

Single Electricity Market

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| Final REcommendation Report  Mod\_09\_14 V2: make whole payments for interconnector units V2  01 May 2015 |

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Document History

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| 1.0 | 24 April 2015 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 01May 2015 | Modifications Committee Secretariat | Issued to Regulatory Authorities for final decision |

Reference Documents

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| --- |
| **Document Name** |
| [Trading and Settlement Code](http://semopub/MarketDevelopment/MarketRules/TSC.docx) |
| [Mod\_09\_14 Amendment to Make Whole Payments for ICUs](http://semopub/MarketDevelopment/ModificationDocuments/Mod_09_14%20Amendment%20to%20MWPs%20for%20IC%20Units.docx) |
| [Mod\_09\_14 Amendment to Make Whole Payments for ICUs\_V2](http://semopub/MarketDevelopment/ModificationDocuments/Mod_09_14%20V2.doc) |
| [Meeting 58 Electroroute Slides](http://semopub/MarketDevelopment/ModificationDocuments/140905%20ElectroRoute%20Discussion%20Slides%20v1-0.pdf) |
| [Meeting 59 SEMO Slides](http://semopub/MarketDevelopment/ModificationDocuments/SEMO%20presentation%20on%20MWP_Publish.ppt) |
| [SEMO Slides Extraordinary Meeting 60](http://semopub/MarketDevelopment/ModificationDocuments/SEMO%20Slides%20Extraordinary%20Meeting%2060.pdf) |
| [Electroroute Slides Meeting 60](http://semopub/MarketDevelopment/ModificationDocuments/Electroroute%20slides%20Meeting%2060.pdf) |
| [MWP Feedback and responses](http://semopub/MarketDevelopment/ModificationDocuments/MWP%20Feedback%20and%20Responses.zip) |
| [Participant MWP Feedback and responses](http://semopub/MarketDevelopment/ModificationDocuments/Participant%20feedback%20on%20MWPs%20Mod%20proposals.zip) |

Table of Contents

[1. MODIFICATIONS COMMITTEE RECOMMENDATION 4](#_Toc417376762)

[**Recommended for Approval – unanimous Vote** 4](#_Toc417376763)

[2. Background 4](#_Toc417376764)

[3. PURPOSE OF PROPOSED MODIFICATION 4](#_Toc417376765)

[**3A.) justification of Modification** 4](#_Toc417376766)

**[3B.) Impact of not Implementing a Solution](#_Toc417376767)** [4](#_Toc417376767)

**[3c.) Impact on Code Objectives](#_Toc417376768)** [4](#_Toc417376768)

[4. Assessment of Alternatives 4](#_Toc417376769)

[5. Working Group and/or Consultation 4](#_Toc417376770)

[6. Working Group and/or Consultation 4](#_Toc417376771)

[7. impact on systems and resources 4](#_Toc417376772)

[8. Impact on other Codes/Documents 4](#_Toc417376773)

[9. MODIFICATION COMMITTEE VIEWS 4](#_Toc417376774)

**[Meeting 58 – 4th december 2014](#_Toc417376775)** [4](#_Toc417376775)

[make whole payments discussion (On all four Modification proposals) as documetned at meeting 58 4](#_Toc417376776)

**[Meeting 59 – 12 february 2015](#_Toc417376777)** [4](#_Toc417376777)

[make whole payments discussion (On all four Modification proposals 09\_14-12\_14) 4](#_Toc417376778)

**[extraordinary Meeting 60 – 24](#_Toc417376779)[th](#_Toc417376779) [March 2015](#_Toc417376779)** [make whole payments discussion (On remaining two Modification proposals Mod\_09\_14\_V2 and Mod\_12\_14) 4](#_Toc417376779)

[10. Proposed Legal Drafting 4](#_Toc417376780)

[11. LEGAL REVIEW 4](#_Toc417376781)

[12. IMPLEMENTATION TIMESCALE 4](#_Toc417376782)

[Appendix 1: Mod\_09\_14 amendment to make whole payments for interconnector units\_v2 4](#_Toc417376783)

[Appendix 2: Mod\_09\_14 amendment to make whole payments for interconnector units 4](#_Toc417376785)

# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for Approval – unanimous Vote

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| **Recommended for Approval by Unanimous Vote** | | |
| Áine Dorran | Generator Member | Approved |
| Brian Mongan | Generator Member | Approved |
| Connor Powell | Supplier Member | Approved |
| Julie-Anne Hannon | Supplier Alternate | Approved |
| Kevin Hannafin-Chair | Generator Member | Approved |
| Mary Doorly | Generator Member | Approved |
| Patrick Liddy | DSU Member | Approved |
| William Carr | Supplier Member | Approved |
| William Steele | Supplier Member | Approved |

# Background

Version 1 of this Modification Proposal was raised by the RAs and was received by the Secretariat on 14 November 2014. The purpose of this Modification Proposal is to amend the Code so that Interconnector Users receive Make Whole Payments based on their aggregate position across all gate windows (EA1, EA2 & WD1) in which they have traded from the current Code wording where each gate window is considered separately for the calculation of Make Whole Payments.

Version 2 of the Modification Proposal was raised by Electric Ireland and was received by the Secretariat on 25 February 2015. The purpose of this Modification Proposal is to amend the Code so that Interconnector Users receive Make Whole Payments based on their aggregate position across all gate windows (EA1, EA2 & WD1) in which they have traded from the current Code wording where each gate window is considered separately for the calculation of Make Whole Payments.

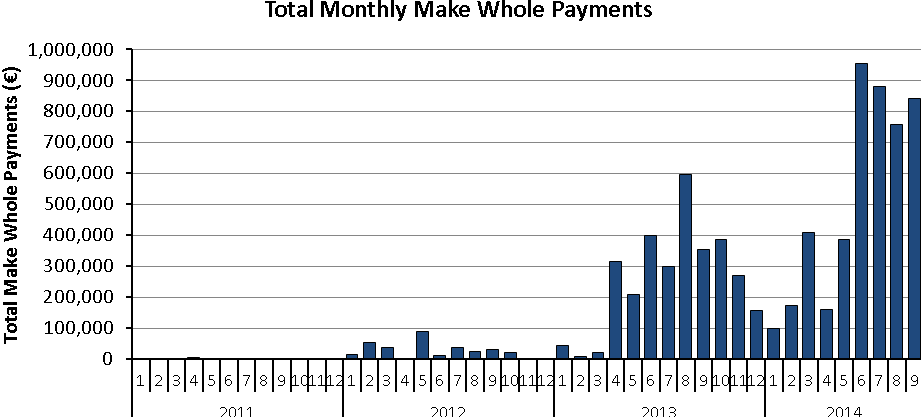
Mod\_09\_14 v2 allows for a distinction to be made in the calculation of make whole payments for interconnector users based on the direction of the flow. The reason for introducing this distinction is to ensure, considering established market trends, that interconnector users who schedule trades in different directions in different trading windows for a given trading period continue to be protected from unrecovered costs by the make whole payment mechanism.

