



**Single Electricity Market  
(SEM)**

**SEM Tariffs and Charges/SEMO Revenue  
Requirement to apply from 1 October 2019 – 30  
September 2020**

**Decision Paper  
SEM-19-037**

**4 September 2019**

2 CONTENTS

3 INTRODUCTION AND BACKGROUND..... 3

4 SUPPLIER CAPACITY CHARGE PRICE ..... 3

5 DIFFERENCE PAYMENT SOCIALISATION MULTIPLIER..... 4

6 RESIDUAL ERROR VOLUME PRICE ..... 4

7 CURRENCY COST PRICE AND CURRENCY ADJUSTMENT COST FACTOR.. 5

8 ANNUAL CAPACITY CHARGE EXCHANGE RATE..... 6

9 SEMO 2019/2020 REVENUE REQUIREMENT ..... 7

### 3 INTRODUCTION AND BACKGROUND

As required under Trading and Settlement Code Part B, a number of Market Parameters require approval by the SEM Committee each year. These parameters consist of four Tariffs/Charges and one Conversion Rate:

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

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 1 October 2019.

The Committee also approve the annual SEMO Revenue Entitlement which is in fulfilment of the SEMO Price Control. This Revenue Entitlement will allow SEMO to calculate, set and submit Market Operator Tariffs for the 2019/20 tariff year.

This paper sets out the final values to apply for each of these items in the tariff year 1 October 2019 until 30 September 2020.

A short description and review of the Tariffs, Conversion Rate and SEMO Revenue Entitlement is given below as well as final values to apply for the 2019/20 tariff year.

### 4 SUPPLIER CAPACITY CHARGE PRICE

The administratively determined Capacity Payment Mechanism (CPM) under the old SEM arrangements was replaced with a competitively determined Capacity Remuneration Mechanism (CRM), with the price for awarded capacity determined through an auction process. Payments under the CRM are funded through a Capacity Charge which is socialised across all suppliers on a monthly basis, based on their daytime demand profile.

The Market Operator (MO) submitted a proposal for this tariff on 28 June 2019 and the RAs reviewed this submission for consistency with results of the auction for the year in question.

The RAs approve the MO proposed tariff of €13.29/MWh for Supplier Capacity Charge Price.

## **5 DIFFERENCE PAYMENT SOCIALISATION MULTIPLIER**

The Difference Payment Socialisation Multiplier relates to the Capacity Market. The purpose of building up the fund through a tariff is to ensure suppliers are fully hedged against high price events in cases in which there is not enough contracted capacity to make difference payments to cover the pricing event. 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. Otherwise the Market Operator has the right to “suspend and accrue” until funds are built up again.

The MO submitted a proposal for this multiplier on 28 June 2019 of 1.1%.

The RAs are content with the approach and methodology used in the submission and approve the multiplier of 1.1% which is 0.011 for system input purposes.

## **6 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 previous market design are similar in the new market design. 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 the old and new SEM

arrangements is the manner in which costs are recovered, whereby it moves from a recovery in close to real time in SEM, to a tariff arrangement in I-SEM.

The MO submitted a proposal for this Tariff on 28 June 2019. The MO based their REVP calculation on historical costs over the four year tariff period from 2014/15 until 2017/18 along with a forecast for 2018/19 and took the average figure inflated by 25% based on expected I-SEM volatility, to reach a figure of €23,056,718.

The forecast all Island SEM demand for tariff year 2019/2020 is 34,200 GWh and applied to throughput based on the Non Interval Energy Proportion (average NIEP for calendar year 2018 was 54% and this is expected to continue in the new market), which gave a forecast NIEP demand of 18,468,000 MWh and resultant tariff of €1.25/MWh based on the €23,056,718 amount.

The MO made a further adjustment to this tariff of €0.05/MWh to reach a final value of €1.30/MWh.

The RAs have not accepted the €0.05/MWh addition and approve a value of €1.25/MWh to apply for the Residual Error Volume Price.

