



# Single Electricity Market

## FINAL RECOMMENDATION REPORT

**MOD\_13\_22 BIDIRECTIONAL IMPERFECTIONS CHARGE FACTOR  
MODIFICATION  
7 DECEMBER 2022**

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## Document History

Version	Date	Author	Comment
1.0	7 Dec 2022	Modifications Committee Secretariat	Issued to Modifications Committee for review and approval
2.0	14 Dec 2022	Modifications Committee Secretariat	Issued to Regulatory Authorities for final decision

## Reference Documents

Document Name
<a href="#">Trading and Settlement Code</a>
<a href="#">Mod_13_22 Bidirectional Imperfections Charge Factor Modification</a>

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## 1. MODIFICATIONS COMMITTEE RECOMMENDATION

### RECOMMENDED FOR APPROVAL– UNANIMOUS VOTE

Recommended for Approval by Unanimous Vote		
Robert McCarthy	DSU Member	Approve
Ian Mullins	Supplier Member	Approve
Paraic Higgins (Chair)	Generator Member	Approve
Eamonn Boland	Renewable Generator Alternate	Approve
Cormac Fagan	Assetless Alternate	Approve
Paul McGuckin	Flexible Participant Member	Approve
Cormac Daly	Generator Member	Approve
David Caldwell	Supplier Alternate	Approve
Brigid Reilly	Supplier Alternate	Approve
Sean McParland	Generator Alternate	Approve
Andrew McCorriston	Generator Alternate	Approve
Robert McCarthy	DSU Member	Approve

## 2. BACKGROUND

This Modification Proposal was raised by SONI / EirGrid and received by the Secretariat on the 30<sup>th</sup> September 2022. The Proposal was raised at and voted on at Meeting 113 on 20<sup>th</sup> October 2022.

The SEMC decision paper for the 2022/23 Imperfections Charge has set out a requirement for the TSOs to work with the RAs to develop an Imperfections biannual review process. The current charge factor mechanism forms part of this, however, to meet the requirements of this process, a modification is required to update section F.12.1.4 of the Trading and Settlement Code to allow bidirectional amendments to the Imperfections Charge Factor, FCIMP<sub>y</sub>, for Imbalance Settlement Period,  $\gamma$ .

Typically, the Imperfections Charge Factor is set to 1 for the upcoming Tariff Year, with a mechanism available to increase it to a value  $> 1$ , within the tariff year that the current Imperfections Charge, PIMP<sub>y</sub>, is being applied. This can be used if the RA Approved Imperfections Charge does not provide for the adequate recovery of anticipated costs where an under recovery is not appropriate to include as an adjustment in subsequent years. This current unidirectional Imperfections Charge Factor mechanism protects the interests of the TSOs where a clear under-recovery of anticipated costs is likely.

This modification proposes to allow the Imperfections Charge Factor to operate bidirectionally, i.e., enabling a value  $< 1$ . This modification will allow the Imperfections Charge to be reduced within-year (via applying a charge factor  $< 1$  to the Imperfections Charge) to reduce the magnitude/impact of a likely TSO over-recovery of anticipated costs.

### 3. PURPOSE OF PROPOSED MODIFICATION

#### 3A.) JUSTIFICATION OF MODIFICATION

Currently the Imperfections Charge Factor applied to Suppliers, can only be increased, in the situation where the revenue brought in via the Imperfections Charge is materially lower than actual Imperfection Costs for Year, y. If applied, this increases the RA approved Imperfections Charge, via the multiplication of the Imperfections Charge Factor, to allow for an increase in revenue recovery from Suppliers, that better accounts for anticipated actual costs.

There is no mechanism to reduce the Imperfections Charge, should impacts outside the control of the TSOs, result in the Imperfections Charge bringing in revenue materially above actual Imperfections Costs. This modification would allow for the Imperfections Charge to be adjusted if required, within-year, to better reflect actual Imperfections Costs (including a revised end-of-year estimate for the remaining portion of the Tariff Year). This has the potential to reduce k-factor volatility, by accounting for within-year impacts outside the control of the TSOs that are driving costs down, as well as up (currently allowed). This can lead to better year-on-year stability of the Imperfections Charge, where Imperfection Costs can better follow actual costs where such deviations occur between actual Imperfections Costs and the TSO revenue brought in via the Imperfections Charge.