The Modification Proposal was discussed at Meeting 58 on 04 December 2014, Meeting 59 on 12 February 2015 and Extraordinary Meeting 60 where it was voted on.

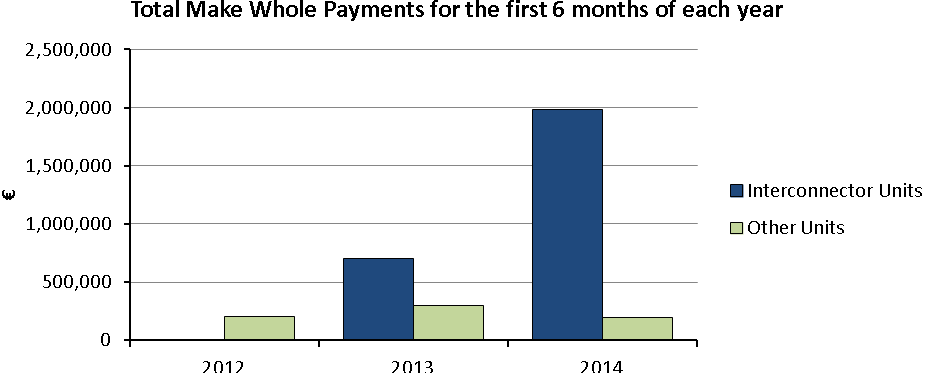
# PURPOSE OF PROPOSED MODIFICATION

## 3A.) justification of Modification

A significant increase in SEM Make Whole Payments (MWPs) has been observed. The average total monthly MWP for the years 2011 and 2012 was under €14,000. However, beginning in April 2013 there has been a trend of increased Make Whole Payments with a monthly total of over €800,000 being observed in June 2014. Figure 1 gives the time-series of total monthly Make Whole Payments[[1]](#footnote-1) from 2011 to September 2014. Figure 2 gives the total Make Whole Payments for the first six months of the year for Interconnector Users (blue) and all other units (green). From this it can be seen that the increased Make Whole Payments are predominantly attributable to interconnector trading activity.



**Figure 1:** Time-series of Total Monthly Make Whole Payments from 2011 to September 2014



**Figure 2:** Total MWPs for Interconnector Users (blue) and all other units (green) for the first 6 months of the year

Make Whole Payments are included in the SEM design to account for the (foreseen to be rare) occasions when a generator’s Schedule Production Costs in any given Billing Week are not recovered through its total Energy Payments for the same period. For each Interconnector User Make Whole Payments are calculated separately for each gate window (EA1, EA2 and WD1). An Interconnector User trading in the different gates is assigned a different Interconnector Unit for each gate window it trades in. A Make Whole Payment is only made if the sum of MWP in the billing week is positive.

This means that an interconnector user could trade 100 MW of import in EA1 and 100 MW of export in EA2 resulting in a net flow of 0 MW. The EA2 unit could accrue a positive MWP that would be paid after the billing week so that this unit effectively trades at its bid price via the MWP mechanism. The EA1 unit could develop a negative MWP but this would not result in any payment to the market. Therefore; for a net flow of 0 MW, an Interconnector User could still receive a Make Whole Payment which results in export effectively charged at bid netted with import paid at SMP where SMP is greater than the export bid.

The proposer does not believe that the current situation in the Code should continue as it is now as it is resulting in a significant increase in Make Whole Payments which are paid by all suppliers through the Imperfections Charge. The proposer does not believe that the current situation in the Code is a necessary pre-requisite for efficient trading between SEM and BETTA and therefore does not believe that this will distort efficient cross border trade.

Where an interconnector user establishes a scheduled position by bidding long term rather then marginal costs and a differential between the energy payment to be received and the scheduled production cost is calculated. Then, where make whole payments are calculated on the aggregate basis across the three trading windows, the calculated differential could act as a barrier to the interconnector user reducing or reverse it’s established position in later trading gates by reducing the protection offered by the make whole payment mechanism.

There is an established trend in SEM whereby import bids are based on long term costs therefore to recognise this trend in the context of the proposed aggregation of the make whole payment calculation across the three trading windows, it is additional proposed that the scheduled production cost of imports for the proposes of the make whole payment calculation be calculated on the basis of the greater of the shadow price and unit’s market offer price in the respective trading period.

In this way, for imports, the differential between energy payment and scheduled product costs will be reduced to a marginal cost basis and the aggregation of make payment calculation across the three trading gates will not be erode interconnector user’s ability to utilise intra-day trading to modify their scheduled positions.

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

If this Modification to the Code is not made the current situation with regards to Make Whole Payments will continue and may increase based on recent trends. This will continue to put upward pressure on the Imperfections Charge which is paid for by all suppliers and ultimately consumers.

## 3c.) Impact on Code Objectives

This modification aims to further Code Objective:

* to ensure no undue discrimination between persons who are parties to the Code; and
* 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

1. **Assessment of Alternatives**

One alternative version of the proposal was submitted and voted on.

# Working Group and/or Consultation

N/A

# Working Group and/or Consultation

N/A

# impact on systems and resources

The vendor have confirmed this proposal would cost:

**Version 1:** Cost for this proposal in isolation: €61,030-SEMO IT have confirmed this proposal would need a 2.5 month turnaround for delivery

**Version 2:** Vendor confirmed a total cost of €112,100

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting 58 – 4th december 2014

RA Member presented slides on the two Modification Proposals advising that there has been a significant increase in the level of Make Whole Payments in the SEM recently and this increase has been predominantly attributable to IC Units exporting and importing in different gates. RA Member advised that the purpose of Mod\_09\_14 Amendment to MWPs for IC Units, is to amend the Code so that Interconnector Users receive Make Whole Payments based on their aggregate position across all gate windows (EA1, EA2 & WD1) in which they have traded. In the current Code wording each gate window is considered separately for the calculation of Make Whole Payments. The purpose of Mod\_10\_14 Make Whole Payments for IC Units is to amend the Code so that Interconnector Units no longer receive Make Whole Payments in the market. Chair queried as to the RAs preferred proposal of the two that had been submitted. RA Member advised that the RAs are keen for the Committee to discuss the proposals and reach a decision on a preferred proposal.

