



# Single Electricity Market

## FINAL RECOMMENDATION REPORT

### MOD\_02\_21 SETTING A FLAG FOR INTERCONNECTOR ACTIONS

21 MAY 2021

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## Document History

Version	Date	Author	Comment
1.0	21 <sup>st</sup> May 2021	Modifications Committee Secretariat	Issued to Modifications Committee for review and approval
2.0	28 <sup>th</sup> May 2021	Modifications Committee Secretariat	Issued to Regulatory Authorities for final decision

## Reference Documents

Document Name
<a href="#">Trading and Settlement Code</a>
<a href="#">Modification Proposal</a>
<a href="#">Modification Proposal</a>
<a href="#">Modifications Committee Meeting 103 minutes</a>
<a href="#">Mod_01_21, Mod_02_21 and Mod_04_21 Working Group Report</a>

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## 1. MODIFICATIONS COMMITTEE RECOMMENDATION

### RECOMMENDED FOR APPROVAL– MAJORITY VOTE

Recommended for Approval by Majority Vote		
Eamonn Boland	Supplier Alternate	Approve
Robert McCarthy	DSU Member	Approve
Sean McParland	Generator Alternate	Approve
Ian Mullins	Supplier Member	Approve
David Gascon	Generator Alternate	Approve
Stacy Feldmann	Generator Member	Approve
Paraic Higgins (Chair)	Generator Member	Approve
Bryan Hennessy	Supplier Member	Approve
Alan Mullane	Assetless Member	Reject
Philip Carson	Supplier Member	Approve

## 2. BACKGROUND

This Modification Proposal was raised by SSE and was received by the Secretariat on 28<sup>th</sup> January 2021. The proposal was raised at Meeting 103 on 11<sup>th</sup> February 2021, discussed at the Working Group on 22<sup>nd</sup> March 2021 and voted on at Meeting 104 on 28<sup>th</sup> April 2021.

It has been seen during the later period of 2020 and in a more pronounced way during 2021, the effect of interconnector countertrades on cash-out where the interconnector countertrade has triggered RO difference payments on cheaper units available on the system and where it was not clear that there was in fact a system event (e.g. 7<sup>th</sup> Jan). In the same way as the 24<sup>th</sup> Jan 2019 market event, those available units were not dispatched and had RO difference payments levied on them due to external actions and specifically due to the effects of specific interconnector actions. The system has a €500/MWh spike price threshold. However, in this case where there are no system events, this trigger becomes an exposure point for units that are otherwise available but are not taken. We are proposing an interim action to protect units from unfair RO calls due to the flagging algorithm inability to effectively determine system actions on the IC's.

The focus of this modification is to mitigate the exposure of these actions on the market and specifically on generation units exposed to RO difference payments. We also wish to reflect the standards outlined in the Balancing Market Principles Statement, Counterparty Trading business process<sup>1</sup> and the ISEM Technical Specifications document, all of which suggest that countertrades

<sup>1</sup> [Counterparty business process](#)

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should be taken where they are needed for system reasons, that cheaper BOAs should be considered and taken first and that there should be transparency regarding IC activities.

### 3. PURPOSE OF PROPOSED MODIFICATION

#### 3A.) JUSTIFICATION OF MODIFICATION

As requested by the RAs in the minutes of TSC meeting 104, the Proposer has provided expanded justification to strengthen the need for this modification.

The high-level need for this modification, as outlined in our modification proposal, is to remove the unintended consequence of exposing plants holding a Reliability Option to Capacity Market difference payments, by addressing the specific interconnector actions directly causing this.

