

Single Electricity Market

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| Final REcommendation Report  Mod\_10\_19 removal of negative qboas related to dispatchable priority dispatch units from the imbalance price  06 September 2019 |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 06 September 2019 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 13 September 2019 | Modifications Committee Secretariat | Issued to Regulatory Authorities for final decision |

Reference Documents

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| --- |
| **Document Name** |
| [Trading & Settlement Code Part B](https://www.sem-o.com/rules-and-modifications/balancing-market-modifications/market-rules/TSC-Part-B.docx) |
| [Modification Proposal](https://www.sem-o.com/documents/market-modifications/MOD_10_19/Mod_10_19-DispatchablePriorityDispatch.docx) |
| [Presentation](https://www.sem-o.com/documents/market-modifications/MOD_10_19/Mod_10_19RemovalofQBOAsrelatedtodispatchableprioritydispatchunitsfromtheimbalanceprice.pptx) |
| [SEMC Decisions Review](https://www.sem-o.com/documents/market-modifications/MOD_10_19/Mod_10_19SEMCDecisionsReview.docx) |
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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for rejection – majority Vote

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| --- | --- | --- |
| **Recommended for Rejection by Majority Vote** | | |
| Jill Murray (Chair) | Supplier Alternate | Approved |
| Alan Mullane | Assetless Member | Rejected |
| William Carr | Generator Alternate | Approved |
| Joe Devlin | Generator Alternate | Rejected |
| David Gascon | Generator Alternate | Rejected |
| Kevin Hannafin | Generator Member | Rejected |
| Mark Phelan | Supplier Alternate | Rejected |
| Rochelle Broderick | Supplier Alternate | Approved |
| Robert McCarthy | DSU Alternate | Approved |
| Eamonn Boland | Supplier Alternate | Rejected |

# Background

This Modification Proposal was raised by SEMO and was received by the Secretariat on 13th June 2019. The proposal was discussed at Meeting 92 on 27th June 2019 and discussed and voted on at Meeting 93 on 22nd August 2019.

The SEM Committee decision paper “Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code” (SEM-11-062) defines the priority dispatch hierarchy which the TSOs must follow when dispatching down units. This hierarchy is as follows, with action (1.) taken first and action (2.f.) only taken last:

1. re dispatch price making generation and SO counter trading on the interconnector after Gate Closure;
2. re dispatch price taking generation:

a. Peat

b. Hybrid Plant

c. High Efficiency CHP/Biomass/Hydro

d. Windfarms, and within windfarms

i. windfarms which should be controllable but do not comply with this requirement/are not derogated from same;

ii. windfarms which are controllable;

iii. windfarms which are not required to be controllable/are derogated from this requirement/those in commissioning phase.

e. Interconnector re-dispatch;

f. Generation the dispatch down of which results in a safety issue to people arising from the operation of hydro generation stations in flooding situations.

The decremental bid prices submitted by dispatchable units with priority dispatch are not taken into consideration by the TSOs when they are dispatching the system, as they must follow the hierarchy above. Therefore the decremental bid prices submitted by dispatchable units with priority dispatch should not set the imbalance price.

This proposed change to the SEM Trading and Settlement Code ensures that the decremental bid prices submitted by dispatchable units with priority dispatch and non-zero marginal costs do not set the imbalance price and are used for settlement purposes only. This is achieved by using zero in place of the bid of such units for Imbalance Pricing purposes.

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

The decremental bid prices submitted by dispatchable units with priority dispatch and non-zero marginal costs are not taken into consideration by the TSOs when they are dispatching the system, as they must follow the hierarchy outlined in SEM-11-062. Therefore the decremental bid prices submitted by dispatchable units with priority dispatch should not set the imbalance price.

This proposed change to the SEM Trading and Settlement Code ensures that the decremental bid prices submitted by dispatchable units with priority dispatch do not set the imbalance price and are used for settlement purposes only. The proposal applies zeros in place of the Decremental Price Quantity Pairs of such units since it is appropriate that where Priority Dispatch Generation is being dispatched down that the pricing signal is one which does not incentivise additional Generation.

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

If this Modification Proposal were not to be implemented then the decremental bid prices submitted by dispatchable units with priority dispatch would continue to be able to set the imbalance price, despite the fact that the TSOs do not take these prices into consideration when dispatching the system, as they must follow the hierarchy outlined in SEM-11-062.

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

This Modification furthers the following Code Objectives:

* to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;
* to promote competition in the Single Electricity Market;
* to ensure no undue discrimination between persons who are parties to the Code; and
* 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.

