

Single Electricity Market

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| Final REcommendation ReportMod\_02\_19 removal of difference charges for generators during ro event periods14 March 2019 |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 15 Mar 2019 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 27 Mar 2019 | Modifications Committee Secretariat | Issued to Regulatory Authorities for final decision |

Reference Documents

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| **Document Name** |
| [Trading and Settlement Code](http://www.sem-o.com/MarketDevelopment/MarketRules/TSC.docx) |
| [Modification Proposal Form](https://www.sem-o.com/documents/market-modifications/MOD_02_19/MOD_02_19RemovalofdifferencechargesforgeneratorsduringnonROeventperiods.docx) |
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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for approval– majority vote subject to impact assessment

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| **Recommended for Approval by Majority Vote subject to Impact Assessment** |
| Sinead O’Hare | Generator Member | Approve |
| Siobhan O’Neill | Interconnector Member | Abstain |
| Philip McDaid | Supplier Member | Approve subject to Impact Assessment |
| Philip Carson | Supplier Alternate | Approve |
| Kevin Hannafin | Generator Member | Approve |
| Paraic Higgins | Generator Member | Approve subject to Impact Assessment |
| David Gascon | Generator Member | Reject |
| Robert McCarthy | DSU Alternate | Approve |
| Julie-Anne Hannon | Supplier Member (Chair) | Approve subject to Impact Assessment |

# Background

This Modification Proposal was raised by SEMO and was received by the Secretariat on the 06th February 2019. This proposal was raised and voted on at Meeting 89 on the 20th February 2019.

Calculation of the Within-day Trade Difference Charge (CDIFFCTWDΩγk) detailed in Section F.18.5.5 does not reflect the Capacity Remuneration Mechanism Detailed Design Decision Paper 1 (SEM-15-103), specifically relating to the triggering of Reliability Options (RO) and their associated difference charges.

The current implementation of this decision in the T&SC exposes holders of Reliability Options (ROs) to difference charges at all times regardless of whether or not an RO event has occurred. The proposed modification seeks to minimise the changes to algebra and central market systems by setting the appropriate within day difference charge component to zero when the Balancing Market Reference Price is below the Strike Price.

In the first CRM Decision Paper SEM-15-103, Section 3.3.96, the SEM Committee decided that ”*The RO will payout at any time when the MRP exceeds the Strike Price*”. This incentivises holders of ROs to be available to generate and provides Suppliers with an effective hedge against the reference prices, to which they are exposed in each market, being higher than the strike price.

Under the current drafting of the TSC, difference charges are calculated for a unit up to its contracted quantity (QCOB) when the trade price is higher than the strike price and not just for when the Market Reference Price (MRP) is higher than the Strike Price as was specified in the SEM Committee decision. An accepted BOA in the Balancing Market can be priced significantly higher than the Strike Price and not trigger an RO event. The legal drafting of the proposed modification corrects this deviation from the SEMC decision, and ensures that within day difference charges are only applicable during RO events, i.e. when the MRP exceeds the Strike Price.

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

Under the current drafting of the Trading and Settlement Code (TSC), RO holders are subject to difference charges in both pricing and settlement at all times, rather than only during settlement periods where the Market Reference Price exceeds the RO Strike Price as was intended. The current implementation of the difference charging algebra in Section F 18.5.5 of the Trading and Settlement Code is therefore not in agreement with the SEM committee decision as detailed in CRM Decision 1 (SEM-15-103).

A unit which is constrained on for reasons of system security which submits a BMCOP compliant complex offer above the strike price is subject to difference payments at all times. Exposure to these non-RO event difference charges would result in a unit under recovering its costs, with market participants having no control over the duration and magnitude of this loss.

Further, the licence conditions (listed below) relating to cost reflective bidding, require the bidding of genuine marginal costs, but the participant would not actually recover these costs, where they exceed the RO Strike Price, at any stage which is an uneconomic and distortionary outcome.

For licences granted in Ireland under the Electricity Regulation Act 1999, the Cost Reflective Bidding Licence Condition is:

Condition 15 of the Generation Licence granted under Section 14(1)(a);

Condition 17 of the Generation Licence granted to ESB under Section 14(1)(a);

Condition 19 of the Supply Licence granted under Section 14(1)(b); and

Condition 25 of the Public Electricity Supply Licence granted under Section 14(1)(h).

