



SEM TRADING AND SETTLEMENT CODE

**Regulatory Authorities' Approval of
the System Operators' proposals for the
Flattening Power Factor Parameter
for 2007 and 2008**

DECISION PAPER

31 October 2007

AIP/SEM/07/570

1. Background

The SEM Trading and Settlement Code (TSC) was commenced on 3rd July 2007, when the Framework Agreement was signed by the original signatories.

The TSC specifies that the System Operators shall make a report to the Regulatory Authorities at least 90 days before the start of the First trading Year proposing a value for the Flattening Power Factor¹ and 4 Months before the start of the Year for each subsequent Year².

The Regulatory Authorities have received the System Operators' report proposing the value for Flattening Power Factor for 2007 and 2008 which was published as a consultation (AIP/SEM/07/513) to seek views from participants on the System Operators' proposal. The RAs have received 1 set of comments on the consultation paper for the parameters.

On the basis of the comments on the consultation paper and the RAs' own considerations, the RAs have reached their decision on the values to be used for the parameter concerned for 2007 and 2008.

2. Flattening Power Factor 2007 and 2008

2.1. System Operators' Proposal and Justification

The System Operators propose the value of 0.35 mentioned in the RA Decision Paper³ which they consider in line with achieving the objectives of signaling the need for availability in times of low margin and avoiding excessive volatility that would render the mechanism highly unpredictable. (For more detail and justification on the System Operators proposals please refer to the Consultation Paper on this value AIP/SEM/07/513)

2.2. Respondents' Comments

The Regulatory Authorities received only one response to this consultation, from Synergen who commented that:

- a more conservative figure (such as 0.1) for Flattening Power Factor than 0.35 should be utilised for 2007 and 2008;
- the RAs / SOs should formally consult on the value of Flattening Power Factor prior to setting the value for 2009; and

¹ See TSC paragraph 8.63.

² See TSC paragraph M.30

³ Single Electricity Market-Loss of Load Probability Curve for Capacity Payment Mechanism-Decisions Paper and Response to Detailed Comments-AIP-SEM-07-65-30th March 2007".

- there should be no adjustment to Flattening Power Factor within/during 2007 and 2008 as this would prejudice parties' contract positions.

Finally, Synergen notes that the SOs recommended two Flattening Power Factors (for variable and ex-post LOLP) and comment that as this issue isn't critical for Go Live it is recommended that this matter is addressed via the T&SC modifications arrangements.

2.3. Regulatory Authorities' Comments and Determination

The RAs note the System Operators proposals in the Appendix to their submission on the case for two Flattening Power Factors – one for the Variable Payment and one for the Ex-Post Payment. The RAs are of the view that whatever case there may be for defining two different values, such a review should wait until several months of market experience and would have to be subject to a modification to the Trading and Settlement Code.

Accordingly, **the Regulatory Authorities approve the value of 0.35 for Flattening Power Factor for 2007 and 2008.**

The Regulatory Authorities note that the System Operators may propose revisions to the value of the Flattening Power Factor (FPF_y) during the Year and, subject to the approval of the Regulatory Authorities, the Market Operator shall publish such revised value not less than thirty 30 days prior to the first Capacity Period for which such revised value is to be applied.⁴

⁴ TSC paragraph M.30