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

In the current climate of extremely volatile fuel prices, in particular gas, Imperfections Costs are subject to increases and decreases of a magnitude not seen before. Although fuel is currently the major driver for increasing Imperfections Costs, there are also many other potential cost drivers that are outside the control of the TSOs. In the event where these cost driving assumptions relax or become more favourable, there is currently no mechanism to lower the Imperfections Charge within-year. This can lead to suppliers being liable for elevated costs (which will be passed on to the consumer), subsequent volatile k-factors, with potentially large swings in year-on-year Imperfections Charges that become heavily influenced by costs from preceding years.

#### 3C.) IMPACT ON CODE OBJECTIVES

N/A

### 4. WORKING GROUP AND/OR CONSULTATION

N/A

### 5. IMPACT ON SYSTEMS AND RESOURCES

No material impact to systems, as there is already the charge factor mechanism in place. The proposal will allow for the charge factor to be set to less than 1 (expanding the current methodology of only  $\geq 1$ ).

### 6. IMPACT ON OTHER CODES/DOCUMENTS

N/A

### 7. MODIFICATION COMMITTEE VIEWS

#### MODIFICATIONS MEETING 113 – 20<sup>TH</sup> OCTOBER 2022

The Proposer delivered a [presentation](#) on this Modification noting that it was an RA request following approval of Imperfection forecast budget. The benefits to this proposal were listed. Questions were

raised by DSU Member on the need to remove the potential for additional interim reports being requested by the RAs. The Proposer agreed to review this for the FRR.

RA Observer noted that the SEM Committee decided there would be a bi-annual review at least but there could be more potentially therefore accepted the amendment proposed by the DSU Member.

There was wide support from Members for this Modification.

It was confirmed that voting would proceed based on the reinstatement of the possibility for multiple interim reviews.

## 8. PROPOSED LEGAL DRAFTING

F.12.1.4 The Market Operator may, of its own accord or in response to a request from the Regulatory Authorities, make additional interim reports to the Regulatory Authorities during the Year that reviews the recovery of costs or other matters as the Regulatory Authorities may request, that may result in proposing revisions to the Imperfections Charge Factor in the event that the values as originally proposed either:

(a) do not provide for the adequate recovery of anticipated costs and such under recovery is such that it is not appropriate to include as an adjustment in subsequent Years.

(b) over provide for the recovery of anticipated costs and such over recovery is such that it is not appropriate to include as an adjustment in subsequent Years.

## 9. LEGAL REVIEW

N/A

## 10. IMPLEMENTATION TIMESCALE

It is recommended that this Modification is implemented on a Settlement Day basis on the second Settlement Day following publication of RAs decision.

## 1 APPENDIX 1: MOD\_13\_22 BIDIRECTIONAL IMPERFECTIONS CHARGE FACTOR MODIFICATION

<b>Proposer</b> <i>(Company)</i>	<b>Date of receipt</b> <i>(assigned by Secretariat)</i>	<b>Type of Proposal</b> <i>(delete as appropriate)</i>	<b>Modification Proposal ID</b> <i>(assigned by Secretariat)</i>
SONI / EirGrid	30th September 2022	Standard	Mod_13_22
<b>Contact Details for Modification Proposal Originator</b>			
<b>Name</b>	<b>Telephone number</b>	<b>Email address</b>	
Stephen McClure		stephen.mcclure@soni.ltd.uk	
<b>Modification Proposal Title</b>			
Imperfections Charge Factor – Modification to allow bidirectional application.			
<b>Documents affected</b> <i>(delete as appropriate)</i>	<b>Section(s) Affected</b>	<b>Version number of T&amp;SC or Agreed Procedure used in Drafting</b>	
T&SC Part B	F.12.1.4	v26.0 - 17 May 2022	
<b>Explanation of Proposed Change</b> <i>(mandatory by originator)</i>			
<p>The SEMC decision paper for the 2022/23 Imperfections Charge has set out a requirement for the TSOs to work with the RAs to develop an Imperfections biannual review process. The current charge factor mechanism forms part of this, however, to meet the requirements of this process, a modification is required to update section F.12.1.4 of the Trading and Settlement Code to allow bidirectional amendments to the Imperfections Charge Factor, FCIMPy, for Imbalance Settlement Period, <math>\gamma</math>.</p> <p>Typically, the Imperfections Charge Factor is set to 1 for the upcoming Tariff Year, with a mechanism available to increase it to a value <math>&gt; 1</math>, within the tariff year that the current Imperfections Charge, PIMPy, is being applied. This can be used if the RA Approved Imperfections Charge does not provide for the adequate recovery of anticipated costs where an under recovery is not appropriate to include as an adjustment in subsequent years. This current unidirectional Imperfections Charge Factor mechanism protects the interests of the TSOs where a clear under-recovery of anticipated costs is likely.</p> <p>This modification proposes to allow the Imperfections Charge Factor to operate bidirectionally, i.e., enabling a value <math>&lt; 1</math>. This modification will allow the Imperfections Charge to be reduced within-year (via applying a charge factor <math>&lt; 1</math> to the Imperfections Charge) to reduce the magnitude/impact of a likely TSO over-recovery of anticipated costs.</p>			
<b>Legal Drafting Change</b> <i>(Clearly show proposed code change using <b>tracked</b> changes, if proposer fails to identify changes, please indicate best estimate of potential changes)</i>			

