SEM committee

Amendment to the Price Average Reference Quantity (qPAR) to be used in the calculation of Imbalance Prices

Information Note Update

SEM_23_021

February 2023

1. Purpose of this Information Note

The purpose of this information note from the Regulatory Authorities (RAs) is to provide a decision on the proposal to amend the Price Average Reference Quantity (qPAR).

2. Background

Within the Imbalance Pricing process in the SEM Balancing Market, the last tagging process is Price Average Reference (PAR) Tagging. The purpose of PAR Tagging is to determine what actions are not NIV Tagged, and what volume of those actions are considered in the final calculation of the Imbalance Price. The Imbalance Price is calculated based on the volume-weighted average over a defined volume of the most expensive actions remaining, the defined volume being the Price Average Reference Quantity (qPAR).

The size of the qPAR value determines how marginal the price is, as follows:

- A smaller value for qPAR means the price is closer to a purely marginal price; and
- A larger value for qPAR means the price is further from a purely marginal price.

Given the exceptional geopolitical situation and the unprecedented impact of this on the energy sector, and on electricity prices in the SEM more specifically, the SEM Committee informed industry[1] that they were minded to increase the value of qPAR for a defined period of time. This amendment was being considered to help mitigate levels of volatility in the Imbalance Price and help to reduce the forecasted large increase in Imperfections Charges in the upcoming tariff year.

3. Responses to the Information Note

A total of six responses were received to the information note. A list of respondents is outlined below;

[1] QPAR Information note.pdf (semcommittee.com)

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- Energia
- BGE
- ESB GT
- EAI
- Prepay Power

Five of the responses were opposed to the SEM Committee making an adjustment to the qPAR parameter and one respondent was in favor. A high level summary of some arguments presented for and against the proposal are outlined below.

Respondents opposed to the proposal stated that limited data has been presented and limited analysis has been carried out that outline the potential impacts of what is a highly significant and material proposed change. A number of responses stated that the proposal would distort the price and would be less reflective of the true balancing cost. One respondent opined that generators will have sought to estimate their "missing money" differently when bidding into the capacity auctions and had they been appraised of the fact that the qPAR would be changed so radically they would likely have considered the need for Unit Specific Price Cap. Another respondent stated that it isn't clear what the benefits to the customer will be as analysis is limited to the impact on the Balancing Market price and does not include the imperfection cost.

One response supported the proposal. The respondent agreed that the proposal would help to reduce price volatility in the SEM markets. The respondent stated their support to make the imbalance price less marginal, and stated their view that this would bring about a net reduction in Balancing price and may indeed help to mitigate Imperfections costs.

4. SEM Committee Decision

The SEM Committee has decided not to apply the proposed change at this time. Application of this change may lead to an increase in imperfections charges, offsetting some of the benefit offered by lower balancing prices, and that this impact will require further analysis and consideration. The SEM Committee also notes that both day ahead and future gas prices have fallen significantly since the beginning of the year. Before applying such a change to the qPAR, the SEM Committee are of the view that the impact of reduced gas prices on balancing costs, and their volatility, should also be considered further.

There has been significant government intervention in the markets over the past number of months, with the aim of re-distributing some of the increased generator profits to consumers. The European Commission is also in the process of consulting on potential changes to the wholesale market more broadly. These more substantial developments have reduced the need for the intervention to be made at this stage, along with the reasons outlined above.

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