



**Energia response to SEM Committee
Consultation Paper SEM-22-030**

***Applicability of Reliability Option Non-performance
Difference Charges to Available In-Merit Units***

31 August 2022

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-22-030 on the Applicability of Reliability Option Non-performance Difference Charges to Available In-Merit Units (the “Consultation Paper”).

Energia has consistently raised concerns about scheduling and dispatch risk associated with Reliability Options which is beyond the control of generators and represents an inefficient allocation of risk.

We have seen this risk borne out in I-SEM, and a number of modifications have sought to address its various causes. However, we see a need for an overarching solution that covers *all circumstances* where a generator could have met its obligations but through no fault of its own for any reason (be that system or TSO action / inaction) it was not dispatched to deliver the capacity. We therefore welcome the attention being given to this issue through this consultation but would also echo some the concerns raised in the EAI response. In particular, the importance of recognising that Non-Performance Difference Charges and Administered Scarcity Pricing (ASP) have separate functions and triggers. We share EAI’s discomfort that this consultation is being conducted where there is no sight of what possible interaction the RAs are intending between these two signals, and we strongly maintain our position against linking ASP to System Alerts as previously proposed by the RAs in SEM-21-042.

2. Preferred Approach and Suggested Revisions

Subject to suggested revisions as set out below, the only approach that makes sense is the fourth and broadest approach that is discussed in the Consultation Paper.

Reliability Option holders continue to be unduly exposed to the risk of binding Operational Constraints over which they have no control or ability to manage. The solution is to target the source of the problem. Such reforms were previously proposed in SEM-19-024 and via Mod_01_21, whereby units are not exposed to Non-performance difference charges if they are bound by any set of constraints limiting the potential output of a unit. The Consultation Paper is now considering an approach whereby “*all units which are available and **in-merit** be exempt from Non-performance Difference Charges to the extent that their available capacity meets their Capacity Obligated Quantity....*”.

The Consultation Paper suggests this may be broader and capture circumstances not covered in Mod_01_21. However, the requirement to be ‘in-merit’ is new. The Consultation Paper states on page 8 that “*in-merit is intended to mean relative to the price in the Balancing Market.*” However, this deviates from proposals in SEM-19-024 and Mod_01_21, which did not include a concept of being in-merit. Furthermore, it is inconsistent with the approach taken in Mod_14_21 which refers to units being in-merit against the Strike Price¹.

It is unclear why the concept of being *in-merit* is introduced with no supporting rationale to explain the deviation from SEM-19-024 and Mod_01_21. However, Energia does

¹ We note that this proposal was unanimously recommended for approval by the Modifications Committee on 2nd December 2021 and still awaits a final RA decision.

not believe that the principle of being in-merit against the price in the Balancing Market as suggested in the Consultation Paper is appropriate. The Imbalance Price, which is determined after dispatch has taken place, is subject to complex flagging and tagging rules in relation to the final determined price. It is therefore possible that a unit could be available and not dispatched during an RO event but not be in-merit against the Imbalance Price and therefore remain exposed to Non-performance Difference Charges. This outcome would not be in line with the intent of the proposal in the Consultation paper. Thus, **if the concept of being in-merit must be included, we strongly recommend that it be defined as units that bid less than the highest accepted INC.**