# ASSESSMENT OF ALTERNATIVES

N/A

# impact on systems and resources

Impact on Imbalance Pricing Systems to be assessed.

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting **92 – 27 June 2019**

The proposer delivered a [presentation](https://www.sem-o.com/documents/market-modifications/MOD_10_19/Mod_10_19RemovalofQBOAsrelatedtodispatchableprioritydispatchunitsfromtheimbalanceprice.pptx) on this modification which was raised on the 13th of June 2019. The proposer went through the slides summarising the key changes stating that, as detailed in the SEM Committee decisions on the subject, volumes associated with decremental actions taken on Dispatchable Priority Dispatch Generator Units with non zero marginal costs should not set the Imbalance Price but this principle was not applied in the Code as currently drafted.

It was noted that the proposed approach taken was to provide for the prices associated with these decremental actions to be overwritten with zeros for the purposes of Imbalance Pricing calculations and to use the submitted values for settlement purposes only. The justification was stated as being to ensure compliance with the SEM Committee decision on the subject and fundamentally that decision had determined that it was inappropriate for such volumes to be used in setting the Imbalance Price because the scheduling and dispatch decisions for these units which result in such decremental actions were not based on the submitted prices but rather were based on the policy on maximising Priority Dispatch.

An Interconnector Member made a point that there is a wider change to the Imbalance pricing mechanism currently under consultation. With uncertainty about pricing in general and in this backdrop he was not comfortable discussing this Modification Proposal. The proposer acknowledged the difficulty in considering the proposal while the consultation was ongoing. A Generator alternate stated their view that the decremental actions in question can be the marginal action and should be used to determine the price in such circumstances. The proposer noted that the SEM Committee decision on this item had already been taken and suggested that the proposal should be considered in the context of such decisions without attempting to reopen them. They also suggested that, if the definition of the marginal unit is considered as being that unit which would serve the next increase or decrease in demand, that it could be argued that these units cannot be freely increased or decreased based on the economics of their bid due to the prescriptive policy in relation to the absolute interpretation of Priority Dispatch and could therefore be considered not to be the marginal unit.

The Proposer acknowledged that there is an open consultation and that as a result it may be best to defer this modification. They suggested that if this was the preference then it is important to do so with clarity on what basis it is being deferred both in the context of acknowledging the existing decisions on the subject and their view that the potential implementation of simple NIV tagging being considered under the consultation would not fully implement the decision in any event, but rather, would only potentially reduce instances of the Imbalance Price being set by these actions based on observations from modelling of the Imbalance Price under simple NIV tagging.

It was suggested by an generator alternate that the proposal goes against the high level design decision on reflecting the true cost of balancing the system within the Imbalance Price calculations and further stated that if a decremental action on a Dispatchable Priority Dispatch Unit with non zero marginal costs is the marginal action than it should be marginal price. They went on to state their concerns that particular SEM Committee decisions were being selectively considered by the proposer while others were being disregarded in order to support the proposal. The proposer stated that this was not their intention but that rather they were seeking to ensure that all SEMC decisions were reflected in the rules. They went on to state that they could see that if you took the view that the decisions to reflect the true cost of balancing and not to have these volumes set the price were paradoxical because these volumes represent the marginal action that you would conclude that the proposal did not align to the design decisions. They went on to state that they were not convinced that the decisions were paradoxical on this basis; however, because they were not convinced that such actions were marginal.

The RAs stated that the hierarchy outlined in SEM-11-062 did not foresee decremental bid prices for priority dispatch with non-zero costs setting the price.

The chair stated that they disagreed with the proposers’ position and agreed with the generator alternate’s position regarding the action reflecting the cost of balancing and being the marginal action, while acknowledging that it was not necessarily appropriate to seek to reopen an existing decision. A number of observers expressed views on the subject noting the need for negative pricing and that it was of growing importance with the anticipated increase in non-synchronous renewable generation going forward, they stated that they felt that the principle of trying to supress negative pricing in general was being pursued. One observer expressed concern regarding the difficulty in agreeing terms with counterparties while the Imbalance Pricing rules were uncertain due to so much proposed change while another noted that the European position on Priority Dispatch has moved on since the SEM policy decisions on the subject. A third observer noted their view that the negative prices resulting from including these volumes in Imbalance Pricing calculations were a stronger signal to Generators trade within the Ex Ante markets than the zeros that would be supplanted under the proposed Modification which was one of the supporting points made by the proposer in terms of applying zeros rather than removing the volumes from the calculation altogether.

