Repricing and Price Materiality Threshold Parameter

SEM Committee Consultation

Power NI Response

27 September 2019

Introduction

Power NI welcomes the opportunity to respond to the SEM Committee (SEMC) consultation in relation to the pricing issues experienced in the Single Electricity Market (SEM) during the period 01 October 2018 to 11 June 2019 and the materiality threshold implications.

The design changes implemented on 01 October 2018 came about after an extensive industry wide project. The change was fundamental in nature and both SEMO and market participants made large investments in systems to operate under the new arrangements. Any project which implements a change of this scale should expect an initial period of instability and a heightened number of system defects immediately post go-live. To mitigate this, internal and external testing is undertaken and a 'hyper care' period is a standard project approach.

It is disappointing that the SEM has experienced such a level of instability and high number of significant defects in the period following the 01 October 2018 go-live. This would suggest that the testing undertaken was not sufficiently comprehensive and Power NI hopes that both SEMO and the SEMC will undertake a thorough 'lessons learnt' exercise to inform future projects and central market system changes.

Of even greater concern however, is what appears to be a lack of system delivery for key areas of functionality such as repricing. The Trading and Settlement Code (TSC) considers the possibility of a pricing dispute and provides a means for redress. The information provided by both SEMO at market fora and by the SEMC in the consultation, highlights that this functionality is not currently present within the central market systems. This is a significant omission and Power NI can only assume this was as a result of a conscious decision to remove this functionality from the scope of the system delivered for 01 October 2018. Had this been flagged to market participants, Power NI would have highlighted that this functionality was more likely to be needed at go-live compared to any other time.

It is therefore disappointing that market participants find themselves faced with considering the options put forward in the consultation paper. In considering the way forward, Power NI's thinking is based on a desire for the market to operate as per the TSC, for corrections to take place in a timely manner so that participants have certainty of financial position and that retrospective regulation is avoided.

Specific Questions

Within the Consultation Paper the SEMC posed a number of specific questions:

> ***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%?***

Power NI response:

Option 1 is to undertake the repricing as per the TSC and therefore at a principle level is the appropriate and expected approach. Based upon information provided by both SEMO at market fora and by the SEMC in the consultation however, it would appear that the functionality to deliver such an outcome is not currently present within the central market systems. This means that repricing cannot take place as per the TSC for circa another year, therefore two years after the event.

This timescale renders this option as infeasible and inappropriate which is an extremely disappointing position for the market.

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

Power NI response:

While this option would ensure that Balancing Market prices are recalculated to what they should have been as per the TSC the approach requires retrospective regulation. The price materiality threshold along with other parameters and regulated tariffs are set in advance of the SEM year by SEMC decision. This provides certainty for participants. To retrospectively change any regulatory decision is not good regulatory practice and would set an alarming precedent.

In considering the timeframe and again based upon information provided by SEMO at market fora; it would appear that this option is entirely dependent upon the successful delivery of a further Central Market System release which will not be in time to align the repricing with the timetabled M+13 resettlement and therefore will not be completed until mid-2020.

In addition to concerns about the proposed Option 2 timetable, Power NI notes that this release has already been delayed and earlier releases have introduced new defects into the Central Market Systems. This undermines confidence in the delivery of this option. Power NI does not believe that it can be delivered in a timely manner and that it is likely that it would not complete the repricing exercise until late 2020.

Given this timeframe which is similar to Option1 and the retrospective nature of the change needed to affect it, Power NI does not support this approach.

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.

Power NI response:

Option 3 put forward in the consultation effectively looks to 'draw a line' under the turbulent start to the new SEM arrangements through amendment to the TSC removing SEMOs obligation to reprice from October 2018 – June 2019. While this is arguably also retrospective regulation, it perhaps strays more towards a regulatory approved derogation. Power NI understands why there would be support for this approach as it would provide certainty to participants in relation to their financial position and allow SEMO to focus on improving the stability of the Central Market Systems.

Power NI is not comfortable with Option 4 as it effectively facilitates the persistent and ongoing avoidance of re-pricing. This gives no certainty to participants that errors will be corrected and reliance can be placed on the exact requirements of the TSC. This uncertainty creates unmanageable risk within the market and will inevitably influence trading decision making.

Conclusion

The SEM finds itself in a difficult position in relation to the repricing of 01 October 2018 to June 2019. The level of instability and number of material post go-live defects has resulted in a turbulent start to the new market arrangements. The consultation outlines the options available to resolve the issue however they are either unachievable in a timely manner or require retrospective regulatory change. This unfortunately requires the SEMC to choose the ‘least worst option’.

Power NI hopes that lessons will be learnt from this regrettable situation and that more emphasis will be placed on testing and in particular market wide participant involved testing in future changes as such an approach opens the systems to much greater scrutiny before they are places in a live state.