

Single Electricity Market

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| Final REcommendation ReportMod\_29\_18 part b schedule production cost definition18 September 2018 |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 18 September 2018 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 21 September 2018 | 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](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mod_29_18%20%20-%20Part%20B%20Schedule%20Production%20Cost%20Definition.docx) |
| [Powerpoint Presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Schedule%20Production%20Cost.pptx) |
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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for approval – majority Vote

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| **Recommended for Approval by Majority Vote**  |
| Eamonn O’Donoghue | Interconnector member | Approved |
| Cormac Daly | Generator Member | Approved |
| Sinead O’Hare | Generator Member | Rejected |
| Paraic Higgins | Generator Member | Approved |
| Jim Wynne | Supplier Member | Approved |
| Philip McDaid | Supplier Member | Approved |
| Kevin Hannafin | Generator Member | Rejected |
| William Steele (Chair) | Supplier member | Abstain |
| Robert McCarthy | DSU Alternate | Approved |

# Background

This Modification Proposal was raised by the Regulatory Authorities and was received by the Secretariat on 30 August 2018. The Modification Proposal was discussed and voted on at Meeting 86 on 6th September.

On 15 September 2017, the CRU and Utility Regulatory issued decision papers, together with the required statutory notices, which made changes to generation and supply licences in order to implement aspects of I-SEM. Amongst the changes were a new condition to implement the Capacity Market Code, and an amendment to the existing condition (referred to here as the “Cost Reflective Bidding Licence Condition”) and a new condition (referred to here as the “Balancing Market Principles Code of Practice Licence Condition”) to replace the Bidding Code of Practice (BCOP) with the Balancing Market Principles Code of Practice (BMPCOP). Two licensees appealed the decision by the CRU, following which, in July 2018, an Appeals Panel, established pursuant to Section 29 of the Electricity Regulations Act 1999, directed that the licence changes to the appellants’ licences not be made.

On 19 October 2017, having received notice of the appeal, the CRU published, “Notice to Holders of Generation Licences and Supply Licences granted under Sections 14(1) (a), 14 (1) (b) and 14 (1) (h) of the Electricity Regulation Act, 1999”, to the effect that the CRU decision (CER/17/277), together with the licence modifications set out therein, were suspended pending the decision of the Appeal Panel. This suspension still stands.

In Northern Ireland, the Utility Regulator has made the licence changes but has yet to issue directions that are necessary for the changes to take effect.

The effect of these developments is that it is unlikely by cutover that, in generation and supply licences, either the existing Cost-Reflective Bidding Licence Condition will cease to have effect or the new Balancing Market Principles Code of Practice Licence Condition will take effect.

However, paragraph 2 of the existing Cost-Reflective Bidding Licence Condition, states,

“*For the purposes of this Condition, the price component of any Commercial Offer Data shall be treated as cost-reflective only if, in relation to each relevant generation unit, the Schedule Production Cost related to that generation unit in respect of the Trading Day to which the Commercial Offer Data submitted by or on behalf of the Licensee apply is equal to the Short Run Marginal Cost related to that generation unit in respect of that Trading Day*”,

whilst paragraph 12 states,

“*’Schedule Production Cost’ has the meaning given to it in the Single Electricity Market Trading and Settlement Code*”.

Schedule Production Cost is defined in Part A of the TSC, as,

“*the implied cost incurred by a Generator Unit, as determined from the Accepted Price Quantity Pairs, No Load Costs and Start Up Costs and other relevant Commercial Offer Data and Technical Offer Data, of Output in accordance with the Market Schedule Quantity*”.

The term is not defined in Part B. Moreover, regardless of whether or not the Part A definition exists after cutover, neither Schedule Production Cost nor Market Schedule Quantity, on which it is based, will be calculated for Imbalance Settlement Periods after cutover.

Whilst one solution would be to modify the definition of Schedule Production Cost in the licences, it is possible that such changes could not be made before cutover. Hence, it is proposed that, instead, a new definition of Schedule Production Cost, not depending on Market Schedule Quantity, be incorporated in Part B.

Paragraph 3 of the Cost Reflective Bidding Licence Condition states,

“*For the purposes of paragraph 2, the Short Run Marginal Cost related to a generation [unit/set] in respect of a Trading Day is to be calculated as:*

*(a) the total costs that would be attributable to the ownership, operation and maintenance of that generation [unit/set] during that Trading Day if the generation set were operating to generate electricity during that day;*

*minus*

*(b) the total costs that would be attributable to the ownership, operation and maintenance of that generation set during that Trading Day if the generation set was not operating to generate electricity during that day,*

*the result of which calculation may be either a negative or a positive number*.”

