



Energy for
generations

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ESB Generation and Trading Response:

Repricing and Price Materiality Threshold Parameter Consultation (SEM-19-042)

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1. INTRODUCTION

ESB Generation and Trading (GT) welcomes the opportunity to respond to the Repricing and Price Materiality Threshold Parameter Consultation Paper (SEM-19-042). The purpose of the Consultation Paper is to consult on the repricing issue for the period 1st of October 2018 to 11th of June 2019 and the four options proposed on how to address the lack of repricing functionality.

ESB GT's response is broken into two sections; the first is an executive summary of ESB GT's response to the Consultation Paper and highlights our concerns in the current state of the settlement/repricing systems. The second section addresses the three questions listed in the Consultation Paper.

2. EXECUTIVE SUMMARY

Firstly, ESB GT has sought to accommodate the SEM Committee (SEMC) in achieving the tight timelines (four week consultation period) for addressing this issue before the first M+13 resettlement. However, ESB GT is disappointed that considering this has been a well-known issue for the previous months it has come to position that this decision is going to have be performed on a fast tracked process which only increases the chances of unintended consequences. ESB GT are confident that the SEMC will still apply the rigorous process that they always perform when assessing market participants responses to a consultation paper, however, ESB GT feels compelled to comment on the lack of forward planning for this serious issue that the consultation paper is attempting to address.

ESB GT acknowledges that this Consultation Paper is more focused on repricing than resettlement but ESB GT wants to take this opportunity to voice our frustration at the current state of the repricing and settlement systems. Before and throughout Market Trials, market participants were continuously informed that the overall objectives of market trials were not a testing of the market design but more so, inter alia, "*provide a means by which to measure successful execution of market operations processes*". Yet, here we are nearly 12 months into the revised SEM arrangements and the IT systems are still in an undesirably incomplete condition and manifestly do not allow SEMO to comply with the requirements placed on the Market Operator under the Trading and Settlement Code to price and settle the balancing market. In light of this consultation, it is now visible that not all market operation processes were at the necessary standard at market go-live. ESB GT would appreciate some description of how the certification of the Settlement Systems were approved before go-live as the learning from this could provide participants with the comfort that when this new IT solution is tested, certified and delivered the potential of recurring issues are limited.

In terms of the Options proposed in the Consultation Paper, ESB GT does not believe any of the four options proposed are acceptable. Thus, ESB GT are proposing a revised version of Option 4;

- It is proposed that a temporary modification be raised applicable only for the period October 2018 to October 2019. This timeline will provide SEMO with a sufficient period of up to November 2020 to have the necessary IT solution in place while providing market participants with the comfort that SEMO and the RAs are prioritising this issue accordingly.
- This urgent temporary modification would be raised to the T&SC to amend E.3.8 via Chapter H Interim Arrangement section of the T&SC.
- The modification would require any repricing to be completed by the 13th month of the settlement calendar at the latest. If it is not completed within this timeline, the Market Operator would be

required to write to the RAs setting out the reason for the delay and requesting approval not to carry out repricing for the time period in question.

Regardless of the option selected by the SEMC, SEMO and the RAs need to provide the market with confidence that this issue will be resolved effectively and efficiently without the need for retrospective modifications or enduring modifications to the Code (that avoids future non-compliance). Market participants have to have comfort that the market is functioning as it should and that a good governance approach is applied at all times. In regards to moving forward with all of the known issues, participants have two requirements in this space 1) robust change management processes including adequate regression testing after each system enhancement and 2) good governance regarding the application of current rules and the decision process to make changes to market rules or systems if required.

3. CONSULTATION QUESTIONS

This section contains the ESB GT's answers to the three consultation questions.

3.1 ESB GT Response to Consultation 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%?

ESB GT would have preferred that the repricing and settlement systems were in place and that (1) no modification to the T&SC would have been necessary and (2) the repricing materiality threshold of 5% as proposed by SEMO and decided by the SEMC would still stand. However, market participants have now been placed in a no-win situation due to the lack of a repricing functionality and the approach of continuing to apply a 5% price materiality threshold is not viable for a period from the 1st of October within a reasonable timeframe.

