**Extracts from relevant SEMC decisions and papers regarding the treatment of Priority Dispatch for consideration by the Modifications Committee in the context of Mod\_10\_19:**

[**SEM-11-062 Principles of Dispatch and the Design of the Market Schedule in the Trading and Settlement Code**](https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-11-062%20Principles%20of%20Dispatch%20and%20the%20Design%20of%20the%20Market%20Schedule%20in%20the%20Trading%20and%20Settlement%20Code%20%20SEM%20Committee%20Decision%20Paper%20.pdf)**:**

**This defines the priority dispatch hierarchy which the TSOs must follow when dispatching down units. Decremental bid prices submitted by dispatchable units with priority dispatch are not taken into consideration by the TSOs when they are dispatching down the system as they must follow the hierarchy set out in the Decision Paper.**

*The hierarchy is as follows:*

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.*

[**SEM-15-064 ETA Detailed Design Building Blocks Decision Paper**](https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-15-064%20I-SEM%20ETA%20Markets%20Building%20Blocks%20Decision%20Papers.pdf)**:**

**On pages 5/6 of the Decision Paper, within the Executive Summary, the approach to implementing Priority Dispatch in the revised SEM is set out, including the following provisions;**

*There was general support for the “revised approach” and a consensus that Priority Dispatch was relevant only to the balancing market. A number of respondents also noted that Priority Dispatch should not be able to set the imbalance price given that it is price-taking generation. A number of respondents stated that Priority Dispatch units should not be exposed to negative imbalance prices, although one respondent disagreed arguing that this would be contrary to its status as a price taker. There were only limited responses on Absolute Priority Dispatch, although those who addressed the issue outlined that a strict interpretation should be maintained.*

*Having considered the responses, the SEM Committee confirms that the current policy for Priority Dispatch will remain in I-SEM. The implementation will be only relevant in the BM, where the concept of price-making and price-taking generation shall be maintained whereby Priority Dispatch generation will be price-taker. This means that a price taker will:*

*(a) be run at its FPN (for wind, to its maximum availability insofar as the safe secure operation of the system allows),*

*(b) be settled at the imbalance price for any volumes not sold ex-ante and,*

*(c) not be able to set the imbalance price with its priority dispatch volume.*

*The approach to implementing Priority Dispatch in I-SEM will be as outlined in the revised proposal. Further, the SEM Committee also considers that:*

* *“For non-dispatchable generation, the final physical notification will be the availability of the generation unit. This price taking volume will not set the price.*
* *The incremental volume submitted by dispatchable generators will not have priority dispatch status and will be treated like any other volume in the BM.*
* *The decremental price from priority dispatch generators will be used for settlement purposes only. This will not be price setting.*
* *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”*

**Section 5 further details the treatment of Priority Dispatch as follows:**

**Section 5.2.2 –** “*Regarding the revised approach, the SEM Committee is not of the opinion that this allows for Priority Dispatch to be both price making and price taking simultaneously as raised by some respondents. The FPN will represent the volume of generation that will be price taking. The incremental offers will be for a volume that will not be price taking and will be utilised based on its place in the merit order. While the decremental bid price is related to the price taking volume, it will not be considered by the TSOs in dispatch and therefore this volume shall remain price taking. Rather, this decremental bid offer is used in settlement such that if the participant is dispatched down for part of its Priority Dispatch volume it will pay back its avoided costs (assuming that this decremental price for priority dispatch generation must be cost reflective).*

*It is likely that only dispatchable plants with non-zero marginal costs would wish to avail of the provision to submit an FPN lower than its maximum available output. For a generator to submit an FPN, the generator will need to have the same systems in place as any other dispatchable plant. In the case of a wind generator, they would need to have the systems in place to submit an FPN to the TSOs and the ability to accept and follow a dispatch instruction based on the FPN.”*

**Section 5.2.2 –** *“Lastly, the SEM Committee agrees that Priority Dispatch generation should not be able to set the imbalance price. However, it notes that Priority Dispatch generation will influence the price through the calculation of the net imbalance volume in imbalance pricing as is the case in the current arrangements as price taking generation is netted against demand.”*

**Section 5.2.3 -** “*Under the approach set out above, the decremental price from priority dispatch generators will be used for settlement purposes only. This decremental price will represent the price that the unit will buy back power in the event that they must be turned down. This will not be price setting.”*

**Section 5.2.3 –** “*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. This may need to be included as a licence conditions in priority dispatch generator licences and will be further considered within the review of generation licences for ISEM.*”

[**SEM-17-024 – Energy Trading Arrangements Trading and Settlement Code Amendments Decision Paper:**](https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-17-024%20Trading%20and%20Settlement%20Code%20Amendments%20Decision%20Paper_0.pdf)

**Page 26 states;** “*The SEM Committee notes the comment from one respondent that it is unclear whether or not actions taken on non-priority dispatch units to accommodate priority dispatch will be flagged. Based on the rules set out, units will be flagged where they are bound by operational or unit constraints. As priority dispatch is not an operational or unit constraint, it will not result in a unit being flagged. If the priority dispatch unit is scheduled to its availability, it will be non-marginal flagged and the unit that is dispatched down to accommodate the priority dispatch unit will be the price setting unit. If, on the other hand, units are dispatched down to their Minimum Stable Generation, which necessitates a small amount of curtailment to maintain a secure system, the units at their Minimum Stable Generation will be flagged and the curtailed priority dispatch will be the price setting unit.*

*Moreover, the proposed methodology for determining System Operator and Non-Marginal flags will provide further detail on the Flagging process.”*

**Aside - Please note that this Extract is in the context of a response to a question from a consultation respondent on the treatment within the Trading and Settlement Code which correctly identifies a scenario in the current drafting where Priority Dispatch will be the price setting unit contrary to the intention of the Detailed Design Building Blocks decision as described above. This contradiction illustrates that the detailed design decision was not implemented as intended during the Trading and Settlement Code Amendments process which is the issue that the proposed Modification seeks to address. This was further acknowledged in the Balancing Market and Capacity Market Options Consultations Paper per the extract below.**

[**SEM-19-024 Balancing Market and Capacity market Options Consultation Paper:**](https://www.semcommittee.com/sites/semc/files/media-files/SEM-19-024%20Balancing%20Market%20and%20Capacity%20Market%20Options%20Consultation%20Paper.pdf)

**Page 8 of the Consultation Paper states the following in relation to negative prices;**

*“The SEM Committee is also concerned regarding the level of negative prices that have occurred since 1st October 2018. There have been a significant number of instances where the imbalance price has been set at a negative value by decremental bid prices submitted by a small number of units which have priority dispatch. This occurs under the current imbalance pricing methodology where all available non-priority dispatch units have been dispatched down to their Lower Operating Limit and the TSO must begin dispatching down units with priority dispatch in order to balance supply and demand, as units at their Lower Operating Limit (in the RTD Schedule) are Non-Marginally flagged. The SEM Committee is mindful that these negative prices could have significant effects on the consumer via their effect on the TSOs’ Dispatch Balancing Costs (DBCs) and the PSO Levy in Ireland.”*