This explanation would benefit from further detail, which we have provided below, as requested by the RAs at Meeting 104. Firstly, we can indicate the following:

1. **Principle of the mod:** to reduce exposure since we can see that the current flagging algorithm is not operating as expected. The proposal is to address the shortcomings in the flagging algorithm, not to comment on if IC actions are correctly classified or the decision-making process that TSOs have or should have, when making IC trades. We are also not concerned with direct changes to cash-out since we see that an “upstream” amendment to the flagging algorithm will flow through to positive outcomes in cash-out.
2. **Status quo:** as below, we have completed some analysis to demonstrate that in a large majority of cases; upwards of 90% of IC trades are in fact not system/non-energy actions, but rather energy actions. Put another way, this means we found 5% of interconnector actions in the period analysed, were for system reasons. This suggests that there is a blanket energy flag or that there is no flag applied or in place to flag TSO actions. This is in conflict with the specific public documentation issued by the TSO<sup>2</sup>: BMPS, ISEM Technical Specifications and Interim Cross-Zonal TSO arrangements GB-ISEM go-live<sup>3</sup>. This is documentation that market participants rely on for participation in the market. To be clear, this documentation indicates that Cross-Zonal actions are intended for system reasons and only once “local” options have been exhausted. These documents and others also outline the expectation that interconnector actions are non-energy. This latter is qualified to apply to coordinated third party trades, but we have seen the most recent price setting interconnector actions have qualified as these types of trades, but still appear not to be flagged as non-energy.
3. **Nature of the actions:** as above, these seem to be majority energy actions regardless of whether they are counterparty or SO-SO trades, and the industry is not usually able to confirm the basis on which the trade was actioned until after the fact. We have also demonstrated with the analysis below that almost 1 in 4 IC trades make it into post PAR tagging (which considers the last 10MW), and post NIV tagging, thereby increasing the likelihood of the issue we have identified; that these high-priced actions set the price. We note that the current approach means that the flagging process for interconnectors is not determined in the RTD schedule which adds to complexity and opaqueness for market participants. Furthermore, without any insight into price formation, and rather an indication from TSOs that there is no specific price formation methodology to these trades, there is no transparency or possibility to account for this degree of exposure, by market participants.

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<sup>2</sup> [Interim Cross-Zonal Arrangements; BMPS V4.0 \(sem-o.com\)](#) (3.4.6);

<sup>3</sup> A useful extract from this document is: “Coordinated Third Party Trading denotes a process by which a TSO contracts a third party in a neighbouring market to facilitate the alteration of the cross-zonal flow for system operation reasons (non-energy trades)”.

From the meeting minutes it is clear that the TSO does not make the decision regarding energy or non-energy actions in the NCC at the point of actioning the trade. Therefore, if this is not clear to the TSO at that point, market participants cannot be expected to be able to accurately predict their exposure to these actions. All we can point out is the unpredictable exposure being experienced by market participants; that optimisation of IC actions is currently not achieved; and that there is a misalignment with the approach outlined in public documentation, which is referred to by the market, and which, we assume reflects expected SEM market design.

4. Finally, it is worth noting that this modification is proposing to flag all SO actions, rather than only those at €500/MWh or above. At the working group an agreed action for the Proposer was to submit a Version 2 of the modification which would remove reference to €500/MWh and in effect propose that all SO actions be flagged. This modification was also initially recommended as an interim modification. This was discussed at the working group where the TSO confirmed that the change involved meant that this could not be an interim modification. The TSO also confirmed that there were unable to find a suitable mid-term solution until other changes could be made to resolve the issues identified. Therefore, this modification was discussed at the final meeting in terms that it would be enduring. The action of this modification would be enduring. Lastly, in terms of process, the modification proposes either a change to the Code or to Appendix N with no preference. The action of amending either of these would have the same effect. The Committee voted on the basis of no preference either.

### Analysis of IC trades

- The below analysis shows the treatment of IC actions by the flagging algorithm and the subsequent impact within the cash-out mechanism. The analysis was taken from the API and analysed data from 1<sup>st</sup> October 2019-13<sup>th</sup> May 2021.

