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| **MODIFICATION PROPOSAL FORM** |
| **Proposer***(Company)* | **Date of receipt***(assigned by Secretariat)* | **Type of Proposal***(delete as appropriate)* | **Modification Proposal ID***(assigned by Secretariat)* |
| **Power NI Power Procurement Business** | **01 February 2019** | **Standard**  | **MOD\_02\_19** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Sinéad O’Hare** |  | **Sinead.o’hare@powerni.co.uk** |
| **Modification Proposal Title** |
| **Removal of difference charges for generators during non RO event periods** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B** | F.18.5.5 | **Current SEMO website version** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| Calculation of the Within-day Trade Difference Charge (CDIFFCTWDΩγk) detailed in Section F.18.5.5 does not reflect the Capacity Remuneration Mechanism Detailed Design Decision Paper 1 (SEM-15-103), specifically relating to the triggering of Reliability Options (RO) and their associated difference charges. The current implementation of this decision in the T&SC exposes holders of Reliability Options (ROs) to difference charges at all times regardless of whether or not an RO event has occurred. The proposed modification seeks to minimise the changes to algebra and central market systems by setting the appropriate within day difference charge component to zero when the Balancing Market Reference Price is below the Strike Price. In the first CRM Decision Paper SEM-15-103, Section 3.3.96, the SEM Committee decided that ”*The RO will payout at any time when the MRP exceeds the Strike Price*”. This incentivises holders of ROs to be available to generate and provides Suppliers with an effective hedge against the reference prices, to which they are exposed in each market, being higher than the strike price. Under the current drafting of the TSC, difference charges are calculated for a unit up to its contracted quantity (QCOB) when the trade price is higher than the strike price and not just for when the Market Reference Price (MRP) is higher than the Strike Price as was specified in the SEM Committee decision. An accepted BOA in the Balancing Market can be priced significantly higher than the Strike Price and not trigger an RO event. The legal drafting of the proposed modification corrects this deviation from the SEMC decision, and ensures that within day difference charges are only applicable during RO events, i.e. when the MRP exceeds the Strike Price.  |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| F.18.5.5 The Market Operator shall calculate the Within-day Trade Difference Quantity (QDIFFCTWDΩγk), the Within-day Trade Difference Charge (CDIFFCTWDΩγk), the Intraday Tracked Difference Quantity (QDIFFTRACKIDΩγk) and the Balancing Tracked Difference Quantity (QDIFFTRACKBΩγk) for each Capacity Market Unit, Ω, which does not represent an Autoproducer Unit, in ascending order of each position, k, in the ranked set derived in accordance with paragraph F.18.5.4, in Imbalance Settlement Period, γ, as follows: *if*  *else* where:* + - * 1. is a summation over values across all positions in the ranked set prior to and including the current position, k, in the ranked set. Calculations for the first position, (k = 1), will not have a previous position, k’, and the result for this sum shall be the value in the current position, k, in the ranked set;
				2. is a summation over values across all positions in the ranked set prior to the current position, k, in the ranked set. Calculations for the first position, (k = 1), will not have a previous position, k’, and the result for this sum shall be zero;
				3. is a summation over all Generator Units, u, which comprise the Capacity Market Unit, Ω;
				4. QCOBΩγ is the Obligated Capacity Quantity for Capacity Market Unit, Ω, in Imbalance Settlement Period, γ;
				5. QDIFFDAΩγ is the Day-ahead Difference Quantity for Capacity Market Unit, Ω, in Imbalance Settlement Period, γ;
				6. QTIDuγk is the Intraday Trade Quantity for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				7. QTBuγk is the Balancing Trade Quantity for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				8. QEXuγ is the Ex-Ante Quantity for Generator Unit, u, in Imbalance Settlement Period, γ;
				9. PTIDuγk is the Intraday Trade Price associated with the Intraday Trade Quantity (QTIDuγk) for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				10. PTBuγk is the Balancing Trade Price associated with the Balancing Trade Quantity (QTBuγk) for Generator Unit, u, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				11. PSTRm is the Strike Price for Month, m, which contains Imbalance Settlement Period, γ;
				12. (k – 1) is for the previous position in the ranked set; and
				13. (k = 0) is for the 0th position in the ranked set, i.e. where a calculation is being performed on the first position in the ranked set, (k = 1), for which there is no previous position.
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| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| Under the current drafting of the Trading and Settlement Code (TSC), RO holders are subject to difference charges in both pricing and settlement at all times, rather than only during settlement periods where the Market Reference Price exceeds the RO Strike Price as was intended. The current implementation of the difference charging algebra in Section F 18.5.5 of the Trading and Settlement Code is therefore not in agreement with the SEM committee decision as detailed in CRM Decision 1 (SEM-15-103). A unit which is constrained on for reasons of system security which submits a BMCOP compliant complex offer above the strike price is subject to difference payments at all times. Exposure to these non-RO event difference charges would result in a unit under recovering its costs, with market participants having no control over the duration and magnitude of this loss. Further, the licence conditions (listed below) relating to cost reflective bidding, require the bidding of genuine marginal costs, but the participant would not actually recover these costs, where they exceed the RO Strike Price, at any stage which is an uneconomic and distortionary outcome.For licences granted in Ireland under the Electricity Regulation Act 1999, the Cost Reflective Bidding Licence Condition is: Condition 15 of the Generation Licence granted under Section 14(1)(a); Condition 17 of the Generation Licence granted to ESB under Section 14(1)(a); Condition 19 of the Supply Licence granted under Section 14(1)(b); andCondition 25 of the Public Electricity Supply Licence granted under Section 14(1)(h). For licences granted in Northern Ireland under the Electricity (Northern Ireland) (Order)1992, the Cost Reflective Bidding Licence Condition is Condition 17 of the Generation Licence granted under Article 10(1)(a); and Condition 57 of the Supply Licence granted to Power NI under Article 10(1)(c).  |
| **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;(c) to facilitate the participation of electricity undertakings engaged in the generation, supply or sale of electricity in the trading arrangements under the Single Electricity Market;(d) to promote competition in the Single Electricity Market;(f) to ensure no undue discrimination between persons who are parties to the Code; and(g) 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)* |
| Units dispatched for non-energy reasons in order to manage constraints and ensure security of supply will not recover the costs they incur for doing so. This could result in uneconomic outcomes and wider market distortions. |
| **Working Group***(State if Working Group considered necessary to develop proposal)* | **Impacts***(Indicate the impacts on systems, resources, processes and/or procedures; also indicate impacts on any other Market Code such as Capacity Marker Code, Grid Code, Exchange Rules etc.)* |
|  | Change to central market systems to handle the additional “IF statement” to set the difference payment to zero when the Balancing Market MRP is less than the RO Strike Price. |
| ***Please return this form to Secretariat by email to*** balancingmodifications@sem-o.com |