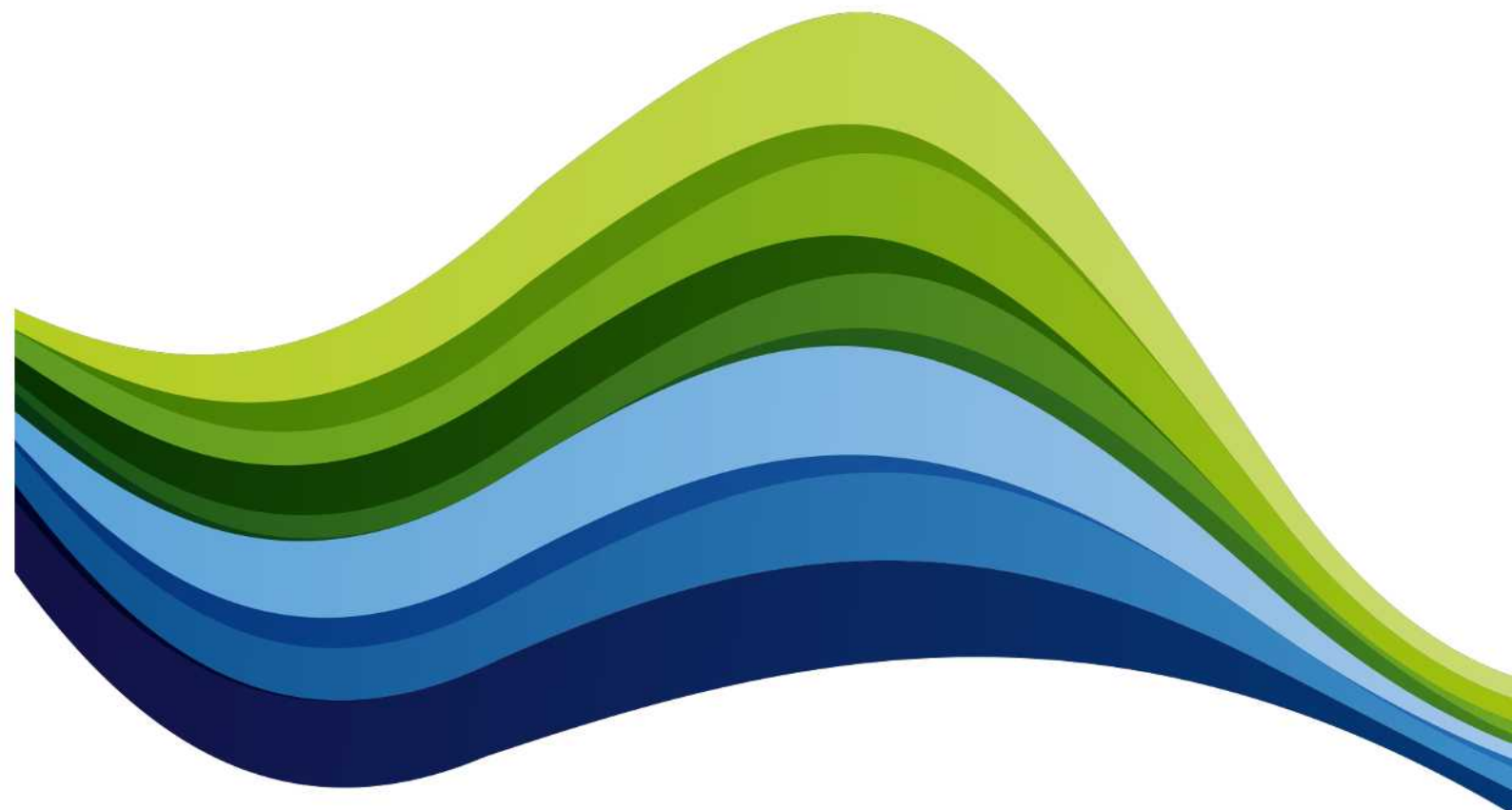

Repricing and Price Materiality Threshold Parameter Consultation

SEM-19-042



Introduction

SSE welcomes the opportunity to comment on the SEM Committee consultation regarding the Repricing and Price Materiality Threshold applied by SEMO to complete the repricing and resettlement functions in the market following manifest errors.

