



**Energia response to SEMC Consultation  
Paper SEM-19-042**

***Repricing and Price Materiality Threshold Parameter  
Consultation***

**26 September 2019**

## **1. Introduction**

Energia welcomes the opportunity to respond to the SEMC Consultation Paper SEM/19/042 titled “Repricing and Price Materiality Threshold Parameter Consultation” (the “Consultation Paper”).

The remainder of this response is structured as follows. Section 2 contains our general comments and section 3 responds to the specific questions in the Consultation Paper.

## **2. General Comments**

The Consultation Paper outlines two options in respect of repricing the Imbalance Pricing periods between 1<sup>st</sup> October 2018 and 11<sup>th</sup> June 2019 (“the Repricing Period”) and two further options which will defer the implementation of repricing such that it will not take effect until after the Repricing Period. The requirement for this consultation is reflective of market systems not being able to implement the TSC correctly in an acceptable timescale and thus effectively asking market participants to select the least-worst option in respect of this. Energia regard this as a disappointing and unsatisfactory position. Notwithstanding this, it is imperative that the financial and legal responsibilities of market participants are also considered in the context of this issue. Directors must prepare financial statements under company law and regulations and they are legally responsible that those accounts present a true and fair view of the financial position of Company. In addition companies also provide additional reporting to investors and shareholders. It is therefore imperative for businesses to present certainty in their accounts and financial reporting and that any business can close off their accounts at some point in time. It is unacceptable that significant uncertainty could exist for several months or years after financial reporting for a period has closed.

Of the two options that would allow repricing of the Repricing Period to proceed (Option 1 and 2 respectively), we note that the RAs do not consider Option 1 to be an appropriate solution given that this entails repricing at the current approved Price Materiality Threshold of 5% on a manual basis which will be time-consuming, contain potential errors and incur significant delays to resettlement. In respect of Option 2, we note that SEMO carried out a repricing survey whereby the majority of participants in the market expressed a preference for repricing not to be carried out. However given that there was a non-unanimous result from the survey SEMO are recommending proceeding with repricing the Repricing Period and that the Price Materiality Threshold is amended to 0% on a temporary basis for the purposes of doing so. However Energia does not support re-pricing in circumstances where the Price Materiality Threshold is to be amended and applied retrospectively as required under this option. Any amendment of the Price Materiality Threshold parameter to be subsequently included in repricing the Repricing period will constitute a retrospective effect to the Trading and Settlement Code (“TSC”).

The Consultation Paper also puts forward two options (Option 3 and 4 respectively) that will result in repricing being deferred and therefore repricing of the Repricing



Period not being carried out. Whilst recognising that this is also not strictly in line with the TSC, Energia believe there are extenuating circumstances that could justify this course of action on a one-off basis and for practical purposes, as follows:

- Having manifest errors present in Imbalance Prices for an enduring time period of nearly nine months is a unique situation that impacts the whole of industry
- Repricing as proposed under Option 2 will not commence until December 2019 at the earliest. Consequently part of the Repricing Period will be resettled in M+13 resettlement runs and not be finalised until approximately July 2021 and a further part of the Repricing Period will be resettled in an Ad hoc resettlement run. This will result in confusion and uncertainty for industry over a prolonged period which is undesirable and unnecessary;
- SEMO have been unable to provide any indication of scale or direction of repricing should it take place. Accordingly market participants are unable to forecast how repricing is likely to impact on their financial performance for the Repricing Period;
- Repricing so far after the actual Imbalance Pricing period has occurred can also have impacts on other areas of market participants business e.g. contracts with 3<sup>rd</sup> parties or customer contracts etc.

Energia recommend that Option 3, which proposes the temporary amendment of the TSC to remove the requirement of the Repricing Period, is implemented. It provides the more effective solution to this issue and recognises that the errors incurred during this period are unique and would not be present under enduring and business as usual market operation. Option 4, which seeks to introduce a requirement for repricing to be completed by the 13<sup>th</sup> month of the Settlement Calendar, will also remove the requirement to carry out repricing of the Repricing Period and therefore satisfy each of the above points. However under business as usual market operation, participants would reasonably expect repricing to be carried out in advance of this timeframe and therefore an enduring amendment to the TSC to deal with a one-off, unique situation may not be warranted.

We would strongly caveat that our outlined position is as a result of the unique and difficult circumstances of having enduring manifest errors present in Imbalance Prices for a period of nearly nine months and the market being unable to carry out repricing of these periods without enforcing a retrospective change to the TSC. Furthermore the suggested approach to repricing by the Market Operator will result in further uncertainty and confusion for industry as a whole over a prolonged period and ultimately undermine confidence in the market as a whole. Therefore our recommendation is based on a practical solution on a one-off basis to deal with a problem to which there appears to be no other viable solution.

