



**Response to Consultation on
The Market Monitoring Unit (MMU) Governance Process Manual
(SEM/10/085)**

26 February 2011

The proposal by the MMU to publish a regular report containing details of cases under examination by the unit is a welcome development. In line with the SEM objective of transparency, any additional information on happenings related to the SEM that helps improve insight into the market's workings contributes to increasing understanding of and confidence in the market. We applaud the MMU for this initiative. However in a number of respects we are of the view that the proposal does not go far enough. We believe that the true potential of the MMU is not being exploited. While its primary function is ex-post monitoring of market behaviour, a reactive activity, we are of the strong view that the MMU can adopt a proactive function as well, as a significant public source of insight and useful analysis into the workings of the SEM.

The MMU serves as one of the key pillars within the SEM Market Power Mitigation strategy. This places it in a central strategic position within the SEM, a position that grants it many unique features. Some of these include:

- **Access to significant amounts of market information**, right across commercial and technical aspects – it “receives large quantities of market data from the Single Market Operator (SEMO)”;
- **Significant resources expended to “process and store” this information** – “each MMU analyst spends approximately 50% of their time carrying out market monitoring [analysis]”;
- **Strong support to development of market competition** – “ensur[ing] that [the market] produces the outcomes which would be expected in a competitive market”;
- **Contribution to overall market integrity in its functions as one of the SEM’s early warning systems** – “[e]valuate the operation of the market to detect design flaws or structural problems”.

This combination of features strongly recommends the MMU as a unique resource to the SEM. We would argue that this positions it ideally to discharge a public service analytical function to the market, and not just to the “[s]taff within the RAs [who] use the MMU as a source of data and statistical analysis...” This function of the MMU suggests the regular production of valuable information goods which we are of the view would be of immense benefit to market participants, and indeed a public audience beyond that.

The service currently provided the RAs include daily, fortnightly, monthly and annual reports. We would recommend an extension of this service to the SEM public, in the first instance by a weekly commentary report that reviews the market operations over the immediate past week. This publication can then be developed over time based on feedback and may even evolve a daily digest version, depending on the utility of such.

Regarding publication of these reports, given the level of activity and relevance to a wide audience, we would recommend a section on SEMO’s home webpage be used as delivery channel. Publishing it on the SEMO website will as well emphasis the thrust of the publication as an operational resource, rather than the ‘policy development’ rationale of the allislandproject website.

Taking up such a function will not only greatly increase the utility of the MMU’s work; it also will increase visibility of the MMU. This we believe would reinforce the efficient discharge of the unit’s primary function of ex-post monitoring of participants’ behaviour in the market. If the MMU is *seen*

to be and is demonstrably active, it is likely to create a psychological deterrence to all but the most blatant of market power abuses.

We would strongly urge the RAs to consider developing the MMU into a more accessible resource to the SEM.

Matter under consultation

On the specific matter under consultation, we would agree that the Traffic Light Report devised by the MMU and containing details of cases under current examination should be made public. It will definitely be useful to inform of the nature of issue being investigated. However, it may be more prudent to anonymise the generating unit(s) to which such cases relate. Given that the outturn of an investigation may return a 'No Breach' verdict, there may be reputational and perhaps legal issues arising from identification of units prior to conclusions of investigations. However this is in no way to foreclose the prerogative of the SEM Committee to publish such details in their final determinations.

Once an investigation has been concluded however, we would see little difficulty in publishing, in addition to greater details on the nature of the case, the identity of the generating unit(s) to which the case relates. We would further suggest that publishing such information would fulfil a duty of care to other market participants' who may potentially have been adversely exposed to the actions of the generating unit(s) investigated. Finally, we would recommend that such publications be made on the section of the SEMO webpage to which we have already alluded to earlier in this discussion.

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