## **make whole payments discussion (On all four Modification proposals) as discussed at meeting 58**

RA Member advised that more than 90% of Exports did not happen further advising that an IC unit can bid whatever they choose as this is not enshrined anywhere within the Code. Electroroute representative expressed the view that in terms of bidding to flow, IC activity has evolved that way over the duration of the market. Proposer further advised that Electroroute are not comfortable effectively hampering “free movement of goods between borders” as specified in Directive [2006/123/EC](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0123:EN:NOT) of the European Parliament and of the Council of 12 December 2006 on services in the internal market. The proposer mentioned that they had started an internal legal review which supported this view. MO Member asked if this legal analysis could be shared with the Committee. The proposer replied that they are not ready to disclose this at this point.

MO Alternate reiterated RA view that Interconnector Users are not prohibited from representing costs within their bids and that it is Electroroute’s commercial decision to bid that way and ICs are not bound by the BCOP as traditional GUs are.

Observer questioned whether Interconnector bids, which currently seem not to reflect price differential between adjacent regions, would have a detrimental impact on the price coupling and efficient export flows. Observer expressed concern around the introduction of a market imbalance and of the impact on constraints if pay/paid as bid were introduced. Electroroute representative advised that constraints could happen but that it should not be viewed as a significant risk.

DSU Member stated that as over 90% of exports traded did not actually happen, were the dispatchers incorrect to have sold the power in the first instance. Electroroute representative expressed the view that they were not illegitimate trades and that this type of trading is frequently seen on the continent.

DSU member also asked if this indicated a flaw within the scheduling software. Observer advised that the market solver optimises Schedule Production Costs based on the bids submitted, and that MWPs are not visible to and are therefore not considered by the Pricing and Scheduling software. Generator Member expressed the view that there appears to be a discrepancy between export bids and SMP.In order for flows in both directions to be scheduled, the import bid would have to be less than Shadow Price and the export bid would have to be greater than Shadow Price..

Observer elaborated that trading with an import bid which is less than an export bid in a given period appeared counter-intuitive. This appears to indicate an intention to sell/import to the SEM at a lower price and buy/export from the SEM at a relatively higher price. This bidding approach appeared to be loss making when considered in isolation from the Make Whole Payment mechanism. Generator Member drew reference to Mod\_ 09\_14 Amendment to MWPs for IC Units stating that the user would be made whole and that the proposed aggregation of IC Users across all gate windows is not discriminatory if it brings IC Users in line with other GUs. Electroroute representative advised that in their view, ICs would not be aligned with GUs because they bid to flow and their import trading is overstated in the Make Whole Payment aggregation.

Observer reiterated previous point that the bid is at the ICs discretion whereas GUs must bid based on the requirement of the BCOP. Electroroute representative drew reference again to the potential hampering of cross border trading. Observer said that where the link between costs of adjacent markets and bidding behaviours is lost, then the price coupling effect may also be diminished.

Observer stated that opportunity for exports based on price spread between the two markets, are expected to be concentrated at night time, which limits the exposure to Uplift. This is because Uplift is higher during evening peak time. Currently exports are observed across the entire day, which appears contrary to the concept of efficient cross border flow and the social welfare gains it is intended to bring. Observer expressed the view that in their own analysis Exports without Make Whole Payments are possible. For a specific period, ElectroRoute accounted for only 40% of the Exports but 100% of the MWPs and emphasised that other exporters were not relying on the MWPs to recover costs. Observer expressed the view that it should be possible for Electroroute to continue to export without relying on MWPs. Electroroute representative expressed concern that there is a fundamental disjoint in the market and that there is a lack of clarity from the original design. Observer sought clarifications from Electroroute in relation to whether the problem is regarding different price signals resulting in netted import and export settling at different rates or Interconnector Users receiving make whole payments whenever already whole or better in aggregate across gate windows.

Electroroute representative advised that the issue is around the prices applied by the dispatcher. Observer reiterated concern that both the pay/paid as bid and removal of netted trading periods approaches could keep the Uplift exposure with the consumer as opposed to the trader who chose to make the trade and has control over the bids that govern it..

MO Alternate expressed the view that aggregating across the 3 gates may be a more appropriate course of action as Interconnector Units for individual Gates were only designed as a mechanism to implement IDT requirements. They also noted that prior to IDT it was not possible isolate trading periods with a positive contribution to MWP from those with a negative contribution to MWP. MO alternate added that there wasn’t an intention to introduce this scenario, but rather that this was a practicality of implementing IDT.

MO alternate stated their belief that the equivalent of a generator unit is an Interconnector User, not the Interconnector Unit. Electroroute representative expressed the view that in that case the trader would be liable to significant uncompensated risks. Observer reiterated that these would not be uncompensated, but they would be compensated only when necessary, due to not being whole in aggregate in relation to their bids, in line with all other Generator Units.

Electroroute representative advised that before IDT there was no export trading as there was only 1 trading window.

MO Alternate advised that removing periods of simultaneous Import/Export is against the principle of superpositioning which was introduced into the IDT detailed design at the request of IC traders.

Removing those periods from the Make Whole Payment aggregation will create scenarios where trading periods with large import and minimal Export would be excluded and vice versa. This means that periods where MWP should apply are excluded from the recovery and the trader is exposed to Uplift. Vice versa, periods where the Interconnector Unit has already been made whole would not be considered in the MWP calculation, therefore resulting in an overecovery. This is different from other generator units and seems at odds with the proposer intention for the mod.