F.12.1.4 The Market Operator may, of its own accord or in response to a request from the Regulatory Authorities, make an additional interim reports to the Regulatory Authorities during the Year that reviews the recovery of costs or other matters as the Regulatory Authorities may request, that may result in, proposing revisions to the Imperfections Charge Factor in the event that the values as originally proposed are, in the opinion of the Market Operator or Regulatory Authorities, likely to -either:

(a) do not provide for the adequate recovery of anticipated costs and such under recovery is such that it is not appropriate to include as an adjustment in subsequent Years.

(b) over provide for the recovery of anticipated costs and such over recovery is such that it is not appropriate to include as an adjustment in subsequent Years.

**Modification Proposal Justification**

*(Clearly state the reason for the Modification)*

Currently the Imperfections Charge Factor applied to Suppliers, can only be increased, in the situation where the revenue brought in via the Imperfections Charge is materially lower than actual Imperfection Costs for Year, y. If applied, this increases the RA approved Imperfections Charge, via the multiplication of the Imperfections Charge Factor, to allow for an increase in revenue recovery from Suppliers, that better accounts for anticipated actual costs.

There is no mechanism to reduce the Imperfections Charge, should impacts outside the control of the TSOs, result in the Imperfections Charge bringing in revenue materially above actual Imperfections Costs. This modification would allow for the Imperfections Charge to be adjusted if required, within-year, to better reflect actual Imperfections Costs (including a revised end-of-year estimate for the remaining portion of the Tariff Year). This has the potential to reduce k-factor volatility, by accounting for within-year impacts outside the control of the TSOs that are driving costs down, as well as up (currently allowed). This can lead to better year-on-year stability of the Imperfections Charge, where Imperfection Costs can better follow actual costs where such deviations occur between actual Imperfections Costs and the TSO revenue brought in via the Imperfections Charge.

**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)*

**Implication of not implementing the Modification Proposal**

*(State the possible outcomes should the Modification Proposal not be implemented)*

In the current climate of extremely volatile fuel prices, in particular gas, Imperfections Costs are subject to increases and decreases of a magnitude not seen before. Although fuel is currently the major driver for increasing Imperfections Costs, there are also many other potential cost drivers that are outside the control of the TSOs. In the event where these cost driving assumptions relax or become more favourable, there is currently no mechanism to lower the Imperfections Charge within-year. This can lead to suppliers being liable for elevated costs (which will be passed on to the consumer), subsequent volatile k-factors, with potentially large swings in year-on-year Imperfections Charges that become heavily influenced by costs from preceding years.

**Working Group**

**Impacts**

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<i>(State if Working Group considered necessary to develop proposal)</i>	<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>
No working group required	No material impact to systems, as there is already the charge factor mechanism in place. The proposal will allow for the charge factor to be set to less than 1 (expanding the current methodology of only $\geq 1$ ).
<b>Please return this form to Secretariat by email to <a href="mailto:balancingmodifications@sem-o.com">balancingmodifications@sem-o.com</a></b>	