that it is being aggressively cycled and two-shifted on an almost daily basis. Such aggressive cycling dramatically increases wear and tear, increases maintenance costs and ultimately reduces the life expectancy of the plant. As a result PPL has had to increase its start up costs although this may require further modification.

In order to provide independent supporting evidence for this complaint PPL engaged KEMA to undertake an analysis of generator data for weeks 1 and 2 recently published by the Market Monitoring Unit (MMU). The analysis concentrated on large CCGT and coal plant and the resulting report is enclosed for your information.

The report confirmed PPL's view of a number of inconsistencies in three key generator costs, namely start up costs, no load costs and incremental costs, submitted by similar plants both relative to each other and relative to underlying cost drivers submitted for the data validation exercise conducted by KEMA earlier this year. The key inconsistencies are summarised below.

Start Up Costs

There are massive differences in start up costs for similar plant.

Coal plant

- Moneypoint's start up costs are ten times those of Kilroot whereas the start up energy ratios submitted for the data validation exercise differed by no more than a factor of six.

CCGT plant

- Poolbeg's start up costs appear to be particularly high and neither do they appear to be reflective of the start up energy submitted for the data validation exercise. Furthermore on the 4 November Poolbeg more than doubled its already high start up costs. These then increased further on 12 November which appear to follow a dramatic increase in Huntstown 1 and 2's costs on the 11 November. Huntstown 1 then increases it costs further on 14 November. This would appear to be symptomatic of competitive bidding.

- Dublin Bay and Tynagh's start up costs remain static and do not reflect changes in spot gas prices.

- The start up costs do not appear to correlate with the start up energy requirement for example Coolkeeragh which has the second highest start up costs.

No Load Costs

The situation with no load costs is similar to that of start up costs.

- The no load costs of Huntstown 1 and 2 appear high and do not seem to be consistent with the relative no load energy requirements submitted for the data validation exercise.

- Again Poolbeg's costs increase dramatically on the 4 November and do not appear to be consistent with the relative no load energy requirements submitted in the data validation exercise.

Incremental Costs

- Dublin Bay and Coolkeeragh appear to have unduly low incremental costs which are well below the levels suggested by spot gas prices. Their costs also do not appear to follow fluctuations in spot gas prices.

- It would appear that low incremental costs and high start up costs have been contrived to ensure that certain generators are not harshly cycled.

PPL would therefore ask both you and the MMU to urgently investigate the generator costs that have been submitted to the Market Operator in order to verify whether they are consistent with the Bidding Code of Practice. PPL considers that the current situation seriously threatens the operation of its plant and the fundamental operation of the SEM.

PPL would also take the opportunity to highlight that under the Bidding Code of Practice Northern Ireland (NI) gas plant is being unfairly disadvantaged against similar plant in the Republic of Ireland (ROI) because of the different method of allocating gas transportation costs in the two jurisdictions. In NI gas transportation costs are charged on the basis of 50% capacity and 50% commodity whereas in the ROI gas transportation costs are charged 90% capacity and 10% commodity. This means that the short run marginal costs of a plant located in the ROI will be lower than the same plant located in NI thereby pushing NI plant down the merit order. The situation directly impacts PPL's plant which is all gas fired. PPL considers the situation to be anti-competitive and would request that it is also urgently addressed.

I look forward to hearing from you.

Yours sincerely

Lesley Hogg
Business Manager

Cc Tadhg O'Briain, Market Monitoring Unit Manager

Enc.