MO Alternate provided the IA results that had been procured by SEMO IT at the request of the Committee at the previous Modifications Committee Meeting:

* Mod\_09\_14 Amendment to MWPs for ICUs: Cost for the first proposal in isolation: **€61,030**
* Mod\_10\_14: Assessment for the change against the current Production system **€20,060 hours**
* Assessment for the change against the amended functionality (i.e. should the calculation amendment option be considered first and the removal after). **€20,910 – (this would be in addition to the above estimate of €61,030 for Mod\_09\_14**)

Discussion ensued in relation to whether a vote taking place in January would delay implementation of whichever proposal was approved. The Committee did not feel comfortable to vote on any of the four MWP proposals at the Meeting and requested further information on the proposals from the RAs and Electroroute.

Generator Member expressed the view to see the impact of the proposals in relation to whether exports could continue, impact of curtailment of wind generation and further explanation of social welfare analysis presented by Electroroute. Generator Member expressed the need to see further RA analysis as to whether all of the MWPs are associated with exporting. Chair concluded the discussion advising that the issue must be urgently addressed and that more information on all of the proposals is necessary, prior to scheduling an extraordinary meeting/call with Participants in mid-January.

## Meeting 59 – 12 february 2015

## **make whole payments discussion (On all four Modification proposals 09\_14-12\_14)**

A number of members and observers expressed concern at the lack of detailed response from the RAs. RA Member advised that they have provided their rationale for the proposals and these are now within the domain of the Modifications Committee. It is up to the Committee to deliberate the issues and decide how best to proceed. RA Member welcomed Committee views on what the RAs could have done differently when submitting their two proposals on MWPs.

IC representative proposer expressed the view that there is a need for a higher level of engagement in the discussion from the RAs as proposer. Supplier Member expressed the view that what the RAs have done when raising the proposals is absolutely correct, however expressed the view of the necessity for the RAs to engage in the discussion as proposer of 2 of the MWP proposals. RA Member advised that some of the questions posed were fundamental market design issues, and that these concerns are best addressed by the Modifications Committee.

MO Member delivered a [presentation](http://semopub/MarketDevelopment/ModificationDocuments/SEMO%20presentation%20on%20MWP_Publish.ppt) covering the mechanism of Make Whole Payments (MWPs) in the SEM. This presentation covered the rationale behind the payment and also provided Market Operator comments regarding the four relevant modifications. MO Member advised that for the purposes of the Code, MWPs were intended to be an occasional payment in the exceptional circumstances where costs are not recovered, through energy payments and uplift. Units with Negative schedules, such as Pumped Storage or IC units exporting, are instead exposed to Uplift and they might not recover their costs; however the IC users are considered equivalent to a Generator Unit, not the individual IC Gate Unit. Gate Units were created to respond to the IDT design need to firm schedule amount for IC in each Gate. MO Member further advised that the MWP amounts that are paid out on a weekly basis, are then recovered through the imperfections charge and provided examples of current payments for sample units. Questions were taken throughout and after the presentation addressing the various positions regarding these modifications with a separate afternoon session to continue the discussion.

Observer asked whether increases in MWP were due to IDT. MO member showed in the graph that the increase was not a direct consequence of IDT because it happened nearly one year after IDT went live. MO Member also explained the unusual nature of the highest payments all referring to the Ex-Ante 2 Gate of the same Party; MWP were not intended to be a regular payment stream.

MO alternate said that large increase of MWP seemed to coincide with increase in netting import and export volumes at different Gates. Observer replied this was due to the growth in the company.

DSU Member queried as to where constraint payments fit into the MWP mechanism. MO Member advised that constraints do not fit in to the MWP mechanism and that just the energy payments are taken in consideration.

Generator Member sought clarification in relation to unlimited exports of IC Users due to superpositioning introduced by IDT, querying as to whether IC Users are limited as to the amount an IC User can import and export. MO Member advised that as long as there is enough capacity on the opposite side, IC Users are not limited by IC capacity due to superpositioning.

IC representative proposer drew attention to disjointed price signals within the SEM and the significant ex-post price risk IC Units face when exporting however expressed agreement that there is an issue that needs to be addressed. MO Alternate drew attention to the issue of IC User’s bids import bids being lower than export bids. MO Member advised that other exporters on EWIC do that without the need for MWPs. GU member said that they were the 2nd largest exporter on IC and they did not get MWP. IC representative proposer expressed the view that it is the nature of the self-dispatch versus central dispatch aspect of the market and they would welcome a debate on this.

Discussion ensued in relation to netting volumes, IC representative proposer explained that the import would be paid SMP and the export paid via MWPs at a different lower rate, and that does amount to a difference in payments. MO member advised that this did not affected recovery of costs; netting would still allow MWP where necessary as demonstrated in the presentation graphs. Discussions continued on the nature of costs to be recovered via Uplift that are specific to standard Generator and whether IC Users should rely on MWP or they should find ways of edging their risks differently. Observer questioned whether Suppliers should be getting MWP as well given that IC users act as a Supplier when exporting.

In conclusion of the morning session the Committee rejected proposals MOD\_10\_14 Removal of MWPs for IC Units and MOD\_11\_14 Pay as bid/Paid as bid for IC Units on the basis that neither were considered viable solutions to the issue identified, leaving two remaining modifications for further discussion following the break, Mod\_09\_14 and Mod\_12\_14.

Chair drew reference to the issue of discrimination that had previously been raised by ElectroRoute, advising that as stated in the SEMO MWP slides, APTG, VPTG and PPTG’s do not receive MWPs and observer mentioned that it is common to have different rules for different unit types.

On the recommendation of the Chair, the afternoon session aimed to discuss the different variants between the two remaining modifications. Chair queried as to whether SEMO had a preference between the 2 proposals that remain open for discussion. MO Member expressed the view that it is up to the Committee to decide on the most suitable approach and the MO can facilitate any of the proposed MODs. IC representative proposer expressed IC representative proposer preference for Mod\_12\_14.

Supplier Member drew attention to the urgency of the necessity to address the issue. Chair agreed and expressed the view that the Committee have recognised the urgency. IC representative proposer advised that they welcome the debate and are of the view of a need for an appropriate forum with input from the RAs to be established for the relevant parties to deliberate the fundamental issues. Generator Member expressed the view that a Working Group would not be beneficial as there would be no additional information for this specific issue and that an Extraordinary meeting would be a more appropriate forum. Further advised that the SEMO presentation was very useful in assisting in understanding the background to MWPs. The Committee were in agreement that a WG would not be beneficial and agreed to convene an Extraordinary Meeting.

