Chapter 6: Stop-Loss Limits

EIRGRID semo Single Electricity Market Operator SONI

Stop-Loss Limits – 1/5

- If a unit fails to meet an obligation to trade, this could result in large charges on the unit without any revenue to help cover the charge. This creates a strong incentive to provide energy reliably at the times of most need, but also a potential risk of the participant making a loss.
- Therefore an annual limit to how much Difference Charges can accrue on a Capacity Market Unit is imposed to limit the risk. The limit is based on a multiple of annual forecast and actual Capacity Payment revenue.
- The multiplier for the limit is determined through a parameter setting process, and for go-live its value will be 1.5, meaning that the Annual Stop-Loss Limit and maximum Non-Performance Difference Charge a Capacity Market Unit could incur in a year will be 1.5 times its Capacity Payment revenue.
- The limit only applies to the Difference Charges which can result in the Capacity Market Unit making a loss. In the day-ahead, intraday and balancing reference markets the Capacity Market Units receive revenue in the energy market for its trades which assist in paying the Difference Charge, and therefore they would not make a loss by paying this charge for those reference markets. However the Non-Performance Difference Charge is by definition a charge which applies when the unit did not trade to the level required by its obligation, and therefore it would not receive revenue to assist in paying this charge. Therefore it is this element to which to Stop-Loss Limits apply.

Stop-Loss Limits – 2/5

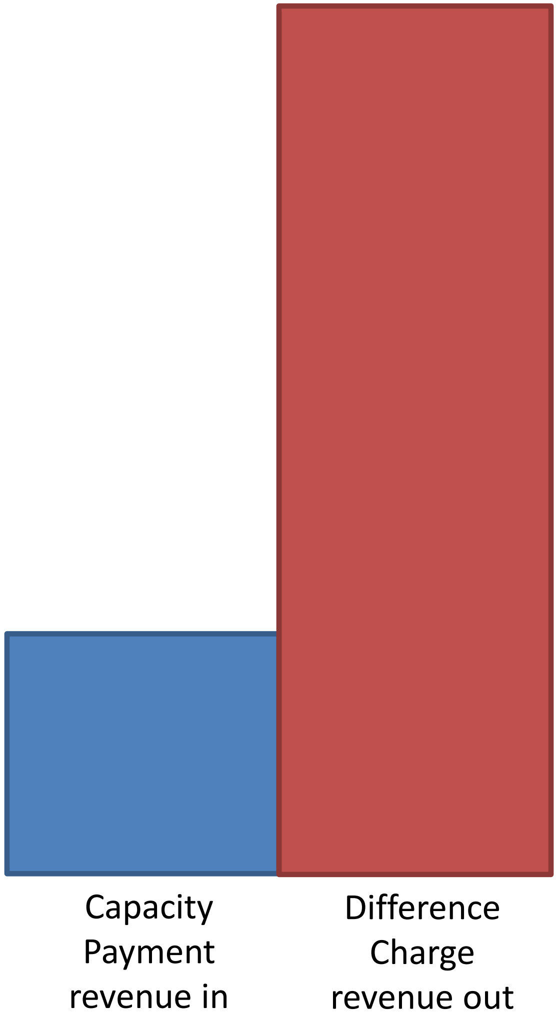
- As Difference Charges could be quite high in value, it may be possible that the entire Annual Stop-Loss Limit is reached with the first Difference Charge in the year. If this happens, then the Capacity Market Unit would no longer be subject to Non-Performance Difference Charges through not meeting their capacity obligations, and would no longer have the incentive to be reliable. Therefore a weekly limit, which is smaller than the annual limit, is also imposed in order to spread the incentive out throughout the year so that there is not a situation where the annual limit is hit and the reliability incentive is removed for the whole year in one single event.

- The multiplier for the limit is determined through a parameter setting process, and for go-live its value will be 0.75, meaning that the Billing Period Stop-Loss Limit and the maximum loss a Capacity Market Unit can make in a week will be 0.75 times its Capacity Payment revenue.

- In summary, on one side the stop loss limits are trying to ensure that participants aren't overly exposed so that the perceived risk of losses is sufficiently manageable, and on the other side it is designed to try and maintain the incentive to provide capacity reliably through energy market trades at times of most need. The following slide illustrates the impact of the Stop-Loss Limit on the net cash flow of a CMU.

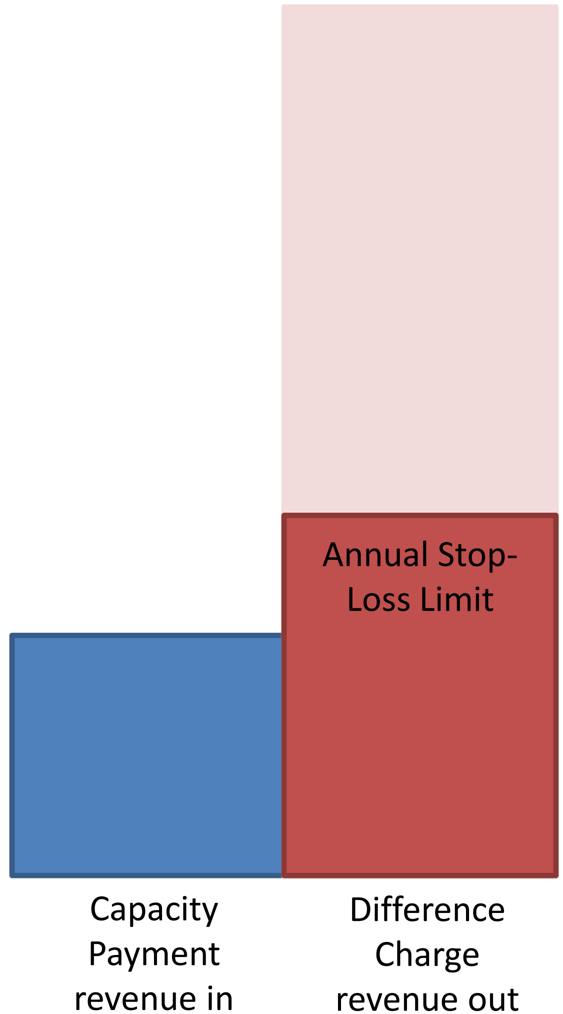
Stop-Loss Limits – 3/5

Stop-Loss Limits



Stop-Loss Limits – 4/5

Stop-Loss Limits



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Stop-Loss Limits