

## **Single Electricity Market**

# **I-SEM Tariffs and Charges / SEMO Revenue Requirement to apply from 1 October 2018 – 30 September 2019**

**Information Note**

**5 September 2018**

**SEM-18-046**

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## 1 Introduction

To enable I-SEM Go-Live a number of Tariffs and Charges require approval. These Tariffs will cover the period from I-SEM Go-Live (1 October 2018) to the end of September 2019 and are:

- Supplier Capacity Charge Price
- Difference Payment Socialisation Multiplier
- Residual Error Volume Price
- Currency Cost Price and Currency Adjustment Charge Factor

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 until the end of September 2019.

## 2 Supplier Capacity Charge Price

The administratively determined Capacity Payment Mechanism (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 15 June 2018 and the RAs reviewed this submission.

The RAs approve the TSO proposed tariff of €12.45/MWh for Supplier Capacity Charge Price.

## 3 Difference Payment Socialisation Multiplier

The Difference Payment Socialisation Multiplier 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 multiplier on 15 June 2018 of 0.023 which the RAs calculated as a tariff of €0.214/MWh.

The RAs are content with the approach and methodology used in the submission and approve the tariff of €0.214/MWh.

#### **4 Residual Error Volume Price**

Residual Error Volume Price (REVP) relates to differences between actual and metered volumes, that can swing in both positive and negative directions.

The concept and principles applied to REVP in the SEM are similar in I-SEM. As part of the I-SEM design participants wanted to reduce weekly billing volatility associated with REVP and requested the introduction of a tariff arrangement. Thus the key difference in REVP 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 15 June 2018.

The TSOs based their REVP calculation on historical costs over the three year tariff period from 2014/15 until 2016/17 and took the average figure of €18.6m inflated by 33% based on expected I-SEM volatility to reach a figure of €24,738,895.

The forecast all Island SEM demand for tariff year 2018/2019 is 35,200GWh and applied to throughput based on the Non Interval Energy Proportion (average NIEP for calendar year 2017 was 54% and this is expected to continue in I-SEM), gave a forecast NIEP demand of 19,008,000 MWh and resultant tariff of €1.30/MWh based on the €24,738,895 amount.

The RAs accept this submission approach and approve a value of €1.30/MWh to apply for the Residual Error Volume Price.

## 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 22 June 2018 and the RAs have reviewed the submission.

The TSOs have suggested that the forecast currency adjustment is likely to be approximately €0.5m for the 2018/2019 tariff year period and proposed the Currency Adjustment tariff should be charged at €0.015/MWh with the outturn Currency Adjustment for the financial year 2018/2019 being included as a k-factor adjustment in the currency adjustment charge calculation for financial year 2020/2021.

The RAs have approved the currency adjustment tariff of €0.015/MWh for this initial I-SEM tariff year taking into account the k-factor correction factor but wish to monitor this rate over the coming year with a potential reassessment of the approach taken in July of 2019.

The RAs approve the TSO proposed tariff of €0.015/MWh for the Currency Cost Price and Currency Adjustment Charge Factor for the 2018/2019 tariff year.

## 6 SEMO 2018/2019 Revenue Requirement

The Market Operators submitted the SEMO Revenue Requirement for 2018/2019 on 9 July 2018.

The RAs have reviewed the Market Operator submission and calculations and are content with the proposed revenues for the I-SEM Period from Go-Live to 30 September 2019.

The overall revenue requirements below are approved until 30 September 2019.

Category	€
2018/2019 current SEM Revenue	6,511,775
2016/2017 SEM k-factor	(406,482)
Total I-SEM Period to Go-Live Revenue to 30 September 2018	1,175,486
2018/2019 I-SEM Revenues	11,156,057
<b>Total 2018/2019 Revenue</b>	<b>18,436,836</b>

## 7 Conclusion

These tariffs will now be published by the Market Operator for effect in the 2018/2019 tariff year.