### **3. Response to Specific Consultation Questions**

#### **Option 1: Application of Repricing in accordance with the current 5% Price Materiality Threshold**

**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%?**



Energia are not supportive for repricing to be carried out at the Price Materiality Threshold of 5% on the basis that this will not be practicably implementable until Q4 2020 due to the estimated timeline for delivery of the technical software. This would result in unacceptable delays and uncertainty for market participants whereby the Repricing Period would be resettled in an Ad hoc resettlement run that would not be concluded until approximately Q3 2021. Clearly this is not an acceptable outcome.

As noted in the Consultation Paper, any attempt to carry out repricing at the 5% threshold without the software in place would be a manual process which will be time-consuming, contain potential errors and incur significant delays to resettlement. Accordingly the RAs have deemed that this also is not an appropriate solution given the time process involved and the impact on price certainty. Given the above it is clear that Option 1 is not a reasonable or appropriate proposal in respect of repricing the Repricing Period.

### **Option 2: Application of Repricing using a temporary Price Materiality Threshold of 0%**

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 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?

Energia does not support the proposal to apply a 0% Price Materiality Threshold and to carry out repricing of the Repricing Period on this basis. This is due to this option requiring the Price Materiality Threshold to be amended and applied retrospectively.

Section B.17.24.1 of the TSC clearly states that “[u]nder no circumstances shall Modifications have retrospective effect”. Furthermore Section B.19.3.1 (b) of the TSC states that “a Price Materiality Threshold shall be proposed by the Market Operator from time to time and approved by the Regulatory Authorities. The Market Operator shall publish the approved Price Materiality Threshold within 5 Working Days of receipt of the Regulatory Authorities’ approval or two months before it commences to apply, whichever is the later.” Therefore, any amendment to the Price Materiality Threshold must be approved and published before the period in which it applies. As noted in the Consultation Paper the Price Materiality Threshold is currently set at 5%. Any amendment of the Price Materiality Threshold parameter to be subsequently included in repricing the Repricing period will therefore constitute a retrospective effect. Any approved change to a parameter should only be effective moving forward in order to comply with the TSC.

In addition to a lack of compliance with the TSC, there are further reasons for not proceeding with Option 2. As updated at the Market Operator User Group (“MOUG”) on 11<sup>th</sup> September 2019, repricing will not align with M+13 resettlement as outlined in



the Consultation Paper. Under this option repricing will not commence until December 2019 at the earliest. Consequently part of the Repricing Period would be resettled in M+13 resettlement runs and not be finalised until approximately July 2021 and a further part of the Repricing Period would be resettled in an Ad hoc resettlement run at an unconfirmed date (current estimates are Q2 2020).

It should also be noted that the Market Operators are unable to provide any indication of scale or direction of repricing from the Imbalance Prices published at the time, market participants have no way to forecast any potential liabilities they may face from repricing and the impact on their financial performance for the Repricing Period. Again noting the legal responsibilities for Directors of market participants to prepare true and fair financial statements for the Company, this is an unacceptable outcome. Given these additional factors, proceeding with Option 2 will result in confusion and uncertainty for industry over a prolonged period which is unnecessary and undermine confidence and investment decisions in the market.

**Option 3: Amend Section E.3.8 with the intention of not carrying out repricing from 1 October 2018 to 11 June 2019.**

**Option 4: Amend Section E.3.8 in order to require any repricing to be completed by the 13<sup>th</sup> month of the Settlement Calendar at the latest.**

**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 1 October 2018 to 11 June 2019 (Option 3) or to require any repricing to be completed by the 13<sup>th</sup> 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,

Given the difficult and unique situation of having manifest errors present in Imbalance Prices for an enduring time period of time and the inability to reprice this in line with the TSC within an acceptable timeframe, Energia support the proposal to make an amendment to the TSC in order to remove the requirement to carry out repricing for the Repricing Period. As previously stated this position is reflective of the requirement to provide a practical solution on a one-off basis to deal with a problem to which there appears to be no other viable solution and is required to underpin confidence in the market as a whole.

Of the options provided to implement this, Energia recommend that Option 3 is pursued. This option provides the more effective solution to this issue and recognises that the errors incurred during this period are unique and should not be present under enduring and business as usual market operation. Energia are of the view that this is a more appropriate option than Option 4. Although Option 4 also removes the requirement to reprice the Repricing Period and therefore addresses the related issues of unknown impacts on market participants and undermining confidence in the

market, under business as usual market operation it is to be expected that repricing will be carried out in advance of the 13<sup>th</sup> month of the Settlement Calendar. As such an enduring amendment to the TSC to deal with this issue may not be the appropriate solution.

Further to this Energia would note that at the most recent MOUG on 11<sup>th</sup> September 2019, the market updated that there were further pricing defects that have been discovered post the introduction of Software Release C on the 11<sup>th</sup> June 2019. Whilst the scale of these defects in terms of how many pricing periods they may impact is not fully known, the market updated that these defects will not be resolved until Software Release E which is provisionally scheduled for February 2020 at the earliest. Based on this update, Energia recommend that should the period post 11<sup>th</sup> June 2019 not be able to be repriced in line with the TSC due to enduring manifest errors, the RAs publish a separate consultation in relation to this.