The Proposer noted their agreement with points related to the increasing importance of negative Imbalance Pricing going forward in a general sense but not in the circumstance where they are being set by Dispatchable Priority at present in contradiction with an existing SEM Committee decision as related to the proposal in question. They noted that it was not their view that negative pricing should be supressed in a general sense.

The proposer also acknowledged the point in relation to the European view on Priority Dispatch but also that the existing policy in SEM was as described in the proposal. They also agreed with the observer that stated that the negative prices would be a stronger signal to trade Ex Ante but stated that that didn’t necessarily make it the correct signal and that they felt that the supplanted zeros struck a balance between reflecting the SEM Committee decision that these volumes should not set the price due to their Priority Dispatch scheduling while retaining an appropriate signal at times when curtailment of Priority Dispatch is necessary rather than removing the volumes altogether so that prices could be inappropriately heavily influenced by actions in the other direction.

A supplier member stated that this modification does not help with the consultation process. Some members of the committee questioned the timing of the proposal and stated that they were not comfortable taking a decision on it until RAs clarify their position in relation to the consultation. The view that the consultation shows a willingness to reconsider the design decisions was expressed. Proposer stated their view that the detailed design decisions are adhered to within the consultation and actually form the premise of the alternate approaches considered in that they are presented within the consultation paper as also fulfilling the existing design decisions as a key consideration.

The RAs stated that the timing of this modification being raised was not meant to have any interaction with the current consultation, but noted the views expressed from the members of the committee and that an update on this could be provided at the next meeting.

The proposer noted that they had not requested an impact assessment on the proposal as they did not yet have a remit from the committee to do so. They requested the committees’ guidance in that regard. The chair stated that they felt that it would not be appropriate to pursue an impact assessment at this stage and no one expressed a contrary view on this.

The proposer stated that the proposal was drafted to provide the justification from fundamental principles as opposed to just state the SEM Committee decisions and that was why the Priority Dispatch policy, rather than the SEMC papers detailing the related decisions, was included.

It was agreed that the proposal should be deferred subject to the proposer circulating details of the SEM Committee decisions they referred to and the RAs providing further clarification on their view regarding the market design discussed.

## Meeting **93 – 22 august 2019**

SEMO Member delivered an update on this proposal which was initially raised on 13th June 2019. They referred to an explanatory note that was circulated as an action from Meeting 92. SEMO Member acknowledged that there were concerns raised at the last meeting in relation to this proposal.

Assetless Member indicated their view that the proposal should be deferred until the RA consultation on the Balancing Market and Capacity Market options concluded as they felt that changes considered therein interacted with this proposal. SEMO Member stated their view that, while the consultation references the mechanism with which this proposal is concerned, proposal is not dependent on or affected by the outcome of the consultation. They noted that the intent of the proposal is to implement a previous SEM Committee (SEMC) decision and that the consultation would not change that decision.

Assetless Member stated that they believe that the proposal contravenes EU law as it pertains to Priority Dispatch which is treated differently in the EU document Electricity Balancing Guidelines and as such the SEMC past decision might be obsolete and should need a full legal review to ensure compliance with more up to date higher legislation. Assetless Member also stated that this Modification goes against the principle of reflecting the cost of balancing the system as the Priority Dispatch bids in question correctly reflect this cost and should not be removed. RA Member indicated that in their view the proposal does not contravene EU Law (which is being separately legally examined in its fullness) and that the Priority Dispatch bids do not reflect the cost of balancing the system since the related balancing actions are not taken, by the TSO, based on those bids due to the absolute interpretation of Priority Dispatch. SEMO Member indicated that they felt that any legal considerations were likely to have been considered at the time of the SEMC decision on the matter.

Assetless Member and SEMO Member indicated contrary views on whether or not decremental actions on Priority Dispatch could be considered the marginal action in all cases. The Assetless Member indicated that they felt that they should be considered the marginal action due to being the action the TSO took to balance the system at the margins. The SEMO Member indicated that they felt that they should not be considered marginal action, since they cannot be freely reduced further to meet a decrease in demand due to the absolute interpretation of Priority Dispatch and due to the initial dispatch of the units similarly being as a result of Priority Dispatch status.

