EP UK Investments Response to SEM-25-028 Imperfections Charges 2025-2026

EP UK Investments ('**EPUKI**') welcomes the opportunity to respond to this consultation paper. EPUKI has concerns related to the SEM Committee's ('**SEMC**') considerations on amendments to the treatment of units dispatched away from their Final Physical Notification ('**FPN**') by the Transmission System Operators ('**TSO**') for non-energy reasons. Specifically, EPUKI has concerns around how such changes may undermine transparency in the Single Electricity Market ('**SEM**'), whether these changes are the most effective means to manage imperfections costs, and the practical implementation of such a change.

Transparency

EPUKI is concerned that the proposed changes will reduce transparency in the SEM. It is currently not clear how the TSOs deem balancing actions as energy or non-energy. The TSOs identified this in their analysis of compliance with the European Balancing Guidelines ('**EBGL**') (SEM-21-017) where they noted the complexity of differentiating between these actions in a centrally dispatched system.

"...d*etermining which actions are for energy reasons or non-energy reasons is complicated by the application of the central dispatch Integrated Scheduling Process in the SEM system. Under such an approach, all actions taken could be seen to contribute to a greater or lesser extent to both energy and non-energy requirements*".

EPUKI notes that the difference between the imbalance price and a unit's Commercial Offer Data ('**COD**') in a given period may be significant. The ambiguity around whether an action is energy or non-energy means that market participants will have less transparency on how units are settled.

There is further uncertainty in terms of how second order constraints will be treated. For example, a unit could be constrained on or off for non-energy reasons which results in a different unit needing to be constrained for energy purposes. It is not clear in such instances which unit, if either, would be settled based on its COD and which would be settled based on the imbalance price.

EPUKI questions the fairness of the proposed amendment given the potential for units constrained on for energy reasons to be settled at a higher price than those constrained on for non-energy reasons. This creates conditions whereby a unit may be required by the TSO to ensure stable operation of the system, and it would be in a worse financial position than a unit which was constrained on for energy purposes. EPUKI considers this to be a perverse outcome where units contributing to specific system needs in specific location are penalised compared to those who are not required to address specific system needs.

Incentives on TSOs

This proposal would undermine the incentive on the TSOs to address system constraints in a timely and efficient manner. EPUKI notes the management of network constraints is the responsibility of the TSOs. Imperfections costs associated with constraints would be more effectively managed by ensuring that the TSOs are effectively resolving constraints. The proposal to amend the treatment of constrained units addresses a symptom, rather than the cause of increasing imperfections costs.

The consultation paper notes that Dispatch Balancing Costs ('**DBCs**') represent the largest single factor of total imperfections costs. However, there is a lack of transparency around the constraints which drive DBCs in the market. For example, between April 2021 and August 2024 one of the Moneypoint coal units (MP1, MP2, MP3) were 'must run' as part of a temporary constraint. This resulted in one of these units being constrained almost constantly during this period, despite rarely clearing in the market. The TSOs have not published any information on the necessity for, or the analysis supporting this constraint.

Similarly in May 2024, a new temporary constraint was added which required a number of Dublin units (DB1, HNC, HN2, PBA, PBB) to be must run when imports on the East West Interconnector exceeded 300MW. Once again, there was no information, commentary, or analysis provided by the TSOs to explain this constraint, beyond a single comment stating that the constraint was necessary for "*load flow control in Dublin*". EPUKI believes that greater scrutiny and transparency of constraint on the system would support the objective of reducing imperfections costs.

EPUKI notes that the TSOs have failed to deliver critical infrastructure which would contribute to the reduction of DBCs. For example, the North-South Interconnector was originally intended to be completed by 2017 and now has an expected delivery date of October 2031. This extensive delay contributes to high levels of wind dispatch down in Northern Ireland which feeds through to imperfections costs borne by consumers. A delay has recently been announced to the go-live for the Celtic Interconnector from October 2026 to spring 2028.

EPUKI notes that the Commission for Regulation of Utilities ('**CRU**') is currently consulting on Price Review 6 ('**PR6**') which will run from 2026 – 2030. Part of this consultation considers the performance incentives which the TSO will be subject to during this five-year period. EPUKI welcomes the CRU's proposals on the use of an 'Imperfections and Constraints' incentive during PR6. 'Imperfections Costs' are mentioned in SONI's 2024-2025 workplan, but they do not appear to be included as a performance issue. EPUKI believes that imperfections incentives should be outcome based whereby the total cost of imperfections should be directly linked to assessment of performance. This would provide a strong incentive for the TSOs to manage constraint costs.

As well as general grid roll-out and reinforcing, DBCs can be addressed through accelerated roll-out of new technologies such as Long Duration Energy Storage and Low Carbon Inertia Services, as well as policy developments such as hybrid sites, private wires, and Maximum Export Capacity sharing.

Practical Considerations

EPUKI have a number of practical concerns related to this consideration. First and foremost, the modifications required to the Trading and Settlement Code and any subsequent system changes are likely to be challenging to implement. EPUKI believes that the balance of resources, finances, and time required to implement such a change would outweigh any potential benefit of this change.

Furthermore, the impact of this change would need to be considered in the context of other markets. For example, the Capacity Market price caps are derived from forecasted costs and inframarginal rent to enable capacity providers to cover their Net Going Forward Costs (‘**NGFCs**’). The impact of this change on expected revenues for capacity providers would need to be carefully considered to ensure that NGFCs are recovered in the future. Failure to reflect this impact would risk undermining the economic feasibility of New and Existing Capacity.

Participants would also need to consider how this change would create opportunity costs in the energy market. Depending on the difference between the imbalance price and a unit’s COD in a given period, there may be a material risk that a unit is called in the Balancing Market for non-energy reasons. This risk would need to be factored into calculations of Short Run Marginal Costs.

Regulatory Certainty and Balance of Risk

Finally, EPUKI considers that this change, if implemented, would undermine regulatory certainty in the SEM. The existing ruleset has been in place for a number of years and participants planning new projects in the SEM would have made investment decisions on the basis of the existing ruleset. This change would introduce uncertainty to the market rules and would alter the balance of risk and responsibility between market participants and the TSOs with regard to constraints.

It is noted that the principle of balance responsibility in the SEM means that participants who fail to meet their ex-ante position must pay back at the imbalance price. This policy change would create a potential risk whereby at times of high imbalance pricing, participants may be exposed to very high payments, with a potential upside which is not proportional. This risk is heightened due to the rules around mandatory bidding in the SEM.

Conclusion

For the reasons outlined above, EPUKI is opposed to progressing the policy changes outlined in this consultation paper. Should the SEMC decide to proceed with these changes, EPUKI considers it would be necessary to conduct further consultation with stakeholders, including an impact assessment and cost-benefit analysis of such changes.