



Single Electricity Market

FINAL RECOMMENDATION REPORT

**MOD_18_21 TEMPORARY DEROGATION FROM SEMO CHARGES
RELATED TO MOD_02_21**

21 OCTOBER 2021

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Document History

Version	Date	Author	Comment
1.0	27 th October 2021	Modifications Committee Secretariat	Issued to Modifications Committee for review and approval
2.0	29 th October 2021	Modifications Committee Secretariat	Issued to Regulatory Authorities for final decision

Reference Documents

Document Name
Trading and Settlement Code Proposal

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1. MODIFICATIONS COMMITTEE RECOMMENDATION

RECOMMENDED FOR APPROVAL– MAJORITY VOTE

Recommended for Approval by Majority Vote		
Paul McGuckin	Flexible Participant Member	Approve
Sean McParland	Generator Alternate	Approve
Andrew Burke (Vice Chair)	Renewable Generator Member	Approve
James Gallagher	Supplier Member	Approve
Colm Oireachtaigh	Supplier Member	Approve
Robert McCarthy	DSU Member	Approve
David Gascon	Generator Alternate	Approve
Ian Mullins	Supplier Member	Approve
Patrick Larkin	Assetless Member	Reject
Jag Basi	Generator Alternate	Approve
Bryan Hennessy	Supplier Member	Approve
David Caldwell	Supplier Alternate	Approve
Stacy Feldmann	Generator Member	Approve

2. BACKGROUND

This Urgent Modification Proposal was raised by CRU & Uregni and was received by the Secretariat on 8th October 2021. The Proposal was raised and voted on at Meeting 107 on 21st October 2021.

Mod_02_21 V2 was approved by the SEM Committee on 12 August 2021, which introduces a flag for Cross Zonal Actions by setting the System Operator Flag to zero for Interconnector Residual Capacity Units when an Interconnector Trade Quantity and Price is submitted. In the Decision Letter, it states, in terms of the implementation date that: *'the SEM Committee direct that Mod_02_21 is implemented and should be made effective on the first available date following the delivery of the required system changes'*

Generally, Modifications either become effective two working days following the publication of a Decision, or following implementation by the Market Operator via system changes as required. This is set out in Section B.17.20.4 of the SEM Trading and Settlement Code;

'B.17.20.4 If approved by the Regulatory Authorities, the Modification shall become effective two Working Days after the date of the decision of the Regulatory Authorities or such other date as may be specified by the Regulatory Authorities in its decision, including the first available date following the delivery of any required system changes by the Market Operator.'

In the past, in the case of Modifications with high potential materiality or risk of adverse effects, Modifications have been made effective prior to associated system changes subject to subsequent Resettlement, but this is not always possible. This is the case with Mod_02_21 where a Resettlement of dates affected prior to system implementation, could not be carried out without additional and complex system changes to the Re-price functionality. This led to Modification Proposal Mod_16_21, raised to prevent additional impacts of a similar scale and magnitude as those observed in September 2021 from reoccurring in the absence of the necessary system changes to implement Mod_02_21. Modification Proposal Mod_16_21 was voted for approval by the Modifications Committee, approved by the SEM Committee on 27 September 2021 and became effective on 29 September 2021.

The RO events in September 2021, where CDIFFNP charges have arisen due to the price of interconnector actions as identified by Modification Proposal Mod_02_21, present a unique set of circumstances where:

1. Modification Proposal Mod_02_21 had been approved by the SEM Committee but not yet implemented.
2. Modification Proposal Mod_02_21 cannot take effect before associated system changes are delivered and a temporary Modification, Mod_16_21, has therefore been implemented from 29 September 2021 until such time as Modification Proposal Mod_02_21 can be made effective.
3. In the period between the decision on Modification Proposal Mod_02_21 and the implementation date of Modification Proposal Mod_16_21 a number of RO events have occurred in the market which have led to charges arising that may be of sufficient materiality to have a potentially detrimental effect on the overall market, and which would have been mitigated if Mod_02_21 had been in effect.

