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Imperfections Charges

For

October 2010 – September 2011

Decision Paper

SEM-10- 055

13 August 2010

1 EXECUTIVE SUMMARY

On 30 June 2010 the SEM Committee published a consultation on the proposed imperfections charge for the period from 1 October 2010 to 30 September 2011. Three responses were received to this paper. Two were in support of the proposal, with one querying the composition of the k factor. No alternative suggestions were proposed.

A third response queried the TLAF element of the imperfections charges used in the Plexos model and clarification is, due to the data freeze date, TLAF's for 2011 were not available for inclusion in the Plexos model. The published 2010 TLAF's are used in the Plexos model for both 2010 and 2011. The proposed change in the TLAF regime was not mentioned in the consultation paper as a key risk factor as this list was illustrative rather than exhaustive. The impact of changes to market arrangements such as TLAF splitting is outside the scope of the forecast.

The SEM committee have therefore decided that the imperfections charge to be applied for 1 October 2010 should be €3.117 per MWh. The composition of this is summarised in Table 1 below.

	2009/10	**2010/11**	**Change**
Imperfections Allowance (€ million)	106.31	€ 110.83	4.3%
K factor (€ million)	-12.58	-3.51	-72.1%
Total Allowance (€ million)	**93.73**	**107.32**	**14.5%**
Forecast Demand (GWh)	34,060	34,430	1.1%
Tariff (€/MWh)	**2.752**	**3.117**	**13.3%**

Table 1: The composition of the Imperfections Charge 2010/11 and 2009/10

2 INTRODUCTION

2.1 THE SINGLE ELECTRICITY MARKET

The Northern Ireland and Ireland Governments together with the energy regulators - the Northern Ireland Authority for Utility Regulation and the Commission for Energy Regulation ("the RAs") - and industry, worked together to create an All-Island Energy Market, as outlined in the All-Island Energy Market Development Framework Paper.[1]

The first step in this process was the implementation of an All-Island wholesale electricity market. The Single Electricity Market (SEM) was completed on 1st November 2007 when the market went live.

The SEM is a centralised or gross mandatory pool market, with electricity being bought and sold through the pool under a market clearing mechanism. Generators receive the System Marginal Price (SMP) for their scheduled dispatch quantities, capacity payments for their actual availability, and constraint payments for changes in the market schedule due to system constraints and other, specific factors. Suppliers purchasing energy from the pool will pay the SMP for each trading period, capacity costs, and system support charges. The SEM market rules are set out in the Trading and Settlement Code (TSC). The SEM is governed by the SEM Committee which was set up by both governments and has representatives from both Regulators plus an Independent Member. The SEM is operated by the Single Electricity Market Operator (SEMO) which is a contractual joint venture between the Transmission System Operators (TSOs), Eirgrid and SONI. SEMO's allowed revenues are set by the SEM Committee.

2.2 IMPERFECTIONS CHARGE & DISPATCH BALANCING COSTS

In addition to SEMO's operational costs, the MO tariffs have to recover Imperfections Charges which are made up of Make Whole Payments, Energy Imbalance Charges and Dispatch Balancing Costs. The TSOs submitted a paper to the RAs on 30 April 2010 detailing the costs relating to Dispatch Balancing Costs. Dispatch Balancing Cost is a TSO-defined term and refers to the sum of Constraint Payments, Uninstructed Imbalance Payments and Generator Testing Charges. The Imperfections Charges are

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[1] All-Island Energy Market: A Development Framework, Nov 2004, www.allislandproject.org
http://www.dcmnr.gov.ie/NR/rdonlyres/BCF98EC4-7321-4E3F8685BFFCA2BF2DF4/0/All_island_Energy_Market_Development_Framework.pdf

made only on Suppliers while the MO Charges are made on Suppliers and on Generators.