The proposed definition is not required for any purpose in Part B of the TSC and is required solely for the purpose of the Cost Reflective Bidding Licence Condition. Thus, rather than relating the definition to a particular quantity in the TSC, i.e. some equivalent of Market Schedule Quantity, it is proposed that Schedule Production Cost refers to the quantity being contemplated by paragraph 3 of the Cost Reflective Bidding Licence Condition.

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).

The definition must recognise also that only Complex Bid Offer Data, and not Simple Bid Offer Data, is subject to control.

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

The existing Cost-Reflective Bidding Licence Condition in Generation, Supply and PES licences will be frustrated by the fact that Schedule Production Cost, as defined in Part A, cannot be calculated after cutover. The proposed Modification is intended to make the minimum change necessary such that the existing Cost Reflective Bidding Licence Condition and the existing Bidding Code of Practice can continue to be effective.

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

Paragraph 2 of the existing Cost-Reflective Bidding Licence condition will be ambiguous after cutover, as Schedule Production Cost will no longer be calculated.

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

The Bidding Code of Practice “*aims to facilitate the efficient operation of the Single Electricity Market by ensuring that:*

*• in combination … generators are appropriately compensated for making available their generation sets or units (as appropriate) and for generating electricity in the Single Electricity Market;*

*• generators cannot exercise market power in the generation of electricity on the island of Ireland or any part thereof; and*

*• the Power Procurement Business cannot exercise market power by virtue of generation sets or units contracted to it under long term power purchases agreements in Northern Ireland, in respect of which it has been appointed an Intermediary*”.

Accordingly, the objectives of the TSC that are furthered by the proposed Modification are those objectives that are furthered by the Bidding Code of Practice, namely:

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

Objective (d) is furthered by ensuring that complex data is cost-reflective and Objective (g) is furthered that costs borne by consumers of electricity are as low as possible subject to generators being able to cover their costs over the long term.

Moreover, without the proposed Modification, the meaning of the Cost Reflective Bidding Licence Condition is ambiguous. Hence the proposed Modification prevents this ambiguity and furthers the objective:

(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;

# ASSESSMENT OF ALTERNATIVES

N/A

# impact on systems and resources

N/A

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting  **86 – 6 September 2018**

The proposer delivered a [presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Schedule%20Production%20Cost.pptx) summarising the requirement for this proposal. Supplier Member suggested that this modification should have been submitted as an urgent modification.

UREGNI Observer stated that from a Market Monitoring Unit perspective they need to ensure that complex bids are bound by bidding controls and that the proposal seeks to add a definition of Schedule Production Costs to Part B of the Code in order achieve this by allowing the Bidding Code of Practice to endure. UREGNI Observer stated that In drafting the definition change it was intentionally narrowly defined to ensure that it applies to complex bid data but not simple bid data in line with the existing decision in this area.

Representatives of Bord Gáis Energy were not present at the meeting but wished to have their view stated which was read by the Chair as below;

*“Notwithstanding that, I would appreciate it if the Committee and the modification process could take on board the position of BGE with respect to Modification 29\_18. Specifically, we have engaged in a lot of bilateral discussion with our market participant colleagues on the merit of the Modification and we understand that an alternative is being proposed and progressed by SSE. BGE understand that the intent of the Modification proposed and the alternate being progressed is to ensure that the Bidding Code of Practice only applies to Complex Offer Data for non-energy actions when the new market goes live on the 1st October. This in our view is in line with the expectations of the market and the high level design of the I-SEM. Although it is regrettable that at this stage of the project programme there is still this level of uncertainty and that the process has not been as considered as we would normally expect and want, BGE supports a conclusion that enables I-SEM to go-live on the 1st October, that gives clarity and certainty to the market at the soonest possible juncture in the lead up to the go-live date and that respects the market design as we have all envisioned and expected throughout this project programme.*

*Appreciating that discussions at the meeting may bring to light new information and perspectives, at this point we would support a vote on this Modification to either implement the Modification as proposed or the alternative as being proposed by SSE if on reflection by SEMO and its legal advisors that it is appropriate and feasible to do so”*

Generator Member stated their view that the proposed approach is tantamount to a licence modification without following the procedural requirements of the 1999 Act. The Generator Member also stated that condition 15.1 of the licence still requires the application of cost reflective bidding to both simple and complex offers in the Balancing Market.. Supplier Member indicated their view that the SEM Committee had already taken a decision that the Bidding Code of Practice would apply and referenced an Information Paper they had published on the subject.

Suggested alternate drafting, which had been discussed bi-laterally between SSE and other Participants and the Regulatory Authorities, was discussed by the committee. It was noted that this drafting sought to provide for the Bidding Code of Practice applying to complex bid data only by introducing a new definition of pricing offer data to apply to both simple and complex data while amending the definition of Commercial Offer Data to apply to only complex data.