For the avoidance of doubt, this is non-confidential response.

SSE Response

We recognise that the decision on this consultation has an impact on repricing for the M+13 settlement run. Therefore, we have chosen to provide our response in good time, before the deadline, in the hope that the decision can be expedited.

SSE provides detailed response to the specific consultation questions, as listed below.

Question 1: Is your preference for repricing from 1 October 2018 to 11 June 2019 (and from 11 June 2019 onwards) to proceed based on the current price materiality threshold of 5%?

In terms of market expectations, the 5% price materiality threshold is the one that was set for the start of the market, as per SEM-17-046. Therefore, we are in favour of this continued threshold unless there are clear reasons for this to be altered, which do not risk further uncertainty to market participants.

Furthermore, when SEMO undergoes the work to deliver the 5% functionality, we consider it crucial to consider the certification of the repricing solution, to ensure that there will not be the same volumes of high materiality defects under the new system. We would suggest enhanced certification and independent testing, with test results shared with market participants, in order to provide confidence in the repricing functionality.

Question 2: Do you agree with the proposal to apply a 0% price materiality threshold on a temporary basis?

We are not in favour of the proposal to apply a 0% materiality threshold. SEMO have indicated that their current IT systems cannot support the current 5% materiality parameter and that this functionality would optimistically be in place by Q4 2020. SEMO have been driven to change to 0% materiality partly to manage a high volume of disputes, but more importantly because their IT system cannot currently deliver the 5% materiality threshold set for the market. We consider it a serious oversight, that this functionality was not in place ahead of Go-Live. Therefore, at this stage, we consider the focus must be in delivering the 5% requirement, rather than changing it to 0%.

- a) If price materiality threshold is changed to 0% on a temporary basis, stakeholder views are invited to respond on whether this should be applied for repricing required for the period from 1 October 2018 to 11 June 2019 only or until such time as an updated repricing solution to manage the 5% Price Materiality Threshold can be implemented.

We are not in favour of the application of a 0% materiality threshold in either case. We do not consider a 0% materiality parameter demonstrates a proportionate approach. We provide more details as to our view, in response to the questions below.

- b) Do you see any issues with the proposed approach to repricing outlined in the “Recommended Values for SEM Price Materiality Threshold” Report to the Regulatory Authorities?

We are concerned about the implications of a 0% materiality repricing on settled prices and upheld pricing disputes, if all prices will be recalculated. There are approx. 72,000 Imbalance Price Periods where manifest errors have occurred and that therefore need to be repriced. We have been advised that this exercise will take 9 months to complete. Re-interpretation of past upheld and rejected disputes (under a 0% materiality repricing strategy), introduces a disproportionate impact on the market at a time when certainty is already in short supply due to continued issues with system defects. We can appreciate that SEMO considers that reopening all prices for the period from Go-Live to be easier for them in terms of not having to individually interrogate prices under the 5% materiality threshold, before repricing. However, this approach does not consider the impact to market participants in terms of resource burden and certainty of settled prices and upheld pricing disputes, under 0% materiality. At a time when we are engaged in settlement reruns following continuing and significant system defects and subsequent bugs, repricing to 0% materiality represents a risk to market confidence.

In addition, with reference to the Report from the TSOs (included with this consultation), we concur that in stabilised markets, repricing incidents would occur infrequently. Therefore, it is our view that repricing this past period with its higher than expected manifest errors and without any indication of the degree of variation in prices following repricing; suggests to us strongly that a “line is drawn” under this period, with a temporary modification to halt repricing from 1 October 2018 to 11 June 2019.

