



Trading and Settlement Code Modifications Committee  
C/O Aisling O'Donnell  
SEMO Modifications Committee Secretariat  
The Oval  
160 Shelbourne Rd  
Dublin 4

27<sup>th</sup> August 2010

Our Ref: D/10/13842

**SEM Committee Decision for the Regulatory Authorities in relation to Mod\_12\_09 and Mod\_45\_09 (Recommendation Reports FRR\_12\_09 and FRR\_45\_09)**

Dear Aisling,

On 21<sup>st</sup> December 2009, the Modifications Committee submitted its Modification Recommendation Reports with regard to Modification Proposals, Mod\_12\_09 (Loss Adjustments in Constraint and Make Whole Payments) and Mod\_45\_09 (Loss Adjustments in the Calculation of the Cost of Running in the Procedure to Calculate final Uplift Values), in accordance with paragraph 2.213 of the SEM Trading and Settlement Code (the Code).

Modification Proposal Mod\_12\_09 was raised by the Regulatory Authorities in March 2009 subsequent to a SEM Committee General Direction<sup>1</sup>. To implement the General Direction fully, there was a requirement to raise such a Modification Proposal to modify the Code and the Central Market Systems to ensure the algebra for Make Whole Payments and Constraint Payments is consistent with the incorporation of losses, prior to submission, into Start Up Cost and No Load Cost components of Commercial Offer Data. The General Direction stated that upon implementation of this Modification (or any other Modification which accomplishes the intended effect), the following will come into effect: *"In calculating the Start-Up Cost and No-Load Cost as part of the daily Commercial Offer Data, A Generator must prudently incorporate the cost of transmission losses, with reference to the Generator TLAfs. The bid must represent the Start-Up Cost and No-Load Cost at the Trading Boundary"*.

An alternative approach was put forward by ESB PG as part of the development of Mod\_12\_09. A working group meeting was subsequently held to discuss Mod\_12\_09 and the alternative approach. ESB PG's proposal was submitted as a formal Modification Proposal (Mod\_45\_09) on 19<sup>th</sup> November 2009. The working group report states that *"this change would achieve the same results as the original proposal with a different approach"*. This second Modification Proposal (Mod\_45\_09) is therefore an alternative to the original Modification Proposal (Mod\_12\_09).

A further option was discussed at the working group meeting; *"Option 3 proposes to continue with the current rules and await the outcome of the locational signals review"*. However, the

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<sup>1</sup> SEM-08/179 "Transmission Loss-Adjustment in Commercial Offer Data" published on 16<sup>th</sup> December 2008. Section 6 of this direction is included as the Appendix to this letter.

working group report states that *“the group agreed that either Option 1 or 2 should be progressed and that Option 3 was not really appropriate given that the impetus for the change came from a SEMC General Direction”*.

The Modifications Committee considered whether both Modification Proposals further the Code Objectives ‘to provide transparency in the operation of the Single Electricity Market’ and ‘to ensure no undue discrimination between persons who are parties to the Code’. The SEM Committee notes that the Modifications Committee voted (by a majority vote) to recommend Mod\_12\_09 for rejection to the Regulatory Authorities. The SEM Committee further notes that the Modifications Committee voted (again by a majority vote) to recommend Mod\_45\_09 for approval and that it should be implemented on a Trading Day basis, with an implementation date in line with the SEM central market systems release plan. It was generally recognised by the Modifications Committee that implementing either Modification Proposal is preferential to implementing neither Modification Proposal.

The Regulatory Authorities have examined the costs and benefits of both Modification Proposals and consider that Mod\_12\_09 has more benefits than Mod\_45\_09 for a number of reasons, primarily:

- Mod\_12\_09 ensures consistency in the application of TLAFs by requiring the Price Quantity pairs, Market Start Up Costs and No Load Costs to be loss-adjusted. Mod\_45\_09 does not provide for this and hence this means that the scheduling process in the Market Scheduling and Pricing (MSP) Software will continue to be biased when the software calculates the comparative economics of starting one Generator Unit or increasing the output of another;
- Mod\_12\_09 will correct the current inconsistency in the Unit Commitment stage of the MSP Software when considering whether to start new generation/ when scheduling generators to run;
- The Modification Recommendation Report for Mod\_45\_09 noted that “in summary, the Voting Members noted that in rejecting Mod\_12\_09, they believed that the production cost minimisation approach taken within Mod\_45\_09 was more in keeping with the Objectives of the Code while still addressing the SEM Committee Decision”. However, it is considered that the use of one set of costs in the Unit Commitment Schedule and Economic Dispatch and another in the calculation of SMP, as would be the case if 45\_09 were implemented, is not consistent with the objectives of the Code; and,
- Both modifications would be relatively inexpensive however the indicative cost of systems development in the Central Market Systems is forecast to be less for Mod\_12\_09. An additional cost would be required for recertification of the MSP software should Mod\_45\_09 be implemented. No costs have been estimated for the impact of either proposal on Participants.

Considering the above, and in accordance with paragraph 2.218 of the Code, the SEM Committee decides that a modification be made in accordance with the Final Recommendation Report of the Modifications Committee (FRR\_12\_09), for the avoidance of doubt, based upon the legal drafting set out in Appendix 1 of that report. Accordingly, the SEM Committee decides that Mod\_45\_09 should be rejected and should not be implemented.

The Regulatory Authorities therefore direct that the Modification, as set out in FRR\_12\_09, be made on a Trading Day basis with effect from the date of the scheduled release of the Central Market Systems which includes the required software changes. The RAs further direct that the

Market Operator shall publish the date of the relevant release of the Central Market Systems (together with details of all the Modifications which shall come into effect on that date) on its website no less than one week in advance of that date.

Yours sincerely,

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Dana Kelleher  
Analyst  
Wholesale Electricity Market

## **Appendix: Section 6 of the SEM Committee General Directed published on 16<sup>th</sup> December 2008**

### **D.1**

In calculating the Price component of Price/Quantity pairs as part of daily Commercial Offer Data, a Generator must prudently incorporate the cost of transmission losses, with reference to the relevant Generator TLAFs. The bid must represent the Price at the Trading Boundary.

### **D.2**

In calculating the Start-Up Cost and No-Load Cost as part of daily Commercial Offer Data, a Generator must **not** incorporate the cost of transmission losses, via TLAF or otherwise. The Start-Up Cost and No-Load Cost must be relevant at the Connection Point rather than the Trading Boundary.

### **D.3**

In calculating the Quantity component of Price/Quantity pairs as part of daily Commercial Offer Data, a Generator must adhere to Grid Code Clause SDC 1.4.4.5 and **not** incorporate the cost of transmission losses, via TLAF or otherwise. The Quantity must be relevant at the Connection Point rather than the Trading Boundary.

### **D.4**

As a corollary, the SEMC intends to propose and support a Trading and Settlement Code Modification as outlined in Annex 1 (the draft is an outline only). Upon implementation of this Modification (or any other Modification which accomplishes the intended effect), the SEMC intends to repeal D.2. above, to be replaced with the draft <D.5> below.

Additionally, the SEMC wishes to propose a clarifying amendment to Section SDC 1.4.4.5 of the Grid Code as drafted in Annex 2.

### **<D.5> NOT A DIRECTION**

In calculating the Start-Up Cost and No-Load Cost as part of daily Commercial Offer Data, a Generator must prudently incorporate the cost of transmission losses, with reference to the Generator TLAFs. The bid must represent the Start-Up Cost and No-Load Cost at the Trading Boundary.