For licences granted in Northern Ireland under the Electricity (Northern Ireland) (Order)1992, the Cost Reflective Bidding Licence Condition is

Condition 17 of the Generation Licence granted under Article 10(1)(a); and

Condition 57 of the Supply Licence granted to Power NI under Article 10(1)(c).

**3B.) Impact of not Implementing a Solution**

Units dispatched for non-energy reasons in order to manage constraints and ensure security of supply will not recover the costs they incur for doing so. This could result in uneconomic outcomes and wider market distortions.

**3c.) Impact on Code Objectiv****es**

(b) to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;

(c) to facilitate the participation of electricity undertakings engaged in the generation, supply or sale of electricity in the trading arrangements under the Single Electricity Market;

(d) to promote competition in the Single Electricity Market;

(f) to ensure no undue discrimination between persons who are parties to the Code; and

(g) to promote the short-term and long-term interests of consumers of electricity on the island of Ireland with respect to price, quality, reliability, and security of supply of electricity.

# Working Group and/or Consultation

N/A

# impact on systems and resources

Change to central market systems to handle the additional “IF statement” to set the difference payment to zero when the Balancing Market MRP is less than the RO Strike Price.

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting  **89 – 20 february 2019**

The proposer explained the rationale for this Modification Proposal explaining the current implementation of this decision in the T&SC exposes holders of Reliability Options (ROs) to difference charges at all times regardless of whether or not an RO event has occurred. The proposed modification seeks to minimise the changes to algebra and central market systems by setting the appropriate within day difference charge component to zero when the Balancing Market Reference Price is below the Strike Price. The Proposer stressed that in these circumstances they are effectively running at a loss.

Observer commented that such outcomes were as intended under the current rules and were considered to be a reflection of the policy decision. RA Alternate concurred that Market Design and Policy implications could not be ignored and that this proposal would be a fundamental change to current rules. The proposer explained that under the current bidding code of practice, which is being followed, and the BMPCOP they are limited in how they can reflect their costs. Such costs also considered too high to allow trading any amount in Intra Day Continuous. The various Pricing mechanisms were discussed at length. Observer commented on how far the supplier hedge against high prices goes and if it was expected the hedge would extend this far. DSU Alternate spoke in support of the Modification Proposal stating that whilst appreciating the logic of the original design, the RO in these circumstances is not providing a hedge in the RO/ socialisation fund sense as the RO paybacks in these situations are not going to cover suppliers’ exposure to high prices at the time, rather they are going into the socialisation fund, and he agreed with the intent of the Proposal. Observer noted that from a supplier perspective you should see the socialisation fund reduce year to year on foot of such payments and that imperfections charges might also be reduced. Some noted that this is outside of the aim of the RO and the RO hedge that was intended to apply. Chair noted that majority market participants present appeared to be of the view that they did not expect the market design to be interpreted into the algebra in the way that it has been, such that RO paybacks would be required even in instances when the market-wide balancing market price did not exceed the RO strike price.

MO Member expressed concern at a two tiered playing field in relation to simple and complex offer data noting that the proposal justification appeared to focus on complex offer data but the proposed drafting did not appear to distinguish between the two. MO Member raised a concern about treating the two types of offer data differently if that is the intention and wished to clarify whether the proposer wished to make the change for both offer types.

Generator Members voiced their position that if generators are called for a system reason, they should not be penalised for this. A Supplier Member questioned the rationale of allowing a unit to run at a loss. An RA member explained the need for the CRM design to be taken into account together with other implications such as externalities.

Observer raised concerns that differing application of difference charges in the within day and imbalance markets could lead to a distorted incentive not to trade within day.

Another observer stated their understanding, from the capacity design sessions, that the current design of applying difference charges where a balancing offer exceeds the strike price is not accidental and was part of the intended design.

Through the course of a detailed and extensive discussion about possible ways of addressing the problem in question and issues implicated depending on how the problem in question could be addressed, it was agreed that the following items could inform the final decision to be taken by the RAs on the issue:

* Market Design, e.g. setting of USPC, RO strike price level, bidding rules
* Policy Decisions
* Generator’s materiality
* External Factors – Lack of short term Gas Capacity Productions in Northern Ireland and its impact on the wholesale electricity market and capacity market

Supplier Member expressed concerns over the funding of the socialisation fund and requested SEMO to confirm whether this revenue had been considered for this year’s calculation, which SEMO took an action on.

