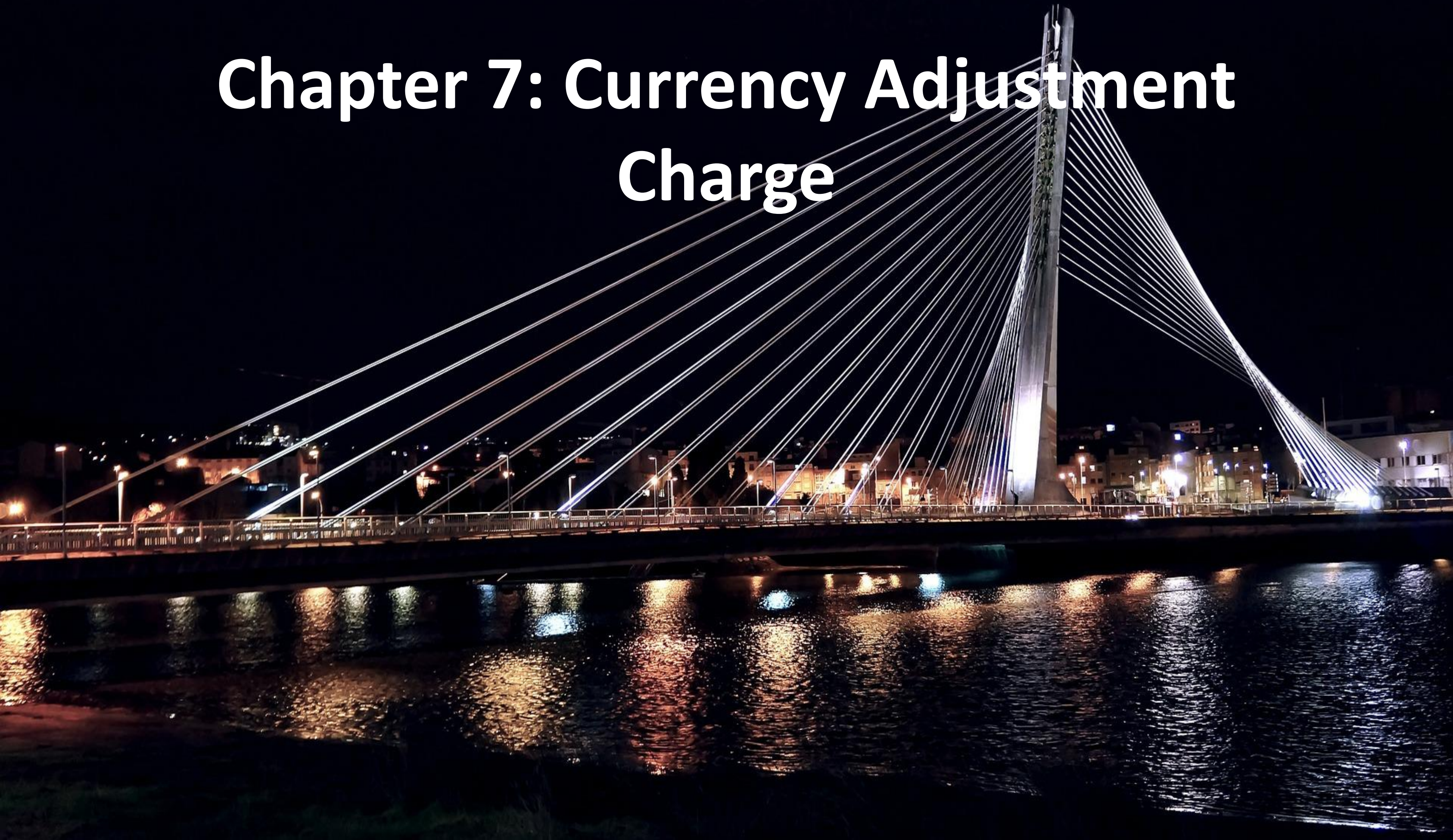
Chapter 7: Currency Adjustment Charge



EIRGRID semo SONI
Single Electricity Market Operator

Currency Adjustment Charge

- Dual currency will continue to be included in the SEM as it transitions to I-SEM;
- Costs and benefits arise due to differences between the exchange rates agreed at the time of data submission and the rates applied by the SEM bank at the time of processing the payments;
- This by itself would not lead to costs if the amounts in and the amounts out were equal within the same currency. However this may not be the case, for example since generators in Northern Ireland can provide energy for Suppliers in Ireland and vice versa, the energy charges on Suppliers in Northern Ireland in £ may be less than the energy payments due to Generators in Northern Ireland in £ as those charges are coming from Suppliers in Ireland in €;
- Policy decisions in this area mean the risk associated with this currency exchange rate fluctuation should not be borne by the participants submitting data: their settlement amounts should be based on a currency fixed at point of submission;
- Any costs or benefits arising from the fluctuations in exchange rates are socialised across all Supplier Units through this charge;
- The complexity of the current approach for managing these was not favoured by the SEM Committee, and they decided to replace it with a simple approach where a tariff, determined annually by the MO based on the forecast of costs and benefits, is levied on Supplier Unit's net demand.

Currency Adjustment Charge

- To determine the tariff, the MO will need to consider the following in energy terms:
  - Determine where monies cross between Northern Ireland and Ireland:
    - Energy flows on North-South tie-line may be driven by the Day-ahead Market / Intraday Market as well as Balancing Market activity;
    - What share of North-South activity is relating to Day-ahead Market / Intraday Market trading;
    - Extent to which Balancing Actions are funded from charges in different jurisdiction.
  - Forecast exchange rate variations over the course of the tariff period.

Currency Adjustment Charge

- To determine the tariff, the MO will need to consider the following in capacity terms:
  - Capacity Payments based on exchange rate at the time of the Auction or Secondary Trade;
  - Capacity Charges based on annual exchange rate set at the beginning of the year;
  - Actual cost of payments, and receipt of charges, to the MO will be at the exchange rate at the time of financial settlement;
  - Need to determine total capacity quantities by jurisdiction and compare to forecast demand by jurisdiction;
  - This will reveal the quantity of capacity quantities that are funded in a different currency;
  - There may be differences of a number of years between the exchange rate in T-4 auctions and the time of actual payment;
  - Issues may arise where payments out are based on multi-year contracts (e.g. up to 10 years) set in different auctions, with different exchange rates applying;
  - The currency cost will have to use a weighted average exchange rate based on all that apply;
  - This can be assessed against forecast of exchange rate fluctuations and used to determine the forecast cost / benefit for the Capacity Market;
  - Considering all of this, the MO needs to forecast the currency cost / benefit on the basis of contract quantities and prices to calculate a tariff for this charge.