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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** | **10 October 2019** | **Standard** | **Mod\_18\_19** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Katia Compagnoni** |  | **Katia.compagnoni@EirGrid.com** |
| **Modification Proposal Title** |
| **Clarification to apply Recoverable Start Up Costs to DSUs** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B** | **F.11.2.2/4/6** | **V20** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| Following queries from DSU Participant on the application of Recoverable Shut Down Cost, SEMO wishes to accentuate the intention of paragraph F.11.2.6 and correct typos in F.11.2.2 and F.11.2.4 plus some adjustments to Glossary definitions and variables. It is clear for the **I-SEM ETA Detailed Design – Markets Decision Paper** <https://www.semcommittee.com/publication/sem-15-065-i-sem-eta-markets-decision-paper> that the intention from the market design is to treat Demand Side Units (DSUs) and Generator Units (GUs) the same in terms of their settlement in fixed cost payments and charges. For reference please note the following extracts: **section 5.5** *‘Given the decision that generators will get paid the higher of the imbalance price and their offer price in settlement, the SEM Committee is of the view that a mechanism will need to be put in place to ensure that units don’t over-recover their fixed costs. This mechanism will consider the revenue earned by a generator over a contiguous operating period.’***Section 10.7.1***‘The Consultation Paper did not contain specific proposals concerning demand side units. The general presumption in I-SEM is that the demand side should be able, wherever appropriate, to compete with generation on an equal footing. The Consultation Paper observed that demand side response could have an equal role in the management of constraints; and that instructions profiling would apply equally to demand side units as to generation. The Consultation Paper also observed that the publication of prices close to real time potentially could facilitate greater demand side participation and innovation in the retail market.’*And reflected in the decision **section 10.7.4***‘The SEM Committee intends that the implementation of I-SEM will permit the participation of DSUs on an equal footing with generation at all instances where this is appropriate.’*Start Up Costs and Recoverable Start Up Costs are applied with the same logic to DSUs, with the clarification that only the variable name is different for those units. Instead of Start Up Costs, DSUs submit Shut down Costs, which are explicitly mentioned as equivalent in F.11.2.6 . The Code drafting currently only refers to Start Up Cost in F.11.2.6. This is also intended to apply to the derivative variable Recoverable Start Up Cost which is equivalent to the Recoverable Shut Down Cost for DSUs. This Modification seeks to emphasize it for clarity.This is also clear from the definitions of the relevant variables in the Glossary in conjunction with paragraph F.11.2.6 and applied to the determination of the Recoverable Start Up Cost in F.11.2.4.In carrying the review of this section of the T&SC, the need for a separate defined Variable for Shut Down Cost, CSDuγ , has been removed , therefore it has been deleted from the Glossary list of Variables and Parameters, while the additional explanation from the Variable has been included in the general Glossary definition for Shut Down Cost. For completeness the equivalency between standard GU’s Start Up Cost and DSU’s Shut Down Cost has been included in the definition/description of both Start Up Costs and Recoverable Start Up Costs.This modification also addresses typos in F.11.2.2 (a) and F.11.2.4 (a) where Start Cost was used incorrectly instead of the defined term Start Up Cost. |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| * + - 1. In all circumstances not listed in paragraphs F.11.2.1, for any Bid Offer Acceptance, o, within the Period of Physical Operation which is associated with a Synchronise Dispatch Instruction and for which Complex Bid Offer Data is to be used in accordance with section F.3.3:
				1. CSUuγ for the first Imbalance Settlement Period, γ, within the Period of Physical Operation shall have a value equal to the value of the Start Up Cost submitted in accordance with Chapter D (Balancing Market Data Submission) relating to the Warmth State at the time of the start time of the Period of Physical Operation for the Generator Unit as part of the applicable Complex Bid Offer Data if:

