



Single Electricity Market

FINAL RECOMMENDATION REPORT

**MOD_09_22 EXCLUSION OF DIFFERENCE CHARGES DURING
NON-RO EVENTS
5 DECEMBER 2022**

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Reference Documents

Document Name
Trading and Settlement Code
Mod_09_22 Exclusion of Difference Charges During Non-Ro Events
Industry Call Presentation
Industry Call Supporting Note
Industry Call minutes

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1. MODIFICATIONS COMMITTEE RECOMMENDATION

RECOMMENDED FOR APPROVAL– MAJORITY VOTE

Recommended for Approval by Majority Vote		
Bryan Hennessy	Supplier Member	Approve
Robert McCarthy	DSU Member	Approve
Ian Mullins	Supplier Member	Approve
Paraic Higgins (Chair)	Generator Member	Approve
Eamonn Boland	Renewable Generator Alternate	Approve
Cormac Fagan	Assetless Alternate	Abstain
Paul McGuckin	Flexible Participant Member	Approve
Cormac Daly	Generator Member	Approve
David Caldwell	Supplier Alternate	Approve
Brigid Reilly	Supplier Alternate	Approve
Sean McParland	Generator Alternate	Approve
Bryan Hennessy	Supplier Member	Approve

2. BACKGROUND

This Modification Proposal was raised by Tynagh Energy Limited and received by the Secretariat on the 2nd June 2022. The Proposal was raised at Meeting 111 on 16th June 2022, discussed at an Industry Call on 23rd August 2022, discussed at Meeting 112 on 6th September 2022 and voted on at Meeting 113 on the 20th October 2022.

This modification seeks to amend the manner in which Within-day Difference Charges are applied to market participants. The purpose of this modification is to implement the same changes proposed in a previous modification “Mod_02_19” which was approved by the Modifications Committee in 2019, before being rejected by the SEM Committee on the grounds that additional analysis and discussion be carried out. Tynagh considers that this rejection was on a procedural, rather than a principles basis, and that it can subsequently be reconsidered with additional discussion and analysis.

The Capacity Remuneration Mechanism Detailed Design Decision Paper 1 (SEM-15-103) implies that Within-day Difference Charges should be applied “*in all settlement periods when the MRP exceeds the Strike Price*”. Prior to making this decision, the SEM Committee consulted on the best option for setting the Market Reference Price (MRP). After assessing six different options, the SEM Committee decided to adopt a *Split Market Price* option. This means that Reliability Options will have multiple reference prices for each market (DAM, IDA, BM). The SEM-15-103 Decision Paper states that difference payments will be paid when these I-SEM reference prices exceed the Reliability Option Strike Price (“*an RO event*”).

The current drafting of the Trading and Settlement Code (TSC) means that generators are exposed to paying Difference Charges at all times, regardless of whether the reference prices exceed the Strike Price. This was discussed and approved by the Modifications Committee on 20 February 2019. Ultimately, the SEM Committee decided not to approve the modification, on the basis that further analysis and discussion are required before the modification could be implemented.

Tynagh are submitting the same algebraic changes to the TSC as proposed under Mod_02_19. However, we are proposing that a specific workshop is held in order to facilitate discussion on this modification. Additionally, Tynagh requests that the SEMO carries out analysis on the potential impact of this modification, in order to facilitate a SEM Committee decision on the modification.

We believe this modification proposal to be increasingly relevant, particularly considering the significant commodity price volatility and high gas prices which mean that conventional generators are currently exposed to a significant downside risk due to the Strike Price. If this change is implemented, a downside risk will still exist during RO Events which should incentivise capacity providers to be available and provide when generation margins are tight. Tynagh believes this is aligned with the design of the CRM.

3. 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. Due to high commodity prices and significant volatility, this means that capacity providers face significant downside risk as a result of the Strike Price.

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).

If this modification proposal is implemented, we envision that the incentive of Reliability Options, to be available at times of reduced generation margin, will still exist, but that the downside risk will be reduced.

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 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.

4. WORKING GROUP AND/OR CONSULTATION

N/A

5. IMPACT ON SYSTEMS AND RESOURCES

n/a

6. IMPACT ON OTHER CODES/DOCUMENTS

N/A

7. MODIFICATION COMMITTEE VIEWS

MODIFICATIONS MEETING 111 – 16TH JUNE 2022

The Proposer provided an update on this Modification noting that it was very similar to Mod_02_19 which was previously raised by Power NI in 2019. It was advised that the explanation for this Modification was slightly different as in recent times capacity is being exposed to difference charges. The Proposer reminded the Committee that Mod_02_19 was rejected on the grounds that there wasn't additional analysis, and, in this case, they would seek an Industry Call to facilitate further discussion.