## **7 CURRENCY COST PRICE AND CURRENCY ADJUSTMENT COST FACTOR**

Due to the existence of two currencies within the 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 old SEM are similar in the new. 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 was introduced which reduces weekly and monthly billing volatility associated with currency as seen by suppliers. Therefore recovery of costs have moved from close to real time in the old SEM to a tariff arrangement in the new.

The MO submitted a proposal for this tariff on 28 June 2019 and the RAs have reviewed the submission.

The MO has suggested that the forecast currency adjustment is likely to be approximately €0.5m for the 2019/2020 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 2019/2020 being included as a k-factor adjustment in the currency adjustment charge calculation for financial year 2021/22.

The RAs have approved the currency adjustment charge of €0.015/MWh taking into account the y-2 k-factor correction factor which will be applied in the currency cost price calculations going forward.

The RAs approve the MO proposed tariff of €0.015/MWh for the Currency Cost Price and Currency Adjustment Charge Factor of 1 for the 2019/2020 tariff year.

## **8 ANNUAL CAPACITY CHARGE EXCHANGE RATE**

The purpose of the Annual Capacity Exchange Rate is to translate, where required the Annual Capacity Charge from Euro to Sterling or vice versa for billing purposes.

The Annual Capacity Payment Exchange Rate was published within the Final Capacity Auction Information pack in December 2018 and approved by the RAs and SEM Committee at €1:£0.9076. It is effective for Capacity Year, 1 October 2019 to 30 September 2020.

The MO has proposed the Annual Capacity Charge Exchange Rate is set equal to the Annual Capacity Payment Exchange Rate for the Capacity Year. This exchange rate of €1:£0.9076 means that both Capacity payments and charges related to the T-1 Capacity Auction will be billed using the same rate and will ensure that any currency gains/costs which may arise are not inadvertently recovered through Capacity Charges rather than Currency Adjustment Charges.

The RAs approve the Annual Capacity Charge Exchange Rate of €1:£0.9076

## 9 SEMO 2019/2020 REVENUE REQUIREMENT

The Market Operator submitted the SEMO Revenue Requirement for 2019/20 on 28 June 2019, which totals €13.979m (in March 2020 prices) including the 2017/2018 k-factor.

The RAs have reviewed the Market Operator submission and calculations and are content with the proposed revenues for the period from 1<sup>st</sup> October 2019 to 30 September 2020, shown below:

Category	€m (March 2020 prices)
2019/20 SEM-16-043 Revenue (Price Control Decision for period commencing October 2016)	1.164
2019/20 SEM-18-003 Revenue (Price Control Decision for period commencing May 2018)	11.271
2017/18 SEM k-Factor	1.543
Total 2019/20 Revenue	13.979

**Table 1**

The SEMO Price Control Decision paper (SEM-16-043) published in August 2016 set out the revenues for operation and decommissioning of the old SEM Systems based on an assumed Go-Live date for the new market of October 2017 and was designed to be flexible to take account of any movement in the I-SEM commencement date. This provided for SEMO's revenue allowance under this Price Control to be rolled forward (adjusted for inflation) on a proportionate basis in the event of any delay to the Go-Live date. The 2019/2020 tariffs include a provision of €1.164m for this based on the roll forward of revenues originally approved for the 2018/19 tariff year for the 2019/20 tariff year up to March 2020.

The SEMO Price Control Decision Paper (SEM-18-003) set out the revenues for the operation of the new market based on an assumed Go-Live date in May 2018, however the revised Go-Live date of October 2018 does not impact on the revenue provision for 2019/20. Under the 2018-2021 Price Control (SEM-18-003), SEMO has calculated its entitlement for the period from October 2019 to September 2020 of €11.271m, based on March 2020 prices.

An under recovery of €1.543m (in March 2020 prices) for the 2017/18 tariff year has also been included in the 2019/20 revenue calculation primarily driven by the 2017/18 MO Charge being set by reference to a revenue allowance assuming a Go-Live date of the new market in May 2018.

Tariffs that give effect to this revenue allowance will now be published by the Market Operator for effect in the 2019/2020 tariff year.