I-SEM CRM
Consultation Paper Workshop

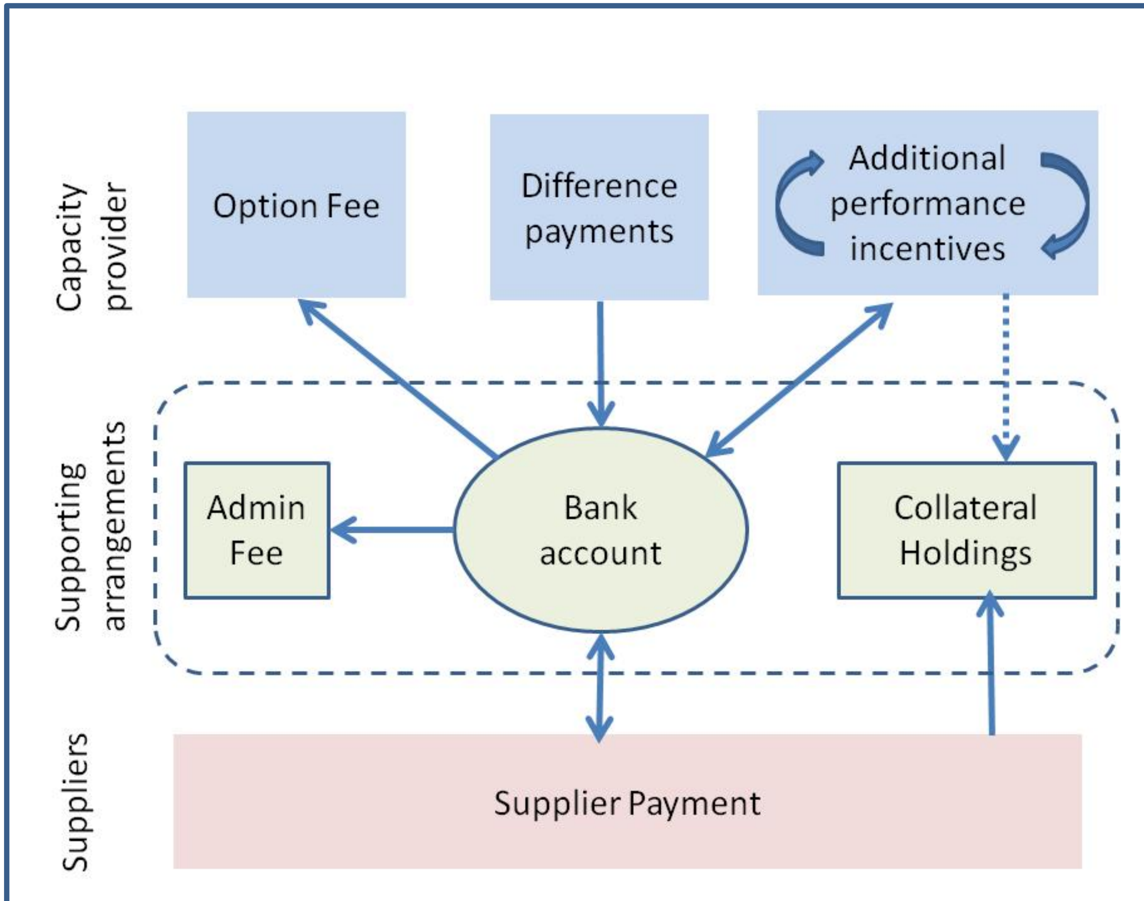
Supplier & Institutional Arrangements

Dundalk, 31 July 2015

Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Utility Regulator
ELECTRICITY GAS WATER

Supplier Payments



Design Issues

- "Predictable" fees to providers
  - Option Fee
- "Unpredictable" provider payments
  - Difference Payments
  - Performance Incentives
- Other Payments
  - Collateral (Credit Cover)
  - Exchange Rates
  - Admin Fee

