



# Single Electricity Market

## TERMS OF REFERENCE

### WORKING GROUP

**MOD\_01\_21 REMOVAL OF DIFFERENCE CHARGES WHERE  
OPERATIONAL CONSTRAINTS ARE BINDING**

**MOD\_02\_21 SETTING OF FLAG FOR SPECIFIC INTERCONNECTOR  
ACTIONS**

**MOD\_04\_21 EXTENSION OF SYSTEM SERVICE FLAG TO COVER  
CROSS ZONAL ACTIONS FOR SYSTEM SECURITY**

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### Distribution List

Name	Organisation
Modifications Committee Members	Modifications Committee
Modifications Proposers	David Gascon (Bord na Mona), Stacy Feldmann (SSE), Paul Hutchinson (EPUKI)

### Reference Documents

Document Name
<a href="#">Trading and Settlement Code Part A</a>
<a href="#">Trading and Settlement Code Part B</a>
<a href="#">Mod_01_21 Removal of Difference Charges where operational constraints are binding – Modification Proposal</a>
<a href="#">Presentation</a>
<a href="#">Mod_02_21 Setting a Flag for Interconnector Actions above 500/Mwh – Modification Proposal</a>
<a href="#">Presentation</a>
<a href="#">Mod_04_21 Expansion of System Service Flag to include Cross – Zonal Actions for System Security Reasons – Modification Proposal</a>
<a href="#">Presentation</a>

## 1 INTRODUCTION

Modification Proposals Mod\_01\_21, Mod\_02\_21 and Mod\_04\_21 were presented by Bord na Mona, SSE and EPUKI at Meeting 103 of the Modifications Committee on 11<sup>th</sup> February 2021.

### Mod\_01\_21 – Removal of Difference Charges where operational constraints are binding

The Proposer delivered a [presentation](#) on this Modification noting under this proposed option, units bound by a binding constraint would be flagged with a System Service Flag. It was noted that there were issues with the number of units exposed to payments due to operational constraints. It was advised that this Modification was initially presented in the consultation paper SEM-19024 in 2019 and although it had received support from the vast majority of the industry, the SEMC decision to hold back any changes until experience was gained over time.

The Proposer went through the slides noting that the legal drafting only affected Appendix N.

The Proposer advised that figures for the impacts to the socialization fund were not included as they had been requested to SEMO. SEMO provided assurance to the Committee that the fund has been overfunded and the view was that, should this Modification be implemented, the charges would have been reduced by 40% in the 3 dates in January where the Imbalance Price was greater than the Strike Price; but was still an amount sufficient to cover, on a daily basis, the payments due out. However, during explorative testing from the System Operator, it appeared that System Service flag can't be turned on for a constraint that is off in pricing such as the MWR constraint which had been switched off with the implementation of Mod\_09\_19. This will need to factor in heavily to any decision that is made on this Modification.

### Mod\_02\_21 Setting of Flag for Specific Interconnector Actions

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 to address 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€. 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.

### Mod\_04\_21 Extension of System Service Flag to Cover Cross-Zonal Actions for System Security

The Proposer delivered a [presentation](#) on this Modification noting that peaking units are exposed to RO Difference Payment due to cross zonal actions against the intention of the original Market Design which was supposed to affect non flexible units. It was noted that ISEM is not a self-dispatched market. If a plant is not sufficiently flexible it could be exposed to RO payments. However in the current implementation flexible plants are discriminated against by the management of the system's operational constraints.

The legal drafting was discussed which would amend the flag where cross zonal action has occurred and set the value to zero. The Proposer provided analysis for the 12<sup>th</sup> of January 2021 confirming that greater than €0.5 million was paid out. There were also 4 RO Difference payments since the start of November which held back energy.

The Proposer summarized that impacts for peaking units were contrary to design and this proposal was seen to meet code objectives.

## Discussion

SEMO opened the discussion noting that the [presentation](#) from Bord na Mona on Mod\_01\_21 is the same proposal that was discussed at the NIV tagging Working Group following the submission of Mod\_32\_18. It was noted that at the time it was discussed in isolation and when tests were carried out on the implementation of Mod\_09\_19 it was found that it was not possible to switch on a system service flag. Therefore there would be a need to either revert the implementation of Mod\_09\_19 or to seek a system change which this Modifications hoped to avoid by a changed thought to be only an update to configuration parameters.

SEMO confirmed that the data on analytics on charges was briefly reviewed and, should the Modification be in place as submitted, in the event in January there was no negative impact on the socialization fund while the number of units affected went for about 40/50 to approximately 11/13.

