



Trading and Settlement Code Modifications Committee  
c/o Esther Touhey  
SEMO Modifications Committee Secretariat  
The Oval  
160 Shelbourne Rd  
Dublin 4

30 October 2019

Our Ref: F/19/778

**SEM Committee Decision for the Regulatory Authorities in relation to Mod\_10\_19 (Final Recommendation Report FRR\_10\_19)**

Dear Esther,

On 6 September 2019, the Modifications Committee submitted its Final Recommendation Report with regard to Modification Proposal Mod\_10\_19 "Removal of Negative QBOAs related to Dispatchable Priority Dispatch Units from the Imbalance Price" in accordance with Paragraph B.17.18.1 of Part B of the SEM Trading and Settlement Code (TSC).

The Modification Proposal Mod\_10\_19 was submitted to the Modifications Committee by the Single Electricity Market Operator (SEMO) on 13 June 2019. The Modification aims to resolve a mismatch between the market rules and the SEM Committee Detailed Design, specifically the Building Blocks Decision (SEM-15-064), which stated;

*'The SEM Committee view is that the decremental price for zero marginal cost generation should be zero; this is consistent with the current market. The decremental price for priority dispatch generation with non-zero production costs should be consistent with the current SEM and should be the avoided fuel cost only.'*

*'The decremental price from priority dispatch generators will be used for settlement purposes only. This will not be price setting.'*

Absent the Modification, the decremental bid prices submitted by dispatchable Priority Dispatch units are not taken into consideration by the TSOs when they are dispatching the system (as they must follow the priority dispatch hierarchy as per SEM-11-062), but these decremental bids can set the price. The Regulatory Authorities note that the implementation of these rules are helpfully set out in the TSOs' Balancing Market Principles Statement. The Regulatory Authorities are of the view that balancing energy prices should reflect the outcome of a competitive process for providing balancing energy and that the price reflects prices seen by the TSO, and not actions taken for which no prices are visible in the control centre.

The Regulatory Authorities note that the Modification seeks to implement the SEM Committee decision by applying zeros in place of the Decremental Price Quantity Pairs of such units in pricing. These units will continue to be settled on their PQ pairs. This is on the basis that where Priority Dispatch Generation is being dispatched down that the pricing signal is one which does not incentivise additional Generation.

The Regulatory Authorities note that a discussion took place at the Modifications Committees 92 and 93, on 27 June 2019 and 22 August 2019, respectively. The Regulatory Authorities note that members of the Modifications Committee raised various concerns with the proposal at both its meetings; the key points raised by members of the Committee are detailed below. The Regulatory Authorities note that the Proposer, SEMO, made presentations at both meetings setting out the background, justification and legal drafting of the Modification.

Following extensive discussion at the two meetings of the Modifications Committee, the Modification was recommended for rejection by majority of six to four Committee Members. The Regulatory Authorities note that Members who disagreed with the Modification set out at the time of voting four primary concerns with the Modification, each of which is detailed below.

Four main issues were mentioned during the voting process – interaction with the ongoing Balancing Market and Capacity Market Options Consultation; the lack of a formal impact assessment for the Modification; concerns regarding compliance with the EU Guideline on

Electricity Balancing, and concerns that replacing a price with a zero for the purpose of pricing is not the proper implementation of the SEM Committee decision.

The first of these is the interaction between the Modification and the then ongoing consultation on the Balancing Market and Capacity Market Options paper, which proposed the implementation of NIV Tagging. The SEM Committee has now made a decision on this consultation and has confirmed that no immediate action is required to implement NIV tagging but that this matter should be kept under review, with a further review scheduled for Q2 2020. The Regulatory Authorities understood the concerns raised at the meetings refer to a general concern regarding the number of changes that participants may have faced to the operation of the balancing market if both the NIV tagging changes and the negative QBOA change were made in close succession. While the Regulatory Authorities understand the concern raised by Members on this matter, it is important to stress that these issues – regarding the potential implementation of NIV tagging and the negative prices arising as a result of negative QBOAs from Dispatchable Priority Dispatch units - are unrelated. In the first instance, as illustrated in great detail in the SEM Committee Consultation, the concern related to potential issues with the application of flagging and tagging. In the case of this Modification, the Regulatory Authorities see a more fundamental issue at play, where actions are taken by the TSO on the basis of the priority dispatch hierarchy, and these actions then feed through to a sometimes extreme price event (often -€1,000) which is not in line with a previous SEM Committee Decision on this matter. As referred to in the Balancing Market and Capacity Market Options paper, the issue of negative QBOAs from dispatchable Priority Dispatch units needed to be resolved to align with the Building Blocks Decision regardless of the outcome of that consultation. Regardless of the ultimate decision on the Balancing Market and Capacity Market Options paper, the Regulatory Authorities are not persuaded by the argument relating to the overlap between the proposed changes.

