

Attendees

Caoimhe McWeeney, Serena Bashal, David Caldwell, Katia Compagnoni, Cormac Fagan, Stacy Feldmann, Grainne Black, Harry Molloy, Paraic Higgins, Julie Anne Hannon, Sandra Linnane, Martin McCarthy, Stephen McClure, Tony McElroy, Charlie McGee, Sean McParland, Aoife Mills, Emma Morris, Gavin O'Brien, Sinead O'Hare, Robert McCarthy, Rochelle Broderick, Stewart Stevenson,

Agenda

1. Clarify Area of Concern – Principle of efficient allocation of Risk;
2. Other impacted areas to discuss – Imperfections; - DS3 market; - Capacity market;
3. Amendments to proposed solution – limit settlement to cost of recovery only;
4. Impacts of not making a change vs making a change.

Sean McParland of Energia presented the slides in the presentation attached.

Discussion:

Clarify Area of Concern – Principle of efficient allocation of Risk and is a change merited?

SONI - commented that in certain circumstances there may be an issue e.g. if there is a case where GU is forced on by TSO you should not loose, other times if not requested by TSO there is no room of compensation. It could be applied in certain circumstances but a blanket mod may not be the best approach e.g. if the TSO is forcing/requesting you on then you may be eligible.

Energia stated that the risk is still not being dealt with here and the risk remains with the GU.

SONI stated that the risk should not be removed from the testing process, if there is capacity for the generator to move to a better time, then perform the testing at another time, but the risk should sit with the generator.

SEMO queried who is best placed to manage the risk and felt it was not TSO, Suppliers, or Consumer. There are not many parties left to manage the risk. There may be situations on the system where testing may be required to be moved forward or backward, in your latest set of testing there wasn't any issue doing it during the day, or the night however it wasn't the preferred option however there wasn't any issue in moving that forward. It was very much at the request of the generator and the generator would have known where the potential risk or exposure at that point. Where the testing may be required to move it forward, or back by the TSO.

SEMO also felt the generator Under Test, is no different for any other generator managing ex-ante market risk when not Under Test. It's the same risk, you don't know what is going to happen. There is an unknown as to how the testing is going to go. The original question is who best placed to manage the risk it is still back to the generator as they are the party who know what will happen on site.

Energia stated that the GU can manage when it runs but it cannot manage what the BM price will be as it can be really volatile. The GU wants to manage this risk in a more efficient manner. Without this risk being managed, GUs will need to need to build this risk into their bids on top of the actual risk as the BM is so volatile. This proposal is so that risk can go into the market in a more accurate way, it is not overpaid, the generator just gets it's costs. The consumer has a more efficient market at the end of this by trying to get a more optimal way to manage that risk. We are looking to manage it better as

either way the customer is going to see this risk, either through generator bids in an inefficient manner or this potential proposal in a far more efficient manner.

SONI stated that one of the issues is the blanket application of this mod, whereby most units are not trading in the ex-Ante market in all of those cases for every unit Under Test there would be additional imperfections charges all of those tests would be seen as the TSO bringing a unit on. Energia stated that when the BM price is higher the GU actually gets paid that extra money when they go on test at the minute, this would also be removed under this proposal, there will be cases where units go on test and imperfections will be lower because of this proposal because they won't be getting that profit. SONI stated that as the dispatch position is from a zero PN this may not be the case. Energia stated that they haven't finalised legal drafting however that was definitely a consideration that we tried to bring in here regarding GUs only recovering costs and we will look through the legal drafting to see how we can bring it in here. The initial discussions with the TSO was that it was swings in roundabouts, sometimes you win, sometimes you lose in respect of recovery Under Test, it depends on the BM. We just want to manage the risk. Removing both down and upside. This will be included in our legal drafting for settlement. In our view by removing the benefit as well as the risk it could have an upside for imperfections. It balances out removing the risk.

EirGrid raised concerns about the potential for abuse, if you have a unit submitting a test profile they are going to get paid no matter what. What is regulating them from coming on for a test and the displacing other units who are getting positions in the BM or even displacing renewable generation - concern about how we police something like this. Energia stated that they do not want anyone to abuse the system. The proposal is designed so there is no opportunity to make money out of this. There is a testing charge that also has to be paid to test. Also in this proposal you only get reimbursed your costs that is where it is capped. What is the benefit then for the unit to force itself on to test to pay testing charges and breaking even. In addition there are rules to go Under Test and you have to be approved. You have an under test flag from the TSO, so there are checks and balances there. There is an expectation that generators operate in good faith and good behaviour is expected from participants. To the extent that anybody may abuse the market there are mechanisms in place, the MMU there to investigate abuse of the rules and deal with it effectively. If these mechanisms need to be looked at or tightened in any way they can be. The Risk of abuse does not seem likely. There should be mechanisms and process in the market to prevent any sort of abuse or breach of market rules. EirGrid stated that whilst there is good faith, and the Market Monitoring Unit, which have checks in place they still think we need to consider this. Also testing tariffs are only applied under certain circumstances and lots of testing takes place where there is no testing tariffs applied at all. So it is not a universal, it needs to be taken into accounts. Energia said this is definitely something we can look at but view would be that there should be processes in place in the market to stop abuse of any sort of market rules. That's why we have the MMU. To the extent that something needs to be looked at or tightened in that regard we can takeaway, however concern about the abuse of a market rule ultimately stops this Mod. We can look at it but there should be mechanisms in place within the market abuses.