Figure 1: post SO flagging

		Post SO Flagging		
		Volume	Non-SO Flagged Vol	% of Non-SO Flagged
I_NIMOYLE	Bid	65,517	63,163	96.41%
	Offer	120,931	113,501	93.86%
	BOA	186,448	176,664	94.75%
I_ROIEWIC	Bid	30,726	29,826	97.07%
	Offer	55,345	52,746	95.30%
	BOA	86,071	82,573	95.94%
Total	Bid	96,242	92,989	96.62%
	Offer	176,277	166,247	94.31%

	BOA	272,519	259,236	95.13%
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Figure 2: post PAR tagging

		Post PAR Tagging		
		Volume	Non-Tagged Vol	% of Non-Tagged
I_NIMOYLE	Bid	65,517	20,275	30.95%
	Offer	120,931	30,696	25.38%
	BOA	186,448	50,971	27.34%
I_ROIEWIC	Bid	30,726	5,153	16.77%
	Offer	55,345	8,580	15.50%
	BOA	86,071	13,733	15.96%
Total	Bid	96,242	25,428	26.42%
	Offer	176,277	39,276	22.28%
	BOA	272,519	64,704	23.74%

Figure 3: post NIV tagging

		Post NIV Tagging		
		Volume	Non-NIV Tagged Vol	% of Non-Tagged
I_NIMOYLE	Bid	65,517	19,174	29.27%
	Offer	120,931	33,976	28.10%
	BOA	186,448	53,150	28.51%
I_ROIEWIC	Bid	30,726	5,644	18.37%
	Offer	55,345	12,028	21.73%
	BOA	86,071	17,672	20.53%
Total	Bid	96,242	24,818	25.79%
	Offer	176,277	46,004	26.10%

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	BOA	272,519	70,822	25.99%
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## Conclusion

Our rationale for this change is not in seeking to address whether these actions should impact cash-out or not, or whether they should be energy or non-energy. Rather we are concerned with the efficiency of the current flagging algorithm (which determines IC actions as energy 95% of the time), and the lack of transparency of price formation which gives us no comfort that these actions are system actions or are classified in the manner we would expect. To clarify, the external publications from the TSO we assume are based on interpretation of market design. These are public documents that market participants rely on for participation in the market. Therefore, where these policies and the actual TSO practices (and flagging algorithm) do not align, it cannot be expected that market participants could have priced in these actions to ensure appropriate hedging. This modification seeks to correctly flag what are expected to be system actions for the purposes of security of supply or for system reasons as a last resort, thereby reducing exposure that market participants could not be realistically expected to anticipate.

## Additional considerations

Whilst there were three modifications proposed to address Interconnector countertrades, we would like to confirm that the action of our modification acts separately but in compliment to the other modifications, specifically 01\_21. We note that Mod 04\_21 needs further assessment and development but we can be clear that the action of our modification is different to this proposal as well. Therefore, we want the SEMC to be aware that approval of one modification in this area, does not mean that all issues in this activity are resolved.

In developing this modification, we were at pains to engage with industry participants and other voting members to seek their views and comments on the modification. This aligns with our general approach to the development of modifications, to ensure we are upholding our responsibilities as a representative member of the Committee. We have considered the content of this engagement in providing additional detail to justify this modification. We would like to point out that given this engagement, we are disappointed with the proceedings of the working group and the TSC meeting 104. A lot of the issues and points of justification were raised for the first time at TSC meeting 104. This was despite the time taken previously to discuss and explore this modification at a separate working group where specifically, SEMO and the RAs were free to raise any points of improvement or concern. For instance, if any impact assessment had been necessary, this should have been raised by SEMO during the working group. SEMO manage the relationship with the vendor and have intimate knowledge of the effort involved in delivery of any modifications. Equally, any further justification that appeared lacking or the RAs could already anticipate would be required, could have been raised.

The Secretariat and Chair have been at pains to point out that members should engage with the Proposer to clarify, provide comments, or raise concerns well in advance of meetings. This is in an effort to give the best possibility to progress modifications without any undue frustration. The approach to this particular modification has left us in a situation where there is decreased confidence that our modification will be approved given the concerns raised at short notice. These new matters now can only to be addressed during SEMC deliberation and without the benefit of the broad discussion that the working group provided well in advance, for this specific purpose. We would ask that this point of process in bringing new issues at the point a modification is deemed ready for a vote, including a belated note regarding impact assessment after the Committee vote, is reflected on.

