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| **MODIFICATION PROPOSAL FORM** |
| **Proposer***(Company)* | **Date of receipt***(assigned by Secretariat)* | **Type of Proposal***(delete as appropriate)* | **Modification Proposal ID***(assigned by Secretariat)* |
| **SEMO** | **08 August 2019** | **Standard** | **Mod\_38\_18 V4** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Aodhagan Downey** |  | **aodhagan.downey@eirgrid.com** |
| **Modification Proposal Title** |
| **Limitation of Capacity Market Difference Payments to Loss Adjusted Metered Quantity** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B** | **F.20.1.1** | **v20** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| This V2 has been submitted to remove changes to paragraph F.20.2.3 which have been raised as a separate Modification. This is because those changes relate to different element of the T&SC and have different justifications and merits that need to be addressed individually. It is expected that the new Modification would have a tracking ID of Mod\_08\_19. Introduction of QMLFvγ to QDIFFTRACKvγ in a manner analogous to the presence of QCOBuγ in QDIFFTRACKuγ. The absence of this limit means that a Supplier Unit may trade a volume that is multiples of their metered quantity at prices that exceed the strike price, receive difference payments such that the effective price of the trade is the strike price (i.e. 500 €/MWh) and then sell the energy back to Balancing Market at a high price. Where the Balancing Market is functioning normally, the risk of this occurring is low as the participant would be exposed to significant downside risks due to the like spread between the DAM and BM price; however, where these prices are the same (or similar) for example where the Market Back Up Price is used, there is a large and unacceptable financial risk to the market as a whole. Version 3 of this proposal introduces a factor (Difference Quantity Limitation Factor/FDQL) to allow the limitation of difference quantities to move beyond QMLF, by an amount determined by the RAs. This could either be left to be any value equal to or greater than 1 (which represents 100% of QMLF) or, as presently drafted, this could be prescriptively set to a minimum value greater than 100% e.g. 1.2 (which represents 120% of QMLF) or some other value as agreed. This is to provide comfort to suppliers in relation to a minimum allowance in the difference payment hedge to allow for forecasting errors. The aim here is to strike a balance between ensuring that the hedge provides adequate protection to suppliers whilst limiting this to a reasonable level to mitigate the risk described above in order to achieve both objectives as discussed at previous Committee meetings. |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| 1.

F.20 Difference Payments**F.20.1 Calculation of Day-ahead Difference Quantities and Payments**F.20.1.1 The Market Operator shall calculate the Day-ahead Difference Quantity for each Supplier Unit, v, which is not a Trading Site Supplier Unit, in Imbalance Settlement Period, γ, as follows:where:* + - * 1. qTDAxvh is the Day-ahead Trade Quantity for Trade, x, for Supplier Unit, v, in Day-ahead Trading Period, h;
				2. DTDAx is the Day-ahead Trade Duration of Trade, x;
				3. QEXvγ is the Ex-Ante Quantity for Supplier Unit, v, in Imbalance Settlement Period, γ;
				4. is a summation of the quantities for each Trade, x, from the day-ahead market or the intraday market, as the case may be within whose Day-ahead Trading Period or Intraday Trading Period, h, as the case may be, the Imbalance Settlement Period, γ, falls in whole or in part;
				5. DISP is the Imbalance Settlement Period Duration;
				6. QMLFvγ is the Loss-Adjusted Metered Quantity for Supplier Unit, v, in Imbalance Settlement Period, γ; and
				7. FDQL is the Difference Quantity Limitation Factor determined in accordance with paragraph F.20.1.1A.

F.20.1.1A If requested by the Regulatory Authorities, the Market Operator Shall report to the Regulatory Authorities proposing a value for the Difference Quantity Limitation Factor (FDQL) to be used in the calculation of Difference Payments The Market Operator shall publish the approved Difference Quantity Limitation Factor within 5 Working Days of receipt from the Regulatory Authorities’ or two months before it commences to apply, whichever is the later. The Difference Quantity Limitation Factor shall be a value not less than 1.2.1.

F.20.2.3 The Market Operator shall calculate the Intraday Trade Difference Quantity (QDIFFPTIDvγk), the Intraday Trade Difference Payment (CDIFFPTIDvγk), and the Tracked Difference Quantity (QDIFFTRACKvγk) for each Supplier Unit, v, which is not a Trading Site Supplier Unit, in ascending order of each position, k, in the ranked set derived in accordance with paragraph F.20.2.2, in Imbalance Settlement Period, γ, as follows:where:* + - * 1. is a summation over values across all positions in the ranked set prior to and including the current position, k, in the ranked set. Calculations for the first position, (k = 1), will not have a previous position, k’, and the result for this sum shall be the value in the current position, k, in the ranked set;
				2. is a summation over values across all positions in the ranked set prior to the current position, k, in the ranked set. Calculations for the first position, (k = 1), will not have a previous position, k’, and the result for this sum shall be zero;
				3. QEXvγ is the Ex-Ante Quantity for Supplier Unit, v, in Imbalance Settlement Period, γ;
				4. QDIFFDAvγ is the Day-ahead Difference Quantity for Supplier Unit, v, in Imbalance Settlement Period, γ;
				5. QTIDvγk is the Intraday Trade Quantity for Trade, x, for Supplier Unit, v, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				6. PTIDvγk is the Intraday Trade Price associated with the Intraday Trade Quantity (QTIDvγk) for Trade, x, for Supplier Unit, v, in the position, k, in the ranked set, in Imbalance Settlement Period, γ;
				7. PSTRm is the Strike Price for Month, m, which contains Imbalance Settlement Period, γ;
				8. (k – 1) is for the previous position in the ranked set;
				9. (k = 0) is for the 0th position in the ranked set, i.e. where a calculation is being performed on the first position in the ranked set, (k = 1), for which there is no previous position;
				10. QMLFvγ is the Loss-Adjusted Metered Quantity for Supplier Unit, v, in Imbalance Settlement Period, γ; and
				11. FDQL is the Difference Quantity Limitation Factor determined in accordance with paragraph F.20.1.1A.