A Supplier Member noted as a general principle it was unfair of any Market Participant Generator to be exposed to risks outside their control. Suppliers and customers would look for comfort of knowing what the implementation of this Modification would mean to difference payments and the integrity of the Socialization Fund. A desire was expressed to get more information. Another Supplier Member made an observation that this may put the System Operator in an uncomfortable position to make trades and this needs to be solved by the Market and not EirGrid. A need for a liquid continuous intraday market was noted which would have likely taken care of these issues.

The Proposer of Mod\_02\_21 confirmed that the 3 Modifications were related and all three Proposers discussed them prior to this meeting. It was advised that Mod\_01\_21 was different from the other two Modifications by specifically removing the exposure and having an impact on the Socialization Fund which the other two Modifications don't have as they are trying to stop RO events taking place. The Proposer of Mod\_01\_21 agreed with the comments made on a more liquid market and although gave praise to a well presented Mod\_04\_21 noted that it did not address the fundamentals in the detailed design.

DSU Member presented a couple of comments in relation to the Modifications. A concern was raised about Modifications that are only looking to amend RO payments. Some units, such as Wind, would have issues with high prices regardless from RO contract therefore would favour a solution that would ensure the pricing was corrected.

In relation to Mod\_04\_21 it was advised that peakers are not the only units affected; DSU and Battery units face the same issues. Also there are units that are not yet in receipt of DS3 because the next available window is months away. A question was raised if the proposal had considered a tie to system services and an addition to Technical Offer Data for units with fast response such as start up within 30 minutes. The Proposer agreed that technology could be neutral and was willing to put this idea forward if TOD could be considered instead of System Services.

The Proposer for Mod\_01\_21 advised that the aim was to provide a way to protect generation units or any other units that can't be turned on due to operational constraints and won't have to have a system contract.

DSU noted that on Mod\_32\_18 a similar issue came up on performance measures thus confirming not everyone provides the same suite of system services.

An Assetless Member began a discussion on risk management and how the eventuality of these high prices events should be factored in instead of looking for a removal of these events and made a case that it may be less of a risk to change the RO settlement rather than changing flagging and tagging.

It was suggested that there was a need to understand SO to SO trades and whether they were energy actions or not. SO Observer provided clarity on this noting that the SO Trades can be either Energy or Non-Energy flag for all units including Interconnectors, are calculated in the RTD schedule where the unit is set

to run. RTD is run 10 minutes before real time so at that point no other units could substitute the amount required and therefore considered Non-Energy but before then it would be considered as Energy action. RTD will determine those constraints and feed them into the Pricing stack. Technical information was provided and it was confirmed that interconnectors are treated like any other unit that are flagged out as part of constraints. It was advised that at the last MOUG analysis showed that interconnectors are flagged as non-energy if the All-Island Reserve constraint is binding.

A Generator Member advised that another event could have occurred as recently as the day before if it hadn't been for strong wind in the system and more focus was required in this area. A question was raised on timelines and which Modification would be fastest to implement. SEMO advised that information was not available yet but it appeared that Mod\_01\_21 would be the quickest to implement provided that the correct configuration in relation to the MWR constraint was agreed by the Panel. The changes that needed to be made would have to be addressed and an impact Assessment from the vendor would be needed. In the interest of progressing issues quickly, an initial high level assessment could be made to confirm if they were large or minor changes.

A Generator Member asked if a constraint group could be created for the SO actions. SO Operations confirmed there are TCG constraints for Generators and that a new proposed CR is in development to get Wind units and Interconnectors added. It was advised that they would not be included until after release H which would not be for another year.

It was agreed that a conversation was needed on SO to SO trades and whether they are all Non-Energy all the time or not. An Observer queried if the socialization fund was in credit on 12<sup>th</sup> January and if it had to be debited on this event. SEMO provided assurance that that no date analysed had a negative impact on the Fund.

The RAs provided perspective on the 3 Modifications noting that in the previous Consultation Decision they directed no change but there were a limited number of days affected and a number of system defects impacting the data. It was confirmed that they are open to look again at all those issues with fresh data.

The RAs noted that feedback was only recently received on the interaction between Mod\_01\_21 and Mod\_09\_19 and if this Modification was removed it would increase the likelihood of RO events occurring. It was also reiterated that they would be open to discuss whether all cross zonal actions should be treated as Energy or Non-Energy.

An Assetless Alternate agreed that the Market required increased liquidity. The Market was short because sold too much Energy in the Ex-Ante Market. If risks associated with RO were removed then even more energy would be sold in Ex-Ante. It was advised that the TSO only had 2 counter parties they can deal with and if there was more liquidity TSO wouldn't have to take the only offer available.

A discussion ensued on whether flags were being created correctly in line with design and if they should happen differently. Questions were raised on whether a decision could be made on Mod\_02\_21 to reduce the options on the table to the other two Modifications. This is in light of the discussion on whether SO/SO Trades should be considered always Non-Action. A Generator Member agreed that in principle they should be Non-Actions but asked whether they could be Marginal.