### **3B.) IMPACT OF NOT IMPLEMENTING A SOLUTION**

If this Modification proposal is not implemented, we can see the current status quo continuing. As demonstrated, this is not a practice that market participants could be expected to be able to reasonably predict. We consider that whilst the implementation of this modification may require an IT change, we consider this prudent when considering the issues of principle that this modification raises and the impact that high priced interconnector trades have in triggering Reliability Options payments on generators, without sufficient detail of price formation and with misaligned flagging of these actions.

### **3C.) IMPACT ON 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;

## **4. WORKING GROUP AND/OR CONSULTATION**

N/A

## **5. IMPACT ON SYSTEMS AND RESOURCES**

N/A

## **6. IMPACT ON OTHER CODES/DOCUMENTS**

N/A

## **7. MODIFICATION COMMITTEE VIEWS**

### **MEETING 103 – 11 FEBRUARY 2021**

The Proposer delivered a [presentation](#) on this Modification advising that it is related to Mod\_01\_21 and Mod\_04\_21 all of which are trying addressing the same issue. It was noted that this Modification is looking at RO Difference payments and it is an interim option with an intention of flagging out interconnector trades when Imbalance Price is greater than 500€/MWh. This will provide protection to units that are now unfairly exposed.

The Proposer advised that this Modification provides 2 positions on legal drafting with suggested text for either F.2.4.8 or Appendix N.

### **WORKING GROUP – 22 MARCH 2021**

The Chair opened the floor for discussion on each of the Modifications individually. A question was raised if it was the general view of the Working Group that it was appropriate for a Modification to protect generators from RO exposure when they are available.

A number of Participants agreed with this statement, noting it was their belief that if a unit was subject to an operational constraint, it should be protected. The RAs advised they were conscious that most Market Participants are in favour of this change and when it was brought up first it was in the early days of the market with not many events happening and therefore not much data available. This has changed now and they are open to give further consideration to the issue.

It was queried if any of the 3 Modifications would be preferred to the others. It was the opinion of a Generator Participant that all 3 Modifications have individual merits and all three could be voted on. It

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was also noted that Mod\_02\_21 should be looked at on its own and Mod\_01\_21 and Mod\_04\_21 are more concerned with exposure so they could be discussed together.

### Solutions

#### Mod 01 21

The Proposer reminded the Working Group that this Modification looks at the CRM position and aims to strip out the lack of flexibility.

A Generator Participant agreed that there was a clear justification for this Modification and it holds a lot of merit because it puts the emphasis on a unit's flexibility, which was at the core of the Detailed Design and it doesn't appear that the intent of the Detailed Design is achieved with the current implementation. There was also an agreement that Mod\_01\_21 and Mod\_04\_21 have a connection and both Proposers provided support for the two of them to be looked at together. It was also appreciated that Mod\_01\_21 is clearer and there is a consultation behind it already.

Another Generator Participant expressed doubts on Mod\_04\_21 because it is specific to Interconnector only, which means that if an issue with other constraints arises in the future, there could be similar unfair outcomes. The Proposer of Mod\_04\_21 explained that the Modification was part of TSO tools to accept cross-zonal pricing. It was noted that in settlement the use of the System Service flag was not taken into merit thus enabling the market price to reflect the market value.

Support was given for Mod\_04\_21 concerning its piece about flexibility and detailed design. The DSU Participant agreed that Mod\_04\_21 targets specific cross-zonal actions and flexibility, as per the detailed design. It was also queried as to whether there could be other ways of looking at a unit's flexibility, such as within the TOD sets.

A discussion ensued around the implications of Mod\_01\_21 on previously approved Mod\_09\_19 and the MWR constraint. SEMO confirmed that individual constraints can be turned on or off; however, the full impact of switching MWR back on would require a large modelling analysis, similar to that provided in 2019, which would require significant time and resources. It was confirmed that if the MWR constraint (and all other constraints currently set to 'off' in Pricing) was omitted, then the System Service Flag could be changed for all others in the configuration, without vendor intervention. The Chair asked the Working Group if they were happy to implement Mod\_01\_21 without reversing Mod\_09\_19 SEMO confirmed that by maintaining MWR Constraint off in Pricing and applying the System Service flag to all other constraints that are 'on', Mod\_01\_21 could be easily tackled with a simple change to the legal drafting in Appendix N.