Assetless Alternate indicated concerns that the proposal would have an adverse impact for Dispatchable Priority Dispatch Units in Settlement due to large negative prices from simple offers not applying to Settlement of decremental actions where they are not used to set the price. SEMO Member indicated that they weren’t aware of such an adverse impact since the intention was to still use the submitted offer data in Settlement so that the units should receive the better of the Imbalance Price or the submitted offer. RA Member confirmed that this was their expectation also. Assetless Alternate indicated that they had queried an example of an apparent instance of such an adverse impact (where a Dispatchable Priority Dispatch Unit had not settled on their more beneficial simple offer when the Imbalance Price was less beneficial) with SEMO and SEMO had confirmed that the Settlement outcome had been correct in line with the rules. After a brief recess where SEMO investigated the query referenced by the Assetless Member SEMO clarified that this query referenced an instance where complex bid offer data applied rather than simple bid offer data due to the unit being flagged in the period in question and that this was correctly in line with the design intent. They further clarified that where simple offer data applies and this is more beneficial than the Imbalance Price, this is what it would be used in settlement via Discount Charges so that they did not feel that the example cited was a logical justification for opposing the proposal as a result.

There was a discussion centred on the detail of the SEMC decision under consideration with some committee members indicating that they felt that the proposal didn’t fully reflect the detail of the decision in that it replaces the relevant impact with a zero price rather than removing it from the pricing calculation altogether. SEMO Member indicated that they felt that the proposal did implement the decision since they felt that decision centred around the submitted prices not setting the price. They noted that the alternative of removing the volume from the price rather than supplanting zeros was considered but was not brought forward because they felt that the zeros provided a better solution due to retaining the energy volumes as a signal to reduce generation in the Imbalance Price at times when Priority Dispatch is being decremented. They also acknowledged awareness that the practical consideration that the alternative would be significantly more impactful and difficult to implement was a factor.

The Chair indicated their view that, while they felt that the proposal didn’t fully implement the letter of the SEMC decision, and that a solution that removed the action from the pricing calculation (rather than applying zeros) was a more pure implementation of the decision; they did feel that the proposal brought the design closer to the decision. They stated their view that the impact on imperfection costs should not be disregarded and that they felt that the committee should not ignore it and they acknowledged that the alternative would be a more impactful solution that would likely take longer. Chair also commented that in order to advance this proposal, if members thought it was not right to proceed to a vote, they should propose valid alternative. The RA Member also stated their belief that the complete removal of Priority Dispatch would probably take significantly longer to implement, but they were of the view that the current proposal did implement the decision as intended.

SEMO noted that while there wasn’t a full impact assessment available they had an informal indication that it should be achievable without being a significant change to the systems. Some members discussed concern with voting without an official impact assessment while others noted that this had happened previously where deemed appropriate in order to expedite changes efficiently where the impact was anticipated as being low and whereby the RAs took account of the Impact assessment in their decision instead. SEMO Member noted that they had requested the committee’s direction to request an official impact assessment at the previous meeting and this was not available because the committee had declined such request.

# Proposed Legal Drafting

As set out in Appendix 1

# LEGAL REVIEW

N/A

# IMPLEMENTATION TIMESCALE

N/A

# Appendix 1: Mod\_10\_19 Removal of Negative QBOAs related to Dispatchable priority dispatch units from the imbalance price

