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Emailed to: Karen Shiels (Karen.Shiels@uregni.gov.uk), Gina Kelly (gkelly@cru.ie)

Re: Repricing and Price Materiality Threshold Consultation Paper

Dear Karen and Gina,

I am writing to you on behalf of the Irish Wind Energy Association, which is the representative body for the Irish wind industry, working to promote wind energy as an essential, economical and environmentally friendly pillar of Ireland's low-carbon energy future.

IWEA would like to thank you for the opportunity to comment on the Repricing and Price Materiality Threshold Consultation Paper.

IWEA would like to begin by expressing our concern at the current state of repricing and resettlement. In the Market Operator Users Group (11 September 2019) participants were told that under the proposals outlined in Option 1, the first months of the market would not be repriced and resettled until Q4 2020. Furthermore, under the proposals outlined in Option 2, the first two months of the market would not be repriced and resettled until June 2020. Neither of these outcomes are acceptable as they materially impact our members' financial standing, for reasons discussed herein.

Moreover, given the track record in rolling out repricing and resettlement, it is distinctly possible that further delays may be encountered. Additionally, even if further delays in the technical solution are not encountered, the repricing itself could be disputed and repricing and resettlement delayed even further.

It must be emphasised that trading decisions, for all market participants, were made during these months based on the imbalance prices published at the time. Had these prices been different, subsequent trading decisions could have been different and possibly substantially so. To reprice the market and hold participants to those decisions is neither fair nor reasonable.

The idea that participants are faced with potentially large, undefined, liabilities is dangerous and risks undermining the credibility of the I-SEM market. In so doing, it damages the investment signal to maintain existing generation assets and build new generation assets.

Page 53 of the Ireland's Climate Action Plan 2019 states that:

"To meet the required level of emissions reductions by 2030 we will increase electricity generated from renewable resources to 70%, indicatively comprise of at least 3.5 GW offshore wind, up to 1.5 GW solar, and up to 8.2 GW onshore wind"

In addition to the 2030 target of 70% RES-E, the Clean Energy Package sets 'check-in' milestones for 2022 and 2025, of 45% and 52% respectively. While no target has been set for Northern Ireland as of yet, given that the UK has set a goal of net-zero greenhouse gas emissions by 2050, we believe that Northern Ireland will have its own part to play in this and will likely also have a large RES-E target to meet by 2030.

Undermining the investment signal for new generation could significantly stifle the momentum gained following the publication of the Climate Action Plan 2019 and is highly likely to result in Ireland missing its 2030 target.

In addition to the issues caused for potential new projects, the failure to resettle on time has undesirable effects on existing renewable projects. Under REFIT, audited figures for the previous PSO year (1 October – 30 September) are submitted by the REFIT generator's supplier to the CRU *by 1 May*. Following this, there is a CRU decision on the PSO Levy for the following PSO year occurring in July - this process is known as R factor reconciliation.

In previous years all months would have been resettled to at least the M+4 stage, so the only changes would be between M+4 and M+13 resettlement. Given that these units are half hourly metered such changes were negligibly small. Under I-SEM, wind unit REFIT payments are struck against a deemed price, which is the lower of the Day Ahead price and an 80/20 blend between the Day Ahead and imbalance price, in each half hourly period.

Under both Options 1 & 2, the generator's supplier will be forced to submit data that they know may change substantially when repricing and resettlement come in due to changes in imbalance price. This will lead to the CRU calculating a PSO levy that is highly likely to be wrong, quite probably by a significant amount. Our members cannot accept the risk of this potential outcome.

IWEA are of the view that it would be preferable if SEMO were to deliver, in a reasonable timeframe, on the provisions of the Trading and Settlement Code; however, given the current position we are willing to accept the need for pragmatic options for progressing this issue on a timely basis. Consequently, of the options available, we are in favour of Option 3, that the requirement for repricing from 1 October 2018 to 11 June 2019 is removed and urge SEMO to ensure that such steps as are necessary are taken to prevent this reoccurring.

Responses to questions posed in the consultation paper:

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%?*

This option is not the preference for IWEA as it leaves market participants open to large undefined liabilities for at least 2 years ex-post. It holds participants to trading decisions made in the past, whilst changing the basis on which these decisions were made. Furthermore, it risks severely damaging the credibility of the I-SEM market and will damage the investment signal for new build at a crucial time. Moreover, it will lead to an incorrect PSO levy for the 2020/2021 PSO year.

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

If the price materiality threshold is changed to 0% on a temporary basis, stakeholder views are invited on whether this should be applied for repricing 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.

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?

IWEA see no advantage in Option 2 over Option 1 in that both leave market participants open to large undefined liabilities well beyond M+13. As noted above, it holds participants to trading decisions made in the past, whilst changing the basis on which these decisions were made. Furthermore, it risks severely damaging the credibility of the I-SEM market and will damage the investment signal for new build at a crucial time. Moreover, it will lead to an incorrect PSO levy for the 2020/2021 PSO year.

IWEA do not agree to apply a 0% price materiality threshold on a temporary basis as it modifies the Trading and Settlement Code for no good reason. That is, it does not fully, or even satisfactorily, solve the issues highlighted above.

Question 3: *Interested stakeholder’s 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 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 on a commencing date of M+13 resettlement in November 2019.

For both options the detailed legal drafting of any change would be raised and discussed through the Trading and Settlement Code Modifications Committee.

In consideration of the options available, IWEA are in favour of Option 3 in that it solves all the issues that we have highlighted above. We have significant concerns over Option 4 in that delivering M+13 settlement on time must be considered business as usual and, whilst we consider the period between 1 October 2019 and 11 June 2019 as exceptional, this must not happen again. We are concerned that Option 4 may weaken the stimulus needed for the Market Operator to deliver M+13 settlement on time on an ongoing basis.

Summary

IWEA are concerned about the repeated delays in resettling the market thus far, and whilst we acknowledge that it is a new market with new systems, this does not excuse the failure to deliver settlement and resettlement on time, especially given the prolonged nature of the market trial. To further delay resettlement, with the possibility that it may be delayed still further if other issues arise, or prices are disputed, is not acceptable.

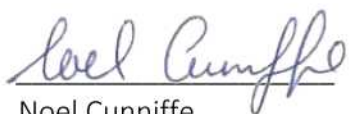
As mentioned above, delaying resettlement leaves market participants open to large undefined liabilities for at least 19 months in even the least worst option, with the possibility that this may be delayed still further. It holds participants to trading decisions they made in the past, whilst changing the basis on which these decisions were made. This could lead to participants being penalised for decisions they otherwise would not have made, and does not reward them for decisions they would, in retrospect, have made, this is an entirely undesirable situation for a traded market to be in.

It risks severely damaging the credibility of the I-SEM market and will damage the investment signal for new build at a time when it is needed like never before. Furthermore, it will lead to an incorrect PSO levy for the 2020/2021 PSO year.

Consequently, of the options available, we are in favour of Option 3, that the requirement for repricing from 1 October 2018 to 11 June 2019 is removed and urge SEMO to ensure that such steps are taken as a necessary to prevent this reoccurring.

As the largest association in the Irish energy sector, IWEA would consider ourselves a proactive partner, willing to step out in explaining the benefits of an effective, modern and climate friendly Irish electricity system, and we look forward to continuing our work alongside the SEM Committee in this regard.

Best regards,



Noel Cunniffe
Head of Policy,
IWEA