This current Modification proposes to provide for the Market Operator to seek a derogation from the application of certain Trading Charges in these specific circumstances relating to Modification Proposal Mod_02_21. This current Modification Proposal would apply in respect of charges arising due to RO events in the market during the period 12 August 2021 to 29 September 2021, where those charges would not have arisen if Mod_02_21 had been in effect.

This would involve the following process:

4. In respect of the period 12 August 2021 to 29 September 2021 the Market Operator may assess the impact to the SEM of Trading Charges arising due to RO events which would have been mitigated if Modification Proposal Mod_02_21 had been effective.
5. The Market Operator shall also consider the impact of any decision not to invoice such Trading Charges, including the impact on the Socialisation Fund and furnish a report to the Regulatory Authorities of such impact
6. An application may be made by the Market Operator to the Regulatory Authorities in respect of these specific Trading Charges. As part of any application by the Market Operator to the Regulatory Authorities, a request would be made by the Market Operator to afford a derogation with respect to its specific obligations under the TSC in relation to the inclusion of such amounts in the Invoices for the relevant Billing Period.
7. The SEM Committee would then consider such an application and publish a decision on the matter, setting out the rationale for its decision.

3. PURPOSE OF PROPOSED MODIFICATION

3A.) JUSTIFICATION OF MODIFICATION

This Modification aims to address a particular circumstance where Mod_02_21 has been approved by the SEM Committee but cannot be implemented prior to required system changes and where there is a potentially material detrimental impact to the SEM which would not have occurred if the Modification had been effective.

3B.) IMPACT OF NOT IMPLEMENTING A SOLUTION

If this Modification is not implemented, there may be no alternative route to address the charges which have occurred between 12 August 2021 to 29 of September 2021, which would not have occurred if interconnector actions relevant to Modification Proposal Mod_02_21 had not given rise to non-performance difference charges.

3C.) IMPACT ON CODE OBJECTIVES

- (a) to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;

This Modification aims to address the risk of the invoicing of amounts in specified Billing Periods in September 2021, which may impact on the SEM.

4. WORKING GROUP AND/OR CONSULTATION

N/A

5. IMPACT ON SYSTEMS AND RESOURCES

This Modification Proposal is not expected to be system impacting but may require a new process be put in place by the market operator on a temporary basis.

6. IMPACT ON OTHER CODES/DOCUMENTS

N/A

7. MODIFICATION COMMITTEE VIEWS

MODIFICATIONS MEETING 107 – 21ST OCTOBER 2021

The Proposer updated the Committee on this Modification Proposal and as there were new Members to the Committee, provided a background on the proposal. It was advised that this was a follow up to Mod_16_21 'Temporary use of the Market Backup Price where an Interconnector Trade Quantity and Price are submitted'. Prior to that, Mod_02_21 'Setting a flag for Interconnector Actions' had been approved by the SEM Committee on 12 August 2021 and because it required system changes it would not be effective until after these changes were implemented in the Market systems. It was noted that during September there were a number of SO-SO trades that had such a significant impact that prompted the MO to put some of the settlement charges on hold. Mod_16_21 was then raised to prevent such events in the intervening period until Mod_02_21 would be implemented in the systems. The current Modification, Mod_18_21, seeks to address the material charges that occurred after the approval of Mod_02_21 and prior to the implementation of Mod_16_21.

The change will be made to Section H of the code to allow the RAs to afford derogation on foot of a MO request based on the material impact of the charges related to those events during the specified time period. It was noted that at present there have been comments requesting clarity on the legal drafting and the discretion in decision making given how limb (c) was currently drafted. The Proposer explained that the intent of the Modification is that the assessment of materiality would be done in relation to the totality of charges incurred in the market, not on trading day or period basis or unit basis either. The intent of this proposal was to cover Non-Performance Difference Charges (CDIFFCNP). It was advised that the legal drafting may need to be reworded to clarify this point.