Supplier Member proposed suggestion of taking the shadow price instead of Market Offer Price in addition to the aggregation proposed in MOD\_09\_14 which may address IC Users concerns. Generator Member drew attention to potential amendments to Mod\_12\_14 on a trading period basis.

Chair requested inputs and comments from other IC users. Observer said that they were satisfied that MOD\_10\_09 had been rejected and that they would agree with either of the remaining options.

MO Alternate advised that the issue is that, removing TPs of simultaneous Import and Export, could carry an under or over-recovery that is then disregarded. Observer agreed with MO alternate that MOD\_12\_14 would undo IDT by limiting freedom of trades between Gates.

Observer advised that the trading of exports on the IC is a separate issue. Observer acknowledged that there are flaws within the SEM.

Following this discussion it was agreed by the Committee that the appropriate next steps would be to allow two weeks to develop the proposed alternative version of MOD\_09\_14 by Supply Member and a potential new version of Mod\_12\_14 by the proposer encompassing the suggestions discussed during the meeting. Both proposers have agreed to engage with SEMO in order to progress an Impact Assessment of the revised Mods and to discuss potential consequences of the changes. Before the next meeting an Extraordinary meeting will also be held to discuss the modifications with a view to progressing this issue. Actions are recorded under the respective Modification Proposals below.

## extraordinary Meeting 60 – 24th March 2015 make whole payments discussion (On remaining two Modification proposals Mod\_09\_14\_V2 and Mod\_12\_14)

Secretariat confirmed that Mod\_10\_14 and Mod\_11\_14 were Recommended for Rejection at Meeting 59 leaving the two remaining proposals to be considered at the Meeting with a view to bringing these proposals to a vote.

MO Member delivered a presentation detailing the algebra and wording clarification required for the final legal drafting of both Mods. Impact Assessments have been completed with costings estimated at €112,100 for Mod\_09\_14 version 2 and €23,120 for Mod\_12\_14. It was communicated that a summer timescale could be achievable for implementation of any required systems changes, pending approval from SEM Committee.

Electroroute representative also delivered a presentation summarising the Make Whole Payments discussion process to date and the variances between the remaining proposals. Electroroute representative stated that Mod\_12\_14 was still their preferred proposal however advised that both proposals represent an improvement to the current situation

Supplier member provided a brief overview of the alternative version to Mod\_09\_14.

The Chair invited comments for discussion.

Observer opened the discussion by conveying their sense that this modification process is as a result of the flaws in the existing market design and that Interconnector bidding methods should be changed rather than attempting to change the rules, as it is not clear why are they bidding this way for Imports. Observer further advised that there is no perfect solution.

Electroroute representative agreed that bidding behaviour in general needed to be addressed in the market and that this was a wider and deeper issue. It was felt that vision was lacking in relation to the operation of interconnectors in the market.

Observer advised that it is not the time to look at restructuring the market with I-SEM being developed and that there is no perfect solution to this current issue. There are higher level European directives that also affect future outcomes and issues regarding derogation.

Generator Member was keen to explore the financial implications in implementing the remaining proposals in respect of reducing the volume of make whole payments.

MO Member was unable to provide specific figures but could confidently state that both proposals would allow for substantial reductions in the current volumes of make whole payments at the current level of trade. MO Member clarified that the highest payment at the current trade level is approximately €100,000.00. MO Member further clarified that under Mod\_12\_14, MWPs would also not be paid if any type of repositioning is attempted.

DSU Member enquired as to whether it is possible to only export and still receive make whole payments. MO Member clarified that this is correct however your net position would be export so there would be flow in that direction. Supplier Member advised that there would be an opportunity cost associated with that type of trading.

Supplier Alternate noted that while it appears that Mod\_09\_14\_V2, may not impact the value of the interconnector capacity that has already been bought, any affect on the value of interconnector capacity already purchased by the time the chosen make whole payment Mod comes into force, should be avoided. The Supplier Alternate further advised that the adoption of a make whole payment Mod will likely influence the value of the capacity, and thus it might be prudent to postpone the summer 2015 annual interconnector capacity auctions to allow for the modification to be implemented.

DSU Member advised that interconnector auctions are outside the remit of the Modifications (and ultimately the SEM) Committee.

RA Member was in agreement that the auctions are outside of the Committee scope and that the implementation of the remaining Mods should not affect the interconnector Capacity Auctions.

Observer expressed the view that if an IC User takes an export position only, this would reduce the value of import capacity.

RA Member advised that this approach suggests that IC Users are placing an additional value on the ability to net MWPs. RA Member advised that the proposals do not eliminate MWPs for IC Users however it can be raised as a separate issue afterwards if deemed necessary.

Observer advised of the possibility of some traders who are currently active in both the import and export markets, deciding to export only to avoid any potential impact on their MWPs.

Observer clarified that the decision for only importing or exporting is taken for each trading period.

Chair suggested any such concerns regarding the interconnector capacity auctions could be reflected in the Final Recommendation Report along with any other views.

Supplier Member advised that neither proposal closed off all the outstanding issues and asked that the overall situation is monitored going forward to assess future patterns in payment mechanisms.

Generator Member sought clarification as to whether Mod\_09\_12 version 1 needed to be voted on.

Secretariat advised that should the Committee want to do so a vote could be taken, however, normal practice is that the alternative version of the modification was only voted on and the original version becomes redundant upon submission of an alternative version.

Generator Member also asked that the RAs continue to monitor the situation on an ongoing basis to assess escalating cost implications as whichever proposal was approved was not a perfect fix to this issue.

Electroroute representative expressed the preference for , a possible working group to be set up to look at the whole area of cross border trades, as this is an area of the market that is currently lacking any depth, if the issue was to be discussed again in the future.

Chair advised that this area should have been visited as part of the Intra Day Trading design process.

Generator Member asked that analysis be undertaken to establish changes in the market affected by any implemented modification. Also stated that a further modification proposal process may be needed to address further issues.

Supplier Alternate expressed the view that a decision on the MWP issue should be made as soon as possible as the values of interconnector capacity are likely to be affected.

Observer also wanted it noted that there was a clear need for direction and definition of how the market should work and questioned if this could be addressed.

RA member questioned how such direction could be implemented as Interconnectors are not licenced.

Observer suggested that Mod\_11\_14 Pay as Bid may provide a base for such a solution.

