

SEM-12-045 (2)

Appendix 2 Components for Imperfections Charge for the Tariff Year 2012/13

Dispatch Balancing Costs

Updated version of the DBC Forecast submission attached (DBC Forecast 2012 – 2013 V2.0). This version has had some minor changes made for publication.

Make Whole Payments

The proposed provision for Make Whole Payments for the 2012/13 Tariff Year is €100,000.

Energy Imbalances

The proposed provision for Energy Imbalances for the 2012/13 Tariff Year is zero. Note that Energy Imbalances are generally countered by constraint payments in the opposite direction.

Other System Charges

The proposed provision for Other System Charges to be included for the 2012/13 Tariff Year is €4m. Further detail available in Section 6 of the DBC forecast submission.

K Factor

Background

As per the SEM market rules set out in the T&SC, the calculation of the Imperfections K factor to date has been a combination of (a) the variance between Imperfections receipts and net payments in terms of Constraint Payments, Uninstructed Imbalance Payments, Testing Charges and Make Whole Payments and (b) the Energy Imbalance (arising from a difference in Energy receipts and payments). This left a number of imbalances in the market for which there was no recovery mechanism. A modification (Ref MOD_13_11) to the T&SC to include these additional imbalances was approved by the Regulatory Authorities on 11th July 2011. This modification also permitted Other System Charges to be included in the Imperfections Charge. The impact of this modification on the Imperfections K factor is detailed below.

The agreed mechanism for over/under recoveries in Imperfections Revenues is to take a best estimate of any over or under recovery and provide for it in the year following incurrence (t+1) with a final true up in the subsequent year (t+2).

K Factor for 2012/13 Imperfections:

i. Component for Imperfections Imbalance in respect of the 2010/11 Tariff Year

In 2010/11 the K factor for 2010/11 (-€54,364,153), 2009/10 (€1,147,801), 2008/09 (-€3,510,214) and previous years K factor (€-135,847) were applied. The imperfections imbalance for 2010/11 after adjusting for the effect of previous K Factors is €6,046,929 of an over-recovery.

ii. Component to cover off Market Imbalances from previous years

Receipts and Payments on market activity include energy, imperfections, capacity, market interest received/paid, foreign exchange gains/losses and Other System Charges. These related imbalances are now to be recovered in the Imperfections tariff as required by T&SC modification (MOD_13_11) approved in 2011. As a result the Imperfections K Factor mechanism should include these additional market imbalances.

o Remaining Balances from 2010/11 not previously included in K Factor

The respective market imbalances for 2010/2011 that were not included in the K Factor calculations are as follows:

- €0.48m Capacity over-recovery
- €0.007m Market Interest over-recovery
- €0.58m Foreign Exchange under-recovery
- €5.65m Other System Charges under-recovery

- **Remaining Balances from 2009/10 not previously included in K Factor**

The respective market imbalances for 2009/2010 that were not included in the K Factor calculations are as follow:

- €0.67m Capacity over-recovery
- €0.05m Market Interest under-recovery
- €1.28m Foreign Exchange over-recovery

- **Remaining Balances from 2008/09 not previously included in K Factor**

The respective market imbalances for 2008/2009 that were not included in the K Factor calculations are as follows:

- €1.37m Capacity over-recovery
- €0.04m Market Interest under-recovery.
- €1.14m Foreign Exchange under-recovery.

- **Remaining Balance from 2007/08 not previously included in K Factor**

The respective market imbalances for 2007/2008 that were not included in the K Factor calculations are as follows:

- €0.02m Capacity under-recovery
- €0.11m Market Interest over-recovery
- €1.17m foreign exchange under-recovery

iii. Component in respect of the forecast Imperfections Imbalance for 2011/12 Tariff Year

The actual 2011/12 year to date imbalances is differing from the forecast for a number of reasons. The net impact is an estimated under-recovery of €14.106m. Constraints costs are anticipated to be higher than expected following a re-forecasting exercise which accounted for a number of events which have happen in the current year such as generator outages, the outage of the Moyle Interconnector and the reduction in fuel costs compared to forecast. These outages have increased the costs of reserve together with the static reserve on Moyle being unavailable over the winter months. Another contributing factor is a fall in actual demand partly as a result of a very mild winter.

Based on ongoing Dispatch Balancing Costs analysis, the estimated shortfall for Imperfections in 2011/12 to be included in the K Factor is €14.106m. This figure may be revised following a re-forecast by EirGrid and SONI closer to the conclusion of the tariff year.

Taking all three components of the K Factor into account, the K Factor for the Imperfections Calculation for the 2012/13 Tariff Year is €12,788,099 of an under-recovery, which will increase the 2012/2013 Imperfections Charge.

A summary is provided below in Figure 1.

Figure 1: Breakdown of Imperfections K Factor applicable to 2012/13 Tariff

	Over/(Under) Recovery (€)
Imbalances in respect of the 2010/11 TY	
Total Imperfections Imbalance for 2010/11	-50,815,484
K Factor for 2010/11	54,364,153
K Factor for 2009/10	-1,147,801
K Factor for 2008/09	3,510,214
Remainder K Factor from previous years to be applied in 2011/12	135,847
	<u>6,046,929</u>
Market Imbalances from previous years	
Market Imbalances from 2010/11 not previously included in K Factor	-5,740,982
Market Imbalances from 2009/10 not previously included in K Factor	1,894,466
Market Imbalances from 2008/09 not previously included in K Factor	196,545
Market Imbalances from 2007/08 not previously included in K Factor	-1,079,057
	<u>-4,729,028</u>
Estimated Imperfections Imbalance in respect of the 2011/12 TY	
Estimated Imperfections Imbalance in respect of the 2011/12 TY	-14,106,000
	<u><u>-12,788,099</u></u>

Energy Forecast

Total all-island indicative demand forecast for the 2012/13 Tariff Year for the purposes of calculating the Imperfections Charge, is 33,000 GWh. This is premised upon the total forecast units to be transmitted in both jurisdictions adjusted to the Transmission/distribution boundary and excluding an estimate of units not traded in the market. As with all of the input parameters this remains a best estimate at this time and EirGrid and SONI reserve the right to revise this estimate prior to the formal submission of the tariffs should it be deemed necessary or appropriate to do so.

Indicative Imperfections Charge

The estimated Imperfections Charge for the tariff year 2012/13 is therefore made up as follows:

- €142m of an estimate for DBC for the tariff period 2012/13.
- €0.1m of an estimate for Make Whole Payments for the tariff period 2012/13.
- Zero *ex ante* provision for Energy Imbalances for the tariff period 2012/13.
A K factor of €12.8 million for the tariff period 2012/13 based upon a current best estimate of the under-recovery for the tariff year 2011/12.

The total revenue recovery is therefore €154.9 million. On the basis of an estimated throughput of 33,000 GWh this gives an Imperfections Charge of €4.69 MWh.