There was agreement that all 3 of the Modifications would be discussed further in a Working Group and potentially focus would need to be given to an interim solution while more complex aspects are investigated. The SO and all Participants were invited to consider alternative solutions that could be implemented quickly with an enduring solution to follow.

Assetless Member also mentioned the potential risks to the principles of the Capacity Market and the integrity of the Socialization Fund and the fact the Generator's risks are passed onto the consumers who definitely don't have any means to reduce such risk. Generator Member replied that the issue is not just to reduce any risk to Generator but to reduce the unpredictability of it.

Concerns were raised about the impact on previously implemented Mod\_09\_19 on MWR constraint which has been very successful in reducing events to date.

DSU noted that each Modification is asking a different question.

Mod\_02\_21 – Are prices and flags correct?

Mod\_01\_21 – Should all Operational Constraints be factored in regardless of Prices?

Mod\_04\_21 – Is the detailed design being reflected in the RO settlement and System Services flags?

Some Participants expressed favouring solutions addressing the Settlement of RO over changes in Pricing, while others favoured solutions addressing the issue in Pricing rather than only RO settlement.

The Committee briefly discussed the Working Group and the Terms of Reference. System Operator took an action to review short term fixes and if something can be put in place prior to the next available system release. It was also requested that Mod\_01\_21 would be further analyzed to see if a flag could be created manually and put into the settlement system. A question was raised on whether the issue of SO/SO Flagging had arisen in any other of the upcoming consultations. RAs confirmed that they didn't think this was the case.

## 2 OBJECTIVES

The objectives of the Modification Working Group are to:

- a) to provide an overview of the Modification Proposals raised
- b) discuss the following :
  - i. Mod\_02\_21 – Can a SO-SO action be an energy and non-energy action? Subsequently, are prices and flags correct?
  - ii. Mod\_01\_21 – Should all Operational Constraints be factored in regardless of Prices? Should units bound by an Operational Constraint be flagged with a System Service Flag?
  - iii. Mod\_04\_21 – Is the detailed design being reflected in the RO settlement and System Service flags?
- c) to discuss in more detail the initial high level assessment on Mod\_01\_21 and the configuration in relation to the MWR constraint including actions taken at the 11<sup>th</sup> February Modifications Committee meeting in relation to the three proposed Modifications;
- d) to consider alternative solutions that could be implemented quickly with an enduring solution to follow;
- e) to understand the potential impact on the socialisation fund and the potential for 'hole in the hedge scenarios'. This is particularly relevant in relation to Mod\_01\_21 & Mod\_04\_21.
- f) to make a recommendation to the Modifications Committee

## 3 SCOPE

The scope of the Working Group will be limited to:

- a) Discussion of the issues presented by the Modification Proposals – Mod\_01\_21, Mod\_02\_21, Mod\_04\_21

- b) Establishing which (one or more) of the Modification Proposals raised can or should be progressed and implemented taking account of the implications of proceeding
- c) Discussing alternative solutions that can be implemented both in the short and longer term

## 4 DELIVERABLES

- a) Working Group report detailing the discussion and outcome of the meeting
- b) Recommendation to the Modifications Committee
- c) Finalised drafting of a new or second version(s) of a Modification Proposal(s) or implementation of one (or more) of the Modifications as currently drafted

## 5 STAKEHOLDERS

Market Participants, potential new entrants to the market, Market Operator, System Operators, Regulatory Authorities. Meter Data Providers and Interconnector Parties.

## 6 ROLES AND RESPONSIBILITIES

- a) Working Group Chair – Anne Trotter, Eirgrid
- b) Any stakeholders as outlined above to participate to achieve the objectives as per Section 2
- c) Secretariat to draft report and update Modifications Committee.
- d) Proposer to update and submit revised version of modification, if appropriate

## 7 RESOURCES

- Chair to be confirmed in advance of meeting
- Secretariat
- Proposers
- Market Participant representatives
- SO representatives
- MO representatives
- RA representatives

## 8 WORK BREAKDOWN STRUCTURE

- a) Discussion on Modifications submitted and possible solutions
- b) Implications of proceeding with any/all Modification Proposals discussed

## 9 SCHEDULE

An initial half day Working Group meeting is proposed for 23<sup>rd</sup> March 2021 to address the objectives of the meeting.

If further meetings are required to address the objectives in full, the timeline for further engagement will be defined at the initial meeting.

## 10 RISKS AND RESTRAINTS

There is a risk that the Working Group may stray beyond the objectives set out above into wider issues. If such a discussion occurs, the Chairperson will refer parties to the objectives and the scope of the Working Group.

Should any proposed solutions require system changes it may not be possible to provide an impact assessment as soon as required.