2.3 OBJECTIVE OF PAPER

The objective of this consultation paper is to summarise the comments received from interested parties on a range of proposals associated with Imperfections Charges and in particular Dispatch Balancing Costs, requested in the consultation paper published on 30 June 2010, and to establish the imperfections tariff for 2010 /2011 after consideration of the responses.

3 IMPERFECTIONS CHARGE

3.1 OVERVIEW

The costs associated with Imperfection Charges are depicted in the diagram below. Three of the costs covering constraint costs, uninstructed imbalance costs and testing charges (collectively known as Dispatch Balancing Costs) are provided by the System Operators, Eirgrid and SONI. In addition to these, there are also Energy Imbalances and Make Whole payments. The budget required for these two costs is provided by SEMO.

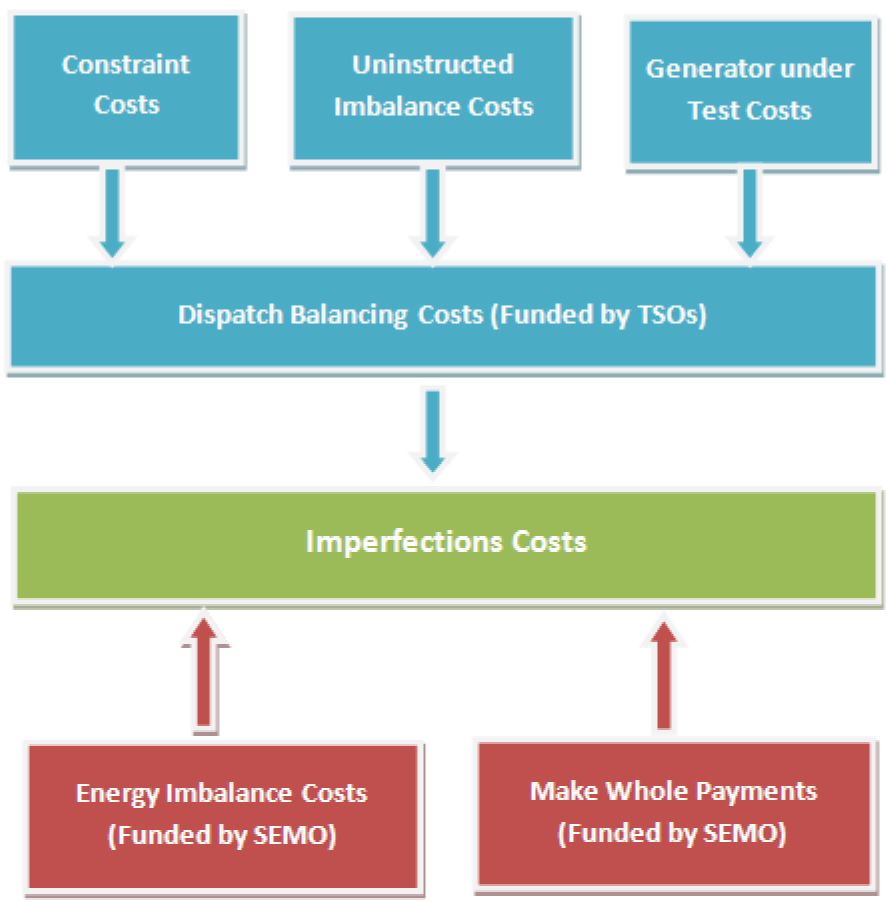

Figure 3: Make up of Imperfection Charges

The Transmission System Operators (TSOs) submission was prepared jointly by the Eirgrid and SONI, and captured an all-island estimate of constraint costs, uninstructed imbalance costs and testing charges, collectively known as Dispatch Balancing Costs.

The forecast of Dispatch Balancing Costs is for the period from October 1st 2010 to September 30th 2011.

All these costs are estimated *ex-ante* and recovered from Suppliers on a MWh basis through the Imperfections Charge.

3.2 DISPATCH BALANCING COSTS

The budget proposed by the TSOs for the tariff year 2010 – 2011 is €110.5M compared to €106M for the tariff year 2009 – 2010.

