Imperfections Charges

For

October 2012 – September 2013

Consultation Paper

SEM-12-045

14 June 2012

1 EXECUTIVE SUMMARY

The purpose of this consultation paper on the proposed Imperfection Charges for October 2012 to September 2013 is to inform and obtain the views of market participants and other stakeholders. It combines the forecast Dispatch Balancing Costs as detailed in the Transmission System Operators' Submission of 30 April 2012 (Appendix 1) with estimates for Make Whole Payments, Energy Imbalance Charges (assumed to be zero) and an offset from Other System Charges. This information is combined with forecasted Demand figures 2012/13 to produce the overall Imperfections Charge.

Comments are invited from the industry and the public by 16 July 2012 as detailed in section 4.

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. This process began with the implementation of an All-Island wholesale electricity market creating the Single Electricity Market (SEM) effective from November 2007.

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 Eirgrid and SONI. SEMO's allowed revenues are set by the SEM Committee.

2.2 IMPERFECTIONS CHARGE & DISPATCH BALANCING COSTS

The Imperfections Charge is levied on suppliers by SEMO and recovers the net cost of Make Whole Payments, any Energy Imbalances and Dispatch Balancing Costs. The TSOs submitted a paper to the RAs on 30 April 2012 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 details relating to these are covered in Section 3 of this Consultation Paper.

2.3 OBJECTIVE OF PAPER

The objective of this consultation paper is to solicit comments from interested parties on a range of proposals associated with Imperfections Charges and in particular Dispatch Balancing Costs.

3 IMPERFECTIONS CHARGE

3.1 OVERVIEW

The costs associated with Imperfection Charges are depicted in Figure 1 in Appendix 1. 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.

The Transmission System Operators (TSOs) submission was prepared jointly by 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 1 October 2012 to 30 September 2013.

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

3.2 DISPATCH BALANCING COSTS

See Appendix 1. The TSOs' estimate of Dispatch Balancing Costs for the tariff year 2012 – 2013 is €142.1M compared to €142.6M for the tariff year 2011 – 2012.

The K Factor adjustment is estimated to be €12,788,099 under recover which will increase the imperfections charge for 2012/13.

3.3 ENERGY IMBALANCES

It is assumed that minimal energy imbalances will arise. A zero net cost has been provided for this.

3.4 MAKE WHOLE PAYMENTS

For the previous 12 months Make Whole Payments amounted to €100,000 i.e. 12 months to 30 September 2011. The proposed provision for Make Whole payments is €100,000.

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 were 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 to cover fluctuations during the tariff period, and any allowed under-recovery of revenue during the tariff period will be paid to SEMO 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 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.

The "K Factor" to be applied to the Imperfections Charge for 2012 – 2013 is €12.788M. See Appendix 2. This will be added to the forecast DBC for 2012/13 and recovered over the period 1 October 2012 to 30 September 2013. The main contributing factors for this increase relate to the adjustments necessary to the 2011/12 assumptions. In particular the demand has been lower than forecast together with additional constraint costs relating to generator and interconnector outages.

It is proposed that this mechanism is continued in the new Tariff period.

PROPOSALS

The RAs propose that the full estimate provided for the net nominal value of Dispatch Balancing Costs, that is **€142.1 Million**, be recovered through the Imperfections Charge during the new tariff period.

The RAs propose that an amount of **€100,000** be recovered through the Imperfections Charge during the new tariff period for Make Whole Payments.

The RAs propose that the existing treatment of K Factor for over and under recovery of Imperfections costs be continued in the new tariff period. For the tariff period 1 October 2012 to 30 September 2013, a K-factor **of €12.788 Million** is proposed to be recovered through the imperfections charge.

3.6 IMPERFECTIONS CHARGE

The TSOs have submitted an estimate for the net value of Dispatch Balancing Costs of €142 Million, to be recovered through the imperfections charge during the new tariff period. The amount allowed will be subject to review and determination ex-post, with allowed under or over-recoveries feeding into the subsequent tariff period(s). Adding €100,000 for Make Whole Payments and the K Factor of €12.788 Million, including an offset of €4 Million for Other Systems Charges, gives a total Imperfections Charge for 2012 – 2013 of €154.9 Million.

Using an estimated Forecasted Demand Figures for 2012/13 (33,000 GWh) and the total Imperfections Charge above (€154.9 Million), the resulting Imperfections Charge is €4.69 per MWh. (The figure for 2011 -2012 was €5.44 per MWh).

4 PROVISION OF COMMENTS

The RAs request comments on the proposals set out in this consultation paper. All comments received will be published, unless the author specifically requests otherwise. Accordingly, respondents should submit any sections that they do not wish to be published in an appendix that is clearly marked “confidential”.

Comments on this paper should be forwarded, in electronic form, to Karen Shiels at Karen.Shiels@uregni.gov.uk by 12:00 on Monday 16 July 2012.