



**Response by Energia to the Regulatory  
Authorities Consultation Paper SEM-12-082**

***Trading & Settlement Code Annual Parameters for  
2013***

**22 October 2012**

## 1. Introduction

Energia welcomes this opportunity to respond to above consultation, which was accompanied by applicable SEMO and TSO reports, on the Trading & Settlement Code annual parameters for 2013. We restrict our comments in this response to:

- a) The parameters used in the calculation of Uninstructed Imbalances

The uninstructed imbalance regime is overly punitive in certain circumstances and this should be addressed as we suggest in the discussion below (albeit we are open to other suggested solutions).

And

- b) Flattening Power Factor

Energia is strongly opposed to an increase in the FPF for reasons discussed below.

## 2. Discussion

- a) The parameters used in the calculation of Uninstructed Imbalances

We refer to TSO Report dated 31 August 2012 on proposed values for uninstructed imbalances for the year 2013. Section 5.1 of the report (Basis for Parameters) states the following:

*It is expected that, as a result of governor action, a generator's output will vary in response to fluctuations in the system frequency (known as frequency regulation). This can result in uninstructed imbalances. However, to recognise that frequency regulation is correct behaviour, the uninstructed imbalance mechanism widens the tolerance band when the frequency deviates from nominal to ensure that the DOG and PUG parameters do not apply to imbalances that arise as a result of frequency regulation.*

This does not address the fact that generators are penalised when operating below their dispatch quantity but above the PUG tolerance due to high system frequency. When a generator is operating within the PUG tolerance due to high system frequency they are charged at SMP rates, which is overly punitive for something which is out of their control. A better methodology would be to charge at Offer Price rates when operating below dispatch quantity but above the PUG tolerance, similar to when operating above dispatch quantity but below DOG tolerance. The charge for below PUG should remain the same to reflect the cost of re-dispatching plant to make up the shortfall in generation.

If this proposal cannot be addressed by revising the uninstructed imbalance parameters Energia would welcome the opportunity to discuss further with the RAs

and the TSOs with a view to implementing a reasonable solution through a modification to the TSC (or otherwise as required) within a reasonable timeframe.

b) Flattening Power Factor (FPF)

As part of the CPM Medium Term Review, Poyry provided a report containing options for amending the Capacity Payments Mechanism. These options included adjusting the FPF. Based upon this report, in the CPM Medium Term Review Draft Decision Paper, the SEM Committee stated that they were minded to increase the value of the FPF to 0.5. However, in the CPM Medium Term Review Final Decision Paper, it was stated that the SEM Committee would reserve its decision on changing the FPF until the outcome of the TSOs' report in September 2012 is known.

In the context of the CPM medium term review Energia was strongly opposed to the proposed increase in the flattening power factor (FPF) from 0.35 to 0.5, and we remain steadfast in this view. We considered this (or any increase in the FPF) poorly justified, contrary to the direction of change required for enhanced market integration, and primarily of benefit to large portfolio players. We strongly urged the RAs to reconsider their minded to position to increase the FPF, especially given the need for stability and the effective functioning of existing arrangements according to independent observers.

There is no compelling evidence or convincing reason to increase the FPF. This is reflected in the vast majority of respondent comments to SEM-11-019 and SEM-11-088, where the following points were rightly made if the FPF were increased from 0.35 to 0.5:

- Crucially it would not result in any behavioural change – indeed no evidence has been presented to convincingly show that ex post capacity payments based on relative LOLP actually increases availability. Generator aim to be available for as much time as possible. By definition, forced outages are unplanned and therefore outside of the generator's control. Even with planned outages generators have limited ability to alter these due to compliance with manufacturing guidelines and warranties, statutory insurance inspections and the requirement to notify outages to the TSO at regular prescribed intervals.
- It would very significantly increase generator risk, contrary to the price stability objective of the CPM, and for no identifiable benefit (apart from advantaging portfolio players and particular classes of generation). Non portfolio thermal and wind generation would be especially adversely affected, the former due to a 'lottery effect' of being unavailable at the wrong time and the latter because capacity payments would be weighted more heavily towards periods of low wind which would amount to an unfair penalty on non-dispatchable wind generators.
- It would be clearly inconsistent with ex-ante market coupling at the EU level.
- It would discourage efficient interconnector trades by increasing the 'dead-band' in which trades do not occur.

- It could increase the potential for gaming which would be very difficult to monitor and police and would particularly benefit portfolio players, hence discouraging new entry.
- It would be very contentious in the context of scheduling generator outages and would give the TSO, via the power to schedule outages, undue influence over matters of a commercial nature.

We trust the SEM Committee will take the above points into consideration along with the only relevant recommendation of the recent TSO report dated 27 August 2012 that “changing the FPF at this time would not be in the interest of the industry and hence recommend that a value of 0.35 be retained” – a conclusion arrived at based on the evidence and taking into consideration the TSC and CPM objectives.