

Repricing and Price Materiality Threshold Consultation Paper

Consultation Response from



27 September 2019

Introduction

Bord na Móna (BnM) welcome the opportunity to respond to the SEMC's consultation paper "*Repricing and Price Materiality Threshold Parameter Consultation*".

The consultation paper considers the impact of four different scenarios on repricing (and thus on M+13 resettlement which is scheduled for November 2019) and looks for feedback from interested stakeholders on each option.

1. Application of repricing for the period from 1st of October 2018 to 11th of June 2019 using the currently approved 5% Price Materiality Threshold.
2. Application of an amended Price Materiality Threshold of 0% on a temporary basis, until such time as an IT solution capable of applying materiality is delivered.
3. Raising an Urgent Modification to the Trading and Settlement Code, to amend Section E.3.8 on a temporary basis with the intention of not carrying out repricing for the period from 1st of October 2018 to 11th of June 2019.
4. Raising an Urgent Modification to the Trading and Settlement Code, to amend Section E.3.8 on an enduring basis in order to require any repricing to be completed by the 13th month of the Settlement Calendar at the latest. This would have the effect of SEMO not carrying out repricing for the period before M+13 resettlement commences in 2019.

BnM recognises that repricing is a valid market function and as such allows the market to adjust for manifest errors and upheld disputes. However, due to the extensive number of manifest errors for the period from 1st of October 2018 to 11th of June 2019 BnM have a strong preference not to reprice as repricing would pose extensive challenges to market participants.

The main concern relates to the financial uncertainty and exposure that relate to repricing over nine months of market operation with many known manifest errors. At this point, BnM have completed settlement and financial reporting for the period 1st of October 2018 to 31st of March 2019 - all accounts have been signed and closed. The commercial exposure related to repricing has not been accounted for and remains an unknown for the organisation at this point. BnM understand that it is not currently possible to quantify the commercial exposure to participants of repricing due to the large number of manifest errors and upheld repricing disputes to date.

Additionally, repricing will create challenges for participant's systems and processes. We have concerns regarding duplicate prices and how the timing of these prices will interact with all other support reporting, and whether the correct versioning will be available to link all reports together effectively for traceability and auditing purposes.

Therefore, BnM do not support any repricing of the period from 1st of October 2018 to 11th of June 2019. Additionally, we note that any repricing activity in the future (looking at periods out with the dates noted above) should include a guidance note in advance to cover the planned timing of the repricing, the publication of supporting reports, and a note on report versioning, in addition to a high-level overview of the market effect that each of the resolved issues will have in repricing.

Question 1

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

Although BnM agrees that repricing is a valid market function, we note that this option would involve a significant delay to repricing which would not be completed until after M+13 resettlement, and that further ad-hoc resettlement would be required for the period 1st of October 2018 to 11th of June 2019. Given the necessary IT development, testing and implementation required, the best estimate given is for repricing for the period to extend into late 2021.

This option also carries high levels of commercial exposure due to the potential that the accumulation of numerous immaterial price changes could add up to significant unquantifiable differences in price and revenue. It has been stated that the current technology does not allow for estimates to be calculated in advance, and therefore significant commercial exposure would be created that could not be effectively managed by participants – noting that financial accounts for the period from 1st of October 2018 to 11th of June 2019 would already be closed by late 2021.

Therefore, BnM do not believe that this is an appropriate option due to the timelines involved and the financial uncertainty that repricing at the currently approved 5% Price Materiality Threshold would introduce when considering the period from 1st of October 2018 to 11th of June 2019. We would also note that given the apparent current stretched resourcing within the SEMO team we believe that the time and effort spent on repricing could be better spent on fast-tracking more pressing market developments.

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 required for the period 1st of October 2018 to 11th of 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 outline in the 'Recommended Values for SEM Price Materiality Threshold' Report to the Regulatory Authorities?

BnM agrees this option is a more prudent approach than the current price materiality threshold of 5%, as it would reduce the timing of each repricing event by removing the preliminary step of determining whether the repricing action would be material enough. However, BnM do not agree that this option is appropriate for the period from 1st of October 2018 to 11th of June 2019.

Although the SEMC submission to the RAs states that repricing at a 0% Price Materiality Threshold may allow for the timing of repricing and M+13 resettlement to align, it is understood that M+13 may already be delayed to some extent and therefore it is unlikely all of the period from 1st of October

2018 to 11th of June 2019 would be aligned with M+13. Without the certainty of aligned timing, it is the view of BnM that this option still carries significant commercial exposures due to the timelines involved, with the possibility that unquantifiable liability may be carried until after the next set of accounts are closed. As with Option 1, this approach does not resolve our concerns regarding commercial exposure and therefore BnM does not support this option.

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 for the period 1st of October 2018 to 11th of 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.

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

BnM supports an option to raise an urgent modification to the Trading and Settlement Code that would include the removal of any requirement to reprice the period from 1st of October 2018 to 11th of June 2019. The number of repricing periods from 1st of October 2018 to 11th of June 2019 and the number of upheld disputes and manifest errors, provides too much of a financial unknown to support repricing. Option 3 gives participants the financial security of their financial position to date and also provides certainty that repricing will occur in the future when systems are fully developed and appropriately tested. Therefore, Option 3 is a good compromise between accuracy of data and commercial exposure to Market Participants.

Regarding Option 4, whereby an urgent modification to the Trading and Settlement Code would be on an enduring basis. Our understanding is that Option 4 requires repricing to be completed by the 13th month of the Settlement Calendar (at the latest), and also that repricing would not be carried out for the period from October 2018 to October 2019 based on a commencement date of M+13 resettlement being November 2019 (at the earliest). Therefore assuming repricing would exclude the main period of concern prior to Software Release C (11th of June 2019), Option 4 would provide a more robust and transparent approach in the longer-term. Therefore, BnM would support Option 4.

BnM note that both Options 3 and 4 would need a significant level of approval through the SEMC consultation process, Mods Committee and then back to SEMC for approval. BnM would stress the criticality of expediting the approval process and implementation to ensure financial security for all participants, with better alignment of repricing and resettlement going forward. Furthermore, BnM

do not expect that a scenario would occur again on a more mature functioning Market where significant and unquantifiable repricing would be required now that the new market has settled somewhat – particularly with the introduction on 11th of June 2019 of Software Release C which addressed the majority of the manifest errors identified in the pricing calculation. We would however expect, that should a similar situation with significant manifest errors arise in the future, that a similar consultative process would follow.

Conclusions

In conclusion, BnM would support SEMC's proposal to raise an Urgent Modification to the Trading and Settlement Code, to amend Section E.3.8 on an enduring basis (Option 4). We specifically look for repricing the period from 1st of October 2018 to 11th of June 2019 to be excluded due to the financial uncertainty and exposure that relate to repricing that period. BnM would stress the criticality of expediting the approval process and implementation to ensure financial security for all participants, with better alignment of repricing and resettlement going forward.

If you have any queries or require clarification on any point, please do not hesitate to contact me.

For and on behalf of Bord na Móna,



Dr Lisa McEntee

Market Analyst

Bord na Mona PowerGen