Some Members expressed concern at proceeding to a vote on something so fundamental without any wider industry involvement and without an analysis available on which to make a decision considering the number of issues noted as being implicated depending on the way the problem in question could be addressed. The Proposer was keen for this Modification Proposal to be progressed and they asked whether they could have a forum set up and led by the SEM Committee and the Regulators to discuss Market Design and Policy Implementation implications of resolving the exposure risk under discussion. Secretariat noted that such a SEMC/ RAs led forum was outside the remit of the Modifications committee process and procedures. The possibility of the Modifications Committee establishing a Working Group or Consultation, or both, was raised. Secretariat referenced Agreed Procedure 12 and advised that the Proposer’s expectation of a wide consultation covering e.g. the design and policy issues previously raised, under the remit of the Panel, may be limited to the Modification on the table. It was also expressed that the remit of any such Working Group established under the Modifications committee would be narrow in scope with the terms of reference limited to the Modification on the table. However both the possibility of Working Groups or Consultations could be further explored if required.

RA Member noted that if the Modification was not voted on today further consideration could be given to the various implications that might need consideration depending on how the problem is addressed/ resolved and these could be discussed further at a future Modifications committee meeting. RA Member emphasised that as per the process the SEM Committee remit is only to make a Final Decision based on the Final Recommendation Report on the Modification Proposal presented and, where not enough information were available to make a recommendation, they would send the proposal back for further analysis.

MO Alternate advised that it would be unusual to vote on a Modification Proposal knowing also there would be a system impact without having completed a Systems Impact Assessment and a materiality analysis.

After much deliberation it was agreed that a vote would be taken.

# Proposed Legal Drafting

As set out in Appendix 1

# LEGAL REVIEW

N/A

# IMPLEMENTATION TIMESCALE

It is proposed that this Modification implemented as the Modifications Committee have Recommended it for Approval and on a Settlement Day following receipt of the RA Decision.