Regulatory Authorities re-iterated that their drafting was intended to apply only to complex data and indicated that they wished to proceed with their proposal as drafted (as opposed to the alternative that had been suggested by SSE) as a result.

Discussion continued with some members indicating concern that the proposal as drafted did not produce legal certainty that the application of bidding controls was to complex and not simple offer data. The Regulatory Authorities agreed to consider an action to issue a note to clarify that bidding controls would be applied only to complex data in order to give some comfort.

The abstaining Supplier Member cited the fact that the SEM Committee had already taken a decision on the subject rendered the discussion moot. Another Generator Member indicated that in their view it is important that the application to complex data only is captured in the Code.

A Generator Member suggested to alleviate the legal concerns around the modification and General Generator Licence Condition 15.1, the Regulatory Authorities could provide a direction to generator licence holders (through condition 17) that states the commercial offer data is specific to complex bids only.

A Generator Member would also like to add to the “modifications committee views” comments their disappointment with the circumventing of the Generator Licence process through T&SC modifications and that the timing of proposed modification has put participants under significant pressure to accept the modification in light of the upcoming go-live date.

# Proposed Legal Drafting

As set out in Appendix 1

# LEGAL REVIEW

N/A

# IMPLEMENTATION TIMESCALE

It is proposed that this Modification is implemented as the Modifications Committee have recommended it for approval and on a Trading Day basis following receipt of the RA Decision.

# Appendix 1: Mod\_29\_18 part b schedule production cost definition

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| **MODIFICATION PROPOSAL FORM** |
| **Proposer****CRU** | **Date of receipt***(assigned by Secretariat)* | **Type of Proposal***(delete as appropriate)* | **Modification Proposal ID***(assigned by Secretariat)* |
| **Regulatory Authorities** | **30/08/18** | **Standard** | **MOD\_29\_18** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Thomas Quinn** |  | **tquinn@cru.ie** |
| **Modification Proposal Title** |
| **Part B Schedule Production Cost Definition** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Glossary Part B** | **Definitions** | **[/]** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| On 15 September 2017, the CRU and Utility Regulatory issued decision papers, together with the required statutory notices, which made changes to generation and supply licences in order to implement aspects of I-SEM. Amongst the changes were a new condition to implement the Capacity Market Code, and an amendment to the existing condition (referred to here as the “Cost Reflective Bidding Licence Condition”) and a new condition (referred to here as the “Balancing Market Principles Code of Practice Licence Condition”) to replace the Bidding Code of Practice (BCOP) with the Balancing Market Principles Code of Practice (BMPCOP). Two licensees appealed the decision by the CRU, following which, in July 2018, an Appeals Panel, established pursuant to Section 29 of the Electricity Regulations Act 1999, directed that the licence changes to the appellants’ licences not be made. On 19 October 2017, having received notice of the appeal, the CRU published, “Notice to Holders of Generation Licences and Supply Licences granted under Sections 14(1) (a), 14 (1) (b) and 14 (1) (h) of the Electricity Regulation Act, 1999”, to the effect that the CRU decision (CER/17/277), together with the licence modifications set out therein, were suspended pending the decision of the Appeal Panel. This suspension still stands. In Northern Ireland, the Utility Regulator has made the licence changes but has yet to issue directions that are necessary for the changes to take effect. The effect of these developments is that it is unlikely by cutover that, in generation and supply licences, either the existing Cost-Reflective Bidding Licence Condition will cease to have effect or the new Balancing Market Principles Code of Practice Licence Condition will take effect. However, paragraph 2 of the existing Cost-Reflective Bidding Licence Condition, states, “*For the purposes of this Condition, the price component of any Commercial Offer Data shall be treated as cost-reflective only if, in relation to each relevant generation unit, the Schedule Production Cost related to that generation unit in respect of the Trading Day to which the Commercial Offer Data submitted by or on behalf of the Licensee apply is equal to the Short Run Marginal Cost related to that generation unit in respect of that Trading Day*”, whilst paragraph 12 states, “*’Schedule Production Cost’ has the meaning given to it in the Single Electricity Market Trading and Settlement Code*”. Schedule Production Cost is defined in Part A of the TSC, as, “*the implied cost incurred by a Generator Unit, as determined from the Accepted Price Quantity Pairs, No Load Costs and Start Up Costs and other relevant Commercial Offer Data and Technical Offer Data, of Output in accordance with the Market Schedule Quantity*”. The term is not defined in Part B. Moreover, regardless of whether or not the Part A definition exists after cutover, neither Schedule Production Cost nor Market Schedule Quantity, on which it is based, will be calculated for Imbalance Settlement Periods after cutover. Whilst one solution would be to modify the definition of Schedule Production Cost in the licences, it is possible that such changes could not be made before cutover. Hence, it is proposed that, instead, a new definition of Schedule Production Cost, not depending on Market Schedule Quantity, be incorporated in Part B. Paragraph 3 of the Cost Reflective Bidding Licence Condition states, “*For the purposes of paragraph 2, the Short Run Marginal Cost related to a generation [unit/set] in respect of a Trading Day is to be calculated as:**(a) the total costs that would be attributable to the ownership, operation and maintenance of that generation [unit/set] during that Trading Day if the generation set were operating to generate electricity during that day;**minus* *(b) the total costs that would be attributable to the ownership, operation and maintenance of that generation set during that Trading Day if the generation set was not operating to generate electricity during that day,* *the result of which calculation may be either a negative or a positive number*.”The proposed definition is not required for any purpose in Part B of the TSC and is required solely for the purpose of the Cost Reflective Bidding Licence Condition. Thus, rather than relating the definition to a particular quantity in the TSC, i.e. some equivalent of Market Schedule Quantity, it is proposed that Schedule Production Cost refers to the quantity being contemplated by paragraph 3 of the Cost Reflective Bidding Licence Condition. 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). The definition must recognise also that only Complex Bid Offer Data, and not Simple Bid Offer Data, is subject to control.  |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| Add to the table of Definitions in Part B Glossary,