Chair asked for any further comments or discussion. No more discussion was required and the vote took place on both modifications (subject to legal drafting as proposed by SEMO).

Chair suggested that in the event that both modifications were approved a preference could be stated at the time of voting.

# Proposed Legal Drafting

As set out below:

|  |
| --- |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| Make Whole Payments  4.139 The purpose of Make Whole Payments is to make up any difference between the total Energy Payments to a Generator Unit (excluding Interconnector Units) or to an Interconnector User in a Billing Period, and the Schedule Production Cost within that Billing Period (where the difference is arithmetically positive calculated over the Billing Period), as set out algebraically below.  4.140 The Market Operator shall procure that Make Whole Payments shall be calculated on a Billing Period basis for each Generator Unit u that is not an Interconnector Unit in Billing Period b, as follows:    Where:  MWPub is the Make Whole Payment for Generator Unit u in Billing Period b;  MOPuh is the Market Offer Price of Generator Unit u in Trading Period h;  SMPh is the System Marginal Price for Trading Period h;  MSQLFuh is the Loss-Adjusted Market Schedule Quantity for Generator Unit u in Trading Period h;  TPD is the Trading Period Duration;  MNLCLFuh is the Loss-Adjusted Market No Load Cost for Generator Unit u in Trading Period h;  MSQCCLFuh is the Loss-Adjusted Market Schedule Quantity Cost Correction for Generator Unit u in Trading Period h;  MSUCLFuh is the Loss-Adjusted Market Start Up Cost for Generator Unit u in Trading Period h;  the summation is over all Trading Periods h in Billing Period b excluding any Trading Periods h in which the Generator Unit is Under Test.  4.140 A   The Market Operator shall procure that Make Whole Payments shall be calculated on a Billing Period basis for each Interconnector User i comprising Interconnector Units u in Billing Period b, as follows;  *If MSQLFuh* ≥ 0  *then*    Where:  MWPib is the Make Whole Payment for Interconnector User i in Billing Period b;  MOPuh is the Market Offer Price of Interconnector Unit u in Trading Period h;  SPh is the Shadow Price for Trading Period h  SMPh is the System Marginal Price for Trading Period h;  MSQLFuh is the Loss-Adjusted Market Schedule Quantity for Interconnector Unit u in Trading Period h;  TPD is the Trading Period Duration;  MSQCCLFuh is the Loss-Adjusted Market Schedule Quantity Cost Correction for Interconnector Unit u in Trading Period h;  the summation is over all Trading Periods h in Billing Period b;  the summation is over all Interconnector Units u for Interconnector User i.  Glossary   |  |  | | --- | --- | | Make Whole Payment | means a payment in respect of each Generator Unit and in respect of each Interconnector User, designed to make up any difference between the total Energy Payments for the Generator Unit in a Billing Period and the total of the Schedule Production Cost for that Generator Unit for each Trading Period within the Billing Period (where the difference is arithmetically positive calculated over the Billing Period) as set out in paragraphs 4.140 and 4.140A or as otherwise specified in Section 5. | |

# LEGAL REVIEW

Complete

# IMPLEMENTATION TIMESCALE

It is proposed that this Modification Proposal be implemented on a Settlement Day basis in line with the next scheduled CMS release.