A DSU Member stated that some Committee Members would not have been present when the Modification was last brought to the Mods Committee. They supported the Modification noting that the current issues were clear and they would like feedback from the RAs on specific elements of the proposal that required further discussion.

RA Member advised that following review of the decision letter they could confirm that indeed there was not enough discussion and analysis carried out at the time, but also the interpretation of the proposal was considered not in line with the CRM design and this would have to be fleshed out further for the proposal to progress.

The Proposer also requested assistance from SEMO in providing a materiality assessment for this change.

Secretariat assured that efforts would be made to convene a call before September.

INDUSTRY CALL – 23RD AUGUST 2022

Cormac Daly (Tynagh) presented a brief overview of the rationale for the modification and an overview of how the proposed change aligns with the CRM design.

One participant stated that they recognised what the modification was trying to achieve but queried whether this change would still be required if Mod_08_22 was approved.

Tynagh confirmed that while there may be some overlap in what the modifications are addressing, Mod_08_22 has an 18-month implementation time so a faster solution would be required. Additionally, risk exposure will always exist as long as the implementation of Strike Price and Difference Charges are not aligned with the CRM 1 Decision Paper.

A participant queried the impact of the modification on the socialisation fund.

Tynagh confirmed that the impact on the socialisation fund would be negligible, given that it will only affect instances where the BM price is below the Strike Price.

SEM-O disagreed with previous statements that this modification would be quicker to implement than Mod_08_22. SEM-O stated that the implementation of this modification would require similar system changes as Mod_08_22 and that there was no real difference between the two modifications in terms of implementation. Additionally, they confirmed their position as stated by Tynagh that they would await a vote on the modification before carrying out any system impact analysis. This was due to the resources and costs associated with carrying out this analysis. They additionally stated that materiality analysis would normally be carried out by the proposer.

One participant queried whether Tynagh intended to carry out materiality analysis.

Because people are currently not bidding above the Strike Price, it would have no effect on payments into the socialisation fund.

Next Steps

The modification had been previously deferred and will be further discussed at Mods Committee Meeting 112.

MODIFICATIONS MEETING 112 – 6TH SEPTEMBER 2022

The Proposer provided an update on this Modification noting that this was presented at Modifications Committee Meeting 111 and a recent Industry Call held on Tuesday, 23rd August 2022. A background was provided on the proposal and similarities were made to Mod_02_19 which was previously approved by the Committee.

Assetless Member voiced concerns that there was previous disagreement from the Ras in relation to this Modification and queried if these concerns had been addressed.

RA Member advised there was an alternative approach from the other open modifications on Strike Price to better address the issue that this Modification was looking to resolve. RA Member advised that they did not agree with the principal of this Modification because the Strike Price is based on the efficiencies of a unit which currently is set at a low level of 15%. This means that not all units should recover their costs because of the investment incentive should go to units with higher efficiency.

The Proposer reiterated their view that all three Modifications were needed and that even moving the calculation to weekly would not address the current events where gas price has been seen to go from 130€ to 360€ in a matter of hours. Also, Supplier are not affected by this change so it is not fair that the exposure would be on the Generators only.

It was agreed that the Proposer and the Ras would further discuss this Modification offline.

MODIFICATIONS MEETING 113 – 20TH OCTOBER 2022

The Proposer delivered a [presentation](#) on this Modification advising that it was initially raised by Power NI in 2019 as Mod_02_19 and it was noted that this Modification was in line with that one. The Proposer affirmed to have addressed the RAs concerns about lack of clarity around split price and strike price and a supporting note was circulated prior to the meeting to provide more clarity on this issue. The Proposer also stated that the impact on the socialization fund was negligible because when prices are higher Suppliers don't get paid while Generators are exposed to losses.

A Supplier Alternate stated that this was more a Capacity issue rather than Balancing and if Capacity prices are pushing Generators CODS to be higher, the best place to fix it would be Capacity, otherwise there could be unintended consequences and the Market could be open to gaming. The Proposer replied that prices of gas were so high that Generator's bids were greater than the Strike Price and there are also other generators such as Batteries and gas peakers with low efficiencies that would bid above the Strike Price, but there could be no risk of gaming because the MMU would monitor that the Bidding Code of Practice is respected and would investigate any irrational price. .

The RAs thanked the Proposer for providing supporting documentation which gave more detail. Assurance was given that if Mod_08_22 was approved this would also be taken into consideration as there was a preference to address the issue via that Modification.

8. PROPOSED LEGAL DRAFTING

As per Appendix 1.

9. LEGAL REVIEW

N/A

10. IMPLEMENTATION TIMESCALE

It is recommended that this Modification is implemented on a Settlement Day basis on the first Settlement Day following system implementation.