The Final Physical Notification Quantity (qFPNuγ(t)) for the Generator Unit, u, has a value of zero for all times within the Period of Physical Operation;For the first Period of Physical Operation in the Billing Period only, the Initial Condition of Period of Physical Operation has a state of “off” and the Initial Condition of Period of Market Operation has a state of “on” in the Billing Period; orThe start of the Period of Physical Operation and the end of the previous Period of Physical Operation are within the same Period of Market Operation.In all circumstances not listed in paragraph F.11.2.2(a)(i) to (iii), CSUuγ for the first Imbalance Settlement Period, γ, within the Period of Physical Operation shall have a value of zero.* + - * 1. CSUuγ shall have a value of zero for each other Imbalance Settlement Period, γ, falling wholly within the Period of Physical Operation, or in which the Period of Physical Operation starts or ends.
			1. The Market Operator shall determine the Recoverable Start Up Costs (CSURuγ) for each Generator Unit, u, in each Imbalance Settlement Period, γ, within the Period of Market Operation as follows:
				1. CSURuγ for the first Imbalance Settlement Period, γ, within the Period of Market Operation shall have a value equal to value of the Start Up Cost submitted in accordance with Chapter D (Balancing Market Data Submission) relating to the Warmth State at the start time of the Period of Market Operation submitted for the Generator Unit as part of the most recently submitted valid Complex Bid Offer Data as at the Bid Offer Acceptance Time in respect of the first Bid Offer Acceptance, o, for which Complex Bid Offer Data is to be used in accordance with section F.3.3, in that Imbalance Settlement Period, γ, if:

The Dispatch Quantity (qDuoγ(t)) for the final Bid Offer Acceptance, o, in Imbalance Settlement Period, γ, for the Generator Unit, u, has a value of zero for all times within the Period of Market Operation;For the first Period of Market Operation in the Billing Period only, the Initial Condition of Period of Physical Operation has a state of “on” and the Initial Condition of Period of Market Operation has a state of “off” in the Billing Period; orThe start of the Period of Market Operation and the end of the previous Period of Market Operation are within the same Period of Physical Operation.In all circumstances not listed in paragraph F.11.2.4(a)(i) to (iii), and for the first Period of Market Operation in the Billing Period only if the Initial Condition of Period of Physical Operation has a state of “off” and the Initial Condition of Period of Market Operation has a state of “on” in the Billing Period, CSURuγ for the first Imbalance Settlement Period, γ, within the Period of Market Operation shall have a value of zero.* + - * 1. CSURuγ shall have a value of zero for each other Imbalance Settlement Period, γ, falling wholly within the Period of Market Operation, or in which the Period of Market Operation starts or ends.
			1. For the purposes of calculations under this Code the Market Operator shall calculate each value of Start Up Costs (CSUuγ) or Recoverable Start Up Costs (CSURuγ) for each Demand Side Unit, u, from the relevant value of Shut Down Cost (instead of Start Up Cost) submitted in accordance with Chapter D (Balancing Market Data Submission) for the Demand Side Unit as part of the most recently submitted valid Complex Bid Offer Data as at the Bid Offer Acceptance Time in respect of the first Bid Offer Acceptance, o, for which Complex Bid Offer Data is to be used in accordance with section F.3.3, for the relevant Imbalance Settlement Period, γ. The Market Operator shall set all values of No Load Costs (CNLuγ) for Demand Side Units u to be zero for all Imbalance Settlement Periods, γ.

**Changes proposed to Glossary including the List of Variables and Parameters:**

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| Shut Down Cost | means the costs associated with Shut Down of a Demand Side Unit as the component of the operational costs considered for the Make-Whole Payment (through its equivalency with Start Up Costs) which is a payment for a Generator Unit, u, where Shut Down Costs have been incurred in an Imbalance Settlement Period, γ. |

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| Variable | CSURuγ | Recoverable Start Up Costs | The component of the Fixed Cost Payment or Charge which is a charge for a Generator Unit, u, where Start Up Costs (or the equivalent Shut Down Cost for a Demand Side Unit) have been saved in an Imbalance Settlement Period, γ. | € |
| Variable | CSUuγ | Start Up Costs | The component of the operational costs considered for the make-whole payment which is a payment for a Generator Unit, u, where Start Up Costs (or the equivalent Shut Down Cost for a Demand Side Unit) have been incurred in an Imbalance Settlement Period, γ. | € |