A Generator Participant queried how the system flag worked through settlement and how did this process work for a unit which is turned off all of the time? The System Operator advised that in relation to the System Service Flag, the constraints are determined in RTD and some of these constraints will flag units that are off. The TSO agreed to look at this separately and provide further details for the next Mods panel.

#### Mod 04 21

The discussion then continued on Mod\_04\_21 and there was initial agreement from a number of Participants that this Modification correctly raises the question as to whether the detailed design as intended is considered in the rules and in the systems correctly.

A Generator Participant queried if Mod\_01\_21 already addresses the recognition of flexibility of plants specified in Mod\_04\_21? The Proposer agreed it would in terms of being part of a constraint but questioned if it would work in terms of the pricing mechanism.

The Proposer voiced a concern that Mod\_01\_21 may not address the question of whether it is correct that a flag is created when reserve is available. Is it correct to connect the Flag to the Reserve? A Generator Participant agreed that was a good question and gave his belief that no Modification addressed this issue. Mod\_04\_21 raises this matter and could be changed, to reflect that issue about detailed design, not being reflected correctly.

A DSU Participant continued the discussion around detailed design and voiced concern that the SEMC decision was not implemented correctly. Clarity was sought from the RAs on what the intention was of the decision. Was it intended to cover flexibility or system services? It was also asked if it was the SEM Committee's intention that units shouldn't be exposed to penalties, only during price events when there is not enough reserve and if unit is otherwise providing reserve should it be exposed? This should be reflective of flexibility for all System Services and not just provision of a single service (reserve). The RAs were queried as to whether the decision reflected either or both and they agreed to take these questions away for consideration, in particular around the impact of widening RO exemptions for the Capacity Market and the potential impact on the Socialisation Fund, and will provide further feedback for the next meeting.

#### Mod\_02\_21

A Generator Participant gave a summary of this Modification, noting that it points to the Balancing Market Principle Statement. It was also queried as to whether an SO-SO trade can be an energy action. In relation to CACM Article 35, it was noted that SO-SO trades are not energy actions and should be flagged out altogether, regardless of whether the price was greater than 500€/MWh.

The Proposer mentioned that this was discussed with TSOs, who had confirmed that SO-SO trades had been done mainly for the security of the system in all cases. The functionality of securing the system would be open to the above argument. From the documentation prior to go live it seems that there was intent to consider those as non-energy actions so the question arises of what did change subsequently. The DSU Participant agreed that there was definite merit in considering the above, on whether SO-SO trades were energy or not. A point was made that if these actions were taken for system security reasons they were therefore non-energy actions. The SO flags currently come from RTD, while the Trades are created in advance and are fixed, so they don't take part in the scheduling process. This is something that could be potentially looked at from an implementation point of view.

It was agreed amongst Participants that this was a grey area and more clarity was needed on whether all SO-SO actions were being treated as energy. The Proposer of Mod\_02\_21 advised that this Modification does not have an impact on the Socialisation Fund but would have an impact on Imperfections. It is their view that this is an interim solution, while the discussion of trades being Energy or Non-Energy would be a wider discussion.

### **MEETING 104 – 28 APRIL 2021**

The Proposer gave an update on this Modification noting that the version 2 was submitted to put in place the agreed removal of the originally proposed threshold of 500 MWh. It was also pointed out that in the explanatory section there was a mention of an interim effect, which cannot be done if this is not a temporary change, as indicated by SEMO. The Proposer suggested that this sentence could be removed.

SEMO explained that this would take time to process this complex high impact change and therefore it would be preferable not to have such an investment, for a change that would be only temporary and advised that the change to the line in the explanation section of the Modification Proposal could be done through the FRR.

