Single Electricity Market

Trading and Settlement Code Tariffs to apply from Go-Live – Part 1

Information Note

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1 Introduction

To enable I-SEM Go-Live a number of tariffs require approval. These tariffs will cover the period from I-SEM Go-Live (scheduled for 23 May 2018) to the end of September 2018 (the end of the current tariff year) and include:

- Supplier Capacity Charge
- Capacity Difference Socialisation Fund
- Residual Error Volume loss Factor
- Currency Adjustment Charge

The charges are required to enable SEMO to calculate and issue credit cover requirements to each participant, which participants will need to put in place before Go-live.

A short description and review of the tariffs is given below as well as final tariffs to apply to the end of September 2018, with the exception of Capacity Difference Socialisation Fund, for which a TSO-proposed value, as yet unapproved, is presented for information only.

2 Supplier Capacity Charge

The administratively determined CPM in SEM is being replaced with a competitively determined Capacity Remuneration Mechanism (CRM) and the price for awarded capacity is determined through an auction process. Capacity Payments will be funded through a Capacity Charge tariff which is socialised across all suppliers on a monthly basis based on their daytime demand profile.

The TSOs submitted a proposal for this tariff on the 2February 2018 and the RAs raised a query relating to time window. The TSOs provided a detailed response to the effect that the CMC and T&SC support the setting of capacity change for four months only.

The RAs approve the TSO proposed tariff of €13.77/MWh for Supplier Capacity Charge.

3 Capacity Difference Socialisation Fund

The capacity difference socialisation fund is a new mechanism in I-SEM. The revenue to fund awarded capacity is recovered from suppliers through a capacity charge. In return the suppliers are hedged against high energy prices. The purpose of building up the fund through a tariff is to ensure suppliers are fully hedged against high price events. This is separate to the Supplier Capacity Charge itself.

If inadequate funds have been built up at a point where difference payments need to be made from the fund, the Market Operator may use the over recovery of other charges to make difference payments if it considers it appropriate. Otherwise the Market Operator has the right to "suspend and accrue" until funds are built up again.

The TSOs submitted a proposal for this tariff on 21 February 2018 of €0.69/MWh and the RAs are in the process of reviewing the submission.

A separate decision on the Capacity Difference Socialisation tariff will be made as soon as practicable following publication of this paper.

4 Residual Error Volume Loss Factor (REVLF)

REVLF relates to differences between actual and metered volumes, that can swing in both positive and negative directions.

The concept and principles applied to REVLF in the SEM are similar in I-SEM. As part of the I-SEM design participants wanted to reduce weekly billing volatility associated with REVLF and requested the introduction of a tariff arrangement. Thus the key difference in REVLF between SEM and I-SEM is the manner in which costs are recovered, where it moves from a recovery in close to real time in SEM, to a tariff arrangement in I-SEM.

The TSOs submitted a proposal for this tariff on the 2 February 2018.

The TSO based their REVLF calculation on historical costs over the four year tariff period from 2013/14 until 2016/17 and took the average figure of €24.3m inflated by 33% based on expected I-SEM volatility and then prorated for 4 months to reach a figure of €10,762,532.

Based on a forecast non-half hourly demand of 5,532,837 MWh for 4 months this gave a tariff of €1.95/MWh.

The RAs queried the inclusion of a particularly high cost for the tariff year of 2013/14 and proposed that is be removed as the tariff cost trend had decreased sharply over the 4 year period used. The RAs also queried the need to apply an inflation of 33% for potential volatility.

The TSOs removed the 2013/14 tariff cost in the calculation but argued that it is prudent, particularly given the proposed change to the REVLF amount to address only a three year average, that the tariffs still be adjusted for volatility by 33%.

The RAs accept this position and approve a value of €1.49/MWh to apply for the Residual Error Volume Loss Factor.

5 Currency Adjustment Charge

Due to the existence of two currencies within the SEM/I-SEM, variation between these can occur in incoming and outgoing amounts in the market over the year. This variation is covered through the Currency Adjustment Charge.

The concept and principles applied to currency costs in the SEM are similar in I-SEM, however the mechanism for the recovery of these costs in the balancing and Capacity Markets has changed. As part of I-SEM design a tariff arrangement is being introduced which will reduce weekly and monthly billing volatility associated with currency as seen by suppliers. Therefore recovery of costs have moved from close to real time in SEM to a tariff arrangement in I-SEM.

The TSOs submitted a proposal for this tariff on 20th February 2018 and the RAs have reviewed the submission.

The TSOs have suggested that the forecast currency adjustment is likely to be less than €1m for the four month period, and the assumption is that there are likely to be no economic shocks which would give rise to fluctuations. The TSOs therefore propose the Currency Adjustment tariff should not be charged (without prejudice to future years) and the outturn Currency Adjustment for the financial year 2018 be included as a k-factor adjustment in the currency adjustment charge calculation for Financial Year 2020.

The RAs are content with the TSO proposed tariff of €0/MWh for the Currency Adjustment Charge.

6 Conclusion

Further tariffs which include the Socialisation charge, AOLR and the Market Operator tariffs remain to be reviewed and approved. Decisions for each of these will follow shortly in a separate Part to this paper.