

Trading and Settlement Code Modifications Committee
C/O Aisling O'Donnell
SEMO Modifications Committee Secretariat
The Oval
160 Shelbourne Rd
Dublin 4

27th January 2010

Our Ref: 39185

**SEM Committee Decision for the Regulatory Authorities (RAs) in relation to Mod_34_08
(Recommendation Report FRR_34_08)**

Dear Aisling,

On 13th November 2009, the Modifications Committee submitted its Modification Recommendation Report with regard to a Modification Proposal, Mod_34_08 (Dual Rated Generator Amendment), in accordance with paragraph 2.213 of the SEM Trading and Settlement Code (the Code).

This Modification Proposal, raised by SEMO on 8th July 2008, seeks to address the problem described as follows (by the RAs at the January 2009 meeting of the Modifications Committee Working Group on Dual Rated Units): "In the special case where a generator has more than one fuel type and a distinctly different rating corresponding to each fuel type, the problem is that, through limitations in the market rules and software, the outcome is a schedule of prices that is neither economic nor reflective of the underlying technical characteristics of the generation units available to meet demand at least cost in the market". The Modification was specifically raised as result of non cost-reflective prices being experienced in the market due to two Kilroot Generating Units being scheduled for their oil capacity due to limitations with the MSP Software, whilst being dispatched on their coal capacity.

The Dual Rated Modification proposed to address the above problem by introducing a new category of 'Dual Rated Unit'. The relevant System Operator would submit unit availabilities to the Market Operator, in real time, for each fuel it is available on; the higher availability would be used for the capacity payments and the availability relating to its actual dispatch would be used in the energy market. Therefore, the Dual Rated Unit's availability in the energy market would effectively be capped at the fuel that it is actually dispatched on as determined on a per minute basis by a 'rating flag' submitted by the relevant SO. Notably, SEMO conducted several series of analyses on the impact of such a cap and found that it would reduce price spikes and volatility caused by the MSP Software's inability to correctly model the Kilroot units' technical characteristics. The analysis found that, while the production costs would be likely to fractionally increase, there was no discernable effect on consumer costs.

Over the course of its development, four Working Groups were held, during which alternatives were considered, and one consultation was undertaken by the Modifications Committee on this

Modification. At the Modifications Committee meeting on 29th September 2009, the Modifications Committee recommended for approval this modification to address the dual rated issue.

The SEM Committee is of the view that without this modification or the provision of full dual-fuel bidding in the SEM, certain dual rated units will continue to be modelled inaccurately by the market software, likely resulting in non cost-reflective price spikes. The effect of this would be to send the wrong signal to potential new entrants and undermine confidence in the accuracy of SEM prices.

The SEM Committee notes that the Modifications Committee believes that the Modification Proposal furthers the Code Objectives 'to facilitate the efficient economics and coordinated operation administration and development of the Single Electricity Market in a financially secure manner' and voted unanimously to recommend the Modification Proposal to the RAs. The SEM Committee also notes that the costs of implementing the Modification are estimated to be €259,000 (€192,400 for the Central Market Systems changes and €66,600 for System Operator RCUC). The Modifications Committee also recommends that Mod_34_08 should be implemented on a Trading Day basis with an implementation date in line with the SEM central market systems release plan.

Considering the above, and in accordance with paragraph 2.218 of the Code, the SEM Committee decides that a modification be made in accordance with the Final Recommendation Report of the Modifications Committee (FRR_34_08), for the avoidance of doubt, based upon the legal drafting set out in Section 12 of that report. The RAs therefore direct that the Modification, as set out in FRR_34_08, be made on a Trading Day basis with effect from the date of the scheduled release of the Central Market Systems which includes the required software changes. The RAs further direct that the Market Operator shall publish the date of the relevant release of the Central Market Systems (together with details of all the Modifications which shall come into effect on that date) on its website no less than one calendar month in advance of that date.

In light of the above decision, and following the consultation paper on the Criteria for any Regulatory Decision on Dual Rated Generator Units of 29th October 2008, the SEM Committee will shortly issue a Decision Paper on the criteria that will be used to determine the RA's approval for the registration of a Dual Rated Generator Unit under the Code.

Yours sincerely,



Sheenagh Rooney
Manager – Wholesale Electricity Market