



Date: 21st of July 2021

RE: EAI Response to SEMC formal consultation on SEMO Price Control for the period 2021-24(PC7)

TO: leigh.greer@uregni.gov.uk

Dear Leigh,

Thank you for the opportunity to engage once more in your deliberations on the 7th Price Control (PC7) for SEMO. It is clear that there are considerable changes expected during this forthcoming price control period which pose a significant challenge for the existing system capability (at the upper end of the evolutionary scale according to SEMO). The Regulatory Authorities appear to have prioritised *“a desire for SEMO to stabilize existing market arrangements before focusing on future market design”*. Futureproofing of the SEMO market systems is as important as stabilisation, and both processes should be progressed in parallel over the period of this price control.

The processes, people and technology required will need to evolve to meet the changes expected between now and 2024, and then onto 2030. If current SEMO systems are not suitable to cater for future market needs, then depending on the extent of system change needed, a competitive tender process should be considered to procure any new systems that are judged to be required over the course of this Price Control period.

EAI is concerned that the RA approach will not deliver the systems capability, needed for example to facilitate the integration of renewables and a markets-based approach to the procurement of future system services arrangements, in a timely and effective manner. We understand that these systems for renewables and future system services are to be delivered by Q1 2023 and May 2024 respectively. Acknowledging that the full extent of system change is unclear at this point, and that short term fixes may be required within the existing system capability, the proposals do not appear to provide scope to ensure SEMO is sufficiently resourced to deal with significant change.

The final price control decision should address the following questions.

- i. when will we know whether current systems are suitable for future market needs,
- ii. whether current systems (or new systems if required) can be adapted on time within this Price Control and in a future-proofed manner (e.g., to cater for EU rules around the balancing market), and
- iii. whether SEMO has the necessary personnel it needs to deliver the range of system needs (both current stabilisation needs and future adaptation / system replacement) required in the next three years.

We elaborate further on these three questions below and also provide our view on the SEMO KPIs, in particular the need to improve the incentive for publication of key market Information (either as a specific incentive or via licence obligations).

Review of the future suitability of Current systems:

The price control consultation document does not address the key question of whether the current systems are suitable to cater for future requirements regarding e.g.:

1. The scale of changes needed to reach the 2030 targets, e.g., battery integration
2. The integration of all renewable units
3. The future system services arrangements, and
4. Post-BREXIT market coupling (LVC) and integration with relevant EU platforms

SEMO, as the system owner, is best placed to make this assessment and publish the results to the market before substantial spend on the proposed 'refresh' project occurs. SEMO should deliver an evidence-based review of the current systems to advise if the stabilisation activity, for which a €4m spend is proposed, will make systems capable of catering for future market needs (e.g., points 1-5 above). If this assessment concludes that the stabilised systems will not meet future market needs, then SEMO should outline the expenditure required to evolve the existing system capability. This assessment should be completed and published by the end of 2021 to inform a "GO/ NO GO" decision on the full spend of the stabilisation project/ systems refresh provision. A decision not to proceed with the full spend would allow for some of that money to be put towards upgrading and/ or replacing systems if required.

Resources:

Once SEMO have addressed the RAs' concerns in relation to their request for additional FTE resources and incorporated the output of the advised assessment of their HR strategy, job specification and current allocation of resources, it is correct that SEMO should increase their resources and build their internal capabilities now in preparation for 2030. SEMO's tasks will become more difficult up to 2030 and beyond. More participants are expected to register in the market and increase the market activity. The scale of system changes expected to 2030 is large and the complexity of SEMO's task could increase further with the ongoing evolution of EU platforms. In relation to additional FTEs, SEMO should provide clear justification for each new role, demonstrate its importance to the strategic growth of the market and system, and ensure there is no resource overlap with EirGrid staff. Correctly placed resources are key to plan and support the market growth. The additional resources in the areas of Future Markets and systems changes (including the output from the evidence-based review of the systems as proposed above), where justified by SEMO, should be fully allowed by the RAs to meet the participant requirements for system stabilisation and future change.

Testing:

EAI's submission following the PCF identifies that improvement opportunities exist in testing, including scope for involving participants at the earliest stage of pre-release testing. Pre-release testing by participants of significant changes would bring the benefit of increased defect detection and can aid SEMO's in-house testing resources and could reduce post release defects arising. Consideration as to testing requirements should also extend to the level of testing included in the overall scope of market delivery. We would want to ensure that there are efficient costs attributed to what is needed—transparent and clear testing with separate and robust test environments for participant access and the test/ fix schedule before release of the system upgrade(s).

Incentives:

- The application of the two contingency factors (that is the closing out the Known Issues by end 2021/22, and improvements in repricing and resettlement backlog) that are proposed before making the payment of performance incentives during the period of this price control supports the priority the PCF put on improvements to business-as-usual. In addition to the repricing and resettlement backlog in SEM, an additional KPI should be considered to ensure that the repricing and resettlement backlog continues to fall within the Price Control period. Perhaps a sliding scale could be used to ensure the remaining re-pricing and resettlement backlog of 18 months by end 2022 (after the contingency factor delivery) is reduced further in 2023 and 2024.
- SEMO should continue to be held to account for publishing complete and accurate information and for this reason the timely publication of key market information if not maintained as a KPI should be considered as a licence obligation. Participants who use the published information need to see any performance measure issue on it resolved rather than abandoned. The importance of publishing key market information is expected to grow in the coming years with increased numbers of participants and market activity especially with the new System Services arrangements in the coming years. Users of the information have a clear dependency on the provision of the data by SEMO and reducing the importance of publishing this information could negatively impact the participants. Abandoning a KPI because “the data cannot be complied” does not demonstrate the accountability the TSO needs to show for this service to participants. Difficulties in meeting performance objectives need to be resolved or alternative arrangements proposed rather than just removing an important KPI.
- We would welcome a further consultation on KPIs to consider broadly the intent and new activities that should be incentivised in this manner. Such a consultation should also consider the continued need for other monitoring mechanisms to ensure compliance with those key Business as Usual activities that remain important to industry.



CONCLUSION

From our engagement in this specific initiative, it is clear that there is a great deal of uncertainty in relation to the evolution of existing market systems. EAI welcomes recent efforts by Eirgrid Group to provide some clarity on the system challenges they currently face, in both the SOEF and a recent workshop on Article 12/13 implementation.

The SEMC should now initiate a formal process to establish the objectives, principles and system implications for the evolution of the SEM. The process must provide leadership and oversight from design to delivery and include timelines and regular, constructive engagement with participants.

Participants look forward to engaging in the forthcoming consultation on the HLD for system services, and to any other regulatory initiatives with implications for market design and the underlying systems. It is important that we learn valuable lessons from the recent design and implementation process and ensure that market systems remain stable and sustainable once they are indeed stabilised during this price control period.

Please do not hesitate to contact me for any clarification on this submission and we look forward to future engagement with the SEMC over the coming months.

Yours sincerely,

Senior Policy Advisor

Electricity Association of Ireland (EAI)