1 APPENDIX 1: MOD_09_22 EXCLUSION OF DIFFERENCE CHARGES DURING NON-RO EVENTS

Proposer <i>(Company)</i>	Date of receipt <i>(assigned by Secretariat)</i>	Type of Proposal <i>(delete as appropriate)</i>	Modification Proposal ID <i>(assigned by Secretariat)</i>
Tynagh Energy Limited	2 nd June 2022	Standard	Mod_09_22
Contact Details for Modification Proposal Originator			
Name	Telephone number	Email address	
Cormac Daly		c.daly@tynaghenergy.ie	
Modification Proposal Title			
Exclusion of difference charges for generators during non RO event periods			
Documents affected <i>(delete as appropriate)</i>	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 <i>(mandatory by originator)</i>			
<p>This modification seeks to amend the manner in which Within-day Difference Charges are applied to market participants. The purpose of this modification is to implement the same changes proposed in a previous modification “Mod_02_19” which was approved by the Modifications Committee in 2019, before being rejected by the SEM Committee on the grounds that additional analysis and discussion be carried out. Tynagh considers that this rejection was on a procedural, rather than a principles basis, and that it can subsequently be reconsidered with additional discussion and analysis.</p> <p>The Capacity Remuneration Mechanism Detailed Design Decision Paper 1 (SEM-15-103) implies that Within-day Difference Charges should be applied “<i>in all settlement periods when the MRP exceeds the Strike Price</i>”. Prior to making this decision, the SEM Committee consulted on the best option for setting the Market Reference Price (MRP). After assessing six different options, the SEM Committee decided to adopt a <i>Split Market Price</i> option. This means that Reliability Options will have multiple reference prices for each market (DAM, IDA, BM). The SEM-15-103 Decision Paper states that difference payments will be paid when these I-SEM reference prices exceed the Reliability Option Strike Price (“<i>an RO event</i>”).</p> <p>The current drafting of the Trading and Settlement Code (TSC) means that generators are exposed to paying Difference Charges at all times, regardless of whether the reference prices exceed the Strike Price. This was discussed and approved by the Modifications Committee on 20 February 2019. Ultimately, the SEM Committee decided not to</p>			

approve the modification, on the basis that further analysis and discussion are required before the modification could be implemented.

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Legal Drafting Change

*(Clearly show proposed code change using **tracked** changes, if proposer fails to identify changes, please indicate best estimate of potential changes)*

As stated above, the legal drafting changes proposed under this mod are the same as the changes proposed under modification proposal Mod_02_19.

F.18.5.5

The Market Operator shall calculate the Within-day Trade Difference Quantity ($QDIFFCTWD_{\Omega\gamma k}$), the Within-day Trade Difference Charge ($CDIFFCTWD_{\Omega\gamma k}$), the Intraday Tracked Difference Quantity ($QDIFFTRACKID_{\Omega\gamma k}$) and the Balancing Tracked Difference Quantity ($QDIFFTRACKB_{\Omega\gamma k}$) 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:

$$QDIFFTRACKID_{\Omega\gamma(k=0)} = QDIFFDA_{\Omega\gamma}$$

$$QDIFFTRACKB_{\Omega\gamma(k=0)} = QDIFFDA_{\Omega\gamma}$$

If the quantity at position, k , is $QTID_{u\gamma k} > 0$, then

$$\begin{aligned} QDIFFCTWD_{\Omega\gamma k} &= \text{Min} \left(\sum_{u \in \Omega} QEX_{u\gamma} - QDIFFTRACKID_{\Omega\gamma(k-1)}, QCOB_{\Omega\gamma} \right. \\ &\quad \left. - QDIFFTRACKB_{\Omega\gamma(k-1)}, QDIFFDA_{\Omega\gamma} + \sum_{k' < k} QTID_{u\gamma k'} + \sum_{k' < k} QTB_{u\gamma k'} \right. \\ &\quad \left. + QTID_{u\gamma k} - QDIFFTRACKB_{\Omega\gamma(k-1)} \right) \end{aligned}$$

$$CDIFFCTWD_{\Omega\gamma k} = \text{Max}(QDIFFCTWD_{\Omega\gamma k}, 0) \times \text{Min}(0, PSTR_m - PTID_{u\gamma k})$$

else if the quantity at position, k , is $QTB_{u\gamma k} > 0$, then

$$\begin{aligned} QDIFFCTWD_{\Omega\gamma k} &= \text{Min} \left(QCOB_{\Omega\gamma} - QDIFFTRACKB_{\Omega\gamma(k-1)}, QDIFFDA_{\Omega\gamma} + \sum_{k' < k} QTID_{u\gamma k} \right. \\ &\quad \left. + \sum_{k' < k} QTB_{u\gamma k} + QTB_{u\gamma k} - QDIFFTRACKB_{\Omega\gamma(k-1)} \right) \end{aligned}$$

