

## SEM-13-038b

### Appendix 2 Components for Imperfections Charge for the Tariff Year 2013/14

#### Dispatch Balancing Costs

Updated version of the DBC Forecast submission attached (Forecast Imperfections Revenue Requirement 2013 – 2014 V1.0). This version has had some minor changes made for publication.

#### Make Whole Payments

The proposed provision for Make Whole Payments for the 2013/14 tariff year is €100,000.

#### Energy Imbalances

The proposed provision for Energy Imbalances for the 2013/14 tariff year is zero. Note that Energy Imbalances are generally countered by constraint payments in the opposite direction.

#### Other System Charges

The proposed provision for Other System Charges to be included for the 2013/14 tariff year is zero. Further detail available in Section 6 of the Forecast Imperfections submission.

#### K Factor

##### Background

As per the SEM market rules set out in the T&SC, the purpose of the Imperfections Charge is to recover the anticipated Dispatch Balancing Costs (less Other System Charges), Make Whole Payments, any net imbalance between Energy Payments and Energy Charges and Capacity Payments and Capacity Charges over the year, with adjustments for previous years as appropriate. The 'K' factor mechanism facilitates the appropriate adjustments in respect of previous years.

The agreed mechanism for over/under recoveries in Imperfections Revenues is to take a best estimate of the total over or under recovery and provide for it in the year following incurrence (t+1) with a final true up in the subsequent year (t+2).

#### K Factor for 2013/14 Imperfections:

- i. **Component for Imperfections and Market Imbalances in respect of 2011/12 Tariff Year**  
Receipts and Payments on market activity include energy, imperfections, capacity, market interest received/paid, foreign exchange gains/losses and Other System Charges. These related imbalances are now to be recovered in the Imperfections tariff as required by T&SC modification (MOD\_13\_11) approved in 2011. As a result the Imperfections K Factor mechanism should include these additional market imbalances.

The total Imperfections and Market Imbalances for 2011/12 was €57,100,159. An adjustment for previous K factor amounts and a small adjustment in relation to previous years totalled €28,168,295. Once applied the Imbalance for 2011/12 is €28,931,864. This over-recovery reduces the imperfections tariff for 2013/14.

- o **Maket Imbalances for 2011/12 included in total Imbalance figure of €57,100,159**

The respective market imbalances for 2011/2012 are as follows:

- €0.041m Capacity over-recovery
- €0.030m Market Interest under-recovery
- €0.222m Foreign Exchange over-recovery
- €6.452m Other System Charges over-recovery

- o **Remaining Balances from previous years not previously included in K Factor**

The respective market imbalance for previous years not included in the K Factor calculations is as follows:

- €0.226m Adjustment for previous years

ii. **Component in respect of the forecast Imperfections Imbalance for 2012/13 Tariff Year**

The TSOs have estimated an under-recovery of €10 million in respect of the current tariff year 2012/13. This €10 million will increase the imperfections Charge for tariff year 2013/14. The TSOs believe this is required to 'reflect the differences seen between next year's forecast and the current year's as well as recent experience of higher than originally forecast DBC costs'.

The RAs will continue to engage with the TSO's regarding the requirement for additional revenue in respect of the current tariff year 2012/13. This requirement should reflect the best estimate for overall Imperfections including the netting off of Other System Charges.

Taking all two components of the K Factor into account, the K Factor for the Imperfections Calculation for the 2013/14 Tariff Year is €18,931,864 of an over-recovery, which will decrease the 2013/2014 Imperfections Charge.

A summary is provided below in Figure 1.

Figure 1: Breakdown of Imperfections K Factor applicable to 2013/14 Tariff

	<b>Over/(Under) Recovery (€)</b>
<b>Imbalances in respect of the 2011/12 TY</b>	
Total Imperfections Imbalance for 2011/12	57,100,159
K Factor re 2010/11 applied in 2011/12	-42,500,000
Advance in relation to Tariff year 2011/12	14,106,000
	<u>-28,394,000</u>
	28,706,159
<b>Market Imbalances from previous years</b>	
Market Imbalances from 2011/12 not previously included in K Factor	225,705
	<u>225,705</u>
Total Over-recovery in respect of 2011/12 Tariff Year	<u>28,931,864</u>
<b>Estimated Imperfections Imbalance in respect of the 2012/13 TY</b>	
	-10,000,000
Advance in relation to Tariff year 2012/13	
<b>Total Imperfections K Factor to be applied in 2013/14</b>	<u><u>18,931,864</u></u>

**Energy Forecast**

Total all-island demand forecast for the 2013/14 tariff year is 33,220 GWh. This is premised upon the total forecast units to be transmitted in both jurisdictions adjusted to the transmission/distribution boundary and excluding an estimate of units not traded in the market. As with all of the input parameters this remains a best estimate at this time and EirGrid and SONI reserve the right to revise this estimate prior to the formal submission of the tariffs should it be deemed necessary or appropriate to do so.

## **Indicative Imperfections Charge**

The estimated Imperfections Charge for the tariff year 2013/14 is therefore made up as follows:

- €165.5m of an estimate for DBC
- €0.1m of an estimate for Make Whole Payments
- Zero *ex ante* provision for Energy Imbalances
- Zero *ex ante* estimate of Other System Charges
- A K factor of €18.932 million expected to be applied to tariff period 2013/14. This includes an estimated under-recovery of €10 million for the tariff year 2012/13.

The total revenue recovery is therefore €146.7 million. On the basis of an estimated throughput of 33,220 GWh this gives an Imperfections Charge of €4.42 MWh.