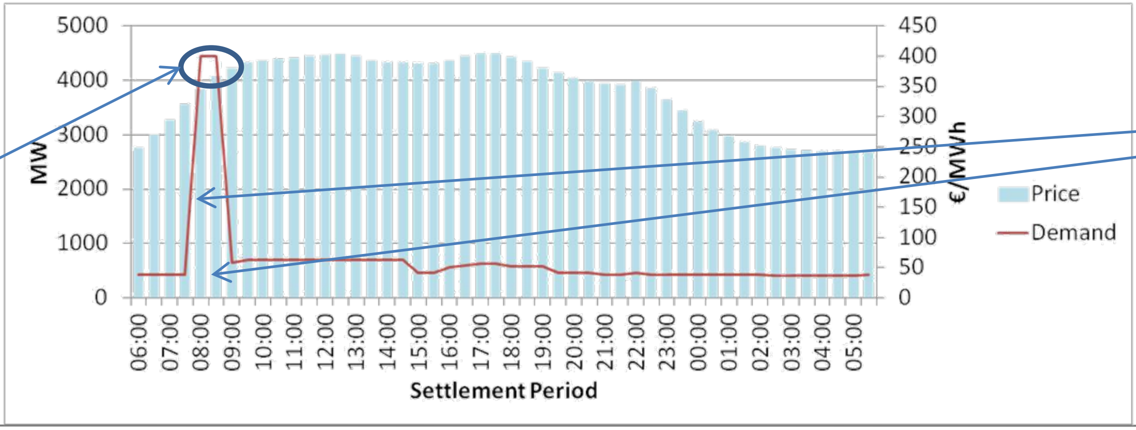
Basis for charging (predictable) option fees to supplier units

- Economic efficiency indicates charging demand in periods of system stress that drives new investment in capacity
- **Option 1 – based broadly on existing SEM approach**
  - Estimate total annual cost – based on option fees alone
  - Allocate to each month based on FCPWF approach for the year
  - Derive a scaling price and allocate to each trading period (FCPWF and SMP/VOLL)
  - Charge loss adjusted settlement demand (subject to M+4 and M+13 revision)
- **Option 2 – based on existing GB approach**
  - Estimate total annual costs
  - Define hours of likely system stress e.g. 4pm -7pm on winter weekdays
  - Forecast supplier unit demand in these periods – this determines share of annual cost
  - Profile payments of these amounts pro rata to monthly demand to smooth cash flows
  - Reconciliation for actual supplier unit demand and net value of incentive scheme payments at end of year

Basis for charging unpredictable provider payments to supplier units

- **Some provider payments depend on their performance**:
  - **Difference Payments:** Paid by Capacity Providers when Price exceeds Strike Price
  - **Incentive Payments:** Paid to or by capacity providers if they under or over perform when they are needed
- **Difference Payments and Incentive Payments**
  - Pay to Supplier Units that match the Difference Payment Accrual
  - Provides the “hedge” benefit of the RO to Suppliers
  - Payments to match reference market used for providers

Generator fails on morning pickup leading to price above RO strike price



Paid to Suppliers in proportion to demand at time of price spike

Other Supplier Settlement Issues

- **Broadly similar to existing SEM arrangements**
- **Collateral:**
  - Sufficient to provide insurance against the largest expected debt of the relevant Supplier at any given time
  - Capacity providers will also furnish collateral (e.g. To cover difference payments)
  - Consistent with existing SEM
- **Exchange Rate:**
  - Underlying I-SEM CRM operates in Euro
  - Exchange rate for NI provider's option fees fixed at time of auction
  - Exchange rate for NI providers difference / performance payments fixed at time as for the relevant energy market (e.g. Day ahead)
- **Admin Costs:**
  - Socialised along with generality of costs for market administration

Institutional framework

Institutional Arrangements - Overview

- Roles and Responsibilities?