if $PIMB_{\gamma} \geq PSTR_m$

$$CDIFFCTWD_{\Omega\gamma k} = \text{Max}(QDIFFCTWD_{\Omega\gamma k}, 0) \times \text{Min}(0, PSTR_m - PTB_{u\gamma k})$$

else

$$CDIFFCTWD_{\Omega\gamma k} = 0$$

else

$$QDIFFCTWD_{\Omega\gamma k} = 0$$

$$QDIFFTRACKID_{\Omega\gamma k}$$

$$\begin{aligned} &= \text{Min} \left(\text{Max} \left(QDIFFTRACKID_{\Omega\gamma(k-1)}, QDIFFDA_{\Omega\gamma} \right. \right. \\ &\quad \left. \left. + \sum_{k' \leq k} QTID_{u\gamma k} \right), QCOB_{\Omega\gamma}, \sum_{u \in \Omega} QEX_{u\gamma} \right) \end{aligned}$$

$$QDIFFTRACKB_{\Omega\gamma k}$$

$$\begin{aligned} &= \text{Min} \left(\text{Max} \left(QDIFFTRACKB_{\Omega\gamma(k-1)}, \text{Min} \left(QDIFFDA_{\Omega\gamma} \right. \right. \right. \\ &\quad \left. \left. + \sum_{k' \leq k} QTID_{u\gamma k}, \sum_{u \in \Omega} QEX_{u\gamma} \right) + \sum_{k' \leq k} QTB_{u\gamma k} \right), QCOB_{\Omega\gamma} \right) \end{aligned}$$

where:

- $\sum_{k' \leq k}$ 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;
- $\sum_{k' < k}$ 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;

- (c) $\sum_{u \in \Omega}$ is a summation over all Generator Units, u , which comprise the Capacity Market Unit, Ω ;
- (d) $QCOB_{\Omega\gamma}$ is the Obligated Capacity Quantity for Capacity Market Unit, Ω , in Imbalance Settlement Period, γ ;
- (e) $QDIFFDA_{\Omega\gamma}$ is the Day-ahead Difference Quantity for Capacity Market Unit, Ω , in Imbalance Settlement Period, γ ;
- (f) $QTID_{uyk}$ is the Intraday Trade Quantity for Generator Unit, u , in the position, k , in the ranked set, in Imbalance Settlement Period, γ ;
- (g) QTB_{uyk} is the Balancing Trade Quantity for Generator Unit, u , in the position, k , in the ranked set, in Imbalance Settlement Period, γ ;
- (h) $QEX_{u\gamma}$ is the Ex-Ante Quantity for Generator Unit, u , in Imbalance Settlement Period, γ ;
- (i) $PTID_{uyk}$ is the Intraday Trade Price associated with the Intraday Trade Quantity ($QTID_{uyk}$) for Generator Unit, u , in the position, k , in the ranked set, in Imbalance Settlement Period, γ ;
- (j) PTB_{uyk} is the Balancing Trade Price associated with the Balancing Trade Quantity (QTB_{uyk}) for Generator Unit, u , in the position, k , in the ranked set, in Imbalance Settlement Period, γ ;
- (k) $PSTR_m$ is the Strike Price for Month, m , which contains Imbalance Settlement Period, γ ;
- (l) $(k - 1)$ is for the previous position in the ranked set; and
- (m) $(k = 0)$ 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. Due to high commodity prices and significant volatility, this means that capacity providers face significant downside risk as a result of the Strike Price.

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.

<p>For licences granted in Ireland under the Electricity Regulation Act 1999, the Cost Reflective Bidding Licence Condition is:</p> <ul style="list-style-type: none"> 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). <p>For licences granted in Northern Ireland under the Electricity (Northern Ireland) (Order)1992, the Cost Reflective Bidding Licence Condition is</p> <ul style="list-style-type: none"> 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). <p>If this modification proposal is implemented, we envision that the incentive of Reliability Options, to be available at times of reduced generation margin, will still exist, but that the downside risk will be reduced.</p>	
<p>Code Objectives Furthered</p> <p><i>(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)</i></p>	
<ul style="list-style-type: none"> (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. 	
<p>Implication of not implementing the Modification Proposal</p> <p><i>(State the possible outcomes should the Modification Proposal not be implemented)</i></p>	
<p>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.</p>	
<p>Working Group</p> <p><i>(State if Working Group considered necessary to develop proposal)</i></p>	<p>Impacts</p> <p><i>(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.)</i></p>
	<p>Change to central market systems to handle the additional “IF statement” to set the difference</p>

	payment to zero when the Balancing Market MRP is less than the RO Strike Price.
<i>Please return this form to Secretariat by email to balancingmodifications@sem-o.com</i>	