

## SEM-14-053 (2)

### Appendix 2 Components for Imperfections Charge for the Tariff Year 2014/15

#### Dispatch Balancing Costs

Updated version of the DBC Forecast submission attached (Forecast Imperfections Revenue Requirement 2014 – 2015 V1.0). The forecast Dispatch Balancing Costs for 2014/15 is €177,600,000.

#### Make Whole Payments

The proposed provision for Make Whole Payments for the 2014/15 tariff year is €3,600,000 based upon TSOs experience in the last 12 months.

#### Energy Imbalances

The proposed provision for Energy Imbalances for the 2014/15 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 2014/15 tariff year is €4,859,000. Further detail is available in Section 3.5 of the Imperfection Charges for 2014/15 Consultation Paper.

#### 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 2014/15 Imperfections:

- i. **Component for Imperfections and Market Imbalances in respect of 2012/13 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.

The total Imperfections and Market Imbalances for 2012/13 was €7,542,570. An adjustment in relation to previous years totalled €2,787,624. Once applied the Imbalance for 2012/13 is €4,754,946. This over-recovery reduces the imperfections tariff for 2014/15.

- o **Market Imbalances for 2012/13 included in total imbalance figure of €7,542,570**

The respective market imbalances for 2012/2013 are as follows:

- €0.697m Capacity under-recovery
- €0.046m Market Interest under-recovery
- €0.898m Foreign Exchange under-recovery
- €6.629m Other System Charges over-recovery

- ii. **Component in respect of the forecast Imperfections Imbalance for 2013/14 Tariff Year**  
The TSOs have estimated an under-recovery of €10 million in respect of the current tariff year 2013/14. This €10 million will increase the imperfections Charge for tariff year 2014/15. The TSOs have not provided any rationale with their request for this €10m adjustment for the current tariff year.

The RAs will continue to engage with the TSO's regarding the need for additional revenue in respect of the current tariff year 2013/14. This requirement should reflect the best estimate for overall Imperfections including the netting off of SO-SO countertrading and Other System Charges.

Taking all two components of the K Factor into account, the K Factor for the Imperfections Calculation for the 2014/15 Tariff Year is €5,245,054 of an under-recovery, which will increase the 2014/2015 Imperfections Charge.

A summary is provided below in Figure 1.

Figure 1: Breakdown of Imperfections K Factor applicable to 2014/15 Tariff

	<b>Over/(Under) Recovery (€)</b>
<b>Imbalances in respect of the 2012/13 TY</b>	
Total Imperfections Imbalance for 2012/13	7,542,570
K Factor re 2011/12 applied in 2012/13	-12,787,624
Advance in relation to Tariff year 2012/13	10,000,000
	<u>-2,787,624</u>
	4,754,946
Total Over-recovery in respect of 2012/13 Tariff Year	<u>4,754,946</u>
<b>Estimated Imperfections Imbalance in respect of the 2013/14TY</b>	
Advance in relation to Tariff year 2013/14	-10,000,000
<b>Total Imperfections K Factor to be applied in 2014/15</b>	<u><u>-5,245,054</u></u>

### Energy Forecast

Total all-island demand forecast for the 2014/15 tariff year is 33,320 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 2014/15 is therefore made up as follows:

- €177.6m of an estimate for Dispatch Balancing Costs
- €3.6m of an estimate for Make Whole Payments
- Zero *ex ante* provision for Energy Imbalances
- €4.9m *ex ante* estimate of Other System Charges
- A K factor of €5.2 million expected to be applied to tariff period 2014/15. This includes an estimated under-recovery of €10 million for the tariff year 2013/14.

The total revenue recovery is therefore €181.6 million. On the basis of an estimated throughput of 33,320 GWh this gives an Imperfections Charge of €5.45 MWh.