- Contractual Framework
  - Capacity Market Rules and Codes
  - Contractual Arrangements

- Governance

- Implementation Agreement

Roles and Responsibilities

- **This is the subject of a separate SEM Consultation SEM 15-016**

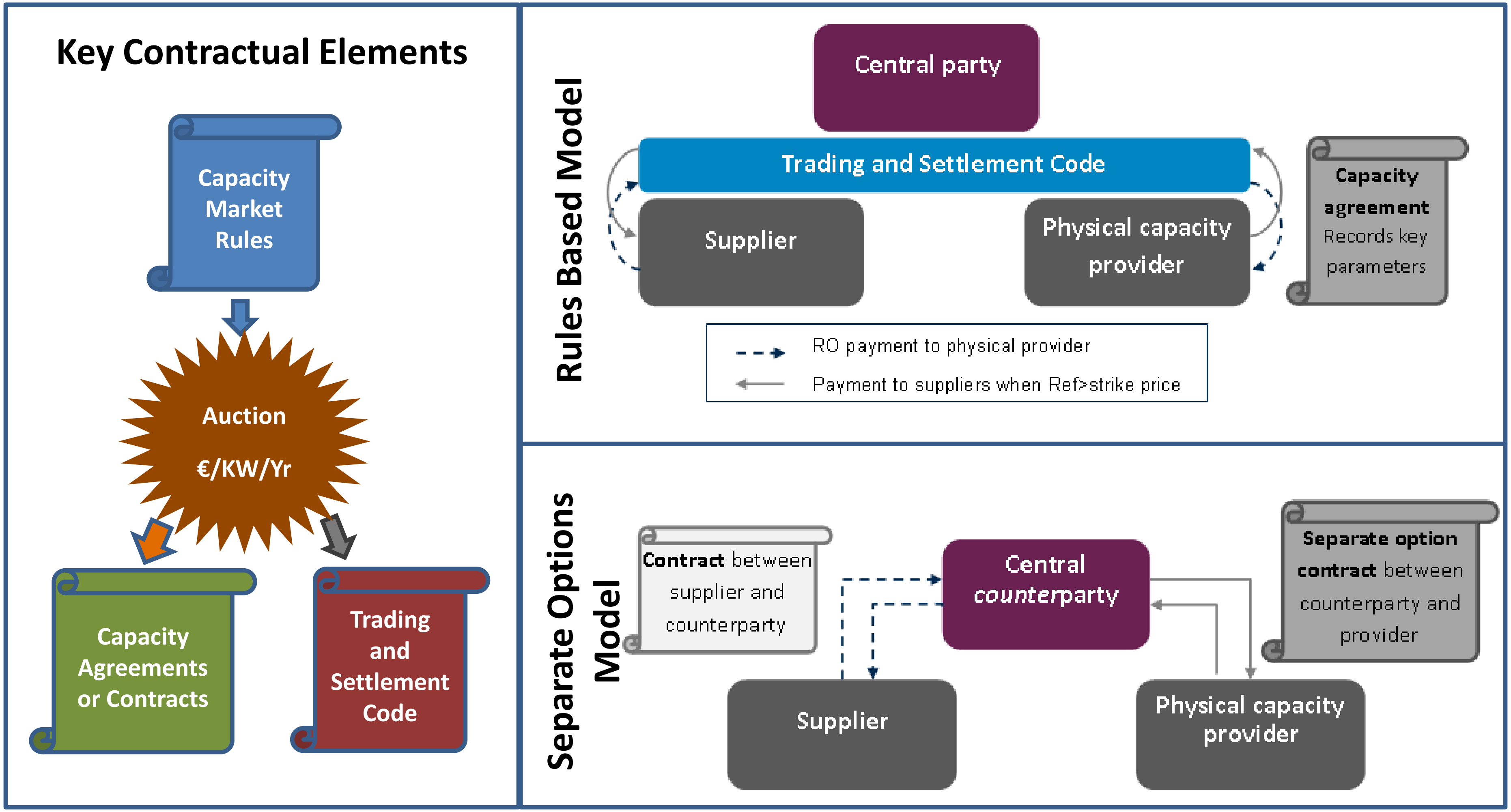
Delivery and Administration

- Set the capacity requirement
- Pre-qualification
- Auction Operation
- Availability Testing
- Secondary Trading Validation
- Contract Register