Finally, we do not consider a 0% materiality parameter demonstrates a proportionate approach. Firstly, it is not cost effective for participants as it is increasing the burden of work to verify past time periods. Secondly, the volume of pricing disputes to date is partly reflective of poorly functioning systems and should be dealt with by finalising system issues and re-examining the certification of the system ahead of Go-Live. Thirdly, we are concerned that SEMO decisions appear to be driven by system capability now, rather than the system being confirmed to comply with the Code in the first instance.

Therefore, SSE considers a modification is the only way to address the risk of reopening all prices under a 0% materiality threshold, on top of current unacceptable levels of system defects leading to multiple complex settlement reruns on the same trading periods. We are not in favour of pursuing repricing until SEMO can conduct repricing in accordance with the set threshold for the start of the new market, and until such time as system defects have been resolved to a point that settlement patterns and reruns have stabilised in line with properly functioning systems. In addition, it is important to note that market issues are contributing to the volume of pricing disputes, which SEMO signals as a primary reason to wish for a 0% materiality threshold for repricing. Market issues are being considered separately by the SEMC in terms of possible remedies that could be applied to the Balancing Market. Therefore, any action to change repricing to 0% materiality could largely become irrelevant if the market moves to a different interpretation of high-level design principles.

Question 3: Interested stakeholders' views are invited in relation to the option to raise an urgent modification to the Trading and Settlement Code.

This would entail an amendment to Section E.3.8 of the Code to either remove the requirement for repricing for the period from 1 October 2018 to 11 June 2019 (Option 3) or to require any repricing to be completed by the 13th month of the Settlement Calendar at the latest (Option 4), which would have the effect of repricing not being carried out for the period from October 2018 to October 2019 based in a commencement date of M+13 resettlement in November 2019.

SSE are motivated by achieving a single complete settlement rerun as soon as possible and moving forward with the 5% price materiality threshold functionality as promptly as possible. We are of the view that repricing should not occur until the system is capable and has demonstrated (via certification), that it can deliver the 5% materiality. Therefore, we are in favour of Option 3 and Option 4 together, if appropriate.

- **Option 3:** suspends repricing on a temporary basis for the period 1 October 2018 to 11 June 2019. SEMO has made it clear that under Option 3, 5% materiality functionality would be progressed as quickly as possible, to ensure this is delivered. We would welcome this approach to delivering the functionality for 5% materiality as soon as possible. However, we are concerned under Option 3 how repricing will be conducted in the interim period between June 2019 and whenever 5% materiality is in place (currently indicated to be Q4 2020). SEMO has confirmed that they intend to deliver the 0% materiality in Q4 2019, therefore, it is likely that repricing will be missed for M+13 2019. Our understanding is that the next opportunity for repricing would be November 2020, when 5% materiality should be available. However, in the situation, where this isn't the case, we would be in favour of Option 4 as well, to ensure that there is no opportunity for 0% materiality to be applied.
- **Option 4:** creates an enduring solution on the expectation that the market will operate in a stabilised manner in the future, and that the current issues are temporary in nature. Option 4 covers a longer period between 1 October 2018 and November 2019 (i.e. M+13) and would then not give rise to repricing again until November 2020. It will therefore provide a longer timeframe for delivery of 5% materiality, whilst avoiding a risk of setting a 0% materiality threshold in the interim.
- One notable benefit of Option 4 is that it is a feature of other established markets, albeit for longer time periods in which repricing must be completed. If this modification is drafted specifically, it can provide an important signal for SEMO to conduct repricing in a timely manner within a specific timeframe, which may also ensure accuracy. However, we do note that there could be a danger that if the time window for repricing is too narrow, which 13 months may be, this could also be an incentive for repricing incidents to be delayed so that they time-out after the 13th month. Therefore, in drafting of this modification, the SEMC would need to be aware of these possible outcomes.
- In any situation where repricing is suspended either under Option 3 or Option 4, our expectation is that this provides space for SEMO to bring forward other significant workstreams in settlement, e.g. Ad hoc resettlement could be brought forward, which will complete resettlement arising from no load costs and fixed costs issues in the system.