DSU Member gave thanks for the drafting of this Modification but felt overall that if the price is deemed wrong they should be looking at solutions to pricing rather than invoicing. A further DSU specific point was made that under interim State Aid approach DSUs were subject to charges related to the Strike Price being exceeded similarly to Standard Generator Units. It was questioned if the value of such Charges (CEADSU) should also be included. The RAs responded to the first query noting that a number of different approaches were considered but the reason for not putting them in process is because they have a degree of retrospectivity which is not applied to the approach proposed as the charges involved are yet to be invoiced. It was also felt that the invoicing approach was more targeted. DSU was asked by SEMO Member if they had been invoiced for the CEADSU charges. It was advised that due to a defect in the system, these amounts were not invoiced; the defect is due to be fixed in Release H. SEMO Member agreed that in their opinion those charges should form part of the exemption contemplated by the Modification and they would seek to include them in the request for derogation.

An Assetless Member noted his concern with this Modification advising that the previous Modification Mod_02_21 was not effective yet and all Participants had traded accordingly. It was believed that if this Modification was passed through changing the rules it would set a dangerous precedent, erode the confidence in the auction setting and open the door to changes to any unwelcomed market price.

SEMO responded noting that the decision to put charges on hold was not due to the observation of high prices, but due to the disproportionate impact of some of the related charges and subsequent credit requirements. This was a prudent decision to allow the discussion to take place in light of the decision that had already taken place for Mod_02_21. Assurance was given that this was not a precedent likely to be repeated as not many Modifications needing Market changes would have such a widespread and significant impact.

The Assetless Member noted that if this Modifications was approved, it would not fix why these prices are happening and that there is a market failure that need to be addressed and over-insulating Generators is not the right answer.

The Proposer also added that there were 3 criteria in the legal drafting that would make this unlikely to be repeated and it is an unusual situation that these charges happen to be so highly material. The modification also does not represent a distraction or impediment to any more fundamental changes that may be deemed necessary.

A Supplier Member stated that there was no market failure in I-SEM but in their opinion that failure is happening in GB where the market coupling changed overnight. I-SEM appears to give a large protection for the Irish consumer.

It was questioned by a Supplier Alternate if there would be an opportunity for participants to query the decision that will be made by the SEMC on foot of this Mod regarding amounts in invoices and if there must be universal acceptance of the SEMC decision by all affected participants for the decision(s) to stand for any one entity. SEMO advised that the Modification deals with the totality of the Market and so they see no need for individual levels of approval by all those affected for the decision to stand for any one affected entity. Any invoices would issue after the SEMC decision. The Supplier Alternate also queried whether there was a risk that these amounts could be included in M+4 or subsequent re-runs. SEMO confirmed that processes are in place to capture these amounts at any future re-run. Assurance was also given that Participants can use Report 44, which would have an amount relating to Stop Losses, to help calculate their own materiality and verify amounts in any invoices issued.

The Proposer provided further assurance that the application from SEMO and the decision would be published. The Proposer then moved to the legal drafting piece and noted that there would be a slight re-wording to add the terms 'in totality' to explain the materiality referred in limb c).

A Supplier Member queried if there was comfort within the socialization fund for this change and would the outcome of this be sufficient. The Proposer provided assurance that this had been looked

at and SEMO confirmed they will include the figures in the derogation request. If these charges were collected it was advised that the socialization fund would come in 3 times the recommended amount for the fund. It was advised that the total amount on hold was in the region of over €25 million.

A Generator Member asked about timelines. SEMO advised that following the meeting, minutes and a FRR would be sent out with an expedited timeframe as per urgent Modifications requirements and it is expected that the SEMC would also look at providing a final decision promptly. It is acknowledged that this is very relevant due to a number of disputes currently opened and due to be heard by the DRB. A request for derogation could be submitted from SEMO to the RAs as early as the beginning of November.

8. PROPOSED LEGAL DRAFTING

As per Appendix 1 plus update to Limb c) of G.1.2.3

- c. such amounts may **in totality** be of sufficient materiality to have a potentially detrimental effect on the overall market

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 publication of RAs decision.