# Appendix 1: Mod\_09\_14 amendment to make whole payments for interconnector units\_v2

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| **MODIFICATION PROPOSAL FORM** | | | | | |
| **Proposer** | **Date of receipt** | | **Type of Proposal** | | **Modification Proposal ID** |
| **Electric Ireland** | **25 February 2015** | | **Standard** | | **Mod\_09\_14\_v2** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **William Carr** | | **01 893 4530** | | **William.Carr@esb.ie** | |
| **Modification Proposal Title** | | | | | |
| **Amendment to Make Whole Payments for Interconnector Units** | | | | | |
| **Documents affected** | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **T&SC** | | **Section 4** | | **Version 15** | |
| **Explanation of Proposed Change** | | | | | |
| The purpose of this Modification Proposal is to amend the Code so that Interconnector Users receive Make Whole Payments based on their aggregate position across all gate windows (EA1, EA2 & WD1) in which they have traded from the current Code wording where each gate window is considered separately for the calculation of Make Whole Payments.  Mod\_09\_14 v2 allows for a distinction to be made in the calculation of make whole payments for interconnector users based on the direction of the flow. The reason for introducing this distinction is to ensure, considering established market trends, that interconnector users who schedule trades in different directions in different trading windows for a given trading period continue to be protected from unrecovered costs by the make whole payment mechanism. | | | | | |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* | | | | | |
| Make Whole Payments  4.139 The purpose of Make Whole Payments is to make up any difference between the total Energy Payments to a Generator Unit (excluding Interconnector Units) or to an Interconnector User in a Billing Period, and the Schedule Production Cost within that Billing Period (where the difference is arithmetically positive calculated over the Billing Period), as set out algebraically below.  4.140 The Market Operator shall procure that Make Whole Payments shall be calculated on a Billing Period basis for each Generator Unit u that is not an Interconnector Unit in Billing Period b, as follows:    Where:  MWPub is the Make Whole Payment for Generator Unit u in Billing Period b;  MOPuh is the Market Offer Price of Generator Unit u in Trading Period h;  SMPh is the System Marginal Price for Trading Period h;  MSQLFuh is the Loss-Adjusted Market Schedule Quantity for Generator Unit u in Trading Period h;  TPD is the Trading Period Duration;  MNLCLFuh is the Loss-Adjusted Market No Load Cost for Generator Unit u in Trading Period h;  MSQCCLFuh is the Loss-Adjusted Market Schedule Quantity Cost Correction for Generator Unit u in Trading Period h;  MSUCLFuh is the Loss-Adjusted Market Start Up Cost for Generator Unit u in Trading Period h;  the summation is over all Trading Periods h in Billing Period b excluding any Trading Periods h in which the Generator Unit is Under Test.  4.140 A   The Market Operator shall procure that Make Whole Payments shall be calculated on a Billing Period basis for each Interconnector User i comprising Interconnector Units u in Billing Period b, as follows;  *If MSQLFuh* ≥ 0  *then*     * 1. *else*     Where:   1. MWPib is the Make Whole Payment for Interconnector User i in Billing Period b;   MOPuh is the Market Offer Price of Interconnector Unit u in Trading Period h;  SPh is the Shadow Price for Trading Period h  SMPh is the System Marginal Price for Trading Period h;  MSQLFuh is the Loss-Adjusted Market Schedule Quantity for Interconnector Unit u in Trading Period h;  TPD is the Trading Period Duration;  MSQCCLFuh is the Loss-Adjusted Market Schedule Quantity Cost Correction for Interconnector Unit u in Trading Period h;  the summation is over all Trading Periods h in Billing Period b;  the summation is over all Interconnector Units u for Interconnector User i.  Glossary   |  |  | | --- | --- | | Make Whole Payment | means a payment in respect of each Generator Unit and in respect of each Interconnector User, designed to make up any difference between the total Energy Payments for the Generator Unit in a Billing Period and the total of the Schedule Production Cost for that Generator Unit for each Trading Period within the Billing Period (where the difference is arithmetically positive calculated over the Billing Period) as set out in paragraph 4.140 or as otherwise specified in Section 5. | | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| A significant increase in SEM Make Whole Payments (MWPs) has been observed. The average total monthly MWP for the years 2011 and 2012 was under €14,000. However, beginning in April 2013 there has been a trend of increased Make Whole Payments with a monthly total of over €800,000 being observed in June 2014. Figure 1 gives the time-series of total monthly Make Whole Payments[[2]](#footnote-2) from 2011 to September 2014. Figure 2 gives the total Make Whole Payments for the first six months of the year for Interconnector Users (blue) and all other units (green). From this it can be seen that the increased Make Whole Payments are predominantly attributable to interconnector trading activity.    **Figure 1:** Time-series of Total Monthly Make Whole Payments from 2011 to September 2014    **Figure 2:** Total MWPs for Interconnector Users (blue) and all other units (green) for the first 6 months of the year  Make Whole Payments are included in the SEM design to account for the (foreseen to be rare) occasions when a generator’s Schedule Production Costs in any given Billing Week are not recovered through its total Energy Payments for the same period. For each Interconnector User Make Whole Payments are calculated separately for each gate window (EA1, EA2 and WD1). An Interconnector User trading in the different gates is assigned a different Interconnector Unit for each gate window it trades in. A Make Whole Payment is only made if the sum of MWP in the billing week is positive.  This means that an interconnector user could trade 100 MW of import in EA1 and 100 MW of export in EA2 resulting in a net flow of 0 MW. The EA2 unit could accrue a positive MWP that would be paid after the billing week so that this unit effectively trades at its bid price via the MWP mechanism. The EA1 unit could develop a negative MWP but this would not result in any payment to the market. Therefore; for a net flow of 0 MW, an Interconnector User could still receive a Make Whole Payment which results in export effectively charged at bid netted with import paid at SMP where SMP is greater than the export bid.  The proposer does not believe that the current situation in the Code should continue as it is now as it is resulting in a significant increase in Make Whole Payments which are paid by all suppliers through the Imperfections Charge. The proposer does not believe that the current situation in the Code is a necessary pre-requisite for efficient trading between SEM and BETTA and therefore does not believe that this will distort efficient cross border trade.  Where an interconnector user establishes a scheduled position by bidding long term rather then marginal costs and a differential between the energy payment to be received and the scheduled production cost is calculated. Then, where make whole payments are calculated on the aggregate basis across the three trading windows, the calculated differential could act as a barrier to the interconnector user reducing or reverse it’s established position in later trading gates by reducing the protection offered by the make whole payment mechanism.  There is an established trend in SEM whereby import bids are based on long term costs therefore to recognise this trend in the context of the proposed aggregation of the make whole payment calculation across the three trading windows, it is additional proposed that the scheduled production cost of imports for the proposes of the make whole payment calculation be calculated on the basis of the greater of the shadow price and unit’s market offer price in the respective trading period.  In this way, for imports, the differential between energy payment and scheduled product costs will be reduced to a marginal cost basis and the aggregation of make payment calculation across the three trading gates will not be erode interconnector user’s ability to utilise intra-day trading to modify their scheduled positions. | | | | | |
| **Code Objectives Furthered**  *(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* | | | | | |
| * to ensure no undue discrimination between persons who are parties to the Code; and * 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. | | | | | |
| **Implication of not implementing the Modification Proposal**  *(State the possible outcomes should the Modification Proposal not be implemented)* | | | | | |
| If this Modification to the Code is not made the current situation with regards to Make Whole Payments will continue and may increase based on recent trends. This will continue to put upward pressure on the Imperfections Charge which is paid for by all suppliers and ultimately consumers. | | | | | |
| **Working Group**  *(State if Working Group considered necessary to develop proposal)* | | | **Impacts**  *(Indicate the impacts on systems, resources, processes and/or procedures)* | | |
| The proposer does not consider this necessary. | | | SEMO has carried out an impact assessment which suggested that the estimated cost of implementing the proposed change detailed above in the SEM systems €61,030 based on 359 hours of chargeable time. However, this is based on the implementation being included in one of the periodic six monthly releases. | | |
| ***Please return this form to Secretariat by email to*** [***modifications@sem-o.com***](mailto:modifications@sem-o.com) | | | | | |