A Supplier Member voiced concerns over the impact on Imperfections and questioned if any analysis had been done. System Operator advised that a numeric analysis had not been completed but noted that this was a specific Modification trying to flag out actions and although it will not directly impact

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Imperfections, it does impact the Imbalance Price and hence all of settlement including Imperfection settlement. For example, any reduction in Imbalance Price can yield reduced Discount Component Payments to units dispatched down from their FPN because of a system constraint. Since there is no direct Imperfection impact, the TSOs are unable at this time to quantify exact Imperfection outcomes from Mod\_02\_21; however the TSO expect that any impact would be small.

A Supplier Member queried if the removal of the threshold would cause a bigger impact? The System Operator advised that if flagging out it would have an impact but the expectation would be that it wouldn't be large and would depend on the final imbalance price.

A Generator Member noted that in 2017/18 before the ISEM market go-live, flagging and tagging was looked at. At this stage it was clear from the Flagging and Tagging documentation, that cross zonal trades were non energy actions and SO -SO trades would not set the price. This had not been transposed into the rules and it was felt that this Modification went in the right direction for what the market should be like. It was queried why this was not been put in place in 2017?

An EirGrid Observer made reference to the Balancing Market Principle Statement noting that there is a difference between scheduling actions and dispatch actions. Interconnector trades are based on dispatch actions while the SO Flagging of units is based on the published operational constraints included in the schedulers. The distinction between energy and non-energy actions is not made in the scheduling and dispatch process as described in the BMPS (section 2.5).

EirGrid Observer also spoke of the difficulty of implementing this change since we don't optimize Interconnector schedules as part of the Scheduling process. It was advised that Interconnector trades, and the resulting modified Interconnector Schedules, are not optimized like other Units in the Market Management System (MMS) Scheduling Application. Interconnector trades are executed as dispatch actions and then included in the scheduling runs as they are fixed agreed schedules as part of the overall optimization. The flagging of all interconnector trades (including trades executed for interconnector frequency response) based on dispatch actions outside of the scheduling process creates complications in terms of implementing Mod\_02\_21, and may require complex changes to the systems, and it was not clear at this point in time how this could be implemented.

An Assetless Member spoke of his opposition to the 3 Modifications discussed in the Working Group but reiterated that he was most opposed to Mod\_02\_21 as he believed an increase in flagging is going in the wrong direction and interferes with price formation. Generator Member agreed that the Market shouldn't be over-flagged, however, the reasons for the trades are all non-energy and this was seemingly supported by the TSO interpretation of CACM and EBGL rules. Assetless Member replied that trades are not carried out for Reactive Power but for balancing MW and energy reasons. Generator Member stated that he sees it as problematic that flags are created from a theoretical RTD schedule and the impact of this has been evident since the beginning of the I-SEM, with events occurring in the first week of the Market and that it is not clear how these actions could be anything else but non-energy.

A discussion ensued on cross zonal actions and whether they could be energy or non-energy. The RAs agreed that this was a grey area and requested that the justification of this Modification should be more focused on the nature of the actions and why they should all be considered non-energy and even in the TSO documentation the RAs understanding is that the reference to non-energy was in relation to coordinated cross zonal trades. TSO alternate noted that cross zonal actions could be taken for energy or non-energy and Interconnectors are not seen against certain constraints. EirGrid observer highlighted that the intention in the original market design was that the normal process of flagging and tagging would take care of that differentiation and if that is not happening there could be scope to add those drivers and include them in the process.

The Proposer requested for more clarification from the RAs regarding the additional justification and looked for a steer on how the Modification should be drafted. The Proposer questioned that if this

Modification cannot address the underlying issues is there anything that can? The RAs replied that the change proposed doesn't seem to reflect the nuances so far discussed and Version two of the Modification was focused on the impact on RO holders.

An EirGrid Observer suggested that from an implementation point of view there could be a need to add a further constraint and to include Interconnectors, while changing the upper and lower limits, in contrast with what is done currently. There is also a need to continually optimize interconnectors in RTD. The question was raised again if, according to the TSO, these actions are energy or non-energy. EirGrid Observers once again advised that this is a grey area and if units go into constraint groups then SO flags are assigned to them. It was noted that there was no clear view in the control room, as they would focus on the constraints at hand. TSO noted that from experience of trading the actions are taken in the dispatch domain with multiple constraints on the system, including constraints such as demand and reserves. These are usually only configured a couple of hours ahead. It was advised that actions are usually based on the number of constraints in the system. The main focus in the control room is to secure the system and whether its energy or non-energy is not relevant.