Settlement

- Determine and administer CRM payments to or by Capacity Providers
- Determine and administer CRM payments to or by Suppliers

Contractual Framework



Proposed Governance

Amount to Auction

TSOs set Capacity Requirement

Capacity Market Rules

Prequalification for Auction	Auction

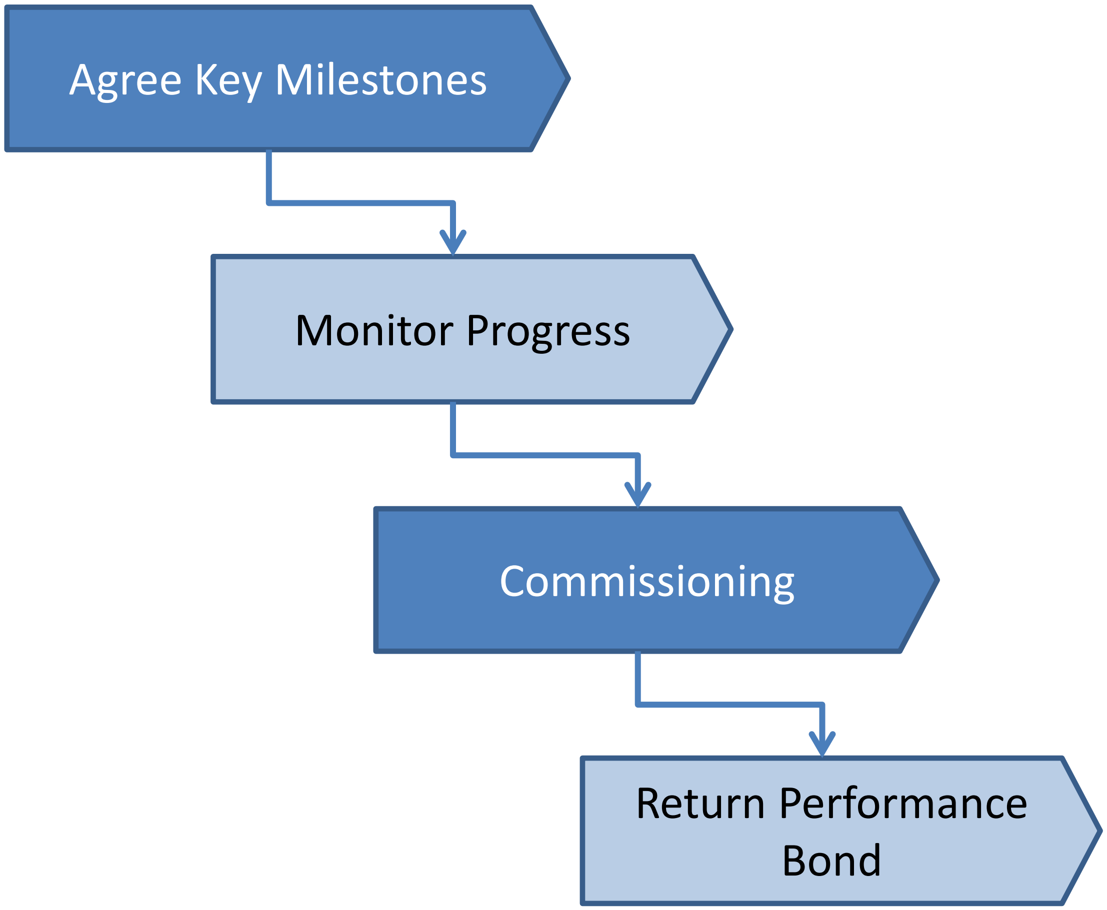
Price of Capacity, Rights and Obligations

Capacity Agreements or Counterparty rules	Settlement of Capacity Payments

Trading and Settlement Code

Capacity Payment Rules	Capacity Charges Rules

Implementation Agreement



- Is this required?
- What pre-defined milestones?
  - Financial Close
  - First Energy
  - Commissioning (with window?)
- How much of performance bond is at risk against each milestone?

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