

Chapter 8: Non-Performance Difference Charges and Imbalance Difference Payments

Non-Performance Difference Charges and Imbalance Difference Payments – 1/2

- Another Difference Charge on Capacity Market Units is one for non-performance, where the incentive for reliability is most strongly implemented. This is a charge on the amount of the capacity obligation which the Capacity Market Unit did not meet through energy market trades: this charge applies to the quantity between the level of obligation met and total load-scaled obligation.
- The price used for this charge is the Imbalance Settlement Price, and like other reference markets the charge is triggered when this price is greater than the strike price. This can happen due to the bid offer prices submitted by participants setting the price higher, but an Administered Scarcity Price function is also included in the calculation of the Imbalance Settlement Price to ensure the Imbalance Settlement Price is at least at a high enough level to reflect the value of scarcity at times where the system needs reliable capacity in order to maintain system security (such as at times of reserve shortfalls or demand control). 3000€/MWh has been set as the price of the full value of scarcity for go-live, with a plan to change this to the Value of Lost Load after a number of years.
- Because this charge is on a quantity which has not been traded, the Capacity Market Unit has no revenue from the energy market for this quantity to help cover this charge, and would be in a position to make a loss if these charges arise. Therefore, the incentive for a Capacity Market Unit is to trade on in the energy markets as early as possible, or make themselves available in the balancing market at the lowest prices possible, to ensure that they have trades to provide energy at times where scarcity is expected in order to avoid exposure to this risk of revenue loss. Also because of the risk associated, it is the Non-Performance Difference Charge to which the Stop-Loss Limits apply.
- The provision of some reserves is counted towards meeting the capacity obligation, and reduces the non-performance quantity.

Non-Performance Difference Charges and Imbalance Difference Payments – 2/2

- Suppliers are also exposed to the Imbalance Settlement Price and potential Administered Scarcity Price in the energy market settlement, however like the other market timeframes they are eligible to be hedged against this price for any imbalances they incur. This is done through the Imbalance Difference Payment. Therefore while the potential for very high imbalance prices have been introduced through Administered Scarcity Pricing functionality, in reality Suppliers would not have to pay this price either because they bought this energy sufficiently in the ex-ante markets rather than as an imbalance, or if this energy is purchased as an imbalance they would only have to pay a maximum of the Strike Price for that volume.
- This means that Administered Scarcity Pricing can largely function to create the incentive for reliability on Capacity Market Units while not overly affecting consumers.
- Demand Side Units and Interconnectors are only exposed to this charge, and not the charges in the other timeframes. This is because they operate quite differently to other units. Interconnectors do not trade in the markets and so none of the charges associated with the day-ahead, intraday or balancing market prices would be possible. Therefore they are only exposed to the Non-Performance Difference Charge, and only to the extent that they were not available to import to the obligated level. Demand Side Units do not get the benefit of the energy market revenue to help cover the Difference Charges so they are treated slightly differently also – only being exposed to Non-Performance Difference Charges and only to the extent to the TSO deems they did not meet the obligation.