The Proposer stated that if these reasons are not considered in the control room, that should not prevent this Modification, because the TSO documentation alludes to Trades being non-energy and if this is not implemented then this Modification is trying to rectify this grey area and suggests that these complexities need to be looked at or else the terminology in those documents should be updated.

Another Generator Member stated that he fails to think of energy reasons that would drive an interconnector trade, and even if it were the case was that 99% of the time trades were done for non-energy reasons, it seems clear that the current implementation is wrong most of the time and this should be addressed sooner rather than later. Further support for the Mod came from another Generator stating that the issue of the TSO documentation was raised in a previous meeting and there have been no comments to refute this. Also, alluding to the interpretations that non-energy should only apply to coordinated cross zonal trades, the trades that occurred in January 2021 were in fact coordinated cross zonal trades and on that basis the Mod should still apply, to correct the outcome going forward. Another generator added that it is not the intent of removing volatility for the sake of removing volatility, but they do not see how these prices give an accurate price signal, when there are cheaper units available, they do however, introduce a risk that the generator cannot forecast and is not able to mitigate. The proposer asked to go for a vote based on the inclusion of further justifications in the FRR and removal of a line referencing the mod being temporary in the explanation.

During the vote, a Supplier Member asked the TSO about an action from the working group regarding the impact on imperfections. The TSO member said that based on assessment of historical trades the TSOs' opinion is that the impact of the mod, on imperfections costs, would be small.

SEMO reminded Participants that a vote on such a complex change, would have to be subject to vendor Impact Assessment and that a decision on the matter would have to be put on hold, until this is received.

## 8. PROPOSED LEGAL DRAFTING

As per legal drafting section of Appendix 1.

## 9. LEGAL REVIEW

N/A

## 10. IMPLEMENTATION TIMESCALE

It is recommended that this Modification should be made effective from the first Trading Date following implementation of system changes.

## 1 APPENDIX1: MOD\_02\_21 SETTING A FLAG FOR SPECIFIC INTERCONNECTOR ACTIONS V2

### 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>
SSE	12 April 2021	Standard	Mod_02_21 v2
Contact Details for Modification Proposal Originator			
Name	Telephone number	Email address	
Stacy Feldmann		Stacy.feldmann@sse.com	
Modification Proposal Title			
Setting a flag for specific Interconnector Actions			
Documents affected <i>(delete as appropriate)</i>	Section(s) Affected	Version number of T&SC or AP used in Drafting	
T&SC Part B Appendices Part B	Appendix N TSC F.2		
Explanation of Proposed Change <i>(mandatory by originator)</i>			
<p>It has been seen during the later period of 2020 and in a more pronounced way during 2021, the effect of interconnector countertrades on cash-out where the interconnector countertrade has triggered RO difference payments on cheaper units available on the system and where it was not clear that there was in fact a system event (e.g. 7<sup>th</sup> Jan). In the same way as the 24<sup>th</sup> Jan 2019 market event, those available units were not dispatched and had RO difference payments levied on them due to external actions and specifically due to the effects of specific interconnector actions. The system has a €500/MWh spike price threshold. However, in this case where there are no system events, this trigger becomes an exposure point for units that are otherwise available but are not taken. We are proposing an interim action to protect units from unfair RO calls due to the flagging algorithm inability to effectively determine system actions on the IC's.</p> <p>It would be our preference for a more sophisticated method of flagging interconnector actions to reflect the</p>			

nuances involved. Therefore, we would recommend this modification to have an interim effect until such time as a suitable alternative is arrived at, since we are aware that there is room for improvement on how interconnectors are flagged.

The focus of this modification is to mitigate the exposure of these actions on the market and specifically on generation units exposed to RO difference payments. We also wish to reflect the standards outlined in the Balancing Market Principles Statement, Counterparty Trading business process and the ISEM Technical Specifications document, all of which suggest that countertrades should be taken where they are needed for system reasons, that cheaper BOAs should be considered and taken first and that there should be transparency regarding IC activities.