Another issue mentioned by a number of members when voting to reject the Modification related to the lack of an impact assessment by SEMO on the implementation of the Modification. The Regulatory Authorities note a number of issues with regard to this concern. Firstly, there is no specific requirement for a systems impact assessment to be performed by SEMO prior to voting by the Committee on a proposed Modification. The Regulatory Authorities note that Paragraph B.17.18 of the Code states that an assessment of impact should be included in the Final Recommendation Report only, covering impact on Codes relating to the operation of the SEM,

alternative Modification Proposals where considered appropriate by the Committee, resources and cost requirements and timelines for implementation. The Regulatory Authorities also note that at Meeting 92 SEMO sought agreement from the Committee to perform a system impact assessment of the Modification, and no agreement was received.

The Regulatory Authorities are cognisant that a systems impact assessment by SEMO can be a useful element of the Committee's consideration of Modifications in the normal course of events. However, the Regulatory Authorities see no requirement in the TSC for an impact assessment to be considered a precondition by the Committee for voting. The Regulatory Authorities recognise there may be some Modifications which impact significantly on the interfaces between SEMO and participant's own systems, and such Modifications may by necessity require a higher level of detailed systems analysis. In the case of this Modification however, the Regulatory Authorities are not persuaded that the lack of a systems impact assessment at the time of the Committee's vote supports the proposed rejection of the Modification.

Another key issue raised during the discussion of the Modification, and during the voting process related to the concern that the Modification proposal of replacing a price for a negative QBOA with a price of €0, is still a price, and that the associated volumes would still influence other elements of imbalance pricing calculations. The discussion focused on the SEM Committee's intention when making the Building Blocks decision that these actions would not set the price. The Regulatory Authorities note that a number of Members, some of whom raised other principled reasons to oppose the Modification, proposed that the optimal solution to deliver the SEM Committee's decision would be for these QBOAs to be flagged out of pricing entirely. This would ensure that these actions would never set the price, and in addition, not feed into other steps in pricing. The Regulatory Authorities agree with these Members, that the preference on an enduring basis would be for a solution that flagged these actions out completely. This said, the Regulatory Authorities are of the view that on balance, the problems arising from the absence of rules to implement the SEM Committee decision on dispatchable Priority Dispatch units, and in consideration of the impact of this on imperfections, does not support a rejection of this proposal. This said, the Regulatory Authorities recognise the merits of a flagging-based solution, and request SEMO to consider whether this approach could be implemented at a future point.

A final issue raised during the discussions on this Modification relates to the compliance of this Modification with the Guideline on Electricity Balancing (EBGL). The Regulatory Authorities do not agree that this Modification should not be progressed without a detailed legal review of the EBGL. The EBGL is not applicable until after 31 December 2019, and therefore, no barriers to progressing and implementing this Modification are apparent. In the medium term, as noted at Meeting 93, a piece of work is ongoing to review all the changes that might need to be made to comply with the EBGL and this will progress in due course. The existence of the EBGL is not however, in the Regulatory Authorities' view, an obstacle to making changes to ensure compliance with SEM Committee decisions. The Regulatory Authorities are well underway with their analysis of the EBGL requirements and will engage with stakeholders, in tandem with SEMO and the TSOs, in due course.

Considering the above, and in accordance with Paragraph B.17.20 of the Code, the SEM Committee direct that a Modification, as set out in Appendix 1 of FRR\_11\_19, is implemented.

The Regulatory Authorities note that the FRR does not set out an implementation timescale for this Modification. While the Regulatory Authorities strongly consider this Modification necessary, the possibility of this coming into effect in the rules long before its implementation in systems is not an acceptable outcome. On this basis, the Regulatory Authorities have decided that this Modification should go live as soon as practicable once the associated system implementation is delivered in the next available system release. SEMO is directed to ensure that the timeline for implementation of this Modification is communicated to industry clearly prior to its implementation, including but not limited to communication at forthcoming Modifications Committee Meetings.

Yours sincerely.

A handwritten signature in blue ink, appearing to read 'Barry Hussey', is written over a horizontal line.

**Barry Hussey**

**Manager**

**Wholesale Electricity Markets**