Glossary and List of Acronyms

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| **Difference Quantity Limitation Factor**  | means the multiplier used to calculate the Difference Payment applicable to each Supplier Unit, v, which is not a Trading Site Supplier Unit, approved by the Regulatory Authorities under paragraph F.20.1.1A. |

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| Parameter | FDQL | Difference Quantity Limitation Factor | The Difference Quantity Limitation Factor, which represents the multiplier applied to Loss-Adjusted Metered Quantity used to calculate the Difference Payment applicable to each Supplier Unit, v, which is not a Trading Site Supplier Unit. | Factor |

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| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| The quantity component of Capacity Market Difference Charges is capped at QCOB, which is the load following obligated quantity. Any Capacity Market Unit in receipt of Capacity Payments in return is obligated to deliver the quantity associated with its QCOB at a price of no greater than the strike price. Suppliers pay Capacity Charges based on their loss adjusted Metered Quantity during day time hours to fund Capacity Payments and in return receive protection for their demand from prices higher than the strike price. As the TSCB is currently drafted, a Supplier Unit receives protection for any traded quantity even where this may greatly exceed their metered quantity.This Modification Proposal seeks to confine the protection from high prices to the Supplier Unit’s Metered Quantity plus an allowed percentage to account for forecasting error and thus more closely aligns Difference Payments with Difference Charges whilst allowing for a small and configurable deviation to mitigate against a reasonable amount of demand forecasting error.  |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* |
| A.2.1.4 (b) to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner; |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| The absence of this limit means that a Supplier may trade a volume that is multiples of their metered quantity at prices that exceed the strike price, receive difference payments such that the effective price of the trade is the strike price (i.e. 500 €/MWh) and then sell the energy back to Balancing Market at a high price. Where the Balancing Market is functioning normally, the risk of this occurring is low as the participant would be exposed to significant downside risks due to the like spread between the DAM and BM price; however, where these prices are the same (or similar) for example where the Market Back Up Price is used, there is a large and unacceptable financial risk to TSOs and the market as a whole.   |
| **Working Group***(State if Working Group considered necessary to develop proposal)* | **Impacts***(Indicate the impacts on systems, resources, processes and/or procedures; also indicate impacts on any other Market Code such as Capacity Marker Code, Grid Code, Exchange Rules etc.)* |
| Not required | Impact on Settlement Systems to be assessed by the vendor. An initial impact assessment of applying QMLF without an additional factor was found to be low risk and small impact so it is anticipated that this update would result in a similar outcome, albeit that the addition of the factor results in slightly increased complexity.  |
| ***Please return this form to Secretariat by email to*** ***modifications@sem-o.com*** |

**Notes on completing Modification Proposal Form:**

1. **If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.**
2. **Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Modifications Committee.**
3. **Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.**
4. **For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:**

**Agreed Procedure(s): means the detailed procedures to be followed by Parties in performing their obligations and functions under the Code as listed in either Part A or Part B Appendix D “List of Agreed Procedures”. The Proposer will need to specify whether the Agreed Procedure to modify refers to Part A, Part B or both.**

**T&SC / Code: means the Trading and Settlement Code for the Single Electricity Market. The Proposer will also need to specify whether all Part A, Part B, Part C of the Code or a subset of these, are affected by the proposed Modification;**

**Modification Proposal: means the proposal to modify the Code as set out in the attached form**

**Derivative Work: means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal**

**The terms “Market Operator”, “Modifications Committee” and “Regulatory Authorities” shall have the meanings assigned to those terms in the Code.**

**In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section 2 of Part A or Chapter B of Part B of the Code (and Part A Agreed Procedure 12 or Part B Agreed Procedure 12) , which I have read and understand, I agree as follows:**

**1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:**

* 1. **to the Market Operator and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;**
	2. **to the Regulatory Authorities, the Modifications Committee and each member of the Modifications Committee to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;**
	3. **to the Market Operator and the Regulatory Authorities to incorporate the Modification Proposal into the Code;**

**1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.**

**2. The licences set out in clause 1 shall equally apply to any Derivative Works.**

**3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.**

**4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.**

**5. I hereby acknowledge that the Modification Proposal may be rejected by the Modifications Committee and/or the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.**