This modification we would see as complementary to the other proposed SEMO mod proposal being re-tabled, as well as existing modifications relating to PMEA (Mod 01\_20) and exposure to RO's in certain circumstances (Mod 09\_19).

#### Legal Drafting Change

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

In terms of implementation, a TSC

In terms of legal drafting proposed for this modification, we suggest the following amendment to F.2 of the TSC

*F.2.4.8 Each System Operator shall, in accordance with the Settlement Calendar, submit to the Market Operator the SO Interconnector Trade Quantity and Price (in the form of Accepted Bid and Offer Quantities,  $QAB_{uoi,h}$ ,  $QAO_{uoi,h}$ , and Bid Offer Price,  $PBO_{uoi,h}$ ) for each Interconnector Residual Capacity Unit,  $u$ , relevant to an Interconnector,  $l$ , which is connected to its Jurisdiction, for each Bid Offer Acceptance,  $o$ , for Band,  $i$ , in Period,  $h$ . **The System Operators shall set the System Operator Flag ( $FSO_{u\phi}$ ) for any Interconnector Residual Capacity Unit,  $u$ , equal to zero for each Imbalance Pricing Period,  $\phi$ , in which an SO Interconnector Trade Quantity and Price is submitted.***

We also envisage the need for a modification to Appendix N: Flagging and Tagging) together with a revision to the TSOs' Methodology for Determining System Operator and Non-Marginal Flags. Upon approval of a modification the decision could be implemented relatively quickly through configuration settings in the Central Market Systems avoiding the longer timelines needed for system charges.

The symmetric amendment to Appendix N could be:

*For each Imbalance Pricing Period,  $\phi$ , the System Operators shall use information from the most recent Indicative Operations Schedule to identify whether a Generator Unit's scheduled output is bound by the presence of an Operational Constraint with the exception of those Operational Constraints relating to upper MW limits on the Transmission System and where they determine that the Generator Unit is so bound, shall set the System Operator Flag ( $FSO_{u\phi}$ ) for that Generator Unit,  $u$ , equal to zero for that Imbalance Pricing Period,  $\phi$ . **The System Operators shall set the System Operator Flag ( $FSO_{u\phi}$ ) for Interconnector Residual Capacity Units,  $u$ , for any relevant Imbalance Pricing Periods. Otherwise, the***

<p><i>System Operators shall set the System Operator Flag (<math>FSO_{u\phi}</math>) for that Generator Unit, <math>u</math>, equal to one for that Imbalance Pricing Period, <math>\phi</math>.</i></p> <p><u>However, we consider that both changes need not be made, but rather a decision can be taken as to whether the amendment is made in F.2.4.8 or Appendix N.</u></p>	
<p><b>Modification Proposal Justification</b> <i>(Clearly state the reason for the Modification)</i></p>	
<p>This proposal is needed to remove the unintended consequence of exposing plants holding a Reliability Option to Capacity Market difference payments by addressing the specific interconnector actions directly causing this.</p>	
<p><b>Code Objectives Furthered</b> <i>(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&amp;SC for Code Objectives)</i></p>	
<p>(b) to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;</p> <p>(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;</p>	
<p><b>Implication of not implementing the Modification Proposal</b> <i>(State the possible outcomes should the Modification Proposal not be implemented)</i></p>	
<p>If this Modification proposal is not implemented, Generator Units which hold Reliability Option (RO) obligations will continue to be exposed by facing Difference Charges (where the imbalance price is higher than the RO strike price) while being unable to be dispatched up by the System Operators due to the presence of an Operational Constraint on the system. These affected units were in merit (in the balancing energy market), and available but were not delivering energy up to their RO MW level.</p>	
<p><b>Working Group</b> <i>(State if Working Group considered necessary to develop proposal)</i></p>	<p><b>Impacts</b> <i>(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.)</i></p>

***Please return this form to Secretariat by email to [balancingmodifications@sem-o.com](mailto:balancingmodifications@sem-o.com)***