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| *“Schedule Production Cost”* | *means the cost, determined by reference to the Complex Bid-Offer Data submitted for a Generator Unit, that would be incurred in relation to that Generator Unit were it to generate any such output as may be contemplated by paragraph 3 of Cost-Reflective Bidding Licence Condition;*  |

and

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| *“Cost-Reflective Bidding Licence Condition”* | *means, in respect of each participant that holds a licence granted under Section 14(1)(a), (b) or (h) of the Electricity Regulation Act 1999 or under Article 10(1)(a) or (c) of the Electricity (Northern Ireland)(Order) 1992, as the case may be:* 1. *Condition 15 of the licence granted pursuant to Section 14(1)(a) of the Electricity Regulation Act 1999,*
2. *Condition 17 of the licence granted to* [ESB] *pursuant to Section 14(1)(a) of the Electricity Regulation Act 1999,*
3. *Condition 19 of the licence granted pursuant to Section 14(1)(b)of the Electricity Regulation Act 1999,*
4. *Condition 25 of the licence granted pursuant to* [ESB] *Section 14(1)(h) of the Electricity Regulation Act 1999,*
5. *Condition 17 of the licence granted under Article 10(1)(a) of the Electricity (Northern Ireland)(Order) 1992, or*
6. *Condition 57 of the licence granted to Power NI Energy Limited under Article 10(1)(c) of the Electricity (Northern Ireland)(Order) 1992;*
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| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| The existing Cost-Reflective Bidding Licence Condition in Generation, Supply and PES licences will be frustrated by the fact that Schedule Production Cost, as defined in Part A, cannot be calculated after cutover. The proposed Modification is intended to make the minimum change necessary such that the existing Cost Reflective Bidding Licence Condition and the existing Bidding Code of Practice can continue to be effective.  |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* |
| The Bidding Code of Practice “*aims to facilitate the efficient operation of the Single Electricity Market by ensuring that:**• in combination … generators are appropriately compensated for making available their generation sets or units (as appropriate) and for generating electricity in the Single Electricity Market;**• generators cannot exercise market power in the generation of electricity on the island of Ireland or any part thereof; and**• the Power Procurement Business cannot exercise market power by virtue of generation sets or units contracted to it under long term power purchases agreements in Northern Ireland, in respect of which it has been appointed an Intermediary*”.Accordingly, the objectives of the TSC that are furthered by the proposed Modification are those objectives that are furthered by the Bidding Code of Practice, namely: (d) to promote competition in the Single Electricity Market; 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.Objective (d) is furthered by ensuring that complex data is cost-reflective and Objective (g) is furthered that costs borne by consumers of electricity are as low as possible subject to generators being able to cover their costs over the long term. Moreover, without the proposed Modification, the meaning of the Cost Reflective Bidding Licence Condition is ambiguous. Hence the proposed Modification prevents this ambiguity and furthers the objective: (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;  |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| Paragraph 2 of the existing Cost-Reflective Bidding Licence condition will be ambiguous after cutover, as Schedule Production Cost will no longer be calculated. |
| **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.)* |
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| ***Please return this form to Secretariat by email to*** ***modifications@sem-o.com*** |