# Appendix 1: Mod\_02\_19 removal of difference charges for generators during ro event periods

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| **MODIFICATION PROPOSAL FORM** |
| **Proposer***(Company)* | **Date of receipt***(assigned by Secretariat)* | **Type of Proposal***(delete as appropriate)* | **Modification Proposal ID***(assigned by Secretariat)* |
| **Power NI Power Procurement Business** | **01 February 2019** | **Standard**  | **MOD\_02\_19** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Sinéad O’Hare** |  | **Sinead.o’hare@powerni.co.uk** |
| **Modification Proposal Title** |
| **Removal of difference charges for generators during non RO event periods** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B** | F.18.5.5 | **Current SEMO website version** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| Calculation of the Within-day Trade Difference Charge (CDIFFCTWDΩγk) detailed in Section F.18.5.5 does not reflect the Capacity Remuneration Mechanism Detailed Design Decision Paper 1 (SEM-15-103), specifically relating to the triggering of Reliability Options (RO) and their associated difference charges. The current implementation of this decision in the T&SC exposes holders of Reliability Options (ROs) to difference charges at all times regardless of whether or not an RO event has occurred. The proposed modification seeks to minimise the changes to algebra and central market systems by setting the appropriate within day difference charge component to zero when the Balancing Market Reference Price is below the Strike Price. In the first CRM Decision Paper SEM-15-103, Section 3.3.96, the SEM Committee decided that ”*The RO will payout at any time when the MRP exceeds the Strike Price*”. This incentivises holders of ROs to be available to generate and provides Suppliers with an effective hedge against the reference prices, to which they are exposed in each market, being higher than the strike price. Under the current drafting of the TSC, difference charges are calculated for a unit up to its contracted quantity (QCOB) when the trade price is higher than the strike price and not just for when the Market Reference Price (MRP) is higher than the Strike Price as was specified in the SEM Committee decision. An accepted BOA in the Balancing Market can be priced significantly higher than the Strike Price and not trigger an RO event. The legal drafting of the proposed modification corrects this deviation from the SEMC decision, and ensures that within day difference charges are only applicable during RO events, i.e. when the MRP exceeds the Strike Price.  |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| F.18.5.5 The Market Operator shall calculate the Within-day Trade Difference Quantity (QDIFFCTWDΩγk), the Within-day Trade Difference Charge (CDIFFCTWDΩγk), the Intraday Tracked Difference Quantity (QDIFFTRACKIDΩγk) and the Balancing Tracked Difference Quantity (QDIFFTRACKBΩγk) for each Capacity Market Unit, Ω, which does not represent an Autoproducer Unit, in ascending order of each position, k, in the ranked set derived in accordance with paragraph F.18.5.4, in Imbalance Settlement Period, γ, as follows: *if*  *else* where:* + - * 1. is a summation over values across all positions in the ranked set prior to and including the current position, k, in the ranked set. Calculations for the first position, (k = 1), will not have a previous position, k’, and the result for this sum shall be the value in the current position, k, in the ranked set;
				2. is a summation over values across all positions in the ranked set prior to the current position, k, in the ranked set. Calculations for the first position, (k = 1), will not have a previous position, k’, and the result for this sum shall be zero;
				3. is a summation over all Generator Units, u, which comprise the Capacity Market Unit, Ω;
				4. QCOBΩγ is the Obligated Capacity Quantity for Capacity Market Unit, Ω, in Imbalance Settlement Period, γ;
				5. QDIFFDAΩγ is the Day-ahead Difference Quantity for Capacity Market Unit, Ω, in Imbalance Settlement Period, γ;
				6. QTIDuγk is the Intraday Trade Quantity for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				7. QTBuγk is the Balancing Trade Quantity for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				8. QEXuγ is the Ex-Ante Quantity for Generator Unit, u, in Imbalance Settlement Period, γ;
				9. PTIDuγk is the Intraday Trade Price associated with the Intraday Trade Quantity (QTIDuγk) for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				10. PTBuγk is the Balancing Trade Price associated with the Balancing Trade Quantity (QTBuγk) for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				11. PSTRm is the Strike Price for Month, m, which contains Imbalance Settlement Period, γ;
				12. (k – 1) is for the previous position in the ranked set; and
				13. (k = 0) is for the 0th position in the ranked set, i.e. where a calculation is being performed on the first position in the ranked set, (k = 1), for which there is no previous position.
 |
| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| Under the current drafting of the Trading and Settlement Code (TSC), RO holders are subject to difference charges in both pricing and settlement at all times, rather than only during settlement periods where the Market Reference Price exceeds the RO Strike Price as was intended. The current implementation of the difference charging algebra in Section F 18.5.5 of the Trading and Settlement Code is therefore not in agreement with the SEM committee decision as detailed in CRM Decision 1 (SEM-15-103). A unit which is constrained on for reasons of system security which submits a BMCOP compliant complex offer above the strike price is subject to difference payments at all times. Exposure to these non-RO event difference charges would result in a unit under recovering its costs, with market participants having no control over the duration and magnitude of this loss. Further, the licence conditions (listed below) relating to cost reflective bidding, require the bidding of genuine marginal costs, but the participant would not actually recover these costs, where they exceed the RO Strike Price, at any stage which is an uneconomic and distortionary outcome.For licences granted in Ireland under the Electricity Regulation Act 1999, the Cost Reflective Bidding Licence Condition is: Condition 15 of the Generation Licence granted under Section 14(1)(a); Condition 17 of the Generation Licence granted to ESB under Section 14(1)(a); Condition 19 of the Supply Licence granted under Section 14(1)(b); andCondition 25 of the Public Electricity Supply Licence granted under Section 14(1)(h). For licences granted in Northern Ireland under the Electricity (Northern Ireland) (Order)1992, the Cost Reflective Bidding Licence Condition is Condition 17 of the Generation Licence granted under Article 10(1)(a); and Condition 57 of the Supply Licence granted to Power NI under Article 10(1)(c).  |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of Part A and/or Section A.2.1.4 of Part B of the T&SC for Code Objectives)* |
| (b) to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;(c) to facilitate the participation of electricity undertakings engaged in the generation, supply or sale of electricity in the trading arrangements under the Single Electricity Market;(d) to promote competition in the Single Electricity Market;(f) to ensure no undue discrimination between persons who are parties to the Code; and(g) to promote the short-term and long-term interests of consumers of electricity on the island of Ireland with respect to price, quality, reliability, and security of supply of electricity. |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| Units dispatched for non-energy reasons in order to manage constraints and ensure security of supply will not recover the costs they incur for doing so. This could result in uneconomic outcomes and wider market distortions. |
| **Working Group***(State if Working Group considered necessary to develop proposal)* | **Impacts***(Indicate the impacts on systems, resources, processes and/or procedures; also indicate impacts on any other Market Code such as Capacity Marker Code, Grid Code, Exchange Rules etc.)* |
|  | Change to central market systems to handle the additional “IF statement” to set the difference payment to zero when the Balancing Market MRP is less than the RO Strike Price. |
| ***Please return this form to Secretariat by email to*** balancingmodifications@sem-o.com |