A generator member stated that they looked at F.11 of the TSC in the context of that. Even if a GU had a start up market position in the BM you still need to recover that in the DAM from the ex-ante market. The whole period of F11 could drawback that start up cost. There is an element of how F11 interacts with that and it should cover off any advantage that a generator would get in a market from being physically brought on as a unit under test. Also most actions in the BM are 90% complex actions so a lot of assets are complex bid are short run marginal costs. Not a lot of assets are going to make money operating out of just the BM. It may not give a real advantage to generators in terms of market position

but it is one to consider. They also stated the need to be careful - it is the generator's ability to manage the risk, how they can manage the risk is they can just stay off until the prices become high enough that they can recover their costs under test. If that is the signal and the message we are sending out, we need to be very careful in terms of how keeping DBCs low this actually coincides with the requirements of the grid code in terms of maintaining repairing and operating the asset to be available. Also there is a requirement to make the asset available in the CM. Would be cautious saying the generator can just wait until its price is high enough to bring it back in. I don't think that coincides / matches up with other parts of the market. We need to be coherent with the message we are sending to generators from all parts of the market.

Another Generator member echoed this point - if we are saying it is just a case that the generator can wait until a particular time, I think that is something is potentially in conflict with what we are trying to achieve and if that is the signal being sent, we need to be very clear as to the unintended consequences. Energia agreed on this, grid code obligation for the generator to come back which means the generator can't manage the risk, if it is by the grid code not allowed to delay the testing. It puts the generator in a very difficult position in terms of losing a lot of money on coming back or attempting to delay a test.

A generator asked for SEMO's thoughts on this point. SEMO stated they don't see it that waiting for the right moment means weeks on end, we are talking about a number of trading periods before or after here. I don't see it as a risk that would impact the maintenance of the apparatus or the availability for the capacity market, it's similar to your normal trade on a normal day. You look at the price and you take everything into consideration. They don't think that it will link back on grid code or other requirements because the difference you might see here will be limited to a number of trading periods. Again because of the volatility of the price because of the fact that it's not likely that you will have weeks and weeks that its not suitable for recovery, don't see that as an issue. They see more of an issue the other side, if you have a risk free test then there might be more uncertainty on how secure is that testing and how ready is the apparatus to come back. A Generator member stated they have an obligation to act as prudent operators and I don't think we would rush back an asset that is not ready to come back. SEMO argued similarly they don't think it is the interest of a generator to hold on the maintenance for a really long period of time.

Energia argued based on pure economic reasons there is certainly multiple days where purely economically it would be better for the generator not to test, for numerous days in a row. That would be against the grid code and you would be breaking the grid code. On pure economics there are certainly long periods of time based on what we would do for BM type forecasting, that a unit would not want to test. In our view it is not a few hours here and there it would be long periods where we would prefer not to test. We can't do it at the moment because of the grid code and you have to go ahead and incur losses. If it came to an economic decision it would not be a few hours here and there it would be days in certain circumstances.

A Supplier participant thanked Energia for the presentation. There some very valid comments from different parties, different sides. Their point of view is that I would agree that the risk is best placed with the generator. Although I acknowledge it is a very difficult risk to manage. I welcome the revisions willing to only receive the operating costs which I think is a fair outcome. Other points made around generators managing the risk it is probably more inefficient for the market if a greater risk premium is being added in and this is being reflected in the market, I take on those comments and considering that and looking at it objectively, it is probably fair to say would a modification even though it does increase imperfections is it still going to be more efficient to push through a modification than leaving it the way it is in the market? I am not au fait with all the different scenarios in the market with

generator units under test but I would be interested to learn a bit more on those. Generally speaking I can see a merit in the modification in terms of efficiencies in the market.