# Appendix 2: Mod\_09\_14 amendment to make whole payments for interconnector units

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| **MODIFICATION PROPOSAL FORM** | | | | | |
| **Proposer** | **Date of receipt** | | **Type of Proposal** | | **Modification Proposal ID** |
| **Regulatory Authorities** | **14 November 2014** | | **Standard** | | **Mod\_09\_14** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **Warren Deacon**  **Brian Mulhern** | | **+353 1 4000800**  **+44 (0) 28 9031 1575** | | [**wdeacon@cer.ie**](mailto:wdeacon@cer.ie)  [**Brian.Mulhern@uregni.gov.uk**](mailto:Brian.Mulhern@uregni.gov.uk) | |
| **Modification Proposal Title** | | | | | |
| **Amendment to Make Whole Payments for Interconnector Units** | | | | | |
| **Documents affected** | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **T&SC** | | **Section 4** | | **Version 15** | |
| **Explanation of Proposed Change** | | | | | |
| The purpose of this Modification Proposal is to amend the Code so that Interconnector Users receive Make Whole Payments based on their aggregate position across all gate windows (EA1, EA2 & WD1) in which they have traded from the current Code wording where each gate window is considered separately for the calculation of Make Whole Payments. | | | | | |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* | | | | | |
| Make Whole Payments  4.139 The purpose of Make Whole Payments is to make up any difference between the total Energy Payments to a Generator Unit (excluding Interconnector Units) or to an Interconnector User in a Billing Period, and the Schedule Production Cost within that Billing Period (where the difference is arithmetically positive calculated over the Billing Period), as set out algebraically below.  4.140 The Market Operator shall procure that Make Whole Payments shall be calculated on a Billing Period basis for each Generator Unit u that is not an Interconnector Unit in Billing Period b, as follows:    Where:  MWPub is the Make Whole Payment for Generator Unit u in Billing Period b;  MOPuh is the Market Offer Price of Generator Unit u in Trading Period h;  SMPh is the System Marginal Price for Trading Period h;  MSQLFuh is the Loss-Adjusted Market Schedule Quantity for Generator Unit u in Trading Period h;  TPD is the Trading Period Duration;  MNLCLFuh is the Loss-Adjusted Market No Load Cost for Generator Unit u in Trading Period h;  MSQCCLFuh is the Loss-Adjusted Market Schedule Quantity Cost Correction for Generator Unit u in Trading Period h;  MSUCLFuh is the Loss-Adjusted Market Start Up Cost for Generator Unit u in Trading Period h;  the summation is over all Trading Periods h in Billing Period b excluding any Trading Periods h in which the Generator Unit is Under Test.  4.140 A The Market Operator shall procure that Make Whole Payments shall be calculated on a Billing Period basis for each Interconnector User i comprising Interconnector Units u in Billing Period b, as follows;    Where:   1. MWPib is the Make Whole Payment for Interconnector User i in Billing Period b;   MOPuh is the Market Offer Price of Interconnector Unit u in Trading Period h;  SMPh is the System Marginal Price for Trading Period h;  MSQLFuh is the Loss-Adjusted Market Schedule Quantity for Interconnector Unit u in Trading Period h;  TPD is the Trading Period Duration;  MSQCCLFuh is the Loss-Adjusted Market Schedule Quantity Cost Correction for Interconnector Unit u in Trading Period h;  the summation is over all Trading Periods h in Billing Period b;  the summation is over all Interconnector Units u for Interconnector User i.  Glossary   |  |  | | --- | --- | | Make Whole Payment | means a payment in respect of each Generator Unit and in respect of each Interconnector User, designed to make up any difference between the total Energy Payments for the Generator Unit in a Billing Period and the total of the Schedule Production Cost for that Generator Unit for each Trading Period within the Billing Period (where the difference is arithmetically positive calculated over the Billing Period) as set out in paragraph 4.140 or as otherwise specified in Section 5. | | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| A significant increase in SEM Make Whole Payments (MWPs) has been observed. The average total monthly MWP for the years 2011 and 2012 was under €14,000. However, beginning in April 2013 there has been a trend of increased Make Whole Payments with a monthly total of over €800,000 being observed in June 2014. Figure 1 gives the time-series of total monthly Make Whole Payments[[3]](#footnote-3) from 2011 to September 2014. Figure 2 gives the total Make Whole Payments for the first six months of the year for Interconnector Users (blue) and all other units (green). From this it can be seen that the increased Make Whole Payments are predominantly attributable to interconnector trading activity.  **Figure 1:** Time-series of Total Monthly Make Whole Payments from 2011 to September 2014  **Figure 2:** Total MWPs for Interconnector Users (blue) and all other units (green) for the first 6 months of the year  Make Whole Payments are included in the SEM design to account for the (foreseen to be rare) occasions when a generator’s Schedule Production Costs in any given Billing Week are not recovered through its total Energy Payments for the same period. For each Interconnector User Make Whole Payments are calculated separately for each gate window (EA1, EA2 and WD1). An Interconnector User trading in the different gates is assigned a different Interconnector Unit for each gate window it trades in. A Make Whole Payment is only made if the sum of MWP in the billing week is positive.  This means that an interconnector user could trade 100 MW of import in EA1 and 100 MW of export in EA2 resulting in a net flow of 0 MW. The EA2 unit could accrue a positive MWP that would be paid after the billing week so that this unit effectively trades at its bid price via the MWP mechanism. The EA1 unit could develop a negative MWP but this would not result in any payment to the market. Therefore; for a net flow of 0 MW, an Interconnector User could still receive a Make Whole Payment which results in export effectively charged at bid netted with import paid at SMP where SMP is greater than the export bid.  The proposer does not believe that the current situation in the Code should continue as it is now as it is resulting in a significant increase in Make Whole Payments which are paid by all suppliers through the Imperfections Charge. The proposer does not believe that the current situation in the Code is a necessary pre-requisite for efficient trading between SEM and BETTA and therefore does not believe that this will distort efficient cross border trade. | | | | | |
| **Code Objectives Furthered**  *(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* | | | | | |
| * to ensure no undue discrimination between persons who are parties to the Code; and * 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. | | | | | |
| **Implication of not implementing the Modification Proposal**  *(State the possible outcomes should the Modification Proposal not be implemented)* | | | | | |
| If this Modification to the Code is not made the current situation with regards to Make Whole Payments will continue and may increase based on recent trends. This will continue to put upward pressure on the Imperfections Charge which is paid for by all suppliers and ultimately consumers. | | | | | |
| **Working Group**  *(State if Working Group considered necessary to develop proposal)* | | | **Impacts**  *(Indicate the impacts on systems, resources, processes and/or procedures)* | | |
| The proposer does not consider this necessary. | | | SEMO has carried out an impact assessment which suggested that the estimated cost of implementing the proposed change detailed above in the SEM systems €61,030 based on 359 hours of chargeable time. However, this is based on the implementation being included in one of the periodic six monthly releases. | | |
| ***Please return this form to Secretariat by email to*** [***modifications@sem-o.com***](mailto:modifications@sem-o.com) | | | | | |

1. All monthly totals presented in this document refer to payments in invoices issued in that particular month [↑](#footnote-ref-1)
2. All monthly totals presented in this document refer to payments in invoices issued in that particular month [↑](#footnote-ref-2)
3. All monthly totals presented in this document refer to payments in invoices issued in that particular month [↑](#footnote-ref-3)