1 APPENDIX 1: MOD_18_21 TEMPORARY DEROGATION FROM SEMO CHARGES RELATED TO MOD_02_21

MODIFICATION PROPOSAL FORM

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>
CRU and UR	8 th October 2021	Urgent	Mod_18_21
Contact Details for Modification Proposal Originator			
Name	Telephone number	Email address	
Gina Kelly		gkelly@cru.ie	
Modification Proposal Title			
Temporary derogation from SEMO charges related to Mod_02_21			
Documents affected <i>(delete as appropriate)</i>	Section(s) Affected	Version number of T&SC or AP used in Drafting	
TSC Part B	G.1.2	23.0	
Explanation of Proposed Change <i>(mandatory by originator)</i>			
<p>Mod_02_21 V2 was approved by the SEM Committee on 12 August 2021, which introduces a flag for Cross Zonal Actions by setting the System Operator Flag to zero for Interconnector Residual Capacity Units when an Interconnector Trade Quantity and Price is submitted. In the Decision Letter, it states, in terms of the implementation date that: <i>'the SEM Committee direct that Mod_02_21 is implemented and should be made effective on the first available date following the delivery of the required system changes'</i></p> <p>Generally, Modifications either become effective two working days following the publication of a Decision, or following implementation by the Market Operator via system changes as required. This is set out in Section B.17.20.4 of the SEM Trading and Settlement Code;</p> <p><i>'B.17.20.4 If approved by the Regulatory Authorities, the Modification shall become effective two Working Days after the date of the decision of the Regulatory Authorities or such other date as may be specified by the Regulatory</i></p>			

Authorities in its decision, including the first available date following the delivery of any required system changes by the Market Operator.'

In the past, in the case of Modifications with high potential materiality or risk of adverse effects, Modifications have been made effective prior to associated system changes subject to subsequent Resettlement, but this is not always possible. This is the case with Mod_02_21 where a Resettlement of dates affected prior to system implementation, could not be carried out without additional and complex system changes to the Re-price functionality. This led to Modification Proposal Mod_16_21, raised to prevent additional impacts of a similar scale and magnitude as those observed in September 2021 from reoccurring in the absence of the necessary system changes to implement Mod_02_21. Modification Proposal Mod_16_21 was voted for approval by the Modifications Committee, approved by the SEM Committee on 27 September 2021 and became effective on 29 September 2021.

The RO events in September 2021, where CDIFFNP charges have arisen due to the price of interconnector actions as identified by Modification Proposal Mod_02_21, present a unique set of circumstances where:

8. Modification Proposal Mod_02_21 had been approved by the SEM Committee but not yet implemented.
9. Modification Proposal Mod_02_21 cannot take effect before associated system changes are delivered and a temporary Modification, Mod_16_21, has therefore been implemented from 29 September 2021 until such time as Modification Proposal Mod_02_21 can be made effective.
10. In the period between the decision on Modification Proposal Mod_02_21 and the implementation date of Modification Proposal Mod_16_21 a number of RO events have occurred in the market which have led to charges arising that may be of sufficient materiality to have a potentially detrimental effect on the overall market, and which would have been mitigated if Mod_02_21 had been in effect.

This current Modification proposes to provide for the Market Operator to seek a derogation from the application of certain Trading Charges in these specific circumstances relating to Modification Proposal Mod_02_21. This current Modification Proposal would apply in respect of charges arising due to RO events in the market during the period 12 August 2021 to 29 September 2021, where those charges would not have arisen if Mod_02_21 had been in effect.

This would involve the following process:

11. In respect of the period 12 August 2021 to 29 September 2021 the Market Operator may assess the impact to the SEM of Trading Charges arising due to RO events which would have been mitigated if Modification Proposal Mod_02_21 had been effective.
12. The Market Operator shall also consider the impact of any decision not to invoice such Trading Charges, including the impact on the Socialisation Fund and furnish a report to the Regulatory Authorities of such impact
13. An application may be made by the Market Operator to the Regulatory Authorities in respect of these specific Trading Charges. As part of any application by the Market Operator to the Regulatory Authorities, a request would be made by the Market Operator to afford a derogation with respect to its specific obligations under the TSC in relation to the inclusion of such amounts in the Invoices for the relevant Billing Period.
14. The SEM Committee would then consider such an application and publish a decision on the matter, setting out the rationale for its decision.