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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)* |
| **SEMO** | **13 June 2019** | | **Standard** | | **MOD\_10\_19** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **Chris Goodman** | |  | | **Christopher.Goodman@sem-o.com** | |
| **Modification Proposal Title** | | | | | |
| **Removal of negative QBOAs related to dispatchable priority dispatch units from the imbalance price** | | | | | |
| **Documents affected**  *(delete as appropriate)* | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **T&SC Part B** | | **Part B Section D New Paragraph D.4.4.12** | | **Version 21** | |
| **Explanation of Proposed Change**  *(mandatory by originator)* | | | | | |
| The SEM Committee decision paper “Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code” (SEM-11-062) defines the priority dispatch hierarchy which the TSOs must follow when dispatching down units. This hierarchy is as follows, with action (1.) taken first and action (2.f.) only taken last:   1. re dispatch price making generation and SO counter trading on the interconnector after Gate Closure; 2. re dispatch price taking generation:   a. Peat  b. Hybrid Plant  c. High Efficiency CHP/Biomass/Hydro  d. Windfarms, and within windfarms  i. windfarms which should be controllable but do not comply with this requirement/are not derogated from same;  ii. windfarms which are controllable;  iii. windfarms which are not required to be controllable/are derogated from this requirement/those in commissioning phase.  e. Interconnector re-dispatch;  f. Generation the dispatch down of which results in a safety issue to people arising from the operation of hydro generation stations in flooding situations.  The decremental bid prices submitted by dispatchable units with priority dispatch are not taken into consideration by the TSOs when they are dispatching the system, as they must follow the hierarchy above. Therefore the decremental bid prices submitted by dispatchable units with priority dispatch should not set the imbalance price.  This proposed change to the SEM Trading and Settlement Code ensures that the decremental bid prices submitted by dispatchable units with priority dispatch and non-zero marginal costs do not set the imbalance price and are used for settlement purposes only. This is achieved by using zero in place of the bid of such units for Imbalance Pricing purposes. | | | | | |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* | | | | | |
| Trading and Settlement Code Part B  D.4.4.12 Where a Generator Unit is Dispatchable, has Priority Dispatch and has non-zero marginal costs, each Price corresponding to a Quantity in a set of Decremental Price Quantity Pairs in respect of this Generator Unit shall be set to zero by the Market Operator for the purposes of the Imbalance Pricing calculations detailed in Section E. For the avoidance of doubt, the submitted values will be used for the calculation of Commercial Offer Data for Bid Offer Acceptances in section F.3 for the determination of Settlement Payments, Settlement Charges, Capacity Payments, Capacity Charges as detailed in Section F from Section F.5 onwards and these Price values shall be deemed to be zero for the calculation of Commercial Offer Data for Bid Offer Acceptances in section F.3 for use in Imbalance Pricing Calculations in Section E.        6. 3. 2. 1. The Market Operator shall, for each Generator Unit, u, and for each Period, h, derive, from the individual sets of Incremental and Decremental Price Quantity Pairs submitted by each Participant through its Commercial Offer Data in accordance with Chapter D and adjusted by the Market Operator in accordance with paragraphsD.4.4.6, D.4.4.7 and D.4.4.12 a set of Price Quantity Pairs for each set of Complex Bid Offer Data or Simple Bid Offer Data (as applicable), comprising a single set of Quantities each having two prices applicable (an Incremental Price and a Decremental Price), as follows:             1. The Quantities (quih) for the single set of Price Quantity Pairs shall be the Quantities in each set of Incremental and Decremental Price Quantity Pairs submitted by the Participant and processed by the Market Operator, ranked in order of increasing Quantity value, and assigned in this order a Band, i. For positive Quantity values, the Band, i, shall increase from zero with every Quantity increasing from zero. For negative Quantity values, the Band, i, shall decrease from zero with every Quantity decreasing from zero. For Quantities equal to zero, the Band, i, shall be zero; and             2. The Incremental Price (PINCuih) for the Quantity (quih) in the single set of Price Quantity Pairs shall be the Price from the set of Incremental Price Quantity Pairs applicable at that Quantity. The Decremental Price (PDECuih) for the Quantity (quih) in the single set of Price Quantity Pairs shall be the Price from the set of Decremental Price Quantity Pairs applicable at that Quantity. | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| The decremental bid prices submitted by dispatchable units with priority dispatch and non-zero marginal costs are not taken into consideration by the TSOs when they are dispatching the system, as they must follow the hierarchy outlined in SEM-11-062. Therefore the decremental bid prices submitted by dispatchable units with priority dispatch should not set the imbalance price.  This proposed change to the SEM Trading and Settlement Code ensures that the decremental bid prices submitted by dispatchable units with priority dispatch do not set the imbalance price and are used for settlement purposes only. The proposal applies zeros in place of the Decremental Price Quantity Pairs of such units since it is appropriate that where Priority Dispatch Generation is being dispatched down that the pricing signal is one which does not incentivise additional Generation. | | | | | |
| **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)* | | | | | |
| This Modification furthers the following Code Objectives:   * to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner; * to promote competition in the Single Electricity Market; * to ensure no undue discrimination between persons who are parties to the Code; and * 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)* | | | | | |
| If this Modification Proposal were not to be implemented then the decremental bid prices submitted by dispatchable units with priority dispatch would continue to be able to set the imbalance price, despite the fact that the TSOs do not take these prices into consideration when dispatching the system, as they must follow the hierarchy outlined in SEM-11-062. | | | | | |
| **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.)* | | |
| Not required | | | Impact on Imbalance Pricing Systems to be Assessed | | |
| ***Please return this form to Secretariat by email to*** [balancingmodifications@sem-o.com](mailto:balancingmodifications@sem-o.com) | | | | | |