



Trading and Settlement Code Modifications Committee
c/o Esther Touhey
SEMO Modifications Committee Secretariat
The Oval
160 Shelbourne Rd
Dublin 4

22 January 2019

Our Ref: D/19/1261

SEM Committee Decision for the Regulatory Authorities in relation to Mod_34_18 (Final Recommendation FRR_34_18)

Dear Esther,

On 22 January 2019, the Modifications Committee submitted its Final Recommendation Report (FRR) with regard to Modification Proposal Mod_34_18: "Removal of make-whole payments for biased quantities and negative imbalance revenue and small clarifications to determination of start-up costs incurred and saved".

Modification Proposal Mod_34_18 was submitted to the Modifications Committee by the Single Electricity Market Operator (SEMO) on 28 November 2018 and presented on 12 December 2018. This concerns the Make-Whole Payment mechanism (detailed in F.11.4), which is designed to calculate the difference between the Make-Whole Payment Operating Cost and Revenue for a contiguous period of operation. Where a generator's costs exceed their revenue for a contiguous operating period, this difference is included as a payment in the fixed cost payment or charge calculation.

The RAs understand that the algebra included in the revised Trading and Settlement Code, approved by the SEM Committee in April 2017, calculates Make-Whole Payment Revenue for use in this mechanism and includes (inter alia) Imbalance, Premium and Discount charges in this calculation. This is resulting in all negative imbalance revenue items (deductions from a participant's revenue) being included where these occur. As a result, the Make Whole Payment mechanism is at times incorrectly insulating generators and DSUs from negative imbalance revenues where the intended operation of this mechanism is only to ensure the appropriate recovery of costs where this has not already occurred via payments for balancing market quantities. The RAs note that the issue of make whole payments was explicitly considered in the ETA Markets Decision (SEM-15-065) and it is clear that this outcome is not part of the intended market design.

Based on the Final Recommendation Report received from the Modifications Committee and the presentation by SEMO at Meeting 88, the RAs understand that this Modification removes this unintended effect through changing the equation for calculating a unit's balancing market revenue for the Make-Whole Payment to explicitly reference balancing market quantities only, rather than all imbalance revenues.

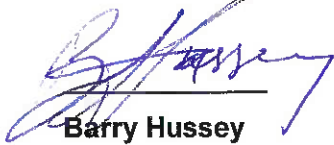
The RA note that the potentially high impact on end consumers through the imperfections charge by the over-payment of these Make Whole Payments was discussed at Meeting 88 and agree with the proposer that if such a change is not implemented it would undermine the efficient, economic and coordinated operation of the balancing market. In addition, the RAs agree that insulating participants from these negative imbalance revenues undermines balance responsibility.

At Meeting 88, concerns were raised regarding the extent of this change to a core element of the settlement algebra and the Modification was approved contingent on a number of actions, including further testing, being concluded by SEMO prior to the submission of the FRR to the RAs. The RAs note that these actions have been completed, and also note that SEMO concluded this significant piece of work in a short timeframe. The RAs also note that a template is being developed by SEMO for use by market participants to forecast the impact of this modification in terms of the amount to be resettled. This is due to the fact that this modification will be effective in the Trading and Settlement Code prior to being reflected in SEMO's systems. The RAs request SEMO to deliver a final template and an associated information session on how it can be used by

participants as a matter of urgency, as the amounts to be resettled may be significant for some participants.

Considering the above, the SEM Committee direct that, in line with the recommendation for the Modifications Committee in FRR_34_18, the Modification Proposal Mod_34_18 should be made. This Modification shall be implemented in the Trading & Settlement Code on the Sunday, 27 January 2019, to align with the weekly billing cycle, when MWPs are calculated for participants.

Yours sincerely



Barry Hussey

Manager

Wholesale Electricity Markets