The fact that market participants are now being asked to decide on the four proposed options which all have issues, without a sufficient impact assessment, figures on the materiality, legal drafting of the potential modification or detailed implementation plan for the enduring repricing fix, undermines the governance structures of the T&SC rules. As requested at a Market Operator User Group, for participants to fully contribute and make an informed decision the materiality and timeline for implementing the fix are required. The limited information in the SEMO Report (SEM-19-042A) provided to the RAs identifies an estimation of 12-14 months for an IT solution. In order to fully understand the crux of the repricing issue, as manual repricing is the current SEMO repricing solution, ESB GT requests more detail on the scope of this work as 12-14 months seems excessive. The progression on repricing and settlement known issues over the last number of months fails to provide ESB GT with the confidence that the IT solution will be in place in time and that it has been given the necessary prioritisation in SEMO and the RAs. ESB GT would urge the SEMC to rectify these concerns within their decision to this consultation.

Something that has not been fully addressed in the Consultation Paper is the interaction between energy and balancing markets e.g. if a participant's revenue was materially different it is likely they would have taken different action to manage that risk. Considering the length of time since the pricing events have passed, all market participants will be penalised for decisions they made based on incomplete data.

Finally, ESB GT believes the SEMC has failed to address one of the critical issues that could arise from repricing (either 0% or 5%); the increased potential for further RO prices to occur. If the SEMC are of the view that repricing is to occur, ESB GT cannot accept the liability of difference charges for RO prices

considering the RO event would be created months after the event in which participants have no route to respond. This is an outcome that is in direct conflict with the intention of the market design and is inconsistent with good regulatory practise.

3.2 **ESB GT Response to Consultation 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?

The issues highlighted in the response to Question 1 are applicable to a 0% pricing threshold. The major difference between Option 1 (5%) and Option 2 (0%) is the real concern that this a retrospective change to a T&SC parameter and the unwelcome precedent that such a decision could introduce. In addition to the retrospectivity of the proposal the RAs concerns, as highlighted in the Consultation Paper, that this option could increase market participants required time to review and verify past settlements and increase the change repricing for non-material price events, renders this option unacceptable.

Thus, considering the ESB GT's comments for Question 1 and the inconsistency and governance concerns with changing a parameter midyear for events that have already occurred, ESB GT does not agree with the proposal to apply a 0% price materiality threshold on a temporary basis.

3.3 **ESB GT Response to Consultation 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 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. For both options, the detailed legal drafting of any change would be raised and discussed through the Trading and Settlement Code Modifications Committee.

. Option 3 creates a precedent that is unacceptable due to the introduction of retrospective changes and is not in line with good regulation and disproportionate considering the other options available. The concept of stripping out the requirement for parties to be compliant with sections of the Code, even on an interim basis, is something that cannot be justified no matter the driving factor.

Option 4 is slightly better than Option 3 in that it could be viewed as not being a retrospective change. However, it needs to be noted that under Option 4 it will be SEMO and approval from the RAs that determines whether an event is repriced, neither of which are exposed to the effects of the repricing. More importantly, ESB GT does not believe it is appropriate to have this as an enduring modification. The introduction of this as an enduring modification provides market participants with little confidence that this IT issue will be solved in a timely manner according to its relevant prioritisation.

As a result of the above answers to Questions 1-3, ESB GT does not believe any of the four options proposed are acceptable. Thus, ESB GT are proposing a revised version of Option 4;

- This is a temporary modification applicable only for the period October 2018 to October 2019. This timeline will provide SEMO with a sufficient period of up to November 2020 to have the necessary IT solution in place while providing market participants with the comfort that SEMO and the RAs are prioritising this issue accordingly.
- An urgent temporary modification will be raised to the T&SC to amend E.3.8 via Chapter H Interim Arrangement section of the T&SC.
- This modification will require any repricing to be completed by the 13th month of the settlement calendar at the latest. If it is not completed within this timeline, the Market Operator would be required to write to the RAs setting out the reason for the delay and requesting approval not to carry out repricing for the time period in question.