Another Supplier echoed those comments from a supplier's perspective, ultimately if over the annual budget process you expect to be on test maybe twice a year and you think that's going to cost you €1million a time you are going to price that into your capacity or other ways to try and get that back. For me it is an inefficient way to do it and the consumer or supplier will end up paying more for it rather than a direct cost back from the testing profile.

Another supplier echoed the comments made already there. From a generator perspective is it fair to say that this risk will get worse when increasing renewables come on the system? Energia stated that potentially it would. In our view I would bring it back to the fact that this ruleset was in place in the old SEM and moved across into ISEM. We have a much more dynamic and volatile market than previously and the direction of travel with increased RES and SNSP could increase the differential between BM and your operating costs. We have tried to keep it at a principle level, there is an unmanageable risk there in our view we need to manage it in an efficient manner.

The Supplier member stated that SONI mentioned that where the TSO is obliging a unit to come on there may be a case there for definitely covering the costs and that will come back on suppliers via imperfections and that is obviously something that makes sense from a supplier and consumer perspective but then on the flipside if you limit it only to that, there was a cost risk from a supplier perspective if the generator does hold out and try to pick a time when the BM is high enough to cover its costs. From a security of supply perspective, it is not ideal either so the trade off that you have outlined of addressing it through this modification would seem most balanced from both perspectives.

SEMO asked about the legal drafting and how would you expect to tackle the recovery side? Energia said they would liaise with our settlement team on the changes that we need to make. At this stage we wanted to put forward the principle, the revised proposed solution which is to limit recovery just at operating costs, so you don't benefit from the higher BM. If we decide to move forward with a V2 mod proposal to try and implement that we will work with our settlement team internally to see where the legal drafting changes and engage with SEMO to see what changes would be need to try and implement the mod. SEMO said it feels like this is becoming a much bigger change than initially thought and are concerned as well about the timelines of this coming to fruition eventually. Also a review has been made of the current legal drafting from the settlement point of view for implementation and it doesn't seem that it would work. Energia said they are still trying to limit the change downstream and around settlement as opposed to amending up front processes. They said they would tie in with SEMO to discuss the scope of changes that are needed.

SONI commented that from a hypothetical analysis the application of 0 PNs for all testing, the impact on imperfections might be a lot greater than the other sides savings by only recouping up to operating costs. Imperfections are not going to be great next year and a blanket mod may add to them. Energia stated that whilst imperfections could go up, without this mod other costs whether it be underlying capacity or DAM price will also go up. If the costs don't go through in an efficient manner (ie via the imperfections) the costs will go through somewhere else in the market. So, either way the costs are going to get into the market, we feel the most efficient way is through this mod. SONI replied that they thought a more efficient way would be to only apply it to the cases where the generator lost out and there could be a more efficient way to do this but don't know what it is yet. Energia replied that they have engaged in discussions on this but couldn't find a better proposal than this. If someone has a better proposal for getting the same result they were open to discussing it.

A supplier member said the intention is to balance the risk of a generator being off for days and security of supply implications and the cost of imperfections, they will take it away and see if they can come up with any further proposals. Energia agreed that there were a number of elements to balance and that they have tried to come up with the most efficient way of doing that. It comes back to our very first point - if things remain the same, a prudent generator operating in the market will just have to acknowledge the risk that if we go Under Test what is the risk that we will incur losses during that period and what steps do we take to mitigate that risk?

A supplier member added that what might be helpful is to get a view to see days where there are not suitable BM prices that are not high enough to cover the operating costs. They would like to get an idea to the extent of whether it's hours where there are trading periods and kind of balance the risk on the generator versus, the grid code capacity obligation side from the supplier perspective, as you don't want someone choosing to be out of the market for too long either. That is not good for suppliers or consumers either. It would be good to get an idea how often it would be that you could be waiting hours or days. Energia responded that from a high level perspective, if you take the month of February and you are a large CCGT, you would struggle to find days in February that would have been economical to go Under Test, as prices were low. You may find some days that may be profitable but not many as it was a windy month. If we are going to get quite a lot of windy months going forward in the next 3 to 4 years so it's going to become more and more of a problem.

A generator member added that they thought the importance of this mod is more as we start to have more renewables and the SNSP increasing, you will see the full benefit of this in possibly two years' time if the mod gets implemented into the system. I think it is needed right now but the importance of it will grow as we go further and further into renewable targets.

Next steps were queried following this Industry Call - will you be looking to see if there is something different to propose or will you be putting it back into the Mods committee as it stands with the changed legal wording? Energia stated that a few points were raised by different parties on the call and they were open to having conversations on those points to decide do we proceed with trying to implement legal drafting to reflect the amended solution proposed today or do we tweak again. That was the aim to try and bottom this out with a final proposed solution and to try and bring it to the mods committee explain it and vote on it.