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| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| The design intention of F.11.2.6 was simply to say that “Shut Down Costs” or similar phrase are equivalent to “Start Up Costs” or similar phrase mentioned in the code – the only difference being the naming convention for DSUs versus GUs. This is because the costs payable to DSU units would be calculated in the same way as GUs (F.11.2.1 and 2), and also that the costs recoverable from DSU units would be calculated in the same way as GUs (F.11.2.4). Otherwise DSUs would be able to reflect a cost in their bids which could not actually be payable or recoverable, which would not be equitable between DSUs and GUs.The intention of the design, was not to exclude Recoverable Shut Down Cost because it would mean that DSUs could only ever be paid for start ups incurred in the balancing market, and not pay back saved start costs, which would mean inequitable treatment versus GUs who would have to pay them back. If such an interpretation were to be taken, it could lead to perverse incentives and outcomes. A unit could appear to the scheduling software as if it would save a large fixed cost by keeping a unit off at a price of 0, but then that large saving doesn’t come true in settlement, meaning the units just get to keep their ex-ante trading revenue without having incurred any running costs. If only a price of zero was seen in the scheduling software, with zero recoverable start costs, it would be very likely that the unit would be scheduled to run to their ex-ante traded position, therefore incurring their running costs. Therefore this modification is proposed to further emphasize that Shut Down Costs are considered as both payable and recoverable, which is in line with the approach taken for GUs and the approach in optimising the cost of scheduling of the system.DSUs must try to properly ensure cost recovery of their Start Up Costs in their ex-ante market bids, the same as is expected of GUs. If it is found that the balancing market actions on the unit save them their start cost, then they will need to pay that cost through Recoverable Start Up Costs, and therefore would want to have ensured they received sufficient revenue from their ex-ante market trades to do so. |
| **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)* |
| (e) to provide transparency in the operation of the Single Electricity Market;- This would transparently reflect the intent of the market design to have the same treatment in terms of fixed cost payments and charges between DSUs and GUs, whereas at the moment the limited emphasis on the T&SC drafting could lead to misinterpretation of the Code. |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| The treatment of DSUs and GUs under fixed cost payments and charges to be on the same basis would not be as clear otherwise. |
| **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.)* |
| N/A | N/A - system already reflects the correct approach. |
| ***Please return this form to Secretariat by email to*** balancingmodifications@sem-o.com |

**Notes on completing Modification Proposal Form:**

1. **If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.**
2. **Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Modifications Committee.**
3. **Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.**
4. **For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:**

**Agreed Procedure(s): means the detailed procedures to be followed by Parties in performing their obligations and functions under the Code as listed in either Part A or Part B Appendix D “List of Agreed Procedures”. The Proposer will need to specify whether the Agreed Procedure to modify refers to Part A, Part B or both.**

**T&SC / Code: means the Trading and Settlement Code for the Single Electricity Market. The Proposer will also need to specify whether all Part A, Part B, Part C of the Code or a subset of these, are affected by the proposed Modification;**

**Modification Proposal: means the proposal to modify the Code as set out in the attached form**

**Derivative Work: means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal**

**The terms “Market Operator”, “Modifications Committee” and “Regulatory Authorities” shall have the meanings assigned to those terms in the Code.**

**In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section 2 of Part A or Chapter B of Part B of the Code (and Part A Agreed Procedure 12 or Part B Agreed Procedure 12) , which I have read and understand, I agree as follows:**

**1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:**

* 1. **to the Market Operator and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;**
	2. **to the Regulatory Authorities, the Modifications Committee and each member of the Modifications Committee to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;**
	3. **to the Market Operator and the Regulatory Authorities to incorporate the Modification Proposal into the Code;**

**1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.**

**2. The licences set out in clause 1 shall equally apply to any Derivative Works.**

**3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.**

**4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.**

**5. I hereby acknowledge that the Modification Proposal may be rejected by the Modifications Committee and/or the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.**