No comments were received in respect of this calculation, and the amount of €110.5M is approved by the SEM Committee to be collected by SEMO via the imperfections tariff to cover the Dispatch Balancing Costs. This is subject to an ex-post adjustment and any under or over-recovery will be reflected in the tariffs over the following two years.

3.3 ENERGY IMBALANCES

It is assumed that the costs of uninstructed imbalances (for over and under generation) will, on average, be recovered by the uninstructed imbalance payments for the forecast period. Therefore, a zero net cost has been provided for this. No comments were received in relation to this and the provision of a zero net cost has been included within the tariff for 2010/11.

3.4 MAKE WHOLE PAYMENTS

For the previous 12 months Make Whole Payments amounted to €322,369 i.e. 12 months to 31st October 2009. Therefore the proposed provision for Make Whole payments is €330,000.

No comments were received in relation to this and the SEM committee have decided to allow a provision of €330,000 in the imperfections tariffs for 2010/11.

3.5 RECOVERY OF IMPERFECTION COSTS

As stated previously, the dispatch balancing costs are estimated *ex-ante* and this estimate is recovered during the relevant tariff period through the imperfections charge.

However, it is almost certain that differences between the costs being recovered and paid out will lead to instances where SEMO will:

- require working capital to fund constraints payments that exceed revenue collected through the imperfections charge, or,
- have collected revenue through the imperfections charge that exceeds the amount being paid out on constraints.

To allow for the first scenario, the mechanism adopted for previous SEMO Revenues and Tariffs, was that the funding required covering fluctuations during the tariff period, and any allowed under-recovery of revenue during the tariff period will be paid back, in the subsequent tariff period(s), this reflects the cost of short-term financing required to provide SEMO's working capital needs.

Similarly, for situations where the revenue recovered by SEMO through the Imperfections Charge is greater than that paid out in constraints (second scenario above), the Imperfections Charge in the following tariff period(s) will be reduced by an appropriate amount to reflect the allowed over-recovery and the associated interest.

One comment was received in respect of the composition of the k factor and the recovery of market imbalances costs. The RA's accept the PPB point on the market imbalances being included within the k factor and agree that the trading and settlement code needs clarity around this issue for future imperfections costing as the current drafting of the Code does not allow these costs to be recovered. In order for these additional items to be recovered, a Modification Proposal needs to be raised and as part of this, the issue of moneys accruing to previous years should be considered. The total value of market imbalances costs has been removed from the decision paper for this year.

A further comment inquired about the netting off process and the approach taken within the harmonised all-island ancillary services paper and other system charges (SEM-10-001) published on 4th January 2010. The netting off of charges associated with trips, short notice declarations, and generator performance incentives against dispatch balancing costs will take effect from October 2011.

3.5.1 PROVISION OF WORKING CAPITAL FOR IMPERFECTION CHARGES

The RAs proposed that, as is currently the case, the funding of working capital requirements be provided by EirGrid and SONI.

In addition, the RAs proposed that funding required to cover fluctuations during the tariff period, and any allowed under-recovery of revenue during the tariff period be paid back in the subsequent tariff period(s) with the appropriate amount of interest. This reflects the cost of short-term financing required to provide SEMO's working capital needs.

Similarly, for situations where the revenue recovered by SEMO through the Imperfections Charge is greater than that paid out, it is proposed that the Imperfections Charge in the following tariff period(s) will be reduced by an appropriate amount to reflect the allowed over-recovery and the associated interest.

No comments were received in respect of this proposal and the SEM committee have decided that this mechanism will continue for 2010/11.

3.6 IMPERFECTIONS CHARGE

Based on the above decisions, the imperfections charge will be €3.117 per MW for the period from 1 October 2010 to 30 September 2011. This is an increase of 13.3% from 2009/10. 4.3% of this increase is due to an increase in the annual imperfections allowance with the remaining increase due to the difference in the magnitude of the k-factor.

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