

Single Electricity Market Committee

Trading and Settlement Code

PCAP and PFLOOR 2015

Decision Paper

SEM-14-067

28 July 2015

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1. Introduction

The SEM Trading and Settlement Code (the Code or the TSC) sets out a number of policy parameters which are determined by the Regulatory Authorities (RAs) on an annual basis.

1.1 VoLL/PCAP/PFLOOR

In accordance with paragraph 4.12 and 4.95 of the Code, the Regulatory Authorities (RAs) are required to determine the following three administered prices:

- the Value of Lost Load (VoLL);
- the Market Price Cap (PCAP); and,
- the Market Price Floor (PFLOOR).

Following consultation last year, the RAs decided (SEM-13-080) for the period from 1 January 2014 to 31 December 2014 that:

- PCAP will remain unchanged at €1,000/MWh;
- PFLOOR will remain unchanged at minus €100/MWh.

In a recent Consultation Paper (SEM-14-039), published on 15 May 2014, the RAs undertook a review of the effectiveness of PCAP and PFLOOR with a view to setting the values for the period 1 January to 31 December 2015. The values proposed in the consultation paper with respect to both PFLOOR and PCAP are those used since the beginning of the market.

The calculation of VoLL for 2014, using the methodology decided upon in 2007, is set out in this paper to meet the requirement in paragraph 4.95 of the Code.

1.2 Responses

The SEM Committee received one response to the consultation paper from Power NI Energy Limited Power Procurement Business (PPB) and this response is published with this Decision Paper.

2. PFLOOR

The SEM Committee did not propose to change the PFLOOR from minus €100/MWh.

2.1 Respondents' Comments

PPB stated that it had no reason to dispute the Regulatory Authority's analysis and therefore agrees that the existing value should be retained for PFLOOR.

2.2 Final Decision

The SEM Committee has decided to maintain a PFLOOR value of minus €100/MWh for the year 1 January to 31 December 2015.

It should also be noted that the section 4.12 of the Trading and Settlement Code gives the SEM Committee power to determine the PFLOOR from time to time should the need arise. The SEM Committee will therefore reconsider the value of PFLOOR in future where required.

3. PCAP

The SEM Committee did not propose to change the PCAP from €1,000/MWh.

3.1 Proposals presented in the Consultation Paper

In SEM-13-053, published on 6 August 2013, the SEM Committee indicated that it was considering changing the value of PCAP to €1,200/MWh for 2014 following the application of PCAP in the market in February 2013. In its Decision Paper on this issue SEM-13-080 the SEM Committee decided against changing the value of PCAP while noting that section 4.12 of the Trading and Settlement Code gives the SEM Committee power to determine the PCAP from time to time should the need arise.

In Consultation Paper, (SEM-14-039), published on 15 May 2014, the SEM Committee indicated that it was not considering changing the value of PCAP at this juncture.

3.2 Respondents' Comments

The response from Power NI Energy Power Procurement Business (PPB) which stated that one of the reasons indicated for setting PCAP at €1,000/MWh was to ensure that the MSP software did not frequently drive prices to PCAP at times when load is actually being served. PPB commented that it is clear from the RAs' analysis that this is not occurring as SMP was set to PCAP on one occasion between April 2012 and March 2014 and that SMP did not exceed €700/MWh in any other Trading Period. It commented that the advent of PCAP on 25 February 2013 was due to an unusual set of circumstances where a unit was committed for one minute on the last Trading Period of the Trading Day. It also stated that this was a very low probability event and that there was no reason to expect a similar set of circumstances would occur in the future.

PPB noted that a lower PCAP would be equally effective in achieving the objectives of the price cap in the SEM stating that a PCAP of €750/MWh would provide a reasonable margin above the highest SMP recorded. PPB highlighted that any change to PCAP would have to be reflected in Best New Entrant (BNE) cost which deducts a value for Infra Marginal Rent, which depends on the value of PCAP. PPB concluded that as the BNE and Annual Capacity Payment Sum for 2015 do not contemplate any change to PCAP in the IMR calculation then it does not support a change to PCAP at this juncture. PPB was of the view that these matters should be considered further at the end of the current period of indexation of the BNE price.

3.3 Rationale for Decision

As no PCAP events have occurred in this period, the SEM Committee is of the view of that no change in the value of PCAP is required at this time.

3.4 Final Decision

The SEM Committee has decided to maintain a PCAP value of €1,000/MWh for the year 1 January to 31 December 2015.

It should also be noted that the section 4.12 of the Trading and Settlement Code gives the SEM Committee power to determine the PCAP from time to time should the need arise. The SEM Committee will therefore reconsider the value of PCAP in future where required.