Legal Drafting Change

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

These legal drafting changes will be added to Section H 'Interim Arrangements' from the date the Modification is made effective for the period specified below.

Until 1 January 2022, Section G.1.2 in relation to Financial and Settlement under Section G shall be replaced with;

G.1.2 Settlement Items

G.1.2.1 The Market Operator shall carry out or procure settlements in accordance with the Code of the following amounts:

- a) Trading Payments and Trading Charges due to or payable by Participants in respect of their registered Generator Units and Capacity Market Units in accordance with sections F.5, F.6, F.7, F.8, F.9, F.10, F.11, F.13 and F.18 for each Billing Period;
- b) Trading Payments and Trading Charges due to or payable by Participants in respect of their registered Supplier Units in accordance with sections F.5, F.12, F.14, F.15 and F.20 for each Billing Period;
- c) Capacity Payments due to Participants in respect of their registered Capacity Market Units in accordance with sections F.17 for each Capacity Period;
- d) Capacity Charges payable by Participants in respect of their registered Supplier Units in accordance with sections F.19 for each Capacity Period;
- e) Charges to Participants in respect of their registered Generator Units for Unsecured Bad Energy Debt in accordance with section G.2.7;
- f) Charges to Participants in respect of their registered Generator Units for Unsecured Bad Capacity Debt in accordance with section G.2.7;
- g) amounts in respect of Settlement Reallocation Agreements registered by Participants determined in accordance with section G.5.7.3 and G.5.7.4 for each Settlement Document;
- h) Fixed Market Operator Generator Charges payable by Participants in respect of their registered Generator Units and Fixed Market Operator Supplier Charges payable by Participants in respect of their registered Supplier Units, in each case in accordance with section G.7, for each Year or period to which the applicable Fixed Market Operator Charge relates; and
- i) Variable Market Operator Charges payable by Participants in respect of their Supplier Units in accordance with section G.7 for each Billing Period.

G.1.2.2 All of the payments and charges set out in paragraph G.1.2.1 shall be calculated in accordance with the Code and, except where otherwise stated, shall be exclusive of VAT.

G.1.2.3 Notwithstanding paragraph G.1.2.1, in relation to any amounts specified in that paragraph relating to Trading Charges for settlement of the Balancing Market, Imbalances and Capacity Market, in circumstances where:

- a. such amounts relate to any time between 12 August and 29 September 2021,
- b. such amounts would not have arisen had Mod_02_21 been implemented, and

- c. such amounts may be of sufficient materiality to have a potentially detrimental effect on the overall market

then the Regulatory Authorities may (upon application by the Market Operator) afford a derogation to the Market Operator with respect to its specific obligations in the TSC regarding these charges and in particular concerning the invoicing of such amounts or the inclusion of such amounts in the Invoices for the relevant Billing Period.

Modification Proposal Justification

(Clearly state the reason for the Modification)

This Modification aims to address a particular circumstance where Mod_02_21 has been approved by the SEM Committee but cannot be implemented prior to required system changes and where there is a potentially material detrimental impact to the SEM which would not have occurred if the Modification had been effective.

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)

- (b) to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;

This Modification aims to address the risk of the invoicing of amounts in specified Billing Periods in September 2021, which may impact on the SEM.

Implication of not implementing the Modification Proposal

(State the possible outcomes should the Modification Proposal not be implemented)

If this Modification is not implemented, there may be no alternative route to address the charges which have occurred between 12 August 2021 to 29 of September 2021, which would not have occurred if interconnector actions relevant to Modification Proposal Mod_02_21 had not given rise to non-performance difference charges.

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 Market Code, Grid Code, Exchange Rules etc.)

N/A	This Modification Proposal is not expected to be system impacting but may require a new process to be put in place by the market operator on a temporary basis.
<i>Please return this form to Secretariat by email to balancingmodifications@sem-o.com</i>	